



**THE IMPACT OF IRREGULAR EXPENDITURE IN THE SOUTH AFRICAN
PUBLIC FINANCE WITH SPECIFIC REFERENCE TO THE NATIONAL
DEPARTMENT OF PUBLIC WORKS**

By

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Dissertation submitted in partial fulfilment of the requirements of the degree
Master of Public Management in the

FACULTY OF BUSINESS AND MANAGEMENT SCIENCES

At the Cape Peninsula University of Technology (CPUT)

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Signed

Date

Acknowledgements

I wish to thank:

- Dr Stan Cronje, for whom I have the greatest appreciation for his guidance throughout this work. I wish to thank him for his advice and tireless words of encouragement.
- Prof H. Ballard and Prof R. Hendrickse, for availing themselves to respond to my queries during difficult times since the inception of my studies at CPUT.
- Dr Matshiliza, for her words of encouragement and wisdom.
- Mr M. Dlabantu, the Director General (DG) of the National Department of Public Works for granting me permission to conduct this research in his Department.
- Mr Cox Mogoro, the Chief Financial Officer (CFO), and his support staff, for availing themselves and for being willing to give answers to all my questions.
- Ms A. Qina, my wife, and Mr M. Dlomo, my son, for their support, presence and understanding. Their assistance with biscuits and cups of tea during my study time is much appreciated.
- Mr P.S Dlomo, my father, for his support, as well as Ms T.V Dlomo, my mother, who passed away in August 2005, *may her soul rest in peace* and all my family members.
- The completion of this degree has been possible with the supreme guidance from almighty God, who has answered my prayers.

Dedication

I dedicate this work to my late grandmother, Ms J.N Memela, who passed away in 1997. I dedicate this piece of work to her for raising me well, motivating me and inspiring me to become the person I am today. *May her soul rest in peace.*

Abstract

In 1999 the South African Parliament passed the Public Finance Management Act No.1 of 1999 (PFMA). The intention was to ensure effective and better public finance management practice. The Act requires that government departments should establish measures to prevent irregular expenditure. However, there has been persistent irregular expenditure reports every year, which is an indication of non – compliance. The aim of this research is to investigate the impact of irregular expenditure in the South African public finance management domain, using the national Department of Public Works as a case study. The research addresses the following questions:

- What was the impact of irregular expenditure for the past five years in the national Department of Public Works (NDPW)?
- What was the cause of irregular expenditure in the Department?
- What steps have been taken to ensure that expenditure control systems are effectively implemented in the Department?

Notwithstanding the passing of the PFMA, literature that deals with the topic at hand indicates that there are various public finance management legislative regimes that exist to ensure a more organised public sector budgeting and effective expenditure, and these flow directly from the Constitution. The literature comprised of books, journal articles, government policy documents, legislations and Chapter 9 institutions. The research question was best answered by following a qualitative research approach. A questionnaire survey was used to collect data from the sample of 10 senior officials from the Department, National Treasury, Auditor General and South African Parliament. The data analysis was conducted by means of content analysis. The study found that the non – appointment of properly qualified officials and a high level of senior and experienced staff turnover had led to instability in the Department. Other challenges included the inadequate capacity of the Internal Audit unit, as well as the lack of an independent Audit Committee to ensure functional and effective Internal Audit unit, to also ensure compliance with the financial management prescripts and supply chain management policies. The study recommends the appointment of a highly qualified Chief Financial Officer (CFO) and other officials, capacitating the Internal Audit unit and ensuring that an independent Audit Committee is established to achieve a better governance.

GLOSSARY

Key terms

Public Finance Management Act

Public Finance Management

Treasury regulations

Supply Chain Management

Irregular expenditure

Accounting officer

Expenditure control

Effective, Efficient and Economical

Department

Transgression

Unqualified audit opinion

Qualified audit opinion

Adverse audit opinion

Disclaimer audit opinion

Acronyms

GAAP: Generally Accepted Accounting Practice

GRAP: Generally Recognised Accounting Practice

IFRS: International Financial Reporting Standard

MINCOMBUD: Ministers Committee on Budget

Abbreviations

PFMA: Public Finance Management Act

MFMA: Municipal Finance Management Act

IGRA: Intergovernmental Relations Act

IGFR: Intergovernmental Fiscal Relations

SCM: Supply Chain Management

NT: National Treasury

AGSA: Auditor General of South Africa

NDPW: National Department of Public Works

FFC: Financial and Fiscal Commission

PMTE: Property Management Trading Entity

ASA: Agreement South Africa

RSA: Republic of South Africa

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CHAPTER ONE: INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

As part of the various Public Finance Management reforms in South Africa, the Public Finance Management Act No. 01 of 1999 (as amended by Act 29) (PFMA) is the fundamental legal prescript in government. The Act serves to regulate the usage of financial resources in the South African democratic government since 1999. Since it was passed by Parliament in 1999, this legislation aims to provide guidance that ensures effective budget expenditure and clear lines of responsibilities and accountability. The Act is used by both national and provincial spheres of government, including public entities for the effective public finance management.

However, some patterns have emerged on irregular expenditure, both in national and provincial government, which indicate a clear contravention of this Act. These patterns were identified from the Auditor General of South Africa's (AGSA's) consolidated reports from the 2010/11 to the 2014/15 financial years (Auditor General of South Africa: 2010/11 - 2014/15). It is against this backdrop that the study investigated the impact of irregular expenditure in the South African public finance environment with a view to make recommendations as a means to improve governance and compliance with the Act and other set of legislations. The national Department of Public Works portfolio (NDPW) was identified as a case study. This was one amongst many departments that had contributed to the overall irregular expenditure of national government for the past five years.

1.2 BACKGROUND OF THE STUDY

When the PFMA was promulgated in 1999 the aim was to regulate financial management in the national and provincial sphere of government, and to ensure that all revenues, expenditures, assets and liabilities are efficiently and effectively managed (PFMA: 1999). Section 38 (1) (c) (ii) of the Act requires that accounting officers or any other official who is assigned with a similar responsibility should take effective measures to prevent irregular expenditure. The intention is to ensure effective and

efficient expenditure of government departments. As the study investigated the impact of irregular expenditure, it paid particular attention to the past five financial year period (2010/11 to 2014/15). This period allowed the study to be conducted based on the full term of government administration that was elected since 2009. Thus, the study allowed for the assessment of a full term of the government administration.

Furthermore, before the democratic Parliament passed the PFMA in 1999, a different legal instrument was used to regulate Public Finances. The instrument stemmed from British colonial rule, which was passed as the Exchequer Act of 1975. The Exchequer Act of 1975 provided a framework within which financial management, budgeting and expenditure occurred in the then Apartheid government. When the PFMA was passed in 1999 (PFMA), it aimed to replace the Exchequer Act, as part of the Public Finance democratisation. Since 1975, the latter Act has provided overall guidance to the different spheres of government on the financial management space.

Apart from the fact that the Exchequer Act of 1975 was undemocratic, it had the following shortcomings:

- It only required departments to budget for one financial year instead of a three year cycle;
- The National, Provincial and Local government's objectives were not required to be measurable and outcomes-based;
- No meaningful punitive measures were established if departments failed to meet financial reporting requirements; and
- There were no clear, appropriate measures to ensure that there were effective budget control systems in place (Exchequer Act, 1975).

The PFMA is one of the last public finance management reforms that was enacted during the 1990's, which is a period that was characterised by significant legislation overhauling. The PFMA was promulgated by the democratic government to democratise the South African Public Finance space. It is this Act that introduced a three year budget cycle process (with budget allocations for the current financial year and budget projections for the two outer years), normally referred to as the Medium Term Expenditure Framework (MTEF). This Act also introduced specific provisions on

budget control measures and punitive actions against government officials who failed to comply, such as disciplinary process sets out in Chapter 10 Section 81 for non-compliance and financial misconduct (Public Finance Management Act, 1999).

Even though the PFMA has been operating for more than a decade now, there has been widespread dissatisfaction regarding non-compliance with this financial management prescript in government departments and public entities. The Auditor General of South Africa (AGSA) has published findings of non-compliance with laws and regulations with some government departments and entities, some regressing from unqualified opinion to qualified opinion, disclaimer and adverse audit opinion. These include the national DPW - hence it was used as a case study to highlight the impact of irregular expenditure in the South African public finance space.

1.3 PURPOSE STATEMENT

The main purpose of the study was to investigate the impact of irregular expenditure within South African public financial management, using the national Department of Public Works (NDPW) as a case study for the past five years.

1.4 STATEMENT OF THE RESEARCH PROBLEM

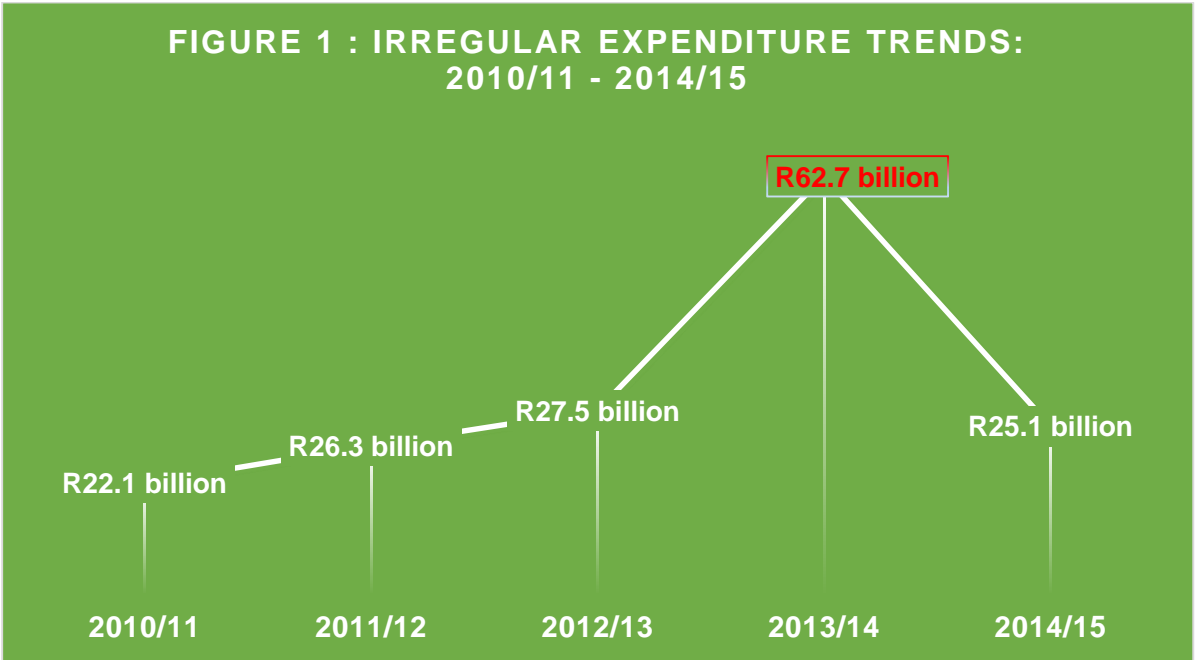
The research problem stemmed from the serious persistence of irregular expenditure wherein most government departments do not seem to comply with some of the provisions of the Public Finance Management Act. Section 38 (1) (c) (ii) of the Act provides that the accounting officer or accounting authority must take effective and appropriate steps to prevent irregular expenditure in the department.

However, in practise, the inverse has proved to be true, since the past five financial years (2010/11 - 2014/15) various amounts of irregular expenditure was witnessed across government departments, and published by the Auditor General of South Africa (AGSA). Table 1.1 below provides a snapshot of the five year trend of the overall irregular expenditure for the national departments.

Table 1.1: National government: overall irregular expenditure trends between 2010/11 – 2014/15

EXPENDITURE TYPE "000"	2010/11	2011/12	2012/13	2013/14	2014/15
Irregular Exp.	22.1 billion	26.3 billion	27.5 billion	62.7 billion	25.6 billion

Auditor General (2010 – 2014)



Auditor General (2010 – 2014)

Table 1.1 and Figure 1 above show a spike of R62.9 billion of irregular expenditure in 2013/14, as reported by national Departments and entities. This demonstrates a serious violation of the Public Finance Management Act, which is one of the most important instruments of legislation that governs and regulates the use of financial resources and other matters of governance. The Act caters for the national and provincial sphere of government and entities, which include Constitutional Institutions. The above scenario leads to the Auditor General not being able to express a Clean Audit / unqualified audit opinion with no material findings to the departments in question.

Owing to this huge amount of irregular expenditure (R62.9 billion) occurred in 2013/14,

of the 238 auditees 51 per cent received financially **unqualified audit opinions**¹ with findings that were related to their performance information, which was also owing to non-compliance with legislations². During the same period, seventy – three (73) or (16 per cent) of the auditees received, a **qualified audit opinion**³, which means that they were unable to adequately and accurately account for all the financial effects of the transactions and activities that they had conducted. Thus, the financial statements, which had been presented were unreliable in some areas. Only two (2) public entities received **adverse audit opinions**⁴, which means that they were also unable to account for the financial transactions that they had conducted in the same year. However, this was common in most areas of their financial statement unlike the qualified audit where this was only limited to a certain area. Sixteen (16) auditees received **disclaimer audit opinion**⁵ on the basis that they could not provide evidence for most of the amounts and disclosures in the financial statements. Therefore, the auditors were unable to express an opinion on the credibility of the financial statements. The 2013 audit outcome discussed in the above paragraph is a clear epitome of failure to comply with the financial and supply chain management prescripts, which governs the operations of the government departments and entities. The failure to prevent irregular expenditure, as required by section 38 (1) (c) (ii) of the Act, resulted in widespread unacceptable irregular expenditure patterns and unacceptable audit outcomes.

² **Unqualified audit opinion with findings** – refers to as the least severe opinion where there is a fair presentation of the status of the department or entity, but there are a number of issues that are a cause for concern which are raised by the AGSA’s report.

³ **Qualified audit opinion** – refers to as severe opinion which auditors make when they have concluded that an unqualified audit opinion cannot be expressed, but that the effect of any disagreements with management, or limitation on the scope of audit is not as material or fundamental as to require an adverse or disclaimer.

⁴ **Adverse audit opinion** – refers to as the most severe opinion which auditors express when the effect of disagreements is so material and fundamental to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

⁵ **Disclaimer audit opinion** – refers to a no opinion expressed (also very severe), this is due to the fact that the possible effect of a limitation on the scope of audit is so material and fundamental that the auditor has not been able to obtain sufficient appropriate audit evidence, and accordingly is unable to express any opinion on the financial statements.

1.5 RESEARCH OBJECTIVES

1.5.1 Primary objectives

The primary objective of the study was

- To investigate the impact of irregular expenditure in the South African public finance management for the past five years (2010/11 – 2014/15 (using national Department of Public Works as a case study).

1.5.2 Secondary objectives

The secondary objectives are listed below:

- To define irregular expenditure concepts,
- To explain the legislative framework for public finance management in the South African government environment;
- To describe the foundation for public finance in the South African government environment; and
- To explain the expenditure control reforms post 1994 in the South African public finance domain.

