A MODEL FOR BUDGET MANAGEMENT IN THE FREE STATE PROVINCIAL GOVERNMENT

MICHAEL CASPARUS EKSTEEN SCHIMPER

Thesis submitted in fulfilment of the requirements for the Degree

DOCTOR TECHNOLOGIAE:
PUBLIC MANAGEMENT

in the

School of Government Management

at the

Central University of Technology, Free State

Promoter: Dr. C.D. Olivier (B. Iur.) (Ph. D.)

Co-promoter: Prof. A.J. Geldenhuys (D. Admin.)

BLOEMFONTEIN
November 2005

DECLARATION OF INDEPENDENT WORK

I, MICHAEL CASPARUS EKSTEEN SCHIMPER, identity number [redacted] and student number 20211767, do hereby declare that this research project submitted to the Central University of Technology, Free State for the Degree DOCTOR TECHNOLOGIAE: PUBLIC MANAGEMENT, is my own independent work; and complies with the Code of Academic Integrity, as well as other relevant policies, procedures, rules and regulations of the Central University of Technology, Free State; and has not been submitted before to any institution by myself or any other person in fulfilment (or partial fulfilment) of the requirements for the attainment of any qualification.

……………………………….. 30 November 2005

SIGNATURE OF STUDENT DATE

ACKNOWLEDGEMENTS

There are many individuals who have contributed their expertise to improve the quality of this thesis, and I am especially grateful to them:

- My first and foremost indebtedness, however, is to my distinguished promoter, Dr. C.D. Olivier, at the Central University of Technology, Free State. I was extremely privileged to have been his student and I am most fortunate to have had the opportunity to work under his guidance. He conscientiously read this manuscript and made numerous suggestions for improving the initial draft. Only those individuals fortunate enough to have been exposed to his specialized analytical reviews can appreciate the impact of his contribution. I thank him for his participation and guidance;

- I am also grateful to my co-promoter, Prof. A.J. Geldenhuys, for his professional assistance and support. His analytical review of the different chapters is greatly appreciated;

- I am also indebted to the staff of the Central University of Technology, Free State Library and Information Centre, the library of the Legislature, Bloemfontein Public Library and the library of the UOFS SASOL for their friendliness and helpfulness;

- to the Innovation Fund of the Central University of Technology, Free State for financial support;

- to Dr. Ian Drennan and mrs. Berna van Rensburg for the editing of this thesis;

- to my wife, Dorette, for adhering to the typing schedule;

- to my parents for their understanding and encouragement;

- to my family, for no work of this magnitude can be completed without enormous sacrifices by the family, and this is certainly true in my case. I am fortunate that they fully understood the demands that the writing of this thesis made on our leisure time; and I am especially grateful to my children Michael, Heinrich, Tania and Quartus for their moral support; and finally

- to my Heavenly Father for his power and grace.

TABLE OF CONTENTS

2 BUDGET MANAGEMENT IN THE SOUTH AFRICAN PUBLIC SECTOR: A CONCEPTUAL FRAMEWORK

3 THE BUDGET AS A MANAGEMENT AID IN THE ACHIEVEMENT OF OBJECTIVES

4 THE BUDGET SYSTEM OF THE FREE STATE PROVINCIAL GOVERNMENT AND THE ANALYSIS OF APPROPRIATION ACCOUNTS BETWEEN 1989/90 AND 2002/03

5 ESTIMATES OF REVENUE, EXPENDITURE AND THE MEDIUM-TERM EXPENDITURE FRAMEWORK PROCESS

7 DECISION-MAKING TECHNIQUES AND MODELS FOR THE FREE STATE PROVINCIAL GOVERNMENT

9 CONCLUSION: EXECUTIVE SUMMARY

LIST OF FIGURES

LIST OF TABLES

SYNOPSIS

The primary objective of this research has been to undertake a critical investigation of the application of the budget process and the achievement of budget objectives in the Free State Provincial Government. The emphasis has been specifically on the planning and control functions of management. The justification for the research is the continuous demand for unlimited public services and the limited availability of the state's financial resources. The undertaking proceeded from the hypothetical viewpoint that a budget is designed to assure that public resources are spent according to the preferences of the taxpayer and the legislature. A budget promotes consistency in the process of resource allocation, and its implementation should be enforced by constant evaluation and monitoring.

The research includes the following aspects:

- The problems encountered by the Free State Provincial Government in its endeavors to optimize the effectiveness and efficiency of the implementation of the budget.

- The fundamental principles of budget management in general, and in particular various types of budget and budget management techniques.

- The evaluation of budgets as a basis for reporting on performance and the importance of such performance reports.

The research methodology followed relies both on a survey of relevant literature and on empirical data. The former consists of a discussion regarding the extent

to which the present budget system promotes effective and efficient budget control management and the achievement of budget objectives. As part of the empirical research an “ex post facto” analysis was undertaken of external audit reports and appropriation accounts over a period of fourteen years. In addition the fishbone or root-cause analysis approach was followed to identify core symptoms. The theoretical and empirical research yielded the following results:

- The partial disturbance of the input/output relationship means that performance cannot be measured against profit as in the private sector. To compensate for this deficiency management should focus on financial statements and on audit and performance reports to measure performance.

- Management needs to have an unimpeded access to budget information on the financial management system right from the beginning of each new financial year.

- Estimates of expenditure (projections) should be captured on a monthly basis in the financial management system. With the implementation of the Medium Term Expenditure Framework, budget projections must be regarded as compulsory.

- Press reports and reports of the Auditor-General indicated that shortcomings relating to audit committees still exist both on national and provincial levels. This deficiency has a negative effect on the effectiveness of the internal audit function.

- An annual percentage deviation in various departments between voted amounts and expenditure was substantial. In some instances the deviation exceeded the limitation of two percent by more than ten percent.

- Losses should be monitored constantly, and management should be aware of the impact of losses and claims on financial resources. Their prevention should be part of each department's financial strategy.

- Budget manipulation reduces the budget's effectiveness and efficiency as a means of performance measurement.

The first possible solution to solve the problems associated with the budget is privatization of the service or function. The second possibility is the implementation of a quality control program. Its objective would be to reverse poor performance. To be successful, the quality control program should rely on clear accountabilities, effective partnerships and devoted leadership. A third recommendation might be the implementation of a quality assurance and quality control division for each department. The first component would gather all the necessary documentation to assure quality while the second would monitor effective application. The first requirement in measuring performance will be the motivation of all staff to be committed to the improvement of service delivery. The second challenge will be to train them accordingly. The third challenge will be the development of a performance report procedure for each department. A further recommendation is the analysis and reduction of underspending. Finally, accounting officers must implement effective and transparent processes of financial and risk management.

Broadly viewed, the integration of budget and strategic planning initiatives of the National Treasury are a slow process that cannot be implemented overnight. National departments and provinces are, however, requested by National Treasury to improve on the outputs and the development of robust output performance measures and service delivery indicators. This viewpoint supports the proposed budget-management model aimed at effective objective achievement or sustainable development of the Free State. In future the budget management process could be based on this model to improve service delivery.

OPSOMMING

Die primêre doel van hierdie navorsing was gewees om krities ondersoek in te stel na die toepassing van die begrotingsproses en die bereiking van begrotingsdoelwitte in die Vrystaatse Provinsiale Regering. Die klem was veral op die beplanning en kontrole funksies van bestuur geplaas. Die regverdiging vir die navorsing is die volgehoue vraag na onbeperkte openbare dienste en die beperkte beskikbaarheid van die staat se finansiële bronne. Die hipotetiese uitgangspunt van die navorsing is dat „n begroting ontwerp is om te verseker dat openbare bronne bestee word ooreenkomstig die voorkeure van die belastingbetaler en die wetgewer. 'n Begroting bevorder groter sekerheid in die toekenningsproses van bronne en die toepassing daarvan behoort afgedwing te word deur deurlopende evaluering en monitering.

Die navorsing sluit die volgende oogmerke in:

- Die probleme wat die Vrystaatse Provinsiale Regering ondervind in hul strewe om effektiwiteit en doeltreffendheid te bevorder in die toepassing van die begroting.

- Die fundementele beginsels van begrotingsbestuur in die algemeen en verskillende tipe begrotings en begrotingsbestuurstegnieke in die besonder.

- Die evaluering van begrotings as „n grondslag vir verslagdoenings= doeleindes en die belangrikheid van werkverrigtingsverslae.

Die metodologie van die navorsing wat gevolg is sluit beide „n literatuur- en empiriese metode van ondersoek in. Die literatuurstudie bestaan uit „n bespreking van tot watter mate die huidige begrotingstelsel effektiwiteit en doeltreffendheid in begrotingsbestuur en die bereiking van doelwitte bevorder. As deel van die empiriese navorsing is „n "ex post facto" analise van eksterne ouditverslae en appropriasierekeninge oor „n tydperk van veertien jaar onderneem. As toevoeging is die visgraat of grondoorsaakontledingsbenadering gevolg om die kern simptome te identifiseer. Die teoretiese en empiriese navorsing het die volgende navorsingsbevindinge onthul:

- Die gedeeltelike versteuring van die inset/uitset verwantskap impliseer dat werkverrigting nie gemeet kan word teenoor wins soos in die private sektor nie. Om te kompenseer vir hierdie tekortkoming behoort bestuur te fokus op finansiële state en oudit- en werkverrigtingsverslae om werkverrigting te kan meet.

- Bestuur behoort oor vrye toegang te beskik om begrotingsinligting op die finansiële bestuurstelsel reg aan die begin van elke nuwe finansiële jaar, te kan kontroleer.

- Beramings van uitgawe (projeksies) behoort op „n maandelikse grondslag op die finansiële bestuurstelsel ingesleutel te word. Met die implementering van die Mediumtermyn Uitgaweraamwerkbegroting moet begrotingsprojeksies as verpligtend beskou word.

- Persverslae en verslae van die Ouditeur-Generaal toon aan dat tekortkominge in verband met ouditkomitees steeds op beide nasionale en provinsiale vlakke bestaan. Hierdie tekortkominge het „n negatiewe invloed op die doeltreffendheid van die interne ouditfunksie.

- Die persentasie afwyking by verskillende departemente in verskillende finansiële jare tussen begrote bedrae en uitgawe verskil wesenlik. In sommige gevalle oorskry die afwyking die beperking van twee persent met meer as tien persent.

- Verliese behoort deurlopend gemonitor te word en bestuur behoort bewus te wees van die invloed van verliese op finansiële bronne. Die voorkoming van verliese behoort deel te wees van elke departement se finansiële strategie.

- Manipulering van die begroting verminder die effektiewiteit en doeltreffendheid van die begroting as „n werkverrigtingsmetingsinstrument.

Die eerste moontlike oplossing om die begrotingsprobleem op te los is deur die diens of funksie te privatiseer. Die tweede moontlikheid is om „n kwaliteitskontroleprogram te implementeer. Die doel daarvan behoort te wees om swak werkverrigting om te keer. Om suksesvol te kan wees behoort die kwaliteitskontroleprogram te steun op deursigtige rekenpligtigheid, effektiewe vennootskappe en toegewyde leierskap. „n Derde aanbeveling mag wees om die implimentering van „n kwaliteitsversekering- en „n kwaliteitskontrole afdeling vir elke departement te oorweeg. Die eerste afdeling behoort al die nodige dokumentasie te versamel om kwaliteit te verseker en die tweede afdeling behoort effektiewe uitvoering van die voorskrifte te monitor. Die eerste vereiste om werkverrigting te kan meet sal wees om al die personeel te motiveer om verbind te wees tot die verbetering van dienslewering. Die tweede uitdaging sal wees om die personeel dienooreenkomstig op te lei. Die derde uitdaging sal wees om „n werkverrigtingsverslagprosedure vir elke departement daar te stel. 'n

Verdere aanbeveling is om die probleem van onderbesteding te analiseer en verminder.

Ten slotte moet rekenpligtige beamptes doeltreffende en deursigtige finansiële en risikobestuursprosesse implementeer.

In die breë beskou is die integrasie van begroting en strategiese beplanningsinisiatiewe van Nasionale Tesourie „n stadige proses wat nie oornag geïmplimenteer kan word nie. Nasionale departemente en provinsies is egter deur Nasionale Tesourie versoek om uitsette te verbeter en robuuste uitsetwerkverrigtingsmaatstawwe en diensleweringsaanwysers te ontwikkel. Hierdie beskouing ondersteun die voorgestelde begrotingsbestuursmodel gerig op effektiewe en doelmatige doelwitbereiking of volhoubare ontwikkeling van die Vrystaat. In die toekoms kan die begrotingsproses op hierdie model gebaseer word om dienslewering te verbeter.

1 INTRODUCTION AND ORGANIZATION OF THE RESEARCH

1.1 Introduction

The budget is prepared primarily to give an indication of whether an institution will be able to achieve its aim – the reason for its existence. A budget is also known as a business plan expressed in monetary terms. In a business plan objectives are set which must be achieved so that an institution can function effectively, efficiently and economically. The plan will also detail the day-to-day activities needed to be carried out in order to achieve the said objectives. The budget is that financial instrument that makes it possible to deliver services to the community.

Performance management is a recent addition to public financial management in South Africa. Visser and Erasmus (2002:11) declare that performance management systems have evolved to secure a higher degree of service delivery regarding effectiveness, efficiency, economy, and appropriateness. Previously the approach to results was *laissez faire*, but now performance mechanisms are there to measure actual outcomes against resources used. The current budget and financial management reform process, however, could change the view that performance in the public sector cannot be measured in the same way that the private sector does where profit margins serve as indicators of performance.

Thornhill (1984 : 10-11) defines the budget as "A financial plan serving as a pattern for and control over future operations; hence, any estimate of future costs; and a systematic plan for the utilization of man power, material or other resources." Thornhill also stipulated that the budget should perform the following functions: A source of information; a work program; a statement of policy and a control measure. Engler (1987 : 305) supports the above-mentioned view, and defines a budget as a financial plan that determines the resources necessary to perform activities and meet financial goals for a future period of time.

According to the above-mentioned author the „period of time' is divided into short-term planning which normally extends over one year, and long-term planning which normally extends over a two to ten year period, and is known as strategic planning. Robinson, et al. (1990 : 6) describe a budget in the public set-up (Appropriation Act, also referred to as the Blue Book) briefly and in general terms as follows: It is the setting out of government's planning for a specific financial year expressed in terms of money, which was approved by Parliament not only for the application of those funds, but also for human resources, material and other resources, in accordance with the objectives mentioned in the Blue Book (own translation).

At the closing of the financial year a report must be submitted to Parliament detailing whether the expenditure was in accordance with the amounts voted. In the opinion of the above-mentioned writers the budget can be seen as "the funds, which are allocated to obtain laid down objectives". By so doing Parliament approves the budgets submitted by the provinces and accepts the plans drawn up to achieve the stated objectives. For the purpose of the present research, attention is drawn to short-term planning, in other words to a budget which normally covers a financial year and which relates to the achieving of objectives in the Free State Provincial Government.

Kenis (1979:707) is of the opinion that a budget is not only a financial plan that sets forth cost and revenue goals for responsibility centres within a business firm, but also a device for achieving control, coordination, communication, performance evaluation, and motivation. Knowledge of the budgeted goals (feedforward) and information about the extent to which those goals have been achieved (feedback) provides managers with a basis for measuring efficiency, for identifying problems and controlling costs. From Kenis's description it becomes clear that budgets are a primary management aid to give feedback about objectives that have or have not been achieved. According to the above-mentioned definitions the budget is not only a financial plan but also serves as a basis for measuring efficiency, identifying problems and controlling costs. In the budget management process various role-players also have different tasks to fulfill.

Budgets serve as a basis for government's financial activities, because all the other components of financial management in the public sector are related to it. Hyde (1992 : 1) asserts that a public budget has four basic dimensions. Firstly, it is a political instrument that distributes scarce public resources among the social and economic needs of a jurisdiction. Secondly, a budget is a managerial and/or administrative instrument. It specifies the ways and means of providing public programs and services, and establishes the costs and/or criteria by which its activities are evaluated for their efficiency and effectiveness. Thirdly, a budget is an economic instrument that can direct a nation's, state's and even a municipality's economic growth and development. Finally, a budget is an accounting instrument that holds government officials responsible for both the expenditures and revenues of the programs over which they exercise control.

The budget, containing as it does all the monetary implications, is used to determine accountability, derived amongst other things, from accounting, control measures and auditing.

Hyndman (1996 : 32-33) outlined the rise of what has been termed the "new public management " in the United Kingdom over a period of fifteen years. Features of this change in the public sector's attitude towards "new public management" include:

- a shift from issues of policy to issues of management;
- the break-up of traditional bureaucratic structures into autonomous "cooperated units";
- a strong emphasis on cost-cutting; and
- a changing style of business regulation, involving fewer regulators and more self-regulation.

In the South African public sector the National Treasury issued in terms of the **Public Finance Management Act**, 1999 (Act 1 of 1999) (PFMA) new Treasury Regulations which are also based on these features. Hyndman described a simple model of "performance" involving inputs, outputs and results allowing performance to be judged in terms of:

- effectiveness – the relationship between the outputs or results of an organization and its objectives; and
- efficiency – the ratio of outputs to inputs.

In the South African public sector environment the South African public service is also moving towards performance management because senior managers have to sign performance agreements (White Paper on Human Resource Management in the Public Service, 1997 : 31-33). By providing information about what is being achieved (outputs) and the cost involved (inputs), performance measurement is important for resource allocation, decision-making and controls. McAulay, et al. (1997 : 32) support this viewpoint by pointing out that the concern is not about how decisions ought to be made but how they are indeed made.

Evans, et al. (1996 : 20) assert that the need to consider more than purely financial performance measures is widely acknowledged. There is no shortage of advice to financial managers and other senior officials on how to improve support and manage performance. However, the range of new approaches also creates confusion to a certain extent. Institutions need to adopt a more enlightened approach to assessing and managing performance. This will help create the environment for a culture to thrive which is not only performance-enhancing but also one where there is continuous improvement. Understanding what the objectives are and measuring progress towards them is also crucial to success. Booth (1997:28) adds that decision-making and its implementation require a first-class performance measurement system. To be able to make a constructive financial decision requires that management should have effective access to budget information, and if decisions across an institution are to be consistent then the budget information must be too. Smit (1989:146) has pointed out that management in the private sector continuously faces two challenges - the optimal utilization of scarce resources and the way in which management must adapt to survive in a fast changing environment. In the public sector the same two challenges apply.

From a financial point of view, budget management and control are essential management aids needed to cope with these challenges. Accordingly in the new public management environment a research model will be developed to support budget management in the Free State Provincial Government to enable it to achieve budgeted objectives more effectively. Financial managers and other officials must be able to control and utilize scarce resources such as funds and human resources optimally to satisfy public needs.

1.2 Research project

Robinson, et al. (1990: 6) defines a budget as "…the funds, which are allocated to obtain laid down objectives". According to press and audit reports, the Free State Provincial Government does not fully meet the objectives stipulated in its budget document. Therefore in the interest of the public this state of affairs needs to be addressed. The research project can be divided into two sections, namely a fundamental main-problem area and a section dealing with associated sub-problems of budget management.

1.2.1 Fundamental problem area

The fundamental problem may be summed up by the question "Why are the budgeted objectives of the Free State Provincial Government not being achieved?" Firstly, if the causes for poor performance can be reduced or eliminated, improved budget management can be applied, the budgeted objectives then being capable of being achieved more effectively and efficiently. Secondly, the answer to this question can be linked to the prevailing view that in the private sector „performance' determines the financial success of the business. Performance in general may be described as the extent to which economy, efficiency, effectiveness and appropriateness in the delivery of outputs/outcomes has been achieved. It can be accepted that the better the performance, the more successful the business concern will be. The same golden rule applies to the public sector, although its aim differs. In the private sector the normative aim underlying financial management theory is the maximization of owner wealth. In the absence of the profit motive, and because government intends to minimize the tax burden on the community, the aim of financial management in the public sector is defined as being how to manage limited financial resources with the purpose of ensuring economy and efficiency in the delivery of outputs required to achieve desired outcomes (effectiveness), that will serve the needs of the community (appropriateness). (Department of State Expenditure, 1995 : 6.)

Performance in the private sector can be measured more readily via the input/output relationship than is the case in the public sector. Despite the partial absence of this output relationship in the public sector, performance and its measurement nevertheless remain a very important management principle in determining the success of an institution. The fundamental problem in a non-profitable institution lies in the fact that the value of the budget as an instrument for measuring performance declines as a result of the partial absence of such input/output relationships. Expenditure can be measured and compared to the original budget, but performance needs to be measured as well. Finally, the political situation in South Africa changed with the mobilization of all its citizens towards achieving the eradication of apartheid and the building of a new democratic, non-racial and non-sexist future (Mandela, 1994 : 1).

The positive intentions of government regarding the improvement of service delivery are demonstrated by the White Paper on Transforming Public Service Delivery 1997 : 5) (Batho Pele White Paper) which provides a policy framework and a practical implementation strategy for its transformation. The offering of voluntary severance packages, however, presented experienced civil servants with an opportunity to leave the public service, leaving less experienced men and women to fill their places, with some negative consequences.

1.2.2 Associated sub-problems

Further ramifications of the disturbance of the input/output relationship arise when one considers an ideal situation where budget information on the Financial Management System (FMS) could be available to management immediately after the beginning of the new financial year on 1 April. Budget information on the FMS would then enable management to take realistic decisions given the limited resources available according to the approved budget. The FMS is a computerized accounting system presently being used in the civil service. Accordingly the following questions may then be asked:

- How soon can the details of the annually approved provincial budget be captured on the FMS after the beginning of the new financial year? The new financial year begins on the first of April each year, and the budget information relating to it should be available to management on the FMS for budget control purposes as soon as possible after the first of April. The budget itself is presented to the Legislature in the budget document (white book/blue book) and does not form part of the FMS. The budget information in this document is presented only at a program level. The budget detail broken down to the lowest item-level must be transferred manually to the computerized system. If the budget information is not captured on the FMS, expenditure cannot be compared with the budgeted amounts. Budget control can only be exercised effectively if the original budget is captured on the FMS.

- Because the FMS requires the books to be closed monthly, how soon can budget estimates or projections for revenue and expenditure be captured on the FMS after closing the books each month? This sub-problem will depend on each month's closing date. It is important that before the books can be closed the „special functions objectives' must be cleared. Special functions objectives for example include: unallocated objective accounts; claims recoverable via suspense accounts; claims payable via suspense accounts (Government Garage Transport); subsidized transport clearance accounts; receipt suspense accounts and an intra-responsibility clearance account. Before the books for a specific month can be closed certain accounts should have no credit balances, for example: the account for private telephone calls; the levying and recoverable revenue account and the suppliers disallowance account (Robinson, et al. 1991 : 12-20).

- The purpose of budget estimates is to advise the allocation of amounts that may be needed both for the remaining months of a financial year, and for the following year (0+1). It is possible that with the implementation of the Medium-Term Expenditure Framework (MTEF) concept this task might extend further should the following years rise to 0+3 (MTEF, 2000 : 29). However, the MTEF allows for triennial forward estimates to be reviewed annually rather than monthly. The MTEF concept will be discussed in more detail in chapter 5.

- Can thefts and losses be reduced? The reason for this sub-problem is that when thefts and losses are written off, the specific objective in the budget where the loss originated must be debited. Accordingly fewer financial resources are then available to achieve the budgeted objectives. Since management is not allowed to budget for thefts and losses, what is their impact on the budget? The extent of the effect of thefts and losses will be dealt with in chapter 4.

- Can the measuring of expenditure be influenced by extraordinary events such as *vis major* and other unavoidable causes?

- Can budget manipulation such as budget padding take place?

- Is there an alternative to compensate for the partial absence of the input/output relationship when measuring performance?

1.3 Objectives

The primary objective of the present research is to critically investigate the application of the budget process and the achievement of budget objectives in the Free State Provincial Government with emphasis on the planning and control functions of management. The research focuses on the development of a budget management model aimed at an optimal achievement of the goals set by the various departments of the Free State Provincial Government. Its justification is based on the continuous demand for unlimited public services given the limited availability of the state's financial resources.

The following associated sub-objectives can be identified:

- How to solve the problems that the Free State Provincial Government encounters in their endeavours to optimize the effective and efficient implementation of the budget process. The focus will not only be on the present shortcomings, but also on what the causes for these shortcomings are and on ways to improve service delivery.

- How to extend the frontiers of knowledge regarding budget management in general and budget management techniques specifically.

- How to investigate the budget as a basis for report-back purposes and to focus on the importance of performance reports.

- How to facilitate research development/output.

- How to promote the development of skills.

1.4 Hypothesis

According to the definition by Robinson, et al.(1990:6) the budget in the public domain is an instrument of centralized management for the application of public funds, human resources, material and other resources in achieving the objectives stipulated in the annual budget. The budget process forms part of the FMS and is designed to ensure that public resources are spent according to the preferences of the taxpayer and Legislature. The budget as part of the FMS promotes consistency in the process of resource allocation, and implementation should be enforced by monitoring and constant evaluation. The budget also serves as an information tool indicating how scarce resources are to be allocated. Budget management and the achievement of objectives in a non-profitable institution are restricted to performance control as a consequence of the disturbance caused by the input/output relationship and the immeasurability of results of services rendered when compared to the private sector. This deficiency can to a large extent be counteracted by a shift from issues of policy to issues of budget management, the improvement of budget management performance, a strong emphasis on cost-cutting and the improvement of quality and the quality control regarding service delivery.

1.5 Preliminary research

A comprehensive and extended study of the relevant literature was conducted on the topic of budget management as a direct result of the active involvement of the present researcher in the Free State Provincial Government's Department of Finance, Expenditure and Economic Affairs (Planning and Control Division). Extensive research in this field was also done in preparation for a number of financial circulars and manuals issued during active involvement as an Accountant in the Free State Provincial Government. Pro-active attempts were made to collect relevant literature on the indicated topic as part of the preparation for this research.

The service rendered during the indicated introduction of strategic financial management structures and processes in the workplace provided practical experience in the field.

1.6 Methodology

The research started with a conceptual framework for budget management in the public sector. The presentation includes a short exposition of the role and development of the budget process, the role and functions of the different role-players and budget management techniques. In the next chapter the budget as an aid in programming and for measuring performance was investigated to determine if there are any theoretical and legislative reasons that might have an influence on the outcomes of the various programs. The focus was on the planning and control process and on the requirements of an efficient measuring system. The research also follows a constructive process of the development of the various stages, which can be presented as set out below:

Chapter 1: Introduction and organization of the research

Chapter 2: Budget management in the South African public sector: A conceptual framework

Chapter 3: The budget as a management aid in the achievement of objectives

Chapter 4: The budget system of the Free State Provincial Government and the analysis of appropriation accounts between 1989/90 and 2002/03

Chapter 5: Estimates of revenue, expenditure and the Medium-Term Expenditure Framework process

Chapter 6: Deficiencies in the implementation of the budget system in the Free State Provincial Government

Chapter 7: Decision-making techniques and models for the Free State Provincial Government

Chapter 8: A model for budget management in the Free State Provincial Government

Chapter 9: Executive summary

The research is based on a study of the relevant literature, which was then utilized as a secondary source to support and structure proposed strategies in determining the deficiencies that the Free State Provincial Government experiences. Following the theoretical research an empirical survey of the Free State Provincial Government was undertaken by way of analyzing the appropriation accounts between 1989/90 and 2002/03. As a part of the empirical research an „ex post facto' method was undertaken. In the „ex post facto' survey research method the independent variable is manifested in external audit reports and in additional program information supplementary to the financial statements.

The research begins with the establishment of a dependent variable and then retrospectively determines which independent variables revealed a connection with it. As basis for the „ex post facto' research method, external audit reports and press reports were analyzed to determine the dependable and non-dependable factors. Budgeted amounts between 1989/90 and 2002/03 were also analyzed and compared with the actual expenditure to support the above-mentioned research strategy.

The selected root-cause or „fishbone' analysis approach (Fig.1.1) was followed. Grundy (1997 : 63-64) asserts that in the case of a root-cause analysis, management begins by defining the core symptoms of the problem. The root-causes then form the „bones' of the „fishbone'. Management might be selective in analyzing specific root causes. Root-cause analysis is useful at a variety of levels: in understanding major business failure; and in anticipating future downturns in business and financial performance. This method was selected because this approach seems to be the most practical and suited for identifying main problems.

In conclusion the fishbone analysis is an invaluable tool for improving clarity about ways in which management can improve performance.

1.7 Explanation of terms and concepts

For the purposes of this research it is necessary to explain certain terms and concepts. The source of information is Visser and Erasmus (2002:365-371) unless stated otherwise.

Accountability: This refers to the obligation to account for responsibilities covering all the resources under the control of an institution including performance accountability allocated to an individual.

Accounting officer: The head of a department who has final responsibility for the functioning of that department under their control and who in the final instance is accountable to the legislative authority.

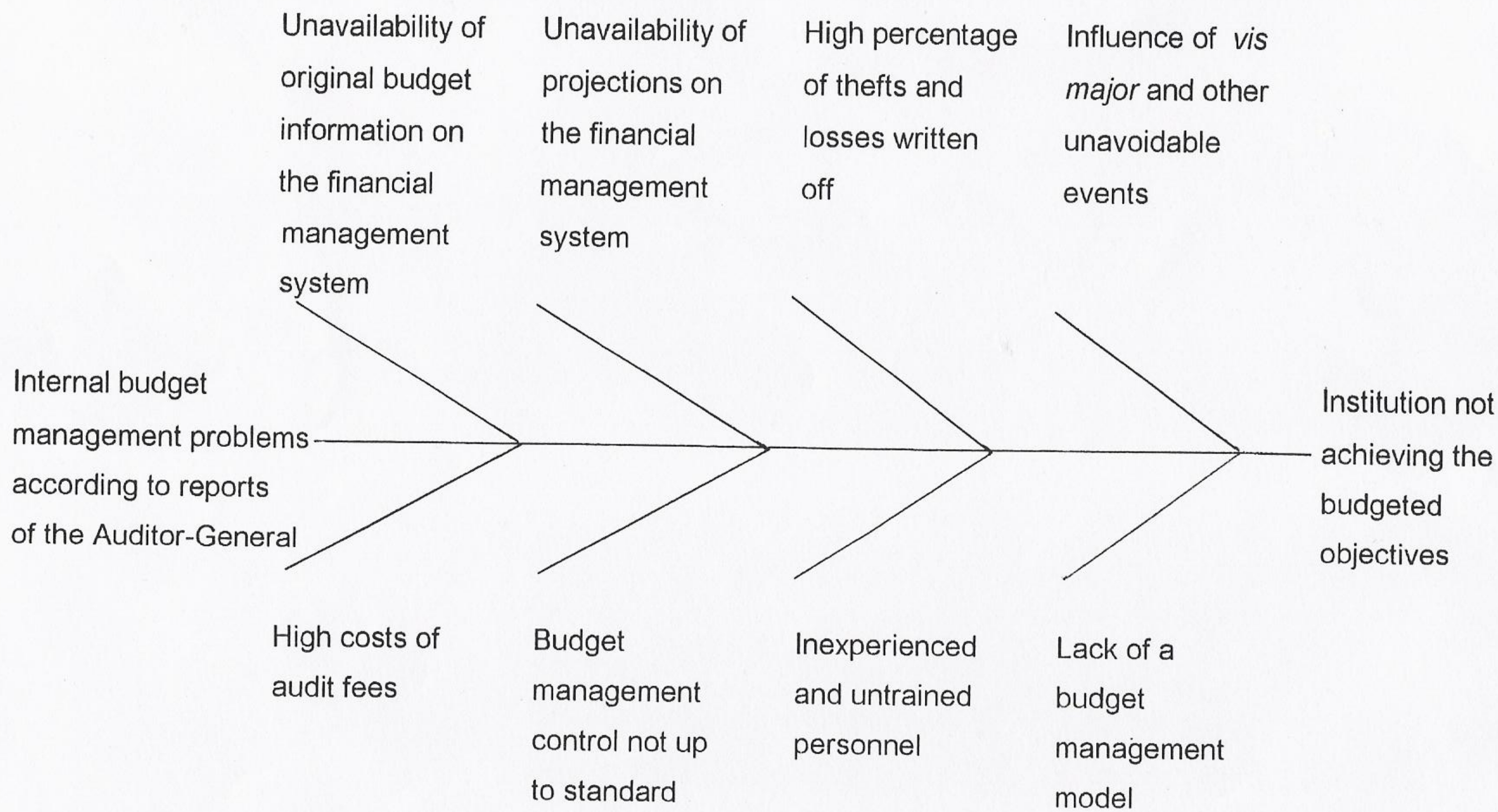


Fig.1.1: Fishbone analysis of an under-performing institution. Adapted from Grundy, T. 1997. Management accounting for strategic performance. **Management Accounting**, 75(11): 63-64.

Activity: According to Fox and Meyer (1995:2) it is a "specific and distinguishable line of works performed by one or more organizational components of a governmental unit for the purpose of discharging a function or subfunction for which the government unit is responsible''.

Activity-based costing: Costing activities are calculated by measuring the amount of money, personnel, and other resources required to achieve objectives.

Adjustments estimate: On national level the Minister of Finance may table an adjustments budget in Parliament as and when necessary. Provision has been made in section 30(2) of the PFMA when a national adjustments budget might be tabled. The MEC for finance in a province may also table an adjustments budget in the Provincial Legislature when necessary. Provision has been made in section 31(2) of the PFMA as to when a provincial adjustments budget might be tabled. The Minister of Finance may determine both the time when adjustments budgets may be tabled in a Provincial Legislature and their format (Section 31(3) of the PFMA).

Appropriation account: This is a report submitted by the accounting officer of a department to the Auditor-General comprising all receipts, all expenditures, explanations of any deviations, surpluses or deficits, declaration concerning surrendering of surpluses (if any) from the preceding financial year, and an indication of any balance in a suspense account.

Audit committee: This committee monitors the internal audit function within an institution and serves in an advisory capacity to the accounting officer of a department.

Baseline: This indicates the initial allocations used in the budget process originating from the previous year's forward estimates. These provide the basis for the development of the current budget.

Budget: This is a plan for the accomplishment of programs related to objectives and goals within a definite period of time, including an estimate of the resources required, together with an estimate of those available, compared usually with one or more periods and showing future requirements (Fox and Meyer, 1995:15).

Budget analysis: It establishes the relationships between the resources and the institution's programs, mission, and function. The appropriateness of public spending is also determined. In addition Fox and Meyer (1995:6) refer to „analysis' as an approach to differentiation that looks at the overall work of the institution and splits it up into increasingly specialized tasks, moving from top to bottom.

Budget control: This comprises primarily cash-flow management, the analysis of financial statements, variance analysis, and corrective action. In general, control refers to the authority to issue orders or to restrain something, and to set standards of comparison for checking the results of institutional activities (Fox and Meyer, 1995:28).

Budget document: It is a written plan used by government to provide a comprehensive financial plan identifying government's policies and programs/votes (also referred to as the White Book).

Blue book: The Blue Book is an Annexure to the yearly appropriation act that contains the detailed expenditure limits of each objective and vote as approved by Parliament (own translation). (Free State Provincial Administration, 1989: 4.)

Capital expenditure: This refers to departmental expenditure on goods and services, resulting in capital formation, entailing the establishment or acquisition of fixed capital assets such as land, buildings and structures for the state.

Capital-creating projects, such as transport, machinery, and equipment are viewed as capital expenditures.

Classification of the budget data: The budget data is generally classified according to the following categories: purpose of the expenditure (objective structure), financial responsibility (responsibility structure), expenditure items (standard item structure), and source of finance (fund structure).

Closing of books: This term indicates a comprehensive file with thousands of transactions that should have been kept by the FMS if it did not initially provide for the facility to remove the concluded accounting transactions from the FMS. Besides this action, detailed financial records might be needed later on for auditing and control purposes. The FMS, therefore, provides for the closing of books both on a monthly basis and at the end of the financial year (Robinson, et al. 1990 : 12). As soon as a month is closed, a detailed report (report 0044) for that specific month is requested and printed. A detailed report for a closed month cannot be requested again and must be retained because it forms part of an institution's accounting records (Free State Provincial Administration, 1989 : 254).

A general rule applying to the closing of books is that there should not be more than three months available for capturing information on the FMS. If the final month of the financial year (March) cannot be closed then the following months for the new financial year (April, May, June, July and August) can be closed preliminarily. It should be kept in mind that accounting officers must submit their reports within five months of the end of the financial year to the relevant Treasury and, in the case of a department, also audited financial statements to the executive authority (Section 40 (1) (d) of the PFMA).

Basic accounting records must be kept for a number of years after which they can be disposed of. Specific standards apply to the retention of certain types of record (Treasury Regulation 17). For example, general ledger and cash books or similar records must be kept for fifteen years.

Cost: This indicates expenses incurred by a department for the delivery of agreed outputs. Cost is a detailed exposition of inputs.

Costing of activities: Activities within a program are costed from zero.

Cost volume equation: This is the basic equation for determining the costs(y) at any volume where (x) is (y = a + b x) in which (a) is the fixed amount and (b) is the variable amount per unit of volume (x) (Anthony and Welsch,1977 : 492).

Current expenditure: This is the repetitive expenditure of departments on goods and services where the said departments do not intend to establish or acquire capital assets or capital goods.

Economy: The lowest cost for a given quality and quantity of inputs is achieved.

Economic classification of expenditure: This means that expenditures are allocated according to current and capital expenditure and transfer payments.

Effectiveness: This is a criterion according to which an alternative is recommended if it results in the achievement of a valued outcome. In particular it refers to a condition in which a local organization, using finite resources, is able to achieve stated objectives as measured by a given set of criteria, and the extent to which a program is achieving or failing to achieve its stated objectives (Fox and Meyer, 1995 : 41).

Efficiency: According to the traditional view of administration, efficiency is the primary objective of administrative science. The term conjures up images of clear-cut comparisons of costs with the value of outputs, profit maximization and cost minimization and with bottom-line accountability. In general it refers to a criterion according to which an alternative is recommended if it results in a higher ratio of effectiveness to cost or a relative measure of the relationship between resource use and results; input/output ratio. Generally, the value of the results derived from an expenditure of resources should be greater than the value of the resources expended (Fox and Meyer, 1995 : 42).

Estimates: Estimates are rational processes to determine the monetary value of resource requirements needed by an institution to realize a predetermined objective effective and efficiently.

Exchequer account: This control account is debited with the total account amount of the annual parliamentary allocation, as approved in the estimates and credited with the monthly amounts requisitioned from the treasury to cover departmental expenditure.

Executive authority: This indicates the Cabinet member who is accountable to Parliament for a national department; and, in relation to a provincial department, means the member of the Executive Council of a province who is accountable to the provincial legislature for that department (Section 1 of the PFMA).

Expenditure management: The term denotes an operational framework comprising a three-stage administrative process involving the determination of the policies and objectives and the resources needed to attain set objectives; it includes the assurance that specific tasks are carried out economically, efficiently and effectively.

Expenditure control report: This report reflects the allocated budget of the current financial year for a specific activity, the expenditure to date, as well as the remaining part of the allocated and approved budget. This report can be used for expenditure control purposes.

External audit: This is an audit performed by the Office of the Auditor-General, independently of any department or institution other than parliament.

Financial year: A financial year, also known as a „book year', is a period of 12 calendar months, from 1 April of a specific year and ending on 31 March of the ensuing year. This means, for budgeting and accounting purposes, that appropriation accounts must reflect at year's close only those transactions relating to that specific financial year.

Financial Management System (FMS):
The FMS is an integrated accounting and computerized system that cannot be divided into different components. The main components of the FMS consist of a budget, an accounting, and a financial control system (Free State Provincial Administration, 1989 : 24). The FMS provides rationalized budget information; i.e. it supports the recording of accounting transactions, identifies areas of over and underspending, enables the calculation of cost, provides additional financial and statistical information, and establishes standard procedures. The FMS was implemented with effect from 1 April 1989 in the Free State Provincial Government.

Inputs: These comprise the resources used to achieve the outputs of departments.

Internal audit: Auditors appointed in a department as part of the internal control mechanism of that department performs audits.

International Organization for Standardization (ISO): This organization is responsible for the issuing of internationally accepted standards that can be applied to produce outputs.

Management: The mission of human resource management in the public service is to become a model of excellence in which service any to society stems from commitment instead of compulsion. The management of people should be regarded as a fundamentally significant task for those who have been charged with that responsibility and should be conducted in a professional manner (White Paper on Human Resource Management in the Public Service, 1997 : 20).

Manager: A manager is any official whose duties mainly involve responsibility for the work of others. The term includes both managers who are members of the management echelon and all first-line supervisors (White Paper on Human Resource Management in the Public Service, 1997 : 19).

Medium-Term Expenditure Framework (MTEF): MTEF details 3-year rolling expenditure and revenue plans for national and provincial departments.

Provincial spending plans in the MTEF take account of transfers to provinces from the National Revenue Fund and also of revenue such as license fees that provinces receive from their own sources. The MTEF also includes transfers from national and provincial spheres to local government, extra-budgetary agencies, funds and commissions, and universities and technikons (MTEF, 2000 : 3).

Official: An official is an employee as contemplated in section 1 of the **Public Service Act**, 1994 (Act 103 of 1994), and in section 1 of the **Public Service Amendment Act**, 1996 (Act 13 of 1996); including a magistrate contemplated as in section 1 of the **Magistrates Act**, 1993 (Act 90 of 1993) and an employee of a constitutional institution (Treasury Regulations, 2001:3).

Outcomes: These denote effect of departmental outputs on the community.

Output: These are the services and/or goods produced by individual departments. Output must be defined in terms of quality, quantity, cost and time. Fox and Meyer (1995 : 92) also refer to output as the end result of a system.

Parliament: Parliament is the highest elected authority and legislature in the country. It is responsible for ensuring that public services are delivered in the most appropriate, economical, efficient and effective manner (Pauw, et al. 2002 : 48).

Paymaster-General's Bank Account: This account represents a department's official bank account and must always show a debit balance. The account is debited with the monthly requisitions for funds, deposits, departmental transfers and inter-departmental settlements, and credited with all payments (warrant vouchers) and indicates the cash position of the department.

Performance: The term indicates the extent of achievement of economy, efficiency, effectiveness and appropriateness in the delivery of outputs/outcomes.

Performance agreement: This term denotes agreement between the minister and the accounting officer (chief executive) that allows for the monitoring of the performance of the accounting officer as measured against expectations. It confirms institution priorities and provides a framework for the performance agreements of the management team, thus supporting the attainment of an institution's objectives (Department of State Expenditure, 1995 : 2).

Performance indicator: A proxy measure used when outputs or performance are not directly measurable. Indicators do not necessarily reflect the complete picture but provide relevant information for the assessment of performance (Department of State Expenditure, 1995 : 2).

Performance measure: This measure is a verifiable unit in terms of which an output can be measured reliably.

Program: A program is established by a department to attain its objectives for which funds are requested.

Program budget: This denotes a budget that lists all the services required for a specific program.

Program structure: A structure is defined as the way a purposive entity, for example, a government agency, development project, or a program, is set up to accomplish its mission and goals - that is, the choices made in dividing up its tasks into various work groups and specifying how their activities are to be coordinated (Fox and Meyer, 1995 : 104).

Privatization: Privatization means selling any state enterprise on specific guarantees that the entrepreneur will continue to provide the service to the public. It must be emphasized that after privatization the said institution should be able to make use of the services privatized as in the case of the TELKOM vehicle fleet. During April 2000 Debis Fleet Management (Pty) Ltd acquired the vehicle fleet function of TELKOM (Government Gazette no. 21090, 12 April 2000). The main disadvantage of such a course of action is that many jobs may be lost. Labour unions are in general also against privatization.

Provincial Legislature: In exercising its legislative power, a Provincial Legislature may consider, pass, amend or reject any Bill before it. It may also initiate or prepare legislation and accept money Bills. A Provincial Legislature must provide for mechanisms to ensure that all provincial executive organs of state in the province are accountable to it. It must continue to oversee the exercise of provincial executive authority in the province, including the implementation of legislation as well as overseeing any provincial organ of state

(Section 114 of the **Constitution of the Republic of South Africa**, 1996 (Act 108 of 1996).

Responsibility centre: Such a centre is an organizational unit wherein a manager is empowered to manage the financial resources including the responsibility to determine financial needs, to control cost in relation to performance, and the execution of expenditure powers to approve liabilities against its allocation (own translation). (Free State Provincial Administration, 1989 : 13.)

Responsibility manager: A responsibility manager is a manager who exercises leadership and is also a control official who is appointed as the head of a responsibility centre (own translation). (Free State Provincial Administration, 1989 : 42.)

Rolling budget: This is a budget system in which three-year future projections are revised annually (MTEF, 2000 : 29).

Strategic plan: A strategic plan is formulated from a department's mission statement and addresses the two or three outcomes that the department will focus on. It includes substantial levels of output objectives, performance measures and indicators. The time frame can be from three to five years.

Sub-programs: They relate to the first division of a program.

Transfer payments: These are amounts which will not disbursed on goods and services by the department on whose vote they appear, but will be paid over to other institutions. Included here are the acquisition of shares in and all transfers and loans granted to government institutions, private organizations, households and foreign institutions (Department of State Expenditure, 1994 : 6).

Treasury Regulations: These Regulations are issued by the National Treasury in terms of section 76 of the **Public Finance Management Act**, 1999 (Act 1 of 1999) to secure transparency, accountability, and sound management of the revenue, expenditure, assets and liabilities of the institutions to which this act applies (Section 2 of the PFMA).

Unauthorized expenditure: Expenditure that is not authorized in the budget of a department forms a direct charge against the Revenue Fund. These expenditures are indicated in departments' appropriation accounts submitted to the Auditor-General.

***Virement*:** An accounting officer may approve that a saving under a certain program can be utilized to defray shortages under another program, unless Treasury dictates otherwise.

White book: The first printing of the Estimate of Expenditure, setting out the detailed spending plans for each department for the new financial year is referred to as the White book.

1.8 Scope: Division of chapters

Chapter 1 introduces the shift in issues of policy to the management performance that has to be judged in terms of effectiveness and efficiency. The partial absence of the input/output relationship in a non-profitable institution reduces the value of the budget as a means of measuring performance.

Chapter 2 provides a conceptual framework for budget management in the public sector with the emphasis on the functions and responsibilities of specific role-players. The transformation of the Public Service since 1994 requires public servants to be accountable for decision-taking and to conduct their functions professionally, transparently and ethically. The requirements for an effective budget system are discussed because of its particular significance.

The budget is defined by Kenis (1979 : 707) as a plan to achieve budgeted objectives. If the achievement of objectives does not materialize there could be a number of reasons why an institution is not as successful as it should be. Chapter 3 deals with the budget as an instrument both for program evaluation and measuring results and for internal and external control measures.

The following chapter summarizes and analyzes appropriation accounts of the Free State Provincial Government for the ten years between 1989/90 and 2002/03. Budget information in the public sector is classified into two main categories, namely economic and standard items. The former is divided into current, capital and transfer payments while the latter are divided into personnel expenditure, administration expenditure, stores and livestock (recently changed to inventories), equipment, land and buildings, professional and special services, and miscellaneous expenditure. The budget cycle is also dealt with in this chapter because it is an important component of the planning process. The budget planning submission, the provincial adjustments budget, *virement* approval and the prioritization of activities are also researched.

The FMS includes revenue, estimates and expenditure control measures which form part of the budget control process. Estimates of expenditure fill an important role in the planning process of each department and must be updated frequently if and when necessary. Chapter 5 deals with the estimates of revenue, expenditure and the MTEF process.

Chapter 6 includes a summary of deficiencies identified in the implementation of the budget system in the Free State Provincial Government. Firstly, the chapter commences with a discussion of the immediate budgetary related deficiencies such as any disturbance of the input/output relationship, access to budget information on the FMS, estimates of expenditure, cash flow, and budget manipulation. Secondly, the indirect budgetary deficiencies, for example, unauthorized expenditure, loss control, service delivery, lack of quality control and lack of professionalism are dealt with.

In chapter 7 decision-making techniques and models for the Free State Provincial Government were analyzed. In most decisions taken by management some kind of financial implication is involved, and this chapter focuses on the various techniques available to decision-makers to enable them to decide between a number of alternatives. The nature of decisions is also discussed because some problems are routine and easy to solve, but other challenges might be more complex.

A model for budget management in the Free State Provincial Government is presented in chapter 8. This model forms part of the recommendations and is based on the management-by-objective system presently being used in the public sector. It is the responsibility of the Provincial Treasury to prepare the provincial budget and exercise control over its implementation. To be successful means not only to keep the budget expenditure within the limits of the approved budget (or available funds), but also to focus on a model for budget management that recognizes the importance of performance management and quality control in service delivery.

Chapter 9 presents the executive summary and the conclusions.

As set out in the introduction to the research presented in chapter 1, the following chapter is devoted to understanding budget management and its meaning in the South African public sector.

2 BUDGET MANAGEMENT IN THE SOUTH AFRICAN PUBLIC SECTOR: A CONCEPTUAL FRAMEWORK

2.1 Introduction

The demand for public services in South Africa is unlimited while the resources available to the state as a service provider are limited. By definition the term management refers to the management of people and is regarded as a significant task for those who have been charged with that responsibility, and it should be conducted in a professional manner by all the various role-players involved.

Legislation aimed at the functioning of government departments, particularly regarding financial management, applies to all such departments and can be termed financial legislation. This framework of legislation intends to enforce particular norms, standards, and procedures in all departments, thus ensuring conformity and accountability. These measures are extensive and cover the whole range of administrative functions in state departments. Basic values and principles governing public administration are provided under section 195 (1) of the Constitution and place an obligation upon officials to account for all the resources under the control of an institution such as the Free State Provincial Government including performance accountability.

A budget is a formal document stating specific objectives associated with the resources required for each objective. According to the definition of budget management stated in chapter one the budget is an instrument of centralized management for the application of public funds, material and other resources in achieving the objectives formulated in the budget. In both the private and public sector various budget management techniques have been developed in various countries over time and can serve as a norm for their future operational activities. A proposed budget management model, which will be presented in the final stages of this research, will address the deficiencies of these techniques.

Anthony and Welsch (1977 : 490) declare that the budget is important for the following purposes:

- Developing and coordinating plans to achieve budget objectives.
- Communicating these plans to those who are responsible for carrying them out.
- Motivating managers at all levels.
- Serving as a norm against which actual performance could eventually be measured.

In addition Visser and Erasmus (2002 : 91) assert that budgets have five vital functions which must be viewed collectively: They include financial planning, coordination, communication, motivation and financial control. Financial control requires from management that three phases in the financial control process - standardization, evaluation, and corrective action – should be implemented.

To be able to analyze budget management in the Free State Provincial Government and to establish a scientific foundation for a new model for budget management, it is important to conceptualize what an effective budgetary system in the public sector requires.

It is therefore necessary to identify a standard for effective financial management in the public sector, to analyze what is expected from role-players, to set norms for public accountability, identify the requirements for effective budget management techniques and finally to establish the specific requirements for an effective budgetary system.

With this conceptual framework as the norm for budget management in the public sector, the nature and extent of budget management in the Free State Provincial Government will be evaluated in subsequent chapters with the purpose to create a new model for budget management.

2.2 The budget as instrument for effective financial management in the public sector

According to Robinson, et al.(1990:6) the budget in the public domain is an instrument of centralized management for the application of public funds, human resources, material and other resources to achieve identified objectives in the annual budget. The budget process forms part of the FMS and is designed to ensure that public resources are spent according to the preferences of the taxpayer and legislature. The budget as part of the FMS promotes consistency in the process of resource allocation, and implementation and execution should take place in an environment where monitoring and constant evaluation take place. For this purpose various acts, financial regulations, planning systems and financial manuals, form the basis to execute effective financial management in the said sector. To ensure effective public financial management in the public sector, public sector finance is also subject to a legislative framework and financial guidelines within which it has to operate.

2.2.1 Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)

In terms of the **Constitution of the Republic of South Africa**, 1996 (Act 108 of 1996) the functional application is to provide for the constitutional arrangements affecting the finances of the state. With respect to public sector finance, the following general financial matters are inter alia described in section 213-230 of the Constitution:

- The National Revenue Fund.

- Equitable shares and allocation of revenue.
- National, provincial, and municipal budgets.
- Treasury control.
- Procurement.
- Government guarantees.
- Remuneration of persons holding public office.

In considering provincial and local government financial matters, the following are also determined in the Constitution:

- Provincial revenue funds.
- National sources of provincial and local government funding.
- Provincial taxes.
- Municipal fiscal powers and functions.
- Provincial and municipal loans.

The Constitution provides that legislation must provide for each of the above subsections, and it is in terms of this requirement that legislation was passed to give affect to the requirements of the Constitution.

2.2.2 Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA)

Of all Acts pertaining to financial management, this Act can be regarded as the most important Act controlling financial management in government departments. The passing of this Act underlines the results of budget reform during the 1980's and 1990's and replaces the **Exchequer Act**, 1975 (Act 66 of 1975). The purpose of the PFMA – as amended by the Act 29 of 1999 – is:

"to regulate financial management in the national government and provincial government; to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively; to provide for the responsibilities of persons entrusted with financial management in those governments; and to provide for matters connected therewith."

In terms of the Constitution section 2 the PFMA should ensure transparency and sound management of the revenue, expenditure, assets, and liabilities of the applicable institutions. These institutions include -

- departments;
- public entities listed in schedule 2 or 3 of the PFMA;
- constitutional institutions; and
- Parliament and the Provincial Legislatures, subject to section (2) of the PFMA.

The PFMA, however, provides for financial management in the public sector in broad terms only. The day-to-day operational functions covering a broad range of functional activities need to be adjusted in order to fulfil the requirements of the Act. These adjustments pertain particularly to the Treasury Regulations and Financial Manuals and the Accounting Standards Board. The Accounting Standards Board was specifically established to ensure that generally recognized accounting practices are applied in the public sector. (Visser and Erasmus, 2002 : 56).

Visser and Erasmus (2002 : 92) also assert that which is to be controlled should have a proposed norm or yardstick against which it may be measured. A norm is determined through historical information, mathematical or statistical methods, management experience, and skills. Continuous evaluation of results achieved against a preconceived standard is also essential for performance management.

2.2.3 Financial Manuals, Treasury Regulations and PFMA

The former **Exchequer Act**, 1975 (Act 66 of 1975) provided for the inclusion of Financial Manuals, Financial Regulations and Treasury Instructions. These documents served as a comprehensive framework for regulating all matters regarding to financial management in the public sector. As indicated in the previous paragraph the PFMA replaced the **Exchequer Act**, 1975 (Act 66 of 1975) and Financial Regulations, and in 2000 the new Treasury Regulations replaced the former Treasury Instructions. What this means is that the budget and accounting reform measures pertaining to performance management are now reflected in the new Treasury Regulations and PFMA.

The intention of government (National Treasury) is that accounting officers, departmental accounting staff, and financial managers are provided with a financial framework to pursue a „ best-practice „ approach towards financial management.

2.2.4 The financial planning and budgeting system

A manual for financial planning and for the budget process at national and provincial level prescribes the required procedures. Specific guidelines for the clarification of items for expenditure purposes such as personnel provision and utilization and for capital spending are included in this manual. The following important elements of financial planning and budgeting and the applicable requirements are also included in the manual:

- Budget data.
- The budget process.
- The form of the parliamentary budget document.
- Compilations of budget-planning submissions.
- The budget cycle.

- Schedules regarding programs, standard items, composition of activity per standard item, personnel expenditure according to activities, capital works, and international donor funds.
- Reporting on the state of expenditure.
- The Treasury Committee.
- Adjustments estimate.
- *Virement.*
- Suspension of funds.
- Rollover of voted funds to the subsequent financial year.

2.2.5 Role of the Auditor-General

In terms of the **Auditor-General Act**, 1995 (Act 12 of 1995) the Auditor-General should audit and investigate the accounts of public institutions and entities and report these findings to Parliament. A new bill, the Public Audit Act, will give more powers to the Auditor-General and Parliament (Gunning, 2004: 1). Public Accounts Committees need an independent measure to indicate to what extend they can rely on the financial statements and other reports of the departments of an institution. The Auditor-General provides this measure. An external audit is a formal independent review of institutions financial statements, records, transactions and operations, performed by professional auditors. The audit is aimed at establishing the credibility of financial statements and other management reports, ensuring accountability for funds and identifying weaknesses in internal controls and systems. In South Africa, the Auditor-General provides external audits of state departments and public funded entities. The Auditor-General's reports on the financial statements of departments and public entities are therefore crucial inputs into the work of Public Accounts Committees. (The Association for Public Accounts Committees (APAC) (2003 : 43).

Section 188(3) of the Constitution requires that the Auditor-General must submit certain reports to legislatures. A legislature can propose but cannot prescribe how the Auditor-general should compile reports or what they should contain. The Auditor-General is not required to prioritize his or her work according to instructions from the legislature or Public Accounts Committee, but will always takes serious note of the concerns and priorities of the legislators.

It is also important to emphasize the different roles of the Public Accounts Committees and the Auditor-General:

- The Auditor-general is responsible for reporting on whether the financial statements of departments fairly represent their financial position and whether their transactions comply with the law.

- The mandate of Public Accounts Committees is broader. They are responsible for overseeing the responsible and productive usage of public money. (The Association for Public Accounts Committees (APAC) (2003 : 44).

2.2.5.1 Constitutional mandate of the Auditor-General

The office of the Auditor-General is established under chapter 9 of the Constitution to support accountable and transparent government. It is responsible for providing independent audited information to legislatures in all three spheres of government. The legislature then refers audit reports to the Public Accounts Committee. The audit reports provide Public Accounts Committees with independently verified information on the status of financial management in a department or state institution.

Section 188 of the Constitution forms the foundation for the functions of the Auditor-General and states that:

“(1) The Auditor-General must audit and report on the accounts, financial statements and financial management of –

(a) all national and provincial state departments and administrations;
(b) all municipalities; and
(c) any other institution or accounting entity required by national or provincial legislation to be audited by the Auditor-General.

(2) In addition to the duties prescribed in Section (1), and subject to any legislation, the Auditor-General may audit and report on the accounts, financial statements and financial management of –
(a) any institution funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or
(b) any institution that is authorized in terms of any lay to receive money for a public purpose.

(3) The Auditor-General must submit audit reports to any legislature that has a direct interest in the audit, and to any other authority prescribed by national legislation. All reports must be made public.

(4) The Auditor-General has the additional powers and functions prescribed by national legislation. "

2.2.5.2 Types of external audits

The scope of the external audits conducted by the Auditor-General can differ quite broadly, depending on the objectives of each audit. The most common types of external audit in the public sector include financial, compliance, regularity, performance and value-for-money audits. Historically, auditing in the public sector has focused on financial audits and compliance audits, but the Auditor-General's role is shifting to include performance auditing.

The basic role of the various departmental role-players is the administration of human and physical resources in order to obtain financial results. These results should be in accordance with the objectives of a department. They are expected to ensure the maximum results with the minimum costs.

2.3 Departmental role-players and their functions

The success of any department depends on the achievement of objectives in the budget. Various role-players in the financial milieu are responsible for budget management including the following public servants and structures:

2.3.1 Accounting officer

An accounting officer is responsible for effective financial management. To achieve this the following regulations of section 36 of the PFMA must be implemented:

"(1) Every department and every constitutional institution must have an accounting officer.

(2) Subject to subsection (3) -
   (a) the head of a department must be the accounting officer for the department; and
   (b) the chief executive officer of a constitutional institution must be the accounting officer for that institution.

(3) The relevant treasury may, in exceptional circumstances, approve or instruct in writing that a person other than the person mentioned in subsection (2) be the accounting officer for -
   (a) a department or a constitutional institution; or
   (b) a trading entity within a department.

[Sub-s. (3) amended by s. 18 (a) of Act No. 29 of 1999.]

(4) The relevant treasury may at any time withdraw in writing an approval or instruction in terms of subsection (3).

[Sub-s. (4) substituted by s. 18 (b) of Act No. 29 of 1999.]

(5) The employment contract of an accounting officer for a department, trading entity or constitutional institution must be in writing, and where

possible, include performance standards. The provisions of sections 38 to 42, as may be appropriate, are regarded as forming part of each such contract."

From 1 April 1995 an accounting officer must be appointed for each department in the Free State Provincial Government. This officer is accountable for all public moneys received, for all payments made and the acquisition, receipt, custody and disposal of applicable property. Previously the Director-General was the accounting officer for all departments of the Free State Provincial Government (section 16 of the **Exchequer Act**, 1994 (Act 1 of 1994). The Provincial Treasury could delegate to an accounting officer any power conferred upon it by section 18 (1) and (2) or 21 (5) of the **Exchequer Act**, 1994 (Act 1 of 1994). The accounting officer can further delegate any power under subsection (1) if the Provincial Treasury authorise such delegation.

From the 1 April 2000 the accounting officer is in terms of section 39 of the PFMA responsible for the following control measures in the budget process:

"(1) The accounting officer for a department is responsible for ensuring that

(a) expenditure of that department is in accordance with the vote of the department and the main divisions within the vote; and

(b) effective and appropriate steps are taken to prevent unauthorized expenditure.

(2) An accounting officer, for the purposes of subsection (1), must -

(a) take effective and appropriate steps to prevent any overspending of the vote of the department or a main division within the vote;

(b) report to the executive authority and the relevant treasury any impending -

(i) under collection of revenue due;

(ii) shortfalls in budget revenue; and

(iii) overspending of the department's vote or a main division within the vote; and

(c) comply with any remedial measures imposed by the relevant treasury in terms of this Act to prevent overspending of the vote or a main division within the vote."

In addition section 40 of the PFMA, determines the financial reporting responsibilities of the accounting officer:

"The accounting officer for a department, trading entity or constitutional institution:

- must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

- must prepare financial statements for each financial year in accordance with generally recognized accounting practice;

- must submit those financial statements within two months after the end of the financial year to -
  (i) the Auditor-General for auditing; and
  (ii) the relevant treasury to enable that treasury to prepare consolidated financial statements in terms of section 8 or 19;

- must submit within five months of the end of a financial year to the relevant treasury and, in the case of a department or trading entity, also to the executive authority responsible for that department or trading entity-
  (i) an annual report on the activities of that department, trading entity or constitutional institution during that financial year;

(ii) the financial statements for that financial year after those statements have been audited; and

(iii) the Auditor-General's report on those statements;

- must, in the case of a constitutional institution, submit to Parliament that institution's annual report and financial statements referred to in paragraph (d), and the Auditor-General's report on those statements, within one month after the accounting officer received the Auditor-General's audit report; and

- is responsible for the submission by the department or constitutional institution of all reports, returns, notices and other information to Parliament, the relevant Provincial Legislature, and executive authority, the relevant treasury or the Auditor-General, as may be required by this Act."

2.3.2 Chief financial officer

According to regulation 2.1 (Treasury Regulations, 2001) each public institution should appoint a chief financial officer and this person must be on the senior management team of the institution. The chief financial officer is directly accountable to the accounting officer and assists the said officer in the financial management of the institution. The duties include exercising sound budgeting and budgetary control practices; internal control and the timely production of financial reports.

2.3.3 Program managers

Program managers assume responsibility for programs and perform the following (Visser and Erasmus, 2002 : 43):

" • exercise control and supervision over operational managers;

• evaluate, control, and consolidate the budget inputs of the various activities and ensure prompt submission of the programme budget;

- control the expenditure and operation of the programme, and the coordination and evaluation thereof;
- assign and allocate limited available funds so that the „best balance' between the activities can be achieved; and
- report on the state of expenditure to top management. "

2.3.4 Responsibilities of other officials

The term "other official" referred to in section 45 of the PFMA can be viewed in the same way as the term "employee" defined in the White Paper on Human Resource Management in the Public Service (1997: 19). According to the latter the term "employee" means any person employed in terms of the **Public Service Act**, 1994, (Act 103 of 1994), as amended, irrespective of rank or position. Section 45 of the PFMA, determines the responsibilities of other officials:

"An official in a department, trading entity or constitutional institution -

(a) must ensure that the system of financial management and internal control established for that department, trading entity or constitution is carried out within the area of responsibility of that official;

(b) is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official's area of responsibility;

(c) must take effective and appropriate steps to prevent, within that official's area of responsibility, any authorized expenditure, irregular expenditure and fruitless and wasteful expenditure and any under collection of revenue due;

(d) must comply with the provisions of this Act to the extent applicable to that official, including any delegations and instructions in terms of section 44; and

(e) is responsible for the management, including the safeguarding of the assets and the management of the liabilities within that official's area of responsibility."

2.3.5 Provincial Treasury

The Provincial Treasury plays an important role in the budget management process and in the achievement of an institution's objectives. In terms of section 18 of the PFMA the functions and powers of the Provincial Treasury include the following:

"(1) A provincial treasury must -

(a) prepare the provincial budget;

(b) exercise control over the implementation of the provincial departments and provincial budget;

(c) promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of provincial departments and provincial public entities; and

(d) ensure that its fiscal policies do not materially and unreasonably prejudice national economic policies.

