The role of accounting officers in ensuring responsible public financial management: A PFMA centric approach

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ABSTRACT

The delivery of public services in South Africa is dependent on good governance and decisive leadership. Furthermore, the success of government programmes depends on the size of the budget that has been allocated to a given government department or entity. When the Minister of Finance delivers the budget speech in the National Assembly, there is a clear indication on how much is going to be allocated to each government department over the next financial year. It is up to the government departments to ensure that the allocated budget is used as efficiently and effectively as possible. Each government department is guided by the Public Financial Management Act (PFMA), 1999. The PFMA seeks to regulate financial management in the national government and provincial governments; 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. Given the objectives of the PFMA, accounting officers are tasked with the responsibility of enforcing the PFMA in all procurement processes. According to Section 36 of the PFMA, an accounting officer is the head of a department. These accounting officers play an important role in ensuring that services are delivered, while they must ensure that public funds are spent responsibly and in accordance with the relevant government policies and the PFMA. This paper analyses the role that accounting officers need to play in ensuring responsible public financial management, especially because of the limited resources available to our government. By employing a qualitative study, this paper looks at instances where accounting officers did not act in accordance with the PFMA and the implications of this failure.

Introduction

South Africa’s public financial system is characterized by the complexities of the competing needs of its citizens. Public officials, accounting officers, are expected to deliver quality services to South Africans, while ensuring that they avoid wasteful and fruitless expenditure. Furthermore, the South African government is tasked with ensuring the development of the economy whilst they must also ensure the social security of the most vulnerable groups. All this needs to be done through stringent financial controls due to limited budgets that are allocated to each government department. It is for this reason that we have the Public Finance Management Act (PFMA). Accounting officers in all government departments have the primary responsibility of ensuring that seamless transactions in their departments. According to the PFMA, accounting officers in terms of Section 38 of the PFMA, are there to ensure that internal processes and controls are in place for the processing and approval of payments. Accounting officers are generally referred to as Director-Generals or Heads of Departments.

Accounting officers are crucial components in the execution of public services in South Africa. They are the ones who are mandated to spearhead state entities on behalf of their political principals. And although they hold this mandate, they are still accountable to the public. But to what extent have accounting officers exercised their duties in terms of the PFMA? Have they been effective enough in executing their role in terms of protecting public funds? And have they been receiving enough support from their political principals in ensuring that public funds are protected?
Even with the PFMA in place, the Office of the Auditor General continues to make explosive findings against public entities, with fruitless and wasteful expenditure as well as irregular expenditure being the most common findings across all public entities. These findings have continuously raised an alarm around how public funds are spent in national and provincial governments, as well as in other public entities that are governed by the PFMA.

**Literature Review**

**Conceptual and Theoretical Background**

Whilst the Auditor General has made recommendations over the years, public entities have done very little in implementing these recommendations. This is seen in how repeat findings are made at the end of the next financial year. In her briefing of the 2019/20 financial year, Auditor-General, Khensani Maluleke stated that there has been very slow progress, particularly in the financial management in both the national and provincial departments as well as in public entities. Furthermore, The Auditor-General stressed the need for rapid and urgent accountability and actions to be taken in response to financial mismanagement and misconduct in the public sector. This is because financial mismanagement and misconduct costs the taxpayer billions of Rands every financial year. It also has a negative impact on the speed of South Africa’s economic development. Although there was a slight improvement from the prior financial year, public entities were still plagued with a great deal of irregularities. Amongst these, the Auditor-General found that there was R116 million in government contracts that were awarded to companies in which government officials had a stake.

For the 2021/22 financial year, the Auditor-General reported that while there has been a slight increase in clean audits from the Auditor-General, the government lost R12bn related to non-compliance and fraud, and service delivery departments and state-owned enterprises falling short. The Auditor-General estimated the financial loss from material irregularities at R12-billion. Most of the material irregularities “were caused by non-compliance and suspected fraud which resulted in, or are likely to result in, material financial loss,” according to the report (AGSA, 2022). Most funds were lost in procurement processes that were seen to be “unfair, uncompetitive and uneconomical” and in payments for goods and services that weren’t received (AGSA, 2022).