1.6 RESEARCH QUESTION

Based on the research objectives, the project attempted to answer the following questions:

- What was the impact of irregular expenditure for the past five years in the national Department of Public Works?
- What was the cause of irregular expenditure in the Department?
- Why has the Department not been able to implement appropriate and effective expenditure control measures to prevent irregular expenditure for the past five years?
- What steps have been taken to ensure that expenditure control systems are effectively implemented in the Department?

1.7 RESEARCH METHODOLOGY

The research project comprised of a literature review and an empirical survey. Neuman (2003:96) states that a review of the accumulated knowledge about a certain phenomenon is an essential early step in the research process, regardless of the research approach that is followed. The importance of the literature review is to determine what is already known about the subject within the field. The appropriate literature was identified in books, journals, and the internet as well as government policies, legislations and Chapter 9 institutions. The research project followed a qualitative approach in the form of a questionnaire survey, which contained open-ended questions for interviews. As Sarantakos (2013:277) suggests, an interview is one of the most common methods of data collection. De Vos, Strydom, Fouche and Delport (2007:287) further state that interview is one of the leading methods of data collection in qualitative research. Thus, senior key officials of the national Department, National Treasury, the Auditor General of South Africa, some Members of Parliament and officials were selected to respond to a questionnaire. The data that was collected was analysed by means of content analysis.

1.8 ACCESS AND ETHICAL CONSIDERATIONS FOR THE STUDY

Access and ethics are two key factors that confront researchers from the onset of any project. Thus, access and ethical consideration form an important component of a well-researched scientific study. To reinforce this, Callahan and Hobbs (1998:1) mention the following points concerning ethics:

- *Disclosure: the potential participant must, as far as possible, be fully informed about the nature and purpose of the study, the procedure (s) to be used and the possible or expected benefits for the participants and/or the society, at large. In addition, the potential participants must be fully informed of the potential reasonable foreseeable risk, stress, discomfort, and available alternatives to participate in the research.*
- *Understanding: the participant's consent to participate in the research must be voluntary, free of any coercion or promise of benefits likely to result from*

participation.

- *Competence: the participant must be competent to give consent.*
- *Consent: the potential human subject must authorise his/her participation in the research study, preferably in writing, although at times an oral consent or assent may be appropriate.*

For this study permission was obtained to conduct the research from the national Department of Public Works. At the start of the process, the participants were informed about the purpose of the research, and they were also informed that their participation was on a voluntary basis. The participants were guaranteed confidentiality and anonymity and they were informed not to disclose their names. The letter of application to the Department of Public Works and its approval from the Head of Department is attached to the research study as part of appendix A to E.

1.9 DEMARCATION OF THE STUDY

According to Silverman (2000:88), demarcation refers to the nominal reduction of the research group or phenomenon. In other words, the quality of the group or phenomenon that is being researched is purified. As much as this study dealt with Section 38 (1) (c) (ii) of the PFMA, it only focused on the aspect of the irregular expenditure and not on the entire provision of the Act which includes unauthorized, fruitless and wasteful expenditure. The Act is traditionally implemented between national, provincial governments, public entities and Constitutional Institutions, but the main focus of this study was in the national Department of Public Works. Notably, the public works portfolio can also be found at a provincial and Regional government level. Due to time constraints and the availability of information the study could only cover the national government Department of Public Works.

The study focused on the Department's senior officials, and did not include the views and opinions of junior staff who deal with entry-level transactions daily. This was owing to the lines of reporting and accountability, as defined by the PFMA. Parliamentary researchers and content advisers who serve both the National Assembly (NA), portfolio committees and National Council of Provinces (NCOP), select committees on Public

Works, were also utilized. Their participation was of paramount importance as they conduct oversight over the public works portfolio. Notwithstanding, the fact that the study makes useful findings and recommendations for similar departments that face the same challenges, however, it does not provide a full picture of all government departments, since the study was only limited to the national DPW.

1.10 SIGNIFICANCE OF THE RESEARCH

It is understandably correct that South Africa is still a relatively new democracy and, therefore, its systems are also still new and evolving. There is a greater need to understand the importance of proper implementation of the PFMA and its implications. The study could be beneficial to the South African national DPW and other sister departments. The study could also assist the Department to improve governance and implementation of the PMFA and its public entities. Moreover, the study could benefit South African government, in general, to improve the level of governance and compliance with the PFMA, with specific reference to section 38 (1) (c) (ii) of the Act. The study could help accounting officers to take drastic actions to ensure that the mentioned provision of the PFMA is implemented at various levels, and appropriate action is taken against any form of violation.

The study could create space and opportunity for information sharing among government officials, for instance, at the Forum of South Africa Director General's (FOSAD) sessions. It could also form part of the existing literature on Public Finance. It could assist by making an academic contribution with regard to a need to understand PFMA. This will also be important because PFMA is a fairly new instrument of legislation and, therefore, there is limited research that has been conducted around it thus far.

The study could also contribute towards achieving the most desirable *Clean Audit* or unqualified audit opinion without findings. Furthermore, the study could also assist the provincial departments of government, as well as municipalities, particularly those that are still struggling to implement effective and appropriate measures to prevent the undesirable irregular expenditure. Moreover, the study could assist Parliament and provincial legislatures to enhance the quality of their oversight over the Executive. For

instance, the study could assist Parliament to hold the Executive to account for non-implementation of specific provisions of the Act. Overall, it could ensure effective, efficient and economic expenditure in order to realise “value for money” and good governance in government. Finally, the study could also lay a foundation for other studies to be conducted in the same area, from different perspectives. This will ensure continuous contribution towards the body of knowledge in the South African public finance management environment.

1.11 OUTLINE OF THE STUDY

Below is an overview of different chapters in the study. The study is divided into four (4) chapters with each chapter focusing on a specific topic, which is relevant to the study. The following provides a brief overview of each chapter in this study:

- Chapter 1: This chapter provides a brief introduction and background of the study. In addition, the aims and objectives of the study are outlined, as well as terms that are used in the study;
- Chapter 2: This chapter focuses on the literature review in South African financial management, which includes the definition of irregular expenditure concept, the foundation of the South African public finance management, South African financial management legislative framework, and expenditure control measures post 1994;
- Chapter 3: deals with the research methodological framework, which was utilised for the study, data analysis and key findings; and
- Chapter 4: provides the summary, recommendations and conclusion of the study.

1.12 SUMMARY

This chapter provided an introduction, background and outline for the research problem that was identified. This was immediately followed by the research aims and objectives, which sought to investigate the impact of irregular expenditure in the South African public finance management arena for the past five years.

The key research questions were:

- What was the impact of the irregular expenditure for the past five years in the national Department of Public Works?
- What was the cause of irregular expenditure in the Department?
- Why has the national DPW not been able to implement appropriate and effective expenditure control measures to prevent irregular expenditure for the past five years?
- What steps have been taken to ensure that expenditure control systems were effectively implemented in the Department?

In short, the study investigated the impact of irregular expenditure in the South African public finance management environment, using the national Department of Public Works as a case study. The study followed a qualitative research approach, as it explored the impact of irregular expenditure in the Department. The following chapter provides a thorough literature review of the South African public finance management environment.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

According to Lanier and Briggs (2014:36), a literature review is an important aspect of any research. Burns and Grove (in Van der Walt and Van Rensburg, 2006:67) describe the process of literature review as an organised written presentation of what has been published on a particular topic by a scholar. Chapter 1 stated the research problem as the persistence of irregular expenditure as most government departments have not been complying with the Public Finance Management Act No. 1 of 1999 (*as amended by Act 29 of 1999*). Section 38 (1) (c) of the Act provides that the accounting officer must take effective and appropriate steps to prevent irregular expenditure.

However, the opposite has proven to be true, as various amounts of irregular expenditures have been witnessed in the past five years (2010/11 - 2014/15) across national government departments. This serves as a signal for a serious violation of the Public Finance Management Act (PFMA) and Treasury Regulations, which are documented as the most important instruments of legislation that regulate the use of public finance across national and provincial spheres of government. This chapter provides insight into studies that have been conducted around the Public Finance Management Act in the past, as well as the foundation for public finance management, and the legislative framework for public finances management.

2.2 OTHER STUDIES CONDUCTED AROUND PUBLIC FINANCE MANAGEMENT ACT NO. 1 OF 1999

Although some studies have been conducted around the PFMA, but these have not considered the impact of irregular expenditure in South African public finance management. Section 38 (1) (c) (ii) of the PFMA requires that accounting officers should ensure the prevention of irregular expenditure in government departments. In 2005 Mirriam Shabalala focused on budget allocations and expenditure patterns using

Government Communications and Information System (GCIS) as a case study. In 2007 Madue investigated a compliance strategy with regard to the Public Finance Management Act, No 1 of 1999. In 2008 Allan Donavell Roman focused on financial reporting in the Department of Community Safety in the Western Cape Province. In 2009 Jacob Ngoako evaluated the PFMA compliance in the Department of Labour in Limpopo Province. In 2013 Mosigi Rabotapi considered budgetary control as a mechanism to promote good governance and public management expenditure control in the Ngwathe Local Municipality. All of the above studies never considered the impact of irregular expenditure (section 38 (1) (c) (ii) in the South African government context. Thus a gap was identified, and it is against this backdrop why the current research focused on the impact of irregular expenditure in the South African public financial management space (Shabalala, 2005: Madue, 2007: Roman, 2008: Ngoako, 2009: Rabotapi, 2013).

This chapter – seeks to define and discuss the legislative framework which is used in the South African public financial management space. The chapter further describes the foundation for public finance management in the same context, and explains the expenditure control reforms that were adopted by the South African government post 1994. Public sector managers also play a critical role in relation to the proper financial management practice. Their understanding of these legislative frameworks, rules and regulations that guide public financial management practices, is thus vital.

Various scholars (Pauw, Woods, Van der Linde, Fourie and Visser, 2009:119) argue that understanding financial prescripts is not only a domain of a select few, but also for line managers and senior managers who through their power to manage, should be able to control the use of public funds. The Public Finance Management Act No.1 of 1999 (PFMA) is one of the most important instruments of legislation for the public finance management environment in South Africa, it sets the tone for effective financial management and optimum utilisation of public resources by both government departments and entities. Most importantly, it prescribes key principles of transparency, accountability, predictability and value for money. It further promotes effective, efficient and economic use of the public purse.

However, it is worrisome that most government departments have not been able to implement section 38 (1) (c) (ii), as required by the PFMA (the Act), to ensure the prevention of irregular expenditure. This is shown in Table 1, which depicts a five (5) year trend of irregular expenditure of the overall government and of the national Department of Public Works. Most notably, the national Department of Public Works portfolio has been one of the major contributors towards the overall amount of irregular expenditure in government, and hence this research focuses more on this particular Department. This is evident by the 2010 – 2014 Auditor General's reports on audit outcomes. Thus, the study seeks to prove such narrative and to propose vigorous and cogent recommendations. This could assist the Department and generally the government, to improve its expenditure control measures. It could also mean a better implementation of section 38 (1) (c) (ii) of the PFMA and, therefore, a better use of public purse.

Every country has its own legislation and procedures that govern to ensure efficient and effective management of public expenditure. The PFMA and Treasury Regulations lay down some of the basic rules for effective public financial management. It enforces compliance with Section 216 of the Constitution, which calls for the introduction of national legislation to prescribe expenditure controls. The details of controls for the effective use of allocated funds are also found in the Treasury Regulations. The Regulations only came into effect on June 2000 to simplify the PFMA provisions. These include internal controls, planning, budgets, assets and liability management, banking and cash management, accounting and reporting, among others (Pauw *et. Al*, 2000:42). In addition, procurement legislation such as the Preferential Procurement Policy Framework Act (PPPFA), Supply Chain Management Policies and regulations, are some of other complex legal prescripts within which the use of public funds can be improved.

2.3 DEFINITION OF THE CONCEPT: IRREGULAR EXPENDITURE

The National Treasury (2014:2) and the Public Finance Management Act (1999:9) define irregular expenditure as expenditure other than unauthorised expenditure, which is incurred in contravention of or not in accordance with a requirement of any applicable legislation, which include:

- *the Public Finance Management Act No. 1 of 1999;*
- *the State Tender Board Act, 1968 (No. 86 of 1968), or any regulations made in terms of that Act; or*
- *any provincial legislation that provides for procurement procedures in that provincial government.*

This definition of irregular expenditure is applicable to all national government departments, and as well as other government spheres. The Municipal Finance Management Act (MFMA) (2003:10) defines irregular expenditure in relation to municipality or municipal entity as an expenditure that is incurred in contravention of, or that is not in accordance with a requirement of the Act, and that is not condoned in terms of section 170 (Municipal Finance Management Act, 2003:10). Although the MFMA is used by the South African government to ensure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government whilst establishing norms and standards for the local sphere, the Act still sets out a similar definition of irregular expenditure to that of the PFMA. In the Standing Committee on Public Accounts meeting dated 6 February 2014 (SCOPA), the Auditor General of South Africa defined the irregular expenditure as money that was spent without abiding by the appropriate legislation (Makwetu, 2014). Furthermore, Moeti (2007:9) defines irregular expenditure as authorised expenditure (as opposed to unauthorised expenditure) that happens to be in contravention of other applicable legislation. Pauw *et al*, (2009:40) define irregular expenditure the same way as an authorised expenditure, which is incurred in contravention of or that is not in accordance with the requirements of any applicable legislation.

For example, the official will spend public money without the approval of the accounting officer or a properly delegated or authorised officer. This does not necessarily imply

that the money was wasted or unauthorised by the Appropriations or Division of Revenue Act. Another example is that irregular expenditure can occur when a senior manager is authorised by legislation to make the final decision about which contractors to use for the maintenance of office space. Any decision that the senior manager makes in this regard is authorised, but may violate the Public Finance Management Act or Treasury regulations (and thus be considered irregular), which exist to ensure that all eligible contractors receive an equal opportunity and thus fair treatment. Like prospective homeowners, all public managers need to understand and monitor the financial implications of decisions they take to ensure that goals are achieved. As Pauw *et al.* (2009:119) argue in the previous section that understanding financial management practices is not only a domain of a select few, but also for entire management who should be able to control the use of public funds and give a detailed account for each financial transaction. This simply suggests that everyone should play their part to ensure that the budget is used effectively, efficiently and economically. This requires a focused introduction and strengthening of the internal control process to safeguard all transactions that are initiated through public funds.

It is clear that irregular expenditure is actually an authorised expenditure that is in violation of any procedural requirements. Thus, any conduct that falls within the parameters of the above definition of irregular expenditure, is an act that violates financial management or procurement prescripts. It is, therefore, incumbent upon the accounting officer to put measures in place to prevent such violation. Most importantly, these measures emanate from the Constitution as a foundation for effective public finance management, post-apartheid. The Constitution serves as a building base for the promulgation of financial management frameworks for the South African public service. The literature (Audit Act, 2004:75; PFMA, 1999: 81, Moeti, 2007, Maketu, 2014, SCOPA: 2014) further suggests that any person who wittingly or unwittingly incurred an irregular expenditure shall be liable for that expenditure and, therefore, disciplinary proceedings shall be taken against such person.