(2) A provincial treasury –

(a) must issue provincial treasury instructions not inconsistent with this Act;

(b) must enforce this Act and any prescribed national and provincial norms and standards, including any prescribed standards of generally recognized accounting practice and uniform classification systems, in provincial departments;

(c) must comply with the annual Division of Revenue Act, and monitor and assess the implementation of that Act in provincial public entities;

(d) must monitor and assess the implementation in provincial public entities of national and provincial norms and standards;

(e) may assist provincial departments and provincial public entities in building their capacity for efficient, effective and transparent financial management;

(f) may investigate any system of financial management and internal control applied by a provincial department or a provincial public entity;

(g) must intervene by taking appropriate steps, which may include the withholding of funds, to address a serious or persistent material breach of this Act by a provincial department or a provincial public entity;

(h) must promptly provide any information required by the National Treasury in terms of this Act; and

(i) may do anything further that is necessary to fulfil its responsibilities effectively."

2.3.6 Departmental budget advisory committee

Engler (1987 : 307) is of the opinion that the responsibility for preparing a budget is usually assigned to several high-level managers. In the public sector this group is referred to as the "departmental budget advisory committee". The departmental budget advisory committee is expected to call on managers throughout the institution for their contribution and participation in the budgeting process. Budgeting is a collective effort rather than the responsibility of one individual. To be an effective tool of control, the subordinates who are responsible for the implementation of the budget should accept mutual ownership of the budget. When managers and employees are involved in the preparation of the budget they also feel they have a greater stake in its success. Management should therefore delegate budget preparation to the lowest possible level of authority, subject to review and adjustment.

The departmental budget advisory committee usually consists of the accounting officer as chairperson, the various program co-ordinators and program managers. (Department of State Expenditure, 1997: 34-35). The financial manager and the departmental accountant also serve on this committee as advisors. The functions of the departmental budget advisory committee are as follows:

- The joint evaluation of the various needs of the department, as derived from the mission statement and the overall objectives of the department.
- Formulation of a departmental plan of action (strategic plan) according to the objectives and availability of funds.
- Priorities for the various objectives (programs) of the department.
- The departmental approval of budget submissions such as the draft budget.
- Medium-term financial planning for the department for the following three years.
- Control over the state of expenditure and reporting on the finance and performance of the department.
- Evaluation of the effectiveness and efficiency with which objectives are met.

The departmental budget advisory committee (Free State Provincial Administration, 1989: 51) should hold meetings on a regular basis to discuss matters such as those mentioned above. Similar committees should be established by program managers on a program level with responsibility managers to ensure the effective control and management of the budget on execution level per activity. Engler's argument in terms of the budget participative approach is supported by Anthony and Welsh (1997 : 490) because employees are motivated by participation in the drafting of their own budget. The budget also informs the employees about the kind of performance that is expected of them, and they then feel part of the budget process. Therefore the role and importance of the departmental budget advisory committee in the public sector can not be overlooked. An accounting officer must appoint a budget advisory committee to give advice on the financial needs of the department.

The budget advisory committee is also the one that allows the budget to fulfill its vital functions, for example:

Financial planning: In state departments planning can occur on two levels: financial and strategic. Managers should know how to plan ahead. In preparing the budget, managers must consider how conditions in the future may change and what actions they should take to prepare for them. Each area of responsibility affects, and is affected by the work of other areas of responsibility. That is because overspending in one area might lead to a shortage of funds in another. Strategic planning entails the formulation of broad financial objectives for an institution, and, therefore, includes decisions in respect of the investment of assets and the funds required acquiring such assets.

Coordination: The budget is an instrument that can be used to bring together the various divisions of the institution in so that it can function as a harmonious unit in realizing a set of common objectives.

Communication: The maintenance of channels of communication is critical in compiling a budget. The budget itself serves to complement budgeting.

Motivation: The budget can be a powerful force in effective service delivery if employees are motivated. That is achieved when the manager of each area of responsibility understands that top management regards the budgetary process as important by giving employees the opportunity to participate in the formulation of their own budget. It provides employees with an indication of the performance expected of them. When employees feel part of the process they are also better motivated.

Financial control: The budget should not be seen as a final document, but should serve as a financial control instrument in assisting staff to achieve the objectives of a department (Visser and Erasmus, 2002 : 91).

The departmental budget advisory committee will also enable the accounting officer to establish procedures for quarterly reporting to the executive authority to facilitate effective performance monitoring, evaluation and corrective action. (Treasury Regulation 5.3 and section 27(4) read with 36(5) of the PFMA).

2.4 Public accountability

In South African terms there are differing viewpoints with regard to the terms "accountability" and "responsibility" although in Australian literature for example they are regarded as synonyms (Geldenhuys, 2003 : 9). Accountability refers to specific obligations and the way they were executed or not executed. Public representatives are accountable to the electorate for their actions, which can then often be tested via public opinion. Responsibility is viewed as an inherent features of every individual and as such forms a supportive contribution to authority. Visser and Erasmus (2002 : 365) declare that accountability refers to the obligation to account for responsibilities allocated to an individual and which cover all the resources under the control of an institution including performance accountability. Oosthuizen (1998 : 7) asserts that responsibility must be a "sole and undivided" one and cannot be delegated.

In a democratic government an individual has specific responsibilities but also has specific rights, for example those taken up in the Bill of Rights (The **Constitution of the Republic of South Africa**, 1996 : 6). The rights of individuals include for example health care, education, and freedom of religion, belief and opinion. The responsibilities of officials are vested not only in the Personnel Administration Standards (PAS) when an official is appointed in a specific post but also in section 2 of the PFMA. The aim of the PFMA is to secure transparency, accountability, and sound management of the revenue, expenditure, assets and liabilities of the institutions to which this Act applies.

To ensure that democracy is maintained it is necessary that each individual dispose certain rights and liberties. Firstly, it follows that in a democratic government the actions of both public officials and the executive authority can be tested publicly and should not be kept secret. Secondly, the investigators should also have freedom of speech, including the freedom of the press. Thirdly, democracy requires freedom of movement, so that groups of people can come together and form their own political party. If the citizens of a democratic country do not apply these rights and liberties they will not be able to blame the executive authority and officials for the maladministration of public resources.

The result of these rights and liberties is often reflected in conflict of interests. The principle of transparency does not imply that everything should be transparent. The secrecy surrounding the budget before announcement serves as an example. If individuals or groups of individuals were to know beforehand what the budget proposals included they might be tempted to benefit themselves rather than to see to the welfare of the community (Cloete, 1980 : 26).

The Association for Public Accounts Committees (APAC) (2003 : 1) states that an accountable government is a cornerstone of South Africa's constitutional order. Legislatures play a critical role in securing accountability when they exercise their responsibility over governmental activities. In the South African system of representative government, politicians elected by the people are expected to oversee the government. They have the task of making sure that the executive authority is implementing financial policies and Acts, and spending public money properly. By doing so, the executive authority is accountable to elected politicians – within the Provincial Legislatures – in fulfilling it's functions.

To hold a departmental official or executive authority accountable, four basic requirements must be in place:

- A person who has the power to make decisions and see that they are implemented, for example a Minister, MEC or departmental official must have been appointed in that specific post.

- Norms, standards and performance objectives – with which such a person must comply, like those sets out in legislation such as the PFMA or policies (for instance housing policy) - must have been determined.

- An authority to which such a person is answerable, for example Parliament or a Provincial Legislature should have been constituted.

- Mechanisms requiring such persons to account for, for example, the submission of regular financial reports, or for ensuring that they appear before a committee need to have been implemented.

A number of the abovementioned requirements might to date not have been adhered to because the public service is in a state of transformation. The Public Service has since 1994 faced enormous challenges both in terms of transformation and in terms of the services that it provides to the people of South Africa (White Paper on Human Resource Management in the Public Service, 1997 : 9). The transformation process includes budget reform and is focused on a fundamental managerial shift from a centrally controlled, process-driven Public Service to a service which:

- is representative of all the people of South Africa;
- treats all public servants as a valuable resource;
- is focused on service delivery outcomes;
- assigns managerial responsibility for results to the lowest practicable level;
- holds public servants accountable for their actions; and
- conducts its business professionally, transparently and ethically.

Attention is drawn to point five, which emphasizes that public servants are held accountable for their actions. The basic values and principles governing public administration are described under section 195(1) of the Constitution and include the following principles:

"(a) A high standard of professional ethics must be promoted and maintained.
(b) Efficient, economic and effective use of resources must be promoted.
(c) Public administration must be development-oriented.
(d) Services must be provided impartially, fairly, equitably and without bias.
(e) People's needs must be responded to, and the public must be encouraged to participate in policy-making.
(f) Public administration must be accountable.
(g) Transparency must be fostered by providing the public with timely, accessible and accurate information.
(h) Good human-resource management and career-development practices, to maximize human potential, must be cultivated.
(i) Public administration must be broadly representative of the South African people, with employment and personnel management practices based on ability, objectivity, fairness, and the need to redress the imbalances of the past to achieve broad representation."

The abovementioned principles can be viewed as responsibilities allocated to all public servants and define what is expected of them. These responsibilities should be executed in an ethical and professional manner because the Constitution places an obligation on officials to account for all the resources under the control of an institution including performance accountability. Geldenhuys (2003 : 9) asserts that public accountability is an important characteristic of democracy to stimulate the practice of objectivity by all roll-players. The success of effective and efficient public service management is in the hands of executive authorities, financial mangers and all officials to ensure that the public sector in South Africa adheres to the requirements of a democracy and public accountability.

2.5 Skills required of role-players

Personnel evaluation is the process used to measure the abilities, knowledge, attitudes and skills of staff members against set criteria or standards to determine whether or not they meet them. Staff evaluation is done from the date of appointment till the date of termination of service, irrespective of rank. In the Personnel Administration Standard (PAS) of the occupational class of officers/employees, qualifying periods are prescribed for service in any particular rank or grade before a person qualifies for promotion to the next higher post or rank. Therefore each individuals job performance is continuously evaluated to determine whether they sustained the performance which should at least be of a satisfactory standard during the period concerned before a decision can be made about promotability, annual salary increase, etc. (Free State Provincial Government, Staff circular no. 57 of 1996 : 2).

2.5.1 Personnel performance management system (PPMS)

The previous merit system of personnel assessment has been changed to align with the Constitution as set out in the strategic objectives of the White Paper on the Transformation and Reform of the Public Service and the Labour Relations Act. The new system is called "Performance Management" and was introduced in April 1998.

The change from the previous personnel performance management system indicated a change in approach and philosophy. The PPMS is a way of managing, developing and rewarding performance in a participative and consultative manner. One of the benefits of the new system is that it establishes links between the overall objectives of the public service and the individual work objectives of the employees. The ultimate aim is to introduce an integrated performance management system that reinforces the need for a competent, flexible and motivated work force. (Department of Public Service and Administration, 1997: 1).

Furthermore the purpose of the PPMS is to provide a strategic framework for the optimal development of the relationship between the employee, the job and the institution, so that employees reach their desired level of performance and satisfaction and the institution meets its needs, through-

- the introduction of an effective performance and appraisal system and the use of incentives to reward individual and team performance, and to proactively remedy poor performance;

- basing promotion and career advancement on performance rather than on seniority or qualifications; and

- identifying individual development and capacity building needs.

The assessment of employees according to the provisions of the PPMS takes place in terms of section 3(2)(a)(i) and 37(2)(c) of the **Public Service Act**, 1994 (Act 103 of 1994), as amended. The provisions and measures are in terms of section 42(1) of the Act. All employees are covered by the PPMS prescribed in the report of the Department of Public Service.

The required capabilities of all employees are stipulated below. Capabilities 1-5 are compulsory for all personnel, 6-7 are compulsory for supervisors up to the level of Assistant Director, and capability 8 is compulsory for all personnel on the level of Deputy Director and higher.

1. Job performance: The manner in which employees by their behaviour as well as their application of skills successfully execute their tasks.

2. Knowledge and insight: Having the prescribed knowledge, seeking new knowledge and utilising acquired knowledge to carry out duties.

3. Interpersonal relations: The maintenance of sound interpersonal relations with all colleagues, clients and stakeholders to ensure a harmonious and productive working environment.

4. Communication: The ability to communicate with all stakeholders in a timely and accurate manner in order to promote transparency and create trust and a common understanding among stakeholders and colleagues.

5. Client services: The ability to render client services in a manner that ensures equity and promotes client satisfaction.

6. Equity: The willingness and ability to promote equity in line with the objectives and policies of the government.

7. Operational leadership abilities: The ability to guide and direct the efforts of the group so that its members work together effectively to achieve objectives.

8. Visionary leadership abilities: Concerned with forward thinking, seeking and accepting challenges and opportunities and developing and communicating a clear and relevant direction for the Component /Department.

It should be pointed out that point 7 includes the core element to facilitate the training and development of employees.

2.5.2 Performance appraisal system

The Minister for the Public Service and Administration has approved the implementation of a new salary grading system, the performance appraisal system, with effect from 1 July 1996. (Free State Provincial Government, Staff circular no. 44 of 1996 : 2). All annual staff notch increments fall away and salary notches are to be based on personal performance. Performance and affordability should be the main determining factors when deciding on the number of officials to be placed on the second or third notches of the salary scales. The proposed assessment system is performance based, and every official from Director-General and lower that qualifies has to be assessed.

The following 6 factors should always be taken into account when an official is being evaluated.

(a) Skills: All the acquired abilities, which enable officials to perform the duties, attached to their post e.g. the ability to operate and utilize machines and equipment, creativity, problem solving, etc.

(b) Knowledge: The knowledge necessary to perform the duties attached to a post must exist in the following two areas of expertise:

(i) An in-depth knowledge of a variety of aspects or fields.

(ii) A specialized knowledge of specific aspects or fields.

(c) Experience: The experience or expertise officials need to perform the duties attached to their post.

(d) Training: The applicable training which has been acquired in various ways, e.g.: in-service training and specific job-orientated courses.

(e) Qualifications: The applicable formal qualifications obtained at educational institutions, e.g.: schools, technical colleges, technicons and universities.

(f) Performance: The demonstrated ability to utilize acquired skills, knowledge and experience and which clearly distinguishes someone from their peer group.

It is the subordinate's responsibility to provide the relevant supervisor with the necessary proof of work, motivation or evidence. The personal profile of a subordinate should be evaluated on the basis of no less than 4 of the 6 factors but "performance" should be included at all times.

The question can be asked: How will the various role-players execute the powers and functions delegated to them by the relevant financial legislation? Benchmark norms and standards, for example, expected skills, accomplishments and intellectual capacity also have an effect on service delivery and should be considered in the appointment of candidates for specific posts. In addition the qualifications and experience of the various role-players also affect the way in which an institution is going to perform. It should be mentioned, however, that for the purpose of this research human resource management does not form part of it but the prominence thereof cannot be overseen.

2.6 Budget management techniques

The establishment of the present-day executive budget early in the 1900's was considered to be the first step in budget reform, especially since budgets formerly presented nothing more than compilations of piecemeal appropriation reports passed by a legislature. (Hyde, 1992 : 2). Since then, reform processes have given rise to various budget types. There have been three distinctive stages of budget reform which developed from a basic line-item approach towards the current program and zero-based budgeting systems. These three stages are broadly categorized as financial control-orientated, management-orientated, and financial planning-orientated. (Lyden and Miller, 1982 : 22-32). Budget reform to establish new and adapted systems of budgeting resulted in four basic budget management techniques, namely: traditional budgeting;

planning-program-budget system (PPBS); management by objectives; and zero-base budgeting.

2.6.1 Management by objectives

The FMS was established during 1970 when the Franzen Commission recommended that the Treasury should investigate the possibility to apply the planning-program budget system in the South African public sector. During 1973 and 1974 a project team developed a budget system based on the planning-program budget system for South African circumstances. This system developed in the course of time into the management by objectives system. (Robinson, et al. 1990 : 7).

The present budget system of management by objectives in the public sector evolved as a result of the deficiencies of the traditional budget system based on planning and programming (Free State Provincial Administration, Part 1, 1985 : 47-48). The characteristics of the objective management system are as follows:

- The identification and description of objectives have to be achieved in accordance with the policies of the government of the day, the needs of the community and the conditions, claims and limitations of the current social, economical, technological, and political factors determining the environment.

- Alternative work-programs have to be counter-balanced to achieve each objective and to identify the most suitable program under the conditions existing at present.

- The request for funds for programs has to be structured according to priority.

- The determination and consideration of long-term financial implications of programs and the evaluation of existing ones is essential in deciding their continuation, cessation, acceleration or delay.

- Resources have to be allocated and spent according to objectives, the inputs of the responsibility or line manager, certain items, for example salaries, transport and procurement of stock, and, in addition, according to those sources from which expenditure is to be financed (for example a fund, a vote or an account).

To apply the technique of management by objectives, the identification of objectives in the budget management process is essential. This budget management technique is based on the principal that objectives should be achieved within the available financial resources. Objectives can also be linked with other management functions and processes, for instance - policy-making, organization, finance, the management of human resources, the implementation of work processes and control. The technique of budgeting by objective is an important management aid that allows for the prioritization of activities but requires knowledge, insight and skill.

Visser and Erasmus (2002 : 13) are of the opinion that the management-by-objective system did not replace the planning-programming-budget system (PPBS) but it enhanced the effectiveness of the principle of a planned–program system of budgeting. They maintain that what it did was to investigate the outcomes of objectives, in other words, to determine to what extent results were actually achieved. Kramer (1979 : 96) defined the management-by-objective system as “A process whereby organizational goals and objectives are set through the participation of organizational members in terms of results expected”.

Therefore, it can be stated that the management-by-objective system relates more to the decision-making process than to the actual structuring of the budget itself.

2.6.1.1 Features of management by objectives

The features of budgeting by objectives (Free State Provincial Administration, 1989 : 180) are summarized as follows:

Strategic domain:

- Top management should determine the objectives, programs, subprograms, elements and activities.
- Resources, ability and power should be synchronized to achieve objectives.
- Planning is needed to formulate appropriate programs, subprograms, elements and activities.
- Alternative actions should be considered.
- Priorities should be determined.
- The bond between objectives, alternative actions, priorities and resources should be considered.
- Perennial plans should be in place.
- Strategic ideas should be formulated.

Administrative-generic domain:

(a) Policy

- Guidelines are provided in more detail with regard to the execution of activities.
- Policy guidelines are the bridge between strategy and procedures.

(b) Human resources

- Quality of personnel.
- Training.

- Transformation.
- Changing of attitudes.

(c) Finance

- Estimates of costs to achieve an objective should be made.
- The budget should be submitted and approved.
- The clearance of accounts should be made.
- Expenditure should be allocated according to objectives.
- Appropriation accounts should be prepared at the end of the financial year.

(d) Organization

- The arrangement of individuals in a specific pattern to achieve objectives.
- Human relations within the institutions should be arranged.
- The organizational structure should be compiled in such a manner that objectives can be achieved.

(e) Working procedures

- Manuals setting out procedure should result from policy guidelines and be prepared accordingly.
- The various steps or tasks should be explained in a synchronized way.

(f) Control

- Control should be focused on objectives. Measures must be implemented to ascertain performance. Deviations must be identified early.

Functional domain: According to the division of directorates, sub-directorates, divisions and sections, the various tasks are executed on ground level to achieve the set objective.

Accompanying domain: Within this domain management activities such as planning, decision-making, coordination, communication and recording take place.

Performance domain: Within this domain management must determine the level at which objectives have been achieved. Objective management is performance orientated. Any performance must be measurable. Results forecast in the strategic domain have to be measured. Standards should be set for objectives. Objectives, if clearly formulated, can contribute to a better evaluation.

Feedback: Observations in the performance domain will prompt the strategic domain to make adjustments.

2.6.1.2 Advantages and disadvantages of management by objectives

Potgieter (1996 : 132) accentuates the following advantages and disadvantages of management by objectives:

Advantages

- Management by objectives helps to improve management. Managers are forced to plan in terms of results rather than activities.

- Managers are forced to clear organizational roles and structures. Authority must be delegated according to the results expected.

- Workers must be motivated to commit themselves to objectives.

- Management by objectives contributes to the development of effective control. Results are measured and deviations remedied to ensure that objectives have been achieved.

Disadvantages

- Continual environmental changes might have a negative effect on the establishment of a management-by-objective process. Environmental and external activities must show stability in order to measure performance. If the objectives change frequently, the effectiveness of the financial and strategic plans and the performance evaluation cannot be fulfilled.

- Environments where there are poor employee-employer relationships lower the effectiveness of objective management. If management has no confidence in their subordinates, or if the subordinates are not committed to the objectives of the institution, the objective-management approach is ineffective.

- Values of an institution that influence participation negatively will undermine the objective-management process. Untrained managers or managers who show a lack of ability in defining linked objectives in conjunction with their subordinates must be trained to develop these skills.

- Any lack of support by management undermines the efforts at achieving objective management. The initiative for the management-by-objective system must come form top management, and if top management does not take steps to set objectives, the objective-management system will not succeed.

- Too much paperwork undermines the objective-management program. Management must ensure that objective management does not merely mean the completion of forms but should rather encourage employees to achieve specific objectives.

2.6.2 Incremental budgeting

This is a planning system that starts with the previous year's budget as a basis and either increases or decreases those figures depending on whether the institution wishes to either increase or decrease its output during the future period. Incremental budgeting is found in the private sector, especially in indirect functions such as planning and research. This approach is based on the assumption that budgets will appreciate annually. Garbutt (1992 : 111) states that this approach is criticized because it does not relate spending to the work to be accomplished. It may also avoid the scrutiny of all activities to see whether they are still required or not.

The Free State Provincial Government uses a combination of the management by objectives, planning-program-budget and zero-base budgeting system (Robinson, et al. 1990 : 7 and 12-13). The zero-base budgeting system will be evaluated in more detail in paragraph 2.6.4.

2.6.3 Planning-program-budget system

The planning-program-budget system can be seen as a management decision-making system which combines strategic and long-term planning with conventional budgets, so that an institution can allocate resources effectively to achieve both short-term and long-term objectives. This system leads finally to the allocation of resources for a planning period that serves as a basis for the composition of a budget. Sweeny and Rachlin (1981 : 697) summarize this viewpoint as follows:

"It utilizes a planning and budgeting process in an output-oriented program format which is oriented to its objectives to facilitate developing and evaluating alternatives."

According to above-mentioned authors this system is one of the most comprehensive decision-making systems designed to integrate and reconcile the functions of management. All the planning activities and budget systems are integrated in a total system. Program-budget systems are not only found in public institutions but also in the industrial sector and in non-profit institutions. This technique is one of few strategic management instruments that can assist in managing big enterprises and in involving top management in a disciplined way via the decision process. Program-budget systems are also related to cost calculation analysis, and this system is focused on outputs (objectives) rather than inputs. The basic principle of the system is the provision of an output-related budget information with a long-term perspective aiming at applying resources most effectively. Morse, et al. (1988 : 243) assert the following:

"Planning, programming, and budgeting systems (PPBS) emphasize outputs of an organization in programmed areas rather than inputs. A program is a specific activity or set of activities established to achieve a desired objective, such as fire protection. PPBS is based on three control ideas: (1) It is a formal planning system, (2) it uses a program budget, and (3) it emphasizes cost-benefit analysis."

The planning-program-budget system forces management to identify either activities and functions or programs and in so doing creates a basis for the evaluation of programs. The system also provides information enabling management to determine the effectiveness of plans. Novick (1973 : 10-12) submits the following reasons for implementing the planning-program-budget system:

- Program budgets provide a formal, systematic method according to which decisions related to the allocation of resources can be improved. The problem concerning the allocation of resources originates from the perspective that resources are limited in relation to the demand. The program-budget system allows top management to act to the advantage of the whole institution rather than in accordance with a specific responsibility or for the benefit of an individual. Planning takes place both over the short and long term.

- Program budgets ensure that planning fully includes costs. If the resources of the institution are insufficient to achieve the objectives they must be revised.

- Program budgets provide a basis for making choices between available and feasible alternatives. Management can exercise decisions and findings informatively and effectively.

The program budget is actually a decision-making process that determines objectives, provides programs to achieve the objectives and determines the resources available for allocation to the various programs. According to Sweeny and Rachlin (1981 : 700) the principles of the program-budget system are applied to a certain degree in every budget system in the private sector. The following comparison is made between the traditional budget and the program budget:

- The flow of budget decisions is from the "bottom-up" with an aggregative flow of information, while the program budget is a method whereby long-term plans can be implemented and the decision-making process happens from the "top-down" with a disaggregative flow of information.

- The traditional budget generally emphasizes work performance or inputs and effectiveness with appropriate control, while the program budget concentrates on achieving objectives. Program budgeting requires budget decisions to be taken with an emphasis on outputs rather than inputs.

- The traditional approach is focused retrospectively when the next budget is prepared. The program budget is focused more on the future and on the impact of present decisions or choices on it.

According to Pyhrr (1973 : 149) one major reason for the planning-program-budget's ineffectiveness and lack of success as a decision-making tool lies in the design of the system itself. Planning-program budgeting is basically a macro-economic, centralized, top-down policy and long-term planning tool. According to the above-mentioned author critical gaps in this system, designed primarily as a decision-making tool for planning and budgeting in government, can be identified:

- A planning-program-budget focuses on what has to be done rather than on how to do it.

- Budgeting as defined by planning-program budgeting is a cost calculation based on the decisions made during the planning and programming steps, whereas in reality there are many policy decisions and alternatives to be evaluated during the actual budget preparation.

- Planning-program budgeting does not provide an operating tool for the line managers who implement the policy and make program decisions.

- Planning-program budgeting does not provide a mechanism to evaluate the impact of various funding levels on each program or for establishing priorities among programs and varying levels of program effort.

- Planning-program budgeting focuses primarily on new programs or on major increases in ongoing programs and does not force the continual evaluation of ongoing program activities and operations.

2.6.4 Zero-base budgeting

Zero-base budgeting was invented by Peter Pyhrr (Garbutt, 1992 : 111) when a specific company faced a dramatic change in the market for its products and consequently in the skills required from its workforce and management. The company needed to break away from the comfortable habits of incremental budgeting and to start again from scratch. Engler (1987 : 332) states that this method of budgeting begins with a base of zero and ranks each program and its cost, starting with the one that is most vital to the institution. In this manner, managers can choose to fund programs on the basis of merit or priority without preconceived notions about what must be included.

2.6.4.1 Zero-base budgeting in perspective

Zero-base budgets contain a simple concept, but differ substantially from the traditional budgeting technique which is based on the previous year's figures. Instead of budgeting only for an increase or decrease in the previous year's figures, the budget process starts again from zero for each financial year. This implies that every expenditure must be evaluated and investigated for the relevant budget period, and is only justified if the needs and developments within the department require the expenditure. Pizzey (1987 : 251) declares that -

"The idea is to start at zero, so that each function has to justify its existence and prove the need for all costs budgeted to be incurred, if possible relating those costs to benefits to be received. This can prove a burdensome and time-consuming procedure, but may result in cost savings if some activities, traditionally seen as being an integral part of the business, can no longer prove their worth in terms of cost/benefit, or if funds are allocated on the basis of value for money."

The disadvantage of the "incremental" method of budgeting is that managers merely have to acknowledge the need to spend more than the previous year.

The zero-base technique starts form zero and by so doing takes into account all existing and planned changes, whereas the traditional budget focuses only on planned changes for the specific budget period.

2.6.4.2 Issues resulting from zero-base budgeting

Various policy issues will be identified during the budgeting process. Such issues might include:

- the inability of some managers to produce realistic plans;

- a lack of communication horizontally between divisions, departments and sections, and vertically between junior and senior levels of management;

- an inequitable or incorrect allocation of overhead costs;

- gaps in information about activities and the objectives, if any, that they serve;

- outdated and mutually inconsistent policies; gaps in the policies and the need for new ones;

- skill deficiencies and the need for training;

- shortcomings in the planning, budgeting and control systems; and

- the inability of accountants to provide the necessary support and information.

2.6.4.3 Advantages and disadvantages of zero-base budgeting

The advantages and disadvantages (Garbutt, 1992 : 112 and 115) of zero-base budgeting are the following:

Advantages

- It forces the reconsideration and reprioritization of all current service and support activities in the light of corporate objectives and strategies, and not just of new proposals.

- It looks for alternative ways of performing activities and eliminates activities that are no longer necessary.

- It identifies the resources required to perform activities at various levels of priority.

- It is effective in ranking all activities in terms of importance and securing the optimum allocation of scarce resources.

Disadvantages

- *Time required:* The time required to implement a zero-base budget is likely to be greater than that required for a conventional system, especially when the methods are initially applied.

- *Paper work:* A zero-base budget requires a great deal more paper work than conventional budgeting.

- *Cost of budgeting:* Since more time and paper work are needed, it follows that the direct cost of zero-base budgeting will be greater than for a conventional system. The indirect costs, in terms of time and attention required from everyone, will consequently also involve increased levels of management in an institution.

- *Subjectivity of measures:* Zero-base budgeting is a method for applying measures to indirect activities which may be essentially immeasurable. The judgements made will be subjective and therefore inconsistent and fluctuating from time to time and, consequently, unreliable.
- *Dissimilarity of packages and rankings:* The packages ranked under zero-base budgeting are so dissimilar that rankings are inevitably subjective, and no procedure can eliminate the necessity for such judgements. Rankings produced by various sections and departments cannot be used when selecting between departmental and sectional proposals.

2.6.5 Variable or flexible budgets

Anthony and Welsch (1977 : 492) maintain that if the total cost in a responsibility centre is expected to vary with changes in volume, the responsibility budget may assume the form of a variable or flexible one. Such a budget shows the planned behavior of cost at various volume levels. The variable budget is usually expressed in terms of the cost-volume equation, that is, a fixed amount for a specified period of time plus a variable amount per unit of volume[1]. Variable or flexible budgets are usually found in the private sector in responsibility centres dealing with production and sales. When there is a variable budget, the cost at one volume level is used as part of the master budget.

The volume level is the volume at which the firm plans to operate during the budget period. The break-even volume is the volume where the total cost equals total revenue. Bothma, et al. (2000 : 58) contend that by using this type of budget the enterprise can establish what the volume of production should be to cover the total cost.

---

[1]The basic equation for determining the cost (y) at any volume (x); is (y = a+bx) in which (a) is the fixed amount and (b) is the variable amount per unit of volume (x).

2.7 Requirements for an effective budgetary system

The question may be asked: "What makes budgets effective?" McKoen and Gough (1997 : 81) declare that for budgets to be effective, managers at all levels need to understand its nature and extent and are in favour of implementing it. For a performance measurement system to be effective, managers should:

- agree on budget targets and believe that they can be achieved;

- receive budgets in a form relevant to their work – such as the number of units delivered or produced; and

- be trained to understand the need for budgets and how they are implemented overall.

2.8 Conclusion

Budget management in the South African public sector is concerned with the planned acquisition and use of resources by public institutions and entities. It involves decisions about the revenues to be collected and the expenditure needed to achieve the objectives set in the budget. These objectives must be based on the needs of the community the public sector serves. Effective financial management is based on principles laid down in the Constitution, PFMA and other Acts. Their purpose is to provide a legislative framework that regulates financial management in national and provincial departments so that all revenue, expenditure, assets and liabilities of those institutions are managed effectively and efficiently.

The function of the Office of the Auditor-General is to ensure accountable and transparent government; and its contribution towards achieving effective budget management should be recognized. The Auditor-General is responsible for reporting on whether the financial statements of departments fairly represent their financial position and whether their transactions are within the determined guidelines. The role of the Provincial Public Accounts Committee should also be seen as a contribution to overseeing the responsible and productive spending of public money.

There is a multitude of policies, strategies, structures and programs in place to achieve effective budget management in the South African public sector. These include, for example, Financial Manuals, Budget Manuals and Treasury Regulations. The intention of government is to provide accounting officers, the CFO's, departmental accounting staff and financial and operational managers with a financial framework enabling them to perform to the best of their abilities.

Departmental role-players experience extensive challenges in the budget management process. Accordingly, the participants/role-players have to apply appropriate, approved management functions and skills to achieve departmental objectives. Role-players should realize that they are accountable to the public for their actions and must therefore accept responsibility for the tasks linked to their specific posts.

For successful budget management the above-mentioned structures, policies and legislation need to be applied in practice. Operational personnel should agree on budget targets and commit themselves to the achievement of such targets. According to section 27(4) of the PFMA the accounting officer of each department must submit to the Provincial Legislature measurable objectives for each main division within the departments vote. By so doing operational personnel are able to receive budgets in a form relevant to their work - for example the number of units delivered or produced. Operational personnel must also be trained to understand the need for budgets and how they are used overall. The budget advisory committee and the participative group element approach it embodies constitute another important management tool that can assist the accounting officer in the motivation of personnel and the achievement of objectives.

This chapter has dealt with a short overview of the requirements for an effective budgetary system; for example agreement on budget targets, a budget's relevancy to the number of units delivered or produced, and training in its implementation.

Chapter 3 will focus on the control function of management because the budget is seen as a plan for achieving laid down objectives. The use of performance reports, analysis of deviations and succession by management will be discussed.

3 THE BUDGET AS A MANAGEMENT AID IN THE ACHIEVEMENT OF OBJECTIVES

3.1 Introduction

The budget is defined by Kenis (1979 : 707) as a financial plan that sets forth cost and revenue goals for responsibility centres, but also as a device for achieving control, coordination, communication, performance evaluation and motivation. Its aim is to achieve certain expected results, and when they are achieved, the financial plan may be regarded as being successful. If the said objectives do not materialize, any number of reasons may be the cause for failure. One of management's challenges, besides having effective and efficient internal financial control measures, can be described as the need to be able to measure performance.

Financial planning and financial control constitute inseparable managerial functions and therefore create the financial foundation in accordance with which the financial manager must operate. Financial planning sets the standards for financial control. The budget is not the only plan available to financial managers for achieving the departmental objectives. Other plans, for example policies, procedures, rules, programs and strategies also contribute towards the achievement of objectives. Financial control, and more specifically, budget control comprise priority cash-flow management, the analysis of financial statements, variance analysis, and corrective action. In general, control refers to the authority to either issue orders or to countermand something, also to set standards of comparison for checking the results of institutional activities (Fox and Meyer 1995 : 28). The focus here will be on how the financial control process, which includes the management by objective system, should be utilized by management to achieve departmental objectives, improve performance and, eventually, service delivery. The FMS is an integrated system and consists of a budget, an accounting and a financial control system. Before a financial management system can be utilized effectively its application must adhere to certain criteria. Furthermore, environmental aspects such as political, social, economic and technological factors also have an impact on the achievement of objectives, and will be put into perspective as the present chapter proceeds.

An internal financial audit forms an important part of the internal financial control process. Internal financial control consists of all the plans adopted by the management of a department to ensure as far as possible that services are delivered efficiently, fraud and error prevented, records kept accurate and that financial statements are timely prepared (Puttick and Van Esch, 1998:162). An effective internal financial control system can serve as a performance indicator. Other typical benefits of such a system will also be evaluated in due course.

The external audit in the public sector is a further important component of the financial control milieu, and is performed by the office of the Auditor-General. Its functions are laid down in the **Auditor-General Act**, 1995 (Act 12 of 1995). The Provincial Public Accounts Committee (PROPAC) is another control mechanism by means of which government and the Provincial Legislature execute financial control over the expenditure of public money. The mandate of Public Accounts Committees is to enhance financial management standards in public sector institutions and its endeavour to achieve departmental objectives and effective financial management must be recognized. Only by ensuring that financial affairs are properly managed, will the Free State Provincial Government be able to achieve its goals and visions effectively.

3.2 Financial planning

Financial planning and financial control are inseparable. Koontz and O'Donnell

(1964 : 73) describe the interaction between these two management functions as follows:

"Unplanned action cannot be controlled, for control involves keeping subordinates on course by correcting deviations from plans. Any attempt to control without plans would be meaningless, since subordinates cannot do what a manager wants them to do without knowing what his wishes are. Plans thus furnish the standards of control".

Financial planning forms part of the financial management process and includes objectives, policies, procedures, rules and task assignments because these all involve a certain amount of time and cost. Koontz and O'Donnell (1964 : 74) classified the following types of plan, namely:

Objectives: Objectives constitute the target at which an activity is aimed. Objectives represent not only the goal of planning but also the goal towards which the organizing of human resources and control are directed. While an institution's objectives constitute a basic plan, a department has its own objectives. Although institutional and departmental objectives both contribute to an institution's overall plan, the two sets of goals might differ entirely.

Policies: Policies are also classified as plans. Policies are general statements that direct subordinates through decision-making. Objectives and policies both guide related thinking into action, objectives differing from policies in that they are planning goals, while policies channel decisions concerning theirrealization.

Procedures: Procedures are also classified as plans because they establish a customary method of handling future activities. Procedures at top management level might differ from those at middle- and bottom-level management levels, but they exist throughout an institution. In the lower levels of management they become more numerous than those do in middle and top management levels. This is largely because of the necessity for more careful control, the economic advantages of spelling out actions in detail, the reduced need for personal discretion, and the fact that routine tasks lend themselves to obtaining greater efficiency by establishing the one best way of performing them.

Rules: Rules are plans in that they require a specific course of action. They are usually the simplest types of plan. Rules are frequently confused with policies or procedures although they are entirely distinct. A rule requires that a specific and definite action be taken with respect to a situation. It is thus related to a procedure in that it guides action, but specifies no time sequence. A rule may or may be not part of a procedure. For example, “no smoking” is a rule quite unrelated to any procedure, but a procedure governing the handling of orders may incorporate the rule that all orders have to be recorded the day they are received. Well-established procedures and rules make the work of subordinates easier and contribute to performance improvement.

Budgets: Budgets are plans for the accomplishment of programs related to objectives and goals within a definite period of time, including an estimate of the resources required, together with an estimate of those available, and then compared usually with one or more periods indicating future requirements (Fox and Meyer, 1995:15).

Programs: Programs are established by a department to attain its objectives and for which funds are requested (Visser and Erasmus, 2002 : 370).

Strategic plans: Strategic plans are formulated from a department’s mission statement and address the two or three outcomes on which the department will be focusing. They include high levels of output objectives, performance measures and indicators. The time frame may be from three to five years (Visser and Erasmus, 2002 : 371).

According to Treasury Regulation 5.1.1, accounting officers must prepare a strategic plan for the MTEF, commencing 1 April 2002, in order to formalize strategies. Treasury Regulation 5.2.1 determines that in order to facilitate the annual reports of accounting officers as required by sections 40(1)(d) and (e) of the PFMA the approved strategic plan must be tabled in Parliament or the relevant Provincial Legislature within 15 working days after the MEC or relevant MEC for finance has tabled the annual budget.

Treasury Regulation 5.2.2 determines that the strategic plan must –

(a) cover a period of three years and be consistent with an institution's published medium-term expenditure estimates;

(b) include the measurable objectives and outcomes for the institution's programs;

(c) include details of proposed acquisitions of fixed or movable capital assets, planned capital investments and the rehabilitation and maintenance of physical assets;

(d) include details of proposed acquisitions of financial assets or capital transfers and plans for the management of financial assets and liabilities;

(e) include multi-year projections of income and projected receipts from the sale of assets;

(f) include details of the Service Delivery Improvement Program;

(g) include details of proposed acquisition or expansion of information technology with reference to an information technology plan that supports the information plan; and

(h) in the case of departments, include the requirements of Chapter 1, Part III B of the Public Service Regulations, 2001.

Managers must adhere to such of the above-mentioned Regulations they have decided on, although individual approaches to their execution will vary in accordance with the financial responsibilities allocated to the officials concerned, their management style and the nature of the strategic plans imposed by superiors. A type of plan is efficient when it achieves the set objectives with a minimum of undesirable consequences, the positive gains outweighing the cost of implementation. The concept of value for money is therefore important.

3.3 Financial control

Financial control in the public sector has been described as a comprehensive process consisting of monitoring activities and a follow-up of deviations from the financial framework, and is aimed at an optimal achievement of the stated objectives (Free State Provincial Administration, 1989 : 2)

The established process which enables management to guide and monitor its activities including the framework consisting of control, the setting of objectives, plans and standards; the delegation of authority to act; continuous monitoring and evaluation to identify deviations from the framework and correctional action to reestablish performance in line with it (own translation).

Financial control is closely related to public accountability. (Public accountability has been dealt with in paragraph 2.4 of the previous chapter.) Responsible managers are the focus point of a financial control system because they set in motion activates the activities that eventually lead to the generation of revenue, the budget, to estimates and expenditure control. The responsible manager is also the appropriate official who has to implement remedial actions when deviations appear. In the public sector the requirements for financial control are manifested in various ways (Free State Provincial Administration, 1989 : 22-23):

- Parliament and each Provincial Legislature must appropriate money for each financial year for the requirements of the state and the province, respectively (Section 26 of the PFMA). This authorization falls away at the end of the financial year, and then financial control must be exercised by management to ensure that budget amounts are not exceeded.

- Resources are awarded to managers to achieve their departmental objectives. Performance must be monitored via the periodic comparison between planned and actual results to ensure the maximum utilization of resources.

- The requirements for unimpeachable financial control and constant wariness prescribe an appropriate distribution of responsibility so that another checks the work of one official. This control is necessary to ensure that delegated powers are not abused.

- Responsibility for the provisioning for cash, stock, recoverable revenue and other assets must necessarily be delegated. Independent control can be exercised over personnel entrusted with provisioning responsibility, for example stock containers through the implementation of accounting control measures.

- Finally, adequate control over the FMS itself is necessary.

The FMS was implemented with effect from 1 April 1989 in the Free State Provincial Government. The FMS is an integrated financial planning and financial control system and therefore cannot be separated into different entities. The main constituents of the FMS are, however, a budget, an accounting and a financial control system (Free State Provincial Administration, 1989 : 24). The general responsibilities of accounting officers with regard to financial management are described in section 38 of the PFMA, while their specific responsibilities relating to budget control are determined by section 39 of the PFMA. Accounting officers have to rely on their managers to support them in executing responsibility. The FMS was developed to provide managers with the information and facilities needed to assist the accounting officer in the process of service delivery. Robinson, et al. (1990 : 8) summarize the aim of the FMS as follows:

- The improvement and rationalization of budget information that allows departmental managers, the provincial treasury and central government to take effective financial decisions about the allocations of resources.

- The provisioning of an adequate computerized system that satisfies the requirements for recording revenue, budget amounts, estimates and expenditure.

- The provisioning of an efficient financial control system to identify possible areas of under- and overspending in advance (the National Treasury being currently busy with the implementation of an Early Warning System).

- The furnishing of cost-calculation facilities to responsibility centres; and

- the supply of any additional financial information that is needed.

The former **Exchequer Act**, 1975 (Act 66 of 1975) provided for the inclusion of the Financial Regulations and Treasury Instructions. These documents served as a comprehensive framework applying to all matters related to financial management in the public sector.

The Free State's **Exchequer Act**, 1994 (Act 1 of 1994) were issued on 1 July 1994 to provide for the regulation of the collection, receipt, control, custody and issue of state moneys and the receipt, custody and control of other state property; the duties and powers of the Provincial Treasury; the granting of guarantees, indemnities and securities; and related matters.

In 1999 the PFMA and in 2000 the new Treasury Regulations replaced the Exchequer Act and Treasury Instructions. This means that the budget and accounting reform measures pertaining to the improvement of performance management are now reflected in the PFMA, new Treasury Regulations and MTEF concepts. The intention is that accounting officers, departmental staff, and financial managers are provided with a less prescriptive and more enabling financial framework to pursue a positive practical approach towards financial management. (Visser and Erasmus, 2002 : 56.)

3.4 Financial reporting system

The need for financial reporting can be explained by the quest for accountability and transparency as set out in the **Constitution**, 1996 (Act 108 of 1996). Sections 195 (1)(f) and (g) stress that public administration must be accountable, and that transparency be fostered by providing the public with timely, accessible, and accurate information. The purpose of any financial report is to indicate the extent of compliance with appropriations and contractual, legal, and other requirements. (McKinney, 1995 : 427.)

3.4.1 Monthly reports

Sections 40(4)(b) and (c) of the PFMA determine the following responsibilities of accounting officers with regard to monthly reports, namely that they -

"(b) each month submit information in the prescribed format on actual revenue and expenditure for the preceding month and the amounts anticipated for that month in terms of paragraph (a); and

(c) within 15 days of the end of each month submit to the relevant treasury and the executive authority responsible for that department -
    (i) the information for that month;
    (ii) a projection of expected expenditure and revenue collection for the

remainder of the current financial year; and

(iii) when necessary, an explanation of any material variances and a summary of the steps that are taken to ensure that the projected revenue remain within budget.

[Para. (c) amended by s. 21 (e) of Act No. 29 of 1999.]"

In addition to the reporting requirements of sections 40(4)(b) and (c) of the PFMA, the accounting officer must also comply with the reporting requirements of the annual Division of Revenue Act.

- A provincial treasury must submit a statement to the National Treasury on actual revenue and expenditure with regard to its revenue fund before the 22nd day of each month in the format determined by the National Treasury. Such a statement must include a certificate to the effect that the head official of provincial treasury has verified the information supplied. The information supplied must be based on information submitted to the provincial treasury by provincial accounting officers in terms of section 40(4)(c) of the PFMA. (Treasury Regulation 18.1.)

3.4.2 Annual financial statements

Section 40(1)(b) of the PFMA determines the following responsibilities of accounting officers with regard to annual financial statements: They -

"(b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice".

For the financial year ending 31 March 2002, the following reporting standards must be adhered to, unless otherwise approved by the National Treasury. (Treasury Regulation 18.2.)

Reporting entity	Generally recognized accounting practice
National and provincial revenue funds	Annual financial statements must consist of - (a) a statement of liabilities and financially related assets; (b) an income statement; (c) a cash flow statement; (d) notes to the annual financial statements; (e) a report on the financial position of and performance by the Treasury; and (f) such other statements as may be determined by the Accounting Standards Board. The annual financial statements must be prepared on a cash basis and must be accompanied by the audit opinion of the Auditor-General. The annual financial statements must, by means of figures and a descriptive report, explain any other matters and information relating to the affairs of the relevant revenue fund.

3.4.3 Contents of annual reports

Section 40(1)(d) of the PFMA determines the following responsibilities of accounting officers with regard to the contents of annual financial statements: They -

“(d) must submit within five months of the end of a financial year to the relevant treasury and, in the case of a department or trading entity, also to the executive authority responsible for that department or trading entity-

(i) an annual report on the activities of that department, trading entity or constitutional institution during that financial year;
(ii) the financial statements for that financial year after those statements have been audited; and
(iii) the Auditor-General’s report on those statements;

[Para. (d) amended by s. 21 (b) of Act No. 29 of 1999.]”

In preparing the annual report of an institution, the accounting officer must –

- in the case of a department or trading entity, comply with the requirements prescribed in Chapter 1, Part III J of the Public Service Regulations, 2001;

- include, after 1 April 2002, information about the institution’s efficiency, economy and effectiveness in delivering programs and achieving its objectives and outcomes in accordance with the measures and indicators set out in any strategic plan for the year under consideration;

- include information on transfer payments per organization for the entire financial year as well as prepare a report on compliance with section 38(1)(j) of the PFMA;

- include all information required in terms of the annual Division of Revenue Act;

- include any additional information required by Parliament or the provincial legislature;

- report on the use of foreign aid assistance, detailing the source and intended use of the assistance (including the value of any aid-in-kind in rand), performance information on the institution's use of the assistance, and any pending applications for assistance; and

- a report from the audit committee as required by paragraph 3.1.10 of the Treasury Regulations. (Treasury Regulation 18.3.)

3.4.4 Performance reports

Section 27(4) of the PFMA determines that when the annual budget is introduced in the Provincial Legislature, the accounting officer for each department must submit measurable objectives to the Provincial Legislature, for each main division within the department's vote. In addition Treasury Regulation 5.3.1 determines that the accounting officer of an institution must establish procedures for quarterly reporting to the executive authority to facilitate effective performance monitoring, evaluation and corrective action.

Performance measurement systems provide accountability to the public by identifying results and evaluating decisions concerning past resource utilization. Traditionally, public managers have placed too little importance on receiving and acting upon accurate and updated data – particularly financial – with the result that accountability has been undermined and available resources have been used to less than their maximum potential (Visser and Erasmus, 2002 : 343-344). Public managers are required to monitor and report on the performance of their departments as measured against the approved budget for the financial year. In fact, these reports have to focus on the performance as measured both against the approved budget and the service delivery plans, and to alert managers to take remedial action where necessary.

3.5 Criteria for evaluating a financial management system

Maciariello (1984 : 218) is of the opinion that there are two important output criteria for evaluating the effectiveness of a financial management system. The first is the extent to which the financial management system is indeed *applied by management* to take decisions in the financial control process. If the system is not applied, it *cannot be effective,* no matter how sophisticated it is. The second criterion is more difficult to apply, but is no less important. It has to do with the quality of decisions made during the control process and the influence of the system on quality. The most objective measure here is the extent to which an institution has been achieving its objectives and goals over a reasonable period of time. In addition there are four input-related criteria against which a financial management system should be measured:

- The first concerns the extent to which each part of a financial management system is *linked* with the others. There should be a reasonable cohesion between environmental analysis, business planning, programming, budgeting, reporting and analysis, and any resulting decisions taken. Failing this the financial management system may not have much influence on the financial control process.

- The second input criterion concerns *the role of staff*. There should be enough trained and experienced staff to support line management to ensure efficiency and effectiveness during the financial control process. The financial management system should be integrated with an institution's 'house style' rather than being the special tool of the staff.

- The third input criterion concerns the extent to which a system focuses upon encouraging *staff commitment* to achieve institutional goals and objectives. To do so, institutions should encourage participation in the financial planning and control process.

- The fourth criterion concerns the encouragement of *bold strategic thinking* on the part of all managers in an institution. It excludes any encouragement of *premature budget manipulations.*

3.6 Environmental analysis in perspective

The financial control process should include some mechanism for analyzing the corporate environment. It provides a constant basis for financial planning and focuses attention upon environmental factors that are crucial to the success of an institution. Each division or subdivision evaluates environmental variables against the particular community within which it operates. The various values present economic, political, social and technological variables over which management has no control, are often crucial to the success of an institution. An analysis of a given environment is difficult and fraught with uncertainty. Managers cannot assume that an environment will remain unchanged after long-term plans are prepared. Management has to predict the behaviour of environmental variables in order to have sufficient leeway when the time comes to consider decisions that will keep an institution within sustainable development parameters. These variables should be constantly monitored for major potential changes. Environmental analysis is closely related to institutional planning. Maciariello (1984 : 223) is of the opinion that institutional planning is concerned with the analysis and choice of appropriate business responses in the light not only of environmental threats and opportunities but also of internal strengths and weaknesses.

Figure 3.1 visualizes the external and internal environmental factors and their impact on institutional planning. External environmental factors such as political change, social behaviour, religious dogmatic, educational transformation, management ideas and tools, military needs and technological change all have an impact on the outcome of an institution in terms of the planning process. The institution must react according to environmental changes and influences. These

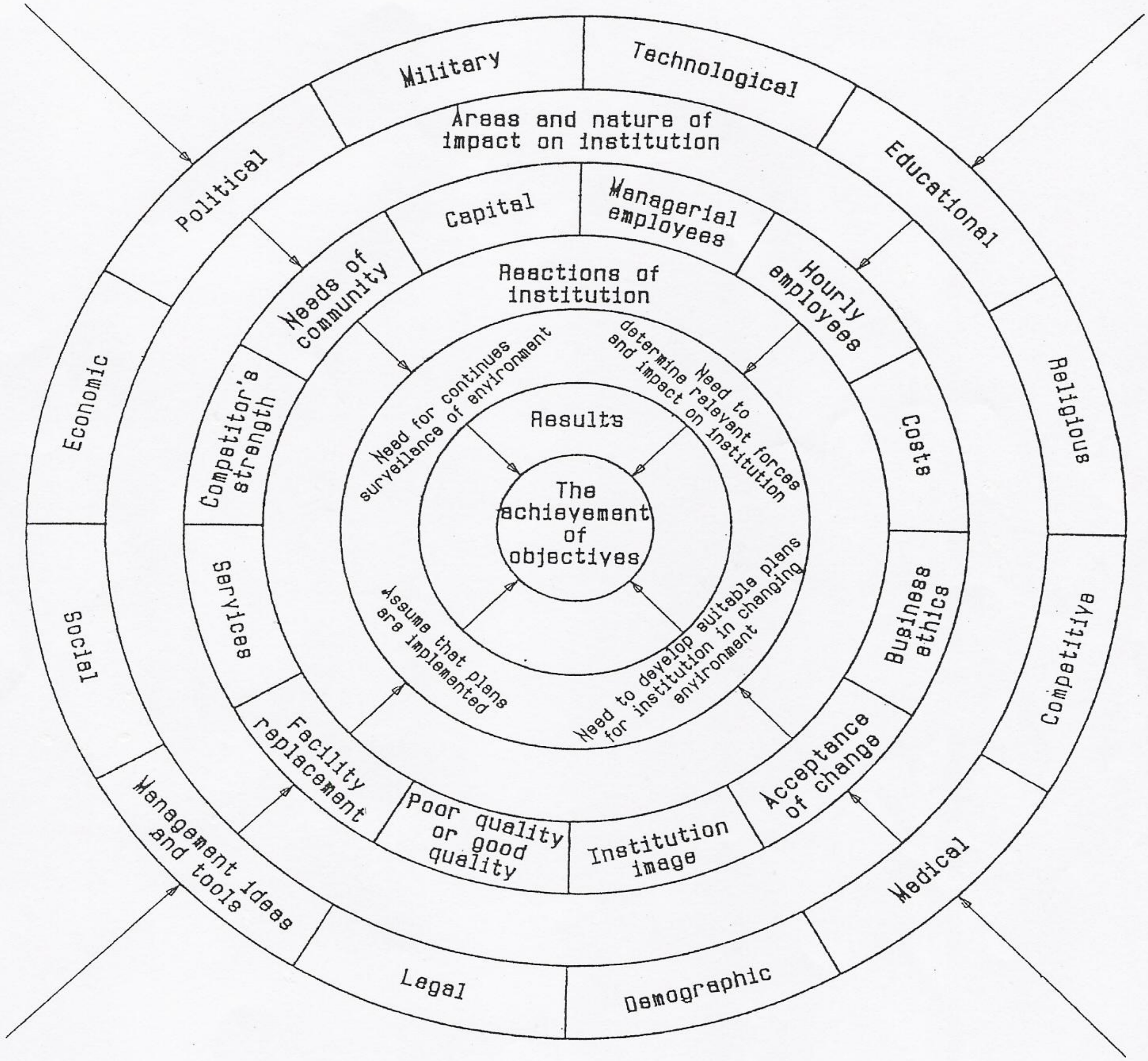


Fig. 3.1: Environmental forces. Adapted and reproduced from Maciariello , J.A. 1984. **Management control systems.** Revised ed. Englewood Cliffs: Prentice-Hall: 224.

environmental changes require that management must constantly focus on the external and internal factors that might influence the achievement of its objectives – the ultimate goal of public management. Internal environmental factors include the needs of the community, cost, an institution's image, the quality of service rendered, ethical conduct and an acceptance of change. The actual results are influenced by managerial behaviour in the face of these needs and changes. Accordingly, there is a need -

- for continuous surveillance or scanning of the environment;
- to determine relevant forces and their impact on an institution;
- to develop suitable plans for an institution in a changing environment; and
- for the implementation of financial plans and control measures.

3.7 Internal financial control

Internal financial control has various aims and objectives, for example, safeguarding against losses, waste, unauthorized use or misappropriation. It also promotes not only the efficiency of institutional activities, but also the efficient use of resources. Visser and Erasmus (2002 : 299) assert that the budget can be utilized with great success by management to monitor the actual performance of an institution on the basis of initial budget estimates. Any deviations should, therefore, be analyzed and corrective action taken, as that is not only a budgetary provision but also forms part of an Act of Parliament (Budget Act).

Internal financial control has an important role to play in the achievement of departmental objectives, and its contribution to efficiency should not be overlooked. Visser and Erasmus (2002 : 290) describe internal control as being -

“policies developed and implemented by management to provide reasonable assurance that control objectives are met”.

More importantly Puttick and Van Esch (1998 : 162) define internal financial control as being a whole system :
“…consisting of all the policies and procedures adopted by the management of an entity to achieve management’s objectives of ensuring, as far as practicable, the orderly and efficient delivery of services, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completion of the accounting records and the timely preparation of reliable financial information”.

An effective internal financial control system has an important benefit in that the internal audit report can serve as a performance indicator. Other typical benefits of an internal financial control system (Ratliff, et al. 1988 : 96) are the following:

- Accountability will improve, and the safeguarding of assets will be more effective.

- Financial control over the resources utilized on an operational level will improve.

- Compliance with policies and procedures having built-in checks and balances will be achieved.

- Preoccupation with efficiency can be avoided by establishing various measures aimed at achieving effectiveness.

The functions and establishment of audit committees will be highlighted in the following paragraphs.

3.7.1 Audit committees

The functions of an audit committee (Treasury Regulations, 2001 : 8-9) are the following:

- The relevant treasury must inform the Auditor-General by no later than 30 June 2001[1] of any determination to share audit committees between departments.

- In the case of an audit committee not shared, the accounting officer of an institution must appoint audit committee members in consultation with the relevant executive authority.

- In the case of a shared audit committee, the head of the relevant treasury must appoint audit committee members after consultation with the executive authority.

- The chairperson of an audit committee may not be a political office bearer.

- Audit committees must be constituted in such a manner that their independence is ensured.

- Members of an audit committee who have been appointed from outside the public service, pursuant to section 77(a)(i) of the Act (meaning the PFMA – own insertion), must have the appropriate experience, be appointed on contract and be remunerated in accordance with paragraph 20.2.2 of the said regulations.

---

[1] See comment on the establishment of audit committees at the end of paragraph 3.7.1.

- The relevant executive authority has to concur with any premature termination of the services of someone serving on an audit committee.

- An audit committee must establish an audit charter to guide the audit in its approach and in its operating procedures, spelling out the rules governing the audit relationship.

- An audit committee must report and make recommendations to the accounting officer, but the latter retains the responsibility for implementing such recommendations.

- In addition to the above, an audit committee must comment on the following items in the annual report of a department:

  (a) The effectiveness of internal financial control.
  (b) The quality of the management and the monthly reports submitted during the course of a year in terms of the PFMA and the annual Division of Revenue Act.
  (c) Its evaluation of the annual financial statements.

- Should a report to an audit committee, whether from the internal audit unit or any other source, implicate the accounting officer in fraud, corruption or gross negligence, the chairperson of the audit committee must report this promptly to the relevant executive authority.

- An audit committee may communicate any concerns it deems necessary to the executive authority, the relevant treasury and the Auditor-General.

According to a national report of the Auditor-General (2001 : 14) shortcomings relating to audit committees still exist at six departments on the national level, and have been previously reported. According to the Volksblad, (23 March

2002), the MEC of Finance stated in his budget speech for 2002/2003 that the recruitment of 60 members of several audit committees was hampered, among other things, because of their being poached away by other parties. Black qualified officials in particular do not stay long in a department before they are „hunted' by other employers. Better salaries in other positions seem to be the inducement. The accounting officer of the Department of Sport, Arts, Culture, Science and Technology gave the following reasons why the internal audit unit and an audit committee were not in operation during the financial year ended 31 March 2002 (Annual Report, 2002 : 27):

- During the beginning of the financial year 2001/2002 the Treasury, along with the Provincial Executive Committee decided, in terms of section 77(c) of the PFMA and Treasury Regulation 3.1.1, that the Free State Provincial Government would make use of an (shared service) internal audit component. On this basis, the department did not proceed with the establishment of its own internal audit unit.

- Afterwards, according to the Executive Council Resolution (56/2002 dated 10/4/2002) it was approved that -

  ← the Executive Council Resolution (No. 149 – dealing with a centralized unit based in the Department of Finance) be withdrawn;
  ← the departments be allowed to establish their own internal audit units; and
  ← that the Departments of Education, Health, Social Development and Public Works – each be allowed to appoint Audit Committees. The other departments shall appoint one Audit Committee that will be shared.

3.7.2 Internal financial control and audit

Treasury Regulation 27 (1) and 27 (2) determines the following:

- The accounting officer must facilitate a risk assessment to determine the material risks to which the institution may be exposed and to evaluate the strategy for managing these risks. Such a strategy must include a fraud prevention plan. The strategy must be used to direct internal audit efforts, to determine priorities and the skills required managing these risks.

- The accounting officer must provide a certificate from the relevant treasury by 30 June 2001[2] indicating that the risk assessment has been completed and that the fraud prevention plan is fully operational.

- Accounting officers must establish internal audit units for their institutions in accordance with the policy determined.

- The relevant treasury must inform the Auditor-General by no later than 30 June 2001 of any determination to share internal audit units between departments.

- An internal audit unit may be partly or wholly contracted to an external organization with specialist auditing expertise, provided that its selection is in accordance with the government's relevant competitive tendering procedures.

- An internal audit must be conducted in accordance with the standard set by the Institute of Internal Auditors.

---

[2] See comment on the internal audit function at the end of paragraph 3.7.2.

- An internal audit unit must in consultation with the audit committee prepare the following items for its approval:

  (a) A rolling three-year strategic internal audit plan based on its assessment of key risk areas for the institution, keeping in mind its current operations, those proposed in its strategic plan and its risk management strategy.
  (b) An annual internal audit plan for the first year of the rolling three-year strategic internal audit plan.
  (c) Plans indicating the proposed scope of individual audits in the annual internal audit plan.
  (d) Operating procedures, including management inputs to guide the audit relationship.
  (e) Quarterly reports to the audit committee detailing its performance against the annual internal audit plan to allow for effective monitoring and possible intervention.

- An internal audit unit must assess the operational procedure, and in addition monitoring mechanisms must be applied to all transfers made and received, including those in terms of the annual Division of Revenue Act.

- An internal audit unit must be independent with no limitation imposed on its access to information.

The Auditor-General (2001 : 14) reported in a national audit report that in the previous financial year (2001) reliance, for audit purposes, on the work of the internal audit at national departments was limited to only 21 per cent, although such a function had been established in 82 per cent of the votes audited. In the current year (2002), reliance for audit purposes was placed on 18 per cent of the work of the internal audit at national departments, although a function of this kind had been established in 97 per cent of the votes audited. In general, the Auditor-

General reported that capacity constraints hampered the work of the internal audit.

The Auditor-General (2001 : 74) is also of the opinion that effective internal financial control is crucial for successful financial management, and a properly structured control environment cannot exist without an active, expert audit committee overseeing the work of the internal auditors. Despite the legal requirement for an audit committee to exist, only four of the provinces complied with it during the 2000/2001 financial year. In addition, in none of the provinces could any reliability be placed on the work done by internal audit in respect of the 2000/2001 financial year.

3.8 External audit and financial control

The external audit refers to those functions performed by the Office of the Auditor-General, independently of any department or institution other than the Provincial Legislature. The financial reports of an external audit should also be utilized as performance indicators. The functions of the Auditor-General are stipulated below.

3.8.1 Functions of the Auditor-General

The following functions of the Auditor-General are laid down in the **Auditor-General Act**, 1995 (Act 12 of 1995):

"(1) The Auditor-General shall, in addition to the powers and functions conferred upon or entrusted to him or her in terms of section 193 of the Constitution, have the powers and perform the duties specified in this Act.

(2) Notwithstanding the provisions of any other law, but subject to the

provisions of the Constitution, the Auditor-General shall perform the functions vested in him or her by virtue of any other law, in accordance with the provisions of this Act in relation to:

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

(3) The Auditor-General may at his or her discretion determine the nature and extent of the audit to be carried out and request the details and statements of accounts which he or she considers necessary: Provided that he or she may, notwithstanding the provisions of any other law, also determine the format in which and the date on which such details, statements of accounts and financial statements shall be submitted to him or her.

(4) The Auditor-General shall reasonably satisfy himself or herself that:

- reasonable precautions have been taken to safeguard the proper collection of money to which an audit in terms of this Act relates, and that the laws and instructions relating thereto have been duly observed;
- reasonable precautions have been taken in connection with the receipt, custody and issue of, and accounting for, property, money, stamps, securities, equipment, stores, trust money, trust property and other assets;
- receipts, payments and other transaction are made in accordance with the applicable laws and instructions and are supported by adequate vouchers; and
- satisfactory management measures have been taken to ensure that resources are procured economically and utilized efficiently and effectively."

Although there are additional functions described in the Auditor-General Act they may be regarded as irrelevant for the purpose of this research.

3.8.2 Provincial Public Accounts Committee

The Provincial Public Accounts Committee (PROPAC) is the mechanism through which the Provincial Legislature exercises control over the expenditure of public money it has appropriated to meet the needs of the Province (Auditor-General, 1995 : 1). Only by ensuring that financial affairs are managed properly, will the Province be able to realize its goals and visions effectively.

In terms of section 188 of the Constitution the need for parliamentary control of public money is recognized by providing for the establishment of an Auditor-General with the powers and functions, *inter alia* to:

"…audit and report on all the accounts, financial statements and financial management of -

(a) all national and provincial state departments and administrations;
(b) all municipalities; and
(c) any other institution or accounting entity required by national or provincial legislation to be audited by the Auditor-General.