The worst performers in the 2021/2022 financial year were the departments commonly referred to as service delivery departments as well as state owned entities. Service delivery departments are those that have the biggest budgets and are closer to the people. These departments include the departments of Human Settlements, Basic Education, Health, Public Works, Transport and Water and Sanitation. From these departments, only 6% had clean audits. These were the Western Cape Department of Health, the Western Cape Department of Transport and the Kwa-Zulu Natal Department of Human Settlements (AGSA, 2022). And out of the 15 state owned enterprises, only two received clean audits. These were Development Bank of Southern Africa and the Agricultural Development Bank of South Africa (AGSA, 2022).

**Irregular Expenditure**

Irregular expenditure compromises the integrity of government’s finances and the procedures thereof. This wrongdoing can be condoned by either the accounting officer of the department, the National Treasury or by Parliament, depending on the severity of the transgression. However, accounting officers have the responsibility of taking appropriate action, including setting up disciplinary proceedings against the officials who have been found in the wrong. Accounting officers must therefore ensure that irregular expenditure is immediately reported to the National Treasury as required by section 40 (4) (b) of the PFMA. In addition, the Treasury Regulations (RSA, 2005: 25) state that “Irregular expenditure incurred by a department in contravention of tender procedures must also be brought to the notice of the relevant tender board or procurement authority, whichever applicable.”

**Fruitless and Wasteful Expenditure**

Fruitless and wasteful expenditure refers to funds that have been wasted in vain. Furthermore, it refers to a situation where this wastage could have been avoided had reasonable care been taken. Such expenditure includes interest, the payment of inflated prices, and the cost of litigation that could have been avoided (AGSA, 2017).

**Unauthorised Expenditure**

The PFMA defines unauthorised expenditure as any expenditure not in accordance with the mandate of the department, or not in accordance with the purpose of the programme, or the overspending of a department or a programme within a department (RSA, 1999: 12). Unauthorised expenditure involves breaking the law. It may require criminal proceedings and the accounting officer may be dismissed.

**Theoretical Framework**

**Public Choice Theory**

Public choice theory developed as a result of the economic, political, social and philosophical developments experienced in the third quarter of the 20th century. The theory has been used in forecasting political behaviour and shaping nonmarket outcomes with the help of sensible alternatives hypothesis (Ağırkaya, 2021: 47). Public choice theory is a theory that describes the relationship between decisions taken in public administration with politics and economy and the conduct of individuals working in this field (Ağırkaya, 2021: 47). The assumption of the public choice theory is that those working in public institutions see their individual benefits above
the public interest when making political decisions. According to this theory, the individual does not take into consideration the needs of the institution they work for and the people as a priority when making political or administrative decisions (Ağırkaya, 2021: 47).

The important thing for them is to fulfil their individual profit and pleasure. The public choice theory applies the methodology of economists to politics and specifically addresses two main problems (Aktan and Baçe, 2013: 103). These are known as the problem of collective activity and the problem of total preferences. In fact, it is the analysis of economists on the behaviour of politicians and decision makers. This analysis is sometimes similar or contradictory.

The main contribution of the public choice theory to the public administration literature, is that there is a delicate balance between the interests of politicians, voters, interest groups, bureaucrats, and legislators in a democracy (Kurun, 2018: 87). Buchanan defines public choice theory as follows (Buchanan, 1991): “Public choice theory essentially takes tools and methods developed in economic theory for highly detailed analysis and applies these tools and methods to the political process, public sector, policy and public economy”. Public choice theory gives a description for the complex institutional exchanges that take place in the political space. Tullock’s (2002: 6-7) definition is associated with those decision makers in the public and decision makers in the private sector by stating that “In considering the consequences of this simple view of government one special problem exist, economists have based their predictions on the notion that purchasers in the market are perfectly informed”.