Sections 81 and 86 (1) (a) of the PFMA set out provisions that constitute financial misconduct, as well as penalties and disciplinary action that can be taken against anyone who violates section 38 and many other provisions. Section 38 (1) (b) requires

that accounting officers of the departments, trading entities or Constitutional institutions should ensure effective, efficient, economical and transparent use of resources. Thus, irregular expenditure is something that should be avoided by all means, as it works against the 3E's, namely economic, effective and efficient usage of budget allocations (PFMA of South Africa, 1999:45).

Pauw *et al.* (2009) believe that the prevention of irregular expenditure begins with a good budget preparation as a starting point. This means that if the budget preparation is not on point, a number of challenges will affect the budget during its execution / implementation, including unlawful expenditure. The authors further describe good budget execution as part of the process to curb unlawful expenditure, and that good budget execution begins with good budget preparations. However, it should be able to adapt to changes in circumstances in a way that is consistent with the budget policy objective. The authors state that good budget execution:

- Ensures implementation in conformity with appropriation granted by law;
- Adapts implementation of significant changes in the macroeconomic environment;
- Directs expenditure management in achieving the 3G – unauthorised, irregular, and fruitless and wasteful expenditure; and
- Resolves problems that arise during implementation.

According to the Auditor General of South Africa (2013), an amount of R62.9 billion was incurred by 309 auditees. Of this amount, R29.1 billion (47 per cent) was incurred in previous financial years, but this was only identified and disclosed in the 2013/14 financial year. The large increase in irregular expenditure for R27.4 billion in the previous financial year was mostly owing to the R30.7 billion in irregular expenditure, recognised by the Property Management Trading Entity, which is a Public Entity that receives more than 50 per cent of the budget from the national Department of Public Works. This was based on a review of the prior year's transactions to determine the full extent of its irregular expenditure.

The remaining R16.9 billion was incurred by other Departments, namely Education, Health and the Public Works. The Auditor General further explains the root cause of

irregular expenditure as non-compliance with the supply chain management legislation. This is where the goods are delivered without following the normal procurement process, which governs the supply chain related activities (Auditor General of South Africa, 2013). Even the literature agrees that the main cause of irregular expenditure in government is the non-compliance or violation of applicable legislation. The section below considers various types or categories of irregular expenditure and the process that is followed before being declared as irregular.

2.3.1 Principles for irregular expenditure

According to the National Treasury (2014), for a department or a government component to incur irregular expenditure, the non-compliance must be linked to a financial transaction. This means that even though a transaction, the condition or an event may trigger irregular expenditure, a department or government component will only record irregular expenditure when a payment pertaining to the non-compliance is actually made (when the expenditure is recognized in accordance with the recognised principles contained in the Modified Cash Standard). Such provisions are only applicable to those government components that are currently applying the modified cash basis of accounting and the Modified Cash Standard issued by the National Treasury. Furthermore, if possible, irregular expenditure' is determined prior to a payment being made, then such a transgression shall be regarded as a non-compliance matter until payment is made, at which point irregular expenditure shall be recorded. Thus, non-compliance corrected prior to any payment that is made will not result in any irregular expenditure. This should form part of the system, which was established to prevent such expenditure.

According to the National Treasury (2014), a constitutional institution, trading entity or public entity listed in Schedules 2 and 3 of the PFMA shall incur irregular expenditure when a transaction, condition or an event that is linked to non-compliance is recognized as expenditure in the Statement of Financial Performance in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), the Standards of Generally Accepted Accounting Practice (GAAP), or the International Financial

Reporting Standards (IFRS). The same principle should also apply to government components that are required to comply with the Standards of Generally Recognised Accounting Practice (GRAP), the Standards of Generally Accepted Accounting Practice (GAAP), or the International Financial Reporting Standards (IFRS). According to the National Treasury (2014), for the purposes of determining whether irregular expenditure has taken place, there must have been transgression of a provision contained in any applicable legislation, which shall include:-

- Public Finance Management Act No. 1 of 1999;
- Treasury Regulations of 2000;
- National Treasury Instruction, issued in terms of section 76 of the PFMA; and
- Provincial Treasury Instruction issued in terms of section 18 (2) (a) of the PFMA.

Most importantly, the study revealed that when government departments or entities apply the test to determine whether irregular expenditure has been incurred, it must be clear that the contravention relates on how the transaction, condition or event was entered into, and by whom, as opposed to when the transaction, condition or event was entered into. For example, non-compliance with the requirement to pay an invoice within 30 days of its receipt (Treasury Regulation 8.2.3) shall not be regarded as irregular expenditure, unless the expenditure was incurred in contravention of relevant legislation such as an instance where the expenditure was authorized by an official who did not possess the appropriate delegated authority to approve the expenditure in question. The section below outlines different categories/types of irregular expenditure.

2.3.2 Different categories / types of irregular expenditures

Among other things, the researcher endeavoured to provide a list of possible transgressions that lead to irregular expenditure, and the impact thereof (whether it results in irregular expenditure or non – compliance with laws and regulations). This section also provides examples of irregular expenditure and the relevant authority that is empowered to condone such expenditure within the Department. In addition, the researcher also considered the process that is undertaken before irregular expenditure is declared and recorded in the annual financial statement as such.

TABLE 2.1: Categories of Irregular Expenditure

Categories of irregular expenditure	Relevant authority
<i>Where a purchase exceeded the threshold values determined by the National Treasury for price quotations (contravention of Treasury Regulation 16A6.1).</i>	
Irregular expenditure incurred as a result of institutions procuring goods or services by means other than through competitive bids and where reasons for deviating from inviting competitive bids have not been recorded and approved by the functionary to whom the power has been delegated by the accounting officer or accounting authority. (Contravention of Treasury Regulation 16A6.4).	The Accounting Officer . In cases of all departments, trading entities and constitutional institutions and in the case of public entities, the Accounting Authority .
Irregular expenditure incurred as a result of non-compliance with a requirement of the institution's delegations of authority issued in terms of the PFMA. For example, an official approves purchase of goods to the value of R35 000. However, his/her limit in terms of delegation of authority is R30 000.	The Accounting Officer , in cases of all departments, trading entities or constitutional institutions and in the case of public entities, the Accounting Authority .
Irregular expenditure incurred as a result of non-compliance with a provision contained in any applicable legislation. For example, a department grants performance rewards to personnel without maintaining and implementing a Performance Management and Development System, as required by Part VIII B of the Public Service Regulations).	The Department responsible for the legislation concerned and in the case of this example, the Department of Public Service and Administration .

Source: National Treasury (2014)

From the above categories it is clear that in certain instances, accounting officers and accounting authorities have the power to condone irregular expenditure that was incurred as a result of transgressions by their own respective officials. However, if the accounting officer or accounting authority is responsible for the transgression, only the National Treasury or the relevant treasury (whichever is applicable) may condone such a transgression. Part of the mechanisms to address irregular expenditure is to put irregular expenditure register in place. The section below explains the importance of irregular expenditure register in government.

2.3.3 Irregular expenditure register

According to the National Treasury Guide (2014:10), the department must maintain an irregular expenditure register. The irregular expenditure register contains a detailed schedule for each financial year, listing all irregular expenditure incurred by the institution. Of note, is that should the irregular expenditure register not be in place or completed, it will have an impact on the audit outcome of the Department. Furthermore, prior to institutions recording expenditure as irregular, a process must be instituted to ensure that the expenditure in question falls within the definition of irregular expenditure, as set out by the literature shown in the previous paragraphs.

If the accounting officer is not sure, he/she must consult the relevant treasury for guidance on interpretation of the definition of irregular. The irregular expenditure register must be kept up to date in order to track all the alleged and confirmed irregular expenditure and for the purposes of maintaining an audit trail. This will assist to ensure that the irregular expenditure in the annual financial statements is complete and accurate, and when the auditors need to verify whether what is in the register does meet the requirements of the PFMA. Thus the section below outlines the process of recording irregular expenditure in the register and annual financial statement.

2.3.4 Process of recording in the irregular expenditure register and in the annual financial statements

According to the National Treasury Guide (2014), on discovering possible irregular expenditure, the department must ensure the recording of such details in the register. Thus, once the irregular expenditure is confirmed, the register must be updated with the necessary confirmation that the expenditure in question is in fact irregular expenditure and those amounts must be included in the notes to the financial statements. Even after the investigation process has been concluded, if the outcome of the investigation reveals that the expenditure is irregular, the register must be updated accordingly.

Most importantly, the Treasury guideline further suggests that all the records of the follow up activities that take place once the alleged irregular expenditure is discovered must be maintained and referenced in the relevant register. The National Treasury Guide (2014:11) encourages the departments to conclude all investigations and to resolve all matters, which relate to irregular expenditure within 90 days from the date on which the alleged irregular expenditure was discovered, or as soon as practically possible. The guideline further suggests that if investigations are not concluded by the date on which the annual financial statements are published, a narrative to this effect must be included as part of the irregular expenditure note in the annual financial statements. The Treasury guideline reinforces the fact that the validity of irregular expenditure is important and should be confirmed before the annual financial statements are submitted for audit purposes.

Thus, if irregular expenditure occurred during the year under review and is only discovered during the audit, the validity thereof must be confirmed before the audit is finalised. However, if an investigation is still in progress once the audit is completed, then a narrative to this effect should be included in the irregular expenditure note in the annual financial statements. Sections 9.1.5 and 28.2.1 of Treasury Regulations (2000) require the department to disclose all irregular expenditure which was incurred by their respective establishments as a note in the annual financial statements. Furthermore, the annual financial statements must include particulars of amounts that are condoned

by the National Treasury or relevant authority in the same financial year and / or before finalisation of the financial statements (National Treasury, 2000).

The disclosure of irregular expenditure that is incurred is a legal requirement rather than an accounting requirement. It is the act that results in irregular expenditure which is of importance to the user of the financial statements. The amount does not add to its significance, and focusing on the quantification of irregular expenditure, while it is important, may divert attention away from the act itself. The primary focus from an oversight perspective is to ensure that spending agencies abide by the law when execute their mandates. Moreover, the irregular expenditure that was incurred and identified during the current financial year and, which was condoned before year end and/or before finalisation of the financial statements, must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is required with the exception of updating the note in the financial statements. Irregular expenditure is the product of the broader normal expenditure, and become irregular when certain regulations are violated. The section below discusses broadly the South African government's expenditure.

2.4 DEFINITION OF SOUTH AFRICAN GOVERNMENT EXPENDITURE

Government expenditure is part of the governance function of the accounting officer to make estimates with a view to realize the department's long term goals and objectives (National Development Plan). According to Bisschoff and Mestry (2003: 65), expenditure becomes an expression of the department's mission in monetary terms. Gildenhuys (1997: 154) suggests that "expenditure comes as a budget forecast which includes both revenue and expenditure projections for a certain period of time, and enables the department to set out its priorities". In South Africa expenditure framework is limited to a three (3) year cycle (MTEF) with historical audited expenditure trends. As indicated earlier, expenditure estimates is a duty of each and every accounting officer to compile for a three (3) year cycle or Medium Term Expenditure Framework (MTEF). These are compiled in the form of expenditure projections or estimates. The section below explains the purpose such expenditure estimates, approaches and some reforms in the South African context.

2.4.1 Purpose of Expenditure Estimates in the Context of the South African Government

An expenditure estimate is aimed at ensuring better planning and controlling of the financial activities of the department for the MTEF period. This serves as the instrument for the government to realize the core mandate/function of the department (Bisschoff, 1997:110); part of which is to ensure implementation of the constitutional imperatives and National Development Plan as South Africa's vision 2030. Expenditure estimates can be maintained by ensuring that expenses are limited to the allocated or approved amounts, whilst preventing the unlawful expenditure. This is echoed by Cloete (1986) who suggests that a good expenditure estimate ensures the following:

- a) It measures the competency of the accounting officer in estimating costs and expenditure;*
- b) It determines the accuracy of the income estimates that are made by the department;*
- c) It serves as an instrument to determine the capacity of the accounting officer to maintain expenditure control by ensuring that all expenses are kept within the required limits;*
- d) The periodical control of the department's expenditure weekly, monthly or even quarterly, as required by PFMA, is able to reveal potential irregular expenditure; and*
- e) Expenditure estimates are a catalyst for planning and good governance, as it provides evidence for accountability and further improvements (Cloete, 1986).*

2.4.2 Expenditure estimates approaches and some expenditure control reforms in South Africa

Literature that deals with Public Sector Financial Management (Justine, 2013: Bisschoff & Mestry, 2003:65) defines expenditure estimates as a systematic process, which relates the expenditure of funds to the achievement of set objectives (Justine &

David, 2013: 140). Set objectives are used as a yardstick to control expenditure activities to ensure value for money. Even though an estimated expenditure is likely to follow community demands in the form of public goods and local needs, if the set objectives are not met, the estimated or planned expenditure is likely not to be on track as estimated. In other words, the choice of expenditure that government makes is determined by the different preferences of local communities. Even though these community preferences are not static, they can be used as control measures to keep expenditure on track. Consequently, this implies that spending agencies should go beyond ensuring that the projected expenditure is on track, but also need to ensure that the spending is always aligned to the set objectives. The literature (Justin, 2013; National Treasury, 2013) further suggests that even in the past, there has been a cogent need for a more reliable budget system, which would assist to produce credible plans, reliable government objectives, and activities, whilst ensuring that reliable data is furnished in terms of what should be achieved.

The literature (Robert, 2012; Department of Planning, Monitoring and Evaluation, 2015) also suggest that the ongoing monitoring and control of expenditure should be defined at the planning stage. The department should be able to establish systems during the planning stage regarding how expenditure control will be maintained and monitored. Robert (2012) identifies three areas of administrative processes to maintain spending control, and these are outlined below.

These include *(i) strategic plan* - as a process of deciding on objectives of the organization, on changes in these objectives, on resources that are used to attain these objectives, and on the policies that are used to govern the acquisition, use and disposition of these resources; *(ii) management control* – as a process by which managers assure that resources are obtained and used more effectively and efficiently in the achievement of the set objectives; and *(iii) operational control* – as a process of assuring that specific tasks are carried out effectively and efficiently. Hence each and every manager within the Department should take expenditure control responsibility as theirs.

The literature (Tierbout, 2013; Samuelson, 2013) emphasises the development of adequate expenditure control systems with a reliable expenditure account as a first step towards budget reform, which is in agreement with other scholars who suggest

that monitoring of expenditure should be defined at the planning stage (Anthony, 1997: 200). The literature sets out 3 areas of expenditure approaches. The department may decide on the type of approach that the National Treasury guidelines prescribed as a standard format. These are described below.