(2) In addition to the duties prescribed in subsection (1), and subject to any legislation, the Auditor-General may audit and report on the accounts, financial statements and financial management of -

(a) any institution funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or
(b) any institution that is authorized in terms of any law to receive money for a public purpose.

(3) The Auditor-General must submit audit reports to any legislature that has a direct interest in the audit, and to any other authority prescribed by national legislation. All reports must be made public.

(4) The Auditor-General has the additional powers and functions prescribed by national legislation".

3.8.2.1 The mandate of Public Account Committees

The mandate of Public Accounts Committees is to enhance financial management standards in public sector institutions. In the case of the National Assembly, National Assembly Rules state that the Public Accounts Committee must review reports referred to it by the Speaker and assess the integrity of the accounting practices discussed. Provinces have similar rules. (APAC, 2003 : 3-4.) A legislature usually refers the following kinds of reports to a Pubic Accounts Committee:

- Financial reports.
- Audit reports.
- Other reports submitted by the Auditor-general.

As part of their mandate, Public Accounts Committees have a duty to assist the legislatures in ensuring those public sector institutions -

- to remain within their budgets and spend according to the purposes determined by legislatures;

- are held accountable if they do not comply with the law and regulations concerning their financial management;

- provide value for money in the services provided to the public and the state; and

- to develop and implement the necessary financial management capability and governance practices.

Sections 55 and 114 of the Constitution state that legislatures are expected to hold all organs of state accountable. This implies that the work of a Public Accounts Committee is not limited to those institutions that are audited by the Auditor-General, but also includes entities in receipt of public money.

3.8.2.2 Statutory responsibilities of Ministers and MECs for the management of public finance in South Africa

The financial management responsibilities of a Minister or MEC are reflected in the framework of the broader governance of a department. The PFMA imposes financial management responsibilities as set out in the paragraphs below. This framework provides instruments for Public Accounts Committees to hold Ministers or MECs accountable. (APAC, 2003 : 40-42.)

Monthly reports: Monthly reports have to be scrutinized regarding the under-collection or shortfall in budgeted revenue, overspending, the actual financial information for a month and a projection of expenditure and revenue for the year. [PFMA reference: Section 63(1)(b).]

Annual reports: The annual report, financial statements and audit report in the relevant legislature must be tabled within a month after the audit report is received. [PFMA reference: Section 65(1)(a).]

Written explanation: A written explanation must be submitted in the relevant legislature if it fails to submit the requisite information within six months after the end of the financial year. [PFMA reference: Section 65(2).]

Disciplinary board: The findings of any disciplinary proceedings against an accounting officer for financial misconduct must be tabled in the relevant legislature (no specific time stipulated). [PFMA reference: Section 65(1)(b).]

Directive with financial consequence: Directives with financial consequences must be in writing (no specific time stipulated). [PFMA reference: Section 64(1).]

Public entities: The provisions of sections 46-62 of the PFMA apply, to the extend indicated to all public entities listed in Schedule 2 or 3. Unlisted public entities must ensure that they are listed in the appropriate Schedule of the PFMA. They also have to approve business plans, monitor performance during the year, and table financial statements in the legislature (throughout the year). [(PFMA reference: Section 46-62).]

3.8.2.3 The basic elements of financial management

In the course of its work, a Public Accounts Committee will need to consider whether the basic elements of effective financial management are in place and actively applied in a particular department. This information can be used by a Public Accounts Committee to inform the members of a panel in the preparation of questions for a hearing and to identify issues emerging from audit reports that warrant further research.

APAC (2003 : 114-116) laid down the following basic elements of "good financial management" in the public sector:

- Setting priorities for the use of scarce resources.
- Ensuring effective „stewardship' over public money and assets.
- Achieving value for money in meeting the objectives of government.
- Performing the above in a transparent way and in accordance with all relevant legislation.

The basic elements of financial management are -

- budget formulation:
- budget implementation (including procurement and credit control); and
- monitoring and reporting (including any early warning of impeding or current difficulties).

The management of assets and liabilities, internal audit functions and systems to evaluate value for money support the above basic elements. Assessing the financial management arrangements in any department would have to take all of them into account.

A pre-condition for improved financial management is the establishment of the necessary capability. This would include -

- appointing competent and an adequate number of financial management staff;

- establishing an effective financial control system and financial control environment;

- establishing reliable information systems that produce regular and accurate financial information that is used to guide the management processes within a department;

- integrating the financial and non-financial (operational) information systems; and

- ultimately improving the efficiency and effectiveness regarding the use of available funds.

3.9 Follow-up phase

A major element needed for effective internal audits is the existence of procedures for monitoring the progress of recommendations made, and then clearly identifying whose departmental responsibility they are. Managerial actions taken should be reviewed during a follow-up audit to determine whether appropriate corrective action was indeed taken, or alternatively, whether management took the risk of not reacting (Visser and Erasmus, 2002: 334). The review results should be documented and then properly communicated to management.

Public accountability is the obligation to account for responsibilities conferred on an official, and covers the full range of resources under the control of institutions including performance accountability (Visser and Erasmus, 2002: 365). The responsible manager should follow up on outstanding audit, financial and performance reports. Performance accountability also requires that performance be monitored and followed-up if services rendered are not satisfactory.

3.9.1 Steps in the financial control process

The comparison between actual and expected performance might include the following considerations when compared with past performance (Anthony and Welsh, 1977: 641). Firstly, if a manager knows in advance that his performance is to be measured reported and judged, he tends to act differently from the way he would have acted had he believed that no one was going to check on him. Secondly, even though it is impossible to alter an event that has already occurred, an analysis of an official's performance in the past may show him and his superior how to improve his performance in future. Financial control reports do not on their own bring about a change in performance. A change results only when managers take the necessary action. The steps in the financial control process include the following:

- Identifying areas that require investigation.
- Investigating these areas to ascertain whether action is needed.

- Acting when investigation indicates the need for it.

3.9.2 Difficulties in measuring outputs

Anthony and Welsh (1977 : 643) maintain that in analyzing a report on performance a manager seeks to determine the efficiency and the effectiveness of the responsibility centre. To do so he needs reliable output information, but output cannot be expressed in quantitative terms. The expenditure control report of the FMS merely indicates whether or not the manager of the responsibility centre spent the prescribed amount. It does not reveal what he has accomplished and how effective he has been.

3.9.3 Discretionary cost

The financial control of discretionary cost is complex because optimum performance often consists of actually spending the amount agreed on, for spending too little may be as bad as spending too much. A manager can easily reduce his current cost by reducing the cost of maintenance; alternatively, top management may eliminate a research department. In the long run none of these actions might be in the interest of an institution, although in the short run they might result in lower cost as reflected in current reports regarding the outcome of an institution's performance (Anthony and Welsh, 1977 : 643).

3.9.4 Limitations of the standard

Anthony and Welsh (1977 : 644) is of the opinion that a standard is rarely, if ever, perfect. Even standard cost may not be accurate because -

- the standard was not properly set; or
- although set properly, the conditions that applied changed with the passage of time.

A deviation in the expenditure control report may not reflect the true performance of the manager responsible for this aspect because it might also reflect controllable and non-controllable causes. The proper interpretation of an expenditure control report involves much more than a look at the deviations occurring specifically in the public sector.

3.10 Conclusion

Financial planning without financial control is unthinkable. By definition financial planning furnishes standards of control. The budget is the obvious financial plan by means of which management can improve the achievement of budget objectives. Other considerations such as objectives, policies, rules, procedures and strategies are equally important because they also contribute towards the achievement of the required objectives. According to Treasury Regulation 5.1.1 an accounting officer has to prepare a strategic plan conforming to departmental objectives. Treasury Regulation 5.2.2 determines that this strategic plan must inter alia also incorporate details regarding a Service Delivery Improvement Program.

Financial control can be defined as an entire process of monitoring activities aimed at the optimal achievement of set objectives. The Provincial Legislature must appropriate money each financial year to meet the requirements of the province. Therefore performance must be monitored by management by means of a periodic comparison between planned and actual results to ensure the optimal utilization of the available resources.

The FMS was developed and then implemented in the Free State Provincial Government from 1 April 1989 to provide managers with the information and facilities needed to support the accounting officers in the process of service delivery. With the implementation of the PFMA, government intended to reform the budget system and so introduced the “measurable objectives” concept referred to in section 27(4). In addition Treasury Regulations 5.3.1 and 18.3 provided for quarterly and annual performance reports that had to be compiled by the accounting officers. Since 1 April 2002 annual performance reports have had to include information about an institution's efficiency, economy and effectiveness in delivering programs and about achieving its objectives and outcomes as compared with the measures and indicators set out in the strategic plan for the year under consideration.

Internal financial control has various aims and objectives, for example, safeguarding against losses, fruitless and unauthorized expenditure or misappropriation. It also promotes not only the efficiency of institutional activities, but also the efficient use of resources. The PFMA and Treasury Regulations require that accounting officers use reports derived from the scrutiny of the budget, internal audit, external audit and PROPAC to improve the performance of their respective departments. The focal point of financial control is the responsibility manager because that individual is responsible for the activities of a responsibility centre. Responsibility managers should also follow up on any deviations appearing in financial reports and take remedial steps to adhere to public accountability.

Internal financial control fulfills an important function in the achievement of departmental objectives, and management should utilize its contribution, for example, towards safeguarding against losses, fruitless and unauthorized expenditure and to attain efficiency and to improve performance. An effective internal financial control system provides an important benefit in that the internal audit reports serve as a performance indicator. Treasury regulations 27(1) and (2) and the PFMA determine the financial control functions of management. Internal financial control mechanisms include audit committees, reports of the Auditor-General and PROPAC. Management should in practice apply these financial control mechanisms to the full to improve their departmental performances and therefore also maintain service standards to the public.

It will be necessary to investigate and evaluate the budget system of the Free State Provincial Government according to the theoretical requirements of such a system and to analyze appropriation accounts over a period of fourteen years. Chapter 4 will be devoted to this objective.

4 THE BUDGET SYSTEM OF THE FREE STATE PROVINCIAL GOVERNMENT AND THE ANALYSIS OF APPROPRIATION ACCOUNTS BETWEEN 1989/90 AND 2002/03

4.1 Introduction

The various key steps in the budget process will be evaluated below. It must be emphasized that the budget process in the public sector is monomorphic and, as such, is maintained by the National Treasury (formerly known as the Department of Finance and State Expenditure). On the advice of the Minister of Public Service and Administration the President agreed to the abolition of the Department of Finance and State Expenditure with effect from 1 April 2000. It was to be replaced by the National Treasury, and an amendment was introduced to incorporate the necessary changes in Schedule 1 of the **Public Service Act**, 1994 (Act 103 of 1994). The Minister for Public Service and Administration determined that, in terms of section 3(3)(b) of the **Public Service Act**, 1994 (Act 103 of 1994), as amended, the functions pertaining to financial and fiscal matters were to be transferred from the Department of Finance and State Expenditure to the National Treasury with effect from 1 April 2000. The Minister also noted that the accompanying resources including personnel would be transferred to the National Treasury (Public Service and Administration: 26 February 2000).

The budget system of the Free State Provincial Government forms part of the financial management system incorporating an accounting system that is in use in all government departments, the same principles applying to each department. As has already been indicated this system is known as the Financial Management System or FMS, and is controlled by the National Treasury. The various Provincial Treasuries are also subordinate to the National Treasury.

It must also be noted that the proposed budget of a department is a financial plan designed to achieve future objectives, the final plan being expressed in terms of the approved national budget. During the budget period the approved budget can be altered through legislative processes to provide for changes in environmental factors and community needs. This can be done both through the budget by either dealing with adjustment estimation or in accordance with *virement* approval procedure that will also receive attention.

The limited financial resources available to government departments threaten their ability to deliver necessary services and goods in addressing the needs of the community (Visser and Erasmus, 2002 : 242). Scarce resources require the establishment of an activity prioritization system where only those activities that contribute to objective achievement receive the necessary funding. Since the availability of financial resources is unlikely to increase, the available funds should be spent more wisely.

To put performance measurement into perspective it is necessary to review the budget management system in the public sector and determine how the analyzing of annual financial statements and external audit reports could lead to an improved performance. Visser and Erasmus (2002 : 242) declares that the public sector rather than the private sector was the „forerunner' in developing and establishing performance measures to utilize state funds more effectively. They also stated that such measures are not yet in place in departments, and are expected to take some time to establish and implement.

As part of the empirical research, the appropriation accounts of various departments of the Free State Provincial Government over the past fourteen years will be tabulated and summarized. In addition, annual departmental reports as well as annual external audit reports will be analyzed to evaluate performance.

4.2 Historical background

Since the Second World War there has been a marked trend towards increased expenditure in most countries and in South Africa. The financing of this higher expenditure has placed an increasing burden on their sources of revenue and the consequent shortfalls have become more pronounced. This trend increased the need to improve traditional budget systems. Against this background a Commission of Inquiry (The Franzen-Commission) was established in 1970 to investigate the planning of a programming budgeting system for implementation in the public sector in South Africa (Free State Provincial Administration, 1989 : 17). The result of this investigation was the „management by objective' budget system which was developed.

During 1974 Cabinet's approval was obtained to implement the basic principles of the FMS in the financial administration of the public service of South Africa (Robinson, et al. 1990:7). The Free State Provincial Government investigated the possibility of alternative accounting and computerized systems during January 1986, and was the first province to implement the FMS with effect as from 1 April 1989. Since then budget information has been accounted on the basis of a four-dimensional approach, namely in accordance with an objective; by assigning responsibility; and by the presence of an item and fund structure. The FMS is primarily a management information system and as such serves as an aid in financial planning, control and performance evaluation. Managers need to know by whom the funds for expenditure are needed, what is to be financed with them and how the objective will be funded.

During 1976 National Treasury implemented an *introduction to the system for budgeting by objectives,* and shortly afterwards the *manual system of budgeting by objectives* was issued to departments as part of the „management by objective' method of budgeting. In 1985 the manual on the financial planning and budgeting system of the state replaced the former two documents. During 1994 this manual was updated in terms of section 39 of the **Exchequer Act**, 1975 (Act 66 of 1975) (Department of State Expenditure, 1994: 1).

4.3 Classification of budget information

The needs for budget information differ, whether for interdepartmental purposes or for use by the National Treasury or Parliament. Provision is therefore made in the money columns of budget documents submitted for the indication of the monetary value of current, capital and transfer expenditure. The object of standard classification is to provide authorities with a base for gathering uniform information from which statistical comparisons in the longer term may be made (Visser and Erasmus, 2002: 95).

4.3.1 Economic classification

According to paragraph 1.2.9 of the manual on the financial planning and budget system of the state (Department of State Expenditure, 1994: 4) the following broad guidelines have been adopted for the allocation of expenditure:

4.3.1.1 Current expenditure is the recurrent expenditure of departments on goods or services not classified as transfer payments and not intended for the acquisition of capital assets as referred to below. It includes the remuneration of employees, the acquisition of office requirements, rental, fuel and electricity, repair and maintenance, printed matter, equipment continuously purchased, with a value of R1000.00 or less, or with of less than one year's life-time. Expenditure regarding the normal upkeep of existing capital goods and the payment of interest not qualifying as transfer payments are also included.

4.3.1.2 Capital expenditure

Land: This classification includes expenditure on the purchase of land, land rights and servitudes and on defence, forestry and mining purposes.

Buildings and structures: Capital expenditure on the acquisition of buildings, structures and engineering works and on goods and services embodied in existing capital works whose purpose is removal, improvement or increased performance.

Equipment: Capital expenditure also includes expenditure on the purchase of durable machinery, equipment and means of transport with a normal lifetime exceeding one year, excluding small items with a value of R1000.00 or less which are purchased repeatedly.

4.3.1.3 Transfer payments refers to amounts that not to be spent on goods and services for the department on whose vote they appear, but which are to be paid over to other institutions. Included are the acquisitions of shares and transfers and loans to government institutions (for example constitutional institutions, major public entities and other public entities described in schedule 1-5 of the PFMA), private organizations, households and foreign institutions. These are divided into two categories:

Current transfers that include both grants-in-aid, subsidies, contributions, financial assistance, aid in natura to foreign countries and pensions and social benefits.

Capital transfers consisting of ordinary capital transfers, acquisition of shares and loans granted.

Ordinary capital transfers include -

- payments by the state to enable recipients to acquire capital assets and undertake capital generating projects;

- payments for goods and services taken up by existing fixed capital goods for the purposes described in paragraph 4.3.1.2 (capital expenditure);

- *ex gratia* payments to recipients for damages to or the destruction of capital assets or for the enlargement of these recipients' financial capital;

- non-repayable capital transfers to international institutions also falling under this classification;

- procurement of shares represents payment for shares obtained in private, public, international business undertakings and from international credit institutions; and

- loans granted includes loans and repayable advances.

4.3.2 Classification according to standard items

Expenditure in the public sector is classified according to eight standard items. A classification according to these standard items illustrates the expected expenditure on the various goods and services required to attain a department's objective. This classification also provides information about the „resources' needed to attain the desired objectives. The items are standardized as follows (Department of State Expenditure, 1994: 7-8):

Personnel expenditure: All expenditure relating to the conditions of service of officials and employees including salaries, wages, remunerative allowances, overtime pay, bonuses and gratuities.

Administrative expenditure: The normal administrative commitments of institutions, including travel and subsistence costs, transport costs, postal, telephonic, telegraphic and other communication services, advertisements, statutory levies, membership and registration fees, entertainment expenditure and compensatory payments to staff with regard to transfers and official travelling.

Inventories: This standard item was previously known as „stores and livestock' (National Treasury, 2000 : Table 5) and includes expenditure relating to the acquisition of store items of a consumable nature such as chemicals, paint, oil, coal, fertilizers, provisions, medicines, spares, fodder, protective clothing and fuel as well as printing, stationery and livestock.

Equipment: Expenditure in connection with the purchase or hiring of store items of a non-consumable nature which do not lose their identity through use, for example heavy and durable machinery and implements, hospital, laboratory and scientific equipment, furniture and labour-saving devices.

Land and buildings: Expenditure on the purchase or renting of land, buildings and structures including the rights relating to them.

Professional and special services: Payments for services rendered by professional and specialized persons and firms, for example physicians, architects, accountants, auctioneers, garages, etc. as well as payments for certain municipal services.

Transfer payments: Moneys not spent directly by an institution on the purchase of goods and services, but paid over to persons and institutions in terms of an appropriation specified in the program structure. These include grants-in-aid, loans, social pensions, subsidies and other payments as explained in paragraph 4.3.1.3.

Miscellaneous: Things not covered by the foregoing such as claims against the state, exchange rate losses, *ex gratia* payments, repayments and remissions, payments by one institution on behalf of all other institutions, for example the state's liability as an employer in respect of an injury on duty. This item is merely a balance provision under which unforeseen expenditure is included, and whose particulars have to be specified.

4.4 The budget cycle

The budget cycle forms an important part of the daily program of the various role-players, who were evaluated in paragraph 2.3. Obviously the budget cycle is an important means of control for budget-planning purposes. Estimates also need to be prepared and updated frequently according to the budget-cycle time-table.

4.4.1 The budget cycle in perspective

The budget cycle makes provision for the following aspects (Department of State Expenditure, 1994 : 10):

- The determination of the guideline allocations made by the National Treasury on the basis of inputs presented by institutions and function committees in the format prescribed in the budget manual.

- Inputs by the Central Economic Advisory Service regarding real growth rates over the longer term for identified functions. Both these growth rates and appropriate inflators are of vital importance in determining guideline allocations.

- The revised planning and revision of objectives and program requests by departments and institutions in the light of the Cabinet's guidelines and the submission of draft estimates for the ensuing financial year.

- The consideration of the draft estimates by the National Treasury and the Cabinet in the light of the expected available means determined by fiscal and monetary policy considerations and the consequent allocation of such amounts to institutions for the ensuing financial year.

- The compilation of the allocations in a formal budget document and the tabling of this document in Parliament for appropriation.

- Reporting on the state of expenditure during the course of the financial year and, where necessary, dealing with requests for additional funds from the Cabinet.

- Necessary adjustments to the prevailing main estimate.

4.4.2 Planning of and reporting on estimates

The planning of, reporting on, and authorization of estimates is a continuous process which must ensure that institutions' objectives and activities are adapted to and remain within their financial means, this applying to the MTEF-period as well.

4.4.3 The budget-cycle time-table

The following budget-cycle time-table for financial planning purposes is proposed by Nel (1998:40):

Table 4.1 Budget-cycle time-table for planning purposes

National departments to submit budget planning submissions, approved by their Ministers to the National Treasury	Middle of May
The National Treasury to evaluate inputs from national departments	Middle of May until end of June
The National Treasury to present MTEF to Cabinet	First Cabinet meeting of July
Sub-budget Committee of departments to scrutinize recommendations of Program Officers	First week of July

Budget Committee of departments to evaluate recommendations and bring recommendations in line with approved MTEF or adjusted MTEF	First two weeks in August
Investigations/calculations resulting from Budget Committee resolutions	Middle August until end of September
Presentation of recommendations by Budget Committee to Minister of Finance, Special Ministers' Committee and Budget Council	First week in October
Presentation to Cabinet	Middle October
Final allocations (year 0 + 1) as well as provisional expenditure guidelines for years 0 + 2 and 0 + 3 to national departments	November
National departments to submit printer's proofs for year 0 + 1 to the National Treasury	Middle January
Provincial allocations for year 0 + 2 and 0 + 3 announced in Budget Review	Middle March

Depending on unforeseen circumstances the above dates may be subject to change.

4.5 Determination of allocations

The determination of allocations includes three distinctive processes of which the first two run simultaneously:

- Compilation of the MTEF.
- Preparation of departmental spending proposals.
- Reconciliation of the MTEF and departmental spending proposals.

The MTEF includes provisional expenditure guidelines for three years, i. e. for the planning year and forward estimates for the subsequent two years. The MTEF-concept will be evaluated in chapter five.

4.6 The budget planning submission

Treasury Regulation 6.2 determines that the annual budget documentation as presented to Parliament or a Provincial Legislature must conform to such formats as may be published by the National Treasury by notices in the Government Gazette. Section 27(4) of the PFMA determines that when the annual budget is introduced in Parliament or a Provincial Legislature, the accounting officer for each department must submit either to Parliament or the Provincial Legislature measurable objectives for each main division within that department's vote. The relevant treasury may coordinate these submissions and consolidate them into one document.

4.6.1 Contents of the budget-planning submission

The National Treasury submits departmental spending proposals to the National Budget Committee after having received budget-planning submissions from institutions. Nel (1998 : 33) contends that the format of the budget planning submission must include the following summarized documents and schedules:

- Covering minute.
- Explanatory memorandum.
- Changes in policy and activities.
- Schedules that will be submitted to the Budget Committee.

4.6.2 Additional budget information

The National Treasury may, besides to the above, request additional written information, specific to the institution. Three copies of the budget-planning submission must be presented to the National Treasury. The above-mentioned submission will form the basis of appropriations for the forthcoming financial year and forward estimates for the subsequent two years. Accounting officers must ensure that inputs are compiled accurately.

The compilation of the overall budget for the forthcoming year and forward estimates for subsequent years requires a reconciliation between the MTEF and strategic plans. This process involves evaluations of budget planning submissions by the National Treasury and consideration of presentations from all departments by the National Budget Committee.

4.7 Provincial adjustments budget

The purpose of the provincial adjustments budget is to effect any necessary adjustments to the current main budget of a particular financial year. According to section 31 of the PFMA, the Member of the Executive Council for Finance in a province may table an adjustments budget in the Provincial Legislature. An adjustments budget may only provide for -

(a) the appropriation of funds that have become available to the province;

(b) unforeseeable and unavoidable expenditure recommended by the provincial Executive Council of the province within a framework determined by the Minister of Finance;

(c) any expenditure in terms of emergency situations (section 25 of the PFMA);

(d) money to be appropriated for expenditure already announced by the MEC for Finance during the tabling of the annual budget;

(e) the shifting of funds between and within votes or for following the transfer of functions in terms of accounting officers' responsibilities when assets and liabilities are transferred (section 42 of the PFMA);

(f) the utilization of savings under a main division within a vote for the defrayment of excess expenditure under some other main division within the same vote in terms of virement between main divisions within votes (section 43 of the PFMA); and

(g) the rollover of unspent funds from the preceding financial year.

The Minister may determine the format of an adjustments budget and the time when it may be tabled in a Provincial Legislature.

4.8 Virement approval

In terms of section 43(1) of the PFMA, an accounting officer for a department may utilize a saving in the amount appropriated under a main division within a vote towards the defrayment of excess expenditure under some other main division within the same vote, unless the relevant treasury directs otherwise. The amount of a saving under a main division of a vote that may be utilized in terms of subsection 43(1) may not exceed eight per cent of the amount appropriated under that division.

An accounting officer must, within seven days, submit a report containing the prescribed particulars concerning the utilization of a saving in terms of subsection 43(1) to the executive authority responsible for the department and to the relevant treasury.

Section 43(4) does not authorize the utilization of a saving in -

(a) an amount specifically and exclusively appropriated for a purpose mentioned under a main division within a vote;

(b) an amount appropriated for transfer to another institution; and in

(c) an amount appropriated for capital expenditure to defray current expenditure.

A utilization of a saving in terms of subsection 43(1) is a direct charge against the relevant Revenue Fund provided that, in the case of a province, the said province enacts such utilization as a direct charge.

The National Treasury may regulate or instruct, in terms of section 76 of the PFMA, the application of section 43.

4.9 Prioritization of activities

Nel (1998 : 29) asserts that only those activities that support a department's mission should remain in place. They should also have been costed at the best available prices. The possibility that there will be more activities than the government can afford is, however, a reality. It is therefore necessary to prioritize activities so that those making the largest contribution to the department's mission receive preferential funding. As prioritization tends to become an extremely subjective exercise, it is necessary to structure it in such a way that any subjectivity is limited to the minimum. To assist departments in overcoming this problem an elementary priority matrix (an example of its application being set out in Annexure A) has been developed by Correctional Services for use as a tool in determining priorities vis-à-vis a department's multiple functions (Department of State Expenditure, 1998 : 57-59).

Departments may also employ other methods. It is, however, strongly recommended that this method be applied, as departments will, on request, have to provide proof to the National Treasury that they have instituted a well-structured prioritization process. Only line-function activities need to be prioritized, as staff-function activities supporting the former will obviously have a priority proportionate to the relevant line functions. Such priorities accommodate changes in the extent and content of line functions.

4.10 Analysis of voted amounts and expenditure

In the previous chapters government's budget management system was investigated. It was also shown how various needs must be satisfied within the limitations imposed by scarce resources. Budget management and its specific significance were put into perspective with an emphasis on what is expected of the various role-players'. To account for the expenditure of voted funds and to exercise financial control, Parliament and National Treasury provided for specific Acts, Treasury Regulations and Treasury Guidelines. These control measures were also evaluated, and theoretically it seems as if the financial planning and control mechanisms for effective budget management are in place, although performance measures need to be attended to as well. Visser and Erasmus (2002 : 242) define the objective of establishing performance measures as follows:

"The objective of establishing and implementing performance measures, and implementing principles of sound public management and administration, is to promote the welfare of communities with limited resources at their proposal."

The employment contract of an accounting officer for a department must include performance standards (White Paper on Human Resource Management in the Public Service, 1997:32). Performance standards and the measurement of performance should be part of the budget management process. Citizens should be consulted about the level and quality of the public services they receive and, wherever possible, should be given a choice regarding the services offered. Citizens should also be informed about the level and quality of public services they will receive so that they are aware of what to expect (Batho Pele White Paper, 1997 : 15). At the end of each financial year accounting officers must submit a report on the spending of funds which were appropriated to them, including information about their department's efficiency, economy and effectiveness in delivering programs and achieving set objectives (Treasury Regulation 18.3).

The budget system of the Free State Provincial Government was briefly discussed in the first half of this chapter. The remainder of the chapter will summarize and analyze the financial statements and external audit reports over the past fourteen years to determine whether there are any challenges related to the measurability of performance. The period covered by the research, however, depended on the existence of a specific department fourteen years ago since at that time some yet exist.

4.10.1 Health Services

The financial statements (Annexure B) for the Department of Health Services during the past fourteen years are summarized as follows:

Financial year	Amount voted R'000 000	Expenditure R'000 000	Percentage deviation
89/90	433	424	1.96
90/91	486	486	0.00

91/92	560	560	0.00
92/93	677	645	4.79
93/94	827	789	4.68
94/95	911	902	0.99
95/96	1 148	1 183	(3.07)*
96/97	1 481	1 470	0.73
97/98	1 518	1 659	(9.30)*
98/99	1 590	1 688	(6.19)*
99/00	1 724	1 589	7.86
00/01	1 833	1 777	3.05
01/02	1 970	1 953	0.87
02/03	2 243	2 194	2.18

For the 1990/91 and 1991/92 financial years the amounts voted compared to the expenditure are equal. (Fig. 4.1). A financial situation where the voted amount is equal to the expenditure is impossible.

Therefore one may conclude that the excess came from another vote or department, implying possible budget manipulation. For 1992/93 there was a 4.79 per cent saving due to fewer claims instituted against the department, to fewer stores and equipment purchased and a saving on administrative expenditure (Financial statements of the Free State for 1992/93 : Additional program information : vote 2, p.1). The following is an example of a claim against the department: An amount of R1 237 716 for loss of maintenance was claimed from the Department for two minors after their father died in the Goldfields Regional Hospital (Welkom) as a result of the apparent lack of proper health care (Auditor-General, 1996/97 and 1997/98 : 147).

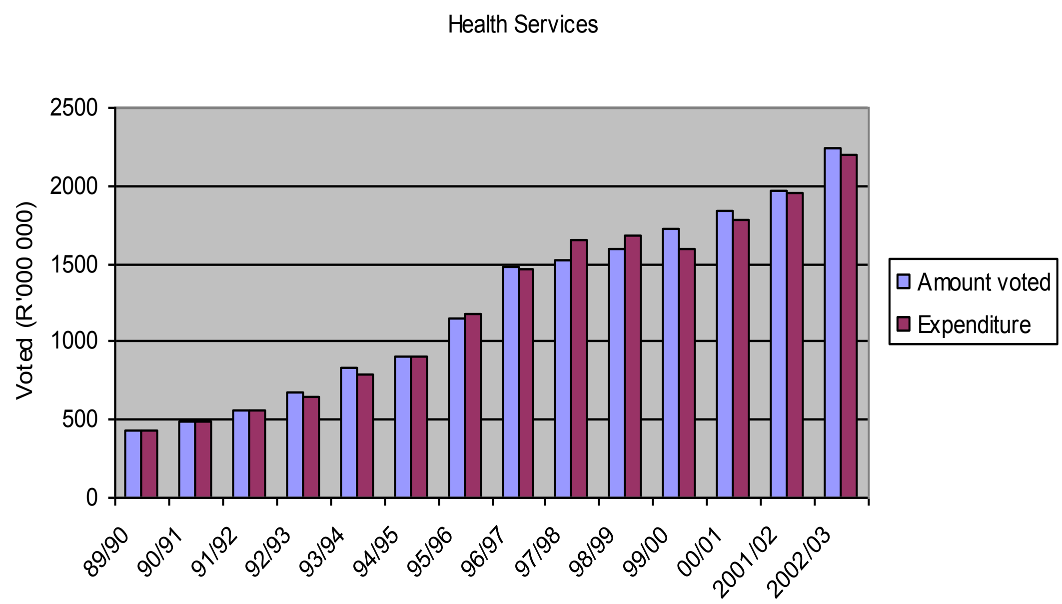


Fig. 4.1

For 1993/94 on the other hand there was a saving of 4.68 per cent due to the purchase of hospital equipment and ambulances which could not be delivered however before 31 March 1994, and on the other to personnel related expenditure erroneously paid under program 3 : hospital services (Financial statements of the Free State for 1992/93 : Additional program information : vote 2, p.1). Expenditure for 1995/96 compared to the voted amounts exceeded the set limit of two per cent by 1.07 per cent as prescribed by section 15(3) of the **Exchequer Act**, 1994 (Act 1 of 1994). In a case such as this the Exchequer Act stipulates that an explanation must be provided regarding the causes for any deviation. The explanation which then accompanied the appropriation account submitted to the Auditor-General revealed that the reason for the more than two per cent deviation between expenditure and the amount voted was that the three hospitals in Bloemfontein, Pelonomi, the Universitas Hospital and the National Hospital had a shortage of funds for the 1995/96 financial year because of under-budgeting (Financial statements of the Free State for 1995/96 : Additional program information : vote 5, p.1).

For the 1997/98 financial year expenditure exceeded the budgeted amount by R141 million showing a 9.30 per cent deviation. The excess was due to additional personnel being appointed in the Department, the take-over of the Poloka Sanitorium by the Oranje Hospital in Bloemfontein, a complete forensic audit at the Manapo Hospital and an overspending by *private health institutions,** for example transfer payments to TB hospitals (Program 3 : Provincial health services). The excess was also due to student nurses being remunerated in accordance with program 4 instead of other programs (Program 4 : Academic hospital services). (Report of the Auditor-General for 1997/98 : Additional program information : 148). For the 1998/99 financial year the expenditure exceeded the budget by R98 million representing a 6.19 per cent deviation from the budgeted amount. The excess was due mostly to the promotion of nursing personnel, an increase in the demand for medicine, medical consumables and blood, and to an inefficient budgetary provision for transfer payments (Program 3 : District health services). In addition the excess was due to an increase in the use of medical consumables and payments made to creditors. (Program 4 : Central hospital services). The excess was due to a lower provision made for personnel costs at the nursing colleges and the reopening of the Qwaqwa Nursing College during 1998 (Program 5 : Health sciences). (Report of the Auditor-General for 1998/99 : Additional program information : 18.)

According to the loss control manual (Free State Provincial Government, 1995 : 2) loss control is the task and responsibility of every employee, officer,

---

* Private health institutions refer to private institutions that receive funds through departmental transfer payments from national government, for example, TB hospitals and sanatoria. The process for transfer payment management must ensure compliance with all the relevant legislation and government policies (Visser and Erasmus, 2002: 275).

responsibility manager and program manager of the Free State Provincial Government to implement and apply proper preventative measures to protect provincial property. According to the financial statements, thefts and losses were not budgeted for but were deducted from amounts budgeted for other functions/objectives. This means that fewer sources were available to achieve the set objectives. Subject to the provisions of Treasury Regulation 12 (2001: 29) the state bears its own damages and accident risks, and is responsible for all claims and losses of state property where these arise from state activities by an official who is liable in law and who is or was employed by an institution. Previously legislation, for example, the **Exchequer Act**, 1994 (Act 1 of 1994), and the Treasury Instructions, chapter W, determined the same principles. It is also the responsibility of accounting officers to take effective and appropriate steps pertaining to irregular losses and to prevent fruitless and wasteful expenditure and losses arising from criminal conduct (section 38 (1) (c) (ii) of the PFMA).

Figure 4.2, based on the following figures of the Department of Health Services, reveals that the highest figures for thefts and losses that were written off were during the 1994/95, 1997/98, 2000/01 and 2001/02 financial year. According to the appropriation account for 2002 (Annual Audit report, 2002:64) losses to the amount of R11 077 00,00 were written off. The Auditor-General (2002:45) reported the following information with regard to these irregularities and losses:

Financial year	**Thefts and losses**	**Approximate value**
	R	**R'000**
89/90	3 966.14	4
90/91	40 646.14	41
91/92	102.40	1
92/93	840 003.69	840

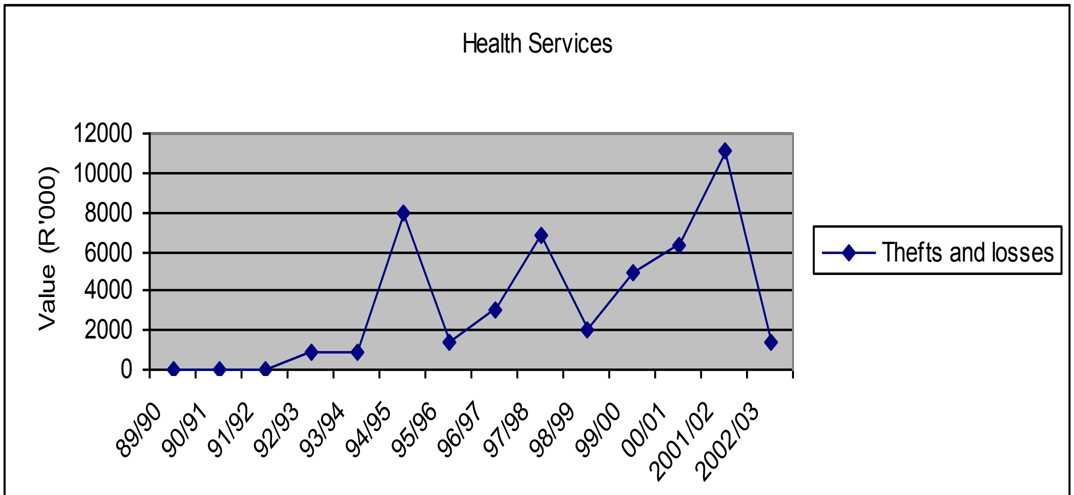


Fig. 4.2

93/94	935 696.00	936
94/95	8 019 000.00	8 019
95/96	1 450 000.00	1 450
96/97	3 014 553.07	3 015
97/98	6 773 000.00	6 773
98/99	1 974 000.00	1 974
99/00	4 964 000.00	4 964
00/01	6 323 000.00	6 323
01/02	11 077 000.00	11 077
02/03	1 363 000.00	1 363

(a) Damages to state vehicles involved in accidents amounted to R676 00.

(b) Losses sustained as a result of criminal conduct amounted to R1 973 000.

(c) Staff debts amounting to R256 000 were written off.

(d) Stock shortages amounting to R4 164 000 were written off.

(e) Claims against the State amounted to R2 082 000.

(f) Sundry shortages amounted to R1 789 000.

The drastic increase in irregularities and losses is most disturbing, and positive steps should be taken to prevent further increases in irregularities and losses.

4.10.2 Public Works, Roads and Transport

The financial statements (Annexure C) for the Department of Public Works, Roads and Transport during the past fourteen years are summarized as follows:

Financial year	Amount voted R'000 000	Expenditure R'000 000	Percentage deviation
89/90	211	252	(19.32)
90/91	220	220	0.00
91/92	215	215	0.25
92/93	265	265	0.06
93/94	338	310	8.37
94/95	314	307	1.80
95/96	700	600	14.24
96/97	776	711	8.43
97/98	809	826	(2.01)
98/99	679	716	(5.54)
99/00	481	524	(8.97)
00/01 (Not available)*	00	00	0.00
01/02	654	648	0.88
02/03	803	767	4.45

---

* The Auditor-General (2000:4) reported the following with regard to the budgetary process, a state of affairs that is totally unacceptable and needs to receive urgent attention from top management. "The audit of the budgetary process for the financial year ended 31 March 2001 could not be finalized as the relevant documents requested in writing from the accounting officer for this audit could not be submitted."

For the 1990/91, 1991/92 and 1992/93 financial years the expenditure is equal or almost equal to the amounts voted for this period. This might seem to be theoretically impossible. If the percentage deviation is compared with that during the 1989/90, 1993/94, 1995/96,1996/97 and 1998/99 financial years the figures differ by 19.32, 8.37, 14.24, 8.43 and 5.54 per cent respectively, and are well above (exceeding) or below, representing a saving of two per cent. (Fig. 4.3).

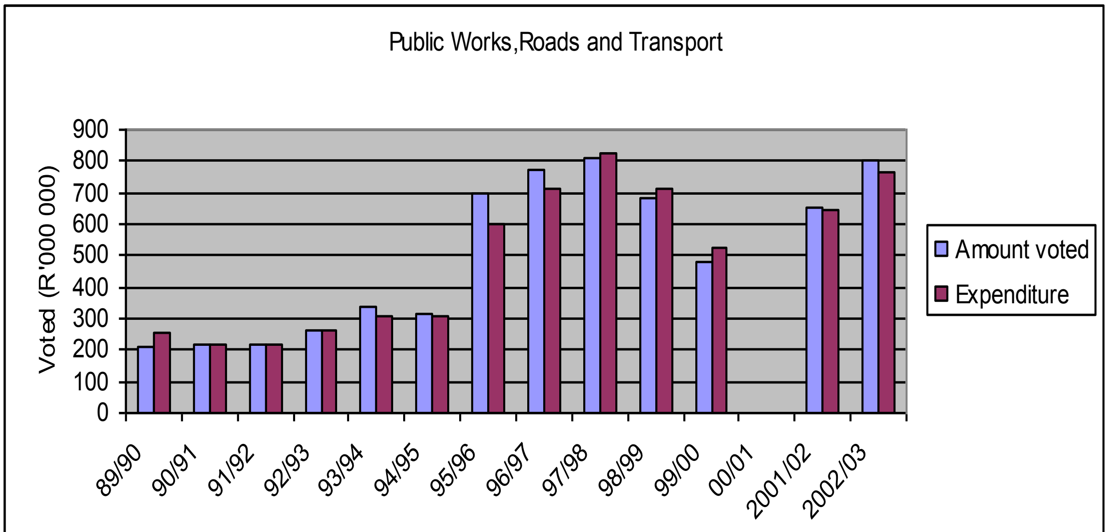


Fig. 4.3

Thefts and losses written off do not form part of the amount voted but indicate a steady increase between the 1990/91 and 1997/98 financial years.

Financial year	**Thefts and losses**	**Approximate value**
	R	**R'000**
89/90	113 477.70	114
90/91	76 954.74	77
91/92	164 832.51	165
92/93	338 969.61	339
94/95	929 000.00	929

95/96	766 000.00	766
96/97	1 311 290.90	1 311
97/98	4 399 000.00	4 399
98/99	1 803 000.00	1 803
99/00	8 939 000.00	8 939
00/01 (Not available)	00.00	00
01/02	2 648 000.00	2 648
02/03	1 585 000.00	1 585

Thefts and losses are illustrated in figure 4.4 and indicate graphically that management attended to the problem during 1997/98, followed by a perceptible improvement in the 1998/99 financial year.

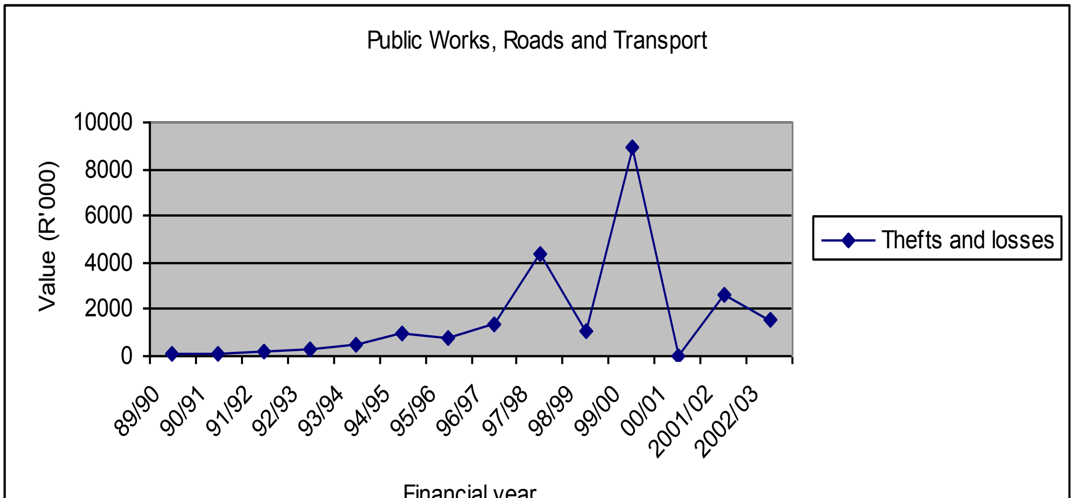


Fig. 4.4

4.10.3 Local Government and Housing

The financial statements (Annexure D) for the Department of Local Government and Housing (previously known as the Department of Community Development) during the past fourteen years are summarized as follows:

Financial year	Amount voted R'000 000	Expenditure R'000 000	Percentage deviation
89/90	246	231	6.15
90/91	262	257	2.17
91/92	388	383	1.39
92/93	538	495	7.99
93/94	654	599	8.39
94/95	823	787	4.38
95/96	227	185	18.74
96/97	362	308	15.14
97/98	426	310	27.13
98/99	321	323	(0.63)
99/00	165	130	21.44
00/01	464	404	12.81
01/02	472	407	13.86
02/03	497	412	17.11

For the 1995/96, 1996/97 and 1997/98 financial years the expenditure compared to the voted amounts will be seen to be well below (i.e. savings) 2 per cent at 18.74, 15.14 and 27.13 per cent respectively (Fig.4.5). This observation also indicates a performance problem because the funds budgeted for the achievement of the proposed objectives were available but not spent.

Financial year	Thefts and losses R	Approximate value R'000
89/90	30 570.00	31
90/91	85 933.94	86
91/92	103 806.66	104
92/93	103 305.47	103
93/94	298 622.89	299
94/95	1 102 000.00	1 102

95/96	563 000.00	563
96/97	330 267.69	330
97/98	143 000.00	143
98/99	81 000.00	81
99/00	57 000.00	57
00/01	31 000.00	31
01/02	294 000.00	294
02/03	139 000.00	139

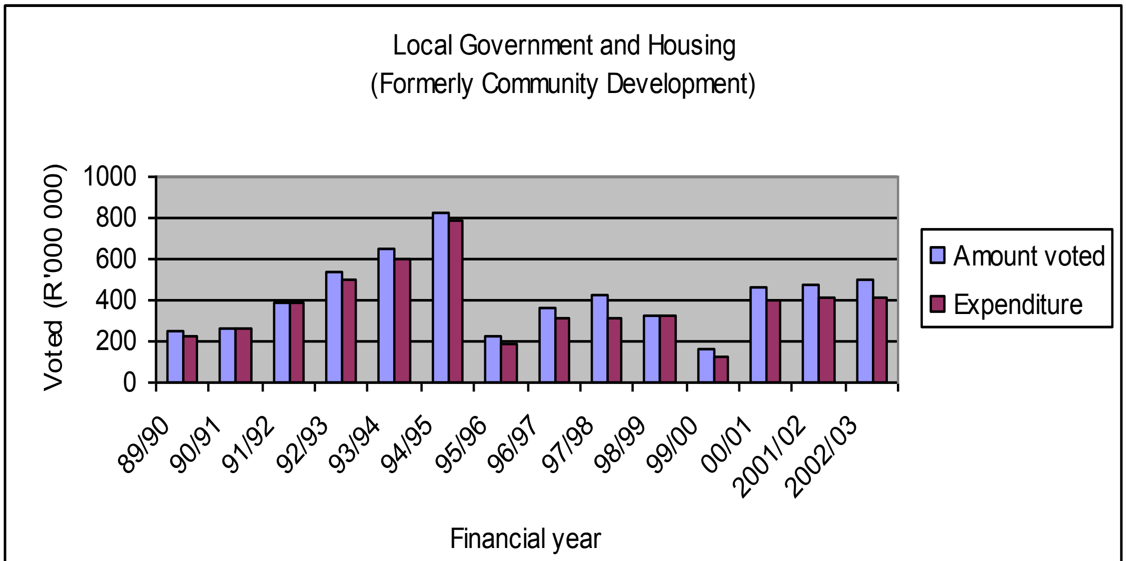


Fig. 4.5

Thefts and losses show a peak during the 1994/95 financial year which may be due to the reason previously discussed in paragraph 4.10.1 (Fig. 4.6).

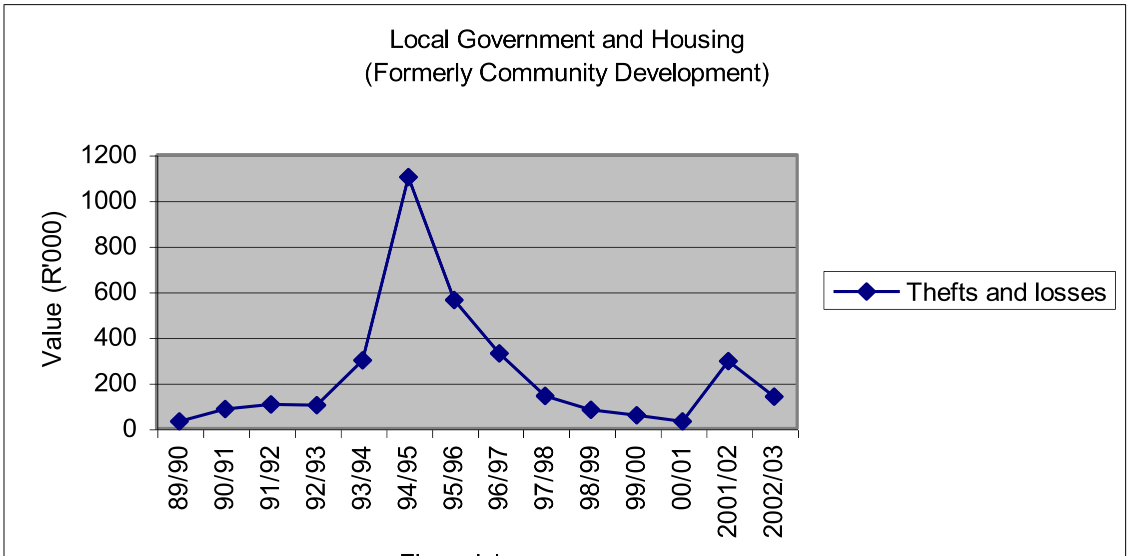


Fig. 4.6

4.10.4 Improvement of Conditions of Service

The financial statements (Annexure E) for the Improvement of Conditions of Service during the past eleven years are summarized as follows:

Financial year	**Amount voted**	**Expenditure**	**Percentage deviation**
	R'000 000	**R'000 000**	
89/90	3	2	30.50
90/91	64	56	12.43
91/92	48	30	36.99
92/93	35	35	0.00
93/94	29	29	0.00
94/95	45	43	4.68
95/96	200	200	0.11
96/97	209	184	12.31
97/98	286	284	.50

98/99	178	178	0.00
99/00	175	175	0.00

For the 1992/93, 1993/94, 1998/99 and 1999/00 financial years the expenditure is exactly equal to the amount voted. This too might seem to be theoretically impossible. The percentage savings for 1989/90 and 1991/92 appear to be extremely high, for example 30.50 and 36.99 per cent respectively. A possible reason for this during 1989/90 could be that votes drew fewer funds to supplement salaries, wages and allowances for the improvement of conditions of service than was originally anticipated, since the savings on votes were first used for this purpose.

What is interesting is the fact that for the 1996/97 financial year the original budget amounted to R1000.00 (Refer to Annexure D). Additional funds to the amount of approximately R209 million were provided for in the adjustments budget. The expenditure reflected approximately R184 million, which implies a saving of R26 million or 12.31 per cent. (Fig. 4.7).

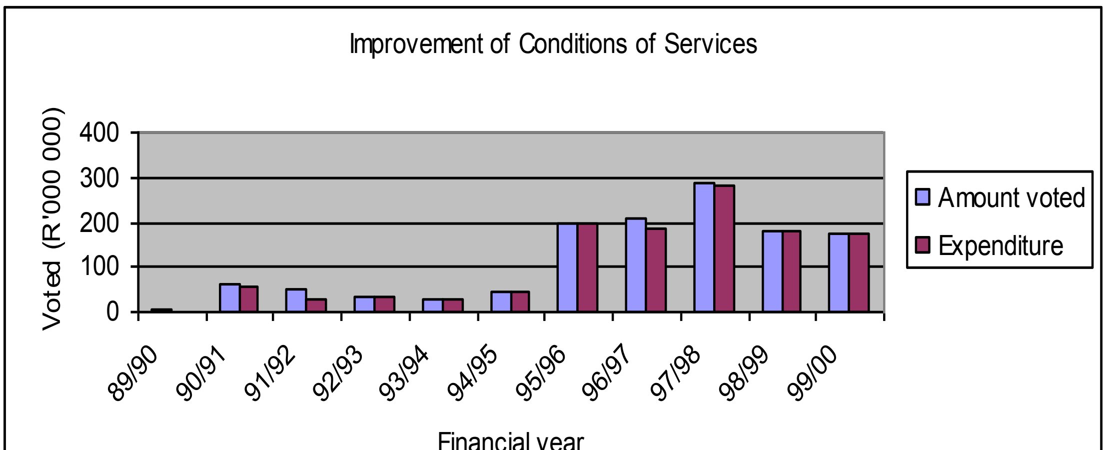


Fig. 4.7

The reason why thefts and losses are not tabulated and graphically illustrated is that the financial statements (Annexure E) for the Improvement of Conditions of Service from 1989/90 to 1999/00 reflect no losses written off.

4.10.5 General Provincial Services

The new provincial government commenced on 1 July 1994, an event that complicated budget control because the previous five votes were increased to eighteen. New main divisions included for example the Legislative Assembly; Economic Affairs; Education; Welfare; Public Safety and Security; Agriculture and Environmental Affairs; Sport, Recreation, Arts and Culture and the Provincial Service Commission. The financial statements (Annexure F) for the General Provincial Services covering a period of six years (General Provincial Services having being abolished during restructuring in 1994/95) are summarized as follows:

Financial year	**Amount voted**	**Expenditure**	**Percentage deviation**
	R'000 000	**R'000 000**	
89/90	134	128	4.65
90/91	163	154	5.60
91/92	200	195	2.11
92/93	223	197	11.58
93/94	285	234	18.07
94/95	310	281	9.43

For the 1992/93 financial year the financial statements reflected a saving of R 26 million or 11.58 per cent. The explanation given for the variation between expenditure and the amount voted - for program Administration for example - was that there was a saving due both to computer equipment not purchased and to an overestimation of the payment for computer services. For the 1993/94 financial year the financial statements reflected a saving of R51 million or 18.07 per cent. The explanation for variations between expenditure and amounts voted, included, for example, the following considerations:

Administration: A saving was due to computer equipment not purchased, to the non-filling of vacant posts and to the not yet fully implemented National Traffic Information System.

Nature and environmental conservation: The savings were due to a reduction in the building and maintenance of roads in reserves, to a drop in the repairing of roofs and water provisioning at Jim-Fouché resort and as a result of the fact that 13 vehicles could not be delivered before 31 March 1994. (Fig. 4.8.)

The overall impression given by the percentage savings for the six financial years is twofold. Firstly, limits were not exceeded, indicating strict expenditure control. Secondly, the savings indicate that as a result the various roll-players were

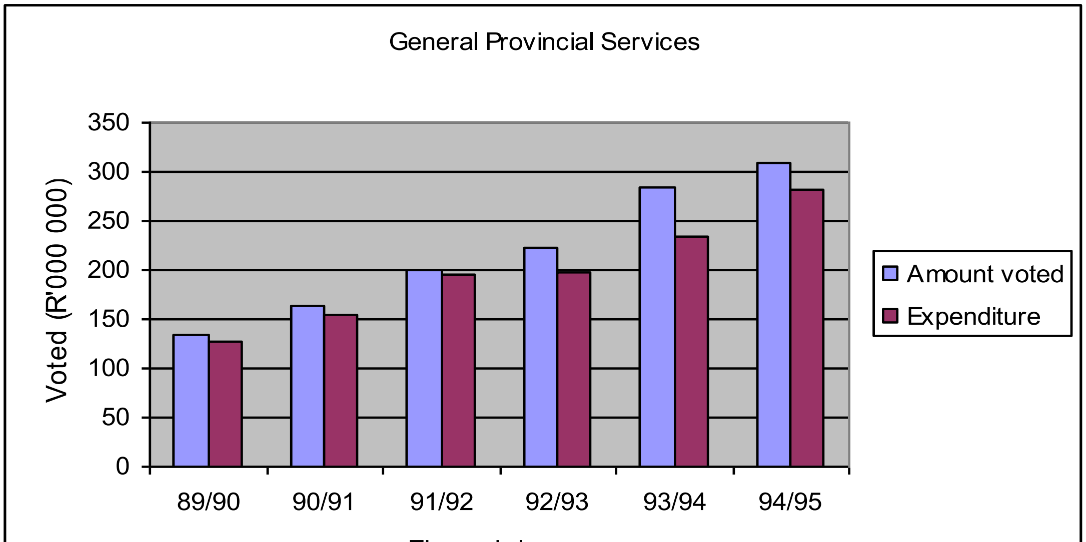


Fig. 4.8

hesitant about taking any financial decisions that might have resulted in exceeding the budget limits. It is always preferable to have a surplus than to exceed the budget.

Financial year	**Thefts and losses**	**Approximate value**
	R	**R'000**
89/90	12 241.69	12
90/91	55 819.79	56
91/92	37 818.61	38
92/93	104 273.82	104
93/94	229 958.91	230
94/95	330 000.00	330

Thefts and losses written off exhibited a peak during the 1994/95 financial year which may be due to the reason as discussed previously in paragraph 4.10.1. (Fig.4.9).

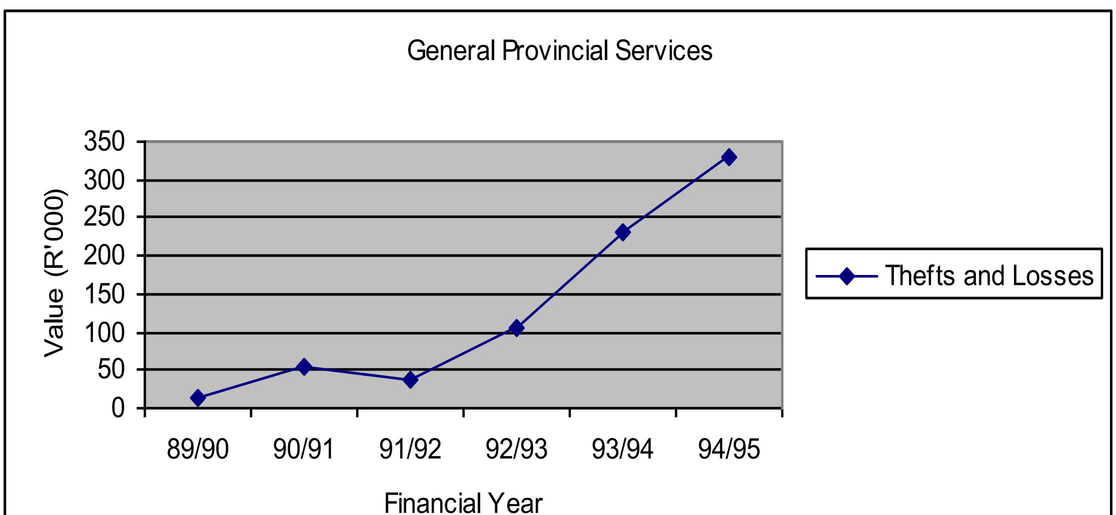


Fig. 4.9

4.11 New provincial government

The "new provincial government " was implemented in the Free State Provincial Government with effect from 1 July 1994. Previously the Free State Provincial Government had been responsible for only five departments. They were Health Services; Public Works, Roads and Transport; Local Government and Housing and Improvement of Condition of Service. After 1994 they were diversified so that the Free State Provincial Government became responsible for eighteen different „departments'. These departments now also included national departments incorporated into the Free State Provincial Government, for example the departments of Welfare, Agriculture and Education.

As indicated previously, the amount of a saving under the main division of a vote (department) that may be utilized in terms of subsection 43 (1) of the PFMA, may not exceed eight per cent of the amount appropriated under that main division. It

was also incumbent upon departments to explain the causes of any deviation that was in excess of two per cent between the expenditure and the amount contemplated in the estimates of expenditure and adjustment. (Section 15 (3) of the **Exchequer Act**, 1994 (Act 1 of 1994.)

To be able to compare various departments statistically some were grouped together, for example the Departments of the Premier, Auxiliary Services, Finance and Expenditure, and Economic Affairs.

4.11.1 Premier

The financial statements (Annexure G) for the Department of the Premier during the past nine years are summarized as follows:

Financial year	Amount voted R'000	Expenditure R'000	Percentage deviation
94/95 *	5 395	4 068	24.60
95/96 *	104 695	66 297	36.68
96/97 *	105 773	78 274	26.00
97/98	73 297	65 532	10.60
98/99	60 192	50 395	16.28
99/00	50 153	43 762	12.75
00/01	53 589	49 053	8.47
01/02	66 267	48 404	26.96
02/03	96 777	83 052	14.19

The percentage deviation (Fig. 4.10) for the period between 1994/95 and 2002/03 indicates a deviation of more than eight per cent when compared with the *virement* allowance of eight per cent in section 43(2) of the PFMA.

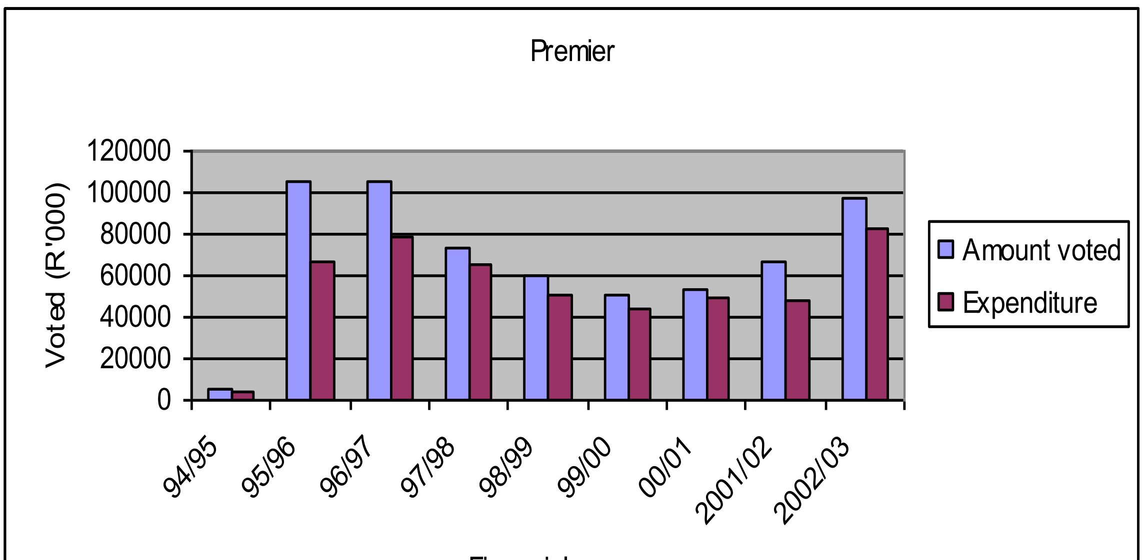


Fig. 4.10

* Figures include the Auxiliary Services' vote.

The following serve as examples of unsatisfactory budget related aspects that were identified by the Auditor-General (1999: 3):

Bursaries: Bursary transactions for the financial year were not subject to internal audit checking.

Surplus to be surrendered: Contrary to the provision of section 9(7) of the **Exchequer Act**, 1994 (Act 1 of 1994), surpluses amounting to R27 127 304 and R7 765 244 in respect of the 1996/97 and 1997/98 financial years respectively were not surrendered to the Treasury for re-depositing in the Exchequer Account.

Virement: Evidence that Treasury approval had been obtained in terms of paragraphs 3.3.1 and 3.5.4 of the Manual on the Financial Planning and Budgeting System of the State to utilize a saving of R2 180 000 on personnel expenditure for other purposes could not be submitted.

Telephone costs: Exorbitant telephone costs (Report of the Auditor-General, 2000 : 8) were reported.

Seen from an objective perspective, the Annual Report of the Department (2002/03 : 28) emphasized the need to improve service delivery. The Department assisted with, and facilitated the development of Service Delivery Improvement Plans for the Departments of Public Works, Roads and Transport; Sport, Arts, Culture, Science and Technology and Agriculture. The Department also organized and facilitated the following five learning networks in the Free State Provincial Government:

- The Free State Provincial Government learning Network.
- Service Delivery Improvement Programs.

- Economic Growth and Job Creation.
- Good Governance (customer care).
- People Development (Promotion of the Employment Equity Plan).

The (Report of the Auditor-General, 1999:8) that follows is included under authorized losses in the appropriation account for the 1998/99 financial year:

- R153 082, being 19 instances of losses suffered as a result of possible criminal action.
- R171 314, being 38 instances of damage to state vehicles involved in accidents.
- R87 034, being two instances of other losses, namely shortage of files and salary overpayment.

Thefts and losses are summarized as follows:

Financial year	**Thefts and losses**	**Approximate value**
	R	**R'000**
94/95 *	-	-
95/96 *	161 000	161
96/97 *	174 000	174
97/98	102 000	102
98/99	427 000	427
99/00	124 000	124
00/01	929 000	929
01/02	215 000	215
02/03	40 000	40

Thefts and losses (Report of the Auditor-General, 2001 : 3) were not reported

* Figures include the Auxiliary Services' vote.

timeously to the S.A. Police Services and the State Attorney. This delay led to the proscription of possible claims and the consequent losses to the Provincial Government. Claims written off at the Department of the Premier for the 2000/01 financial year amounted to R477 779. Thefts and losses also peaked during the same financial year (Fig.4.11).