According to the public choice theory, people, decision makers, do not act on the principle of making decisions that are in the interest of the general public. For the public choice theory, there are four basic groups that make up the economic and social life. These are politicians, civil service/bureaucrats, voters, pressure and interest groups (Kul and Yüksel, 2018: 99). Public choice theory also is a consequence of individual biased evaluations faced by groups or organisations independent of individuals, unlike the social interest approach (Özer and Kartal, 2021: 50). The public choice theory emphasizes that all four groups will demonstrate attitudes towards their own benefit and that the political balance will be achieved through an exchange in which each group will provide its own benefit (Kul and Yüksel, 2018: 99). According to Buchanan, public choice theory seeks to create a nexus between economics and political science.

While the Public Choice Theory evaluates political events from an economist’s point of view, it is generally based on the failure of the state. According to theorists, there is a direct correlation between the increase in the efficiency of the state in the economy and the increase in economic and bureaucratic corruption (Özer and Kartal, 2021: 51). One of the most important effects of public choice theory has been the development of the field of positive analysis in public finance (Buchanan, 1989: 131). Politicians, including not only political-party members, but also the representatives of organized groups, make statements about distributional justice and argue that such ideas are the reason for various policy demands (Lane, 1990: 72). Tullock (1987: 165) argues that these obstacles must be faced within the context of public choice analysis and not be resolved by means of simple order placing the burden of argument with those who question these implications. Hence, they are likely to seek to further their own well-defined interests (Buchanan, 1988: 11).

**Legisngo Framework**

Nsingo (2007:40) states that “PFM deals with the management of people’s money, which has been entrusted to Government. It involves decision-making regarding the needed financial resources to implement government programmes and projects; where to obtain these resources; how to collect and utilise the resources; and how to control all financial processes within given time frames”. Madue (2009:414) insists that public financial management focuses on utilising scarce government resources to ensure the effective, efficient and transparent use of public funds and resources, as well as to accomplish value for money in meeting the aims of good public financial governance in public service delivery. Public financial management thus, has a two-pronged approach. It deals with the effective and efficient allocation and distribution of financial resources.

Furthermore, it also focuses on the processes and systems that are used to ensure that financial resources are used and coordinated in an effective, efficient and economic manner. A third element identified in this regard is the importance of the decision-making process. A prerequisite for good decision making in public financial management is an effective and competent leader. Daft (1999:456) confirms the above by asserting that leaders with foresight, strategy and direction use their power and influence to make rational decisions. Central to public financial management is the legislation that governs it. In South Africa, for example, the Public Finance Management Act 1 of 1999 (PFMA) is important.

Since the assumption of the Constitution of the Republic of South Africa, 1996, several milestones have been reached in public service financial management. One of these was the proliferation of the PFMA in 1999 to improve financial management and accountability. The PFMA aims to create principles of performance by employing managers to manage, and at the same time holding them accountable for the utilisation of state resources in delivering services. However, more than a decade after the PFMA was promulgated, there are still many cases of poor financial management and many factors that continue to affect public financial management and accountability in South Africa.

The PFMA was introduced to reform the financial management situation in South Africa. The PFMA is seen as a fundamental piece of legislation in SA and promotes the principles and objectives of effective financial management in the public sector. This is to maximise service delivery through the effective, efficient and economic use of the limited state resources. It has done so by establishing a new public financial management dispensation with key objectives that include:

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i. streamlining the system of financial management.
ii. enabling public sector managers to manage government funds and report on their responsibilities.
iii. ensuring timely provision of quality data; and
iv. eliminating waste and corruption in the expenditure of public funds (Madue 2009:414).

The PFMA (1999:23) in Chapter 5 focuses on the role and importance of an accounting officer, who is seen as the financial leader of the public institution. The accounting officer requires the financial skills, knowledge and expertise to fulfil the following general responsibilities. According to Section 38–42 of the PFMA (1999:23), the accounting officer for a department, trading entity or constitutional institution, amongst others:

i. must ensure that the department, trading entity or constitutional institution has and maintains:
   a. effective, efficient and transparent systems of financial and risk management and internal control.
   b. a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of S76 and 77.
   c. an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.
   d. a system of properly evaluating all major capital projects prior to a final decision on the project.
ii. b. is responsible for the effective, efficient, economical and transparent use of the resources of the department, trading entity or constitutional institution.
iii. c. is responsible for the management, including the safeguarding and maintaining of assets; d. must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with prescribed norms and standards.
   a. must prepare financial statements for each financial year in accordance with generally recognised accounting practice.
   b. must draw up an inventory of assets and liabilities of the department, trading entity or constitutional institution.