- *Programmatic approach* – this approach begins with the current financial year’s expenditure estimates, update it for any changes anticipated on price inflation, oil prices and many other factors that may affect the purchasing power. This is essentially an incremental approach.
- *Limited plan approach* – this approach uses historical expenditure as the baseline before costs are prioritised within the department’s strategic plan.
- *Full plan approach* – this is based on a comprehensive plan from which the budget is delivered. This is normally called the zero based budgeting process, which has been criticised by Robert Anthony, in his Wall Street Journal. This is where everything must be costed from scratch. There is no baseline or incremental process (Anthony, 1997: 110).

South Africa uses a combination of the first two approaches, while institutions such as the Parliament of the Republic of South Africa has introduced a zero based approach (Anthony, 1997: 280). The literature introduces the concept of executive budget, which is used to strengthen honesty and efficiency by restricting the discretion of the administrator’s role on expenditure. This budget and expenditure concept is mainly associated with centralised and competitive bidding, civil service reform, and uniform accounting procedures and expenditure audits. The literature (Anthony, 2012) thus signifies the importance of the control mechanism to be prioritised on both expenditure accounts and on the budget office. The more expenditure discretion on the part of the Executive, the more chances that the expenditure would not necessarily be kept on track. It is for this reason that stronger oversight on budget execution is vital. In addition, the expenditure classification categories were established as another expenditure controlling mechanism to bring about order. As part of the reforms on expenditure which is highlighted by the literature, the South African government’s expenditure is categorised into four (4) areas of different economic classifications, namely (National Treasury (2014)⁶:

⁶ National Treasury (2016)

- i. *Current payment* – this category consists of a personnel budget, as well as a budget for goods and services⁷;
- ii. *Transfers and subsidies* – this category consists of allocations that are transferred to provincial and local government, either in the form of equitable share and or conditional grants (direct and indirect)⁸. This also consists of allocations that are transferred to State Owned Companies (SOCs) or Public Entities as a subsidy for operational and administrative costs;
- iii. *Payment for capital assets* – this category only consists of allocations, which are earmarked for capital expenditure such as office equipment, vehicle procurement, office refurbishment and other capital goods (National Treasury, 2010: xxii)⁹.
- iv. *Payments for financial assets* – this consists mainly of payments, which are made by the department as loans to the public, corporations or as an equity investment in the same entities. Such payments are not profit orientated, including payments for theft and losses, and such expenditures are not necessarily budgeted for.

The section below describes and discusses the foundation and the hierarchy of the South African legislative framework and the public finance legal framework. These are discussed as measures that are prescribed to guide the usage of public purse in the South African government environment.

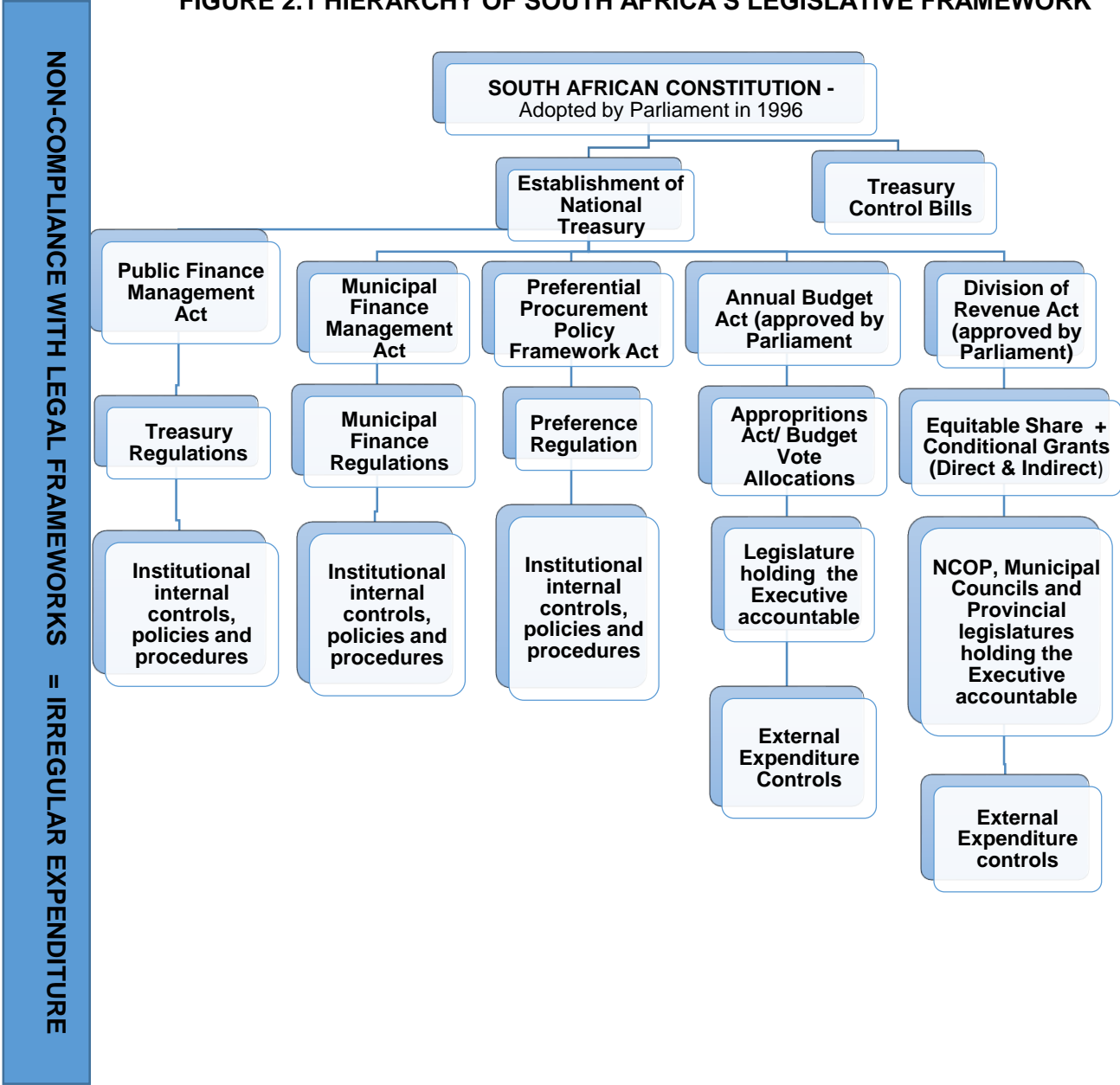
⁷ Refers to all payments made by the department for its operational requirements.

⁸ Refers to all payments made by the department for which the department does not directly receive anything in return.

⁹ Refers to all payments made by the department for an asset that can be used for more than one year and from which future economic benefit or service potential are expected to flow.

2.5 Constitutional imperatives as a foundation for public finance management in South Africa

FIGURE 2.1 HIERARCHY OF SOUTH AFRICA’S LEGISLATIVE FRAMEWORK



Source: Pauw *et al.* (2009)

Figure 2.1 above depicts the South African Constitution as the foundation for the legislative framework that guides public financial management. The hierarchy begins with the Constitutional Framework as a foundation for public finance. The South African Constitution was adopted by Parliament in 1996 as the first democratic piece of

legislation. After the establishment of National Treasury, it flows down to legislation such as PFMA, MFMA and PPPFA, institutional policies, internal controls and systems. The diagram also shows the external expenditure controls in the form of government accountability through legislatures and municipal councils.

The South African Constitution provides profound imperatives as a foundation for the public sector financial administration. Through sections 213, 215 and 219, the Constitution regulates financial management, while section 195 (1) provides that public administration and management in all spheres of government should be efficient when using state resources. It further calls on state institutions to be economically viable and accountable to the Republic of South Africa. The South African Constitution, as the supreme law of the country, plays a critical role in setting out the principles of sound financial management. Therefore, any legislation or conduct that is inconsistent with the Constitution is invalid, and the obligations that are imposed by it must be fulfilled (Constitution of South Africa, 1996:3).

The obligation to allocate resources, spend resources according to plan, and account for such resources, is underpinned by the Constitution, particularly the Bill of Rights, where it suggests that everyone has a right to adequate housing, healthcare, food, water, social security and education. Furthermore, the Constitution is clear in section 26 (2), where it requires the state to take reasonable legislative steps and other measures within its available resources to achieve the progressive realisation of these rights (South Africa, 1996:11). In order to give guidance to this process, the Treasury Control Bill, Public Finance Management Act, and Treasury Regulations and other related financial, legal prescripts were introduced as part of a reasonable financial legislative framework as means to achieve this.

Moreover, as the supreme law of the country, the Constitution can only be implemented through relevant various legislation (Constitution of South Africa, 1996:11). Black, Calitz, and Steenekamp (2008:86) point out that implementation of these constitutional rights are subject to budget constraints and limited resources. This means that even though expenditure in this regard can be a constitutional entitlement, the government has a responsibility to exercise expenditure controls to ensure that expenditure is within

the constraint of the available resources. It is, therefore, important for these measures to be properly implemented once enacted to safeguard the use of state resources. Considering the high levels of irregular expenditure that occurs when resources are utilised, it is a clear indication that there is a lack of implementation of some of the expenditure control measures, which are prescribed by the PFMA (*Black et al, 2008:86*). The establishment of National Treasury is discussed below as an infrastructure for public finance policies in the South African environment.

2.5.1 Establishment of National Treasury as an infrastructure for public finance policies

Treasury Control, as part of the Constitutional imperatives, directs that there is a need for the establishment of a Ministry called the National Treasury, which is headed by the Minister of Finance. The National Treasury consists of the Minister as the political head and the Director General as an administrative head or accounting officer. This institution is responsible for financial and fiscal matters and it is the main body that oversees and exercises control over implementation of national budgets. National Treasury promotes the national government's fiscal policy framework and monitors provincial budgets in government departments and other institutions where the Act is applicable. National Treasury may be required to publish all financial statistics and expenditure reports in relation to the three spheres of government in the Government Gazette (Treasury Control Bills, 1998:11).

National Treasury was established to prescribe norms and standards, measures to ensure transparency, and expenditure controls. To implement some of these measures, National Treasury introduced various legislative frameworks which are discussed in detail in the section below. National Treasury also has a right to investigate any system of financial management in any department, public entity or constitutional institution. National Treasury submits annual financial statements for auditing to the Auditor General for national departments, public entities, constitutional institutions, the South African Reserve Bank and Parliament (Treasury Control Bills, 1998:4).

By virtue of the Constitution, National Treasury is in charge of the national fiscus and the National Revenue Fund, into which money is received by the national government through tax collected from South Africans. This excludes some monies such as those that are received by Parliament, State Owned Entities (SOE's), the South African Reserve Bank (SARB) and the Auditor General of South Africa (AGSA). This also does not include monies that are paid through donor funding with clear conditions that such monies should be paid into a particular fund (such as HIV/AIDs, RDP etc.). Thus, the National Treasury, as an institution, provides infrastructure to drive financial management and legislative prescripts to achieve Constitutional imperatives. It is part of the foundation which is laid down by the Constitution to create a capable and able state to ensure effective management of fiscus and state resources (Treasury Control Bills, 1998:11).

2.5.2 Treasury Control Bill

The South African Constitution introduces Treasury Control Bill as a catalyst for the establishment of the National Treasury, headed by the Minister of Finance, and National Treasury is responsible for financial and fiscal matters. Treasury control further calls on the Minister to take policy decisions such as establishing national legislation to ensure financial and expenditure controls. The Treasury control provision gives powers and functions to the National Treasury to:

- a) Develop, coordinate and implement the fiscal policy framework and coordinate macro –economic policy;*
- b) Coordinate intergovernmental financial and fiscal relations;*
- c) Manage the budget preparation processes;*
- d) Exercise expenditure control over implementation of the national budget;*
- e) Monitor the implementation of provincial budgets / expenditure, and*
- f) Promote and enforce transparency and effective management of revenues; expenditure, assets and liabilities of the institution to which this Act applies (Constitution of South Africa, 1996: 10).*

Furthermore, Treasury Control Bill requires National Treasury to perform its functions such as prescribing measures, norms and standards to ensure both transparency and expenditure controls. It may have to prescribe a framework for an appropriate procurement and provisioning system, enforce the norms and standards in national government institutions, as well as monitor and assess the implementation of these in provincial government institutions. Overall, Treasury Control Bill serves as a guide to provide principles towards establishing a more effective and efficient National Treasury system, including policies and procedures. The intention is to establish more effective and tight expenditure controls to ensure better management of financial and fiscal matters (Constitution of South Africa, 1996:126). This ensures that there are checks and balances across government departments. The section below discusses the principle regarding the establishment of other departments other than National Treasury.

2.5.3 Establishment of Government departments other than National Treasury

The establishment of a government department is a product of the South African Constitution as adopted in 1996. Section 85 of the Constitution allows the President of the Republic to establish a department within the scope of his Executive powers (Constitution of South Africa, 1996:54). Once established a government department becomes a juristic person with a legal capacity to perform its functions. This means that every department may buy, sell, hire or own property, and even enter into a contractual obligation to make investments, sue or be sued by other legal entities.

Once established the government department should be headed by an accounting officer. Section 38 (1) of the Public Finance Management Act prescribes general roles and responsibilities of the accounting officer of each department, among others these include establishing measures to prevent irregular expenditure. Governance matters in all government spheres and departments are vested in the accounting officer as the head of the department (PFMA, 1999:45). The accounting officer of every department uses the Public Finance Management Act as prescribed by the National Treasury, to ensure effective and efficient expenditure controls, as a means to ensure that

expenditure is always on track with the projected amounts, passed by Parliament (PFMA of South Africa, 1999:45) through Division of Revenue or Appropriation Act.

The literature suggests that the accounting officer must always ensure that departmental budgets are used effectively, efficiently and economically (Potgieter, Visser, Van der Bank, Monthata &, Squelch, 1997: PFMA, 1999). In implementing the provisions of the Public Finance Management Act, the accounting officers have a responsibility to understand the Treasury Regulations and to formulate expenditure management policies and other internal control measures to track expenditure management. To enforce the implementation of the PFMA and the prevention of irregular expenditure, the accounting officer must appoint a qualified Chief Financial Officer (CFO) to serve on the management team of the department. The CFO is directly responsible to accounting officers to assist them in discharging their rather onerous duties in terms of the PFMA and the annual Division of Revenue Act (DORA). The accounting officer assigns the duties of the CFO based on the financial management parameters and such duties must relate to the effective financial management of the institution.

Pauw, Woods, Van der Linde, Fourie and Visser (2002) further suggest that the exercise to ensure expenditure control measures and to prevent irregular expenditure includes sound budgeting and budgetary control practices, the operations of internal controls as well as the timely reporting on financial matters. Most importantly, all government departments are funded through the National Revenue Fund (NRF), wherein monies can only be drawn through the passing of the Division of Revenue and Appropriations Bills. To safeguard these resources, the PFMA requires the government departments, through their accounting officers to establish mechanisms for expenditure control. Sections 38 and 45 of the PFMA are some of the most important provisions to enforce this (PFMA of South Africa, 1999:45). To ensure the expenditure control exist, legislative framework as a foundation in the South African public finance is vital. The section below discusses the legislative framework in the South African public finance.