4.11.2 Provincial Legislature

The financial statements (Annexure H) for the Department of the Free State Provincial Legislature during the past nine years are summarized as follows:

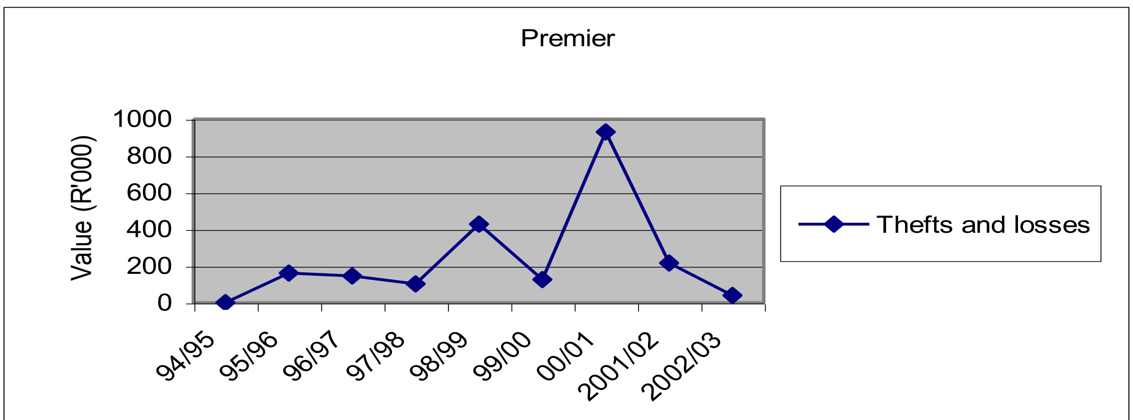


Fig. 4.11

Financial year	**Amount voted R'000**	**Expenditure R'000**	**Percentage deviation**
94/95 *	14 980	18 508	(23.56)
95/96	10 979	12 219	(11.30)

* Figures represent those for the Executive Council and Legislative Assembly (Provincial Legislature).

96/97	15 685	16 816	(7.21)
97/98	20 589	21 249	(3.21)
98/99	25 382	25 346	0.15
99/00	37 715	37 112	1.60
00/01	39 678	39 337	0.86
01/02	42 674	43 005	(0.57)
02/03	45 628	47 675	(4.49)

The total amounts voted for the 1996/97 and 1997/98 financial years under this vote were exceeded by R1 130 643 and R659 851, respectively and are regarded as unauthorized expenditure in terms of section 20(1)(b)(i) of the **Exchequer Act**, 1994 (Act 1 of 1994). (Report of the Auditor-General, 1996/97 and 1997/98: 81.) The excesses were due mainly to the payment of constituents' allowances amounting to R1 080 000 in both years which were not budgeted for. Amounts voted and expenditure are illustrated in figure 4.12.

Section 40(1)(c)(i) of the PFMA requires annual financial statements to be submitted to the Auditor-General within two months (by 31 May) after the end of the financial year. The accounting officer signed the annual financial statements

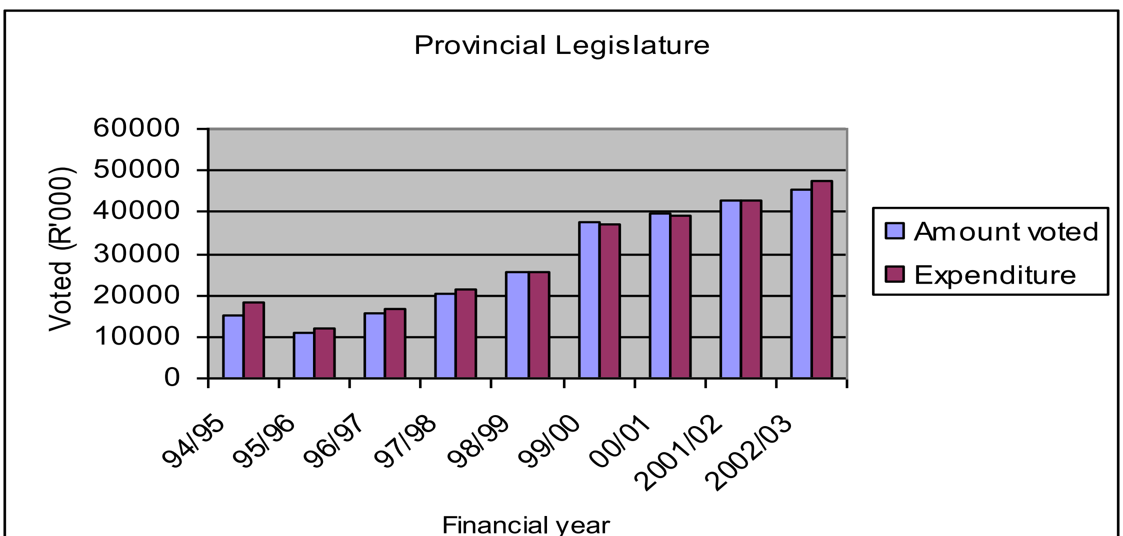


Fig. 4.12

on 15 June 2001 and submitted them for audit purposes. In terms of section 40's stipulations the late submission amounted to a non-compliance with the requirements of the PFMA. (Report of the Auditor-General, 2001:3.)

The figure (Fig. 4.13) showing losses written off should be noted because only R5 000 for 1996/97 have been written off over a nine year period. The accounting officer reported (Annual Report, 2002: 77) that the Legislature has embarked on a strategy to limit the misappropriation of funds and implemented more stringent control measures in an effort to prevent fraudulent practices.

Financial year	**Thefts and losses**	**Approximate value**
	R	**R'000**
94/95 *	-	-
95/96	-	-
96/97	5 000	5
97/98	-	-
98/99	-	-
99/00	-	-
00/01	-	-
01/02	-	-
02/03	-	-

4.11.3 Tourism, Environmental and Economic Affairs

The financial statements (Annexure I) for the Department of Tourism, Environmental and Economic Affairs during the past nine years are summarized as follows:

---

* Figures represent those for the Executive Council and the Legislative Assembly.

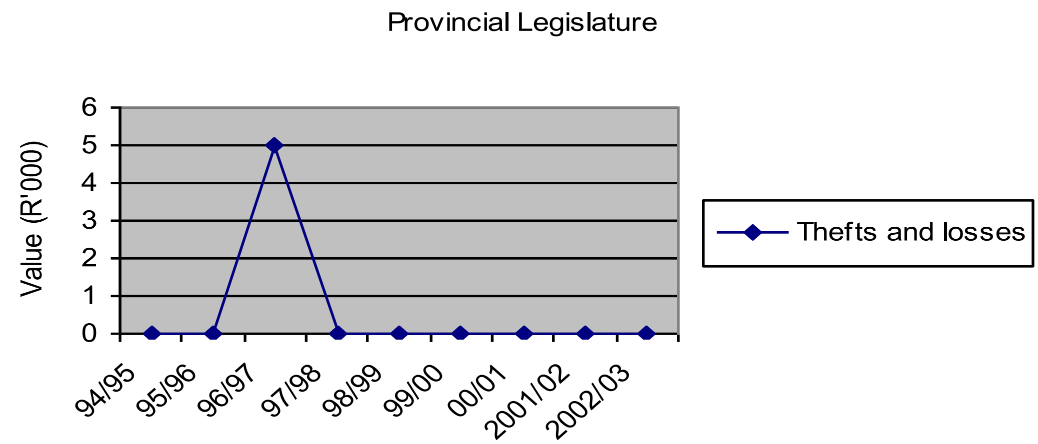


Fig. 4.13

Financial year	Amount voted R'000	Expenditure R'000	Percentage deviation
94/95	**		
95/96	**		
96/97	44 214	9 108	79.40
97/98	50 120	45 943	8.33
98/99	59 518	54 524	8.39
99/00	53 870	53 189	1.26
00/01	61 464	59 670	2.92
01/02 ***	72 003	102 344	42.14
02/03 ***	204 304	172 883	15.38

** Figures included under the Department of Agricultural.

*** Included is the Department of Economic Affairs.

Comparison between the voted amounts and expenditure indicates that the changes made to portfolios had a direct influence on the budget. (Fig. 4.14).

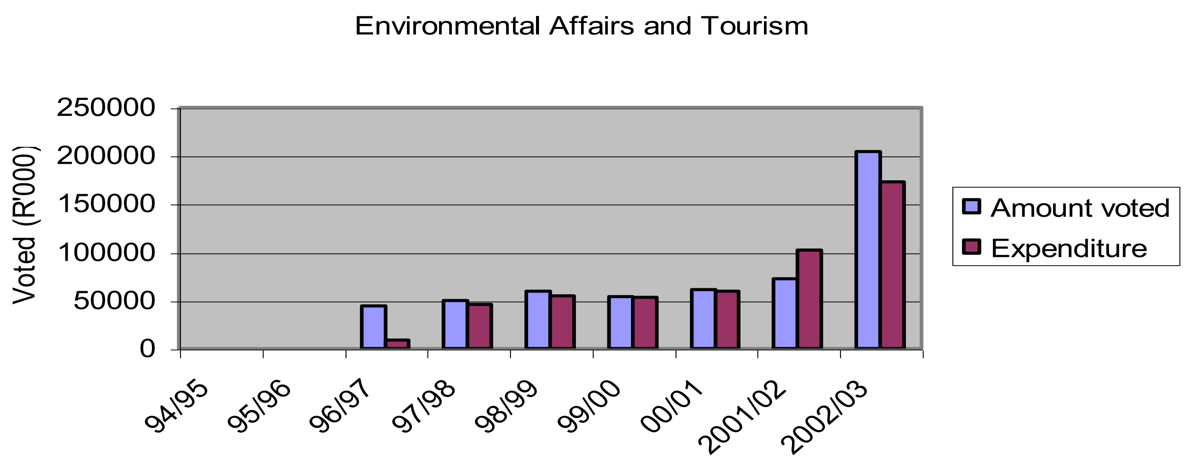


Fig. 4.14

As an example of non-compliance with the relevant laws and Treasury Regulations the Auditor-General (2002 : 28) reported the following for the 2001/02 financial year :

"(a) In terms of section 38(1)(a)(ii) of the … (PFMA) the accounting officer of a department must ensure that the Department has and maintains a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with sections 76 and 77 of the PFMA and the Treasury Regulations. … The Department for the 2001-02 financial year established neither an audit committee nor an internal audit function as required in terms of the PFMA. …

(b) Although the accounting officer in terms of section 44 of the PFMA had delegated various powers and duties, the written delegations could not be submitted for audit purposes.

(c) The employment contract of the accounting officer as required in terms of section 36(5) of the PFMA was not submitted for audit purposes.

(d) Evidence that a fraud prevention plan was compiled and that a risk assessment was done as required in terms of the Treasury Regulations could not be submitted."

Financial year	Thefts and losses	Approximate value
	R	**R'000**
94/95	*	
95/96	*	
96/97	-	
97/98	-	
98/99	44 000	44
99/00	42 000	42
00/01	81 000	81
01/02 **	73 000	73
02/03 **	158 000	158

Thefts and losses show a steady increase, and it is possible that this state of affairs can be the result of non-compliance with the above-mentioned laws and Treasury Regulations. (Fig. 4.15.)

4.11.4 Finance, Expenditure and Economic Affairs

The financial statements (Annexure J) for the Department of Finance,

---

* Figures included under the Department of Agriculture.

** Included is the Department of Economic Affairs.

Expenditure and Economic Affairs (now Provincial Treasury) during the past nine years are summarized as follows:

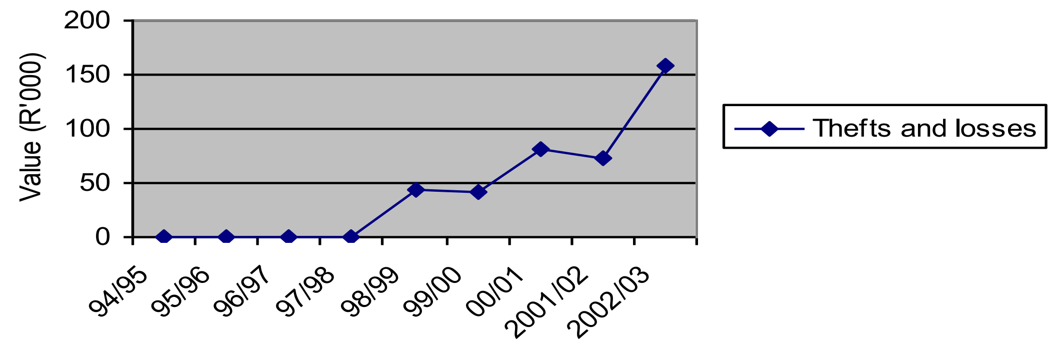


Fig. 4.15

Financial year	**Amount voted R'000**	**Expenditure R'000**	**Percentage deviation**
94/95 *	1 600	222	86.13
95/96 *	117 492	109 198	7.06
96/97 *	132 299	90 337	31.72
97/98	88 329	61 101	30.83
98/99	65 352	57 273	12.37
99/00	152 947	85 964	43.79
00/01	123 864	66 898	45.99
01/02 **	115 920	56 011	51.69
02/03 **	91 729	69 224	24.54

* Figures include those for the Department of Economic Affairs.

** The name of the Department was changed to Provincial Treasury. Figures exclude those for the Department of Economic Affairs which is under the Department of Environmental Affairs and Tourism.

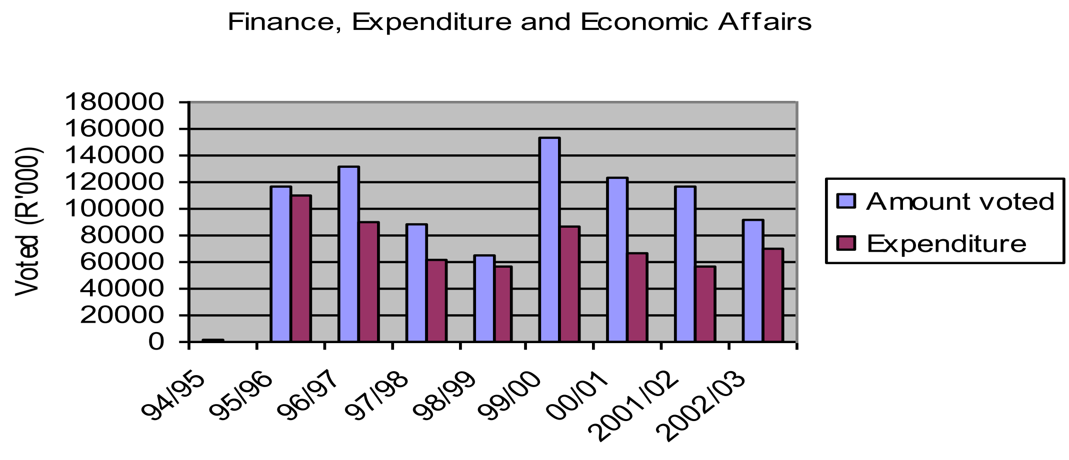


Fig. 4.16

The percentage deviations (Fig. 4.16) are alarming. For the 1997/98 financial year the explanations given for variations of two per cent between expenditure and the amount voted for in programs 1-5 were that these discrepancies were due to savings made on vacant posts that were not filled. (Report of the Auditor-General, 1996/97 and 1997/98 : 116.)

With regard to the budgetary process the Auditor-General (1999/00 : 5) reported that for the financial year ended 31 March 2000 it could not be finalized as the relevant documents requested in writing from the accounting officer regarding its audit could not be submitted in good time. Furthermore, the Auditor-General reported that neither an internal audit unit nor an audit committee had been established during the same financial year.

Financial year	**Thefts and losses**	**Approximate value**
	R	**R'000**
94/95 *	-	-
95/96 *	29 000	29

* Figures include those for the Department of Economic Affairs.

96/97 *	2 000	2
97/98	172 000	172
98/99	231 000	231
99/00	223 000	223
00/01	816 000	816
01/02 **	968 000	968
02/03 **	1 590 000	1 590

The graphic illustration (Fig. 4.17) indicates a steady rise in thefts and losses for the last four years. The Auditor–General (2002/03 : 24) reported that in the absence of adequate managerial control measures and regular follow-up procedures for the 2002/03 financial year, the completeness and correctness of the loss-control register could not be confirmed.

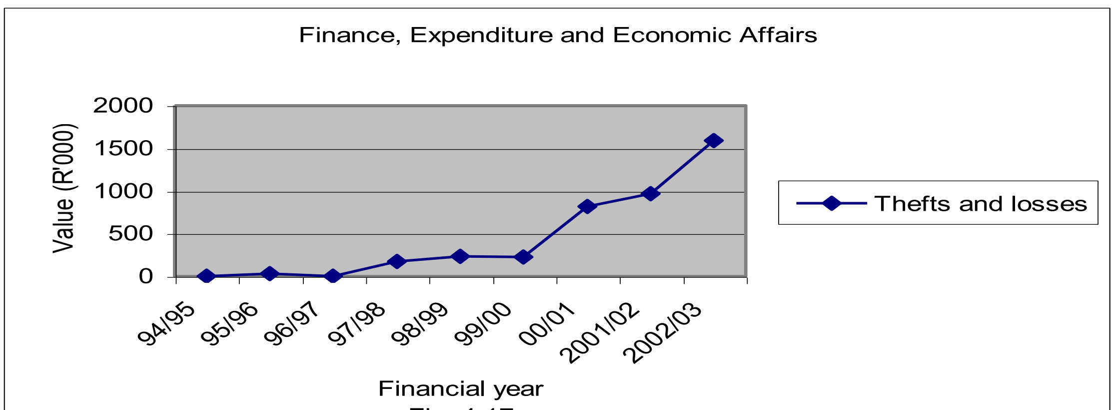


Fig. 4.17

4.11.5 Education

The financial statements (Annexure K) for the Department of Education during the past nine years are summarized as follows:

---

* Figures include those for the Department of Economic Affairs.

** Name of the Department changed to Provincial Treasury. Figures exclude those for the Department of Economic Affairs.

Financial year	Amount voted R'000	Expenditure R'000	Percentage deviation
94/95	800	197	75.00
95/96	2 097 085	1 964 176	6.34
96/97	2 365 781	2 425 709	(2.53)
97/98	2 282 405	2 538 766	(11.23)
98/99	2 712 483	2 612 095	3.70
99/00	2 847 392	2 785 296	2.18
00/01	3 153 466	2 990 236	5.18
01/02	3 382 259	3 173 883	6.16
02/03	3 722 117	3 522 194	5.38

Expenditure as reflected in the appropriation accounts for 1996/97 and 1997/98 have exceeded the amounts voted by R59 928 569 and R256 361 500 (Fig. 4.18) respectively owing mainly, according to the notes to the appropriation accounts, to insufficient amounts being provided for in the budget. In terms of section 20(1)(b)(i) of the **Exchequer Act**, 1994 (Act 1 of 1994) these amounts constitute unauthorized expenditure which was reported as such by the Auditor-General (1996/97 and 1997/98 : 168).

Unproductive and avoidable expenditure: Up to 31 March 1997 amounts totaling R2 313 000 were paid to various consultants in respect of capital projects that were never begin. Such expenditure, which is regarded as fruitless and avoidable, was not dealt with in terms of Chapter W of the Treasury Instructions that were applicable at that stage (Report of the Auditor-General (1996/97 and 1997/98 : 173-174). Thefts and losses for the period between 1994/95 and 2002/03 are tabled below:

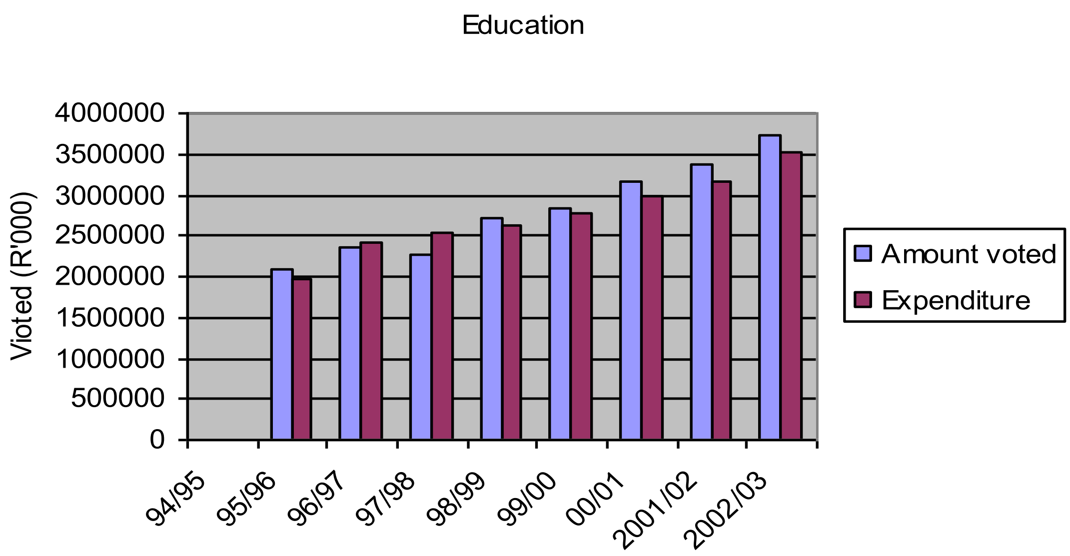


Fig. 4.18

Financial year	**Thefts and losses**	**Approximate value**
	R	**R'000**
94/95	-	-
95/96	76 000	76
96/97	344 000	344
97/98	344 000	344
98/99	522 000	522
99/00	3 426 000	3 426
00/01	261 000	261
01/02	5 485 000	5 485
02/03	6 000	6

Figure 4.19 indicates that thefts and losses for 1999/00 and 2001/02 would seem to be extremely high. The Auditor-General reported (2002/03 : 91) that in terms

of Resolution No. 17/2002 of PROPAC, tabled and adopted by the Free State Provincial Legislature on 15 August 2002, the accounting officer handed over the following cases to a special investigation unit for further investigation and possible recovery of the said amounts.

- Thefts and losses – R2 750 000.
- Ex gratia payments – R2 331 453 and R887 582.
- Stationary contracts – R26,5 million.

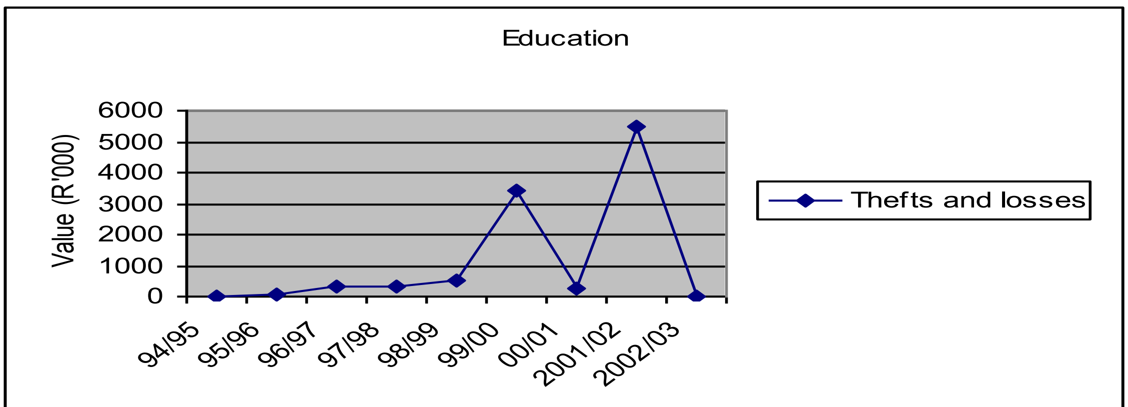


Fig. 4.19

4.11.6 Welfare

The financial statements (Annexure L) for the Department of Welfare during the past nine years are summarized as follows:

Financial year	**Amount voted R'000**	**Expenditure R'000**	**Percentage deviation**
94/95	100	15	85.00
95/96	837 482	898 387	(7.28)
96/97	894 388	967 543	(8.18)
97/98	1 045 009	1 125 453	7.70
98/99	1 171 754	1 158 185	1.16

99/00	1 209 415	1 162 226	3.90
00/01	1 287 127	1 260 650	2.10
01/02	1 518 700	1 482 973	2.36
02/03	2 182 711	2 099 937	3.80

A comparison between the amounts voted and expenditure (Fig. 4.20) suggests

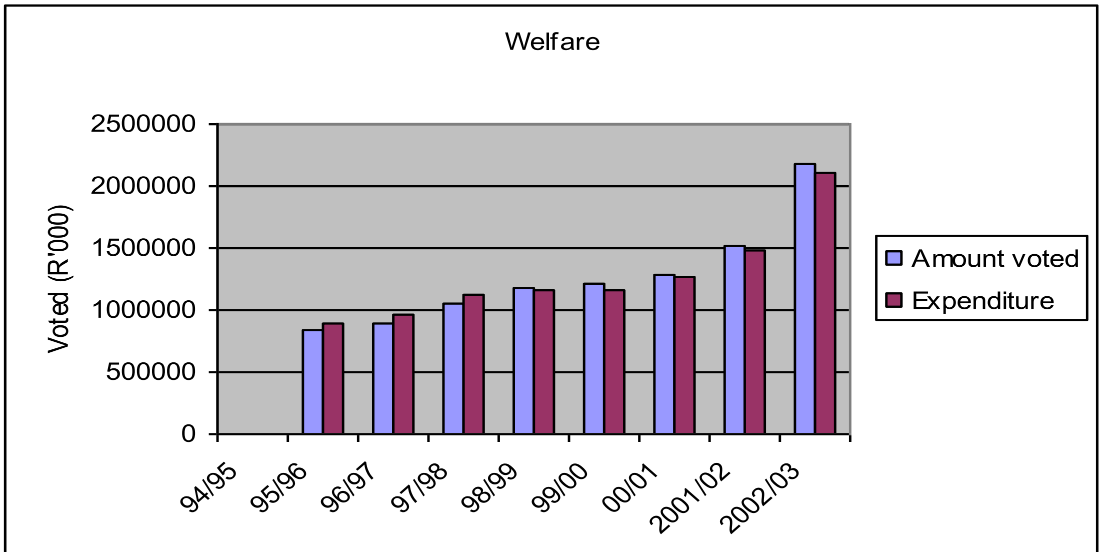


Fig. 4.20

that a system of financial control is in place. The Auditor-General (Report 2002/03 : 60), however, reported that special investigations were conducted by a private firm on six programs, for example the Poverty Relief Program: Banesa Training & Enterprise Development Trust (Lolo Seiboko), of which the outcome is not yet known.

Contrary to sections 40(1)(a) and 41 of the PFMA, supporting documentation could not be submitted to an audit in the following instances:

- Credit card expenditure.
- Fixed assets.

- Debtors.
- Housing loan guarantees.

Contrary to section 38(1)(a)(ii) of the PFMA neither an internal audit function nor an audit committee was established during the 2002/03 financial year. The accounting officer, however, indicated that the following processes were initiated during the 2002/03 financial year:

- A work-study investigation was completed in October 2002.
- A recruitment process was initiated in December 2002.
- A manager, internal audit, was appointed on 1 April 2003.

Telephone costs: The Auditor-General reported (2000/01 : 9-10) that financial control over cell phones and telephone costs appear to be lacking, the following case serving as an example. The expenditure on telephones and cell phones for the year under review amounted to R2 296 253 which exceeded the budget by 45 per cent. The amount in telephone suspense accounts not cleared at year-end amounted to R98 831.

Financial year	**Thefts and losses**	**Approximate value**
	R	**R'000**
94/95	-	-
95/96	575 000	575
96/97	718 000	718
97/98	526 000	526
98/99	955 000	955
99/00	73 000	73
00/01	1 217 000	1 217
01/02	880 000	880
02/03	35 000	35

The graphic illustration (Fig. 4.21) indicates that thefts and losses for 2000/01 were at a peak. The audit report (2002/03 : 59) revealed that two vehicles that were withdrawn from a public auction and reserved for donation to non-governmental organizations (NGOs) were registered in the names of two officials of the Department during April 2003. As these transactions were regarded as being irregular, the Department was requested by the Auditor-General to conduct an investigation.

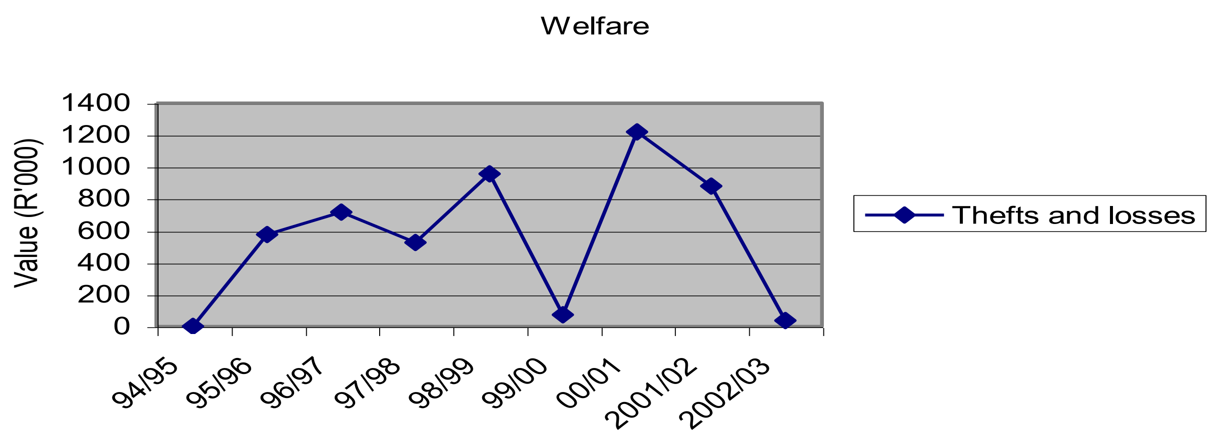


Fig. 4.21

4.11.7 Public Safety and Security

The financial statements (Annexure M) for the Department of Public Safety, Security and Liaison during the past nine years are summarized as follows:

Financial year	Amount voted R'000	Expenditure R'000	Percentage deviation
94/95	1	-	100.00
95/96	2 988	2 548	14.70
96/97	6 191	2 503	59.57
97/98	17 651	21 712	(23.01)
98/99	54 682	57 622	(5.38)
99/00	59 756	58 533	2.05

00/01	67 202	66 531	1.00
01/02	75 620	70 126	7.27
02/03	30 149	20 293	32.69

In the opinion of the Auditor-General (2002/03 : 30) - barring the effect on the financial statements of receivables and payables - the financial statements fairly reflect the financial position of the Department of Public Safety and Security and Liaison at 31 March 2003 in accordance with prescribed accounting practice. In terms of section 38(1)(c) of the PFMA the accounting officer must take effective steps to collect all money due to the Department. The financial statements for the 2001/02 and 2002/03 financial years (Fig. 4.22) indicate that a substantial sum of budgeted funds was not spent. The percentage deviation for 2002/03 of 32,69 is unacceptable.

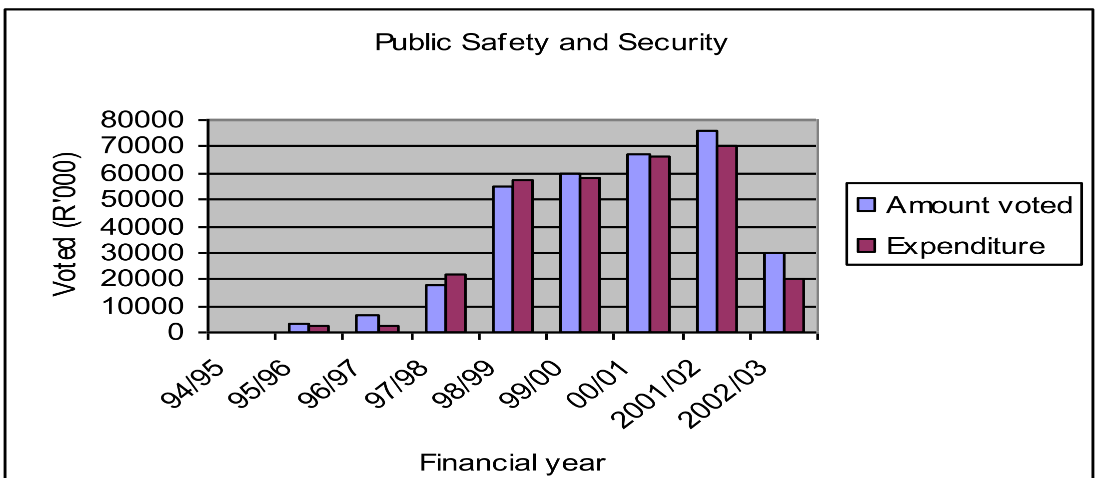


Fig. 4.22

Thefts and losses for the period between 1994/95 and 2002/03 financial years are summarized as follows:

Financial year	Thefts and losses	Approximate value
	R	R'000
94/95	-	-
95/96	16 000	16
96/97	-	-
97/98	-	-
98/99	7 000	7
99/00	-	-
00/01	29 000	29
01/02	-	-
02/03	1 000	1

With regard to thefts and losses written off (Fig. 4.23) unauthorized, irregular, and unproductive expenditure seems to be fairly acceptable, for example the amount written off for the 2002/03 financial year amounted only to R1000.00.

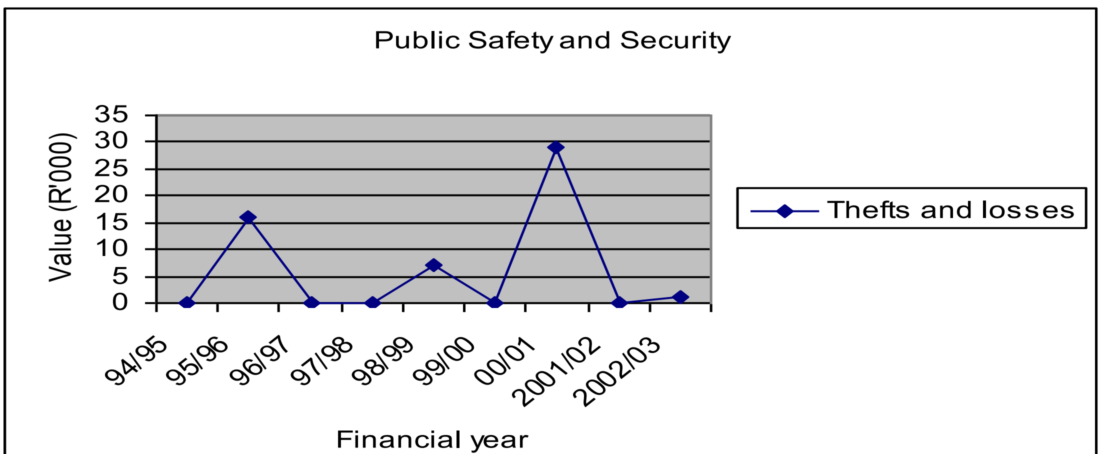


Fig. 4.23

4.11.8 Agriculture

The financial statements (Annexure N) for the Department of Agriculture during the past nine years are summarized as follows:

Financial year	**Amount voted R'000**	**Expenditure R'000**	**Percentage deviation**
94/95 *	17 691	16 389	7.00
95/96 *	161 239	149 411	7.34
96/97	133 624	123 704	7.42
97/98	126 835	116 560	8.10
98/99	121 933	100 099	17.91
99/00	121 723	103 793	14.73
00/01	142 087	118 253	16.78
01/02	176 395	119 599	32.20
02/03	209 889	146 316	30.29

According to the graphic illustration (Fig. 4.24) the percentage deviation is unacceptable given the *virement* limit of eight per cent.

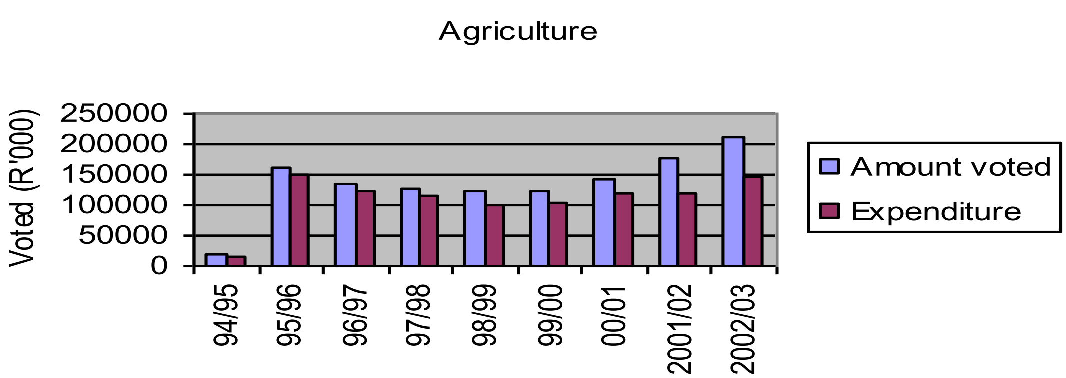


Fig. 4.24

Attention is drawn to the following matters which serve as examples of weaknesses in internal control:

- Delegations by an accounting officer: The sending of delegations by an accounting officer in terms of section 44 of the PFMA, is regarded as a key

---

* Included are the figures for the Department of Environmental Affairs.

internal financial control measure to establish and maintain effective, efficient and transparent financial management in a Department. In the light of the PFMA and Resolution No. 49/2002 of PROPAC, however, delegations that should have been sent by the accounting officer as from 1 November 2002, did not materialize during the 2002/03 financial year. (Report of the Auditor-General, 2002/03 : 32.)

- Collection of money: Contrary to section 38(1)(a) and (c) of the PFMA as well as Treasury Regulation 7, effective steps by the accounting officer to collect money due to the Department were not in place. The following are examples:

  - Outstanding debts increased from R1 767 000 in the 2001/02 financial year to R2 673 000 in the 2002/03 financial year.

  - Contrary to section 38(1)(c) of the PFMA all amounts in excess of R650 for cell phones used by officials, were not recovered from them. The Department also did not have a cell phone policy in place during the 2002/03 financial year, as required by Treasury Circular No. 1 of 2002.

- Reconciliation between PERSAL and FMS systems: For the 2002/03 financial year, monthly and annual reconciliations between the PERSAL and FMS systems were not done by the Department.

Financial year	Thefts and losses	Approximate value
	R	R'000
94/95 *	-	-
95/96 *	136 000	136

---

* Included are the figures for the Department of Environmental Affairs.

96/97	154 000	154
97/98	56 000	56
98/99	134 000	134
99/00	56 000	56
00/01	43 000	43
01/02	47 000	47
02/03	40 000	40

According to the Report of the Auditor-General (2000/01 : 31) adequate procedures had not been implemented to ensure that all losses recorded were followed up and recovered. Thefts and losses are illustrated in figure 4.25.

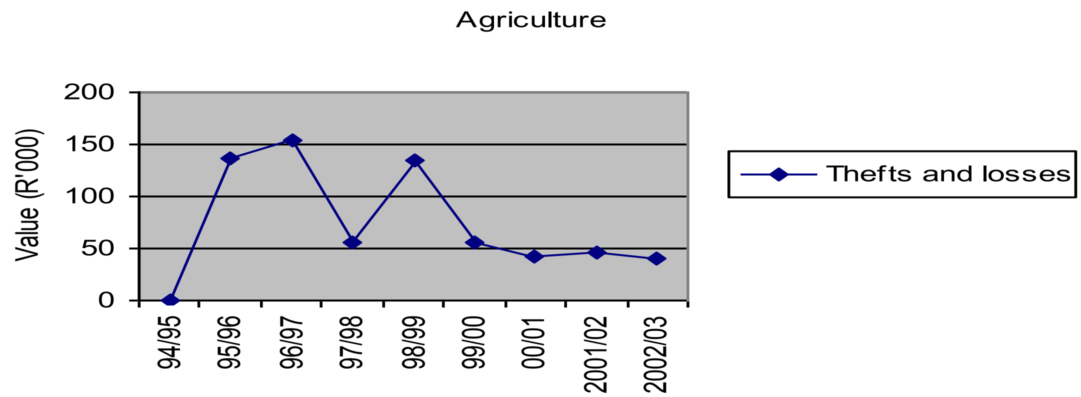


Fig. 4.25

4.11.9 Sport, Arts, Culture, Science and Technology

The financial statements (Annexure O) for the Department of Sport, Arts, Culture, Science and Technology during the past nine years are summarized as follows:

Financial year	Amount voted R'000	Expenditure R'000	Percentage deviation
94/95	1	-	100.00
95/96	18 271	14 654	19.80
96/97	24 469	19 084	22.01

97/98	39 471	32 808	16.88
98/99	47 993	44 358	7.57
99/00	32 103	31 258	2.63
00/01	90 660	89 626	1.14
01/02	120 124	117 865	1.88
02/03	147 796	145 409	1.62

Although the percentage deviations (Fig. 4.26) between voted amounts and expenditure for the last five financial years are within the eight per cent *virement* limitation, the previous financial years show a considerable excess to the eight per cent *virement* limit. With regard to the non-compliance with Financial Regulations and Treasury Instructions the Auditor-General (1996/97 and 1997/98 : 324) stated that the financial administration of the Mangaung Cultural Festival (MACUFE) did not comply with the Financial Regulations and Treasury Instructions. The following serve as examples:

- The assignments of the different contractors were not properly defined in terms of time and cost.

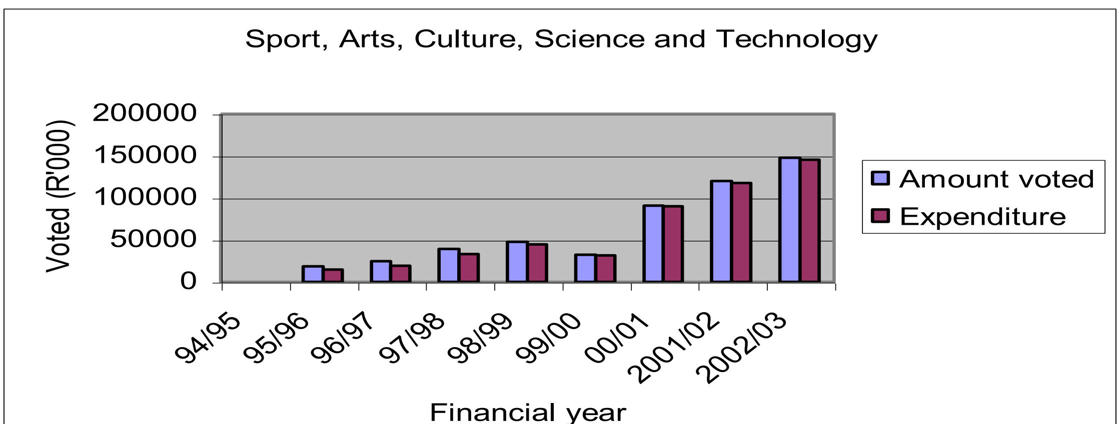


Fig. 4.26

- The budget of MACUFE was exceeded due to the fact that, *inter alia,* no control was exercised over the spending of the budget; and services were requested without making sure that funds were available for them.
- Treasury approval was obtained to receive cash donations amounting to R220 000, but the amount was not paid into Revenue.

Thefts and losses are summarized below:

Financial year	**Thefts and losses**	**Approximate value**
	R	**R'000**
94/95	-	-
95/96	-	-
96/97	-	-
97/98	-	-
98/99	205 000	205
99/00	3 000	3
00/01	12 000	12
01/02	-	-
02/03	9 000	9

The appropriation accounts for 1994/95, 1995/96, 1996/97 and 1997/98 indicates that no losses were written off. Losses may only be written off after approval to such effect has been granted. Paragraph 8.1 of Finance Circular no. 1 of 1995 (1995:19-20 and Treasury Instruction W2.1.1) determines that the loss control officer is entrusted, inter alia, with the following:

" (a) obtaining all particulars, statements, etc. regarding claims and losses and recording such claims and losses in a loss register;

(b) following up and finalizing such cases; …"

Above-mentioned indicates non-compliance with Financial Circular no. 1 of 1995 and Treasury Instruction W2.1.1.

Thefts and losses (Fig. 4.27) peaked during 1998/99. The report of the Auditor-General (1996/97 and 1997/98 : 328) revealed for example the following case of wasteful expenditure.

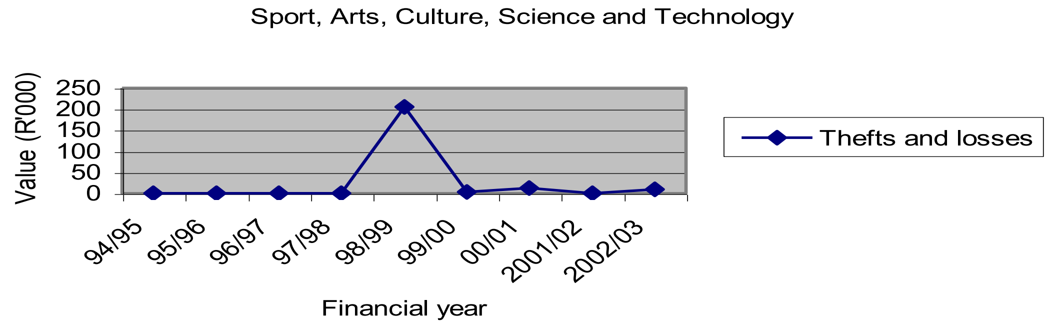


Fig. 4.27

According to a designer at the time the erection of a specific stage would have cost approximately R1 million. As this was considered to be excessive the project was disbanded.

- The designer then submitted a reduced invoice for R12 500 but the Department paid the amount of the original invoice of R25 000.

- Another company, who had apparently incurred some expenses in this regard, submitted an invoice for R36 856 which was paid by the Department. In the end as the stage was not erected the total amount of R61 856 paid is regarded as a wasted expenditure.

4.11.10 Provincial Service Commission

The financial statements (Annexure P) for the Department of Provincial Service Commission for five years are summarized as follows:

Financial year	Amount voted R'000	Expenditure R'000	Percentage deviation
94/95	1 000	563	44.00

95/96	8 758	4 469	49.00
96/97	7 602	5 412	28.81
97/98	8 022	5 334	33.51
98/99	2 876	2 617	9.01
99/00	Not available because it is now part of the national office.		

The graphic illustration (Fig. 4.28) indicates that a large percentage of the funds budgeted for this Department was not spent. The Auditor-General (1998/99 : 3) reported the following matter with regard to the compilation of the annual report of the Commission:

In terms of section 210(7) and 213(2) of the (interim) **Constitution**, 1993 (Act 200 of 1993), the Provincial Service Commission should annually submit a report on its activities to the Provincial Legislature. With reference to paragraph 1.3 on page 340 of the previous report, the Commission's report for 1996/97 and 1997/98 had, at the date of the Auditor-General's submission not yet been submitted to the Legislature, notwithstanding its availability and the costs

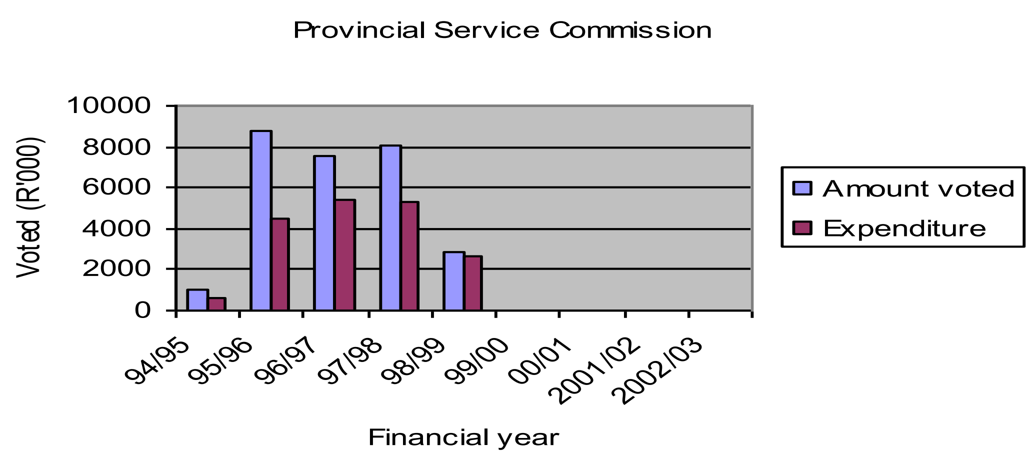


Fig. 4.28

incurred in producing it. The Commission compiled no further reports for the ensuing period(s), apparently in anticipation of the centralization of functions.

Proper public accountability and the implementation of corrective measures (if any) had not taken place.

Thefts and losses (Fig. 4.29) for the period between 1994/95 and 1998/99 are summarized as follows:

Financial year	**Thefts and losses**	**Approximate value**
	R	**R'000**
94/95	-	-
95/96	-	-
96/97	-	-
97/98	26 000	26
98/99	13 000	13
99/00	Not available	

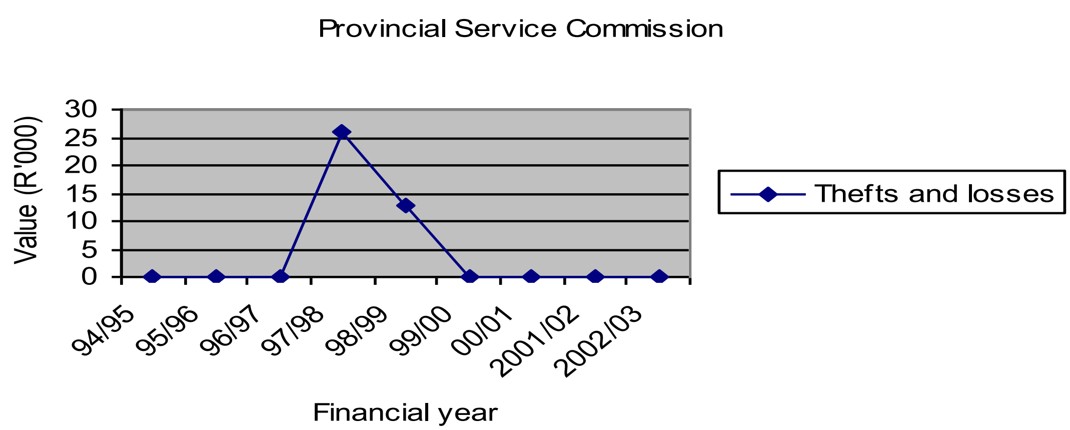


Fig. 4.29

4.11.11 Reconstruction and Development Program

The financial statements (Annexure Q) for the Department of Promoting the Reconstruction and Development Program for five years are summarized as follows:

Financial year	Amount voted R'000	Expenditure R'000	Percentage deviation
94/95	21 016	21 016	0.00
95/96	89 166	37 795	57.61
96/97	209 946	78 530	62.60
97/98	162 093	148 081	8.64
98/99	17 700	13 589	23.23

The Auditor-General (1998/99 : 2) stated that the annual financial statements were, in all material respects a fair reflection of the results of the operations of the vote for the year ended 31 March 1999, in accordance with prescribed accounting practice. (Fig. 4.30)

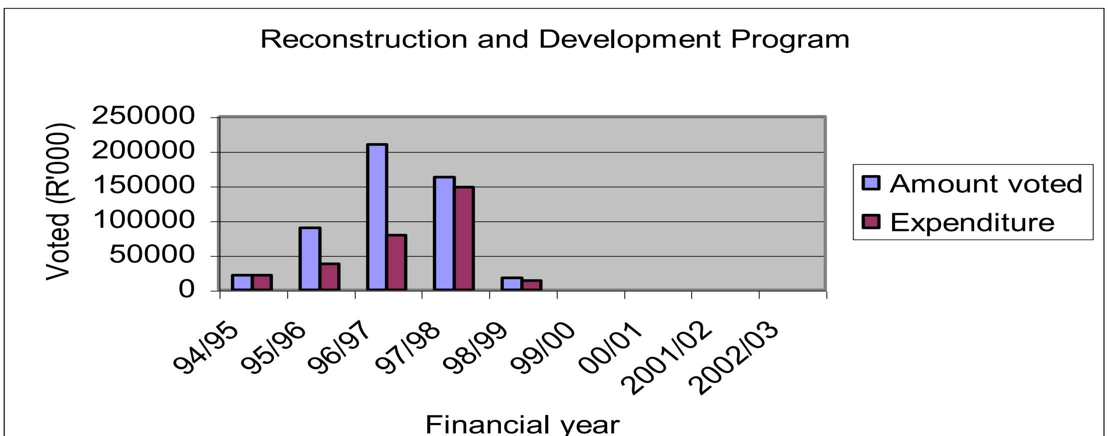


Fig. 4.30

No losses were reported in the appropriation accounts.

4.12 Conclusion

The budget process forms an important component of the integrated financial management system. As such, its importance with regard to the management of scarce financial resources cannot be underestimated or disregarded. In order to use budgets optimally the process is structured and categorized with regard to the determination of priorities and types of expenditure.

Budget information is now classified in accordance with three broad guidelines for the allocation of expenditure. Current expenditure is the current expenditure by departments on goods or services not classified as transfer payments, and is not used to obtain capital assets. Capital expenditure includes expenditure on the purchase of land, buildings and structures and equipment, but excludes small items with a value of R1 000.00 or less that are repeatedly purchased. Transfer payments refer to amounts transferred to other institutions and organizations, and which are not spent on goods or services for the department on whose vote they appear. Budget information is also classified according to eight standard items illustrating the expected expenditure required for the various goods and services needed to achieve a Department's objectives. These „inputs' are viewed as a necessity in attaining them.

The budget cycle was accorded a greater emphasis and now forms an important part of the budget planning process. The budget planning submission forms the basis of appropriations for each forthcoming financial year and of future estimates for the subsequent two years. Accounting officers must make sure that inputs are compiled accurately. The provincial adjustments-budget and *virement* -approval allow management to make adjustments to the main budget of a current financial year. The provision for *virement*, however, encourages budget manipulation by allowing management to alter the original budget approved by Parliament and the Provincial Legislatures. Moreover, by so doing the prioritization of activities is jeopardized because funds are no longer linked to a specific priority classification code on the FMS. After *virement* -approval the financial information on the FMS should also be adapted.

The analysis of voted amounts compared to expenditure revealed the following measurable problem areas:

- Budget manipulation took place. This means that funds could be shifted from one objective (program) to another and even from one department (vote) to another.

- Because of late payments, cash discount savings could not be used to save financial resources.

- The percentage deviation regarding over- or underspending by various departments in a number of years between the voted amounts and the corresponding expenditure differed substantially. In some instances the deviation exceeded the limitation of two per cent by more than ten per cent.

- In many cases programs were over-spent while others were under-spent. This means that managers had the opportunity of including budget padding or slack in such programs. It should be pointed out that the "prevention of underspending" should be added to the accounting officer's budgetary control duties because it effects service delivery negatively. Underspending indicates that measurable budget objectives have not been met and that the budget management process is ineffective.

- Thefts, losses and claims should form part of the budget management process because losses written off reduce the available financial resources for the achievement of objectives. In the Department of Public Works, Roads and Transport, for example, the trend showed a progressive increase in thefts and losses. It was, however, found that according to financial statements, thefts and losses were correctly deducted from amounts budgeted for as determined by Treasury Regulation 12.

- The above-mentioned shortcomings reveal that there is a definite need for training in the FMS, the budget process and in expenditure control. The FMS is complex and not user-friendly, making training especially as far as the interpretation of various budget-related reports is concerned essential.

- The trend in expenditure over a period of fourteen years shows a sharp increase. Decreases were exceptions, a phenomenon, which commencing from the time of the Second World War, emphasizes the fact that scarce resources should be managed properly.

The current provincial government dispensation that began its existence on 1 July 1995 increased the complexity of budget control by the addition of a further thirteen votes to the previous five votes. Management should take note of the "closing of books" on a monthly and yearly basis. Standard procedures such as the clarification of certain ledger-, suspense-, and disallowance accounts determines that the books cannot be closed any time during a financial year (Department of Finance and Expenditure, 1996 : 1-3). If any restructuring in portfolios is planned it should be introduced at the end of the financial year, taking effect from the beginning of the new financial year.

An evaluation of the Free State Provincial Government's audit reports indicates that there is non-compliance with financial legislation and Treasury Regulations. The audit reports revealed for example the following shortcomings:

- Surplusses not surrendered: Section 9(7) of the **Exchequer Act**, 1994 (Act 1 of 1994).

- Lack of *virement* approval: Paragraphs 3.3.1 and 3.5.4 of the Manual on the Financial Planning and Budgeting System of the State.

- Expenditure exceeding the voted amounts: Section 20(1)(b)(i) of the **Exchequer Act**, 1994 (Act 1 of 1994).

- Lack of submission of financial statements in due time to the Auditor-General: Section 40(1)(c)(i) of the PFMA.

- Inadequate system of internal control under the charge and direction of an audit committee: Sections 76 and 77 of the PFMA.

- Approval for the delegation of powers in writing not available: Section 44 of the PFMA.

- Lack of a fraud prevention plan and risk assessment: Treasury Regulation 12.

- Wasteful and avoidable expenditure: Chapter W of the Treasury Instructions and Treasury Regulation 9.

- Lack of supporting documentation passed on to the Auditor-General by Sections 40(1)(a) and 41 of the PFMA.

- Neglect to establish either an internal audit function or an audit committee: Section 38(1)(a)(ii) of the PFMA.

- Non-compliance with financial guidelines governing telephone and cell phone costs: Treasury Regulation 8.

- Non-collection of money due to a Department: Section 38(1)(a) and (c) (i) of the PFMA and Treasury Regulation 7.

- Failure to submit reconciliation between PERSAL and FMS systems: Section 2 of the PFMA.

- Annual report not submitted to the Provincial Legislature: Section 210(7) and 213 of the interim **Constitution**, 1993 (Act 200 of 1993).

Volksblad (2 November 2005) stated that PROPAC addressed the Department of Health to attend to its unauthorized expenditure of R56,156 million. This is an indication that budget related problems still exist and should be attended to (Treasury Regulation 9.1.1). Unauthorized expenditure is deducted from the budget and reduces the amount available for the following year to deliver health services.

Notwithstanding the fact that expenditure is compared to the voted amounts, the main problem area lies in the need for reliable performance reports that stipulate which objectives have been achieved and which not, and for providing reasons why the objectives in the original budget were not achieved. Management should know how to use performance reports and analyze deviations. It should also know how the budget system works and how to analyze the budget. Such analysis establishes the relationship between the resources and an institution's programs, mission and function. At the same time the appropriateness of public spending is also determined.

In the next chapter the estimates of revenue, expenditure and the MTEF process will be discussed.

5 ESTIMATES OF REVENUE, EXPENDITURE AND THE MEDIUM-TERM EXPENDITURE FRAMEWORK PROCESS

5.1 Introduction

Financial control includes the control not only of estimates and budgets, but also of revenue and expenditure (Robinson, et al. 1990:7). The FMS provides a financial structure that must be followed by the various institutional units on all levels of the responsibility structure that consists of the department itself, its branches, regional offices, divisions and sections. If financial control is applied effectively, the exact source of any deviations can be identified easily. The accounting officer of a department must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, safeguarding, recording and reconciliation of information about revenue (Treasury Regulation 7, 2001:21). Prices and tariffs must be adjusted scientifically to ensure that all costs are included. All revenue as well as outstanding revenue to the state must be followed up and recovered. In the public set-up the estimates of revenue to be received - based on the provincial revenue fund during the financial year - form part of the main budget. Due to the partial disturbance of the input/output relationship as indicated in chapter one, the determination of the break-even point is practically impossible, which means that performance cannot be measured against financial profit as in the private sector.

Weston and Brigham (1969 : 79) are of the opinion that break-even analysis is an important financial tool and is basically an analytical technique for studying therelations between fixed costs, variable costs and profits. Here Bothma, et al. (2000 : 59) refer to “break-even budgets”. This point will be discussed further in chapter six.

Estimates, as reflected in the relevant reports, must be updated frequently if and when necessary, for example before closing the books each month. Estimates play an important role in the financial control process of each department and also in the process that has to be followed for the request for funds from the National Treasury. Therefore as stated above it is necessary for a continuous updating of estimates. This chapter focuses on the estimates of revenue, expenditure and the MTEF process.

5.2 Revenue acts

The needs of the public as identified in the expenditure budgets can only be satisfied if the sources of revenue are created by the government of the day (Robinson, et al. 1990 : 4). These sources of income are, for example, income tax, custom and excise duties, value-added tax (VAT) and loans. Revenue must be approved by Parliament in the same way as budgeted expenditure is to ensure that the interests of the people and the private sector contributing are taken into account. If the government wishes to levy new taxes and alter existing ones, such amendments must be considered and approved by Parliament. The majority of the revenue acts are standing ones and are only altered if the scales on tax rates change in a specific financial year (Robinson, et al. 1990 : 5). In the case of persons and companies, Parliament approves tax scales each financial year through legislation. In this way it ensures continuity in the democratic processes.

5.3 Provincial revenue funds

The revenue acts referred to above provide for an estimate of revenue to be received for a specific financial year. The provincial sources of income include, for example, interest and dividends on investments, licenses and permits, recoveries of loans and advances, and departmental activities (Free State Provincial Administration, 1989 : 131-132). The latter include the sale of superfluous items in provincial stores and the sale of livestock. The revenue estimate for the financial year ending 31 March 1998, for instance, had provided for four columns indicating money value. They were direct taxation, indirect taxation, repayment of loans, and other resources (Province of the Free State, 1998:2-4). Examples of direct taxation are moneys prescribed by legislation such as the **Road Traffic Act**,1989 (Act 29 of 1989) and the **Horse racing and Betting Ordinance**, 1977 (Ordinance 8 of 1977). Examples of indirect taxation include moneys not prescribed by legislation such as commission, profit on trading accounts, Official Gazette and library services.

In addition, the FMS makes provision for the management of various funds on the system, for example the expenditure fund, the revenue fund, the ledger fund, the trust fund and trade accounts (Free State Provincial Administration, 1989 : 142). The control of provincial revenue funds, deposits into provincial funds and of revenue management is scrutinized in the following three paragraphs.

5.3.1 Control of provincial revenue funds

Section 21 of the PFMA determines the control process regarding provincial revenue funds and reads as follows:

" (1) The provincial treasury of a province is in charge of that province's Provincial Revenue Fund and must enforce compliance with the provisions of section 226 of the Constitution, namely that –

(a) all money received by the provincial government must promptly be paid into the Fund, except money reasonably excluded by this Act or another Act of Parliament; and

(b) no money may be withdrawn from the Fund except –

(i) in terms of an appropriation by a provincial Act; or

(ii) as a direct charge against the Fund when it is provided for in the Constitution or a provincial Act.

(2) Money that must be paid into the Provincial Revenue Fund is paid into the Fund by depositing it into a bank account of the Fund in accordance with any requirements that may be prescribed.

(3) A provincial treasury must establish appropriate and effective cash management and banking arrangements for its Provincial Revenue Fund in accordance with the framework that must be prescribed in terms of section 7".

5.3.2 Deposits into provincial revenue funds

According to section 22 (1) of the PFMA all money received by a provincial government, including the province's equitable share, and grants made to it in terms of the Annual Division of Revenue Act must be paid into the province's provincial revenue fund. The Annual Division of Revenue Act means an Act of Parliament which must be enacted in terms of section 214(1) of the Constitution (Section 1 of the PFMA). Section 214(1) of the Constitution requires an act of parliament to provide for –

(a) the equitable division of revenue raised nationally among the national, provincial and local spheres of government;

(b) the determination of each province's equitable share of the provincial share of that revenue; and

(c) any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made. (Preamble, **Division of Revenue Act**, 2001 (Act 1 of 2001.)

Exceptions are for money received by –

(a) the Provincial Legislature in the province;

(b) a provincial public entity in the province;

(c) the provincial government from donor agencies which, in terms of legislation or the agreement with the donor, must be paid to the reconstruction and development program fund;

(d) a provincial department in the province –

  (i) operating a trading entity, if the money is received in the ordinary course of operating the trading entity;

  (ii) in trust for a specific person or category of persons or for a specific purpose;

  (iii) from another department to render an agency service on behalf of that department;

  (iv) in terms of the annual Division of Revenue Act, if the money is exempted by that Act from payment into the revenue fund; or

  (v) if the money is of a kind described in Schedule 4.

The exclusion in subsection (1) (b) does not apply to a provincial public entity in the province which is not listed in Schedule 3 of the PFMA, but which, in terms of section 47 of the PFMA, is required to be listed.

5.3.3 Revenue management

Treasury Regulation 7 prescribes revenue management in the public sector, and includes the following responsibilities and functions of the accounting officer of a department:

- *Application*: Treasury Regulation 7 applies to the identification, collection, recording and safeguarding of all revenue for which a department is responsible.

- *Responsibility for revenue management*: The accounting officer of a department must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, safeguarding, recording and reconciliation of information about revenue.

- *Services rendered by the state*: The accounting officer of a department must review, at least annually when finalizing the budget, all fees, changes of the rates, scales and tariffs of fees and charges that are not or cannot be fixed by any law and that relate to revenue accruing to a revenue fund. The accounting officer must obtain approval from the relevant treasury for the proposed tariff structure.

Information on the tariff structure must be disclosed in the annual report, including information on exemptions, discounts, free services and any other aspect of material influence on the revenue yield.