The accounting officer as a financial leader needs to continuously acquire the financial skills, knowledge and expertise to be able to considerably fulfil the above-mentioned general responsibilities. Chapter 5 of the PFMA highlights a wide range of responsibilities that need to be carried out by the Accounting Officer. Thus, it is imperative, especially because it is prescribed legislation that the Accounting Officer strictly adheres to it. The PFMA also highlights the importance, role and responsibilities of other financial leaders such as the Auditor General who represents Chapter 9 institutions, Cabinet Ministers in national government, and the MEC’s in the provincial governments.

Research Methodology

The case study research method will be used extensively in this study. This method primarily allows researchers to present findings and draw conclusions on work that has been done on a particular study before. The case study research method is founded on the fact that it has allowed academics and researchers to go beyond qualitative and quantitative methods to draw reasonable conclusions towards their studies (Zainal, 2007: 1). This method of research is favoured in the social sciences research space because it has been found to go beyond the limitations of quantitative methods by providing insight into the social and behavioural problems in each case (Zainal, 2007: 1).

Yin (1994: 24) defines the case study methodology as an experimental analysis that explores a modern occurrence within its real-life perspective, particularly when the limitations between the occurrence and perspective are not evident and where multiple sources of information are utilised for the purposes of the study. It is with this definition in mind that the case study research method has been adopted for this study.

The case study method follows a detailed process that takes place over three stages, namely the preliminary stage, the fieldwork and analysis stage and the conclusion stage (Noor, 2008: 1603). During the preliminary stage, the researcher’s task will be formulating theory, which will ultimately lead to the selection of cases by researcher, as well as designing research question(s) that will form the basis for the analysis of key cases that will contribute to the overall outcome of the study (Noor, 2008: 1603).

The second stage of case study research involves fieldwork and analysis of previous work done on a particular study. This part of the research is vital to the overall outcome of the study because it is here where the results are drawn for a detailed conclusion, where the theory may be modified in the third stage of this method of research (Noor, 2008: 1603). This method has been used particularly for this study on accounting officers and the execution of their mandate.

Responsible Public Financial Management

Responsible public financial management lies at the core of the primary functions of all accounting officers. Accounting officers, along with their political principals, are fully aware of the budgets that are allocated to their departments as well as the policy agendas that need to be met within the budget that has been allocated to their departments. The accounting officer, usually the Director General
or Head of Department, in terms of section 36 of the PFMA, is personally accountable for all financial transactions and activities of his/her department. The accounting officer of an institution must ensure that internal processes and internal control measures are in place for payment approval and processing. Accounting officers are directly responsible for the successful implementation of the revised budget and financial management systems (Visser and Erasmus 2002:36).

Section 38 of the PFMA contains clear direction as to the general responsibilities of accounting officers. According to section 38(1) of the PFMA, the accounting officer of a department, trading entity or constitutional institution:

i. must ensure that the department, trading entity or constitutional institution has and maintains—effective, efficient and transparent systems of financial and risk management and internal controls.

ii. is responsible for the effective, efficient, economical and transparent use of the resources of the department, trading entity or constitutional institution.

iii. must prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and manage available working capital efficiently and economically.

iv. is responsible for the management, including the safe-guarding and the maintenance of the assets, and for the management of the liabilities, of the department, trading entity or constitutional institution.

v. must comply with any tax, levy, duty, pension and audit commitments as may be required by legislation.

vi. must take effective and appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who contravenes or fails to comply with a provision of this Act.

Responsible public financial management is extremely important for accounting officers and therefore highly skilled and competent individuals are required to perform these functions. If an accounting officer wants to execute his/her functions appropriately, he/she must have full control of finances and other activities of that given department or entity (Thornhill 1984:53), and institutional knowledge is useful in this regard.