2.6 LEGISLATIVE FRAMEWORK IN SOUTH AFRICAN PUBLIC FINANCE

Before the democratic government came into power in 1994, the Exchequer Act of 1975 was the regulatory tool that was used by the apartheid regime. The Act prescribed rules and systems of expenditure and approval that were centrally based. The budgets were further centralised within departments promulgating Fourie's view (2002:101) that:

- a) *Finance is for financial people;*
- b) *Line managers perform their functional responsibilities, main objectives and activities; and*
- c) *Line managers are preoccupied with delivering services.*

Fourie's view is in sharp contrast with Pauw *et. Al*, (2009:119) who suggest that all line managers should take full responsibility of financial management to enhance governance. He further, stresses that financial management is not only for the select few individuals. A sound modernisation of the financial management processes of the public sector has since been introduced. The Constitution of South Africa Act 01 of 1996 introduced a radical change from the previous political dispensation and laws that perpetuated injustices. For instance, the Constitution places the responsibility of improving the lives of South Africans on the government of the day and its policies. Moreover, the Constitution provides that all spheres of government must promote transparency, accountability and effective and efficient management of public finances (Constitution of South Africa, 1996: p125). It was against this backdrop that the legislation, namely Public Finance Management Act No.1 of 1999 was enacted. Fundamentally, the legislation was promulgated to prescribe control mechanisms, Generally Recognised Accounting Practices (GRAP), uniform classification, and norms and standards (PFMA of South Africa, 1999:45) which all managers should be able to interpret and understand for better management of scarce resources at all levels in the government department or entity.

2.6.1 Public Finance Management Act No. 1 of 1999

The Public Finance Management Act No. 1 of 1999 (PFMA) was founded to:

- *Regulate financial management in the national and provincial government;*
- *Ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively;*
- *Provide for the responsibilities of persons entrusted with financial management in those governments; and*
- *Secure transparency, accountability and sound management of revenue, assets and liabilities of the institutions to which this Act applies (PFMA of South Africa, 1999:2).*

The PFMA further promotes the objectives of effective financial management in order to maximise deliverable outcomes. Therefore, the objective of the PFMA is to modernise the financial management systems in the public sector. The PFMA adopts an approach to financial management that focuses on outputs and responsibilities as opposed to the rule driven approach of the former legislation such as the Exchequer Act. Thus, the introduction of the PFMA government is in line with Sections 213, 215 and 219 of the Constitution.

The Public Finance Management Act, is a law that affects all government institutions, State Owned Companies (SOC's) such as Eskom, Sentec, Telkom, South African Broadcasting Cooperation (SABC), South African Airways (SAA), ESKOM Holdings, Industrial Development Corporation (IDC), Constitutional institutions such as Chapter 9 and 10 of the Constitution (Public Protector, Public Service Commission, Auditor General, Human Rights Commission and Gender Commission), as well as Non Profit Organisations that receive funds from the state. This law also affects all employees of government, particularly those at a managerial level, as they always need to comply, and operate within the confines of this law. The Act further sets out procedures for efficient and effective management of all revenues, expenditure controls, assets and liabilities. It introduces the duties and responsibilities of government officials who are in charge of the institutions. The Constitution (Sections 213 to 219) calls for the introduction of norms and standards, Generally Recognised Accounting Practices

(GRAP), and uniform treasury control measures in all spheres of government (R.S.A, 1996: 126).

The Act consists of 12 main chapters and six (6) schedules. Chapter 1 consists of interpretation, object of the Act, the application, as well as the amendment of the Act. Chapter 2 consists of the National Treasury establishment, its functions and powers, banking, cash management and investment framework, financial statistics and delegation by National Treasury. The National Revenue Fund provisions in the same chapter deals with the control of the National Revenue, the deposits and withdrawals by South African Revenue Service in Revenue Funds, deposits into National Revenue Funds, and the withdrawals and investments of the National Revenue Fund (NRF) (PFMA of South Africa, 1999:2).

The Act mainly focuses on national government, provincial government and entities while the local government has its own financial legal prescript. Together with the Constitution, the Act is also used by legislators to hold the Executive accountable to ensure efficient and effective administration of financial resources. The Act is implemented through the rules, which are discussed in the section below. Chapter 3 of the Act deals with the establishment of provincial treasuries and Provincial Revenue Funds (PRF). This includes the establishment and powers and functions of the annual consolidated financial statements and delegation by provincial treasuries. Regarding the provincial revenue fund, Chapter 3 deals with control of the Provincial Revenue Funds, and the deposits by provincial departments into the Provincial Revenue Fund, including withdrawal of exclusions and general withdrawals from Provincial Revenue Funds. Chapter 4 deals with the national budgets, which include annual appropriations, multi -year budget projections, national and provincial adjustment budgets, the publishing of reports on the state of the budget, withholding of appropriated funds, and unauthorized expenditure, as well as unfunded mandates (PFMA of South Africa, 1999:3).

Chapter 5 deals with departments and constitutional institutions. Part 1 of this Chapter gives guidance around the appointment of the accounting officers. It also gives

guidance around the process that should be followed when appointing an acting accounting officer. Having finalized the appointment of the accounting officer or an acting accounting officer, part 2 sets out the general responsibilities of the appointed accounting officer, including guidance around budgetary control, reporting responsibilities, and even the responsibilities when assets and liabilities are transferred, as well as virements between main divisions within a vote. Part 3 of Chapter 5 deals with the assignment of powers and duties of accounting officers, as well as the responsibilities of other officials (PFMA of South Africa, 1999:4).

Chapter (6) six of the Act deals with the public entities. Chapter 7 deals with the Executive authority, particularly the financial responsibilities of the Executive authority, Executive directives that have financial implications, as well as tabling of reports and legislative proposals in the legislatures. Overall, this legislation seeks to ensure that all revenue, expenditure, assets and liabilities of government are managed efficiently, effectively and economically. It also seeks to provide for the responsibilities of persons who are entrusted with financial management in government, which refers to the accounting officer in this case. The accounting officer is the brain behind the Act to ensure implementation of expenditure control measures. Chapter 8 deals with loans, guarantees and other commitments (PFMA of South Africa, 1999:5).

Part 1 of this Chapter provides restrictions on borrowing, guarantees and other commitments. Chapter 9 focuses on treasury regulations and instructions, audit committees, and the publishing of draft regulations for public comments. It also deals with the determination of the interest rate for a debt owing to the state. Most importantly Chapter 10 deals with disciplinary proceedings, which relates to financial misconduct by officials. For the PFMA to be effectively implemented, there was a need to redefine it through the Treasury Regulations in 2000. The regulations seek to simplify the Act and further enhance the implementation of the Act by narrowing the provisions (PFMA of South Africa, 1999:6). Thus the section below discusses the Treasury Regulations.

2.6.2 Treasury regulations for departments and entities

To further enhance the implementation of the expenditure controls and the PFMA, Treasury regulations were adopted in 2000. These regulations are applicable to both government departments and entities, including Constitutional institutions. The regulations seek to simplify the Public Finance Management Act and further enforce compliance. Treasury regulations are in no way intended to rewrite, replicate or contradict the PFMA as a legislation. The regulations are intended to address operational aspects of government's public finance management.

To enforce expenditure controls, Treasury regulations established a section on revenue and expenditure management, wherein certain expenditure management responsibilities are assigned to the accounting officer. These include, but are not limited to the approval of expenditure in Section 8.2.1 where it provides that an official of an institution may not spend or commit public money, except with the approval (either in writing or by duly authorized electronic means). This means that if the official continues to spend or commit public funds without such authorisation, those expenditures become unauthorized expenditure and amount to unlawful practices or punishable financial misconduct (National Treasury, 2000).

The regulations further set out steps to be followed by the accounting officer or the Executive Authority to address any financial misconduct and misuse of public funds in the institution. This is part of the expenditure control mechanism which aims at enforcing fiscal discipline as well as spending efficiency. The Regulations further call on the departments to always disclose the irregular expenditure amounts. These are all prescribed measures as required by the Constitution, which are put in place to foster effective and efficient expenditure in government (National Treasury, 2000).

2.6.3 Money bills as a legislative instrument in South Africa

As required by the Constitution and the PFMA, National Treasury tables before Parliament, the Estimate of National Expenditure (ENE), which consists of the expenditure estimates of the current financial year, two outer years' estimated

expenditure, as well as historical audited expenditure for previous financial years per vote and per main division within a vote together with the following documents:

- *Division of Revenue Bill*¹⁰;
- *Appropriations Bill*¹¹;
- *Revenue proposals*¹²;
- *Budget Review*¹³; and
- *Minister's Budget Speech*.

Despite the fact that these documents are finally tabled in Parliament by the National Treasury, it is important to note that it is a duty of the accounting officer to compile a departmental expenditure estimate for a 3 year cycle or Medium Term Expenditure Framework (MTEF). This serves as a planning instrument for financial resources, which contributes in a constructive way towards preventing the disruption of executing the mandate of the department as a result of poor planning (Van der Westhuisen, 1995:375). Mestry (2004: 129) suggests that departmental expenditure should be subjected to regular effective financial controls and monitoring mechanisms. In South Africa this is why Section 32 of the Public Finance Management Act requires National Treasury to publish a statement of government expenditure and borrowings (PFMA of South Africa, 1999:41).

Section 32 of the PFMA requires the statement to be published on the National Treasury's website monthly or quarterly in the financial year as part of transparency and expenditure control mechanism. This intends to promote an open budget process, transparency and accountability with regard to the utilisation of public funds. Due to

¹⁰ Division of Revenue Bill – refers to the proposed division of a nationally raised revenues amongst the three spheres of government (i.e. national, provincial and local government, including direct and indirect grant transfers).

¹¹ Appropriations Bill – refers to the proposed allocations to be earmarked for the national government programmes (Department of Water and Sanitation Affairs, Transport, Human Settlements, the Presidency, Parliament of R.S.A, Public Works, Rural Development, Energy, Environmental Affairs, Economic Development, Small Business Development, Trade and Industry etc..... this Bill should be passed by Parliament within the period of 4 months after tabling by the Minister of Finance.

¹² Revenue proposals – refer to all tax or revenue sources proposed by the Minister of Finance during his budget speech. These are tabled together with other budget documents.

¹³ Budget Review – spells out government expenditure priority programmes over the MTEF or over three (3) year period. It presents a picture of economic outlook, fiscal framework as well as tax proposals which government intends increasing or decreasing.

such systems, South Africa remains highly regarded internationally as it occupies the third place worldwide when it comes to budget openness and transparency. According to the 2015 Open Budget Index, South Africa was ranked third place out of 102 countries by the International Budget Partnership with regards to budget transparency and openness (Open Budget Index Survey, 2015). South Africa was one of only four countries that performed extremely well across all three measures, which are quality of budget transparency, public participation in the budget process and institutional oversight. This means that the South African budget and financial management systems are more solid, transparent and open to the public when compared to other countries.

Notwithstanding the fact that the process remains transparent and open to the public but it is still a complex process with various stages. Before these expenditure estimates become a Bill, they get to be discussed at various platforms, including the Medium Term Expenditure Committee (MTEC) and the Ministerial Committee on Budget (Mincombud), Budget Council with provincial MEC's for Finance and finally by a budget forum, which includes local government leadership. After this process, National Treasury consolidates and compiles Executive proposals that are tabled in Parliament. These bills are tabled together with other budget documents stated above during a budget speech by the Minister of Finance. The Budget Speech and the budget review set out prioritised expenditure areas and consolidated fiscal framework. Parliament refers these bills to different committees, namely the Finance and Appropriation Committees of both the National Assembly (NA) and National Council of Provinces (NCOP). The four Committees process the bills, according to their respective mandates, as prescribed by the Money Bills Amendment Procedures and Related Matters Act No. 9 of 2009. Further, the Act gives effect to the establishment of these committees and provide a clear mandate to guide each Committee's work (National Treasury, 2016).

Once these committees have concluded their work, they are expected to report back to their respective Houses; each House will then adopt the bill and send it to another House for concurrent, thereafter send it to the President for assent, before government departments can begin to ensure effective expenditure, notwithstanding the fact that

departments are allowed to spend using the previous year's Appropriation Act prior Parliament approval. This flexibility caters for a smooth government operation should there be some delays in approving the bills for the current financial year from the side of Parliament. The Division of Revenue Bill (DoRB) is meant to allocate nationally raised revenues to all spheres of government, including local and provincial government. The Appropriations Bill is meant to allocate resources across the national government departments. These allocations are categorized through various economic classifications, namely current payments (compensation of employees, goods and services), transfers and subsidies (provinces, municipalities, state owned entities, non-governmental organisations, foreign governments and other government accounts), and payments for capital assets (National Treasury, 2015). Once these bills are passed into law, government departments are expected to spend the allocated resources according to their plans. These annual plans and five year plans are presented before various portfolio committees to ensure credible strategic objectives, and alignment with the ruling party political objectives, National Development Plan (NDP): *Vision – 2030*, State of the Nation Address (SONA) and the Medium Term Strategic Framework (MTSF). Furthermore, this also include alignment with the Sustainable Development Goals (SDGs), African Agenda 2063 and Southern African Development Communities Master Plan (SADC).

It is against this backdrop that implementation of Section 38 (1) (c) of the PFMA becomes vital. Even though Section 214 of the Constitution requires that all departments and spheres of government obtain a share of the nationally raised revenue, some departments are still in a position to raise their own revenues through services that are rendered to communities. For instance, while the Department of Water and Sanitation Affairs receives allocations from the national fiscus, the Department is a custodian for water competence in the sector, which enables it to generate massive revenues through the sales of bulk water to municipalities and water boards. The Department of Public Works serves the rest of other departments as its clients, it does most of the construction and building management and maintenance work for them at a fee which is determined by the amount of work. The Department of Transport generates revenues from road users via speed fines, vehicle licensing, and drivers' licensing and tolled roads. The fiscus is thus not the only source of income for such government departments (National Treasury, 2016).

2.6.4 Intergovernmental Fiscal Relations Act No. 97 of 1997 (IGFRA)

The IGFR was promulgated to promote co-operation between national, provincial and local spheres of government with regards to fiscal, budgetary and financial matters. The Act was promulgated to further prescribe a process for the determination of an equitable sharing and allocation of revenue, which is raised nationally. The Act gives effect to the establishment of the Budget Council as one of the most important platforms where budgets are discussed as explained in the above paragraph. This consists of MEC's for Finance from each province, and this is chaired by the Minister of Finance. The Budget Council enables national and provincial government to consult on the following:

- Fiscal, budget or financial matters which affect the provincial spheres of government;
- Any proposed legislation or policy which has financial implications for the provinces, or for any specific province or provinces;
- Any matter concerning the financial management, or monitoring of various provincial finances; and
- Any other matter which the Minister has referred to the Council.