5.4 Clearance of funds in the Financial Management System

To distinguish between the different sources of revenue it is obvious that different sets of books must be kept for each source. To satisfy this requirement a method of identification had to be implemented. Consequently the FMS provides for a vote and fund code, which is a structure composing of two levels. The first level of the vote/fund code identifies the nature of the source, for example parliamentary grants, exchequer collections, trust accounts and ledger accounts. The second level is used for a detailed summary and for separations within the first level. The first level, for example, can identify the public transport trading account while the second level identifies the public transport expenditure fund and the public transport revenue fund. For each vote/fund a four-digit code is allocated, for example, the expenditure fund = 1000, the revenue fund = 2000, the ledger accounts = 3000 and trust funds related to small-holdings = 4000. Subdivisions can also be created for each fund to simplify recording purposes. By using the vote/fund structure employees can determine -

- from which source the expenditure must be covered;
- to whom the revenue must be paid; and
- in which set of books those transactions belong (Free State Provincial Administration, 1989 : 141-142).

According to press reports (Sake Volksblad, 15 June 2002) government collected a some in excess of R5 billion more in taxes than were budgeted for during the first two months of the 2002/2003-tax year. With regard to the Free State Provincial Government, revenue increased by 71 per cent during the 2000/2001 financial year, and by 8 per cent during 2001/2002 (Volksblad, 23 March 2002). Value added tax also increased from R3.142 billion to R5.326 billion in the first month of the 2002/2003 financial year (Sake Volksblad, 1 June 2002). According to the Minister of Finance this trend is related to efficient tax collection, and indicates an improvement in the South African economy.

5.5 Nature and extent of the estimate-concept

As stated in chapter one, the effective and efficient application of limited financial resources will always to play an important role in the public sector. Well-considered strategic plans must form part of the budget process to achieve budgeted objectives effectively and efficiently. It is therefore necessary that the cost of the resources be expressed in measurable terms. Such calculations are known as estimates. In the public sector this expenditure is financed through loans and taxes. Robinson, et al. (1990 : 1-16) was used as a basis for the following evaluation of the estimate-concept.

5.5.1 Estimates as part of the financial planning process

Concern prevails amongst economists that the tax burden on taxpayers has a negative impact on the country's economy. Accordingly government ought to attempt to lighten the tax burden to allow the economy to grow at an acceptable growth rate. It should be mentioned to the credit of the present Minister of Finance that for the past four years (2000/2001 to 2003/2004) a reduction in the tax burden has been announced. One may accept the fact that while the country's revenue resources have already reached their maximum capacity, the need for public services is still increasing. Public services cannot keep expanding as though there were unlimited revenue sources. The country cannot afford such a policy. It is therefore important that the financial planning process is well executed to ensure that expenditure does not exceed the budget (Section 29(2) of the PFMA). In practice however it does not always possible because countries in general, for example even the USA, must borrow money to balance their budgets. An essential component of the financial planning process is the financial estimates vis-à-vis various activities. If any activity is not planned well ahead, it might be shipwrecked.

5.5.2 Definition

In the public domain an estimate is defined by Robinson, et al. (1990 : 5) as follows:

"An estimate of expenditure points to a rational process to determine the money-value of resources that are needed by an organizational unit to achieve objectives effectively and efficiently." (Own translation.)

5.5.3 Difference between estimates and budgets

If management has accepted a specific plan of action, the financial estimates serve as a basis for the concept budget that must be submitted to the Provincial Legislature and Parliament. An estimate and budget have the same objectives and the same standard items of expenditure. Both contain the same financial planning details. The main differences between estimates and budgets include the following:

- An estimate is prepared well ahead of the budget and updated frequently. An estimate also forms the basis from which the budget is compiled.

- A specific department's budget is approved by Parliament and taken up in a specific budget act. On the other hand, an estimate is used only for planning purposes within an organizational unit and is not submitted to Parliament.

- An estimate can be changed at any given time. The budgeting process and the execution of the budget are determined by the PFMA and the Treasury Regulations, 2002. Parliament or Provincial Legislature must approve any changes to the budget.

- A department's budget activities, for example, over- and underspending and *virement* are subject to auditing and scrutiny by the public accounts committees, something not applicable to estimates.

- According to the PFMA, budgets must be submitted to Parliament or the Provincial Legislature on a yearly basis for approval. The preparation of estimates is, however, optional but essential.

- The funds voted in a budget must be spent during the financial year, unless an approval by Parliament or a Provincial Legislature is granted for the roll-over of funds. Estimates are a continuous planning process.

- While an estimate is only an aid to planned future activities, the budget transforms them into reality.

5.5.4 Advantages and disadvantages of estimates

The advantages and disadvantages of estimates could be summarized as follows (Robinson, et al. 1990 : 8-10):

Advantages

- An estimate may at an early stage - long before the start of the new financial year - give an indication regarding the financial implications of the planned activity.

- Top management can now decide if the cost involved will justify the results.

- It can be stated that an estimate is an instrument for measurement. Deviations, if any, and the reasons for them can be determined. By so doing future estimates can be rendered more accurate.

- Estimates[1] and their revision may also provide early indications of over- and under spending. A timely identification of problem areas allows a manager to take remedial action.

- Estimates predicting high cost can force management to seek alternatives. For example, hiring equipment might be less costly than purchasing it. A project can, for instance, be extended and fewer employees involved which would reduce expenses.

---

[1] Estimates and projections are explained in more detail in paragraph 6.2.3.

- Estimates promote rational decision-making. Any potential cost involved can entail the original decision being adapted, changed or halted.

- An estimate is an instrument that assists managers to view planned future tasks rationally. They should not rely solely on historical facts.

- Estimates enable managers to negotiate for the realistic allocation of funds. Furthermore they allow for any early changes in activities to adapt to prevailing conditions. Having sufficient funds is not always attainable because of a possible scarcity of financial resources. Therefore an official ought to have a realistic approach to submissions for funds rather than always demanding adequate funding.

- Estimates also allow top management, such as program managers and the budget advisory committee to take meaningful decisions about the allocation of funds to the highest priorities.

Disadvantages

- The greatest disadvantage associated with estimates is that their accuracy depends on the completeness of the information included. Estimates rely on the operational managers' commitment to give accurate financial information. Their ability and skills in this respect also determine the reliability of an estimate.

- Estimates must be revised and updated frequently to ensure that financial information reflects the latest state of affairs. This implies additional work, with the result that many individuals frequently neglect to update their estimates on a regular basis.

- If estimates are changed without good reason, a negative perception regarding the value of such estimates may be the consequence.

- The approach of some officials to estimates is unrealistic resulting in an ineffectual “wish list” rather than a logical formulation of what is required. As a result funds/priorities will have to be curtailed. Such malpractice would then lead to estimates not receiving any meaningful attention.

Financial reports such as the trial balance and balance-sheet reflect the historic results of a department, while the financial estimates are summarize the monetary value of all the planned activities of the various sub-divisions. All costs under the standard items are determined for each activity. Furthermore the total cost each activity during a financial year will be estimated. Each program on a department’s budget consists of various such activities. The total costs of a program represent the total expenditure for the said activities relating to such a program. A realistic financial estimate must be done for the beginning of the following financial year. The aim of estimates is to effectively determine the financial cost needed to achieve the objectives set in a specific financial year. Estimates also indicate the source of funds and give an indication of the cash-flow position of the relevant department. The latter figure is known as a short-term estimate.

Estimates are not static and must be updated frequently. Prices usually rise but may also fall. The FMS provides for continuing expansion, new services and prioritization. By way of report requests the needed financial information can be extracted from the FMS system. The disadvantages - for example the time spent on estimates - are overshadowed by the advantages of the accurate estimates obtained.

5.6 The Medium-Term Expenditure Framework

The National Medium-Term Expenditure Estimate (NMTEE) is concerned with the spending and future resource requirements of both national government and provincial departments. This spending is planned together with other government expenditure in the MTEF. The NMTEE aims to improve the transparency of the budget, thereby leading to increased accountability of government to Parliament and the people. The NMTEE also reveals both how government spends money and how much it spends (National Treasury, 2000 : 1).

In the following paragraphs the MTEF, the budget submission, the covering letter, reprioritization within baseline, and changes to program structure will be investigated.

5.6.1 Understanding of the MTEF

The Medium Term Expenditure Framework (MTEF) details three-year rolling expenditure and revenue plans for national and provincial departments (National Treasury, 2000:3). Government has committed itself to modernizing the management of the public sector and to allocate the necessary resources to make it more sensitive to the community it serves (Treasury Guidelines, 2001 : 1-2). Budgetary and financial reforms were initiated soon after the 1994 elections. A major step forward began in 1997 when all three spheres of government were allowed to develop and adopt their own budgets. In 1998 government set out three-year rolling spending plans for national and provincial departments under the MTEF. The medium-term budgetary process forms the basis of the budget reform initiatives. The MTEF includes “top down” macroeconomic and fixed policy processes, with the bottom-up estimation of the current and medium-term cost of existing departmental plans and expenditure programs. Through the implementation of the MTEF concept, government recognized the advantages of estimates. The adoption of the PFMA and its implementation in 2000 signified the second phase of the reform program. Section 28 of the PFMA provides for multi-year budget projections and determines that -

“(1) The minister and the MEC for finance in a province must annually table in the National Assembly and in that province’s provincial legislature, respectively, a multiyear budget projection of -

(a) the estimated revenue expected to be raised during each year of the multi-year period; and
(b) the estimated expenditure expected to be incurred per vote during each year of the multi-year period, differentiating between capital and current expenditure.

(2) A multi-year budget projection tabled by the Minister must contain the Minister’s key macro-economic projections”.

The third phase of reforms includes the specification of measurable objectives and the introduction and implementation of measures to assess output performance regarding service delivery so that budgeting for the said service delivery might be enhanced.

5.6.2 Advantages and disadvantages of the MTEF

MTEF budgeting has the following advantages and disadvantages (National Treasury, 2000 : 3):

Advantages

- Greater certainty as policy priorities are set out in advance allowing national and provincial departments to plan and budget for the delivery of services in line with policy priorities set by government.

- Affordable spending in the medium-term as departments and provinces plan and spend on programs according to an agreed three-year expenditure package.

- Strengthening political decision-making and accountability as policy choices may be linked more effectively to spending plans and to the delivery of services.

- Greater transparency as government's spending plans and priorities for the following three years are open to public scrutiny. It therefore also leads to less speculation in the media on how the next budget will effect the business sector and taxpayers.

- Improved management of public finances as government's medium-term fiscal targets, tax policy and debt management may be linked to agreed spending commitments.

Disadvantages

- The greatest disadvantage of the MTEF is that the accuracy of estimates depends on the completeness of the information included.

- Estimates must be revised and updated frequently to ensure that the latest financial information is reflected. This entails additional work and resulting in many departments frequently not updating their estimates on a regular basis.

- Cost accounting and cost-accounting techniques are skills that Financial and Operational Managers will have to acquire.

- The inflation rate and its effect on the estimates should be taken into consideration. The inflation rate should be applied monomorphically by all departments and provinces if possible.

5.6.3 The MTEF budget submission

The implementation of MTEF has enabled the National Treasury to consider the rationalization and integration of budget documentation. It has rationalized the budget documentation for the 2001 budget by combining the previous Estimates of Expenditure (the “White Book”) and the National Expenditure Survey (NES). The compilation of MTEF budget submissions is also the first step in the annual budget process. The proposed changes will hopefully reduce the load on the National Treasury and on departments when preparing budget documentation, and will facilitate the move towards an integrated approach to medium-term expenditure planning that is focused on service delivery. (National Treasury, 2000 : 10-17.)

The budget planning submission also includes the following elements:

- The accounting officer’s covering letter setting out a department’s aim and objectives and explaining the process used by the department in compiling the submission.

- A note setting out how a department intends reprioritizing within baseline[2] if it were to receive its MTEF baseline allocation.

- Schedules of spending data, showing in detail the department’s reprioritization within baseline.

---

[2] ” Baseline” estimates: The estimates for year 1 and 2 of the new MTEF are the forward estimates for the respective years published in the previous year’s budget.

- A note setting out how the said department's proposed reprioritization within baseline differs in terms of policy and output from those set out in the 2000 NES.

- Up to six options for changes to the department's baseline.

- Supplementary material covering capital and maintenance, project loans, and donor-grant funding.

5.6.4 MTEF budget submission principles

The following principles play a key role in the budget compilation:

5.6.4.1 Changes to the baseline

The major focus of the Medium Term Expenditure Committee (MTEC) and the Minister's Committee on the budget is likely to be on options for changes to baseline, whether proposed by a department, province, the National Treasury or by the committees themselves (National Treasury, 2000 : 11). The reprioritization is, however, also important as it gives an overall picture of the various departments' activities on spending. This for example helps the MTEC to evaluate the degree to which a new policy, set out as an option, would need additional funding. Departments need no longer to cost each activity from zero. Instead they should use the most suitable method to determine the best allocation of their baseline and possible changes to it. This might involve a -

(i) review of the institution's aims and objectives,
(ii) review of the outputs needed to support these aims and objectives,
(iii) consideration of whether the present allocation to programs best provides for these outputs and, if not, how the allocation should be changed,
(iv) similar consideration of the allocation to activities within each program,
(v) selection and development of options for changes to baseline.

Stages (iii) and (iv) would probably involve a mix of budgeting from zero and incremental budgeting for the following reasons:

- *Budgeting from zero* takes an in-depth look at a program and sub-program, evaluating the type and quantity of output the activity and the program are producing and how those outputs are attained.

- *Incremental budgeting* starts from the present baseline of the program and sub-program. It asks whether an activity is to be increased, reduced or left as is in attaining the program's objectives - subject to the overall resource constraint of the departmental baseline.

Evaluation of a program or sub-program might include aspects of both techniques. Departments should now consider establishing processes concerning particular programs and activities to support decisions about the budget.

Departments and provinces should note that National Treasury is to undertake a parallel process to examine costs in departmental budgets. This process is separate from the preparation of budget planning submissions detailed in the MTEF guideline. Departments are requested to maintain detailed spreadsheets of their costings and records for this purpose, and to allow National Treasury officials access to such records for the purpose of examining departmental budgets.

5.6.4.2 The accounting officer's covering letter

The covering letter which must be signed by the accounting officer and sent to National Treasury, must include -

- a statement of the aims and objectives of the relevant department, with an explanation of the relationship of the stated aims to those set out in the 2000 NES, and

- a report on the process used to reprioritize within baseline and generate options for changes to it. (These guidelines allow a department to develop a process that is more suited to its needs. Budgeting from zero, for example, is then no longer required in all instances.)

The above-mentioned statement and report is consistent with the PFMA principle – *let managers manage, but hold them accountable.* Accounting officers are requested to describe the process their department has followed in determining reprioritization and in generating the options for changes to baseline set out in the subsequent section. This report should be one to two pages long and should be included in the covering letter that the accounting officer attaches to the budget submission. The report should include descriptions of -

- the involvement of the MEC and accounting officer. The latter must confirm that the MEC concurs with the budgeting process that was followed and with the proposed options and reprioritization of the baseline;

- the role of other senior managers such as program managers and operational managers;

- the issues specifically dealt with in the process; and

- the process to be followed in each of the department's programs. (Where a department has a large number of programs it may be useful to group related programs or programs together that were similarly handled for this description.)

The accounting officer should bear in mind that the MTEC might wish to discuss this process when the accounting officer appears before the committee. Further material on the process should not be included in the budget submission but should be available to the National Treasury.

5.6.4.3 Reprioritization within the baseline

In preparing its budget planning submission each department has to undertake a thorough review of its -

- aims and objectives;
- service deliverables and outputs needed to meet these aims and objectives; and
- the allocation to programs that best provide for these outputs.

This undertaking allows departments to reprioritize within their baseline allocations to reflect the best quota to programs and activities that will enable a department to achieve its objectives provided it receives the MTEF baseline as its allocation. Each department is requested to compile a one to two page note explaining its proposed reprioritization within the baseline in terms of the above-mentioned undertaking. The note has to be supported by detailed spending schedules (National Treasury, 2000:13).

5.6.4.4 Changes to program structure

Programs, when represented diagrammatically, form pyramid-like structures, the reason being that they are supported by lower-order functions. These functions are divided into particular segments according to the division of work, allocations of responsibilities, votes and objectives, and specific requirements (Visser and Erasmus, 2002 : 102). The programs themselves are divided into four distinct levels namely main program, sub-program, element, and activity (Free State Provincial Administration, 1989 : 100).

Changes to program structure will be considered in a separate process following the MTEC hearings. Departments wishing to change their program structure should, however, include an explanatory note of half a page in length in their budget planning submission, outlining the possible changes and reasons for those changes. If the request for a change in program structure is approved, it will be granted to the department on the undertaking that the said department -

- indicates its capacity and commitment to updating the relevant information in the NES according to the new structure; and

- provides comparative figures for all applicable years according to the new program structure.

5.6.5 Budget reform initiatives

The main budget reform initiative that was introduced in 2001 concerns the integration of strategic planning into the budget process. The development of strategic plans and their integration into this process enhances better budgeting within the MTEF (Treasury Guidelines, 2001 : 6). Integrated strategic planning, budgeting and monitoring of service delivery performance represent an attempt to bridge the input/output relationship gap in the public sector. Integration is not merely a technical process that may be achieved through regulation, but requires a systematic approach that will have an impact on organizational structure, financial and performance management systems and on departmental management. The budget reform initiatives provide a foundation for the integration of planning and budgeting in terms of the following:

- Policy priorities are set in advance allowing departments and provinces to plan and budget for service delivery in line with government's agreed commitments.

- Departments and provinces plan and spend on programs according to a three-year expenditure package, contributing to certainties and affordability over the medium-term.

Departments and provinces will be able to -

- accurately program expenditure in line with policy implementation plans, thereby reducing requests for rollovers;

- forecast medium to long-term financial implications of any existing and new policies;

- implement programs that achieve service delivery outputs in the most cost-efficient manner; and

- improve the monitoring and evaluation of expenditure programs in relation to government's socio-economic policy priorities.

Strategic plans and the costing of activities are prepared in line with government's medium-term policy priorities that guide preparation within three-year allocations. Departmental and provincial budget submissions are evaluated in line with government's priorities and recommendations on medium-term allocations made to Cabinet or to the relevant Provincial Legislature. If appropriated by Parliament or the relevant Provincial Legislature, budget allocations may be spent on activities that achieve specified outputs in support of the said priorities. Meaningful are the 2003 MTEF priorities announced by the Minister of Finance in his Appropriation Bill speech on 29 October 2002 (2002 : 5-6), and which apply specifically to the following sectors of the economy:

- Extending social assistance, health and education programs administered by provinces.

- Enhancing investment in municipal infrastructure and basic services in support of the rural development and urban renewal strategies.

- Expanding capacity in the safety and security sector to prevent and combat crime, including a particular focus on the functioning of the courts.

- The restructuring of higher education, including the restructuring, and support of institutional mergers, and seeing to an investment in infrastructure.

- Accelerating the land reform and restitution programs.

- Re-engineering services to citizens provided by the Department of Home Affairs.

- Increasing support for the national research and development strategy to enhance growth and the advancement of technology.

- A growing international role via increased regional representation, support for the African Union (AU) and the New Partnership for Africa's Development (NEPAD).

5.6.6 Legislative requirements

Chapter five of the Treasury Regulations, 2001, issued in terms of the PFMA, requires that strategic plans should cover a period of three years and be consistent with the medium-term baseline allocation of a department. The Treasury Regulations also require that plans include -

- the measurable objectives and outcomes for a department's programs;
- details of proposed acquisitions of fixed or movable capital assets, planned capital investments and the rehabilitation and maintenance of physical assets;
- details of any proposed acquisitions of financial assets and capital transfers;
- plans for the management of financial assets and liabilities;
- multi-year projections of income and projected receipts from the sale of assets;
- details of the Service Delivery Improvement Program; and
- details of any proposed acquisitions relating to information technology and expansion in line with an agreed information plan.

The regulatory framework set out above outlines the link between institutional plans and budgets. This is not sufficient to ensure an appropriate integration. Departments need to adapt their own management systems, processes and functions to ensure an effective integration of strategic planning and budgeting, thereby contributing to better budgeting and service delivery over a period of time.

5.6.7 Institutional requirements

The budget reform initiatives of government enhance better budgeting within the MTEF. The following paragraphs highlight those components that may enhance integration and contribute to better budgeting over the medium-term and that facilitate the changing roles of financial and operational managers, integrating performance management and financial management and various stages of integration.

5.6.7.1 The changing roles of Financial and Operational Managers

The National Treasury (Treasury Guidelines, 2001 : 7) is of the opinion that the separation of strategic planning and policy implementation on one hand, and budgeting and accounting for the expenditure of financial resources on the other reduces the ability of government to deliver services efficiently and effectively to communities. Any successful integration of strategic plans and budgets requires that operational managers be held accountable for the inputs that are allocated to execute their strategic plans. Improved budgeting, in terms of the PFMA, extends accountability not only to the estimation of inputs, but also to the efficient and effective achievement of objectives in line with strategic priorities. The main differences in the various functions of financial and operational managers are illustrated in table 5.1 below.

Table 5.1 Main differences in the various functions of financial and operational managers

	Financial Manager	Operational Manager
Accountability	The provision of financial information that assists the operational manager with the implementation of policies.	Management of objectives and activities that lead to an institution's outputs. Management of the resources made available for this purpose, and the effective, efficient and economical achievement of these objectives.
Costing	Promote costing systems and skills in order to support the operational manager in this regard.	Responsible for key decisions that relate to costing such as the type and quality of services to be

		provided.
Monitoring and evaluation	Support operational managers in monitoring & evaluating expenditure in relation to budgets and objectives.	Monitor and evaluate expenditure in relation to budgets and objectives. Monitor and interpret output and outcomes of service delivery.
Revenue and expenditure	Link revenue and expenditure to program objectives and the overall output of institutions.	Take corrective management decisions where financial information reveals possible deviations in expenditure, projections and plans.
Cash flow	Manage and monitor cash flow and procurement.	Provide information on cash-flow implications for programs and projects.
Reports	Prepare monthly and annual reports for all of the above.	Prepare monthly and annual reports for all of the above.

5.6.7.2 Integrating performance management and financial management systems

A second institutional requirement for successful integration is the implementation of an appropriate performance management system that contains financial and operational management data. The financial management system is designed to support financial managers as they prepare budgets, execute control and audit expenditure. National Treasury (Treasury Guidelines, 2001:9) asserts that little if any interface exists with those systems that support operational managers as they prepare strategic plans and policies and implement appropriate service delivery programs. Several national and provincial departments have identified the need for a further development of systems to interface financial and performance management information. A number of departments such as Defence and the Mpumalanga provincial health department have made significant progress in this regard, indicating that the integration of systems while difficult to manage are possible. Furthermore, the development and implementation of appropriated systems which assist medium-term budgeting is needed, given the fact that departments and provincial governments are encouraged to -

- restrict spending to within the agreed three-year expenditure package – *fiscal discipline and control;*

- allocate and spend their resources on prioritized objectives – *allocate areas of efficiency and responsibility;*

- promote efficiency in the use of resources – *operational efficiency;* and

- report on program performance and delivery in respect of departmental objectives and key output performance measures and service delivery indicators – *effectiveness.*

Looking ahead there is considerable work to be done to improve integrated planning and budgeting and to enhance the monitoring and measuring of progress in service delivery. Integrating performance management and financial management also includes budget management performance and the improvement of quality and quality control regarding service delivery. Institutions may not, however, amend existing or institute new computerized systems that will effect financial administration without the prior written approval of the National Treasury (Treasury Regulation 17.3). The improvement of performance and service delivery also depends on the degree to which political office bearers strengthen the political oversight of the budget.

5.6.7.3 Integration steps

Six key steps have been identified by National Treasury (Treasury Guidelines, 2001: 9-25) in the preparation of strategic plans and their integration into the budget process. These include the following:

- Preparing strategic plans and prioritizing planned objectives.

- Assessing the cost and resource implications in preparation for the MTEF budget submission.

- Finalizing medium-term allocations and preparing budget documentation.

- Developing processes to facilitate the monitoring and reprioritizing of spending when strategic plans change during any current financial year.

- Monitoring and evaluating the performance and delivery of programs in relation to clearly defined priorities, objectives, key performance measures, indicators and targets.

- Finalizing annual financial statements and reports that review performance and achievements against the strategic plan set out at the start of the financial year.

5.6.8 Monitoring service delivery and performance

Monitoring and measuring service delivery and performance are critical to the overall management of departments and provinces, ensuring that objectives are met through the delivery of services (Treasury Guidelines, 2001 : 28). These activities may be viewed as a process of managing progress towards the achievement of set objectives. The process may be used for self-assessment, to measure objective achievement, to monitor progress and to facilitate the communication of objectives to external customers. The National Treasury summarizes the potential benefits of monitoring and measuring service delivery and performance as follows:

"- **Improved quality of service and outputs** – evaluating service delivery and performance will assist managers in identifying problems and improving on program delivery. This will provide specific insights into the quality of output delivery allowing managers to plan corrective action.

- **Greater accountability and control** – monitoring service delivery progress provides an unbiased way to assess the performance of government departments and officials. Service delivery and performance measures indicate what is important and what departments should focus on to achieve their objectives. Involving officials in evaluating service delivery may also help them to understand their role and contribution in achieving the department's objectives and service delivery targets. Due to various environmental factors, however, as was explained in paragraph 3.6 all officials might not be objective.

- **Improved management practice** – service delivery and performance information provides invaluable feedback to managers, allowing them to prioritize objectives and approaches and correct plans and activities to improve individual and overall departmental performance.

- **Enhanced planning and budgeting** – service delivery and performance measurement enhances integrated planning and budgeting as it assists managers to account for the use of resources and to reprioritize resources to priority areas. It also provides quantitative information on policy implementation that may support the need for possible revision of policies and expenditure programs.

- **Improved equity in distribution and accessibility of service** – management, the public and the relevant legislature are more informed about service delivery performance and impact on communities. This helps to raise awareness of and advocacy for improved program design and access to services, improving equity in distribution in the future.

- **Better communication** – monitoring and measuring service delivery and performance serves as a key communication tool to the public, providing critical information on how public resources are being used to improve the social and economic wellbeing of communities. This is essential where a government is faced with significant social and economic challenges and constrained by limited resources."

5.6.9 Political oversight of the budget

Cabinet and the Budget Council have drawn attention to the importance of strengthening the political oversight of the budget process (National Treasury, 2000 : 5). Political oversight of the budget process is essential to ensure that -

- the political executive in cooperation with senior management is responsible for budget planning and prioritization;

- political priorities are linked to departmental spending plans and the delivery of services;

- cabinet also considers the broad policy and spending directions of the new MTEF prior to publication of the Medium-Term Budget Policy Statement in October, and makes the final MTEF allocations to national votes in November;

- at national level the Minister of Finance and at provincial level, the MECs for Finance are responsible for ensuring the full involvement of political office-bearers in the budget process;

- other significant co-operative governance forums play a key role in the political decision-making and budget process, and that in particular, the sectoral MINMEC's (a Committee consisting of Ministers and Provincial

Members of the Executive Council) provide a joint forum for national and provincial political office bearers to debate policy issues affecting both spheres of government; furthermore that departments should inform the relevant national and provincial treasuries of MINMEC discussions and decisions that have budgetary implications; and

- the Ministers Committee on the budget plays a key role in strengthening political control of the budget process and reviews all policy and budget proposals in detail before they are taken to Cabinet. The importance of the budget control process lies therein that the political executive is responsible for budget planning and prioritization, and that departmental and provincial spending plans are also linked to political priorities and the delivery of services.

5.7 Conclusion

Treasury Regulation 7.3.1 determines revenue management in the public sector and includes the specific functions and responsibilities of an accounting officer in a provincial department. Such officers must review at least, annually, all fees, changes or the rates, scales, tariffs of fees and changes not enforced by any law that relate to revenue accruing to a revenue fund. They must obtain approval from the Provincial Treasury for the proposed tariff structure. The accounting officer of each department must also effectively and efficiently manage the formation of appropriate processes to provide for the identification, collection, safe-guarding, recording and reconstruction of information about its revenue. The financial management system provides for various vote-and-fund codes and must be used both to identify the sources of income and provide a detailed summary.

An essential component of the financial planning process is the financial estimates of the various activities. An estimate forms the basis from which the budget is compiled. The difference between estimates and budgets has been pointed out, namely that, unlike budgets, estimates are not subject to auditing although their preparation is essential. The main advantages of estimates include, firstly, a timely identification of over- and underspending that allows a manager to take remedial action. Secondly, they promote rational decision-making, permitting top management to decide whether the cost involved justifies the results. Thirdly, estimates also play an important role in an economy that experiences a shortage of scarce financial and other resources. The MTEF has certain advantages- for example provinces, are allowed to plan and budget for the delivery of services in line with policy priorities. Political decision-making and accountability are improved as policy choices may be linked more effectively to spending plans and to the delivery of services. The most significant disadvantage of the MTEF is that the reliability of estimates will depend on the completeness of the information available. Estimates must also be revised frequently, implying in turn an additional workload on those involved. Cost accounting techniques are essential in expenditure estimates and should form part of the budget training process.

The differences between the various functions of the financial and operational manager were emphasized. Operational managers, for example, must prepare monthly and annual performance reports in the new dispensation. The integration of performance management and financial management systems promotes efficiency both in the use of resources and in preparing reports on program performance. It also assists in achieving departmental objectives, and in setting key output performance measures and service delivery indicators. The monitoring and measuring of service delivery and performance may be viewed as a process of managing the progress towards the achievement of objectives. Its potential benefits include an improved quality of service and outputs, greater accountability and control, enhanced planning and budgeting, improved equity and accessibility of services, and better communication.

The main public finance reform introduced in 2001 is the integration of strategic planning into the budget process. The implementation of the MTEF-concept is more than a step in the right direction and should be developed fully to improve the quality of services rendered to the community. It should be emphasized, however, that an “excellent budget” does not necessarily means that service delivery is going to be improved, because of underspending, lack of quality control and unauthorized expenditure. Integrated strategic planning therefore complements and consolidates recent reforms in public finance management. In 0particular, integrating strategic planning, budgeting and the monitoring of service-delivery performance, coupled with effective financial information and advice, strengthen the link between the services that departments provide and the benefit and costs involved. Because of their importance, short-term estimates and the MTEF process form an integral part of the internal and external auditing process. The MTEF also forms the basis for the government’s budget reform initiatives.

In chapter 6 the deficiencies in the implementation of the budget system in the Free Sate Provincial Government will be analyzed. As part of the empirical research various audit and press reports will be investigated to identify certain viewpoints.

6 DEFICIENCIES IN THE IMPLEMENTATION OF THE BUDGET SYSTEM IN THE FREE STATE PROVINCIAL GOVERNMENT

6.1 Introduction

The fact that internal control is a management function that is important in assisting public managers in achieving their departmental objectives requires regular reviewing of the implementation of public budgets. In the Free State Provincial Government where there are deficiencies in budget implementation this is a crucial issue. In the case of root-cause analysis, financial and operational managers begin by defining the core symptoms of a deficiency. The root-causes then form the focus points for management's attention. Root-cause analysis is useful in understanding institutional failure and downturns in financial performance. The root-cause or fishbone analysis is also an invaluable tool for management on the basis of which it can improve performance.

This chapter commences with a brief review of the disturbance of the input/output relationship. Access to budget information will also be scrutinized including the possible reasons why such information might not be available to management. The estimate of expected expenditure and the MTEF-concept were evaluated in chapter five. A short review will be given in the present chapter. Both cash-flow and budget manipulation will receive attention. These might not be the only directly related budget deficiencies, and management should attend to all such aspects, for example the over- and underspending of the budget as they emerge. Public accountability and the establishment of audit committees also appear to be a deficiency and will be evaluated. Other factors that might influence objective achievement such as audit fees, the prevention of losses and claims, the Batho Pele approach and lack of quality control will also be dealt with. The absence of professionalism and ethical conduct lead to fraud and corruption (Visser and Erasmus, 2002 : 301) and have to be addressed if departments are to deal with these issues. To be successful, management should attend to areas of deficiency and implement solutions based on sound accounting practices.

Financial management cannot be performed if staff do not conduct their functions as public officials in an ethical and professional manner. According to Visser and Erasmus (2002 : 301) professionalism forms the "cornerstone" of the public service. The ideal is to promote professionalism in the utilization of public money for service delivery. Furthermore, Visser and Erasmus (2002:301) assert that the absence of professionalism and ethical conduct may lead to fraud and corruption. The consequence is that fraud and corruption reduce available funds since departments are not permitted to budget for thefts and losses (Treasury Regulation 12.1.1).

6.2 Budget-related deficiencies

In the root-cause analysis the approach of management should be to begin by identifying the direct budget-related root-causes of failure. Management should be aware of such deficiencies and seek to find possible solutions in each instance for budget management to be effective. These deficiencies, as part of the root-cause analysis approach applied to the Free State Provincial Government budget system, were evaluated by focussing on the disturbance of the input/output relationship, access to budget information, estimates of expenditure, cash-flow problems, budget manipulation and the compilation of the budget.

6.2.1 Disturbance of the input/output relationship

Bothma, et al. (2000 : 59) contend that in break-even budgets relating to production and volume of sales the point where the total cost relating to a decision breaks even with total revenue is determined. In the private sector this production or volume can be expressed in physical units or value for money, the owner of a business concern then being in a position to determine what production volume is needed to cover total cost. The break-even point can be calculated where the total fixed cost remains more or less the same as the production-level increases or decreases, but the total variable cost differs with an increase or decrease in the production level. By definition the break-even point is that point (physical units or money value) where total revenue is equal to total cost. In the public sector, however, where the ultimate goal is service delivery, the determination of the break-even point is quite impossible. This does not mean that a variable cost - for example water-, electricity- and telephone accounts - can be allowed to reach unacceptable levels. Variable cost should be kept as low as possible in spite of the partial absence of the input/output relationship.

Maciariello (1984 : 332) is of the opinion that most responsibility centres are service centres rather than being directly concerned with manufacturing. In the case of public institutions most responsibility centres, for example hospitals and schools, are service orientated as too, by extension, are government institutions. The budgets for these are determined by managerial discretion because inputs and outputs are only partially known. Fig. 6.1 illustrates inputs and outputs in such a centre. The problem with them, for example, is on the one hand how large the staff component needs to be to achieve objectives, and on the other the

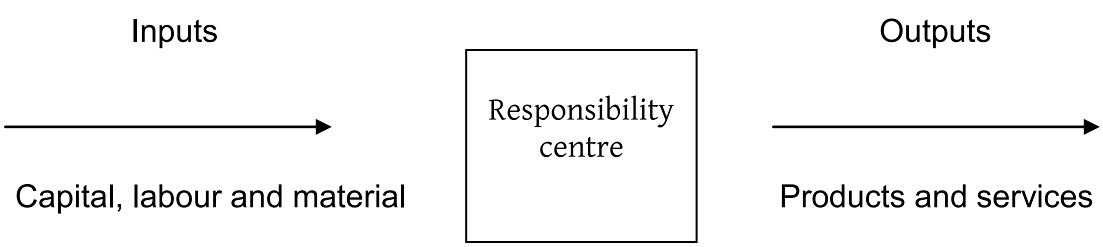


Fig. 6.1

number of legal staff that will have to be retained to protect the interests of the institution. In addition there is the question regarding the requisite size of the staffing component, comprising systems analysts and computer programmers. Maciariello (1984 : 333) is also of the opinion that it is difficult to specify the exact level of input required in each of these centres. To achieve goals and to strike the right balance between inputs and outputs, management must use a fair amount of discretion when establishing budgets for such centres.

6.2.2 Access to budget information

Maciariello (1984 : 218-219) asserts also that there are two important output criteria when a management system in general is being evaluated. One of them is the extent to which management is actually using the financial management system, for if it is not, it cannot be effective no matter how sophisticated the said system is. Anthony and Welsh (1977 : 633) support this argument, and state that a well-designed system of reports on financial control reports should meet certain technical criteria such as being available timeously. The second criterion is more difficult to apply, but it is of no less importance. It affects the quality of the decisions made in the control process and then vice versa the influence of the decisions on quality. Access to budget information on the FMS must be available as soon as possible after approval of the provincial budget. The Minister of Finance must table the annual budget for a financial year in the National Assembly before the start of that financial year (Section 27[1] of the PFMA). In exceptional circumstances the Minister may set a date after the start of the said financial year. The MEC for finance in a province must table the provincial annual budget for a financial year in the Provincial Legislature not later than two weeks after the tabling of the national annual budget. The Minister may approve an extension for the tabling of a provincial budget (Section 27[2] of the PFMA).

The financial year means a year ending 31 March (Section 1 of the PFMA). The budget information for the new financial year as approved by Parliament and the Provincial Legislature should be immediately available to management for expenditure control purposes. An important question concerns how soon it will be possible to capture the budget information on the FMS before or after the first of April. One possible reason why it might not be captured on the FMS is that the books of the previous financial year may not yet have been closed. This situation creates a practical problem because the closing of the books for the previous year is a punctilious process. They cannot be closed if certain accounts are not cleared - for example, unallocated objective accounts, receipt-suspense accounts and intra-responsibility code accounts (Robinson, et al. 1990 : 13 and 16). It should also be remembered that the budget detail must be captured on the FMS for the purpose of expenditure control, and must be broken down to the lowest level of the activity before it can be captured there. This implies that budget information must be captured on the FMS for each activity at the responsibility centre. Management should be aware of this requirement, and the availability of budget information should be part of the budget control process.

6.2.3 Estimates of expenditure (projections)

The importance of estimates of expenditure was referred to in chapter five. Visser and Erasmus (2002 : 368) defines an estimate as a -

"Rational process to determine the monetary value of resource requirements needed by organizational institution to realize a predetermined objective effective [sic] and efficiently".

The focus of estimates is on the monetary value of resources required to achieve predetermined objectives. Section 27(4) of the PFMA requires that they should also be measurable which means that cost calculations and cost calculation techniques have to be included. It is important to understand the difference between estimates and projections. Both cash and fund management processes are applicable to national and provincial departments (Visser and Erasmus, 2002 : 127). Financial managers use estimates and projections to manage their cash and fund processes. Projections in particular are applied to execute the monthly requests for funding from National Treasury.

The purpose of projections is to advise the FMS of amounts which may be needed in respect both of the remaining months of a calendar year and the following years (0 + 3). (MTEF, 2000 : 29). If captured on the FMS, an official who is delegated to request funds from National Treasury can extract the information for a specific month from it. Projections must be captured on the FMS by completing a specific FMS form (form code 2010) on a monthly basis. Such a procedure is time consuming however because each activity involved must be captured. The MTEF contains also tri-annual rolling expenditure and revenue plans for national and provincial departments as set out in the Treasury Guidelines 2001; and section 28 of the PFMA provides for multi-year budget projections. As indicated in chapter five, paragraph 5.5.4, the disadvantages - for example the time spent on estimates – are eclipsed by the advantages of accurate estimates. The same principle applies to projections. As a short cut it is possible, but not advisable, to determine departmental projections for the remainder of the year after the closing of the first month's books by dividing the rest of the budget not yet spent by eleven months. This figure will represent eleven equal projection amounts, but may be misleading because expenditure differs from month to month. For example, expenditure is low during April and December and high during February and March. The reason may be that some contracts and projects have to be completed before the end of the financial year and therefore in fact before the preceding holidays during December. Another disadvantage is that equal monthly projections will not indicate which program and activity levels the money is needed for. Accordingly it is recommended that the FMS projection system should be used to improve cash-flow management.

The FMS also provides for a commitment register which can be helpful managing cash-flow. The purpose of the commitment register is to determine which amounts have already been “committed” to ensure that they are not forgotten and that the budget is then not exceeded. The importance of the commitment register should therefore not be overlooked. If such a register is kept up to date, the accuracy of projections can be improved. All order forms for orders placed should be recorded in it. Previously a handwritten commitment register was kept, but it was incorporated into the FMS when the latter was implemented in 1989 and as such forms part of the FMS. The information can be extracted from the FMS via a FMS report, form code 1430 (Free State Provincial Administration, 1989 : 238).

The time spent on projections covering the lowest level of activity each month cannot be regarded as wasteful, but rather as time well invested. Because of the implementation both of the MTEF concept in 1998 and the requirement that the MEC for finance in a province must annually table in that provinces Provincial Legislature a multi-year budget project (section 28 of the PFMA) projections can no longer be seen as optional but as compulsory.

The difference between the annual budget and monthly projections is that the budget requires a single yearly computation while projections must be made monthly after the closing of books - an exercise that is repeated eleven times a year. This implies that the capturing of projections on the FMS (form code 2010) should also form part of the budget control process.

6.2.4 Cash-flow problems

Towards the end of 1998, and again at the beginning of 1999, the Free State Provincial Government was experiencing severe cash-flow problems (Auditor-General, 2000 : 19-20). During this period it was finding it increasingly difficult to meet its financial obligations and commitments towards its creditors, who in many instances had not been paid for several months. Treasury Regulation 8.2.3 stipulates that unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgement. Small upcoming businesses in particular (SMME's) can as a result of late payments be ruined. According to the Auditor-General the main problem that apparently caused this crisis was the overspending by certain departments in previous financial years. It is possible that the "cash-flow" problem originated in a request for funds which were then not granted, the problem then being indirectly caused by the National Treasury. As a result of this crisis the Provincial Government incurred substantial overdrafts on the Exchequer and Paymaster General's banking accounts during the said period, peaking at a net amount of R263 million in February 1999. Towards the end of March 1999 the Minister of Finance agreed to grant the Provincial Government R200 million in an endeavour to correct the situation. The grant was made upon certain conditions relating especially to expenditure control which was incorporated in Provincial Treasury Circular no. 3 of 1999, dated 26 March 1999, issued to all Heads of Department in the Free State Provincial Government. Examples of control measures implemented were the following:

- Provincial Treasury approval was required before an order could be placed.
- No purchases of furniture and fittings.
- Purchase of government and subsidized vehicles suspended.
- Submissions to the Tender Board relating to contracts with financial implications required prior Treasury approval.
- Use of cell phones was limited.
- No overseas trips.
- Vacant posts not to be filled if that were to result in increased personnel expenditure.
- Treasury approval required to advertise a post.
- Maximization of own revenue collection.

6.2.5 Budget manipulation

Prendergast (1997 : 44) draws attention to the problem of budget manipulation. Responsibility centre managers who fears that they have forgotten to budget for certain expenses add a small amount of extra cost to each line for the final budget, „just in case' as it were. Welsch, et al. (1988 : 55) define manipulations of budgets ("padding" or "budgetary slack") as -

"…the difference between the total resources available to the firm and the total resources necessary to maintain the organizational coalition responsible for the budgetary slack".

Furthermore, budgetary slack can also lead to lower performance. Potgieter (1996 : 57) contends that when the budget is manipulated, resources are wrongly applied. Weak financial control and supervisor's and managers' lack of knowledge can also result in the officials responsible for preparing the budget "getting away" with budget manipulation. This trend then leads to limited resources being applied ineffectively, which in turn influences an institution's objectives negatively. Rapport (6 February 2000) maintains that a budget is a financial plan relating to income and expenditure that assists managers in attaining objectives within their abilities. A budget has no value if it is not applied to achieving the said objectives. Brooks (1988 : 21) summarizes the problem by stating that the padding of budgets is to be avoided. Padding is damaging since it promotes the misallocation of resources, and therefore cannot facilitate performance monitoring.

6.2.6 Compilation of the budget

The analyses of financial statements over a period of approximately fourteen years (see chapter four paragraph 4.10) indicate large deviations between the amounts appropriated and those expended on the various votes. The significant deviations from legislation indicate also that accepted budgeting principles are not applied consistently and effectively. The Auditor-General (Auditor-General, 2000 : 16) states that a basic principle of government finance is that all amounts must first be voted. The Minister of Finance must table the annual budget for a financial year in the National Assembly. The MEC for finance in a province must table the annual provincial budget for a financial year in the Provincial Legislature not later then two weeks after the tabling of the national annual budget (Section 27 of the PFMA). Amounts, either surrendered or exceeding those voted at the end of a financial year are causes for concern. Section 34 of the PFMA stipulates that if expenditure exceeds its vote it may be regarded as unauthorized. If a Provincial Legislature does not approve an additional amount for any overspending, it becomes a charge against the allocated funds for future financial years under the relevant vote. If in the opinion of an executing authority there are reasonable grounds for believing that a head of department is unfit for his or her duties, such authority in the case of a provincial administration shall report to the Premier of the province. The individual under investigation can then be charged with misconduct (Section 19 and 27 of the **Public Service Act**, 1994 (Act 103 of 1994), as amended. Treasury Regulation 12.7.1 also determines that if losses or damages suffered by an institution because of an act committed or omitted by an official must be recovered from such an official if that official is liable in law. Section 4(d) of the **Auditor-General Act**, 1995 (Act 12 of 1995) determines that the Auditor-General shall be reasonably satisfied that satisfactory management measures have been taken to ensure that resources are procured economically and utilized efficiently and effectively.

Dugdale and Jones (1997 : 54) state that performance control has proven to be very difficult. They refer to Goldratt who takes a highly mechanistic view of control in which measures are assumed to determine behaviour: “Tell me how you measure me, and I will tell you how I will behave”.

As stated in chapter five, paragraph 5.6.7, monitoring and measuring service delivery and performance are critical to the overall management of provinces, ensuring that objectives are met through the delivery of services. The president of South Africa announced in his opening speech of Parliament in February 2005 (Volksblad, 12 February 2005) that government has achieved 72 per cent of its objectives while 28 per cent of the projects are not on course, and deadlines should be adjusted. He pointed out that the building of schools and the provisioning of teaching infra-structure are too slow; this problem and other problems with defective service delivery being due to poor management and organizational deficiencies. The president also warned that the government doesn't have enough resources to satisfy the needs of all South Africans. The implementation of the MTEF concept (see chapter five paragraph 5.6) has the potential advantage of greater accountability and financial control. In conclusion it can be stated that the Auditor-General should enforce the applicable laws, the Treasury Regulations and budget reform initiatives of National Treasury at provincial government level as provided by legislation.

6.3 Indirect budget-related deficiencies

To be able to improve service delivery and performance, management should also be aware of indirect budget-related deficiencies. These deficiencies have been identified and include the following: public accountability and transparency, loss control, service delivery and lack of professionalism.

6.3.1 Public accountability and transparency

Openness and transparency forms one of the eight principals for service delivery of the Batho Pele White Paper (1997 : 15). Citizens should be told how national and provincial departments are run, how much they cost, and who is in charge.

Volksblad (29 May 2002) states that public accountability must and should be of a higher standard than that of the private sector. Public accountability, which was addressed in paragraph 2.4, is now defined broader than previously and includes performance accountability. According to the previously quoted source public servants are not only accountable respectively to Ministers or MECs, but also to committees, the Auditor-General, the ombudsman, administrative tribunals and to the courts. In Australia there is a resistance to this approach where public servants are accountable solely to ministers and not to the public. Excessive government secrecy is harmful to the functioning of a democratic society. The newspaper previously mentioned is of the opinion that public accountability suffers under the present distribution of political power in South Africa where the ruling party dominates committees on public accounts. It is also difficult to monitor public spending effectively given the present distribution of political power. Volksblad also reported that this situation needs to change. Volksblad (28 May 2002) maintains that a committee on public accounts consisting solely of members of the ruling party - as in the case of the Seychelles - supports the argument that it might become a breeding ground for fraud and corruption. Its 12 June 2002 edition reported that departments of the Free State Provincial Government are obliged to attend meetings of PROPAC because of their reluctance to provide information to the Provincial Treasury. It should be pointed out that the Provincial Treasury is responsible for consolidating answers from the various departments regarding questions raised by PROPAC during meetings and then submitting the outcome to PROPAC. Altogether 87 or 57 per cent, of the committee's 153 requests for information during the 2000/2001 financial years was ignored. During the year 2000 departments did not react to 14 or 36 per cent, of 39 requests, and again in 2001 to 73 or 64 per cent, of the 114 requests for information. Departmental representatives who had not responded to questions had to attend the meetings together with the Provincial Treasury to answer them at PROPAC. The chairperson of PROPAC himself implemented this arrangement after it came to light how poorly the departments had responded to requests for information from PROPAC via the Provincial Treasury.

6.3.2 Internal financial control

As indicated previously an effective internal financial control system is crucial for successful financial management. A properly structured financial control environment cannot exist without an active audit committee monitoring the work of the internal auditors. In the following paragraphs shortcomings in the audit committees and internal audit function that contribute to indirectly related deficiencies will be evaluated.

6.3.2.1 Audit committees

The national reports of the Auditor-General (2001: 14) indicated that shortcomings relating to audit committees still exist in six national departments. Two years later the national audit report (2003: 160) revealed that with regard to audit committees problems were still being experienced. The following institutions serve as examples:

Housing: With regard to the internal audit function no reliance could be placed on the work of any internal audit as no audits were finalized and presented to the audit committee. No fraud prevention plan had been compiled in terms of the requirements of the PFMA.

Provincial and Local Government: No reliance could be placed on the work of any internal audit as no reports were finalized and presented to the audit committee.

Public Service Commission: The audit committee that was instituted did not function effectively and was basically non-existent for the financial year.

Sport and Recreation: The audit committee did not function during the year under review.

The Free State Provincial Government also experiences difficulties in the establishment of audit committees (Volksblad, 23 March 2002). When the following functions of audit committees are taken into consideration, it becomes clear that they play an important role in the monitoring process. It is also essential that such committees need to function well in order to improve the effectiveness of internal control and the evaluation of financial statements. Accordingly, an audit committee should perform the following functions:

- It must establish an audit charter to guide the appropriate approach to auditing and its operating procedures by spelling out the rules governing the audit relationship;

- report and make recommendations to the accounting officer who nevertheless retains responsibility for implementing such recommendations.

- In addition an audit committee comments on -

  (a) the effectiveness of internal control;
  (b) the quality of in-year management and monthly reports submitted in terms of the PFMA and the Division of Revenue Act; and
  (c) the financial statements in a department's annual report.

- Further, should a report to an audit committee - whether from the internal audit unit or any other source - implicate an accounting officer in fraud, corruption or gross negligence, the chairperson of the audit committee must promptly report the matter to the relevant executive authority; and

- it should be able to communicate any concerns it deems necessary to the executive authority, the relevant treasury and the Auditor-General (National Treasury Regulations, 2001 : 8-9).

The importance of the establishment of audit committees cannot be ignored because they have a vital role to play in fulfilling the above-mentioned functions.

6.3.2.2 Internal financial control and internal audit

The Auditor-General (2001: 14) reported in a national audit report that although an audit function was established in 97 per cent of the votes audited, reliance for audit purposes was placed on a mere 18 per cent of the said function. In general the Auditor-General reported that capacity constraints hampered the work of the internal audit function. Furthermore, that effective internal control is crucial for successful financial management, and that a properly structured control environment cannot exist without an active, expert audit committee overseeing the work of the internal auditors. Despite the legal requirement mandating the existence of audit committees only four of the provinces complied with the requirement during the 2000/2001 financial year. In addition, in none of the said provinces could any reliance be placed on the work done by internal audit units in respect of that year.

According to Treasury Regulation 27.2.6 an internal audit unit must, in consultation with and for approval by the audit committee prepare -

(a) a rolling three year strategic internal audit plan based on its assessment of key areas of risk for the department, having regard for its current operations, those proposed in its strategic plan and its risk management strategy;
(b) an annual internal audit plan for the first year of the rolling three year strategic internal audit plan;
(c) plans indicating the proposed scope of each audit in the annual internal audit plan;
(d) operating procedures, with management inputs to guide the audit relationship; and
(e) a quarterly report to the audit committee detailing its performance against the annual internal audit plan, to allow effective monitoring and possible intervention.

If audit committees are not established, the internal audit units have no one to report to, hampering the effectiveness of internal financial control. The quality of yearly and monthly reports and the evaluation of the annual financial statements also depend on the proper functioning of such committees. Any such lack has a chain effect resulting from the unacceptable standards of services rendered. As indicated previously, financial planning and financial control are inseparable. Financial planning without control is a notorious recipe for departmental failure.

The national report of the Auditor-General (2003:13-15) revealed a number of recurring issues particularly in the area of internal control. The Auditor-General reported that the trend in findings is moving away from non-compliance and irregularities towards weaknesses in internal control. The internal control issues revolve on aspects such as –

- poor asset management;
- weaknesses in the payment of expenses; and problems with the administration of personnel, revenue, cash, etc.

The other issues are essentially –

- non-compliance with legislation (including inadequate internal audit functions);
- fruitless and wasteful expenditure;
- thefts, losses and irregularities; and
- unauthorized expenditure.

6.3.3 Unauthorized expenditure

According to section 1 of the PFMA "unauthorized expenditure" means -

(a) the overspending of a vote or a main division within a vote; and

(b) expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of this division.

A lack of support from management undermines the objective budget management efforts. The support for the management by objective technique must come from top management, and if top management does not take steps to ensure that objectives set are being achieved, the management by objective budget system will not succeed. Unauthorized expenditure is an indication that all is not well with the budget "process of control". It implies that management budgeted for specific objectives but that the funds were not spent in accordance with the purpose of a vote and, in the case of a main division, not in accordance with the purpose of that division. There should be no reason for unauthorized expenditure because prescriptions make provision for the delegation of power (section 20 of the PFMA) and virement approval (section 43 of the PFMA). Unauthorized expenditure incurred by the Free State Provincial Government during the 1996/97 and 1997/98 financial years amounted to R139 502 693 and R499 347 044 respectively, and was reported by the Auditor–General (2000 : 15) in terms of section 5(d) of the **Auditor-General Act**, 1995 (Act 12 of 1995).

The situation with reference to unauthorized expenditure has since improved. Spending too little could also constitute a serious deficiency. For example, the Free State Department of Education underspent R199 million for the 2002/03 financial year indicating poor planning, non-availability of capacity, etc., and eventually the non-delivery of services (Report of the Auditor-General, 2002/03: 99).

6.3.4 Loss control

Financial circulars regarding loss control have been issued on a regular basis since 1991. These financial circulars were withdrawn during 1995 and replaced by financial circular no. 1 of 1995 containing a summary of instructions in respect of loss control matters. The loss control procedure is based on sound accounting practice and forms part of the FMS. Loss control is also the task and responsibility of every official, responsibility manager and program manager, and they should implement and put into practice proper preventive measures for the safeguarding of provincial property. The importance of this control function cannot be ignored because the public sector does not budget for losses and claims. Statistics for the Department of Public Works, Roads and Transport (paragraph 4.10.2) revealed thefts and losses of more then R8 million for the 1999/2000 financial year. The bigger the loss written off, the lesser the amount of money is available to achieve departmental objectives. Losses should be monitored constantly, and management should be aware of the impact of such losses on financial resources. In addition their prevention should form part of departments' strategic plans to achieve budgeted objectives. Visser and Erasmus (2002:172) classify losses and damages into seven categories according to the several manners in which they occur. These categories include criminal acts; acts by public officials; handling of mobile state implements; losses and damages arising from natural disaster; normal wear and tear; losses of face-value forms; and shortage of state funds. The latter includes failure to collect monies due; irregular payments; fruitless expenditure; damage to public goods and equipment; and claims against a department because officials have not carried out their duties.

6.3.5 Service delivery

The poor conditions of bitumen roads in the Free State are an example of unacceptable standards of services rendered by the Free State Provincial Government (Volksblad, 2 May 2000). Due to the low standards of maintenance of public roads, owners of vehicles were able to claim compensation for damages and burst tires (Volksblad, 13 April 2000). These claims might quite easily have led to increased losses that would have had to be written off with the consequent eradication of financial resources. Altogether 47 claims with a value of R200 000.00 were received for the period 1 April 1999 to 14 June 2000 due to these circumstances (Volksblad, 30 August 2000). A year later another press report revealed that claims of more than R2 million had been received over a period of twelve months (Volksblad, 8 September 2001). Individuals who wanted to register their vehicles at the Bothaville registration office in the Free State had to wait up to seven hours before they could do so. These indicators of poor service delivery place management's competence under suspicion (Volksblad, 17 March 2000).

The MEC for Health in the Free State recommended various initiatives in the annual report to the Provincial Legislature to improve the management and services of the Department (Volksblad, 23 February 2001). These initiatives included, for example, an improvement in the Department's management plans and systems, the efficient management of human resources, the Batho Pele health program, service agreements and accurate personnel reports. The view of the Premier of the Free State is that service delivery has to be improved and cost implications reduced (Volksblad, 12 March 2002). Every official in the public service has an obligation to make a difference to contribute to an efficient service delivery. Volksblad (21 September 2002) stated that complaints about poor services delivered by the management of Pelonomi-hospital are still being received despite these initiatives. According to the press report the complaints were related specifically to poor services and the attitude of the Pelonomi-hospital personnel. The Department of Health Services reacted to these allegations by sending two independent researchers to the hospital to investigate the implementation of the Batho Pele principles (Volksblad, 8 November 2002). In contrast to the initial press report the investigation indicated that patients were „supposedly' impressed with the service delivery that they had received at the hospital. It should be pointed out that these independent researchers were from the private sector and must have been paid by the Department of Health Services for the research being done. The department, in accepting the report, might have been led to a possibly false assumption that everything is fine, when indeed there may still be serious problems. This in turn could be said to have resulted in unnecessary cost that might have been avoided, for example, by making use of the internal audit units either of the Department itself or of the expertise available at the Free State's Central University of Technology, Free State and of the University of the Free State.

The executive director of the Bloemfontein (Mangaung) Publicity Association (Volksblad, 1 March 2001) is of the opinion that should the achievement of quality service be possible that would then distinguish the Free State from the rest of the country and possibly internationally as well. Such a standard of service to the public would certainly improve the image of the Free State Provincial Government, the importance of which cannot be overlooked.

6.3.5.1 Description of activities in terms of quantity, quality , timeliness and cost

Output performance measures and service delivery indicators play a key role in financial planning and budgeting as they are used to measure how efficiently, economically and effectively resources are used to achieve departmental priorities and service delivery targets (Treasury Guidelines, 2001 : 32-34). Output performance measures include one or more of the following characteristics of performance:

- *Quantity* : The volume of services to be delivered.

- *Quality* : The quality of the outputs to be delivered.

- *Timeliness* : The timing required for the delivery of services.

- *Cost* : The cost of supplying the services.

In the public-sector activities are described in terms of quantity, quality and timeliness (Nel, 1998 : 30).

(a) Quantity

Measurable quantity indicators must be specified for all activities. Estimated information will, however, be required where the quantity of an activity cannot be specified precisely at the beginning of the budget period either because -

(i) the quantity demanded is largely beyond the control of the department; or
(ii) the output is new and there is little historical data on which to base quantity measures; or because
(iii) the department will provide a service at some future time.

In such cases the following information must be provided:

(i) An estimate of the quantity that is likely to be delivered within the limit of the available funds.
(ii) The information on which the estimate is based.
(iii) The implication regarding the cost of the activity if there is to be a significant increase in the quantity delivered.

Quantity measures should be estimated where the precise specification is difficult and where the quantity demanded is largely beyond the control of the department. Quantity measures should also be estimated where the output is new and there is little historical data on which to base them. Quantity as such can refer to the extent to which a number of people who are to receive a new public service at some future period, for example HIV/Aids antidotes. An estimation of the quantity that needs to be delivered within the limitations of available sources is essential but not so easy to apply. In chapter five, paragraph 5.6.2, a reference was made to a disadvantage of the MTEF integration process, namely that cost accounting and cost-accounting techniques are skills that financial and operational managers need to acquire.

(b) Quality

Quality measures usually reflect service standards based on the needs of the public. They are an important element in measuring service delivery and performance as they impose discipline on providers to ensure that outputs are delivered to meet the said needs and contribute towards meeting government's objectives and outcomes. Various activities will have differing quality dimensions. It is critical for the effective delivery of services to specify precise and comprehensive performance indicators. Such indicators and standards for the quality of the activity to be delivered must -

- (i) be specified precisely in terms that can be assessed and reported on;
- (ii) be external measures that focus on the needs of the public;
- (iii) be focussed on high-risk areas that effect decision-making; and
- (iv) include feedback where appropriate.

The dimensions of quality which performance can cover include -

- (i) accuracy;
- (ii) completeness;
- (iii) accessibility;
- (iv) timeliness;
- (v) compliance with legal standards; and
- (vi) satisfaction of the needs of the public.

The last measure often incorporates some of the other measures as components of customer satisfaction, for example timely service delivery. It is preferable to use external test measures of output quality that focus on the recipients of such outputs. These are a better test of the actual real performance delivered than standards set and evaluated solely by the providers themselves.

(c) Timeliness

The assessment of timeliness is appropriate for measuring output performance where a period of waiting is significant since it provides the various parameters regarding the frequency of output delivery. Although timeliness can form part of an activity's quality dimension, responsibility centres are required by National Treasury (Treasury Guidelines, 2001:37) to specifically determine performance indicators that can measure the timeous delivery of goods and services.

(d) Cost

Cost measures may reflect the total cost, average cost and the unit cost of delivering outputs and services. Activities should be carried out in the most economical manner possible which in turn means achieving the lowest cost for a given input quality and quantity.

6.3.5.2 Lack of quality control

The White Paper on the Transformation of the Public Service (WPTPS), published on 15 November 1995, sets out various transformation priorities, of which transforming public service delivery is the key component. This led directly to the drafting of the White Paper on the Transformation of Public Service Delivery (Batho Pele) of 1 October 1997. The public service is to be judged in terms of a single criterion, namely its effectiveness in delivering services to all South Africans. Improving service delivery is therefore the ultimate goal of the public service transformation program. Putting the principles of Batho Pele into practice is not so easy, and is a new challenge facing the South African public sector. The Batho Pele policy cannot improve the quality of services by itself, but represents a step in the right direction.

The eight principles with regard to service delivery of Batho Pele White Paper (1997:15) cover the following categories:

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

- Service standards: Citizens should be told what level and quality of the services they will receive so that they are aware of what to expect.

- Access: All citizens should have equal access to the services to which they are entitled.

- Courtesy: Citizens should be treated with courtesy and consideration.

- Information: Citizens should be given full, accurate information about the services they are entitled to receive.

- Openness and transparency: Citizens should be told how national and provincial departments are run, how much they cost and who is in charge.

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

- Value for money: Public services should be provided economically and efficiently to give citizens the best possible value for money.

The public and those public servants that are dedicated would like to see services improve. The Batho Pele White Paper (1997:23) provides for a need to recognize and reward such efforts by public servants, this providing the motivation to improve service delivery. Performance management procedures in future must include an assessment of the contributions made by individual staff members to improving this service delivery. National and provincial departments must also ensure that a work environment conducive to such delivery is created to enhance their staff's capacity to deliver acceptable service standards. This means, for example, that staff dealing with the public directly, should be given the necessary support and the tools to execute their functions effectively and efficiently.

The public service cannot develop a truly service-orientated culture without an active participation by the wider community, including the private sector and the citizens themselves. Batho Pele White Paper (1997:23) will therefore seek to establish partnerships with the wider community in which business and industry, non-governmental organizations, community–based organizations, academic institutions and other bodies throughout the community can all play a part.

The Department of Public Service and Administration (DPSA) works in conjunction with the Public Service Commission to ensure that the progress of departments in implementing Batho Pele is systematically monitored. The DPSA will also evaluate the overall effectiveness of the Batho Pele initiative and submit regular reports to Parliament (Batho Pele White Paper, 1997: 29).

The interpretation of the above-mentioned aspects must not be based on "free public services" but rather should be provided economically and efficiently in order to give citizens the best possible value for money. The Batho Pele concept forms part of the various departments' strategy to achieve the budgeted objectives. It is a concept that recognizes the need for the rendition of quality services without focussing specifically on service quality control.

The quality rendered must be acceptable to the community, and therefore a quality control strategy should be implemented. Then, notwithstanding the Batho Pele principles, the monitoring of services, and a quality control strategy, the final success will depend on the availability of funds and the proper financial planning and management of the budget.

6.3.6 Professionalism

The promotion of professionalism is indirectly related to the improvement of service delivery. Kramer (1979:96) defines the management-by-objective budget system as: " A process whereby organizational goals and objectives are set through the participation of organizational members in terms of results expected", Improving service delivery is also the ultimate goal of the public service transformation program (Batho Pele White Paper, 1997:9). The principles of the Batho Pele White Paper (1997:18) require that the behaviour of all public servants is raised to the highest possible level. In addition, the Civil Service should be staffed by men and women who are truly professional (Visser and Erasmus, 2002:313).

The promotion of professionalism also enhances group cohesion (Hanekom, 1987:170 -171). This is achieved because of the following reasons:

- Similar standards of education and training.

- The promotion of communication, as all professional members are acquainted with the terminology used.

- Participation in activities of professional institutes contributes towards increased knowledge.

- Intensive education and training improves intellectual abilities and therefore the ability to interpret scientific and technological change.

- Membership of professional groups leads to conformity with and loyalty to their purposes and standards.

The promotion of professionalism can lead to a better understanding of the complexities of public administration, and by implication, to improve also the quality of services rendered.