Accountability is another key feature of responsible public financial management. Pauw et. al. (2009) suggests that a good budget, which is not well planned during the implementation phase will result in a few problems. For example, overspending of the original budget may happen. This excessiveness may occur as a result of non-compliance with the defined spending ceiling in the appropriate budget. Pauw et al. (2009) further imply that this may only happen when there are weak guarantees management systems. Public financial management as a management system needs government institutions to set up financial management systems, models, clear goals and provide detailed information on the functionality and practicality of these systems.

In modern reforms, public financial management is a modern management tool and not a solution to all budgeting problems; it is seen as an advanced modification for public sector efficiency and performance culture that seeks to improve transparency and accountability (Pakkies, 2016: 73). Therefore, accountability means that politicians and public officials must respond intermittently to questions concerning their activities and must be held accountable for the exercise of the authority provided to them (Djurović-Todorović & Djordjević, 2009). In this regard, being held responsible should lead to consequences where there is evidence of misuse of public funds. In addition, corruption, which is the misuse of public or private office for direct or indirect personal gain, poses moral and legal problems and is a major source of inefficiency in public expenditure management (Djurović-Todorović & Djordjević, 2009).

Ensuring Responsible Public Financial Management

Responsible public financial management can only be achieved if the right people are appointed to head up our national and provincial government departments as well state-owned entities. This will undoubtedly go a long way in improving the poor performance that we have seen from these institutions over the years. Furthermore, there is a need to reduce negative internal threats such as corruption. This requires the government to deal decisively with corruption and mismanagement of funds. To do this, control must be strengthened and a clear procedure for dealing with the consequences of financial transgressions set. If this is implemented, it may go a long way in ensuring operational efficiency.

There are a lot of operational inefficiencies in how government funds are managed. This is illustrated by government expenditure that is unauthorised, irregular, fruitless and wasteful. This is a clear indication that there is a need to tighten financial management systems, controls and accounting standards in order to strengthen government’s ability to spend voted funds efficiently, thereby ensuring value for money on government spending. This enables accounting officers to do their work without too many issues. Accounting officers must also be empowered to take appropriate action against those who violate the provisions of the PFMA. Government departments and state entities have an inclination of viewing financial resources as a means to an end; an enabler to deliver services effectively and efficiently. However, they are not often willing to put controls in place to ensure accountability for the money that has been spent. As a result, though explicit sanctions on politicians and public servants for violating budgetary rules are stated in government’s policy documents and law, they are hardly ever held accountable for the exercise of the authority that has been provided to them. Internal accountability is accounting within the institution and includes accounting to the political principal,
whether it is the relevant Minister in national government or an MEC in provincial government. The values of unauthorised, irregular and fruitless and wasteful expenditure indicate lack of internal controls. The lack of internal accountability is when the political principal cannot hold their subordinates accountable. On the other hand, the external accountability relates to accounting to the external stakeholder, such as Parliament, the relevant Constitutional body and the public.

When considering the role of accounting officers in terms of the PFMA, it is worth noting that the role the hold is an administrative role, especially in terms of managing the finances of the institution. However, it does appear that they have very little control on how they deal with the mismanagement of funds. The repeats finding by the Auditor General may suggest that very few accounting officers exercise their powers in terms of the PFMA by instituting consequence management for government employees who are involved in flouting fiscal regulations. Accounting officers need to be empowered to execute their duties without outside interference, especially from their political principals. They should be allowed to put punitive measures in place for those who have violated PFMA regulations.

Conclusions

The role of an accounting officer in a government department or state-owned entity is a crucial one. It is for this reason that accounting officers need to have the necessary skills, qualifications and experience to head up these institutions. The pre-conditions for the successful implementation of the public expenditure management systems includes:

- proper governance.
- a culture of financial acumen.
- control systems.
- capable personnel with the required technical skills.
- officials held accountable for their financial transgressions.

But overall, governance must be analysed in the context of public finance to achieve criteria such as accountability, responsibility and transparency. The structures supporting governance are important, as is their functioning. These institutions must support governance in the context of the PFMA. In so doing, they would also be supporting the accounting officers. If these structures and institutions are not managed accordingly, they could lead to poor accountability and responsibility for public finance. This inevitably could continue to create difficult working conditions for accounting officers. It is important for structures to understand that they do not operate in isolation but need each other in the interests of good governance.

References


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