The Act further advocates for the establishment of the Local Government Budget Forum (LGBF). The forum performs the same functions as those of the Budget Council outlined above. The Act further empowers the Financial and Fiscal Commission (FFC) to make recommendations to Parliament ten months before the beginning of the new financial year. This intends to ensure an equitable division of nationally raised revenues, among the national, provincial and local spheres of government. When making such recommendations, the Commission must take into account the matters listed in section 214 (2) (a) to (f) of the South African Constitution (South African IGFRA, 1997).

2.7 POST 1994 - EXPENDITURE CONTROL MEASURES

The post 1994 era challenged the South African government at national, provincial and local levels, which faced a huge budget deficit and an economy that had shown sluggish growth. The study focuses on the impact of irregular expenditure in the public finance management arena in South Africa, which puts to the tests whether the current expenditure control mechanisms are effectively implemented to realize “value for money”.

2.7.1 Post 1994: Public Finance Management Act No. 01 of 1999 as an Expenditure Control Reform

The Public Finance Management Act (PFMA) was introduced after 1994. The Act forms part of the expenditure control reforms post 1994. The PFMA suggests that “the accounting officer of the department has a responsibility to make sure that appropriate and effective measures are taken to prevent undesirable expenditure.” The Act further notes that “the accounting officer who fails to adhere to these provisions can be charged with financial misconduct”. The Act also provides for the following sections to ensure effective expenditure controls post 1994 (South African Public Finance Management Act, 1999:200).

- a) Section 38 (1) (C) provides that the accounting officer is expected to take effective and appropriate steps to prevent irregular expenditure; and*
- b) Section 45 (1) (c) also provides that any department official is expected to take effective and appropriate steps to prevent, within their area of responsibility, any irregular expenditure.*

The Act is a legal prescript for accounting officers to maintain fiscal discipline and expenditure controls on the different department levels. The Act is defined and implemented through the Treasury regulations, Treasury instruction and Treasury memoranda, which are sent across departments to ensure expenditure controls.

Madue (2007) argues that the Act serves to modernise financial management in the democratic South African Public Service. The Act aims to support the processes of public administration, focusing on achieving sustainable development and quality delivery in the public service, post 1994.

Overall, post 1994, the Act introduces a uniform system of public sector financial management, which improves on the erstwhile system in which accountability was undermined because different legislation applied to different entities, and expenditure controls were too narrowly regulated. Compliance with the current legislative framework is indeed linked to the International Financial Reporting Standards (IFRSs). However, there is still a need to further improve compliance levels. Post 1994, the Act introduced reforms such as the Medium Term Expenditure Framework (MTEF) to assist government control expenditure, and a better planning cycle, which ensure effective and efficient expenditure. This will ultimately improve services that are delivered to the communities (South African Public Finance Management Act, 1999:2).

2.7.2 Post 1994: Accountability as a cornerstone for expenditure controls

Pauw et al. (2009) suggest that a good budget, which is not well controlled during the execution phase will result in several problems. For instance, overspending of the original budget may occur. This overspending may occur as a result of non-compliance with the defined expenditure ceiling in the appropriate budget. *Pauw et al.* (2009) further suggest that this may only happen when there are weak commitments management systems. As indicated in Chapter 1, Post 1994, accountability became part of the principle to entrench good governance, which includes financial governance. Constitutionally, part of the cornerstones of democracy is to ensure that all political representatives and government officials are held accountable. Accountability is the process wherein each and every individual who is entrusted with state resources is expected to give account on how these resources are utilised.

For instance, even line managers in the Department must have an ability to detect and prevent the occurrence of irregular expenditure in their respective sections/units.

However, for purposes of this study, accountability can be clearly defined when the Ministers, heads of the departments/ division managers/ section managers or even unit / line managers are required to explain or provide feedback on how state resources have been utilised in his/her department or measures taken to ensure effective and efficient spending of such resources. It is for this reason that Section 38 1 (c) of the Public Finance Management Act requires the accounting officer to establish measures that will prevent irregular expenditure (South African Public Finance Management Act, 1999:2). This provision gives a clear direction for accountability, as the accounting officer will have to explain whether these measures have been established, and are effective.

In terms of this provision, the accounting officer must ensure that financial resources are used for the intended purpose (Coleman & Anderson, 2000:149). Accountability, therefore, becomes key for the accounting officer to give explanation regarding the types of measures that have been created to implement this provision, and whether indeed resources have been used for their intended purposes. The recurrence of irregular expenditure for the past period in the Department is an indication of either poor planning or non-compliance. It might also indicate the non-existence of measures as prescribed by Section 38 (c). Accountability further recognizes that political representatives and public officials should display a sense of responsibility when performing their official duties. Their conduct should be beyond reproach, so that they will be able to account for their conduct in public (Cloete, 1986:17).

2.7.3 Accountability and controlling the decentralized public expenditure

Sevilla (2005:85) defines accountability as a mechanism, which controls the usage of state resources. Setting up clear and adequate control structures is essential in any public spending environment. In principle, each level of government develops its own systems of control. The test of these control structures will always come to terms when the external control systems conduct verifications in the department, such as the Office of the Auditor General in this case. A number of accountability issues may arise before

the occurrence of any decentralisation of spending to sub-national or local government. These may include the following issues:

- a) *Whether the decentralised public spending leads to a lack of budget discipline;*
- b) *Whether the transferred funding will be adequate for sub-national and local government to accomplish its duty;*
- c) *Whether the institutional arrangements and relationship allow each level of government to be accountable for its specific spending decisions and duties and funds are spent or used efficiently, respecting laws and regulations and as intended or approved by Parliament;*
- d) *Whether the financial and non- financial control measures allow and ensure the achievement of objectives and expenditure controls; and*
- e) *Whether information and reporting systems are clear and allow monitoring and adjusting of spending policies and programmes.*

According to Seveila (2005:100) over the years the Organisation and Economic Development Countries (OECD) have decentralised ways in which they provide public service to sub national government and so the expenditure has been decentralised. Some of these countries have created public law agencies, which are under contract with the central government ministries, called under purchaser- provider arrangements, or alternatively, certain ministries will partner with private entities to deliver public benefits. These are some of the measures that are taken to ensure more efficient spending, which is more responsive to citizens' needs. The main intention is to move spending and service delivery away from government ministries to institutions outside of their direct control to ensure effective expenditure controls. For instance, the South African Constitution requires that the government should establish an entity called Social Security Services Agency (SASSA), which administers various kinds of social grants on behalf of the Department of Social Development.

However, in delegating and decentralising government expenditure, central government faces a host of accountability and expenditure control challenges over the use of public funds, more so because it does not have direct control over critical programmes. Firstly, there is always a need to preserve and ensure that fiscal

discipline takes center stage at all levels that involve public expenditure. Central government should always ensure that funds are spent according to plan. It is always a good idea to use this approach in areas when private entities or local spheres of government are more skilled to manage public funds and negotiate public goods contracts than national government.

Thus, delegating and decentralising expenditure to private entities wherein government does not have the capacity to spend adequately, does not only ensure expenditure controls, but efficient and effective delivery of services. Furthermore, these external controls should be coupled with the supreme national audit institution, which conducts oversight over the whole system. The literature further indicates that while the decentralisation process is meant to reinforce its own control systems at each level of government, delegation of public spending has also implied adapting the type of control to focus on efficiency and is results - driven. To maintain expenditure control in the decentralised environment requires at least clear rules and a co-operative atmosphere. The budget formulation process can be used as the most appropriate instrument to ensure budget discipline in a decentralised environment. Therefore, permanent and transparent reporting structures are necessary for fiscal discipline and for accountability and control of public expenditure, particularly with regards to grant funding (Sevilla, 2005:10).

2.7.4 Post 1994 – Oversight over government expenditure by other organs of state as an external expenditure control

The oversight process of government to enforce expenditure controls through other organs of the state is weakened by the fact that it is an external process. Chapter 4 of the South African Constitution in Section 55 (2) suggests that Parliament and provincial legislatures should establish mechanisms for oversight and accountability for the Executive. This mechanism can be defined as one of the many external expenditure control measures, which only come afterwards, such as Chapters 9 and 10 institutions. This process is aimed at making sure that the Executive members are held responsible

for the implementation of government programmes and policies. The oversight process does not preclude safeguarding the use of state resources. But the weakness of external expenditure control is that it is not integrated within the departmental programmes. It only comes after the damage has been done, for instance, when departments have already spent the money and it can only make recommendations for future purposes.

This means that Parliament, including provincial legislatures, has a responsibility to ensure that government departments comply with any legal prescripts in pursuit of ensuring that expenditure is always on track. Therefore, Parliament and provincial legislatures should hold the executive accountable to ensure that expenditure controls are maintained and implemented as required by the financial legislative framework. If the Executive fails to do so, Parliament or provincial legislatures should be given a clear account. For instance, all departments are expected to create measures that will prevent irregular expenditure and if these are not established, the accounting officer should explain before Parliament and to other oversight structures why this was not done. Parliament thus holds the Executive accountable in the form of oversight, while at the same time it ensures that it acts as the representative of the people.

Parliamentary oversight can be defined as an external expenditure control mechanism, as it forms part of the three arms of the state (Executive, Legislature and Judiciary). Despite the well-known Standing Committee on Public Accounts (SCOPA), the rules of Parliament gave effect to the establishment of the Joint Budget Committee (JBC) in 2005 to hold the Executive accountable to expenditure issues. Part of the mandate of the Committee was to scrutinize and track budget expenditure of the national departments. The Parliamentary Joint Budget Committee (JBC) had always recommended that government should ensure that all budget allocations are spent according to plan (Joint Budget Committee Report, 2008:5). These plans are normally passed by Parliament at the beginning of each financial year before the budget is approved. The Committee would then hold expenditure hearings on a quarterly basis, inviting departments with poor expenditure patterns. Poor expenditure patterns were thus used as an indicator to determine the effectiveness of the expenditure controls.

Since the approval of budgets is underpinned by these plans, there should be no misalignment between the expenditure and implementation of Annual Performance Plans (APP). Part of the Committee's mandate was to conduct oversight over the government's expenditure, and participate in the budget process. The Committee's task was to enforce expenditure controls as it used to summon accounting officers of departments whose spending trends were not on track. However, the Committee was disbanded in 2009 when the new legislative framework came into effect with new reforms. This legislation proposed the establishment of the Appropriations Committees of both Houses to replace the Joint Budget Committee (JBC). The Money Bill Procedure and Related Matters Act No. 9 of 2009 was enacted in 2009. The Act divided the Joint budget Committee into two Committees, namely, the Standing Committee on Appropriations of the National Assembly (NA) and the Select Committee on Appropriations from the National Council of Provinces (NCOP). The mandate of the Standing Committees on Appropriation includes consideration and reporting on expenditure issues which are published by the National Treasury on a quarterly basis in the form of section 32 as explained in the earlier section (Money Bills Act No. 29 of 2009). The main objective is to ensure that all government departments spend according to their plans, and that expenditure trends are always on track to achieve the predetermined objectives (Dlomo, 2013:8).

These Committees would perform the same functions that were performed by the JBC. These also form part of the post 1994 expenditure control measures, which were discussed earlier (South African Public Finance Management Act, 1999:2).

2.7.5 Post 1994: Medium Term Expenditure Framework (MTEF) as part of the expenditure control reforms

In an attempt to promote fiscal discipline, the Medium Term Expenditure Framework (MTEF) was adopted in 1998 as part of a wider package of budget reforms (National Treasury, 2014). The MTEF is a tool which is used to control expenditure projections for the two outer years. For instance, if 2016/17 is defined as the current financial year, the year 2017/18 and 2018/19 would reflect expenditure projections as outer years

(MTEF). The MTEF determines margins that are available for expenditure initiatives or the net savings that are required to meet the fiscal targets. Of note is that proposed reallocations are measured against the pre- set margins or savings to ensure that policy changes are consistent with fiscal objectives.

One of the weaknesses that the literature revealed with regard to medium term expenditure is that constraints are not self - enforcing. The drive to reallocate can open doors to a ploy by departments, substituting costly programmes for the ones that they are currently operating. Justine (2013) and National Treasury (2016) suggest that without proper expenditure controls that are prescribed by the Finance Department, spending departments may overstate their savings from programme cutbacks and underestimate the cost of new programmes. Therefore, to enforce these expenditure controls, it is important that the MTEF should include baseline projections of the authorized spending in each of the next several years. Some of the benefits of the MTEF include encouraging cooperation across Ministries and planning over a longer horizon instead of merely for the upcoming financial year. Below are some of the benefits that are derived from the MTEF or 3 year cycle budgeting approach:

- a) It enhances stability as it creates awareness among national departments, provincial and local spheres of government to know the projected amount of resources to be disbursed in the next two years;*
- b) Furthermore, it allows for more credible and better planning across the spheres and departments of government; and*
- c) The interest rate, taxation and government expenditure become predictable and, therefore, allow investors to make clear decisions.*

As a result, government departments plan their expenditure much better in advance, knowing the amount of resources that they will receive in the next financial year. Thus, the MTEF sets out future expenditure and provides a signal to civil society and the public at large regarding government's priorities, and how it intends to address them going forward.

- I. *Conversely, it allows for better expenditure assessment and evaluation, by providing a baseline to assess the effectiveness of the past year's expenditure.*
- II. *This means that it provides historical data to guide future expenditure decisions.*
- III. *This allows for any corrective and improved measures to ensure that the expenditure of every programme is on track.*
- IV. *It allows for policy certainty by making long term government policies, goals and plans available to the public and it, therefore, enhances the level of transparency.*

For instance, the National Development Plan was adopted in 2012 by the South African government as a *National Vision - 2030*. The NDP sets out some of the important milestones that should be achieved in the next thirty (30) year period from the time it was adopted. It breaks the thirty (30) year period in a five (5) year Medium Term Strategic Framework (MTSF). The MTSF informs the planning process of various sector strategic plans for 5 years. The five (5) year strategic plans (long term) are translated into Annual Performance Plans (APP) (short term), which become a twelve (12) month plan. The twelve (12) month's plan is used to achieve the milestones for the 5 year strategic plan. This is expected to achieve the outcomes which are defined by the Medium Term Strategic Framework (MTSF), as derived from the goals of the National Development Plan (NDP). Therefore, the *NDP Vision – 2030* drives the agenda for better performance, whilst guiding the resource allocation for effective expenditure (Department of Planning, Monitoring and Evaluation, 2016).

This is notwithstanding the fact that some of the ideals of the NDP would not be possible under the current economic conditions. For instance, the NDP calls for economic growth of 5 per cent, and the economy is currently projected to grow at 1.3 per cent of the Gross Domestic Product (GDP) (National Treasury, 2016:160). This will certainly affect other variables such as unemployment eradication, which the NDP is also calling for, because if the economy continues to be subdued and sluggish, it will not create much needed employment (National Treasury, 2016:160).

2.7.6 Role of programme management and accounting tools on expenditure controls

Visser and Erasmus (2008:101) define expenditure control as part of the expenditure management mechanism, which is important to achieve the overall departmental objective. They emphasise the importance of the proper execution of activities by programme managers at operational levels within programmes. This should be linked to the high degree of expenditure management or control in order to achieve the desired objectives. The current research revealed the importance of accounting tools in pursuit of expenditure controls. The literature again emphasises the importance of expenditure controls being part of the overall planning objectives, but also introduces the role that programme managers should play to ensure the achievement of desired outcomes and the fact that financial management should not be viewed as a responsibility for the select few (Pauw *et. Al*, 2000:42).