According to Ritzer (1972 : 44) a profession can be defined as -

"A type of occupation that has had the power to have undergone a developmental process whereby it has been able to acquire, or convince significant others (for example clients or the law) that it has acquired a high degree of a constellation of characteristics we have come to accept as denoting a profession."

Hanekom and Thornhill (1986 : 84) describe a profession as -

"…an occupation that properly involves a liberal education or its equivalent and mental rather than manual labour. Hence, any calling or occupation involving special mental and other attainments…".

They also identified the following three core requirements, which entitle an occupation to be deemed to be a "profession":

- Formal technical training in conjunction with an institutional system validating the applicability of the training and the competence of those trained.

- The cultural tradition should not only be mastered with a view to comprehension, but one or more skills should be developed in the utilization of the „cultural tradition'.

- To ensure that skills and knowledge are applied for the benefit of society, a profession should utilize some form of institutional aid. The skills of education and research in the social sciences are examples of the application of skills and knowledge to the advantage of society.

6.3.6.1 Characteristics of a profession

The International Federation of Accountants (IFAC, 1998) described a profession as being distinguished by the following characteristics:

- Mastery of a particular intellectual skill acquired through training and education.

- Adherence by its members to a common code of value and conduct establishing by its administering body, including maintaining an outlook which is essentially objective.

- Acceptance of a duty to society as a whole.

Hanekom and Thornhill (1986 : 85) indicated that the following ten features are also considered to be characteristic of a profession:

- Intensive training at acknowledged training institutions.
- Intellectual rather than manual labour.
- Development of skills in the application of what was learned.
- A specified standard of competence for admission to and advancement in the profession.
- A strong feeling of solidarity.
- A code of conduct, the violation of which leads to exclusion.
- Institutional aid to ensure that the competencies are utilized for the benefit

of society.

- A monopoly in a specific field of activity.
- An acknowledged public status.
- Most professions have bodies for the discussion and study of the technique exercised by their members.

6.3.6.2 Advantages and disadvantages of professionalism

The professionalism of the public service can be both advantageous and disadvantageous not only to public officials, but also to society (Hanekom and Thornhill, 1986 : 86-88).

Advantages

The following advantages can be identified:

- Professionalism creates an *esprit de corps*, as members of the same profession possess the same standard of training.

- Professionalism promotes communication, since terminology peculiar to a particular profession is understood by all group members .

- Since new developments are discussed at conferences, participation in these activities contributes towards a contiguous development of members' knowledge and skills.

- Intensive training as a requirement of a profession results in its members possessing the intellectual and academic ability to interpret the extension of knowledge as well as any scientific development in a particular professional field.

- Membership of a profession confers status to its members thus providing a feeling of achievement and recognition.

- Professionalism results in members identifying themselves with group standards and endeavouring to live up to them to the benefit of clients.

Disadvantages

The following disadvantages can be identified:

- Mobility promoted by membership of a profession may lead to increased opportunities to migrate from one division to another, resulting in high personnel turnover and lack of continuity.

- Divergence in training methods for various professions such as the accounting and medical profession could result in poor coordination and communication.

- Professionalism leads to specialization with the danger that members execute their tasks without taking the implications of their actions regarding the general welfare of the community into account.

- Professional training leads to better performance according to the professional standards applicable to a particular group, but also contributes to a possible neglect of administrative and managerial considerations and, eventually, to poor general performance.

- Professionalism may result in discriminatory action towards non-members which can effect the principles of fairness and probity in administration and management.

- The promotion of professionalism may lead to the creation of numerous professions resulting in a proliferation of services.

6.3.6.3 Lack of professionalism

Visser and Erasmus (2002 : 316) are of the opinion that professionalism is still lacking in the public service. What is necessary for the promotion of professionalism includes the following qualities:

- A matriculation or equivalent certificate is the required educational qualification for entry to specific posts in the A division. According to section 8 of the **Public Service Act**, 1994 (Act 103 of 1994), as amended, the public service consists of persons who hold posts on the fixed establishment –

"(a) (i) classified in the A division and the B division;

(ii) in the services;

(iii) in the Academy, the Agency or the Service; and

(iv) in state educational institutions.

(b) (i) having ceased to hold posts on the fixed establishment contemplated in paragraph (a), and

(ii) are appointed permanently additional to the fixed establishment;

(c) (i) hold posts on the fixed establishment other than those referred to in paragraph (a);

(ii) are employed temporarily or under special contract in a department."

The Minister of the Public Service and Administration determines the posts. Only in exceptional cases are higher entry qualifications prescribed with the result that the characteristic "intensive training at acknowledged training institutions" is, to a large extent, lacking.

- The prestige of a career in the public service is low and has negative rather than positive connotations, the public having a prejudiced attitude towards the public service, confirmed in turn by ineffective service delivery, officials not dedicated to their work, irresponsible behaviour concerning legal proceedings and by a prejudiced attitude towards officials as a result of corruption.

- Not every official understands that the public service has a monopoly on the administration of the national and provincial government. Officials, therefore, act as cogs in the executive machinery without understanding either the significance and purpose of public activities, or the important role they have to play. In addition some officials do not accept the service as a vocation and therefore act in a manner not conducive to efficient performance. Consequently, societal needs are not satisfied because of such officials' attitude and approach to budget management.

- Tradition is most probably the biggest stumbling block to establishing professionalism. On the one hand, the entry requirements for appointment to posts, and the practice of promoting occupants of posts to senior positions even if they do not have an appropriate, advanced, post secondary school qualification, experience and skills have become habitual. On the other hand,

- the traditional view that all citizens have an equal opportunity of occupying public office poses a further problem. To change these traditional views and approaches, it will be necessary to enforce higher entry requirements in terms of appointments to posts.

- The diversity of service activities and the heterogeneous training required by various occupational categories also impede professionalism.

The above-mentioned features indicate, firstly, that intensive training is lacking. This fact might have a negative effect on budget management and the achievement of objectives because the budget process at present creates the impression that it is troublesome and complex. Secondly, not all officials understand the importance of the role they have to play, and act consequently in a manner not conducive to efficient performance. Thirdly, the diversity of service activities and the heterogeneous training required by the variety of occupations also impede service delivery. Fourthly, funds are budgeted for projects, but owing to a lack of commitment and professionalism cannot be executed in due time.

6.4 Conclusion

The emphasis has been on both the theoretical and practical deficiencies that were identified. These deficiencies may be summarized as follows:

- The disturbance of the input/output relationship actually means that performance cannot be measured against profit as in the private sector. To compensate for the absence of a measurable performance indicator as in the case of the private sector, management should focus on financial statements and reports - the equivalent of revenue statements in that sector - to measure performance.

- Management should have unimpeded access to budget information right from the beginning of each new financial year. The reason for this is it can compare present expenditure with the budgeted amounts and take remedial action when and if needed. By so doing it can determine any over- and underspending trends and apply *virement*.

- Projections should be captured on a monthly basis on the FMS. If this activity is not executed properly, management will not know how much budgeted money needs to be requested monthly from National Treasury. This also applies to the commitment register to ensure that "commitments" are not forgotten and that the budget is then not exceeded.

- A lack of projections may also lead to cash-flow problems that are then indicative of ineffective financial planning and financial control. Interest on overdrafts must also be taken into account, and any interest paid has to be seen as resources wasted. This applies also to discount which could be utilized if payments were done in due time.

- Budget manipulation promotes the misallocation of resources, and cannot be used for the monitoring of performance.

- Public servants, and in particular accounting officers, are accountable to the MECs and to the Provincial Legislature. The problem experienced in this regard is that departments ignore requests from the Provincial Treasury to give additional information on financial statements with regard to questions raised by PROPAC. Due to problems experienced by PROPAC, departmental representatives are now required to attend its meetings and answer unanswered questions. The important role that PROPAC fulfills in the financial control process should be recognized by all heads of department and its contribution to effective and efficient service delivery needs to be supported.

- Press reports and those of the Auditor-General have indicated that shortcomings relating to audit committees still exist on national and provincial level, and as a result might have a negative effect on the effectiveness of the internal audit function.

- Unauthorized expenditure incurred during the 1996/97 and 1997/98 financial years amounted to R139 502 693 and R499 347 044 respectively. Although the situation with regard to unauthorized expenditure has improved since then, the annual audit report of 2002/03 revealed that the Department of Education underspent R199 million for the financial year which in turn is indicative of poor financial planning and budget control - a situation as serious as unauthorized expenditure. Both overspending, including unauthorized expenditure, and underspending are indicative of poor public management, and are deficiencies that indicate poor public management. The lack of “capacity” is often mentioned as reason for underspending.

- Losses should be monitored constantly, and management should be aware of the impact of losses and claims on financial resources. Their prevention should be part and parcel of each department’s strategy to achieve budgeted objectives.

- The view of the Free State Premier that service delivery should be improved and cost implications reduced is cordially supported. Both positive and

- negative press reports were issued with regard to service delivery at the Pelonomi-hospital. In the positive feedback two independent researchers were appointed to investigate the hospital's poor performance, and since they were probably paid by the Department of Health Services the resulting report amounted to an unnecessary cost and the objectivity of the report was brought into question. One may ask why the internal audit units were not involved or why neither the expertise of the Central University of Technology, Free State nor that of the University of the Free State was engaged.

- Activity-time analysis (quantity, quality, timeliness and cost) might aid performance monitoring, but to succeed will depend on strict control and on much paperwork. It will also place an extra burden on financial resources. Activities should be as economically managed as possible which means achieving the lowest cost for a given quality and quantity of inputs. The quality of services rendered should be acceptable to the target community.

- The Batho Pele policy provides for service standards, and several will definitely require some kind of quality control. ISO[1]-guidelines might, for example, be implemented to improve the quality of services, but who is to be held responsible for the quality control of these services? According to the changing roles of financial and operational managers (see chapter five paragraph 5.6.7.1) the latter are responsible for key decisions in providing for quality. It is possible that they do not spend enough time on doing so or that they are not trained to exercise the control function properly. The Batho Pele

[1] ISO – International Organization for Standardization.

policy recognizes the need for quality services, but does not in fact provide any - a major deficiency that appears to affect all departments.

In chapter 7 several decision-making techniques and models available to decision-makers for solving a problem will be discussed since the proposed budget management model includes decision-making as well.

7 DECISION-MAKING TECHNIQUES AND MODELS FOR THE FREE STATE PROVINCIAL GOVERNMENT

7.1 Introduction

To be successful, management should attend to areas of deficiency and implement solutions based on sound accounting practice. If all the obstacles and bottlenecks are removed, it can focus on the principles of management, for example - division of work; authority and responsibility; building capacity; discipline; unity of command; centralization (or decentralization); equity; initiative and *esprit de corps* (Koontz and O'Donnell, 1964 : 18-19).

In the work environment the various role-players are confronted with a variety of situations where they have to make decisions on a continuous basis. Some decisions are of a routine type while others are of a more complex nature. To achieve budgeted objectives management comes under pressure to take quality decisions, and therefore management should know what the decision-making process entails (Fourie, 1985 : 1-35). This process will be evaluated as well as the various techniques available to the decision-maker in deciding between different alternatives. Various decision-making models will also be evaluated. In most decisions taken by management some kind of financial implication is involved, and therefore the present chapter address these issues.

7.2 Examples of projects not completed

Examples of poor decision-making within the Free State Department of Agriculture are demonstrated by the following projects which were not completed notwithstanding substantial amounts having being spent on them. These payments have been deemed to be fruitless expenditure by the Auditor-General (Auditor-General, 1996/97 and 1997/98 : 302).

- Lebohang garden project: This project has not come off the ground not withstanding a three kilometer irrigation line having been installed at a cost of R104 850 with total expenditure amounting to R230 000. A visit to the site during March 1999 clearly indicated that no further progress had been made.

- Oppermansgronde irrigation scheme: The project has come to a standstill as a result of water problems. A centre pivot used for irrigation purposes was purchased for R250 000 and is standing (March 1999) in a field where the soil has not been prepared for crops.

- Lefika farms: This dairy project has came to a standstill notwithstanding consultants having been paid R221 000 for services rendered. It is not clear why the Department itself did not provide this consultation since the necessary expertise is available at Glen Agricultural College. The total expenditure on this project amounted to R557 000.

Despite an undertaking by the accounting officer during the PROPAC sitting in August 2000 to reply as soon as possible to the Auditor-General's management letter, number 26 of 1998, dated 9 December 1998, requesting information about the 1996/97 and 1997/98 financial years, a response from the said officer was only received on 17 October 2000 (Auditor-General, 1998/99 : 10). The Auditor-General (1999/2000 : 7) also reported that there was no evidence of any action taken by the accounting officer to address the deficiencies mentioned in the Auditor-General's previous reports. The following year the Auditor-General (2000/2001 : 31) again reported that the administration of these projects lacked effective financial control measures, and that here to there was no sign of any action taken by the said officer to address the deficiencies mentioned in the previous audit reports.

A further example of poor decision-making can also be seen in the provision for basic needs (Auditor-General, 1996/97 and 1997/98 : 242). Funds were not used to address the most pressing needs first. For example at Koali High School concrete paving had been laid for a car parking area while a serious problem was experienced with sewerage.

7.3 General guidelines for decision-making

Fourie (1985 : 1) asserts that before managers can make a decision they must take note of the following factors:

- They should have an adequate knowledge of the specific environment where the decision must be made.

- They must determine whether a problem really exists. To do so a calm judgement is essential since it may yield perspectives that reveal subjective fears rather than an objectively existing problem.

- Management should realize that decision-making is mostly a choice between imperfect alternatives under certain circumstances. In other words the perfect solution is seldom found.

- Management should be aware of the fact that most decisions include an element of risk and uncertainty. Management should also be prepared to accept responsibility for any decisions taken.

- Management should not hurry to reach a conclusion but on the other hand must also not waste time and be afraid to come to a decision.

- Managers (decision-makers) do not decide on a course of action if they lack the necessary experience and are uncertain of the outcome of any such action.

If management makes a hasty decision all the relevant factors might not have been previously ascertained, and a false step could lead to time, material and financial resources wasted to rectify things later on. If management hesitates to make decisions and is afraid of the implications of such decisions, the quality of services rendered may be jeopardized, as previously seen in cases of underspending by certain departments.

At this stage it is necessary to establish the ways in which financial and operational managers make decisions. McAulay, et al. (1997 : 32-34) are of the opinion that there is a clear distinction between what should happen and what really happens. The most essential point about this question is how a decision is indeed made and not about how it should be made. Two approaches have been identified, namely the logico-scientific approach and the narrative approach to decision-making.

7.3.1 The logico-scientific approach to decision-making

The phrase "logico-scientific mode" indicates the way in which decisions should be made. The objective of this approach is to establish the absolute truth about a situation so that a definitive and logical decision is possible. This might involve, for example, determining accurate cash-flows. There is little place for opinion or emotion in this approach (McAulay, et al. 1997 : 32).

7.3.2 Narrative approach to decision-making

The narrative mode in contrast to the logico-scientific approach recognizes the fact that we live in a complex world where no answer can guarantee a certain future. Inspiration and intuition replace analysis, logic and proof. Here personal experience is more important than the establishing of data via the use of an impersonal technique.

Although in practice the narrative approach dominates slightly both approaches are appropriate and have a role to play in the decision-making process of financial and operational managers (McAulay, et al. 1997 : 33).

7.4 The decision-making process and steps in decision-making

To enable the manager to solve problems effectively Stanton (1967 : 33) summarizes the following steps that can be followed in the decision-making process:

- Carefully define the problem.
- Determine reasonable courses of action.
- Identify the major issues, factors, or sub-problems that have a bearing on the main problem.
- Analyze each major issue and come to a decision on each in the light of alternative courses of action.
- Determine the best time for decision-making.
- Make a decision; that is, select the best alternative.
- Implement the decision.
- Evaluation of decisions.

The several steps in the decision process are illustrated schematically in figure 7.1. If any information at hand is irrelevant or insufficient, begin again with step three. If the decision is unsatisfactory, commence once more with step one.

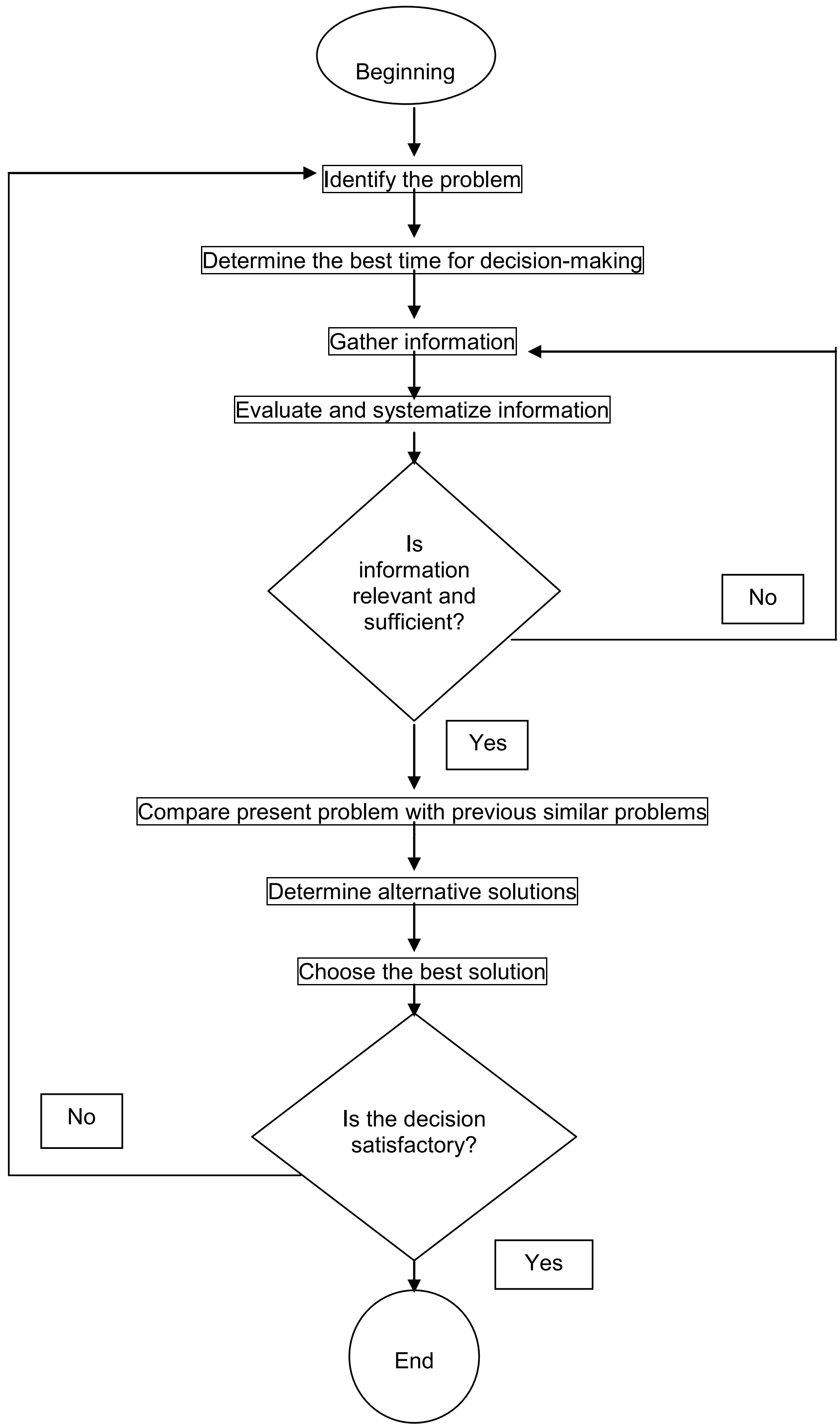

Beginning
Identify the problem
Determine the best time for decision-making
Gather information
Evaluate and systematize information
Is information relevant and sufficient?
No
Yes
Compare present problem with previous similar problems
Determine alternative solutions
Choose the best solution
Is the decision satisfactory?
No
Yes
End

Fig. 7.1

7.5 Decision-making methods

Decision-making methods can assist management in the decision process and also contribute to an improvement in performance. The Card Index System and PADAL method will be evaluated in the following paragraphs.

7.5.1 The "Card Index System"

R.B. Rew, vice-president of a bank group in the United States of America, designed this method (Fourie, 1985 : 6). The decision-making method is in telegram style written on five index cards. Three of the five cards function as a group but there is no blueprint for their application. Every situation differs and therefore in each case there is a difference in accent, the situation determining which card is most suited for application. The card index system is illustrated on page 250.

A short general explanation of the decision-making process according to the Card Index System is described by Fourie (1985 : 6-8) (own translation) as follows:

7.5.1.1 Define the problem

To focus on the real problem rather than on its symptoms, underlying factors should be researched thoroughly. The obvious problem might then be viewed in an entirely different perspective. These underlying factors will then represent the real problem or "key factor".

7.5.1.2 Gather all the relevant facts and weigh them up against each other

It is important to keep both sides of an issue in mind rather than merely seeking the confirmation of preconceived ideas.

Table 7.1 The Card Index System

<u>CARD 1</u> Solving the problem Recognize the problem Gather information Achieve possible solution Test possible solution Make final choice Implement Follow up (Card 1 and 2 function independently, but card 3, 4 and 5 function as a unit)	<u>CARD 2</u> <u>TO TACKEL THE PROBLEM AND TO FIND A SOLUTION</u> 1. Gather the facts 2. "Weigh" the facts 3. Eliminate irrational ideas 4. Test your solution 5. Adjust solution as necessary <u>TO DECIDE</u> 1. Do I have all the facts? 2. Is time a factor? 3. Suppose I do nothing? 4. Can I implement my solution? <u>TO ACHIEVE AN OBJECTIVE</u> 1. Plan 2. Organize 2. Administer 3. Control
<u>CARD 3</u> <u>TO DECIDE</u> 1. Identify the problem (See explanation A) 2. Investigate alternatives (See explanation B) 3. Start the process 4. Finalize	<u>CARD 4</u> <u>EXPLANATION A</u> 1. Note the facts you need to know 2. Check the accuracy of the facts 3. Evaluate facts according to experience 4. Study all written records 5. Check facts with personnel 6. Consult with heads of divisions 7. Identify obstacles and distinguish symptoms 8. Determine boundaries of authority (authorization) <u>CARD 5</u> <u>EXPLANATION B</u> 1. Will it create future problems? 2. What will the effect be on others? 3. Will precedents be created? 4. Will it affect other divisions/departments? 5. What is the cost involved? 6. Are safety factors involved? 7. Will production/administration be affected? 8. Will morale be affected? 9. Will it be an instruction and ethical? 10. Will it satisfy departmental objectives?

7.5.1.3 Eliminate irrational ideas

- Determine whether all the relevant facts have been obtained.

- Consider the time schedule. Matters can not be argued indefinitely.

- If no action is proposed, determine the consequences of such a decision.

- Ensure that a solution does not exceed the budget that it is ethical and adheres to departmental policy.

7.5.1.4 Determine a preliminary solution

Determine preliminary solutions and note possible problems that they may present.

7.5.1.5 Solve the problems

Consult experts in fields relevant to the problems being experienced.

7.5.1.6 Finalize the solution

Evaluate all the relevant facts thoroughly and construct a final solution.

7.5.1.7 Evaluate

Monitor results and determine whether the implementation has achieved its objective.

7.5.2 The "PADAL" method

The "PADAL" method stands for "Pattern for Analysis, Decision, Action and Learning" (Fourie , 1985 : 9). The four main steps in the PADAL-method include the following elements:

7.5.2.1 Problem analysis

- Outline the problem

- Judgement of events in a department
- Defining the problem(s)
- Localization of the problem(s)

7.5.2.2 Decision-making

- Criteria for action
- Alternative plans of action
- Availability of alternatives
- The choice between alternatives

7.5.2.3 Action

- Implementation
- Control and evaluation of the plan

7.5.2.4 Learning process

Receptiveness to ideas and actions that may be useful for solving other institutional problems and also for preventing the occurrence of future ones. The PADAL-method is schematically illustrated in figure 7.2.

7.6 Types of decision

Financial managers forecast in order to plan and apply such forecasts to indicate whether or not their plans are consistent with the objectives of a department. Once management has determined strategic plans of action for the future, they are incorporated into a written financial budget (Schall and Haley, 1991: 601). Once the budget has been established it may be used as a means of

<u>THE “PADAL”- METHOD</u>

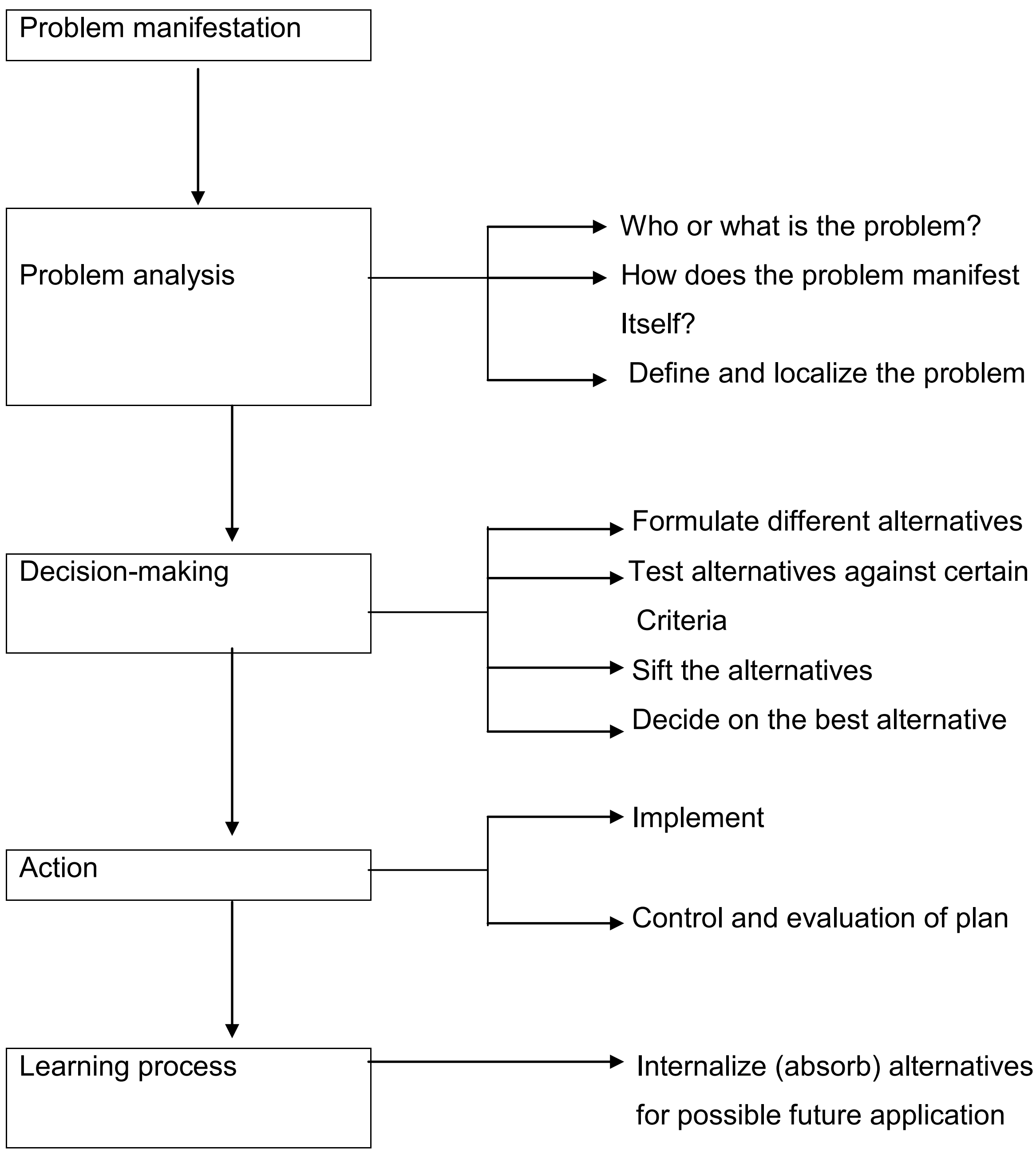


Fig.7.2

controlling a department's operations. The planning and budget process involves a number of decisions that have to be made. Even after the budget has been approved by the Provincial Legislature, important decisions have to be made to achieve the budgeted objectives. Some decisions are more complex than others while some are of a routine type (Fourie, 1985 : 13).

7.6.1 Routine decisions

Routine decisions are standardized with clear instructions about ways in which managers should react in certain circumstances.

7.6.2 Complex decisions

Complex decisions have no specific or clear instructions about how to react in certain circumstances. However, within specific broad guidelines, for example those set out by the PFMA and Treasury, management should seek a solution for problems that may occur. This means a choice must be made between differing options.

Decision-making is especially important where financial sources are limited and crucial decisions have to be made, for example a reprioritization of activities. Financial control and in particular expenditure control require a host of complex and important decisions that have to be made. For example the payment of blood for transfusion purposes cannot be deferred because of cash-flow problems, the survival and recovery of patients being of paramount importance. The decisions taken must also be weighed against cost considerations, the lowest possible expenditure being the ideal. The public should, however, also be satisfied with the standard of services rendered (Batho Pele White Paper, 1997 : 15).

The difference between routine and complex decisions can be illustrated by the nature of information used in the decision process. This includes-

- variables in the information about which a decision must be taken;

- the number of variables- the greater the number of variables to choose from the greater the difficulty in taking an appropriate decision; and

- the frequency of occurrence of a problem- the higher the frequency the more difficult the decision will be.

7.7 Possible influence of certain factors on decision-making

The reason that risks exist is that project decision-making is based on expectations about the future. The decision-maker forecasts the outcome of projects where in an uncertain world, however, the actual results of such projects are almost certain to vary due to specific factors that are stipulated below. It is this uncertainty that gives rise to risks in activities in general (Samuels, et al. 1999 : 257).

7.7.1 The nature of the public sector set-up

The nature of the public sector set-up might have an influence on the decision-making process, for example-

- decisions cannot be incompatible with political directives and policies;

- the public officials are accountable for their actions and decisions affecting the community;

- the decisions made by public officials must be guided by the drive to achieve maximum benefits at the lowest costs, in other words effectiveness; and

- heads of departments are also responsible to the Provincial Legislature.

7.7.2 Community values and standards

Decisions by the public official effect the community; therefor the norms and values of the community should be considered in decision-making. Decision-making should pass the test of -

- honesty;
- reasonableness regarding each citizen irrespective of race, gender, culture, language, religion or political opinion; and
- respect for the religious and cultural values of the community.

7.7.3 Administrative law rules

Section 33 of the **Constitution**, 1996 (Act 108 of 1996), determines the following with regard to "Just administrative action" :

"(1) Everyone has the right to administrative action that is lawful, reasonable and procedurally fair.

(2) Everyone whose rights have been adversely affected by administrative action has the right to be given written reasons.

(3) National legislation must be enacted to give effect to these rights, and must -

(a) provide for the review of administrative action by a court or, where appropriate, an independent and impartial tribunal;

(b) impose a duty on the state to give effect to the rights in subsections (1) and (2); and

(c) promote an efficient administration."

Every decision includes one or other juridical implication and the public official must abide by the law:

- Public activities can only be undertaken with the approval of a legal institution such as Parliament, a Provincial Legislature or a Local Authority.

- Public officials may not exceed their powers.

- Decisions cannot exceed the prescriptions for administrative actions.

7.7.4 Departmental, structural and institutional factors

Certain establishments are brought into being to control specific aspects of generic processes, for example human resources (Public Service and Administration), finance (National Treasury), and financial control (Provincial Treasury and PROPAC). They should be informed of any decisions that might affect them.

7.7.5 The external environment

The external environment refers to factors outside the immediate environment that the decision-maker should bear in mind when a decision is being made. Maciariello (1984 : 223-224) distinguishes between internal and external environmental factors. The internal environmental factors include needs of the community, the need to develop suitable strategic plans for a department in a changing environment, the need for continuous surveillance of the environment, suppliers, contractors, advisors and financial controllers. External environmental factors such as political change, social behavior, religious dogmatism, educational transformation, management ideas, military needs and technological changes all impact on the decision-making process. See chapter three paragraph 3.6 in this regard.

7.7.6 Influence of the human factor on the decision-making process

Fox, et al. (1990 : 38) state that all decisions depend on information and human judgement. In general, decision-making is viewed as being an act of selecting between alternatives. Due to human factors involved in this process, it is much more complex than a mere choice between alternatives. The influence of the human factor might also influence the outcome of the decisions taken, for example, personal value systems, individual perceptions and beliefs, and human limitations.

7.8 Decision-making techniques

Decision-making techniques can assist financial and operational managers in the decision process in making more efficient and effective decisions. The specific technique that will be employed will depend on the type of problem, certain techniques being more suitable for specific situations than others. Different types of decision-making techniques and approaches have been identified by Fourie (1985:17-23) and are schematically illustrated in figure 7.3 on page 259.

7.8.1 Mathematical techniques

Mathematical techniques are based on complex mathematical calculations. Cost accounting and cost-accounting techniques can also be classified under this category.

7.8.1.1 Network analysis

This technique enables the manager to calculate which sequence in a series of events/actions will be the most advantageous; that means which event/action must take place first, second or third to ensure maximum success. Advanced mathematical calculations are applicable.

7.8.1.2 Queuing

This theory uses mathematical techniques to balance the costs incurred by waiting lines versus the costs of preventing such lines by means of increased

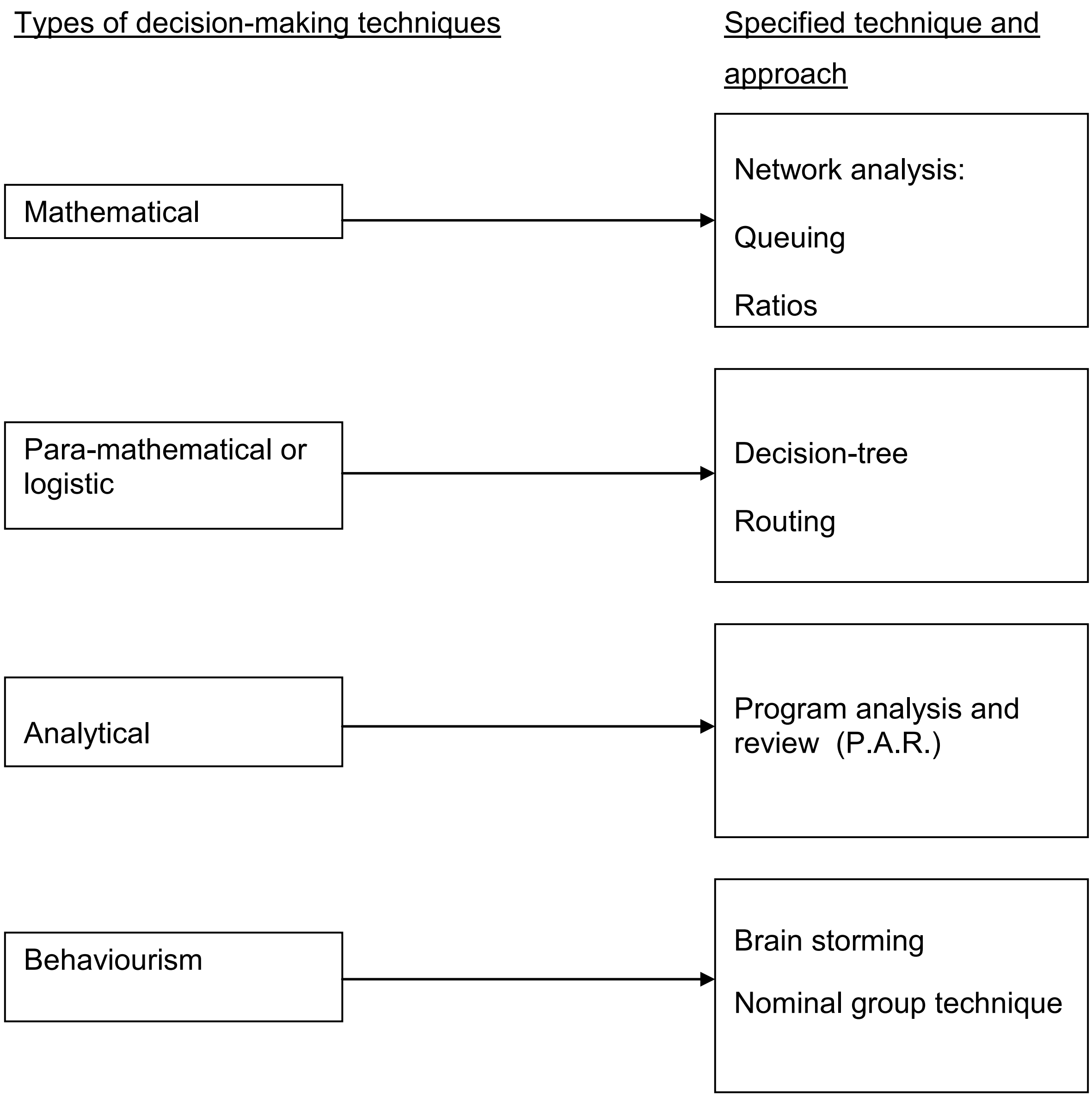


Fig. 7.3

service. It is based on the premise that although delays are costly, the cost of eliminating them may even be more so (Koontz and O'Donnell, 1964 : 152).

Queuing is a common economic phenomenon that occurs in the public sector, for example with the receiver of revenue, and at provincial hospitals and vehicle registration offices. Solving the problem is not as straight as it may seem.

Increasing the staff may lead to a situation where employees are generally under-utilized. Accordingly such an approach to this type of problem is not to be recommended.

The solution lies not so much in increasing the staffing component but rather in the identification of peak hours during which an increasing staff is justified. Managers will have to accept the fact that it is not possible to eliminate queuing altogether. Fourie (1985 : 18) is of the opinion that a queuing table should be applied and is an important technique in forming an idea of the number of staff members needed at service points. The principle on which the queuing theory is based can also be applied in other situations, for example the average number of postal articles processed during various months in a specific division. By comparing this information with the average time it took to finalize the correspondence in that division, additional staff can be employed during peak periods.

7.8.1.3 Ratios

Ratios show the correlation existing between variables. Situations where this technique can be applied successfully include epidemic sickness and in cases where there is a high staff turnover. By monitoring the ratios between sickness/resignations and the available staff, early planning for the future can be made.

7.8.2 Para-mathematical or decision techniques based on logical thinking

In the para-mathematical technique, logical thinking plays a major part in the decision-making process. Two types of para-mathematical decision techniques are described below.

7.8.2.1 The decision tree

The decision tree technique has to do with a whole series of inter-dependent factors, and may be used for example in a situation where new technological equipment replaces that which is obsolete (Fourie, 1985 : 21).

Decision trees have been described as diagrammatical representations of decision-making problems showing alternative actions by means of branches representing a series of possible choices in solving problems (Visser and Erasmus, 2002 : 210). Each choice is depicted by a decision or chance fork. A decision fork represents a choice where the decision-taker controls the outcome, while a chance fork is where chance dictates the outcome (Mansfield, 1988 : 566). These trees can also be used to determine the course of action with the highest expected monetary value or the lowest possible risk.

7.8.2.2 Routing

In routing a complex network of factors that react with one another is its distinctive feature. Management should determine which combination of routes should be followed at the lowest possible cost. One supply depot for example provides 32 hospitals with medicine, but they have differing consuming capacities while in addition, varying distances separate them from the supply depot (Fourie, 1985 : 21).

7.8.3 Analytical technique

Top-level management and the program analyst normally employ the analytical technique and review method which is discussed below.

7.8.3.1 Program analysis and review (P.A.R.)

The program analysis and review technique includes the evaluation of financial projects, for example improved education and hospital facilities. The P.A.R. identifies objectives, the specific resources allocated and the degree to which the objectives must be met, and if they are not achieved, alternative methods are investigated.

7.8.4 Behaviouristic techniques

Behaviouristic techniques are based on gathering information from a group of individuals to solve a problem. The brainstorming and nominal group techniques will be briefly outlined.

7.8.4.1 Brainstorming or creative problem-solving

The brainstorming or creative problem-solving technique contains the collective search for solutions of a problem through interaction with a group of persons. This is one of the most commonly used techniques when it comes to creativity. Brainstorming can generate a lot of ideas from people in a short time. Principles of brainstorming are for example (Mutual & Federal, 2005 : 37):

" • The quantity of ideas is more important than their quality
- Ideas should not be criticized or evaluated
- Everything should be written down, no matter how impractical
- Ideas can be developed from other people's suggestions
- The imagination should flow freely. "

The weakest ideas are eliminated immediately whereafter the rest of the ideas are evaluated carefully and the best solution selected.

7.8.4.2 The nominal group technique

The nominal group technique, like the brainstorming technique, also makes use of a group of individuals to determine which of various alternatives should be utilized. The difference with this technique is that all ideas are formulated in silence, and no discussion in respect of the subject is allowed. The ideas are then written down and the group allocates weights to the various ideas. Eventually the ideas are reduced to the five with the highest values. These five ideas can then be submitted to higher authority for further attention (Fourie, 1985 : 23-24).

7.9 Decision-making models

The previously discussed decision-making techniques can assist the managers in making a practical choice between various alternatives. Decision-making models on the other hand represent several specific approaches that a decision-maker might have access to when solving a problem. Here such problems can be approached from different angles and tackled in different ways. Various decision-making models have been identified and are summarized by Fourie (1985 : 24-34) as follows:

7.9.1 The probability theory

The probability theory is applied in a sequence of phases:

Phase 1

Determine all the operational objects. A quantitative value is allocated to the achievement of the operational objectives in accordance with the existing practices (methods). For example objective A will be satisfactory to a maximum of 70%, where operational objectives indicate concretized objectives. To formulate "economic development" does not signify anything because it is impossible to allocate numeric values to such abstract statements. The statement should therefore be concretized to, for example, "a x% increase in qualified manpower in specific work categories".

Phase 2

Identify specific indirect objectives and values that are important for the department when promoting professionalism and integrity for example.

Phase 3

Identify possible alternative methods for the achievement of departmental objectives.

Phase 4

Determine the possible advantages and disadvantages of various alternatives and the way in which they will satisfy both the diverse direct and the indirect departmental objectives (phase 2), i. e. whether certain alternatives may either promote or jeopardize them.

Phase 5

Eliminate the impractical and less suitable alternatives.

Phase 6

Determine the nett expectation of the selected alternative by multiplying the probability degree of the expected advantages with the value rating.

Example

Alternative A = probability of advantages = (.9) X value rating (.7) = 6.3

Alternative B = probability of advantages = (.7) X value rating (.8) = 5.6

The nett expectations of success of the several alternatives are compared with one another, and the decision will go for the one with the highest nett value (Alternative A in the example).

7.9.2 The sequential-decision model

The sequential-decision model arises from the needs of military research and development where it is not always possible that all the essential information is prematurely available. Certain information can only be gathered as an experiment advances. This model can be applied not only in a military environment but also in a wider context. The model is applicable where-

- at first a high degree of uncertainty exists;

- different alternatives exist and certain qualifying information that will determine the relevance of the possible alternatives is not available; and where

- time is limited (Fourie, 1985 : 27).

7.9.3 The incremental-change model

Decision-making takes place in a cautious and evolutionary manner. The assumption is that humans are basically conservative by nature, and that radical decisions will only promote discouragement and suspicion. Since humans have a need for security, this model approaches decision-making through marginal decisions that advance via an evolutionary process (Fourie,1985 : 27). The model is based on three assumptions namely-

- respect for the past;

- scepticism with regard to the human ability to change the future; and

- the possible costly results of revolutionary decision-making.

By applying evolutionary changes an attempt is made to maintain stability. If pressure arises for more radical decision-making brought about by new knowledge as a result of new technological developments for example, there is one of two alternatives that can be applied:

- Continue with incremental changes to obsolete policy methods- in other words new knowledge is applied by degrees and held back to a certain extent.

- Alternatively apply any new knowledge in full through decision-taking and accept responsibility for the decision.

7.9.4 The satisfying model

The satisfying model is based on the viewpoint that optimal decision-making is not possible because of miscellaneous uncertainties, for example political, social and economic. Decision-making takes on the form of compromises and strives only to achieve a satisfying standard. This model is, for example being currently applied in the case of the state coffers which must top up the revenue for the following financial year to satisfy expenditure needs. The model is set out in a stepwise manner:

- The objective is based on satisfying rather than on optimal results.

- Alternative methods are evaluated against previous experience, and the expected payoffs are measured against the satisfying standard that was set.

- If the comparison is promising, the alternative is accepted and other possible alternatives are not investigated further.

- Only if the advantages do not meet the satisfying standard that was set, are additional alternative decisions considered.

- This process is persevered with until a satisfying solution is found.

The following example can illustrate the model further:

A department wishes to cut down expenses by X per cent. This objective is set as the ideal (optimal result). The department will, however, be satisfied with a saving of (X-1) per cent. The objective of satisfaction rather than optimal results is identified. The department investigates the various alternatives from past experience which cut down on expenses, and if one is found which can achieve a saving of (X-1) per cent, this alternative is accepted without further any search for other possible alternatives that might promote savings (Fourie, 1985 : 27).

7.9.5 The heuristic model

The heuristic model has already been discussed in principle in paragraphs 7.4 and 7.5. Sometimes a solution cannot be found by exact conventional methods. In such cases heuristic methods based on common sense are applied (Robinson, et al. 1990 : 3). "Heuristic" means that which enables one to discover. This method is divided into three phases, namely the scouting, the development and the evaluation phases. These phases form an integrated process and cannot be separated. The biggest asset of this method is the attempt to eliminate the frustration of unachieved objectives (for example due to limited financial resources). This is done by-

- adjusting the unachievable objectives or by replacing them with a substitute objective; and

- by engaging in compromises.

As a result of the above-mentioned evaluations of decision models the following hints on decision-making are offered by Fourie (1985 : 33) (own translation):

- To quantify whether all the alternatives (if and where possible) can make a decision on the best one much easier.

- Under certain circumstances it might be suitable to subject all the alternatives simultaneously to testing.

- Carefully considered evolutionary decisions might also be helpful in decision-making.

- To enter into compromises (e. g. selecting the second best alternative) and making alterations to objectives are frequently part of decision-making.

7.10 Conclusion

Management implements strategic plans to achieve the objectives of a department. After a strategic plan of action has been agreed on it is incorporated in a written financial document (the budget). Once the budget has been approved it may be used as a means of controlling a department's expenditure and operational activities. The financial planning and control process generally involves a substantial number of financial and other decisions that have to be made to achieve budgeted objectives.

General guidelines for decision-making having been discussed, managers must carefully consider them before taking a decision. Firstly, they should have an adequate knowledge of the specific environment in which the decision has to be made. Secondly, they must make sure that a problem really exists. Thirdly, management should be aware that most decisions include an element of risk and uncertainty. Fourthly, it should also be kept in mind that once a decision is made responsibility for it has to be accepted. Finally, management should neither hurry into a decision nor delay its implementation either. If a hasty decision has been made it is possible that all the financial implications might not have been properly considered and, as a result, could lead to financial resources being wasted that otherwise might have been avoided. If management hesitates to make decisions or is afraid of their implications, a community might not receive the services it is entitled to.

To guide managers in solving problems effectively the various steps in the decision-making process have been put into perspective. It is important here to note that any problem should be defined carefully after it has been identified, the reason being that if a problem does not actually exist, time and financial resources should not be wasted on a non-existent difficulty. If a decision was taken then the financial and operational managers should evaluate it periodically. If its outcome (or its result) is found to be unsatisfactory the decision process should commence again from the beginning namely the cause of the failure has to be established. Furthermore, various decision-making methods have been discussed, for example the “card index system” and the “Padal” method. Some decisions are of a routine type while others are more complex. Within broadly specified guidelines, for example those laid down by the PFMA and the Treasury, management should seek a solution for whatever problem that may present itself and take certain decisions. Decision-taking is important specifically where financial resources are limited and where activities have to be prioritized. Furthermore, the decision-makers should be aware of the costs involved, and the inputs should therefore be as low as possible.

In an uncertain world risks are always present, and managers should be aware of them. The several factors that play a role in the decision process have been discussed, for example, the nature of the public set-up; community values and standards; rules governing administrative law; departmental, structural and institutional factors; the external environment and the influence of the human factor on decision-makers. The following decision-making techniques were also investigated in the relevant chapter, namely the mathematical technique; the para-mathematical or decision techniques based on logical thinking; analytical; behaviouristic and nominal group techniques. These techniques can assist managers in deciding between several alternatives. Decision-making models also represent the various approaches available to decision-makers when faced with a specific problem. The following models were then reviewed: the probability theory; the sequential-decision model; the incremental change model; the satisfying model and the heuristic method.

Decision-making in the public sector must respect community values and norms. Decisions must be legal, rational and reasonable otherwise they may be tested in the courts. Modern society confronts public officials with increasingly complex problems, and effective decisions are only possible if all the available knowledge to assist managers in the decision-making process is applied.

Taking into consideration the evaluation results of all these models, as well as all the information in this research so far, chapter 8 will then present the proposed model for budget management in the Free State Provincial Government.

8 A MODEL FOR BUDGET MANAGEMENT IN THE FREE STATE PROVINCIAL GOVERNMENT

8.1 Introduction

In this research the framework has been established for identifying important functions regarding financial management in the public sector. The model for budget management forms part of the recommendations and is based on the management by objective system presently being applied in that sector. In terms of section 18 of the PFMA it is the responsibility of the Provincial Treasury to prepare the provincial budget and exercise control over its implementation. Success means not only keeping the budget expenditure within the limitations set (or in accordance with available funds), but also developing a model for budget management that recognizes the importance of performance management and quality control in service delivery.

Bearing the previous chapters in mind it can now be concluded that the budget process is inseparable from performance management. The focus should not only be on expenditure control alone, but also on the achievement of objectives, on over- and underspending, risk management and on departmental performance. Underspending presents an important deficiency because it has a direct influence on service delivery. Budget control, and more specifically accurate expenditure control alone, are not enough to ensure a quality service to the public. The budget system being applied in the public sector, namely management by objectives, is an integrated one that includes the entire financial management system, including the budget process, expenditure control and the achievement of objectives (outputs). Therefore one may postulate that performance management is the key to achieving budget objectives. The shift from issues of policy to performance management, as indicated in chapter one, and the signing of performance agreements also contributes to such a conclusion. At issue is the future implementation of such an approach. Looking at the government's reform initiatives as dealt with in chapter five, it has become clear that government has recognized the deficiencies of a system where control functions and responsibilities such as accountability, costing, monitoring and evaluation, revenue and expenditure, cash flow and reports are separated and is now looking into ways of integrating the tasks of financial and operational managers. Accordingly this chapter will be subdivided into seven sections. Firstly, the responsibilities and functions of a financial and operational manager will be evaluated. Secondly, the re-organization of a hierarchic structure will be reviewed. Thirdly, service delivery indicators and performance measures will be analyzed. Fourthly, completing the budget cycle will be put into perspective. Fifthly, suggested options to strengthen budget reform initiatives will be discussed. Sixthly, a model for budget management in the Free State Provincial Government will be proposed, and finally, the future of budget reform will also be discussed.

8.2 Responsibilities and functions of financial and operational managers

The implementation of the MTEF in the 1998 budget forms the basis of the budget reform initiatives of government. The adoption of the PFMA in 1999 and its implementation in 2000 represent the second phase of program reforms. (National Treasury, 2001:2). The third phase of reforms includes the introduction of robust output performance measures or service delivery indicators as well as integrating the tasks of financial and operational managers. It is therefore essential that the functions and responsibilities of financial and operational managers be evaluated.

The success of the Public Service in delivering its operational and developmental goals depends primarily on the efficiency and effectiveness with which employees execute their duties (White Paper on Human Resource Management in the Public Service, 1997 : 42). Managing performance is therefore a key resource management tool to ensure that employees know what is expected of them. Human resource management practices must include human resource planning as well as job specifications and job descriptions (White Paper on Affirmative Action in the Public Service, 1998 : 38).

8.2.1 Financial managers

In general, financial managers are appointed according to the Code of Remuneration ("CORE", cf. website http://www.dpsa.gov.za). However, the minimum qualifications required in the public service are determined by section 10(1) of the **Public Service Act**, 1994 (Act 103 of 1994), as amended, which states that no person shall be appointed permanently in any post in the A and B division unless he or she -

- is a South African citizen;
- is of good character; and that
- in so far as their health is concerned, complies with such requirements as may be prescribed.

In contemporary government management, budget management is one of the most important and complex processes for ensuring effectiveness and efficiency. Effective budget management therefore requires specialized skills from financial managers. Visser and Erasmus (2002 : 42) assert that financial managers are, inter alia, responsible for –

" • determining whether the objectives, programmes and projects of the department are clearly defined and measurable, advising the accounting officer in this, and also on the manner in which departmental objectives can be achieved effectively;
- ensuring that financial management measures exist in the department to support sound and objective programme management;

- advising accounting officers on the effectiveness of the organizational structure supporting identified functions in the objective and programme structure of the department;
- continuously evaluating whether sufficient measures exist to reveal inefficient and uneconomical use of state moneys, property and for which the accounting officer is responsible;
- advising the accounting officer of the financial results when new projects, schemes or changes to an existing project, scheme or service are considered;
- advising the accounting officer and programme managers on financial matters where the budget is concerned; and
- advising accounting officers and programme managers of new and current projects of the budget. ”

Financial managers should also maintain sound interpersonal relationships with all colleagues, clients and stakeholders to ensure a harmonious and productive working environment (Circular of the Department of Public Service and Administration with reference 2/3/23 dated 14 May 1997). These include all those individuals and representatives that they come into daily contact with[1], for example

- the accounting officer (Usually the Head of the Department)
- the chief financial officer
- program managers
- operational managers

---

[1] Various departmental role-players and their functions were discussed in chapter two, paragraph 2.3.

- other officials
- the budget committee
- the Provincial Treasury
- the internal audit and the audit committee
- the external audit
- the Joint standing committee on public accounts (PROPAC).

Good interpersonal relationships with the above-mentioned individuals and instances are also in line with Batho Pele principles.

During 1996 (Finance Circular no. 4 of 1996, 1996 : 3) all accounting officers were instructed to identify an official who would be able to handle, in addition to his/her duties, the duties of a financial manager. With the help of Management Advisory Services new posts were created and with the implementation of the PFMA culminated in the present post of CFO. Finance Circular no. 4 of 1996 was however withdrawn because: "The whole issue of Financial Managers, departmental accountants as well as decentralization of Financial Administration is part of the Performance Improvement program." (Finance Circular no. 17 of 1996, 1996 : 1). Traditional duties and responsibilities of financial managers mentioned previously (Visser and Erasmus, 2002: 42) were vested in Treasury Regulation 5A and Treasury Instruction G1.1.

To achieve the aim of financial management requires involvement by the financial manager in the planning, design and control processes of a department. This responsibilities and functions are recognized as critical areas for financial management performance in the public sector by the Department of State Expenditure (1995 : 8). These areas regarding financial management performance and typical core tasks in the public sector are illustrated in table 8.1.

Table 8.1 Critical areas for financial management performance and core tasks

Critical area for performance	**Typical core tasks**
Strategic planning	• Evaluate financial impact of strategic direction • Give financial guidance and long term financial planning.
Formulation of output objectives and business plans	• Financial analysis of the selected output mix • Guidance on financial impact of output design • Investment decisions • Budgets • Performance measurement.
Organization (people and structure, business processes and technology)	• Financial analysis of the proposed business design • Guidance on alternative process designs and uses of technology • Investment decisions in organizational processes and structures and in the appointment, development and retaining of personnel • Design and implementation of internal controls • Financial management training • Financial process design.
Performance measurement	• Analysis and design of practical and appropriate measures and indicators • Construction and implementation of measurement systems.

Critical area for performance	**Typical core tasks**
Financial and performance reporting	• Maintenance of appropriate and consistent financial reports that satisfy the needs of the users of financial information • Give guidance on regular performance reporting by management.
Management of funds	• Estimate cash flow requirements • Economical funding, monitoring of expenditure against budget • Management of investments in capital projects and securities (Visser and Erasmus, 2002 : 121).
Management of assets	• Analyze optimal investment in fixed assets • Identify fixed assets not utilized • Design and implement measures to protect and maintain assets • Financial aspects of contract management.
Management of working capital	• Analyze elements influencing working capital • Identify problems in recovery of debts, cash flow management • Design and maintain optimal investment in current assets • Management of surplus cash • Purchasing and pricing policy design.
Accounting	• Design, implement and maintain accounting systems to ensure complete, valid, accurate and timely financial information.
Provisioning administration (Logistics)	• Analyze and manage all acquisitions, the investment in stock and design measures to protect investments in stock.

8.2.2 Operational managers

Traditionally, program managers have exercised control and supervision over operational managers (Visser and Erasmus 2002 : 43). Operational managers are officials in charge of a responsibility centre. In the FMS this type of responsibility centre can be found at any level of the responsibility structure. The basic role of an operational manager is the administration of human and financial resources in such a way that the departmental objectives can be achieved. They are expected to achieve the maximum results with the minimum possible costs involved.

8.2.2.1 Background

The smallest organizational entity for which a budget input can be compiled within a government department is known as a responsibility (Department of State Expenditure, 1997 : 31). Examples of a responsibility can be a specific project, school or hospital. A manager is assigned for each such a responsibility is known as a responsibility manager. Their functions are derived from the various objectives of the specific department. This group of tasks, for which a responsibility manager is responsible, are known as activities. His basic role is the administration of human and physical resources in order to obtain financial results and business benefits. In general the responsibility manager is also known as the operational manager or line manager.

8.2.2.2 Duties and responsibilities

Operational managers function on the operational level below that of program managers - usually at sub-program level. Their functions include (Visser and Erasmus, 2002 : 43) the following:

“ • classification of functions;

- identification of tasks related to the activity for costing purposes;
- preparation of estimates;

- costing of projects;
- exercising financial control over expenditures;
- accounting for and control over income;
- managing stores and assets;
- controlling the budget by cooperating with the local budgetary committee;
- reporting on finances;
- controlling and auditing finances;
- ensuring tasks are executed within the framework of the program description;
- determining and planning ways to render service;
- compiling work programmes;
- obtaining quantities and prices;
- estimating envisaged expenditures;
- feeding estimates into the system;
- allocating funds obtained;
- ensuring adjustments are done;
- obtaining the necessary reports;
- initiating suitable corrective actions;
- liaising with other programme managers;
- exercising control over state property;
- exercising control over documents and supporting documents, correctness of accounting records and cash, and
- controlling expenditure on a monthly basis."

8.2.2.3 Managing performance

National Treasury (2001 : 7) is of the opinion that in traditional systems the separation of strategic planning on the one hand, and accounting for expenditure of financial resources on the other, reduces the ability of government to deliver services efficiently and effectively to communities. The integration of strategic plans and budgets requires that operational managers be held accountable for the inputs that are needed to execute their duties and tasks, but that they are also held responsible for outputs in line with the strategic priorities and PFMA. The changing roles and responsibilities of financial managers and operational managers (see chapter five, paragraph 5.6.7.1 in this regard) means that they should work more closely together in the senior management team to achieve budget objectives.

Six steps were identified by National Treasury (2001:10) in their budget reform initiatives towards integrating planning and budgeting. These steps contain the following:

- Step one: Preparing strategic plans.
- Step two: Assessing costs and resource implications in preparing MTEF-allocations and preparing budget documentation.
- Step three: Finalizing MTEF-allocations and preparing budget documentation.
- Step four: Monitoring and reprioritizing spending when plans change.
- Step five: Measuring performance and service delivery.
- Step six: Finalizing annual financial statements and reports.

For purpose of this chapter only steps one, five and six will be evaluated.

8.2.2.4 Preparing strategic plans

The process of preparing a strategic plan (Treasury Regulation 5) and prioritizing objectives is set out in figure 8.1. The role of the operational manager is to execute the strategic planning process. Service delivery monitoring and the evaluation of the previous period's results are essential activities that have to be performed by the operational manager. These results provide feedback for strategic planning and the new MTEF period. When assessing service delivery performance against targets and examining departmental strategic objectives against government policy and spending priorities the following questions may have to be dealt with:

- Are departmental strategic objectives and planned outputs in line with the core functions of the department?

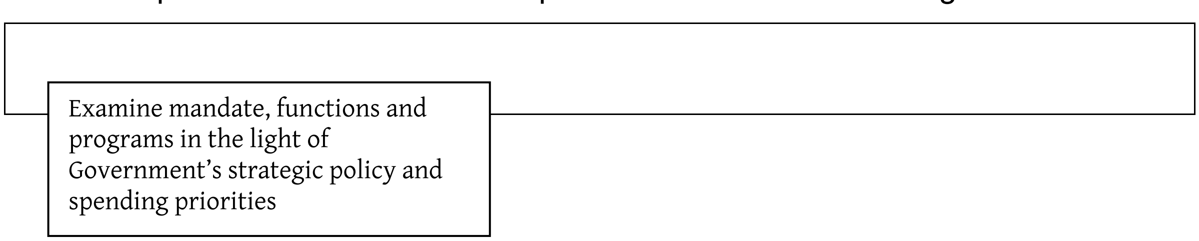
- Are planned outputs and deliverables still relevant?

- Have service delivery commitments and targets been met?

If there is a high degree of alignment between government priorities and departmental objectives and outputs, and between service delivery performance and the set targets, then the department should determine whether the strategic plans and objectives need to be revised. If there is a low degree of alignment then the objectives, strategies, structure, capacity, outputs, service delivery measures and targets will have to be reviewed. The final stage in the strategic planning process is to determine the costs and resource implications in terms of the departmental medium-term budget allocation. This might lead to a reprioritization of the MTEF (Treasury Guidelines, 2001 : 11).

8.2.2.5 Measuring performance and service delivery

The PFMA focuses on financial reporting while accounting officers have had to include non-financial information to the executive authority on a quarterly basis as from April 2002. This focuses on performance as measured against the



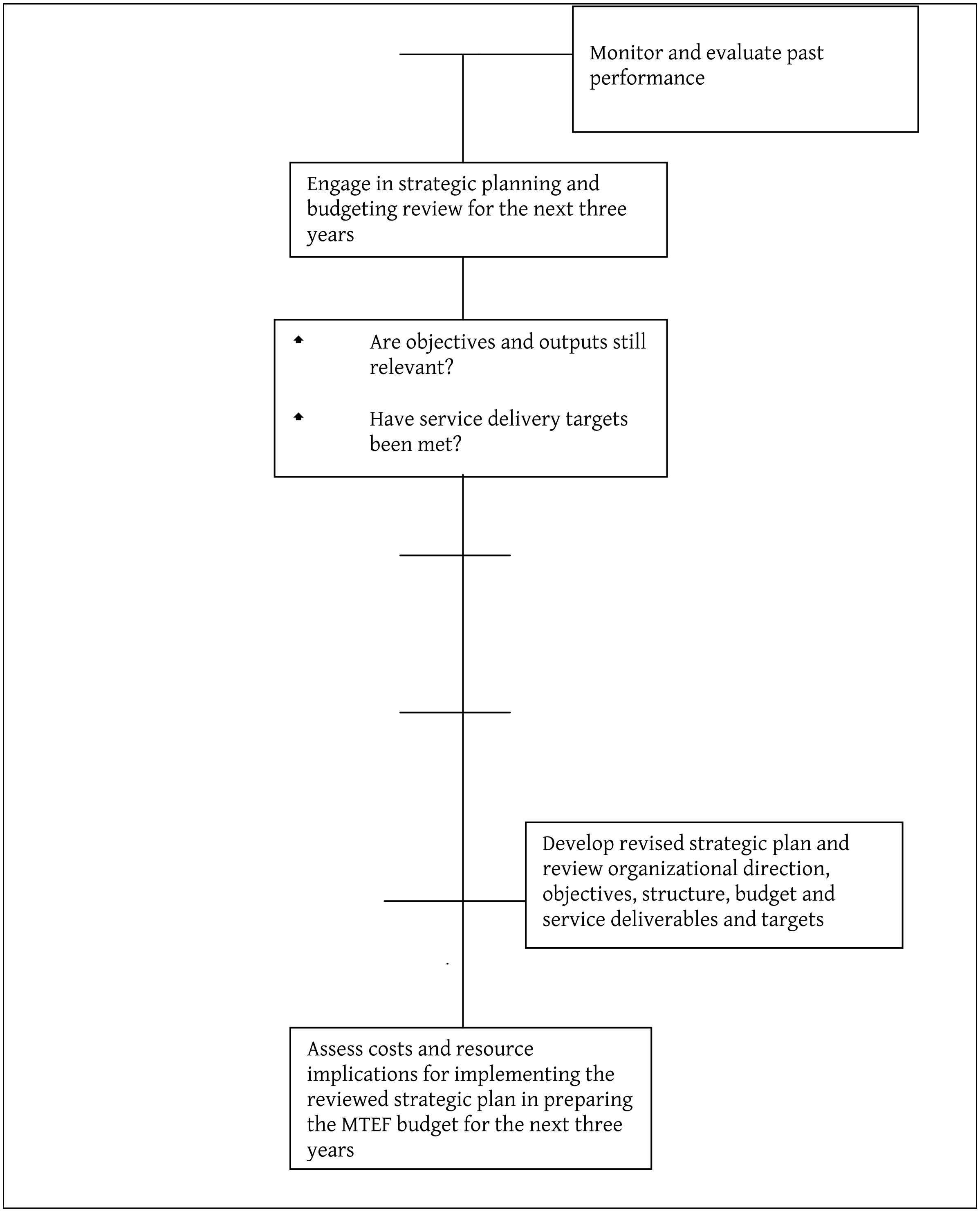


Fig. 8.1: Preparing strategic plans. Adapted from National Treasury (Treasury Guidelines, 2001 : 12.)

budget and against service delivery plans, and will indicate to the operational managers where corrective action is needed. Details revealed regarding service delivery and output performance will contribute to further progress towards achieving measurable objects for each expenditure program in line with the PFMA.