Visser and Erasmus (2008) further suggest that the accounting tools of public institutions should strive to achieve the fundamental objectives of expenditure controls, accountability, and internal and external reporting processes. This has been critically discussed in the previous sections of the literature. Furthermore, accounting tools are set to be the most appropriate means of ensuring that expenditure is limited to the purpose and the amount that is statutorily authorized as the basic elements of the expenditure control structure (Visser & Erasmus, 2008:101). However, such a system may sometimes become too rigid and become a stumbling block for any legitimate budget adjustment in October. For instance, departments are required to keep their expenditure on track, but there should also be some flexibility to cater for any unforeseen and unavoidable situations.

2.7.7 Improving reporting and procedures for accounts and budget controls

Timothy (2006:3) underscores the improved reporting on accounts and budgeting coupled with the strengthening of procedural controls on budget commitments as one of the most important pillars that will ensure expenditure control. This includes allowing

the Ministry of Finance to veto these commitments and when the need arises. This implies that if the reporting requirements are well designed, preparation of the reports encourages the government to scrutinize its expenditure situation. In most cases governments' financial reporting presents only cash expenditures and cash revenues. A publication of the expenditure reports allows oversight institutions such as Parliament and other oversight agencies to question the government's conduct, and thus ensure meaningful oversight.

But this can only be achieved where there are clearly audited financial reports that are required by law. According to Timothy (2006:3), "this can happen more frequently or annually. The literature emphasises the calculations and costing of the commitments as a helpful mechanism to exercise control over expenditure whilst imposing rules for different line ministries. Timothy (2006:3) suggests that governments can also adopt International Financial Reporting Standards (IFRS), which refer to standards that are used by many countries around the world. Furthermore, the International Public Sector Accounting Standard (IPSAS) and the South African Governments Accounting Standard Board (SAGASB) are currently promulgating standards based on IPSAS.

The Public Finance Management Act of 1999 requires that the department should take appropriate measures to prevent wrongful expenditure. Section 32 of the Act also requires National Treasury to publish monthly or quarterly expenditure reports to Parliament as a means to ensure that the budget is spent according to the adopted annual plans. The current financial management system in South Africa does accommodate some of the proposals made by Timothy (2006). This is why the Survey of the Open Budget Index ranked the South African budgeting process at number three (3) out of 102 countries, worldwide.

The section below provides evidence on how the government department have incurred irregular expenditure for the past five years.

2.8 THE DPW CASE STUDY: IMPACT OF IRREGULAR EXPENDITURE

During the 2014/15 financial year the Auditor-general of South Africa (AGSA) reported R20bn in '*irregular expenditure*'. This indicates a lack or non-existence of expenditure controls in some departments. While audit outcomes across national government departments and public entities improved in the 2012/13 financial year, there were still billions of rands that were wasted or spent irregularly, the Auditor General of South Africa (AGSA) reported to the Standing Committee on Public Accounts (SCOPA) on 5 February 2015. This is why the study focused on the impact of irregular expenditure in South Africa and uses DPW as a case study. This is the most relevant area of interest for the purpose of this study. AGSA told the Standing Committee on Public Accounts (SCOPA) that more than R2bn was incurred as wasteful expenditure¹⁴, while more than R20bn amounted to irregular expenditure¹⁵, and a further R2.2bn in unauthorised expenditure (Auditor General South Africa, 2015)¹⁶.

Five government departments accounted for almost all of the wasteful expenditure, with the Department of Justice leading the way, followed by the Department of Rural Development and Land Reform, Statistics South Africa, the Department of Public Works and the Department of Arts and Culture. AGSA pointed out that the main reasons for these irregular expenditures were related to, procurement or Supply-Chain Management (SCM) processes not being followed correctly. For instance, seventeen (17) national departments failed to obtain three written quotations, as required by the Supply Chain Management policy. Moreover, goods and services were procured from companies that did not have tax clearance certificates from the South African Revenue Service (SARS). There were cases where the lowest quotation was not selected without any justification, as required by the SCM policy and this was a pure non-compliance (AGSA,2015).

¹⁴ Fruitless and wasteful expenditure - is the sum of money which was spent in vain, without getting any value for expenditure,

¹⁵ Irregular expenditure - is the sum of money which was spent without abiding by the appropriate legislations that are meant to control or guide expenditure activities.

¹⁶ Unauthorised expenditure - is the sum of money which was not spent in accordance with an approved budget.

The five worst-performing departments on irregular expenditure included Public Works, Co-operative Governance and Traditional Affairs, Correctional Services, Transport and Defence. Although the Committee was relieved to hear that there had been an improvement in the audit outcomes compared to the previous years, with about 58 per cent of national departments avoiding qualifications, the AGSA indicated that the quality of audit reports was still lacking with many material misstatements. The AGSA further indicated that without corrections made by auditors, the number of qualifications would have rocketed to 85 per cent. The AGSA remained concerned that there seems to be no consequence management in the public service for failing to create measures that would prevent irregular expenditures. This obviously does not encourage good behaviour for public servants, which is to prevent unlawful expenditure (Auditor General South Africa, 2015).

Although the Committee welcomed the audit improvement, it continued to stress the need for stronger sufficient consequence management for those who waste public funds. AGSA indicated that there was slow progress made to improve the key controls that would improve audits in the departments, which include adequate expenditure controls. AGSA also highlighted the fact that there were more than 50 per cent of departments where there was a lack of good governance, leadership, oversight and performance management, and this often led to poor planning and expenditure. According to AGSA, across the forty (40) departments and entities that were audited, only six (6) had improved their audit results, while thirty (30) remained unchanged and four (4) had regressed. While the role of AGSA is crucial to enforce expenditure controls and is part of the oversight body, like other external expenditure controls, it only comes afterwards to make recommendations for future purposes. Conversely, Anthony (2007) emphasises the importance of defining expenditure controls from the planning stage and the role of programme managers to ensure effective expenditure controls.

The 2014/15 AGSA report indicated that 93 per cent of national departments had material findings of failure to comply with legislation such as PFMA, and there had

been no improvement during the 2011/12 financial year. However, the national consolidated report of the Auditor General of South Africa from 2010/11 – 2014/15 placed more emphasis on strengthening the internal controls and oversight by the Executive in order to ensure expenditure controls. The oversight process by the Executive differs from that of Parliament and other external institutions, because the Executive Authority is part of the Department. The report has made a number of findings and recommendations around wrongful expenditure. The AGSA reports for the past five years (2010/11 to 2014/15 financial years) demonstrate, the evidence that is below, which provides irregular expenditure trends for the past five financial years.

Table 2.2: National government: Overall irregular expenditure trends between 2010/11 – 2014/15

EXPENDITURE TYPE “000”	2010/11	2011/12	2012/13	2013/14	2014/15
Irregular Exp.	22.1 billion	26.3 billion	27.5 billion	62.7 billion	25.6 billion

Auditor General (2010 – 2014)

Table 2.2 above depicts trends, which clearly indicate the amount of monies recorded for irregular expenditure in the national departments for the past five (5) year period. Table 2.2 also shows that irregular expenditure increased from R22.1 billion in 2010/11 to R26.32 billion in 2011/12, with a slight increase to R27.5 billion in 2012/13, and a huge spike of R62.7 billion owing to the R30.7 billion identified and reported in 2013/14 by the Property Management Entity (PMTE) which dated from the previous financial years, and there was a slight decrease in 2014/15 to R25.6 billion, respectively. Table 2.3 below focuses on the irregular expenditure trend which was incurred by DPW alone for the past five (5) years.

Table 2.3: DPW Irregular expenditure trends: 2010/11 – 2014/15

EXPENDITURE TYPE "000"	2010/11	2011/12	2012/13	2013/14	2014/15
Irregular Exp.	1.3 million	168.1 million	583.3 million	152.2 million	40.6 million

Department of Public Works (2010-2014)

The above trends show that since 2010/11, the Department reported, R1.3 million in irregular expenditure. In 2011/12 the Department reported an irregular expenditure of R168.1 million; a huge spike of R583.3 million in 2012/13; R152.2 million in 2013/14; and R40.6 million in 2014/15. Of note is that these exclude irregular expenditure incurred by public entities that report to the Department. Based on these trends, it is clear that the DPW is indeed is one of the national departments which has contributed immensely to the overall trend of the national irregular expenditure shown in Table 2.2.

Although some of these funds were condoned and some were recovered, the extent to which this has occurred is an indication of non-compliance with the PFMA. Moreover, it is important to note that the above trends are in the context of section 38 (1) c and section 45 (c) of the PFMA. Of note is that the national DPW is one of the departments that has been recording the highest amounts of irregular, unauthorised expenditure for the past financial years. Hence, investigation of the impact of irregular expenditure is important using the Department as a case study (Auditor General South Africa, 2015).

2.9 SUMMARY

The study investigated the impact of irregular expenditure in the South African public finance management environment, using DPW as a case study. After consulting various sources and case studies in the earlier section, there are clear demonstrations of the importance of tightening expenditure management and control in the South African public finance arena. Various scholars place more emphasis on the importance of adhering to existing legislation and policies to ensure effective and efficient expenditure behaviour. The literature demonstrates that South Africa has a strong and sound foundation for public finance and legislative framework as an infrastructure for effective and efficient management of public funds. The Constitution lays a clear foundation for the establishment of the National Treasury to further prescribe measures for expenditure control and fiscal management. After the establishment of the National Treasury, a Public Finance Management Act came into effect as part of both expenditure control and as post 1994 public finance management reform to replace Exchequer Act of 1975.

The impact of irregular expenditure is currently high in the public sector, which indicates lack of compliance. Lack of compliance with South African legal frameworks such as the PFMA, Treasury, and Supply Chain Management policies has negative implications for South African Public Finance Management, as it perpetuates unlawful expenditure. The literature reveals various instruments, which have been adopted as expenditure controls in South African public finance post 1994. These include MTEF, PFMA, Treasury Regulations, Accountability, and Oversight as an external expenditure control mechanism, namely: Parliamentary Committees, Auditor General, Public Services Commission and the Financial and Fiscal Commission. The legal frameworks are there to provide guidance for public servants to ensure effective and efficient expenditure while at the same time achieving the set objectives. The literature also reveals that there is little or no action that is taken against those who transgress these legal frameworks. This is why the impact of irregular expenditure is at the highest level in the public sector.

CHAPTER THREE: RESEARCH METHODOLOGY AND DATA ANALYSIS

3.1 INTRODUCTION

As discussed in Chapter One, the study examines the impact of irregular expenditure in the South African public finance management, using the national Department of Public Works as a case study. The previous chapter unpacked the theoretical literature review in relation to the foundation of public finance management in South Africa. The chapter also defined and described the legislative framework which regulates public finance in South Africa. It examined measures that have been used for expenditure control which were adopted post 1994 to strengthen measures to prevent irregular expenditure. Notwithstanding the fact that some studies have been conducted around the Public Finance Management Act No. 1 of 1999, but there has been no study around the impact of irregular expenditure. Section 38 (1) (c) (ii) of the Public Finance Management Act requires that accounting officers should establish measures to prevent irregular expenditure. This chapter explores the research methodology that was used for this study and highlights some key findings.

3.2 RESEARCH METHODOLOGY

The empirical survey was followed within the following parameters of the research methodology. The study followed a deductive research design and a qualitative research approach and it is theoretical in nature (Mouton, 2001). As discussed in Chapter One, the qualitative research approach was used because it explores complex research areas and was hence suitable for exploratory research. It also brings about better understanding of complex situations with regards to the topic at hand. This type of research methodology also contributes to understanding the behaviours of people who are in charge of implementing the Public Finance Management Act. Gay and Airasian (2003:163) describe the qualitative research approach as an interpretive and useful approach to describe and answer questions about participants and context.

3.2.1 Research procedures

To adhere to the generally accepted traditional scientific methods, a case study and survey procedures were used for this study. A case study was used as a procedure because it is well recognised in the field of human social science as one of the acceptable research procedures. This was used in order to obtain in-depth knowledge and understanding of the issues that have led to the reported levels of irregular expenditure by the Department, which is inconsistent with section 38 (1) (c) (ii) of the Public Finance Management Act. A combination of the two procedures was used to achieve better results as a suitable combination for the qualitative approach. The theory articulated a set of propositions, as well as the circumstances within which the propositions were believed to be true. A single case study met all the conditions and circumstances for testing Public Finance Management theories. It connected the empirical data of the national Department of Public Works to the research questions and to the conclusion.

3.2.2 Study population

The study adopted exploratory research with a sample size of less than 30 as the population (Mouton, 2001). The sample group of the study consisted of 10 people who have expert knowledge of public finance. The research was confined to the Department of Public Works, National Treasury, the Portfolio Committee on Public Works in the South African Parliament and the Auditor General of South Africa.

3.2.3 Sampling technique

The judgemental sampling technique was used for this study (Mouton, 2001). This sampling was used mainly because it identifies relevant participants based on their basic knowledge and expertise in the field. The technique was also cost effective as it saves time and is used for exploratory studies. The sample group of the study only

consisted of 10 officials. The data collection of the study was based on non - probability sampling to represent the entire population.

3.2.4 Data collection instruments

A questionnaire and face-to-face interviews were scheduled for data collection. The questionnaire consisted of both open – ended and closed – ended questions. The questionnaire was distributed with a letter to all participants, assuring them that the information that they provide would be treated as confidential. The letter also clarified that their participation was voluntary and that they could withdraw at any time. The idea was to obtain more in depth knowledge and insight from experts of the Public Finance Management Act as far as irregular expenditure is concerned, whereas the questionnaire intended to ensure that respondents are able to respond to all issues without feeling uncomfortable. The questionnaire provided privacy to the participants when responding to such issues. The literature suggests that such an instrument is less expensive and provides greater autonomy to the participants (Berg, 1989:70; Leedy, 1989:70; Kumar, 2005:129; Welman *et al.*, 2005:178).

The literature also suggests that particular points should be taken into account when designing the questionnaire. These points are briefly discussed below (Berg, 1989:70; Leedy, 1989:70; Kumar, 2005:129; Welman *et al.*, 2005:178).

3.2.4.1 Choice of open – ended and close – ended questions

Open ended questions allow the participant to elaborate without guidance. While close - ended questions require the participant to choose from a range of answers.

3.2.4.2 Take the respondent's literacy level into account

The literature reveals that jargon, slang words and abbreviations should be avoided, or the meaning should be explained to participants, particularly if they are of such significant within the context of the study.

3.2.4.3 Be careful not to offend

Avoid terms, which may offend any person in terms of status, culture, religion, or political viewpoint.

The above points were all taken into consideration when the questionnaire was designed.