Monitoring and measuring performance and service delivery constitute a key element of MTEF budgeting. Quality information on service delivery shows how public money is being spent, thereby complementing financial information for monitoring and reporting purposes. This key element promotes transparency and accountability, and assists government in directing funds to where they are needed most and to where they will best meet its service delivery priorities (Treasury Guidelines, 2001 : 10-12).

Monitoring and measuring performance and service delivery progress should be viewed as an exercise prescribed by the Provincial Legislature. The legislative process, for example, the annual Appropriation Bill that is based on departmental budget inputs provides valuable financial information to managers, contributing to improved financial planning and control within departments and enhancing service delivery to communities. Monitoring and measuring performance benefit integrated strategic planning and budgeting because they -

- provide invaluable feedback for departmental strategic and operational planning;

- alert operational managers to where corrective action is required to ensure that service delivery targets are met;

- facilitate assessment of the impact of departmental outputs and service deliverables on government's key socio-economic priorities and objectives.

The final stage in the integration of strategic planning and budgeting needs to be evaluated as well. Emphasis is placed on the need to ensure that output performance measures and service delivery indicators are developed as integral parts of the financial planning and budgeting process, and that the systems and processes can provide the relevant information. Figure 8.2, illustrates the relationship between inputs, outputs and outcomes in the planning and budgeting process.

The relationship between these components is described in terms of economy, efficiency and effectiveness (Treasury Guidelines, 2001 : 34):

- Economy, which refers to the cost of the inputs that are used to produce outputs.

- Efficiency, which relates inputs to outputs, i.e. the cost of the inputs used per unit of output.

- Effectiveness, which illustrates the extent to which the outputs of a program are successful in achieving stated objectives.

These aspects are important interdependent elements of monitoring and measuring performance and service delivery and provide indicators that play a key role in financial planning and budgeting as they are used to measure and assess how efficiently, economically and effectively resources are used to achieve strategic departmental priorities and service delivery targets. Performance measures with regard to output can be organized into the following dimensions of performance (Treasury Guidelines, 2001 : 23):

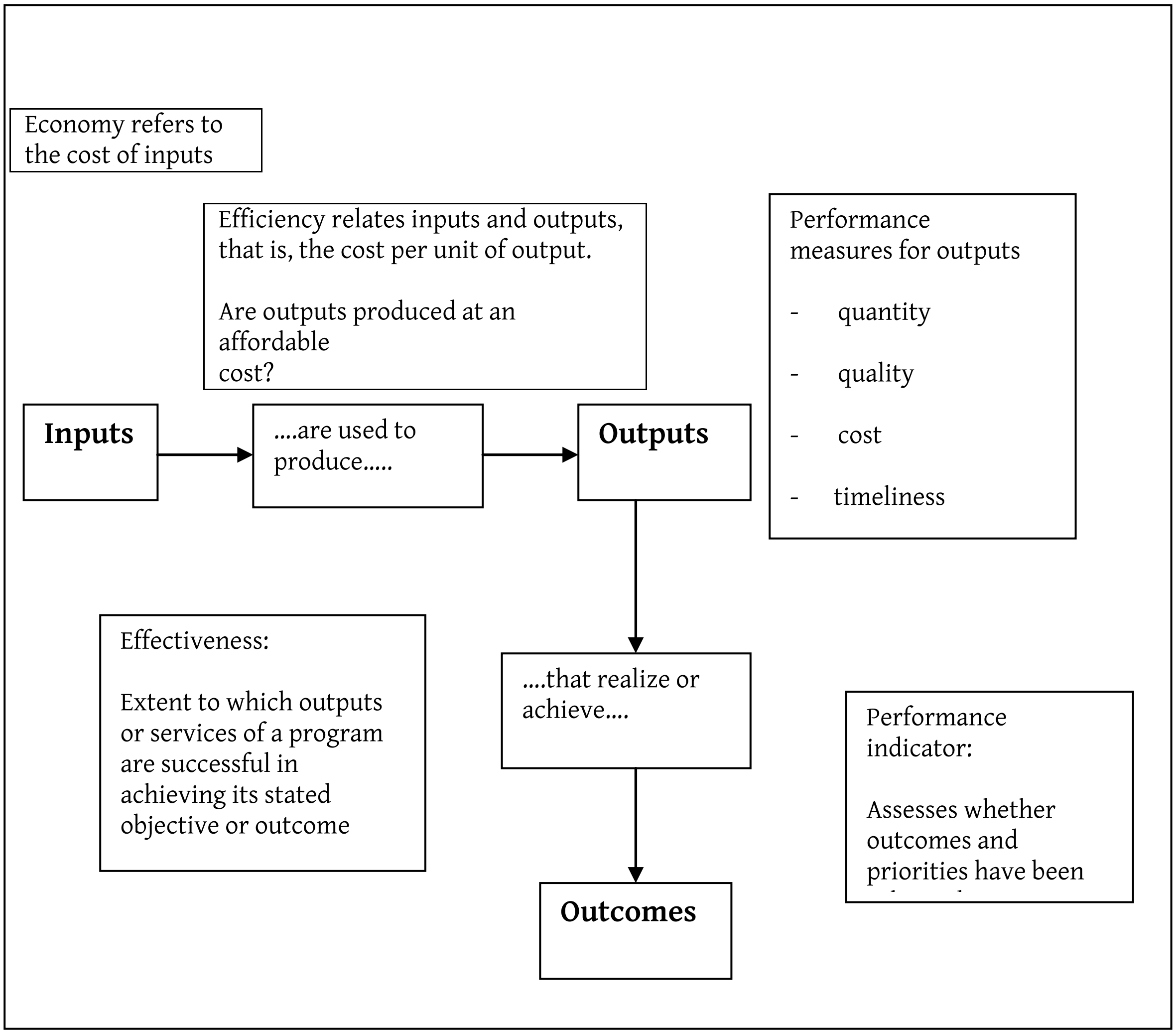


Fig. 8.2 : Measuring performance and monitoring service delivery progress. Adapted from National Treasury (Treasury Guidelines, 2001 : 23.)

- The quantity of services to be delivered.
- The quality of the outputs which are to be delivered.
- The cost of supplying the outputs.
- The timing required for delivery of the outputs.

To be successful the operational managers should develop good interpersonal relationships with their opposite numbers at other instances, for example at private enterprises, private contractors and with the public. Such interpersonal relationships should also be in line with the Batho Pele principles.

8.2.2.6 Developing performance measures

Developing suitable performance measures has been described as a complex task, but nevertheless operational managers should, according to their strategic plans -

- set realistic output performance targets against which to measure achievement;

- determine the process and format of performance reporting;

- establish processes and mechanisms to facilitate corrective action when required.

Some operational managers are experienced at developing and using such measures. For many, however, performance monitoring and measurement are new activities that need to be learned and practised before it becomes clear what is expected of them. The following aspects provide a useful guide to selecting performance measures. They need to be be:

- simple, clearly expressed and specific;

- relevant and reliable; i. e., the specific measure should be suitably tailored to fit the output that it is intended to measure and not used simply because information is readily available;

- economic and easily measurable – there should be easy access to and availability of regularly updated data for the measurement at reasonable cost;

- adequate and manageable – selecting a few suitable measures to monitor is preferable to selecting too many, it being important besides that the measures chosen provide a sufficient basis for performance assessment;

- capable of being monitored, i. e. the measurement should be amenable to independent scrutiny, thereby enhancing the accountability of performance (Treasury Guidelines, 2001 : 24).

8.2.2.7 Finalizing annual financial statements and reports

The annual report should present the department's state of affairs, financial results and position at the end of the financial year. It should review performance and achievements against the plan approved by the legislature at the beginning of that year (Section 19 of the PFMA).

8.3 Reorganization of hierarchic structure

The integration initiatives of financial and operational managers working more closely together require the reorganization of the hierarchic structure of departments. At the design and building stage of the organizational structure the hierarchic plan is based on a formal layout of the main activities or functions of a department. Each division has vertical lines that stipulate the hierarchy from top to bottom. Communication channels also link the whole framework that flows up and down (Reynders, 1967 : 141). Specific functions are allocated to top management, but with the delegation of powers (Section 20 of the PFMA) specific functions can be delegated to middle and lower level management. Accountability, however, cannot be delegated (O.V.S Provinsiale Administrasie [Deel 1], 1985 : 5), although with the implementation of the PFMA all officials are held accountable for their actions. Each division also has horizontal lines, which represent the several functions of a department.

Cloete (1980 : 85) is of the opinion that organization as a generic administrative process consists of different stadia - namely, determining the objective which, in the public sector, is a consequence of policy determination: the allocation of posts to horizontal work divisions and divisions, sub-divisions and sections to a group of posts; the allocation of authority also known as the delegation of power, which in fact means a vertically ordered work division designed both to govern the mutual relationships between functionaries (executive political office-bearers and/or civil servants) and to regulate accountability; and finally, the coordination of the activities of the functionaries to ensure that all work together to achieve the objective and control which in turn means that functionaries on each step of the hierarchy are held accountable by the functionaries on the next level to whom the subordinates are responsible to (own translation).

The system of managing the budget in accordance with pre-determined objectives implies that the objectives of a department have already been identified in the annual budget. This also implies that as the type and nature of activities aimed at achieving the departmental objectives have already been identified, the department can therefore carry on with its reorganization process. In planning the organizational structure it is important to decide which system of organization is to be used. Four types of systems can be proposed, namely the line organization; line and staff organization; the functional organization and the matrix organizational system (Rädel and Reynders, 1982 : 245). The line organization approach is the oldest and simplest system. It has a strong military element, and lines of authority flow vertically from top to bottom. The line and staff organization system implicates that the line organization system is still present, but that a staffing functionary now advises the divisional heads. In this manner expert knowledge is obtained. The functional organizational structure specifies that the staff function advisers now become divisional heads with enforceable authority. The main disadvantage of the functional organizational structure is that a complex structure of authority relationships is brought about that may create practical problems, especially when the functional authority is not accepted or bypassed. It may also impede the task of operational managers because they must take into consideration the prescriptions of several functional heads, for example administrative, financial and personnel managers (Rädel and Reynders, 1982 : 249). The matrix system is the latest addition to organizational systems, and is found for example in space programs, the manufacture of large-scale products such as ships and airplanes, and in the construction of roads. As a general guideline the managerial hierarchy of a functional organization system in the Free State Department of Health is illustrated in the diagram in figure 8.3.

8.4 Service delivery indicators and performance measures

Visser and Erasmus (2002 : 250) contend that the development and establishment of performance measures should be built on a few sound principles to ensure the enhancement of performance management's approach. These principles are listed below:

" • Financial resources must be optimally planned and allocated.

- The investment in total assets must be quantified and economically funded.
- The use of financial resources requires monitoring and controlling relative to the business plan.
- Internal controls must be designed, implemented, and maintained.
- Accountability for performance is to be established allowing the freedom to consume scarce financial resources. "

Bearing these principles in mind, management can proceed with developing and establishing performance measures. The success of measurement rests on the one hand of establishing indicators in each key performance area, and on the other of norms against which performance can be measured. Performance measures and service delivery indicators developed by individual operational managers are often most appropriate as they best know their tasks in their

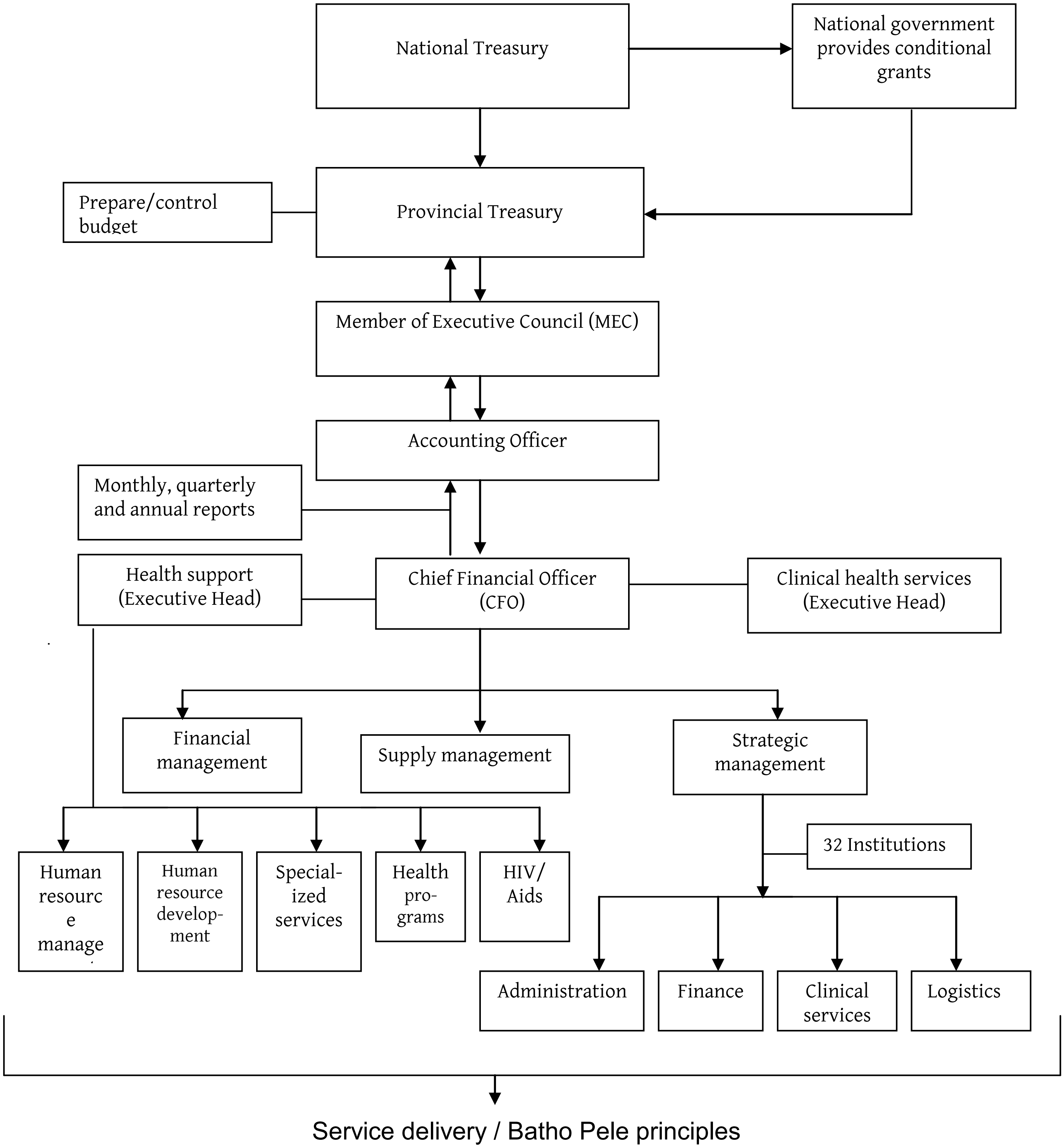


Fig. 8.3: Annual Report Free State Department of Health 2003/2004: Functional organization structure adapted and reproduced from Reynders, H.J.J. 1967. **Die taak van die bedryfsleier,** Second revised edition. Van Schaik: Pretoria : 150.

specific situation. When selecting the specific measures and indicators, it is important to consider the following elements (National Treasury, 2001 : 37):

- Communication power – the measure or indicator should communicate how well the department is achieving its outputs and should be understandable to both internal and external clients of the department.

- Proxy power (power of attorney) - the measures or indicators chosen should be able to serve as a proxy indicator for other measures and provide the most accurate and clear account of output performance.

- Data power – data should be available regularly for the measure or indicator chosen in order to compare what has been achieved with what was intended.

- Manageability – the number of measures and indicators utilized should be three or four for each output to ensure that departments have the capacity to compare and analyze measurement data.

To be more practical it is recommended that the financial manager and operational manager also explore other indirect performance indicators such as press reports, PROPAC resolutions, internal inspection reports, external audit reports, compliment /complaint books, letter boxes and toll-free telephone calls.

8.5 Completing the budget cycle

The final steps outlined above take departmental management teams through the complete accountability cycle, from preparing and developing strategic plans and medium-term budgets to implementing expenditure plans, monitoring and measuring service delivery and performance and compiling accurate annual financial statements and reports. These steps are inextricably linked, reinforcing the benefits of integrated planning and budgeting and contributing to improved financial management in the public sector. (See chapter four paragraph 4.4.3 for the budget time-table presented by Nel, 1998 : 40.)

8.6 Discussion of options to strengthen budget reform initiatives

Several options for strengthening the budget reform initiative process are suggested for consideration by management. These include the following possibilities:

8.6.1 Privatization

The first possible option in the decision-making process is to privatize the function or service, for example the Government Garage. Visser and Erasmus (2002 : 371) describe privatization as the selling of a state enterprise on specific guarantees that the private owner will continue to provide the service to the public which includes the state. It must be emphasized that after privatization a department should plan for receiving such services. Another possible option is, for example, to privatize or "outsource" photo-copying services. If this strategy is followed, the budget process is eliminated, although the department should still budget for the cost of such services. The main disadvantage of such an option is that many jobs may be lost and labour unions are generally also against privatization. This resistance must not been seen as an obstacle to privatize the Government Garage because certain advantages can be obtained through the privatization of a governmental vehicle park. These advantages (Debis Fleet Management [s. a.]) can include for example:

- no unexpected cost surprises;
- allows a department to plan and budget for its fleet's fixed costs;
- management and employee safety and peace of mind through a 24-hour helpline;
- increased efficiency; and
- no complications with the disposal of vehicles (auctions).

8.6.2 Implementation of a quality-control program

A second option is to consider an internal quality-control program. Arriss (1996 : 46) asserts that as an example a London regional council experienced poor internal management and had previously adopted a traditional and hierarchical internal management structure with five or six very large departments. These factors led to organizational inflexibility, severe financial difficulties and poor performance levels. To turn performance around, management agreed to develop a major program of change. One of the first changes was to implement a quality-control program. The objectives were to achieve quality, to be efficient, to give the community what it wanted, and to value and empower the staff. In implementing a quality-awareness culture, the council recognized the need to set measurable performance targets, for example quality assurance, accreditation and investments in public recognition. To operate effectively the quality program relied on clear accountability, effective contracted partnerships and committed leadership. An internal quality program should cover aspects such as public leadership, quality management, business leadership, process management and public involvement. The second change that was implemented involved a change in management structure from a hierarchical departmental structure to one comprising independent business units. The quality program had, however, to be feasible. Thirdly, the structural changes to the existing system needed to be reinforced. The result of implementing these three radical changes was a drastic reduction in the size of the central management team and a big saving in administration costs.

8.6.3 Implementation of quality assurance and quality-control divisions

A third option is to implement quality assurance and quality-control divisions for each department. The quality assurance division can, for example, be responsible for keeping and updating the following documentation:

Quality systems / work policies / instructions / manuals / circulars

Treasury Guidelines, for example, MTEF (Department of Finance and State Expenditure, 2000 : 1-29)
Strategic plans (Treasury Regulation 5)
Basic accounting records (Treasury Regulation 17)
ISO-guidelines[2]

The primary task of the quality control division should be to ensure that the quality of services rendered by a department is of an acceptable standard. Another task of this division should be to give attention to complaints raised by the community in relation to the Batho Pele principles. The division should also be able if needed to investigate the physical quality of services. It must also form part of the internal audit process. The division should also report directly to the accounting officer. If the public still does not accept the quality standard of services rendered then the integrated medium-term budget performance process will have to be adapted and resources reapplied if necessary. Otherwise the latter should be considered as wasted or fruitless expenditure. These suggested divisions are illustrated in figure 8.4.

This third option should be linked to the National Treasury's integration of budget and strategic planning initiatives. The Provincial Treasury must prepare the provincial budget and exercise control over its implementation. In terms of the Treasury Regulations since 2002, all provincial departments have to appoint a CFO whose key role is to combine timely, materially accurate, relevant, complete and suitable present financial results and trends. In turn, the key responsibilities of the operational manager should also have the effect of enhancing

---

[2]ISO-guidelines: A uniform and consistent set of procedures, elements and requirements for quality assurance which can be applied universally to any quality management system (QMS) (Johnston, 1996 : 36).

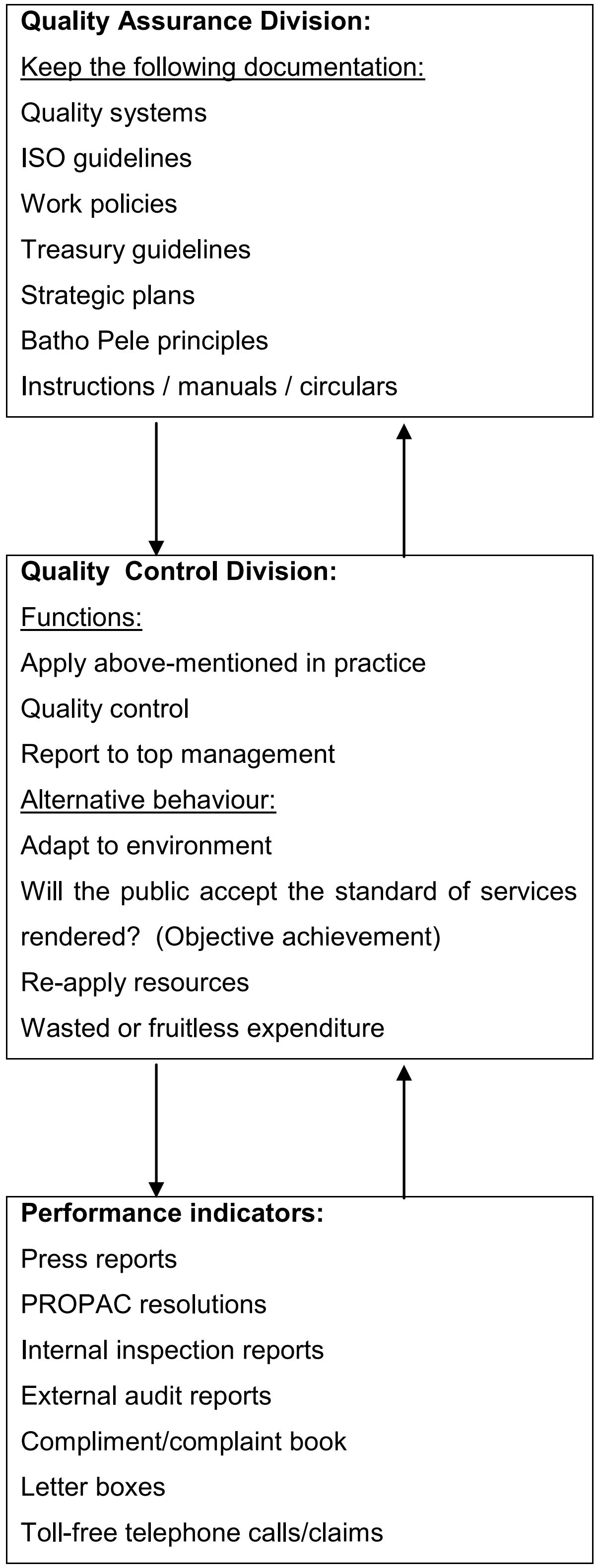

Quality Assurance Division:
Keep the following documentation:
Quality systems
ISO guidelines
Work policies
Treasury guidelines
Strategic plans
Batho Pele principles
Instructions / manuals / circulars
Quality Control Division:
Functions:
Apply above-mentioned in practice
Quality control
Report to top management
Alternative behaviour:
Adapt to environment
Will the public accept the standard of services rendered? (Objective achievement)
Re-apply resources
Wasted or fruitless expenditure
Performance indicators:
Press reports
PROPAC resolutions
Internal inspection reports
External audit reports
Compliment/complaint book
Letter boxes
Toll-free telephone calls/claims

Fig. 8.4

accountability regarding the use of resources and the achievement of outputs as set out in the PFMA. Given that the financial manager and operational manager have to work more closely together to deliver quality services to the public, both are responsible for their performance to the CFO and accounting officer.

8.6.4 Underspending

The Minister of Housing (Volksblad, 20 May 2005) referred in the budget debate of the National Council of Provinces (NCOP) to the problem of underspending by provinces, and announced that serious action will be taken against those provinces that underspend on their budgets. She also confirmed that more houses would be built in the next financial year because of the underspending in the previous one.

Prendergast (1997 : 44) is of the opinion that an operational manager who is afraid that he or she has forgotten to budget for some expenses adds a small amount of extra cost to each line of activity of the annual budget. The problem with „budget padding or slack' is that at the end of the financial year the financial statements may then reveal underspending according to the annual budget. Prendergast also maintains that underspending can be interpreted as low productivity: "Productivity is looked at in man-days, and if you insert slack and then go slow seeing as you have plenty of cost in the budget, it would only show up as low productivity making you look bad." (1997 : 45).

It seems that there will always be some budgetary padding or slack in any institution and that it might result in underspending. Prendergast (1997 : 46) also asserts that the abilities of financial managers with regard to budget management differ, and that if they know their budget is inaccurate they might ignore their performance reports. The way to minimize underspending, therefore, is to be found in section 27(4) of the PFMA, which determines that „measurable objectives' should be submitted when the annual budget is introduced in Parliament or in the Provincial Legislature. These measurable objectives should be calculated as accurately as possible to prevent financial managers from including „padding or slack’ in their budget proposals.

8.6.5 Risk management

Treasury Regulation 9 determines that the accounting officer for a department must exercise all reasonable care to prevent and detect unauthorized, irregular, fruitless and wasteful expenditure, and must therefore implement effective, efficient and transparent processes of financial and risk management. Section 38(1)(g) of the PFMA also determines that a departmental accounting officer after recovering any unauthorized, irregular or fruitless and wasteful expenditure must immediately report in writing particulars of the matter to the relevant treasury. The National Treasury may also make regulations applicable to certain departments concerning fruitless and wasteful, unauthorized and irregular expenditure (Section 76(2)(e) of the PFMA).

Departments are also not allowed to budget for losses. As indicated in chapter four, thefts, losses and claims should form part of the budget management process because losses written off reduce the financial resources available for the achievement of objectives. The Auditor-General (2002 : 28) reported in the annual report (2001/02) for the Department of Tourism, Environmental and Economic Affairs, for example, that there is no provision either for a fraud prevention plan or for risk assessment. Management of losses and claims is required in terms of Treasury Regulation 12.

Rowe (in Wharton, 1992 : 4) defines risk as: “the potential for unwanted negative consequences of an event or activity” .

According to McKinney (1995 : 180) risk management may be defined as a comprehensive and systematic approach aimed at identifying and controlling an entity’s exposure to accidental loss, theft, and liability involving human, financial, physical, and natural resources.

An effective risk management program has two outstanding benefits for government departments (Coe, 1989 : 187). Firstly, the creation of safe working environments results in fewer accidents, greater productivity, and improved staff morale. Secondly, the costs of accidents and expenditure associated with misuse or stolen assets are reduced. The management environment in the public sector always influences the decision-making process since decisions (see chapter seven) have to be taken under varying conditions of certainty. A distinction can be drawn between those based on certainty, uncertainty and risk. However, it is important to understand the most critical components of risk management.

According to Coe, (1989 : 188-189) a well established risk management program is based on three critical components namely a centralized unit with trained staff, formal management policies, and a good record-keeping system. These three components constitute the basis of the risk management process.

Visser and Erasmus (2002 : 201) assert that major risks can be identified by analyzing an institution's financial statements since all financial losses will have an adverse effect on either the balance sheet or the income statement. Drawing up an organizational chart delineating the structure and activities of a particular institution can identify the resources of its potential risk areas. In the course of time the insurance market has also developed comprehensive risk reviews that can assist institutions in identifying macro-risks. Risk management techniques such as the simulation model, decision tree and sensitivity analysis are also able to assist risk managers in the risk management process.

The continually rising costs of losses written off are forcing public institutions to examine their risk management activities (Visser and Erasmus, 2002 : 211). Quality assurance (see paragraph 8.6.3) forms part of the notion of maintaining quality in service delivery. In addition, effective budget management requires that financial and operational managers should also be encouraged to study and apply risk management thoroughly.

8.7 A proposed budget management model for the Free State Provincial Government

The proposed budget management model focuses broadly on four differentiated components:

8.7.1 Legislative framework for effective budget management

Budget management in the South African public sector is concerned with the planned acquisition and use of scarce resources by public institutions and entities. It involves decisions about the revenues to be collected and the expenditure needed to achieve the objectives set in the budget. These objectives are based on the needs of the community the public sector serves. Effective budget management is based on principles laid down in the Constitution, PFMA and other Acts. The proposed budget management model entails a conceptual framework that regulates budget management in a provincial department so that all revenue, expenditure, assets and liabilities are managed effectively and efficiently.

The budget management model addresses the budget as a management aid in the achievement of budget objectives. The office of the Auditor-General has been established to further accountable and transparent government and its contribution towards achieving effective budget management should be recognized. The Auditor-General is responsible for reporting on whether the financial statements of departments fairly represent their financial position and whether their transactions are within the law. The role of the Provincial Public Accounts Committee should also be seen as a contribution to overseeing the responsible and productive spending of public money.

8.7.2 Service delivery expectations and requirements in budget management

The role-players within the public service must be aware of the legislative framework, which was addressed throughout this research project. An evaluation of the audit reports over a period of fourteen years revealed substantial deviations between government's legislative framework and the practical application thereof. The above-mentioned shortcomings revealed that there is a definite need for training in the application of budget management guidelines and principles. The FMS system is complex and not user-friendly, making knowledge and skills essential, especially as far as the interpretation of various budget-related reports are concerned.

Departmental role-players experience extensive challenges in the budget management process due to various causes. Accordingly, the participants/role-players have to apply appropriate, approved managerial functions and skills to achieve departmental objectives. Role-players should realize that they are accountable to the public and must therefore accept responsibility for the tasks linked to their specific posts. The expectations of the public are that government should deliver specific public services and specific service standards should be maintained when such services are to be delivered. In all decisions affecting departmental outputs, financial impact must be objectively considered with the aim to provide the community with economical, efficient and effective public services.

8.7.3 Basic managerial functions and skills in the financial planning and control process

To be effective in the achievement of departmental objectives personnel with the necessary technical training and proficiency must perform budget management. Professionalism must be exercised during all financial decisions effecting departmental outputs. Management should apply decision-making techniques and models in the financial planning and control process. Examples of such techniques were also addressed in the proposed budget management model.

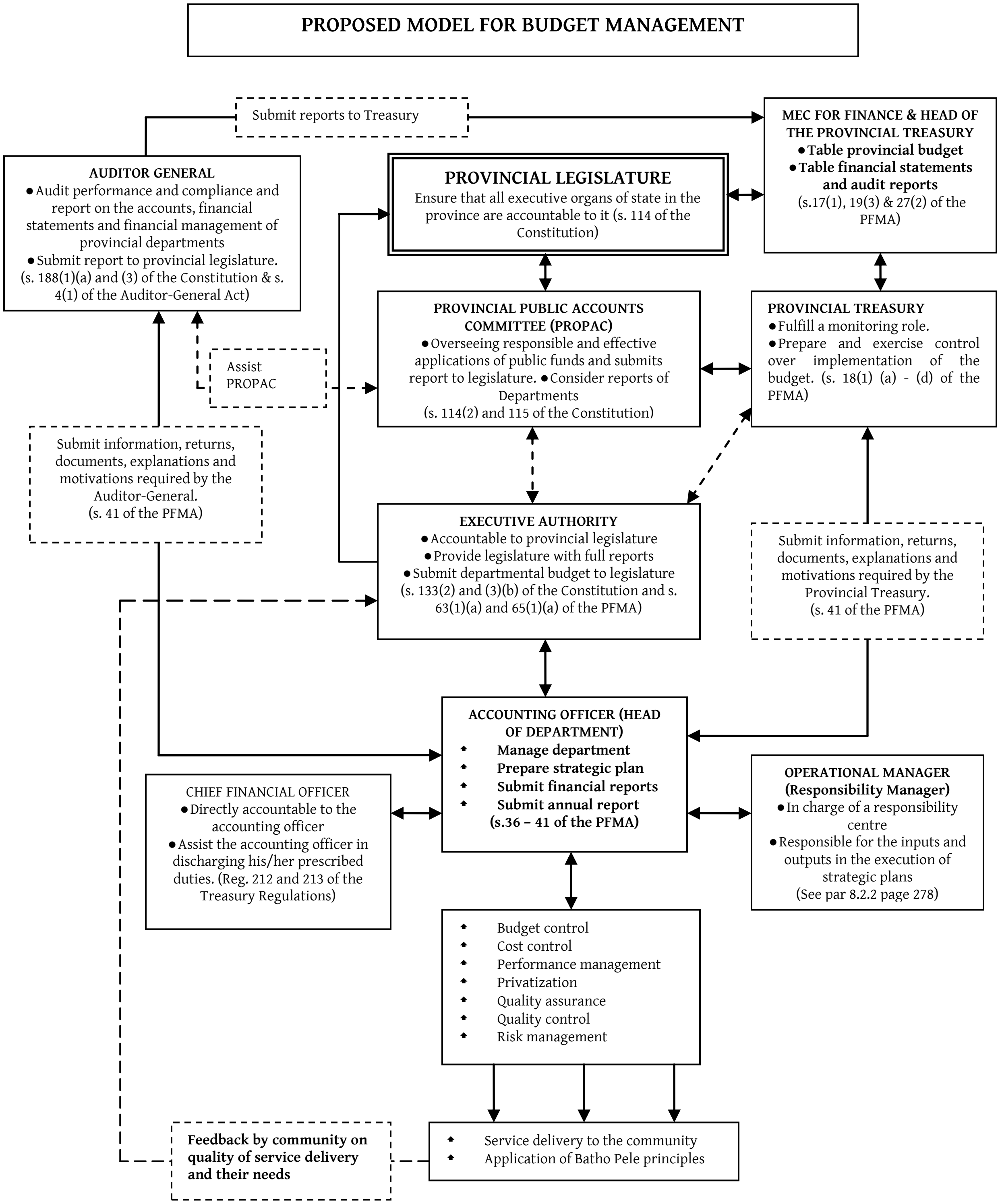
8.7.4 Complexity of the budget management control process

The absence of the profit measure in the public sector makes analysis and evaluation of management performance even more difficult than in profit-orientated firms. Economy is to be measured by the relationship between quantity and quality of resource inputs and its related cost. Efficiency is to be measured by the relationship between resource inputs and outputs. Effectiveness is to be measured by the extent that outputs accomplish set outcomes. Appropriateness is to be measured by the extent that outcomes of a program are the priority of the government and address the real needs of the community.

The budget management reforms of government (Treasury Guidelines, 2001:1) are based on the MTEF, which was implemented in the 1998 budget. The second phase of budget reform was the adoption of the PFMA in 1999 with its objective to modernize financial management and enhance accountability. The third phase of reforms includes the specification of measurable objectives and the introduction to robust output performance measures to enhance budgeting for service delivery.

The budget reform of government (Treasury Guidelines, 2001 : 5) includes integrating strategic planning and budgeting. This reform initiative complicates the budget management process even further because hierarchic structures must be reorganized, service delivery indicators created and performance measures implemented. The proposed budget model therefore addresses performance standards for financial management such as the responsibilities and functions of financial and operational mangers, reorganization of the hierarchic structure, service delivery indicators and performance measures. The budget management model is concluded with a discussion of options to strengthen the budget reform initiatives of government.

Against this background a budget management model is recommended which recognizes a specific managerial approach whereby effective budget management in the work environment should take place. The proposed budget management model is presented in figure 8.5 on page 302. With such a budget


PROPOSED MODEL FOR BUDGET MANAGEMENT
Submit reports to Treasury
MEC FOR FINANCE & HEAD OF THE PROVINCIAL TREASURY
● Table provincial budget
● Table financial statements and audit reports
(s.17(1), 19(3) & 27(2) of the PFMA)
AUDITOR GENERAL
● Audit performance and compliance and report on the accounts, financial statements and financial management of provincial departments
● Submit report to provincial legislature.
(s. 188(1)(a) and (3) of the Constitution & s. 4(1) of the Auditor-General Act)
PROVINCIAL LEGISLATURE
Ensure that all executive organs of state in the province are accountable to it (s. 114 of the Constitution)
PROVINCIAL PUBLIC ACCOUNTS COMMITTEE (PROPAC)
● Overseeing responsible and effective applications of public funds and submits report to legislature. ● Consider reports of Departments
(s. 114(2) and 115 of the Constitution)
PROVINCIAL TREASURY
● Fulfill a monitoring role.
● Prepare and exercise control over implementation of the budget. (s. 18(1) (a) - (d) of the PFMA)
Assist PROPAC
Submit information, returns, documents, explanations and motivations required by the Auditor-General.
(s. 41 of the PFMA)
EXECUTIVE AUTHORITY
● Accountable to provincial legislature
● Provide legislature with full reports
● Submit departmental budget to legislature
(s. 133(2) and (3)(b) of the Constitution and s. 63(1)(a) and 65(1)(a) of the PFMA)
Submit information, returns, documents, explanations and motivations required by the Provincial Treasury.
(s. 41 of the PFMA)
ACCOUNTING OFFICER (HEAD OF DEPARTMENT)
Manage department
Prepare strategic plan
Submit financial reports
Submit annual report
(s.36 – 41 of the PFMA)
CHIEF FINANCIAL OFFICER
● Directly accountable to the accounting officer
● Assist the accounting officer in discharging his/her prescribed duties. (Reg. 212 and 213 of the Treasury Regulations)
OPERATIONAL MANAGER (Responsibility Manager)
● In charge of a responsibility centre
● Responsible for the inputs and outputs in the execution of strategic plans
(See par 8.2.2 page 278)
Budget control
Cost control
Performance management
Privatization
Quality assurance
Quality control
Risk management
Feedback by community on quality of service delivery and their needs
Service delivery to the community
Application of Batho Pele principles

management model managerial training of financial and operational managers can occur effective and efficiently.

It is strongly believed that the legislative framework is a starting point for building a generally acceptable budget management model based on the “management by objective” budget technique. Empirical research has shown that the most important guidelines are in place to improve service delivery to the public. The first challenge will be to motivate all staff to be committed to the improvement of this delivery. The second challenge will be to teach and train staff and the third will be to persuade management to implement a budget management model with its aim to improve performance, objective achievement and service delivery.

8.8 Budget reform and the future

The measuring of service delivery and monitoring performance still require a great deal of work before they are fully implemented. Integrating strategic planning and the budget process, and implementing new service delivery and performance measurement tools represent a step in the right direction and should be developed to the full. Departments should build on their experiences and improve their service delivery. The same applies to the performance information published in the specific performance reports and annual budget documentation.

The budget reform initiatives are a gradual, slow and step by step process that will take time, effort and dedication, before they can be successfully implemented in the public sector. Departments are instructed by National Treasury (2001:40) to improve on their output specification and on the determination of robust output performance and indicators which naturally will differ according to the line function of the department and the nature of the outputs measured. Four categories of measuring outputs and service delivery were introduced by the 2002/03 national budget, namely quantity, quality, timeliness and cost, and in future, other performance measures might be added. Departments were also instructed by National Treasury (2001:41) to develop a service delivery target for each output measure. Performance measures are useful and inform managers, policy-makers, politicians and the public about the progress that departments are making towards their measurable objectives.

8.9 Further research

The results of the present research when taken together with the budget reform initiatives of government (National Treasury) indicate the necessity of undertaking two specific areas for further research. Given the research results of this study as well as the proposed budget management model for financial and operational managers in the Free State Provincial Government, the budget management model could also be applied with small adjustments in the following fields:

- The application of this model in other provinces and departments.

- An investigation into the budget management process of local governments (municipalities) to determine deficiencies in the budget management process and eventuality to improve performance and service delivery.

8.10 Conclusion

In the present research the framework has been established for identifying important functions regarding financial management in the public sector. Budget control and more specifically accurate expenditure control alone are not enough to ensure a quality service to the public. The third phase of government's budget reform initiatives includes integrating strategic planning and budgeting therefore the functions and responsibilities of financial and operational managers were evaluated.

In general, financial managers are appointed according to CORE (Code Of Remuneration) although the minimum qualifications required according to the **Public Service Act**, 1994 (Act 103 of 1994), as amended, are South African citizenship, a good character and that their condition of health, complies with such requirements as may be prescribed. Due to the complexity of the budget management process it is recommended that the minimum requirement for financial managers should be a suitably structured three to four-year tertiary qualification in the appropriate subjects.

Managing individual performance is a key resource management tool for ensuring that employees know what is expected of them. Job specifications and descriptions are essential in determining public accountability. Financial managers are also responsible for maintaining good relationships with, amongst others, the accounting officer, CFO, operational managers and other officials. By doing so they are adhering to the Batho Pele principles. The budget reform initiatives of National Treasury indicate that financial and operational managers should work more closely together. This integration means co-ordinating strategic plans and budget management to improve performance and then, ultimately, service delivery as well. In addition, organizational structures should be reorganized to adhere to National Treasury's reform initiatives. The main disadvantage of the functional organization structure, however, is that in practice a functional authority could either be rejected by role-players or in some instances even bypassed. It can also impede the task of operational managers because they must consider the prescriptions laid down by several functionaries, for example administrative, financial and human resource managers.

Monitoring and measuring performance and service delivery provides not only valuable information to managers but also contributes to effective financial planning and budgeting within departments and, furthermore, enhances service delivery to communities. National Treasury has at present identified four dimensions of performance that are useful for measuring output performance, namely the quantity of services to be delivered; the quality of the outputs which are to be delivered; the cost of supplying the outputs; and the timing required for delivery of the outputs. The relationship between these components is described in terms of economy, efficiency and effectiveness. In future, departments will be asked to develop output performance measures and service delivery indicators for other dimensions of performance as well. These therefore constitute important interdependent components of monitoring and measuring service delivery and performance. Developing performance measures is a complex undertaking, but keeping in mind their strategic plans, managers have to set realistic output performance targets against which achievements will be measured. In addition they ought to determine the process and format of performance reporting and establish processes and mechanisms to facilitate remedial action when needed. Performance measures should be simple, clearly expressed and specific, relevant and reliable, economical and easily measurable, adequate and manageable, and capable of being monitored.

The first possible solution is to privatize the service or function. This option is not always supported by labour unions because of the threat of job losses. The second possibility is to implement a quality control program. The purpose of such a program might be to turn performance around. To be successful the quality control program should rely on clear accountabilities, effective partnerships and committed leadership. An internal quality control program should also cover aspects such as public leadership, quality management, business leadership, process management and public involvement. A prerequisite is that it should be feasible. A third option is to consider the implementation of a quality assurance and quality control division for each department. The first-mentioned division’s purpose would be to gather all the necessary documentation to assure quality, and the latter division’s to apply these prescripts to controlling the quality of services rendered. This option can be linked to the integration of budget and strategic planning initiatives from National Treasury. A fourth option is to analyze the problem of underspending whereby endeavours to determine accurate measurable objectives should be encouraged by management to minimize it. Underspending in general occurs when “budget padding or slack” occurs whereby extra costs are added to the annual budget. To minimize underspending management should enforce section 27(4) of the PFMA, which determines that “measurable objectives” should be submitted in the annual budget proposals. These objectives should also be calculated as “accurately” as possible. Underspending could also be the result of lower productivity levels. The determining of specific productivity levels should be included in the fixing of measurable objectives and be part of departments’ strategic plan.

Finally, an accounting officer must implement effective, efficient and transparent processes of financial and risk management (Treasury Regulation 9). Risk management has been defined as a comprehensive and systematic approach aimed at identifying and controlling an entity’s exposure to accidental loss, theft, and liability involving human, financial, physical, and natural resources. Management for each department should therefore implement a risk management program. The appointment of a risk manager and the application of risk management techniques such as the simulation model, decision tree and sensitivity analysis can also assist the person responsible in the risk management process.

A well-established risk management program is based on three critical components, namely a centralized unit with trained staff, formal policies and a good record-keeping system. Major risks can be identified by analyzing a department’s financial statements. Drawing up an organizational chart outlining the structure and activities of the particular department can also identify the sources of risk. The insurance market can also be approached to assist a department in identifying macro-risks. Effective budget management requires that financial mangers should be encouraged to study and apply the risk management process thoroughly.

Performance measures need to be developed as well. When selecting the specific measures, certain aspects need to be considered, for example communication power, proxy power, data power and manageability. Other performance indicators such as press reports, PROPAC resolutions and audit reports might also be exploited. The suggested budget management model was also put into perspective. The first requirement for measuring performance will be to motivate all staff to be committed to the improvement of service delivery. The second challenge will be to train them accordingly. The third challenge will be to develop a budget performance model for each department.

Looking ahead, the budget reform initiatives from National Treasury are a slow process that cannot be implemented overnight. Departments are, however, requested to improve on the outputs and the development of robust output performance measures and service delivery indicators. The specific output performance and service delivery indicators will differ according to the nature of the services rendered. Departments have also been instructed by National Treasury to develop performance targets for each output measure. Performance measures are important to managers, policy-makers, politicians and the public. Performance measures provide information about the achievement of set objectives and the progress departments are making in that respect.

Resulting from this research taken together with the budget reform initiatives of government two specific areas for further research can be indicated. The proposed budget management model for financial and operational managers in the Free State Provincial Government could be applied with small adjustments in other provinces as well as local governments (municipalities) to improve performance and service delivery.

The final chapter contains a summary of the research methodology, the problem statement, conclusions and recommendations.

9 CONCLUSION: EXECUTIVE SUMMARY

9.1 Introduction

Chapter 1 discusses the hypothesis that the budget is an instrument of centralized management and promotes consistency in the process of resource allocation. Budget management and the achievement of objectives in a non-profitable institution are hindered by the partial disturbance of the input/output relationship and the lack of performance measurement. The basic assumption is that budget control and, more specifically, expenditure control are not enough to achieve budget objectives. Performance and service delivery need to be monitored as well. The measurability of objectives as prescribed by the PFMA also places a strong emphasis on cost-cutting and the acceptance of quantity, quality control and timeliness in service delivery.

In subsequent chapters that researched the relevant literature emphasis was placed on a critical evaluation of the budget management process. Firstly, the definition of a budget in a public set-up was discussed, after which the functions of the various role-players and public accountability were placed into perspective. Secondly, the functions of budget management were reviewed with the focus on planning and control and the way in which internal and external control measures support the budget management process. Thirdly, attention was given to the classification of budget information, the budget cycle and determination of allocations. The shifting of funds (virement approval) and prioritization of activities were also addressed.

9.2 Objectives of the empirical research

The budget process was theoretically and empirically investigated to determine the reasons why budget objectives are not being achieved. The budget management process was also critically evaluated, since budget management types and techniques, cost accounting systems and financial statements are crucial in assisting management and financial controllers in particular to achieve budget objectives. The second objective of the research was the critical evaluation of budget expenditure in the Free State Provincial Government over a period of fourteen years (from 1989/90 to 2002/03). In researching the relevant literature specific guidelines were established and the limitations of the above-mentioned aids identified- such aspects forming the basis for the evaluation of budget management.

The management of budgets is in reality vested in expenditure control, and therefore different types and techniques of budget management were investigated, the emphasis being on performance management and performance reports (outputs). Accordingly a third objective was the evaluation both of the importance of budgets as a basis for the preparation of various reports and of preparing performance reports. The fourth objective was to create a budget management model that could serve as a guideline for management to develop a similar model within its strategic domain. Additional objectives of the empirical study were the determination of measurable problem areas.

9.3 Research methodology

Due to the wide scope of the subject, the sensitive nature of the matter, the confidentially of some of the information needed and the methodology of the empirical research it was not possible to include all the government institutions in the research. Therefore it was essential that the rationale for selecting the specific method underlying both the theoretical and empirical research and its application be indicated.

The thesis began with a general introduction that included the results of research into the development of the budget management concept from a public sector perspective. It focused on a budget management model aimed at an optimal objective achievement by the various departments within the Free State Provincial Government. The theoretical component of the research included aspects such as the understanding and meaning of budget management; the budget as a management aid in the achievement of objectives; estimates of revenue, expenditure and the MTEF process. The empirical research was based on an analysis of appropriation accounts (financial statements) over a period of fourteen years. Deficiencies identified in the implementation of the budget system were also reviewed.

The scientific method was based on practical experience in the field. An “ex post facto” research method was followed based on the fishbone or root cause analysis of audit reports that included financial statements. Root cause analysis is useful specifically to understand business failure and downturns in performance. It was selected because it seemed to be the most suitable under the specific circumstances. The fishbone analysis method is an invaluable tool for gaining a valuable insight into how the budget process and performance (service delivery) can be improved.

The deficiencies in the application of the budget management system as measured against the advantages and disadvantages of budget management techniques were also addressed from a managerial viewpoint.

No given statistical method was followed in identifying the departments involved because gathering information via a questionnaire might have provided less useful information than that provided by analyzing their audit reports. Firstly, the nature of services differed, which means that the nature of the budget allocation process could not be compared. Secondly, a questionnaire might therefore not have been uniformly applicable to all the various departments due to these variations. The reliability of the empirical research is enhanced because all the departments of the Free State Provincial Government were involved in the analyzing process of preparing financial statements.

The results of the empirical research are not representative of all the public institutions in South Africa. Therefore the various deviations and conclusions are not applicable in general, but mainly to the departments of the Free State Provincial Government. It is the conviction of the researcher that these limitations had no impact on the validity of the empirical results.

9.4 Problem statement

The fundamental problem is manifested in the question as to why the budget objectives of the Free State Provincial Government cannot be achieved. If all the controllable factors responsible can be reduced or eliminated, the budget process could be applied more effectively and efficiently. The problem can be related to the input/output relationship of the private sector where performance or profit can be measured on a short-term basis. The same principal can be applied to the public sector, although where the aim in the private sector is profit maximization in the public domain it is service delivery. The value of a budget in a non-profitable institution declines in the partial absence of the input/output relationship. Expenditure control alone is not enough to apply the management by objective system successfully where performance needs to be measured as well.

The first immediate problem that was identified regarding the budget process concerns the capture of the approved budget information on the FMS as soon as possible after the beginning of a new financial year. The information in the budget document has to be broken down to the lowest level of activity before it can be captured on the FMS. To date the Budget document (white book /blue book) has only been presented at the program level. If this is not done, expenditure cannot be compared with the budget as approved by the Provincial Legislature.

The problem here is that more work needs to be done because projections have to be updated each month whereas in previous case that is experienced only twice a year and then includes projections for both the original budget and the adjustment budgets. Furthermore, there has to be a definite ruling on how soon the projections must be captured on the FMS after the closing of books each month. These projections should include the lowest level of activity as well. At the time when medium-term budget projections were implemented forward projections for a full year could be reviewed annually and not monthly.

The next problem involves the extent of thefts and losses since the more that thefts and losses are written off, the fewer resources are available to achieve budget objectives as government does not budget for such losses.

The fourth problem hindering the achievement of objectives concerns extraordinary events such as *vis major* and other unavoidable losses that cannot be foreseen and are not budgeted for, but which nevertheless should be financed from resources allocated to other objectives. According to the budget for the 2002/03 financial year provision was made for a “Contingency reserve” - for example, for 2003/04 and the MTEF (up to 2005/06) R50 million was budgeted for each financial year. Depending on the magnitude of the extraordinary event that might occur, the new budget development addresses this problem to a certain extent and can be viewed as an improvement on the traditional budget where no provision was made for any *vis major* events. If no *vis major* events occurs it is possible that these funds might be allocated through virement approval to another program. However it is also true that the R50 million set aside is underestimated, and funds could end up still being recovered from other programs if the expenditure incurred by the *vis major* event exceeds the budgeted amount of R50 million for a specific financial year.

A further problem has to do with the fact that budget manipulation can take place and will have the same effect as in the previous case discussed. The services to which the resources originally had been allocated might not have been delivered, and accordingly, reprioritization will have to take place to keep within the budget parameters.

9.5 Conclusion and recommendations

Chapter two: Budget management in the South African public sector is concerned with the planned acquisition and use of resources by public institutions and entities. It involves decisions about the revenues to be collected and the expenditure needed to achieve the objectives set in the budget. These objectives must be based on the needs of the community the public sector serves. Effective financial management is based on principles laid down in the Constitution, PFMA and other Acts. Their purpose is to provide a legislative framework that regulates financial management in national and provincial departments so that all revenue, expenditure, assets and liabilities of those institutions are managed effectively and efficiently.

The function of the Office of the Auditor-General is to ensure accountable and transparent government; and its contribution towards achieving effective budget management should be recognized. The Auditor-General is responsible for reporting on whether the financial statements of departments fairly represent their financial position and whether their transactions are within the determined guidelines. The role of the Provincial Public Accounts Committee should also be seen as a contribution to overseeing the responsible and productive spending of public money.

There is a multitude of policies, strategies, structures and programs in place to achieve effective budget management in the South African public sector. These include, for example, Financial Manuals, Budget Manuals and Treasury Regulations. The intention of government is to provide accounting officers, the CFO's, departmental accounting staff, and financial and operational managers with a financial framework enabling them to perform to the best of their abilities.

Departmental role-players experience extensive challenges in the budget management process. Accordingly, the participants/role-players have to apply appropriate, approved management functions and skills to achieve departmental objectives. Role-players should realize that they are accountable to the public for their actions and must therefore accept responsibility for the tasks linked to their specific posts.

For successful budget management the above-mentioned structures, policies and legislation need to be applied in practice. Operational personnel should agree on budget targets and commit themselves to the achievement of such targets. According to section 27(4) of the PFMA the accounting officer of each department must submit to the Provincial Legislature measurable objectives for each main division within the departments vote. By so doing operational personnel are able to receive budgets in a form relevant to their work - for example the number of units delivered or produced. Operational personnel must also be trained to understand the need for budgets and how they are used overall. The budget advisory committee and the participative group element approach it embodies constitute another important management tool that can assist the accounting officer in the motivation of personnel and the achievement of objectives.

Chapter three: Financial planning without financial control is unthinkable. By definition financial planning furnishes standards of control. The budget is the obvious financial plan by means of which management can improve the achievement of budget objectives. Other considerations such as objectives, policies, rules, procedures and strategies are equally important because they also contribute towards the achievement of the required objectives. According to Treasury Regulation 5.1.1 an accounting officer has to prepare a strategic plan conforming to departmental objectives. Treasury Regulation 5.2.2 determines that this strategic plan must inter alia also incorporate details regarding a Service Delivery Improvement Program.

Financial control can be defined as an entire process of monitoring activities aimed at the optimal achievement of set objectives. The Provincial Legislature must appropriate money each financial year to meet the requirements of the province. Therefore performance must be monitored by management by means of a periodic comparison between planned and actual results to ensure the optimal utilization of the available resources.

The FMS was developed and then implemented in the Free State Provincial Government from 1 April 1989 to provide managers with the information and facilities needed to support the accounting officers in the process of service delivery. With the implementation of the PFMA, government intended to reform the budget system and so introduced the “measurable objectives” concept referred to in section 27(4). In addition Treasury Regulations 5.3.1 and 18.3 provided for quarterly and annual performance reports that had to be compiled by the accounting officers. Since 1 April 2002 annual performance reports have had to include information about an institution’s efficiency, economy and effectiveness in delivering programs and about achieving its objectives and outcomes as compared with the measures and indicators set out in the strategic plan for the year under consideration.

Internal financial control has various aims and objectives, for example, safeguarding against losses, fruitless and unauthorized expenditure or misappropriation. It also promotes not only the efficiency of institutional activities, but also the efficient use of resources. The PFMA and Treasury Regulations require that accounting officers use reports derived from the scrutiny of the budget, internal audit, external audit and PROPAC to improve the performance of their respective departments. The focal point of financial control is the responsibility manager because that individual is responsible for the activities of a responsibility centre. Responsibility managers should also follow up on any deviations appearing in financial reports and take remedial steps to adhere to public accountability.

Internal financial control fulfills an important function in the achievement of departmental objectives, and management should utilize its contribution, for example, towards safeguarding against losses, fruitless and unauthorized expenditure and to attain efficiency and to improve performance. An effective internal financial control system provides an important benefit in that the internal audit reports serve as a performance indicator. Treasury regulations 27(1) and (2) and the PFMA determine the financial control functions of management. Internal financial control mechanisms include audit committees, reports of the Auditor-General and PROPAC. Management should in practice apply these financial control mechanisms to the full to improve their departmental performances and therefore also maintain service standards to the public.

Chapter four: The budget process forms an important component of the integrated financial management system. As such, its importance with regard to the management of scarce financial resources cannot be underestimated or disregarded. In order to use budgets optimally the process is structured and categorized with regard to the determination of priorities and types of expenditure.

Budget information is now classified in accordance with three broad guidelines for the allocation of expenditure. Current expenditure is the current expenditure by departments on goods or services not classified as transfer payments, and is not used to obtain capital assets. Capital expenditure includes expenditure on the purchase of land, buildings and structures and equipment, but excludes small items with a value of R1 000.00 or less that are repeatedly purchased. Transfer payments refer to amounts transferred to other institutions and organizations, and which are not spent on goods or services for the department on whose vote they appear. Budget information is also classified according to eight standard items illustrating the expected expenditure required for the various goods and services needed to achieve a Department's objectives. These „inputs' are viewed as a necessity in attaining them.

The budget cycle was accorded a greater emphasis and now forms an important part of the budget planning process. The budget planning submission forms the basis of appropriations for each forthcoming financial year and of future estimates for the subsequent two years. Accounting officers must make sure that inputs are compiled accurately. The provincial adjustments-budget and *virement* -approval allow management to make adjustments to the main budget of a current financial year. The provision for *virement*, however, encourages budget manipulation by allowing management to alter the original budget approved by Parliament and the Provincial Legislatures. Moreover, by so doing the prioritization of activities is jeopardized because funds are no longer linked to a specific priority classification code on the FMS. After *virement* -approval the financial information on the FMS should also be adapted.

The analysis of voted amounts compared to expenditure revealed the following measurable problem areas:

- Budget manipulation took place. This means that funds could be shifted from one objective (program) to another and even from one department (vote) to another.

- Because of late payments, cash discount savings could not be used to save financial resources.

- The percentage deviation regarding over- or underspending by various departments in a number of years between the voted amounts and the corresponding expenditure differed substantially. In some instances the deviation exceeded the limitation of two per cent by more than ten per cent.

- In many cases programs were over-spent while others were under-spent. This means that managers had the opportunity of including budget padding or slack in such programs. It should be pointed out that the “prevention of underspending” should be added to the accounting officer’s budgetary control duties because it effects service delivery negatively. Underspending indicates that measurable budget objectives have not been met and that the budget management process is ineffective.

- Thefts, losses and claims should form part of the budget management process because losses written off reduce the available financial resources for the achievement of objectives. In the Department of Public Works, Roads and Transport, for example, the trend showed a progressive increase in thefts and losses. It was, however, found that according to financial statements, thefts and losses were correctly deducted from amounts budgeted for as determined by Treasury Regulation 12.

- The above-mentioned shortcomings reveal that there is a definite need for training in the FMS, the budget process and in expenditure control. The FMS is complex and not user-friendly, making training especially as far as the interpretation of various budget-related reports is concerned essential.

- The trend in expenditure over a period of fourteen years shows a sharp increase. Decreases were exceptions, a phenomenon, which commencing from the time of the Second World War, emphasizes the fact that scarce resources should be managed properly.

The current provincial government dispensation that began its existence on 1 July 1995 increased the complexity of budget control by the addition of a further thirteen votes to the previous five votes. Management should take note of the "closing of books" on a monthly and yearly basis. Standard procedures such as the clarification of certain ledger-, suspense-, and disallowance accounts determines that the books cannot be closed any time during a financial year (Department of Finance and Expenditure, 1996 : 1-3). If any restructuring in portfolios is planned it should be introduced at the end of the financial year, taking effect from the beginning of the new financial year.

An evaluation of the Free State Provincial Government's audit reports indicates that there is non-compliance with financial legislation and Treasury Regulations. The audit reports revealed for example the following shortcomings:

- Surplusses not surrendered: Section 9(7) of the **Exchequer Act**, 1994 (Act 1 of 1994).

- Lack of *virement* approval: Paragraphs 3.3.1 and 3.5.4 of the Manual on the Financial Planning and Budgeting System of the State.

- Expenditure exceeding the voted amounts: Section 20(1)(b)(i) of the **Exchequer Act**, 1994 (Act 1 of 1994).

- Lack of submission of financial statements in due time to the Auditor-General: Section 40(1)(c)(i) of the PFMA.

- Inadequate system of internal control under the charge and direction of an audit committee: Sections 76 and 77 of the PFMA.

- Approval for the delegation of powers in writing not available: Section 44 of the PFMA.

- Lack of a fraud prevention plan and risk assessment: Treasury Regulation 12.

- Wasteful and avoidable expenditure: Chapter W of the Treasury Instructions and Treasury Regulation 9.

- Lack of supporting documentation passed on to the Auditor-General by Sections 40(1)(a) and 41 of the PFMA.

- Neglect to establish either an internal audit function or an audit committee: Section 38(1)(a)(ii) of the PFMA.

- Non-compliance with financial guidelines governing telephone and cell phone costs: Treasury Regulation 8.

- Non-collection of money due to a Department: Section 38(1)(a) and (c) (i) of the PFMA and Treasury Regulation 7.

- Failure to submit reconciliation between PERSAL and FMS systems: Section 2 of the PFMA.

- Annual report not submitted to the Provincial Legislature: Section 210(7) and 213 of the interim **Constitution**, 1993 (Act 200 of 1993).

Volksblad (2 November 2005) stated that PROPAC addressed the Department of Health to attend to its unauthorized expenditure of R56,156 million. This is an indication that budget related problems still exist and should be attended to

(Treasury Regulation 9.1.1). Unauthorized expenditure is deducted from the budget and reduces the amount available for the following year to deliver health services.

Notwithstanding the fact that expenditure is compared to the voted amounts, the main problem area lies in the need for reliable performance reports that stipulate which objectives have been achieved and which not, and for providing reasons why the objectives in the original budget were not achieved. Management should know how to use performance reports and analyze deviations. It should also know how the budget system works and how to analyze the budget. Such analysis establishes the relationship between the resources and an institution's programs, mission and function. At the same time the appropriateness of public spending is also determined.

Chapter five: Treasury Regulation 7.3.1 determines revenue management in the public sector and includes the specific functions and responsibilities of an accounting officer in a provincial department. Such officers must review at least, annually, all fees, changes or the rates, scales, tariffs of fees and changes not enforced by any law that relate to revenue accruing to a revenue fund. They must obtain approval from the Provincial Treasury for the proposed tariff structure. The accounting officer of each department must also effectively and efficiently manage the formation of appropriate processes to provide for the identification, collection, safe-guarding, recording and reconstruction of information about its revenue. The financial management system provides for various vote-and-fund codes and must be used both to identify the sources of income and provide a detailed summary.

An essential component of the financial planning process is the financial estimates of the various activities. An estimate forms the basis from which the budget is compiled. The difference between estimates and budgets has been pointed out, namely that, unlike budgets, estimates are not subject to auditing although their preparation is essential. The main advantages of estimates include, firstly, a timely identification of over- and underspending that allows a manager to take remedial action. Secondly, they promote rational decision-making, permitting top management to decide whether the cost involved justifies the results. Thirdly, estimates also play an important role in an economy that experiences a shortage of scarce financial and other resources. The MTEF has certain advantages- for example, provinces are allowed to plan and budget for the delivery of services in line with policy priorities. Political decision-making and accountability are improved as policy choices may be linked more effectively to spending plans and to the delivery of services. The most significant disadvantage of the MTEF is that the reliability of estimates will depend on the completeness of the information available. Estimates must also be revised frequently, implying in turn an additional workload on those involved. Cost accounting techniques are essential in expenditure estimates and should form part of the budget training process.

The differences between the various functions of the financial and operational manager were emphasized. Operational managers, for example, must prepare monthly and annual performance reports in the new dispensation. The integration of performance management and financial management systems promotes efficiency both in the use of resources and in preparing reports on program performance. It also assists in achieving departmental objectives, and in setting key output performance measures and service delivery indicators. The monitoring and measuring of service delivery and performance may be viewed as a process of managing the progress towards the achievement of objectives. Its potential benefits include an improved quality of service and outputs, greater accountability and control, enhanced planning and budgeting, improved equity and accessibility of services, and better communication.

The main public finance reform introduced in 2001 is the integration of strategic planning into the budget process. The implementation of the MTEF-concept is more than a step in the right direction and should be developed fully to improve the quality of services rendered to the community. It should be emphasized, however, that an “excellent budget” does not necessarily means that service delivery is going to be improved, because of underspending, lack of quality control and unauthorized expenditure. Integrated strategic planning therefore complements and consolidates recent reforms in public finance management. In particular, integrating strategic planning, budgeting and the monitoring of service-delivery performance, coupled with effective financial information and advice, strengthen the link between the services that departments provide and the benefit and costs involved. Because of their importance, short-term estimates and the MTEF process form an integral part of the internal and external auditing process. The MTEF also forms the basis for the government’s budget reform initiatives.

Chapter six: The emphasis has been on both the theoretical and practical deficiencies that were identified. These deficiencies may be summarized as follows:

- The disturbance of the input/output relationship actually means that performance cannot be measured against profit as in the private sector. To compensate for the absence of a measurable performance indicator as in the case of the private sector, management should focus on financial statements and reports - the equivalent of revenue statements in that sector - to measure performance.

- Management should have unimpeded access to budget information right from the beginning of each new financial year. The reason for this is it can compare present expenditure with the budgeted amounts and take remedial action when and if needed. By so doing it can determine any over- and underspending trends and apply *virement*.

- Projections should be captured on a monthly basis on the FMS. If this activity is not executed properly, management will not know how much budgeted money needs to be requested monthly from National Treasury. This also applies to the commitment register to ensure that "commitments" are not forgotten and that the budget is then not exceeded.

- A lack of projections may also lead to cash-flow problems that are then indicative of ineffective financial planning and financial control. Interest on overdrafts must also be taken into account, and any interest paid has to be seen as resources wasted. This applies also to discount which could be utilized if payments were done in due time.

- Budget manipulation promotes the misallocation of resources, and cannot be used for the monitoring of performance.

- Public servants, and in particular accounting officers, are accountable to the MECs and to the Provincial Legislature. The problem experienced in this regard is that departments ignore requests from the Provincial Treasury to give additional information on financial statements with regard to questions raised by PROPAC. Due to problems experienced by PROPAC, departmental representatives are now required to attend its meetings and answer unanswered questions. The important role that PROPAC fulfills in the financial control process should be recognized by all heads of department and its contribution to effective and efficient service delivery needs to be supported.

- Press reports and those of the Auditor-General have indicated that shortcomings relating to audit committees still exist on national and provincial level, and as a result might have a negative effect on the effectiveness of the internal audit function.

- Unauthorized expenditure incurred during the 1996/97 and 1997/98 financial years amounted to R139 502 693 and R499 347 044 respectively. Although the situation with regard to unauthorized expenditure has improved since then, the annual audit report of 2002/03 revealed that the Department of Education underspent R199 million for the financial year which in turn is indicative of poor financial planning and budget control - a situation as serious as unauthorized expenditure. Both overspending, including unauthorized expenditure, and underspending are indicative of poor public management, and are deficiencies that indicate poor public management. The lack of "capacity" is often mentioned as reason for underspending.

- Losses should be monitored constantly, and management should be aware of the impact of losses and claims on financial resources. Their prevention should be part and parcel of each department's strategy to achieve budgeted objectives.

- The view of the Free State Premier that service delivery should be improved and cost implications reduced is cordially supported. Both positive and negative press reports were issued with regard to service delivery at the Pelonomi-hospital. In the positive feedback two independent researchers were appointed to investigate the hospital's poor performance, and since they were probably paid by the Department of Health Services the resulting report amounted to an unnecessary cost and the objectivity of the report was brought into question. One may ask why the internal audit units were not involved or why neither the expertise of the Central University of Technology, Free State nor that of the University of the Free State was engaged.

- Activity-time analysis (quantity, quality, timeliness and cost) might aid performance monitoring, but to succeed will depend on strict control and on much paperwork. It will also place an extra burden on financial resources. Activities should be as economical managed as possible which means achieving the lowest cost for a given quality and quantity of inputs. The quality of services rendered should be acceptable to the target community.

- The Batho Pele policy provides for service standards, and several will definitely require some kind of quality control. ISO'-guidelines might, for example, be implemented to improve the quality of services, but who is to be held responsible for the quality control of these services? According to the changing roles of financial and operational managers (see chapter five paragraph 5.6.7.1) the latter are responsible for key decisions in providing for service quality. It is possible that they do not spend enough time on doing so or that they are not trained to exercise the control function properly. The Batho Pele policy recognizes the need for quality services, but does not in fact provide any - a major deficiency that appears to affect all departments.

Chapter seven: Management implements strategic plans to achieve the objectives of a department. After a strategic plan of action has been agreed on it is incorporated in a written financial document (the budget). Once the budget has been approved it may be used as a means of controlling a department's expenditure and operational activities. The financial planning and control process generally involves a substantial number of financial and other decisions that have to be made to achieve budgeted objectives.

General guidelines for decision-making having been discussed, managers must carefully consider them before taking a decision. Firstly, they should have an adequate knowledge of the specific environment in which the decision has to be made. Secondly, they must make sure that a problem really exists. Thirdly, management should be aware that most decisions include an element of risk and uncertainty. Fourthly, it should also be kept in mind that once a decision is made

' ISO – International Organization for Standardization.

responsibility for it has to be accepted. Finally, management should neither hurry into a decision nor delay its implementation either. If a hasty decision has been made it is possible that all the financial implications might not have been properly considered and, as a result, could lead to financial resources being wasted that otherwise might have been avoided. If management hesitates to make decisions or is afraid of their implications, a community might not receive the services it is entitled to.

To guide managers in solving problems effectively the various steps in the decision-making process have been put into perspective. It is important here to note that any problem should be defined carefully after it has been identified, the reason being that if a problem does not actually exist, time and financial resources should not be wasted on a non-existent difficulty. If a decision was taken then the financial and operational managers should evaluate it periodically. If its outcome (or its result) is found to be unsatisfactory the decision process should commence again from the beginning namely the cause of the failure has to be established. Furthermore, various decision-making methods have been discussed, for example the “card index system” and the “Padal” method. Some decisions are of a routine type while others are more complex. Within broadly specified guidelines, for example those laid down by the PFMA and the Treasury, management should seek a solution for whatever problem that may present itself and take certain decisions. Decision-taking is important specifically where financial resources are limited and where activities have to be prioritized. Furthermore, the decision-makers should be aware of the costs involved, and the inputs should therefore be as low as possible.

In an uncertain world risks are always present, and managers should be aware of them. The several factors that play a role in the decision process have been discussed, for example, the nature of the public set-up; community values and standards; rules governing administrative law; departmental, structural and institutional factors; the external environment and the influence of the human factor on decision-makers. The following decision-making techniques were also investigated in the relevant chapter, namely the mathematical technique; the para-mathematical or decision techniques based on logical thinking; analytical; behaviouristic and nominal group techniques. These techniques can assist managers in deciding between several alternatives. Decision-making models also represent the various approaches available to decision-makers when faced with a specific problem. The following models were then reviewed: the probability theory; the sequential-decision model; the incremental change model; the satisfying model and the heuristic method.

Decision-making in the public sector must respect community values and norms. Decisions must be legal, rational and reasonable otherwise they may be tested in the courts. Modern society confronts public officials with increasingly complex problems, and effective decisions are only possible if all the available knowledge to assist managers in the decision-making process is applied.

Chapter eight: In the present research the framework has been established for identifying important functions regarding financial management in the public sector. Budget control and more specifically accurate expenditure control alone are not enough to ensure a quality service to the public. The third phase of government's budget reform initiatives includes integrating strategic planning and budgeting therefore the functions and responsibilities of financial and operational managers were evaluated.

In general, financial managers are appointed according to CORE (Code Of Remuneration) although the minimum qualifications required according to the **Public Service Act**, 1994 (Act 103 of 1994), as amended, are South African citizenship, a good character and that their condition of health complies with such requirements as may be prescribed. Due to the complexity of the budget management process it is recommended that the minimum requirement for financial managers should be a suitably structured three to four-year tertiary qualification in the appropriate subjects.

Managing individual performance is a key resource management tool for ensuring that employees know what is expected of them. Job specifications and descriptions are essential in determining public accountability. Financial managers are also responsible for maintaining good relationships with, amongst others, the accounting officer, CFO, operational managers and other officials. By doing so they are adhering to the Batho Pele principles. The budget reform initiatives of National Treasury indicate that financial and operational managers should work more closely together. This integration means co-ordinating strategic plans and budget management to improve performance and then, ultimately, service delivery as well. In addition, organizational structures should be reorganized to adhere to National Treasury's reform initiatives. The main disadvantage of the functional organization structure, however, is that in practice a functional authority could either be rejected by role-players or in some instances even bypassed. It can also impede the task of operational managers because they must consider the prescriptions laid down by several functionaries, for example administrative, financial and human resource managers.

Monitoring and measuring performance and service delivery provides not only valuable information to managers but also contributes to effective financial planning and budgeting within departments and, furthermore, enhances service delivery to communities. National Treasury has at present identified four dimensions of performance that are useful for measuring output performance, namely the quantity of services to be delivered; the quality of the outputs which are to be delivered; the cost of supplying the outputs; and the timing required for delivery of the outputs. The relationship between these components is described in terms of economy, efficiency and effectiveness. In future, departments will be asked to develop output performance measures and service delivery indicators for other dimensions of performance as well. These therefore constitute important interdependent components of monitoring and measuring service delivery and performance. Developing performance measures is a complex undertaking, but keeping in mind their strategic plans, managers have to set realistic output performance targets against which achievements will be measured. In addition they ought to determine the process and format of performance reporting and establish processes and mechanisms to facilitate remedial action when needed. Performance measures should be simple, clearly expressed and specific, relevant and reliable, economical and easily measurable, adequate and manageable, and capable of being monitored.

The first possible solution is to privatize the service or function. This option is not always supported by labour unions because of the threat of job losses. The second possibility is to implement a quality control program. The purpose of such a program might be to turn performance around. To be successful the quality control program should rely on clear accountabilities, effective partnerships and committed leadership. An internal quality control program should also cover aspects such as public leadership, quality management, business leadership, process management and public involvement. A prerequisite is that it should be feasible. A third option is to consider the implementation of a quality assurance and quality control division for each department. The first-mentioned division's purpose would be to gather all the necessary documentation to assure quality, and the latter division's to apply these prescripts to controlling the quality of services rendered. This option can be linked to the integration of budget and strategic planning initiatives from National Treasury. A fourth option is to analyze the problem of underspending whereby endeavours to determine accurate measurable objectives should be encouraged by management to minimize it. Underspending in general occurs when "budget padding or slack" occurs whereby extra costs are added to the annual budget. To minimize underspending management should enforce section 27(4) of the PFMA, which determines that "measurable objectives" should be submitted in the annual budget proposals. These objectives should also be calculated as "accurately" as possible. Underspending could also be the result of lower productivity levels. The determining of specific productivity levels should be included in the fixing of measurable objectives and be part of departments' strategic plan.

Finally, an accounting officer must implement effective, efficient and transparent processes of financial and risk management (Treasury Regulation 9). Risk management has been defined as a comprehensive and systematic approach aimed at identifying and controlling an entity's exposure to accidental loss, theft, and liability involving human, financial, physical, and natural resources. Management for each department should therefore implement a risk management program. The appointment of a risk manager and the application of risk management techniques such as the simulation model, decision tree and sensitivity analysis can also assist the person responsible in the risk management process.

A well-established risk management program is based on three critical components, namely a centralized unit with trained staff, formal policies and a good record-keeping system. Major risks can be identified by analyzing a department's financial statements. Drawing up an organizational chart outlining the structure and activities of the particular department can also identify the sources of risk. The insurance market can also be approached to assist a department in identifying macro-risks. Effective budget management requires that financial mangers should be encouraged to study and apply the risk management process thoroughly.

Performance measures need to be developed as well. When selecting the specific measures, certain aspects need to be considered, for example communication power, proxy power, data power and manageability. Other performance indicators such as press reports, PROPAC resolutions and audit reports might also be exploited. The suggested budget management model was also put into perspective. The first requirement for measuring performance will be to motivate all staff to be committed to the improvement of service delivery. The second challenge will be to train them accordingly. The third challenge will be to develop a budget performance model for each department.

Looking ahead, the budget reform initiatives from National Treasury are a slow process that cannot be implemented overnight. Departments are, however, requested to improve on the outputs and the development of robust output performance measures and service delivery indicators. The specific output performance and service delivery indicators will differ according to the nature of the services rendered. Departments have also been instructed by National Treasury to develop performance targets for each output measure. Performance measures are important to managers, policy-makers, politicians and the public. Performance measures provide information about the achievement of set objectives and the progress departments are making in that respect.

Resulting from this research taken together with the budget reform initiatives of government two specific areas for further research can be indicated. The proposed budget management model for financial and operational managers in the Free State Provincial Government could be applied with small adjustments in other provinces as well as local governments (municipalities) to improve performance and service delivery.

List of references

Anandarajan, A. Wen, H.J. & Anandarajan, M. 1997. Ensuring cost effectiveness in implementing client server systems: an activity-based approach. **Management Accounting**, 75(10): 62-66.

Anthony, R.N. & Welsch, G.A. 1977. **Fundamentals of management accounting.** Revised ed. Illinois: Irwin.

Ariss, A. 1996. Managing performance in the public sector: an international perspective. **Management Accounting**, 74(11): 46-48.

Association of Public Accounts Committees (APAC). 2003. **Effective Public Accounts Committees.** Cape Town: Simunye Press.

Auditor-General, 1995. **Free State Provincial Public Accounts Committee: Proposed Method of Work.** Prepared by the Office of the Auditor-General. Bloemfontein : Unpublished manual: Feb.: 1-11.

Auditor-General, 2001. **General report on audit outcomes for the year ended 31 March 2001.** Pretoria: Government Printer RP 58/2002.

Auditor-General, 2003. **General report of the Auditor-General on audit outcomes for the financial year ended 31 March 2003.** Pretoria: Government Printer RP 214/2003.

Booth, R. 1997. Performance management: making it happen. **Management Accounting**, 79 (10): 28-30.

Botes, P.S., Brynard, P.A., Fourie, D.J. & Roux, N.L. 1992. **Publieke Administrasie en Bestuur.** Pretoria: De Jager-Haum.

Bothma, J.du P. 2000. **Wildplaas-bestuur.** 3de uitgawe. Pretoria: Van Schaik.

Brooks, M.J. 1988. Financial accounting principles and management accounting practice. **Management Accounting**, 66 (9): 20-22.

Bunce, P. & Fraser, R. 1997. Beyond budgeting. **Management Accounting**, 75(2): 26.

Campbell, I.J. 1985. Budgeting, is it a technical or behavioural process? **Management Accounting**, 63(2): 66-70.

Cloete, J.J.N. 1980. **Inleiding tot die publieke administrasie.** 4de uitgawe. Pretoria: Van Schaik.

Coe, C.K. 1989. **Public Financial Management.** Englewood Cliffs: Prentice Hall.

Constitution of the Republic of South Africa, 1993 (Act 200 of 1993). Government Gazette no. 15466. Cape Town: Government Printer.

Constitution of the Republic of South Africa, 1996 (Act 108 of 1996). Government Gazette no. 2083. Cape Town: Government Printer.

CORE, 2002. **Code of Remuneration for all Occupations.** 1 July 2002. http:11dpsa.gov.

Debis Fleet Management (Brochure): A Daimler Chrysler Services Group Company. [s.a.]. Pretoria. debis@daimlerchhrysler .com

Department of Finance and Expenditure. 1995. **Summary of instructions in respect of loss control matters.** Finance Circular no. 1 of 1995. Reference ACS 68/ACS 16 (Vol. 10). Bloemfontein. 23 Jan.

Department of Finance and Expenditure. 1996. **Closing of the 1995/96 financial year.** Finance Circular no. 10 of 1996. Reference ACS 68(1996). Bloemfontein. 19 Mar.

Department of Finance and Expenditure. 1996. **Financial managers.** Finance circular no. 4 of 1996. Reference ACS 2/ACS 68. Bloemfontein. 14 Feb.

Department of Finance, Expenditure and Economic Affairs. 1996. **Withdrawal of Finance Circular: Financial Managers.** Finance circular no. 17 of 1996. Reference ACS 2/ACS 68. Bloemfontein. 9 Sep.

Department of Finance and State Expenditure. 2000. **Medium Term Expenditure Framework.** Treasury guidelines on preparing 2001 budget submissions. Jun.: 1-34.

Department of Finance and State Expenditure. 2000. Memo to: Provincial Treasuries. 1997. **Draft guidelines for MTEF submission.** Pretoria. May: 1-7.

Department of Public Service and Administration. 1997. **Personnel performance management system (PPMS).** Circular with reference 2/3/23 issued to heads of all departments/provincial administrations and offices of provincial commissions. Pretoria. 14 May.

Department of State Expenditure. 1995. **Framework for normative measures for financial management in the public sector.** Circular with reference SA 3/5/4. Pretoria. 10 Nov.

Department of State Expenditure. 1997. **Introduction to Budgeting.** Pretoria.

Department of State Expenditure. 1985. **Manual on the financial planning and budgeting system of the state.** Pretoria.

Department of State Expenditure. 1994. **Manual on the financial planning and budgeting system of the state.** Circular with reference S/L issued to all accounting officers. Pretoria. 30 Mar.

Department of State Expenditure. 1998. **Activity based budget planning.** Circular with reference SK 3/2/4 dated 29 May 1998. Pretoria.

Dugdale, D. & Jones, C. 1997. Accounting for throughput: Techniques for performance measurement, decisions and control. **Management Accounting**, 75(11): 52-56.

Du Preez, G. 1996. Transformation of the budgeting system. **Feature**, 1(5): 12-13.

Engler, C. 1987. **Managerial accounting.** Revised ed. Homewood: Irwin.

Evans, H., Ashworth, G., Gooch, J. & Davies, R. 1996. Who needs performance management? **Management Accounting**, 74 (11): 20-25.

Fourie, J.N.S. 1985. **Besluitneming.** In: Vrystaat Provinsiale Administrasie. Kursus in middelvlak bestuur. Afdeling Opleiding (Deel 1). Bloemfontein.

Fox, R., Kennedy, A. & Sugden, K. 1990. **Decision Making. A management accounting perspective.** London: Butterworth Heinemann.

Fox, W. & Meyer, I.H. 1995. **Public Administration Dictionary.** Stellenbosch: Juta.

Free State Provincial Government**. Exchequer Act, 1994 (Act 1 of 1994).** Orange Free State Province. Bloemfontein.

Free State Provincial Government. **Free Sate Provincial Archives Act, 1999 (Act 4 of 1999).** Free State Province. Bloemfontein.

Free State Provincial Government. 1996. **Personnel evaluation.** Staff circular no. 57 with reference S9. Bloemfontein. 10 Oct.

Free State Provincial Government. 1996. **The performance appraisal system.** Staff circular no. 44 with reference S12. Bloemfontein. 5 Sept.

Garbutt, D. 1992. **Making budgets work: The control and use of the budgetary control process.** Revised ed. London: Chartered Institute of Management Accountants.

Garner, C.W. 1991. **Accounting and budgeting in public and non-profit organizations.** San Francisco: Jossey-Bass.

Geldenhuys, A.J. 2003. **Demokrasie en openbare aanspreeklikheid: Universele beginsels vir Suid-Afrika in die 21ste eeu.** Intree-rede Technikon Vrystaat, Bloemfontein.

Grundy, T. 1997. Management accounting for strategic performance. **Management Accounting**, 75(11): 63-64.

Hanekom, S X. & Thornhill ,C. 1986. **Functions of the Public Administrator.** London: Butterworths.

Hanekom, S.X. 1987. **'Promoting Ethical Conduct'** in Hanekom, S.X., Roland, R.W. Bain, E.G. **Key Aspects of Public Administration.** London: Macmillan.

Helmkamp, J.G. Imdieke, L.F. & Smith, R.F. 1986. **Principles of accounting.** New York: Wiley.

Henderson, I. 1997. Does budgeting have to be so troublesome? **Management Accounting**, 75(9): 26-27.

Hyde, A.C. 1992. **Government Budgeting Theory, Process and Politics.** 2 ed. Belmont, California: Wadsworth Publication.

Hyndman, N. 1996. Performance management in the public sector. **Management Accounting**, 74 (6): 32-33.

International Federation of Accountants, 1988. **Code of Ethics.** International Federation of Accountants.

Johnson, J.C. 1996. Implementing a quality management system. **Management Accounting**, 74 (8): 36-37.

Kenis, I. 1979. Effect of budgetary goal characteristics on managerial attitudes and performance. **The Accounting Review**, Oct.: 707-720.

Koontz, H.D. & O'Donnell, C.J. 1964. **Principles of management.** 3 ed. New York: Mc Graw-Hill.

Kramer, F.A. 1979. **Contemporary Approaches to Public Budgeting.** Cambridge: Winthrop.

Lyden, F.J. & Miller, E.G. 1982. **Public Budgeting Program Planning and Implementation.** 4 ed. Englewood Cliffs: Prentice-Hall.

Maciariello, J.A. 1984. **Management control systems.** Revised ed. Englewood Cliffs: Prentice-Hall.

Mandela, N.R. 1994. **The reconstruction and development program (RDP).** Cape Town: ABC Printers & Book Printers.

Manuel, T.A. 2002. **Address to the national assembly on the introduction of the 2002 medium-term budget policy statement and the 2002/03 adjustments appropriation bill.** Cape Town. 29 Oct.

Mansfield, E. 1988. **Microeconmics: Theory and Aplications.** Norton.

McAulay, L., Russel & G., Simes . 1997. How do financial directors make decisions? **Management Accounting**, 75 (10): 32-34.

McKinney, J.B. 1995. **Effective Financial Management in Public and Non Profit Agencies: A Practical and Integrative Approach.** 2 ed. Westport: Quorum.

McKoen, P. & Gough, L. 1997. **The financial manual for non-financial managers.** London: Pitman.

Mol, A, 1990. **Help! I'm a manager.** Cape Town: Tafelberg.

Morse, W.J., Davis, J.R. & Hartgraves, A.L. 1988. **Management accounting.** 2 ed. Massachusetts: Addison-Wesley.

Mutual & Federal. 2005. **Creative Problem Solving.** Informal notes. Training department.

National Treasury. 2002. **Highlights of the 2002 Budget.** http://www.finance.gov.za (Feb. 2002).

National Treasury. 2000. **Proposed changes to the 2001 budget formats: Integration of the estimates of expenditure (White Book) and national expenditure survey.** http://www.treasury.gov.za (Sept. 2000).

National Treasury. 2001. **Treasury Guidelines: Budgeting, Planning and Measuring Service Delivery.** http://www.treasury.gov.za (Oct. 2001).

National Treasury. 2001. **Treasury regulations for departments, constitutional institutions and public entities.** Issued in terms of the **Public Finance Management Act**, 1999 (Act 1 of 1999).

Nelson, A.T. & Miller, P.B.W. 1981. **Modern management accounting.** Santa Monica , California: Goodyear Publishing Company.

Novich, D. 1973. **Current practice in program budgeting (PPBS): Analysis and case studies covering government and business.** London: Heinemann.

Oosthuizen, A.P. 1998. **The role of the public accounts committee in the process of public accountability.** J.N. Boshoff- Memorial Lecture No 11/1998. The University of the Orange Free State, Bloemfontein.

Otley, D. 1987. Budgeting for management control. **Management Accounting**, 65 (5): 20-22.

O.V.S. Provinsiale Administrasie: **Finansiële State, 1989-90.** Bloemfontein.

O.V.S. Provinsiale Administrasie: **Finansiële State, 1990-91.** Bloemfontein.

O.V.S. Provinsiale Administrasie: **Finansiële State, 1991-92.** Bloemfontein.

O.V.S. Provinsiale Administrasie: **Finansiële State, 1992-93.** Bloemfontein.

O.V.S. Provinsiale Administrasie: **Finansiële State, 1993-94.** Bloemfontein.

O.V.S. Provinsiale Administrasie: **Finansiële State, 1994-95.** Bloemfontein.

O.V.S. Provinsiale Administrasie: **Finansiële State, 1995-96.** Bloemfontein.

O.V.S. Provinsiale Administrasie. 1989. **Kursus in die Finansiële bestuurstelsel (FBS).** Afdeling Finansiële Stelsels. Bloemfontein.

O.V.S. Provinsiale Administrasie. 1985. **Kursus in middelvlak bestuur.** Afdeling Opleiding (Deel 1). Bloemfontein.

O.V.S. Provinsiale Administrasie. 1985. **Kursus in middelvlak bestuur.** Afdeling Opleiding (Deel 3). Bloemfontein.

Parker, D.R. 1996. **The strategic finance workout.** London: Pitman.

Pauw, J.C., Woods, G., Van Der Linde, G.J.A., Fourie D. & Visser, C.B. 2002. **Managing Public Money.** Sandown: Heinemann. www.Heinemann.co.za.

Pizzey, A. 1987. **Principles of cost accountancy: A managerial perspective.** London: Cassell Educational Limited.

Potgieter, F.J. 1996. **'n Bedryfsekonomiese ondersoek na begrotings in die Suid-Afrikaanse poskantoor beperk.** Bloemfontein: Universiteit van die Oranje-Vrystaat. (M. Com. – verhandeling).

Prendergast, P. 1997. **Budget padding: is it a job for the finance police?** Management Accounting, 75(10): Nov.: 44-46.

Pretorius, K.R. 1968. **Die staatkundige politieke en administratiewe beperkings op die gebruik van die begroting as 'n instrument van die ekonomiese politiek.** Pretoria: Universiteit van Pretoria (M. Admin. – verhandeling).

Produced jointly by the National Democratic Institute for International Affairs (NDI), and the budget information Service of IDASA, under a grant from the United States Agency for International Development (USAID). 2001. **South African Budget Guide and Dictionary.** Cape Town.

Province of the Free State, 1998. **Estimate of Revenue and Estimate of Expenditure.** Blue book. First and Final Print (PR 5-1997).

Public service and administration: Director–General. 2000. **Excerpts from letter to the Director-General: Finance.** http://www.gov.za/dept/treasury.htm.

Puttick, G. & Van Esch, S. 1998. **The Principles and Practice of Auditing.** Kenwyn: Juta.

Pyhrr, P.A. 1973. **Zero-base budgeting: A practical management tool for evaluating expenses.** New York: Wiley.

Rädel, F.E. & Reynders, H.J.J. 1982. **Inleiding tot die bedryfsekonomie.** 2de druk. Pretoria: Van Schaik.

Rapport, 6 Fruarie 2000, p.10.

Ratliff, R.L., Wallace, W.A., Loebbecke, J.K. & McFarland, W.G. 1988. **Internal Auditing: Principles and Techniques.** Altamonte Springs: International Institute of Auditors.

Republic of South Africa. **Auditor-General Act, 1995 (Act 12 of 1995).** Government Gazette no. 16481. Cape Town: Government Printer.

Republic of South Africa. **Copyright Act, 1978 (Act 98 of 1978).** Government Gazette no. 6252. Cape Town: Government Printer.

Republic of South Africa. **Division of Revenue Act, 2001 (Act 1 of 2001).** Government Gazette no. 22186. Cape Town: Government Printer.

Republic of South Africa**. Exchequer and Audit Act, 1975 (Act 66 of 1975).** Government Gazette no. 4794. Cape Town: Government Printer.

Republic of South Africa. 2000. **Proposed acquisition of Telkom SA Limited by Debis Fleet Management (Pty) Ltd.** Government Gazette no. 21090. Pretoria: Government Printer.

Republic of South Africa. **Public Finance Management Act, 1999 (Act 1 of 1999).** Government Gazette no. 19814. Cape Town: Government Printer.

Republic of South Africa. **Public Service Act, 1994 (Act 103 of 1994).** Government Gazette no. 15791. Pretoria: Government Printer.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of the Free State Provincial Government for 1996-97 and 1997-98 and a Performance Audit.** Pretoria: Government Printer PR 7/2000.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 1 - Premier of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 108/1999.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 1 - Office of the Premier of the Free State Provincial Government for the year ended 31 March 2000.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 1 - Office of the Premier of the Free State Provincial Government for the year ended 31 March 2001.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General/Annual report Office of the Premier (Free State Province). 2000/2001; 2001/2002; 2002/2003.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 2 – Provincial Legislature of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 109/2000.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 2 – Provincial Legislature of the Free State Provincial Government for the year ended 31 March 2001.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General/Annual report Provincial Legislature (Free State Province). 2000/2001; 2001/2002; 2002/2003.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 3 – Environmental Affairs and Tourism of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 110/2000.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 3 – Environmental Affairs and Tourism of the Provincial administration: Free State for the year ended 31 March 2001.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General/Annual report Environmental Affairs and Tourism (Free State Province). 2000/2001; 2001/2002; 2002/2003.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 4 – Finance, Expenditure and Economic Affairs. Standard stock trading Account of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 54/2001.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 4 – Finance, Expenditure and Economic Affairs of the Free State Provincial Government for the year ended 31 March 2000.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 4 – Finance, Expenditure and Economic Affairs of the Free State Provincial Government for the year ended 31 March 2000.** Bloemfontein.

Republic of South Africa: **Financial Statements of Vote 4 – Finance, Expenditure and Economic Affairs of the Free State Provincial Government for the year ended 31 March 2001.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General/Annual report Finance, Expenditure and Economic Affairs (Free State Province) . 2000/2001; 2001/2002; 2002/2003.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 5 - Health of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 112/2000.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 5 - Health of the Free State Provincial Government for the year ended 31 March 2000.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 5 - Health of the Free State Provincial Government for the year ended 31 March 2001.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General/Annual report department of Health (Free State Province). 2000/2001; 2001/2002; 2002/2003; 2003/2004.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 6 – Education of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 25/2001.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 6 - Education of the Free State Provincial Government for the year ended 31 March 2000.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 6 - Education of the Free State Provincial Government for the year ended 31 March 2001.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General/Annual report Education (Free State Province). 2000/2001; 2001/2002; 2002/2003.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 7 – Social Welfare of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 171/2001.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 7 - Welfare of the Free State Provincial Government for the year ended 31 March 2000.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 7 - Welfare of the Free State Provincial Government for the year ended 31 March 2001.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General/Annual report Social Welfare (Free State Province). 2001/2002; 2002/2003.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 8 - Local Government and Housing of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 127/2000.

Republic of South Africa: **Report of the Auditor-General/Annual report Local Government and Housing (Free State Province). 2000/2001; 2001/2002; 2002/2003.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 9 – Public Works, Roads and Transport of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 155/2001.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 9 – Public Works, Roads and Transport and the Government Motor Transport Trading Account of the Free State Provincial Government for the year ended 31 March 2000.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General/Annual report Public Works, Roads and Transport (Free State Province). 2002/2003.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 10 – Public Safety and Security of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 111/2000.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 10 – Public Safety and Security of the Free State Provincial Government for the year ended 31 March 2001.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General/Annual report Public Safety Security and Liaison (Free State Province). 1999/2000 and 2000/2001(combined); 2001/2002; 2002/2003.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 11 – Agriculture of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 72/2001.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 11 - Agriculture of the Free State Provincial Government for the year ended 31 March 2000.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 11 - Agriculture of the Free State Provincial Government for the year ended 31 March 2001.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General/Annual report Agriculture (Free State Province). 2001/2002; 2002/2003.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 12 – Department of Sport, Arts, Culture, Science and Technology of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 14/2001.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 12 - Department of Sport, Arts, Culture, Science and Technology of the Free State Provincial Government for the year ended 31 March 2000.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 12 - Department of Sport, Arts, Culture, Science and Technology of the Free State Provincial Government for the year ended 31 March 2001.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General/Annual report Department of Sport, Arts, Culture, Science and Technology (Free State Province). 2000/2001; 2001/2002; 2002/2003.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 13 – Provincial Service Commission of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 107/2000.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 14 – Improvement of Conditions of Service of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 115/2000.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 14 – Improvement of Conditions of Service of the Free State Provincial Government for the year ended 31 March 2000.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Annual Financial Statements of Vote 14 – Improvement of Conditions of Service of the Free State Provincial Government for the year ended 31 March 2001.** Bloemfontein.

Republic of South Africa: **Report of the Auditor-General on the Accounts and Annual Financial Statements of Vote 15 – Promoting the Reconstruction and Development Programme of the Free State Provincial Government for the year ended 31 March 1999.** Pretoria: Government Printer PR 113/2000.

Republic of South Africa. 1995**. White Paper on the Transformation of the Public Service.** http/www.gov.za/white paper/1995/transformation.htm (Nov. 1995).

Republic of South Africa. 1997. **Batho Pele. White Paper on Transforming of Public Service Delivery.** Government Gazette no. 18340. Pretoria: Government Printer.

Republic of South Africa. 1997. **White Paper on Human Resource Management in the Public Service.** Government Gazette no. 18594. Pretoria: Government Printer.

Republic of South Africa. 1998. **White Paper on Affirmative Action in the Public Service.** Government Gazette no. 18800. Pretoria: Government Printer.

Reynders, H.J.J. 1967. **Die taak van die bedryfsleier.** 2de hersiene druk. Pretoria: Van Schaik.

Ritzer,G. 1972. **Man and his Work: Conflict and Change.** Englewood Cliffs: Prentace-Hall.

Robinson, R.F., Smith, N. & Staples, J.W. 1990. **Kortkursus in koste-aspekte in die owerheidsektor.** Technikon Pretoria.

Sake-Raport, Februarie 2004, p.1.

Sake-Volksblad, 1 Maart 2001, p.1.

Sake-Volksblad, 1 Junie 2002, p.2.

Sake-Volksblad, 15 Junie 2002, p.1.

Samuels, J.M., Wilkes, F.M. & Brayshaw, R.E. 1999. **Financial Management and Decision Making.** London: International Thomson Publishing Inc.

Savoie, D.J. 1996. **Budgeting and the management of public spending.** Cheltenham, U.K.: Edward Elgar.

Schall, L.D. & Haley, C.W. 1991. **Introduction to financial management.** 5 ed. New York: McGraw-Hill.

Smit, A.Van A. 1989. **'n Ondersoek na die bestuur van bokoste in geselekteerde Suid-Afrikaanse ondernemings.** Bloemfontein: Universiteit van die Oranje-Vrystaat. (D. Com. – proefskrif).

Smit, G.J. 1994. **Manual on the financial planning and budgeting system of the State.** Departmental Circular no. 4 of 1994, Department of State Expenditure. Pretoria.

Stanton, W.J. 1967. **Fundamentals of marketing.** 2 ed. New York: McGraw-Hill.

Sweeny, H.W.A. & Rachlin, R. 1981. **Handbook of budgeting.** New York: Wiley.

Thornhill, C.T. 1984. **Die uitgawebegroting en die Parlement.** Pretoria: Van Schaik.

Van der Linde, G. 1996. **Financial management reform in New Zealand and its implications for South Africa.** SAIPA. 31(2): Jan.: 81-92.

Van der Linde, G. 1996. **Lessons to be learnt from the financial management reform in the New Zealand public sector.** Feature, 1(5): Dec.: 14-17.

Van Straaten, F.P. 1984. **Administratiewe hulpmiddels vir die programmering van owerheidsbedrywighede.** Pretoria: Haum.

Visser, C.B. & Erasmus, P.W. 2002. **The management of public finance.** Cape Town: Oxford University Press Southern Africa.

Volksblad, 17 Maart 2000, p.3.

Volksblad, 13 April 2000, p.6.

Volksblad, 2 Mei 2000, p.2.

Volksblad, 30 Augustus 2000, p.3.

Volksblad, 23 Februarie 2001, p.3.

Volksblad, 8 September 2001, p.2.

Volksblad, 12 Maart 2002, p.2.

Volksblad, 23 Maart 2002, p.2.

Volksblad, 29 Mei 2002, p.4.

Volksblad, 28 Mei 2002, p.2.

Volksblad, 12 Junie 2002, p.2.

Volksblad, 21 September 2002, p.2.

Volksblad, 8 November 2002, p.4.

Volksblad, 20 Mei 2005, p.6.

Volksblad, 2 November 2005, p.5.

Welsch, G.A., Hilton, R.W. & Gordon, P.N. 1988. **Budgeting: Profit planning and control.** 5 ed. Englewood Cliffs: Prentice-Hall.

Weston, J.F. & Brigham, E.F. 1969. **Managerial Finance.** 3 ed. New York: Holt, Rinehart and Winston.

Wharton, F. 1992. **Risk Management: Basic Concepts and General Principles.** Wiley & Sons.

<u>ANNEXURE A</u>

An example of the application of the priority matrix: Correctional Services

Appendix A: Proposed criteria and associated weights

Appendix B: Criteria for prioritization

Appendix C: Prioritization of activities

ANNEXURE A

APPENDIX A

AN EXAMPLE OF THE APPLICATION OF THE PRIORITY MATRIX: CORRECTIONAL SERVICES

1. **MISSION STATEMENT**

   To render correctional services with the purpose of protecting the community against the repetition of crime.

2. **PROPOSED CRITERIA AND ASSOCIATED WEIGHTS**

CRITERIA	* WEIGHTS
To what extent does the activity contribute to:	
1 The protection of the community?	26
2 The humane care of prisoners?	22
3 The human resource development and rehabilitation of prisoners?	19
4 The human resource development of personnel?	18
5 The alignment, interaction and system balancing/ management with the other components within the criminal justice system?	8
6 Transparency and accountability?	7

*The weights reflect the percentage that a criteria contributes towards the attainment of the mission.

DEPARTMENT OF STATE EXPENDITURE

APPENDIX B

EXAMPLE

CORRECTIONAL SERVICES

CRITERIA FOR PRIORITIZATION

CRITERIA To what extent does the activity contributes to:	DESCRIPTION The criteria include and address inter alia the following: - Policy objectives Programs	WEIGHTS
1. Protection of the community	a. The protection of the community by: - Ensuring safe custody and risk management of those persons entrusted to the Department's care - Dynamic security based on active and consistent interaction between personnel and offenders - Static security with its various physical means of containment - Informed, comprehensive risk assessment b. Incarceration of prisoners including special categories c. Provision of adequate infrastructure for the execution of alternative community based sentencing: - Correctional supervision - Parole supervision - Specialized treatment/care centres/units	26

APPENDIX C

EXAMPLE

CORRECTIONAL SERVICES

PRIORITIZATION OF ACTIVITIES

Activity: Detention

CRITERIA	1 WEIGHT	2 ACTIVITY SCORE Scale 0-5	3 WEIGHTED SCORE 1X2
1 Protection of the community	26	5	130.0
2 Humane care of prisoners	22	3.9	85.8
3 Development and rehabilitation of offenders	19	2.2	41.8
4 Human resource development of personnel	18	1.4	25.2
5 Alignment with criminal justice system	8	3.8	30.4
6 Transparency and accountability	7	2.3	16.1
TOTAL			329.3

<u>ANNEXURE B</u>

Health Services

Summary of Financial Statements between 1989/90 and 2002/03

Summary: Health services Amount voted	89/90	90/91	91/92	92/93	93/94	94/95	95/96
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Health services (Vote 2)	432 569	485 997	560 393	677 063	827 185	910 462	
New provincial government (Vote 7)						800	
Health services (Vote 5)							1 148 233
Total	432 569	485 997	560 393	677 063	827 185	911 262	1 148 233
Increase Decrease		53 428	74 396	116 670	150 122	84 077	236 971

Summary: Health services Amount voted	96/97	97/98	98/99	99/00	00/01	01/02	02/03
	R	R	R'000	R'000	R'000	R'000	R'000
Health services (Vote 5)	1 481 202 871.78	1 517 899 000.00	1 589 708	1 724 403	1 833 067	1 970 476	2 242 852
Total	1 481 202 871.78	1 517 899 000.00	1 589 708	1 724 403	1 833 067	1 970 476	2 242 852
Increase Decrease	332 969 871.78	36 696 128.22	71 809	134 695	108 664	137 409	272 376

Vote 5/1

Summary: Health services Expenditure	89/90	90/91	91/92	92/93	93/94	94/95
	R	R	R	R	R	R
Health services (Vote 2)	424 107 486.24	485 996 552.29	560 392 515.39	644 670 700.64	788 545 084.25	901 505 000.00
New provincial government (Vote 7)						5 000.00
Total	424 107 486.24	485 996 552.29	560 392 515.39	644 670 700.64	788 545 084.25	901 510 000.00
Increase		61 889 066.05	74 395 963.10	84 278 185.25	143 874 383.61	112 964 915.75
Decrease						

Summary: Health services Expenditure	95/96	96/97	97/98	98/99	99/00	00/01
	R	R	R	R'000	R'000	R'000
Health services (Vote 5)	1 183 438 000.00	1 470 429 404.78	1 658 995 000.00	1 688 027	1 588 987	1 777 203
Total	1 183 438 000.00	1 470 429 404.78	1 658 995 000.00	1 688 027	1 588 987	1 777 203
Increase	281 928 000.00	286 991 404.78	188565 595.22	29 032		188 216
Decrease					99 040	

Summary: Health services Expenditure	01/02	02/03
	R'000	R'000
Health services (Vote 5)	1 953 423	2 194 141
Total	1 953 423	2 194 141
Increase	176 220	240 718
Decrease		

Vote 5/2

ANNEXURE C

Public Works, Roads and Transport

Summary of Financial Statements between 1989/90 and 2002/03

Summary: Public works, roads and transport Amount voted	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Road network provision and traffic administration (Vote 3)	211 274	220 445	215 412	265 378	338 064	312 154		
New provincial government (Vote 12)						200		
New provincial government (Vote 17)						50		
New provincial government (Vote 18)						50		
Transport (Vote 10)							70 584	
Works (Vote 15)								68 459
Roads (Vote 16)								297 689
Transport (Vote 9)								410 048
Works (Vote 14)							277 894	
Roads (Vote 15)							351 123	
Total	211 274	220 445	215 412	265 378	338 064	312 454	699 601	776 196
Increase Decrease		9 171	 5 033	49 966	72 686	 25 610	385 297	76 595

Vote 9/1

Summary: Public works, roads and transport Amount voted	97/98	98/99	99/00	00/01	01/02	02/03
	R'000	R'000	R'000	R'000	R'000	R'000
Public works, roads and transport (Vote 9)	809 367	678 590	481 134		653 645	802 828
Total	809 367	678 590	481 134		653 645	802 828
Increase Decrease	33 171	 130 777	 197 456			149 183

Summary: Public works, roads and transport Expenditure	89/90	90/91	91/92	92/93	93/94	94/95	95/96
	R	R	R	R	R	R	R
Road network provision and traffic administration (Vote 3)	252 090 024.16	220 444 553.88	214 876 268.28	265 241 118.19	309 792 432.25	306 747 000.00	
New provincial government (Vote 12)						36 000.00	
New provincial government (Vote 17)						45 000.00	
New provincial government (Vote 18)						-	
Transport (Vote 10)							63 944 000.00
Works (Vote 15)							229 562 000.00
Roads (Vote 16)							306 504 000.00
Total	252 090 024.16	220 444 553.88	214 876 268.28	265 241 118.19	309 792 432.25	306 828 000.00	600 010 000.00
Increase				50 364 849.91	44 551 314.06		293 182 000.00
Decrease		31 645 470.28	5 568 285.60			2 964 432.25	

Vote 9/3

Summary: Public works, roads and transport Expenditure	96/97	97/98	98/99	99/00	00/01	01/02	02/03
	R	R'000	R'000	R'000	R'000	R'000	R'000
Transport (Vote 9)	71 451 702.77						
Works (Vote 14)	240 609 589.21						
Roads (Vote 15)	398 733 050.75						
Public works, roads and transport (Vote 9)		825 571	716 186	524 285		647 897	767 115
Total	710 794 342.73	825 571	716 186	524 285		647 897	767 115
Increase Decrease	110 784 342.73	 114 776 657.27	 109 000	 191 901			119 218

Vote 9/4

ANNEXURE D

Local Government and Housing

Summary of Financial Statements between 1989/90 and 2002/03

Summary: Community services Amount voted	89/90	90/91	91/92 [369]	92/93	93/94	94/95	95/96
	R	R	R	R	R	R	R
Community services(Vote 4)	245 752 000	262 294 000	388 269 000	538 432 572	654 296 000	820 403 000	
New provincial government (Vote 10)						50 000	
New provincial government (Vote 11)						2 050 000	
Housing (Vote 8)							63 165 000
Local government management (Vote 9)							164 186 000
Total	245 752 000	262 294 000	388 269 000	538 432 572	654 296 000	822 503 000	227 351 000
Increase		16 542 000	125 975 000	150 163 572	115 863 428		
Decrease						168 207 000	595 152 000

Summary: Local government Amount voted	96/97	97/98	98/99	99/00	00/01	01/02	02/03
	R	R	R	R'000	R'000	R'000	R'000
Local government and housing (Vote 8)	362 407 030.59	426 035 000	321 231 000	165 040	463 861	471 951	496 847
	362 407 030.59	426 035 000	321 231 000	165 040	463 861	471 951	496 847
Increase	135 056 030.59	63 627 969.41			298 821	8 090	24 896
Decrease			104 804 000	156 191			

Vote 8/1

Summary: Community services Expenditure	89/90	90/91	91/92	92/93	93/94	94/95
	R	R	R	R	R	R
Community services(Vote 4)	230 654 183.41	256 607 995.09	382 887 433.11	495 453 258.16	599 403 654.55	786 499 000.00
New provincial government (Vote 10)						47 000.00
New provincial government (Vote 11)						-
Total	230 654 183.41	256 607 995.09	382 887 433.11	495 453 258.16	599 403 654.55	786 546 000.00
Increase Decrease		25 953 811.68	126 279 438.02	112 565 825.05	103 950 396.39	187 142 345.45

Summary: Local government Expenditure	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03
	R	R	R	R	R'000	R'000	R'000	R'000
Housing (Vote 8)	52 718 000.00							
Local government management (Vote 9)	132 039 000.00							
Local government and housing (Vote 8)		307 560 208.42	310 486 000.00	323 234 000.00	129 665	404 448	406 576	411 848
	184 757 000.00	307 560 208.42	310 486 000.00	323 234 000.00	129 665	404 448	406 576	411 848
Increase		122 803 208.42	2 925 791.58	12 748 000.00		274 783	2 128	5 272
Decrease	601 789 000.00				193 569			

Vote 8/2

ANNEXURE E

Improvement of Conditions of Service

Summary of Financial Statements between 1989/90 and 1999/00

Summary: Improvement of conditions of service Amount voted	89/90	90/91	91/92	92/93	93/94	94/95	95/96
	R	R	R	R	R	R	R
1 Improvement of conditions of service (Vote 5)	2 659 000	63 852 000	47 764 000	34 540 000	28 668 000	8 424 000	
(Vote 8)						36 511 000	
2 Improvement of conditions of service (Vote 17)							199 972 000
Total	2 659 000	63 852 000	47 764 000	34 540 000	28 668 000	44 935 000	199 972 000
Increase		61 193 000				16 267 000	155 037 000
Decrease			16 088 000	13 224 000	5 872 000		

Summary: Improvement of conditions of service Amount voted	96/97	97/98	98/99	99/00
	R	R	R	R'000
Improvement of conditions of service (Vote 16)	209 434 000			
Improvement of conditions of service (Vote 14)		285 736 000	178 309 000	175 406
Total	209 434 000	285 736 000	178 309 000	175 406
Increase	9 462 000	76 302 000		
Decrease			107 427 000	2 903

Vote 14/1

Summary: Improvement of conditions of service Expenditure	89/90	90/91	91/92	92/93	93/94	94/95	95/96
	R	R	R	R	R	R	R
1 Improvement of conditions of service (Vote 5)	1 848 000.00	55 915 106.17	30 096 515.39	34 540 000.00	28 668.000.00	8 143 000.00	
(Vote 8)						34 692 000.00	
2 Improvement of conditions of service (Vote 17)							199 762 000.00
Total	1 848 000.00	55 915 106.17	30 096 515.39	34 540 000.00	28 668 000.00	42 835 000.00	199 762 000.00
Increase		54 067 106.17		4 443 484.61		14 167 000.00	156 927 000.00
Decrease			25 818 590.78		5 872 000.00		

Summary: Improvement of conditions of service Expenditure	96/97	97/98	98/99	99/00
	R	R	R	R'000
Improvement of conditions of service (Vote 16)	183 666 841.64			
Improvement of conditions of service (Vote 14)		284 307 000.00	178 309 000.00	175 406
Total	183 666 841.64	284 307 000.00	178 309 000.00	175 406
Increase		100 640 158.36		
Decrease	16 095 158.36		105 998 000.00	2 903

Vote 14/2

ANNEXURE F

General Provincial Services

Summary of Financial Statements between 1989/90 and 1994/95

Summary: General provincial services Original estimate	89/90	90/91	91/92	92/93	93/94	94/95
General provincial services (Vote 1)	R 133 829 000	R 163 034 000	R 199 506 000	R 222 707 203	R 284 953 000	R 309 887 000
Amount to be voted	133 829 000	163 034 000	199 506 000	222 707 203	284 953 000	309 887 000
Increase Decrease		29 205 000	36 472 000	23 201 203	62 245 797	24 934 000

Summary: General provincial services Expenditure	89/90	90/91	91/92	92/93	93/94	94/95
General provincial services (Vote 1)	R 127 608 662.32	R 153 909 040.47	R 195 295 404.18	R 196 925 241.91	R 233 480 603.46	R 280 671 000.00
Total	127 608 662.32	153 909 040.47	195 295 404.18	196 925 241.91	233 480 603.46	280 671 000.00
Increase Decrease		26 300 378.15	41 386 363.71	1 629 837.73	36 555 361.55	47 190 396.54

General provincial services/1

ANNEXURE G

Premier

Summary of Financial Statements between 1 July 1994 and 2002/03

Summary: Premier Amount voted	94/95	95/96	96/97	97/98	98/99	99/00
	R'000		R'000	R'000	R'000	R'000
New provincial government: Premier (Vote 1)	1 417					
Auxiliary services (Vote 4)	3 978					
Premier (Vote 1)		9 480	28 453	73 297	60 192	50 153
Auxiliary services (Vote 18)		95 215				
Auxiliary services (Vote 17)			77 320			
Total	5 395	104 695	105 773	73 297	60 192	50 153
Increase Decrease		99 300	1 078	 32 476	 13 105	 10 039

Vote 1/1

Summary: Premier Amount voted	00/01	01/02	02/03
	R'000	R'000	R'000
Premier (Vote 1)	53 589	66 267	96 777
Total	53 589	66 267	69 777
Increase Decrease	3 436	12 678	30 510

Vote 1/2

Summary: Premier Expenditure	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government: Premier (Vote 1)	1 373					
Auxiliary services (Vote 4)	2 695					
Premier (Vote 1)		8 677	16 698	65 532	50 395	43 762
Auxiliary services (Vote 18)		57 620				
Auxiliary services (Vote 17)			61 576			
Total	4 068	66 297	78 274	65 532	50 395	43 762
Increase Decrease		62 229	11 977	 12 742	 15 137	 6 633

Vote 1/3

Summary: Premier Expenditure	00/01	01/02	02/03
	R'000	R'000	R'000
Premier (Vote 1)	49 053	48 404	83 052
Total	49 053	48 404	83 052
Increase	5 291		34 648
Decrease		649	

Vote 1/4

ANNEXURE H

Provincial Legislature

Summary of Financial Statements between 1 July 1994 and 2002/03

Summary: Provincial legislature Amount voted	94/95	95/96	96/97	97/98	98/99	99/00
New provincial government:	R'000	R'000	R'000	R'000	R'000	R'000
Executive council (Vote 2)	6 330					
Legislative assembly (Vote 3)	8 650					
Provincial legislature (Vote 2)		10 979	15 685	20 589	25 382	37 715
Total	14 980	10 979	15 685	20 589	25 382	37 715
Increase			4 706	4 904	4 793	12 333
Decrease		4 001				

Vote 2/1

Summary: Provincial legislature Amount voted	00/01	01/02	02/03
	R'000	R'000	R'000
Free State legislature(Vote2)	39 678	42 674	45 628
Total	39 678	42 674	45 628
Increase Decrease	1 963	2 996	2 954

Vote 2/2

Summary: Provincial legislature Expenditure	94/95	95/96	96/97	97/98	98/99	99/00
 New provincial government: Executive council (Vote 2) Legislative assembly (Vote 3) Provincial legislature (Vote 2)	R 11 258 7 250	R 12 219	R'000 16 816	R'000 21 249	R'000 25 346	R'000 37 112
Total	18 508	12 219	16 816	21 249	25 346	37 112
Increase Decrease		 6 289	4 597	4 433	4 097	11 766

Vote 2/3

Summary: Provincial legislature Expenditure	00/01	01/02	02/03
 Free State legislature (Vote 2)	R'000 39 337	R'000 43 005	R'000 47 675
Total	39 337	43 005	47 675
Increase Decrease	2 225	3 668	4 670

ANNEXURE I

Environmental Affairs and Tourism

Summary of Financial Statements between 1 July 1994 and 2002/03

Summary: Environmental affairs and tourism Amount voted	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 14)	-*					
Environmental affairs and tourism (vote 19)		-**	44 214			
Environmental affairs and tourism (Vote 3)				50 120	59 518	53 870
Total	-	-	44 214	50 120	59 518	53 870
Increase Decrease				5 906	9 398	 5 648

* Environmental affairs for 1994/95 is included under vote 14 (Agriculture).

** Environmental affairs for 1995/96 is included under vote 12 (Agriculture).

Summary: Environmental affairs and tourism Amount voted	00/01	01/02	02/03
	R'000	R'000	R'000
Environmental affairs and tourism (Vote 3)	61 464		
Tourism, environmental and economic affairs (Vote 3)		72 003	204 304
Total	61 464	72 003	204 304
Increase Decrease	7 594	10 539	132 301

Vote 3/2

Summary: Environmental affairs and tourism Expenditure	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 14)	-*					
Environmental affairs and tourism (Vote 19)		-**	9 108			
Environmental affairs and tourism (Vote 3)				45 943	54 524	53 189
Total	-	-	9 108	45 943	54 524	53 189
Increase				36 835	8 581	
Decrease						1 335

* Environmental affairs for 1994/95 is included under vote 14 (Agriculture).

** Environmental affairs for 1995/96 is included under vote 12 (Agriculture).

Vote 3/3

Summary: Environmental affairs and tourism Expenditure	00/01	01/02	02/03
	R'000	R'000	R'000
Environmental affairs and tourism (Vote 3)	59 670		
Tourism, environmental and economic affairs (Vote 3)		102 344	172 883
Total	59 670	102 344	172 883
Increase Decrease	6 481	42 674	70 539

Vote 3/4

ANNEXURE J

Finance, Expenditure and Economic Affairs

Summary of Financial Statements between 1 July 1994 and 2002/03

Summary: Finance, expenditure and economic affairs Amount voted	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government: Economic affairs (Vote 5)	800					
Finance and expenditure (Vote 6)	800					
Economic affairs (Vote 3)		39 396	43 824			
Finance and expenditure (Vote 4)		78 096	88 475			
Finance, expenditure and economic affairs (Vote 4)				88 329	65 352	152 947
Total	1 600	117 492	132 299	88 329	65 352	152 947
Increase		115 892	14 807			87 595
Decrease				43 970	22 977	

Vote 4/1

Summary: Finance, expenditure and economic affairs Amount voted	00/01	01/02	02/03
	R'000	R'000	R'000
Finance, expenditure and economic affairs (Vote 4)	123 864		
Finance and expenditure (Vote 4) *		115 920	
Provincial treasury (Vote 4) *			91 729
Total	123 864	115 920	91 729
Increase Decrease	29 083	7 944	24 191

* Economic affairs transferred to environmental affairs and tourism.

Summary: Finance, expenditure and economic affairs Expenditure	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government:						
Economic affairs (Vote 5)	162					
Finance and expenditure (Vote 6)	60					
Economic affairs (Vote 3)		36 765	33 077			
Finance and expenditure (Vote 4)		72 433	57 260			
Finance, expenditure and economic affairs (Vote 4)				61 101	57 273	85 964
Total	222	109 198	90 337	61 101	57 273	85 964
Increase		108 976				28 691
Decrease			18 861	29 236	3 828	

Vote 4/3

Summary: Finance, expenditure and economic affairs Expenditure	00/01	01/02	02/03
	R'000	R'000	R'000
Finance, expenditure and economic affairs (Vote 4)	66 898		
Finance and expenditure (Vote 4) *		56 011	
Provincial treasury (Vote 4) *			69 224
Total	66 898	56 011	69 224
Increase Decrease	 19 066	 10 887	13 213

* Economic affairs transferred to environmental affairs and tourism.

ANNEXURE K

Education

Summary of Financial Statements between 1 July 1994 and 2002/03

Summary: Education Amount voted	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 8)	800					
Education (Vote 6)		2 097 085	2 365 781	2 282 405	2 712 483	2 847 392
Total	800	2 097 085	2 365 781	2 282 405	2 712 483	2 847 392
Increase		2 096 285	268 696		430 078	134 909
Decrease				83 376		

Vote 6/1

Summary: Education Amount voted	00/01	01/02	02/03
	R'000	R'000	R'000
Education (Vote 6)	3 153 466	3 382 259	3 722 117
Total	3 153 466	3 382 259	3 722 117
Increase Decrease	306 074	228 793	339 858

Summary: Education Expenditure	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 8)	197					
Education (Vote 6)		1 964 176	2 425 709	2 538 766	2 612 095	2 785 296
Total	197	1 964 176	2 425 709	2 538 766	2 612 095	2 785 296
Increase Decrease		1 963 979	461 533	113 057	73 329	173 201

Vote 6/3

Summary: Education Expenditure	00/01	01/02	02/03
	R'000	R'000	R'000
Education (Vote 6)	2 990 236	3 173 883	3 522 194
Total	2 990 236	3 173 883	3 522 194
Increase Decrease	204 940	183 647	348 311

ANNEXURE L

Welfare

Summary of Financial Statements between 1 July 1994 and 2002/03

Summary: Welfare Amount voted	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 9)	100					
Welfare (Vote 7)		837 482	894 388	1 045 009	1 171 754	1 209 415
Total	100	837 482	894 388	1 045 009	1 171 754	1 209 415
Increase Decrease		837 382	56 906	150 621	126 745	37 661

Summary: Welfare Amount voted	00/01	01/02	02/03
	R'000	R'000	R'000
Social welfare (Vote 7)	1 287 127		
Social development (Vote 7)		1 518 700	2 182 711
Total	1 287 127	1 518 700	2 182 711
Increase Decrease	77 712	231 573	664 011

Vote 7/2

Summary: Welfare Expenditure	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 9)	15					
Welfare (Vote 7)		898 387	967 543	1 125 453	1 158 185	1 162 226
Total	15	898 387	967 543	1 125 453	1 158 185	1 162 226
Increase Decrease		898 372	69 156	157 910	32 732	4 041

Summary: Welfare Expenditure	00/01	01/02	02/03
	R'000	R'000	R'000
Social welfare (Vote 7)	1 260 650		
Social development (Vote 7)		1 482 973	2 099 937
Total	1 260 650	1 482 973	2 099 937
Increase Decrease	98 424	222 323	616 964

ANNEXURE M

Public Safety and Security

Summary of Financial Statements between 1 July 1994 and 2002/03

Summary: Public safety and security Amount voted	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 13)	1					
Public safety and security (Vote 10)		2 988	6 191	17 651	54 682	59 756
Total	1	2 988	6 191	17 651	54 682	59 756
Increase Decrease		2 987	3 203	11 460	37 031	5 074

Vote 10/1

Summary: Public safety and security Amount voted	00/01	01/02	02/03
	R'000	R'000	R'000
Public safety and security (Vote 10)	67 202		
Public safety, security and liaison (Vote 10)		75 620	30 149
Total	67 202	75 620	30 149
Increase Decrease	7 446	8 418	 45 471

Summary: Public safety and security Expenditure	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 13)	-					
Public safety and security (Vote 10)		2 548	2 503	21 712	57 622	58 533
Total	-	2 548	2 503	21 712	57 622	58 533
Increase Decrease		2 548	 45	19 209	35 910	911

Summary: Public safety and security Expenditure	00/01	01/02	02/03
	R'000	R'000	R'000
Public safety and security (Vote 10)	66 531		
Public safety, security and liaison (Vote 10)		70 126	20 293
Total	66 531	70 126	20 293
Increase Decrease	7 998	3 595	 49 833

Vote 10/4

ANNEXURE N

Agriculture

Summary of Financial Statements between 1 July 1994 and 2002/03

Summary: Agriculture Amount voted	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 14)	17 691					
Agriculture and environmental affairs (Vote 12)		161 239				
Agriculture and environmental affairs (Vote 11)			133 624			
Agriculture (Vote 11)				126 835	121 933	121 723
Total	17 691	161 239	133 624	126 835	121 933	121 723
Increase		143 548				
Decrease			27 615	6 789	4 902	210

Summary: Agriculture Amount voted	00/01	01/02	02/03
	R'000	R'000	R'000
Agriculture (Vote 11)	142 087	176 395	209 889
Total	142 087	176 395	209 889
Increase Decrease	20 364	34 308	33 494

Summary: Agriculture Expenditure	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 14)	16 389					
Agriculture and environmental affairs (Vote 12)		149 411				
Agriculture and environmental affairs (Vote 11)			123 704			
Agriculture (Vote 11)				116 560	100 099	103 793
Total	16 389	149 411	123 704	116 560	100 099	103 793
Increase		133 022				3 694
Decrease			25 707	7 144	16 461	

Vote 11/3

Summary: Agriculture Expenditure	00/01	01/02	02/03
  Agriculture (Vote 11)	R'000 118 253	R'000 119 599	R'000 146 316
Total	118 253	119 599	146 316
Increase Decrease	14 460	1 346	26 717

ANNEXURE O

Sport, Arts, Culture, Science and Technology

Summary of Financial Statements between 1 July 1994 and 2002/03

Summary: Sport, culture, science and technology Amount voted	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 15)	1					
Sport, recreation, arts and culture (Vote 12)		18 271	24 469			
Sport, culture, science and technology (Vote 12)				39 471		
Sport, arts, culture, science and technology (Vote 12)					47 993	32 103
Total	1	18 271	24 469	39 471	47 993	32 109
Increase		18 270	6 198	15 002	8 522	
Decrease						15 890

Vote 12/1

Summary: Sport, culture, science and technology Amount voted	00/01	01/02	02/03
	R'000	R'000	R'000
Sport, arts, culture, science and technology (Vote 12)	90 660	120 124	147 796
Total	90 660	120 124	147 796
Increase Decrease	58 557	29 464	27 672

Summary: Sport, culture, science and technology Expenditure	94/95	95/96	96/97	97/98	98/99	99/00
	R'000	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 15)	-					
Sport, recreation, arts, and culture (Vote 12)		14 654	19 084			
Sport, culture, science and technology (Vote 12)				32 808		
Sport, arts, culture, science and technology (Vote 12)					44 358	31 258
Total	-	14 654	19 084	32 808	44 358	31 258
Increase Decrease			4 430	13 724	11 550	 13 100

Summary: Sport, culture, science and technology Expenditure	00/01	01/02	02/03
	R'000	R'000	R'000
Sport, arts, culture, science and technology (Vote 12)	89 626	117 865	145 409
Total	89 626	117 865	145 409
Increase Decrease	58 368	28 239	27 544

ANNEXURE P

Provincial Service Commission

Summary of Financial Statements between 1 July 1994 and 1998/99

Summary: Provincial service commission Amount voted	94/95	95/96	96/97	97/98	98/99
	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 16)	1 000				
Provincial service commission (Vote 13)		8 758	7 602	8 022	2 876
Total	1 000	8 758	7 602	8 022	2 876
Increase		7 758		420	
Decrease			1 156		5 146

Summary: Provincial service commission Expenditure	94/95	95/96	96/97	97/98	98/99
	R'000	R'000	R'000	R'000	R'000
New provincial government (Vote 13)	563				
Provincial service commission (Vote 13)		4 469	5 412	5 334	2 617
Total	563	4 469	5 412	5 334	2 617
Increase		3 906	943		
Decrease				78	2 717

ANNEXURE Q

Reconstruction and Development Program

Summary of Financial Statements between 1 July 1994 and 1998/99

Summary: Promoting the reconstruction and development program Amount voted	94/95	95/96	96/97	97/98	98/99
	R'000	R'000	R'000	R'000	R'000
Reconstruction and development program (Vote 7)	41 068	89 166			
Promoting the reconstruction and development program (Vote 18)			209 946		
Promoting the reconstruction and development program (Vote 15)				162 093	17 700
Total	41 068	89 166	209 946	162 093	17 700
Increase Decrease		48 098	120 780	 47 853	 160 323

Summary: Promoting the reconstruction and development program Expenditure	94/95	95/96	96/97	97/98	98/99
	R'000	R'000	R'000	R'000	R'000
Reconstruction and development program (Vote 7)	41 068	37 795			
Promoting the reconstruction and development program (Vote 18)			78 530		
Reconstruction and development program (Vote 15)				148 081	13 589
Total	41 068	37 795	78 530	148 081	13 589
Increase			40 735	69 551	
Decrease		3 273			134 492