3.3 Data collection

The questionnaire was distributed to 10 senior officials in various institutions and was followed up with face-to-face interviews. Two (2) senior managers of the Department of Public Works were interviewed as key public finance experts in the Department; one (1) senior official from the National Treasury who manages the Public Works portfolio conditional grant funding and transfer budget was interviewed; one (1) senior official from the Fiscal and Finance Commission (FFC) withdrew from the study and therefore he was not interviewed; and four (4) parliamentary officials who are part of a key independent oversight structure and who are experts in the for Public Works portfolio were also interviewed. One (1) expert senior official from AGSA who conducts the audit process for the Public Works portfolio, and one (1) Member of Parliament from the Portfolio Committee on Public Works were also interviewed. The distribution of questionnaires was coordinated by the researcher together with the letter to all participants, stating that participation in the study was voluntary and that confidentiality was thus guaranteed. All the responses to various variables are summarised and analysed under section 3.8.1.

Participants were reminded on a daily basis via emails, telephone calls, as well as personal visits, where possible. This was done with a view to acquire a good response rate from the targeted group. At least, 8 (80 per cent) of the 10 questionnaires were received in the same month that they were distributed, which represents 80 per cent of the sampled population.

3.4 Data analysis

As indicated in Chapter One, data was analysed by means of content analysis for the study. This stage is regarded as a core function of the research. Mouton (2001:108) defines data analysis as breaking up data into manageable themes, patterns, trends and relationships. Mile and Huberman (1994) point out that qualitative data come in the form of words rather than in numbers. Silverman (2000:119) defines data analysis as a stage in which results are written. Furthermore, the process aims to understand the various constitutive elements of one's data through an inspection of the relationship between concepts, constructs or variables. It also aims to confirm whether there are patterns or trends that can be identified or isolated, or to be established in the data. This is the process where inferences are made from data that is collected and particular conclusions are drawn. The historical information to determine the patterns, open ended questions as well as unstructured interviews, were used for content analysis. Questionnaires and other desktop data were transcribed and recorded and all data scripts were coded in a grounded theory approach to data analysis. Once the data was sorted into a range of categories, headings of categories and subcategories were generated from the data for ease analysis.

The data analysis and interpretation of the results started simultaneously with the data collection process as Silverman (2000:120) suggests, that researchers need to analyse their data as soon as they receive it. This is in accordance with the guidelines and processes that are outlined in the literature review. A combination of these two parallel processes saved time and ensured that the study was concluded timeously. It also ensured that all the important data was collected and analysed immediately. This was meant to avoid the risk of losing important data, should the two processes (data collection and data analysis) be done separately. The inferences were made from data that was collected, which led to particular findings.

3.5 Data interpretation

Mouton (2001: 08) defines data interpretation as a process that involves the synthesis of one's data into larger coherent wholes. Mouton (2001:08) further describes this stage of research as the level wherein data is interpreted by formulating theories and hypotheses that account for observed patterns and trends in the data. Interpretation fundamentally means relating one's results and findings to existing theoretical frameworks or models, and showing whether these are supported or falsified by the new interpretation. According to Mouton (2001), the interpretation also means taking into account rival explanations or interpretations of one's data, showing the level of support that the data provides for the preferred interpretation. Silverman (2000:142) suggests that data interpretation involves the transcendence of factual data and cautious analysis of what should be made of them.

In Table 3.1 below Mouton (2001) provides a list of data analysis and interpretation errors that should be avoided during the process.

TABLE 3.1: Analysis and interpretation error

Sources error	Elaboration and references error
For instance, drawing inferences from data that is not supported by the literature.	Conclusions that one may draw on the basis of any data set should have sufficient and relevant inductive support before they are acceptable.
Biased interpretation of the data through selectivity.	Scholars often attempt to prove their pet hypotheses without proper consideration of rival hypotheses and alternative explanations.

3.6 Pilot study

Stangor (2004:95) describes a pilot study as a process whereby a researcher conducts a pre – testing of the study by using only a few subjects in order to estimate a reaction before commencing with the main study. According to Strydom (2000:178), a pilot study usually forms an integral part of the research process. It is for this reason that Glesne (2006:43) states that a pilot study is useful for testing many aspects of one’s proposed research. The pilot study proved to be useful for the researcher in this study. In this case the pilot study helped the researcher to devise probing questions, which were not included in the original interview schedule. Furthermore, the pilot study assisted the researcher to prepare well for the main study. The pilot study was conducted with two officials in the South African Parliament.

3.7 Limitations of the study

The following limitations were observed during the study:

- The researcher had targeted a 100 percent response rate, but only received 80 per cent response rate, and this was owing to the fact that most participants were high profile officials, including members and officials from Parliament who were always busy;
- Another challenge was that one participant withdrew from the interviews, citing various reasons such as confidentiality clauses in his employment contracts of the organisations that he works for; and
- The project was undertaken without any meaningful budget.

3.8.1 Independent variables

3.8.1.1 Gender

A total of 60 per cent of the study’s respondents are male and 40 per cent are female. While the South African government strives to attain a 50 percent gender equality ratio

in the work place, this study reveals that the higher positions of employment are still dominated by male in government.

3.8.1.2 Age range

The study's respondents ranged between the ages of 35 – 56, and above. Of note is that 60 per cent of the respondents were between the ages of 35 to 40 years. A total of 30 per cent of respondents were between 46 and 50 years, and 10 per cent was above 56 years of age.

3.8.1.3 Marital status

The study revealed that 70 per cent of the sampled population was married, and only 30 per cent had never been married.

3.8.1.4 Highest education qualification

Of note is that the study revealed that 60 per cent of the respondents have Master's degree qualifications, while 20 per cent have doctorates, and another 20 per cent have diplomas as a qualification.

3.8.1.5 Work experience

In terms of work experience, the study revealed that about 60 per cent of respondents had between 10 to 14 years' of work experience, while 30 per cent had between 15 to 20 years' working experience and 10 per cent had been working for 20 – 25 years. The interesting relationship is that the 10 per cent minority with highest working experience comprise of the PHD and diploma qualification respondents. These respondents range from 46 to 56 years in terms of age.

3.9 Familiarity with the concept of irregular expenditure

Most of the respondents in the sample were familiar with the irregular expenditure concept. Moreover, their definition also corresponded with the definition, which is provided in the literature (Audit Act, 2004:75; PFMA, 1999: 81, Moeti, 2007, Maketu, 2014, SCOPA: 2014) in Chapter 2. The Department also defines irregular expenditure as expenditure that is incurred in contravention of procurement or public finance management regulations. It is thus clear that the understanding of irregular expenditure as a concept was not an issue, which led to the Department of Public Works (DPW)

incurring irregular expenditure. Therefore, the persistence of irregular expenditure was because officials did not comply with the PFMA or procurement and Supply Chain Management policies.

3.10 Impact of irregular expenditure in the national Department of Public Works for the past five years

The empirical evidence indicated that the impact of irregular expenditure from 2010/11 to the 2014/15 financial year has been both financial and non-financial. It was non-financial in a sense that the reputation of the Department was compromised. In addition, this was part of the issues that led to the Department obtaining negative audit findings (adverse, disclaimer and later qualified opinion) from AGSA, and this eroded public trust and confidence in the Department (Department of Public Works, 2014). The respondents also indicated that the level of negative perceptions even led to the Media describing the Department as a department of “*irregular expenditure*” (Mail and Guardian, 2009). Furthermore, the study revealed that the impact of irregular expenditure in the Department for the past five years has been conflated with fraud and corruption as if it is the same thing, whereas the definition of irregular expenditure in the Act excludes fraud and corruption. Thus, irregular expenditure is merely non-compliance and a pure failure of financial management, which cannot be classified as fraud and corruption.

The literature defines irregular expenditure as an authorised expenditure, which is in contravention of prescribed legislation (*Pauw et al.* 2009:40: National Treasury, 2003:10: National Treasury, 2014: 02: Audit Act, 2004:75; PFMA, 1999: 81, Moeti, 2007, Maketu, 2014, SCOPA: 2014). Thus, issues of corruption and fraud may differ in nature, but they are not necessarily covered by the definition of irregular expenditure. Furthermore, this had been a major contributing factor to the poor performance of the Department of Public Works, wherein the financial and non - financial performance of the Department has declined over the years. This has negatively affected other client departments’ capital budget, wherein such budgets could not be properly spent owing to the Department of Public Works’ failure to implement projects.

It is clear that failure to manage public finances properly and ensuring that funds were spent according to plans has been part of the cause of government's inability to implement certain projects which also led to negative perception amongst client departments. The failure to adhere to the prescribed norms and standards to manage public finance as the Constitution prescribes is part of the cause for negative audit outcomes which led to the negative public perception. It is, therefore, imperative for government departments, to make sure that rules and regulations, norms and standards as well as legal prescripts are adhered to at all times as a means to ensure proper management of funds and achieve better governance. The financial impact mainly refers to the huge amounts of monies being recorded as irregular expenditure as set out in table 2.1 and 2.2. These also create general perceptions that most government official are unable to manage public finances properly.

3.11 Root causes of irregular expenditure in the national Department of Public Works for the past five years

In 2013 the Department disclosed irregular expenditure of approximately R35 billion from the estimated 395 000 transactions, which included previous financial years. In previous years, this was not properly recorded. Following this revelation, the Department tabled a turnaround strategy, which included investigating and addressing all 395 000 unlawful transactions. Of note is that the Department is also responsible for a number of trading and public entities, namely Property Management Trading Entity (PMTE) and Agreement South Africa (ASA). For instance, the study revealed that Agreement South Africa was part of the root cause of irregular expenditure, as it was not properly constituted in line with the Public Finance Management Act. The entity had been operating at the Council for Scientific and Industrial Research under the auspices of Built Environment Unit (Department of Public Works, 2016: 36).

ASA has been in existence since 1969 with an aim to facilitate the safe introduction, application and utilisation of satisfactory innovation and technology development within the construction industry. The fact that it was not properly constituted in terms of the

legislation, meant that any payment was classified under goods and services and not under transfers and subsidy budget, as this was an entity. Thus, the Auditor General of South Africa (AGSA) defined this as irregular expenditure. However, the Department is in the process to properly establish the entity as a juristic person as soon as the President signed the Bill into law.

The mandate of the PMTE is to ring fence, better manage, maintain, and optimally utilise the massive State Property Portfolio to build value and bring savings to the State, as well as other socio – economic benefits, particularly job creation and empowerment, whilst improving service to client departments (Department of Public Works, 2016:76). PMTE is allocated a total budget of approximately R3.4 billion or 52 per cent of R6.5 billion, which is the 2016/17 overall budget of the Department. PMTE receives a transfer through programme 4, which is the Property and Construction Industry Policy and Research (National Treasury, 2016:187: Department of Public Works, 2016:39). Of note is that all functions are currently accounted for in accordance with the Generally Recognised Accounting Practice (GRAP). Thus, funds for all administrative expenditures, which are associated with its functions remained in the Department. This was owing to the fact that PMTE was not yet geared to deliver on its mandate independently of the Department. Most interestingly, the study revealed that in the past PMTE used to receive more than 80 per cent of the overall allocation of the Department hence it became a major contributor to irregular expenditure for the past period. However, the allocation has been since reduced to almost 52 per cent of the overall Departmental budget vote.

In other words, the study revealed that (Department of Public Works, 2016:76: AGSA, 2014) the Department itself was not the major contributor towards irregular expenditure for the past five years but its entities. The Property Management Trading Entity (PMTE) and Agreement South Africa were faced with more challenges under the DPW portfolio, particularly in relation to irregular expenditure. In fact, PMTE and Agreement South Africa have contributed a larger portion of the irregular expenditure amount when compared to the Department in this portfolio. This was owing to the fact that these receive more than 50 per cent of the Public Works budget vote as a transfer budget. In the same vain, the study also revealed that even though the research indicated that officials understood the concept of irregular expenditure, the following challenges still

persist in the Department, PMTE and ASA, namely: a lack of training; and a lack of appointing suitably qualified personnel, which leads to a lack of technical competences, corruption and fraud; and a lack of willingness amongst officials to do the right thing or comply.

Chapter Two indicated that every country has its own laws that govern/ regulate public financial management space. The same chapter also discussed the public finance, legislative, framework in detail. However, if such laws are not adhered to, the results will be a poor and ineffective public financial management, hence irregular expenditure patterns. Section 38 (1) (c) (ii) of the Public Finance Management Act prescribes general roles and responsibilities for accounting officers, which include creating measures that prevent irregular expenditure (Public Finance Management Act, 1999).

In other words, governance matters in all government spheres and departments are vested in the accounting officer. The accounting officer is required to put adequate systems (PFMA, 1999:45) to prevent unlawful expenditures. It is for this reason that the accounting officer of every department uses the Constitution, Public Finance Management Act and Treasury Regulations to ensure effective and efficient expenditure controls, risk management and to ensure that money is spent according to the intended purpose. It is, therefore, clear that the root cause of irregular expenditure in the Department was mainly non-compliance with the prescribed financial management prescripts including the following:

- The lack of internal control systems, particularly with Supply Chain Management policy (SCM) in the Department, PMTE and ASA;
- Certain accounting systems in PMTE such as the accrual accounting systems were not established to ensure that accruals were accounted for. This meant that income was only accounted for when cash was received, while expenses were accounted for when the payments were made, whereas, under normal accrual methods, any transaction is accounted for when they happen, irrespective of whether or not payment was made;

- Lack of appointing properly qualified officials in Supply Chain Management, Human Resource Management and Finance within the Department and PMTE;
- The Internal Audit Unit and the Audit Committee were not properly capacitated to assist the Department as means to recognise financial weaknesses timeously, and take proactive interventions to address these;
- Disclosures were made concerning irregular expenditure, but there was uncertainty in the completeness of the reports by both the Department and PMTE due to absent irregular expenditure register;
- The ASA was not properly constituted under the Public Finance Management Act, as it has been in existence since 1969;
- Overriding internal controls and systems, especially by senior staff where these exist;
- Lack of proper records or file management systems to track invoices for 30 day payments, as PFMA requires;
- The high level of turnover of senior management, which led to instability in the Department; and
- Lack of consequence management by delinquent staff members or officials who have transgressed or violated rules and regulations.

This is echoed by the literature which states that accounting officers should create financial management systems to ensure that departmental budgets are used effectively, efficiently and economically (Potgieter *et al.*, 1997:19, PFMA, 1999:45 and Treasury Regulations, 2000). The starting point in order to prevent irregular expenditure is for the accounting officer to first understand the financial management prescripts before formulating expenditure management policies, and internal control risk management measures to safeguard resources and track expenditure. To enforce implementation of the PFMA and the prevention of irregular expenditure, the accounting officer must appoint a suitably qualified Chief Financial Officer (CFO) to serve on the management team of the department (Pauw, Woods, Van der Linde, Fourie, Visser, 2002). The CFO is directly responsible to the accounting officer to assist him/her to discharge his/her rather onerous duties in terms of the PFMA and the annual Division of Revenue Act (Dora). In addition, the accounting officer should also appoint

a suitable Internal Audit team to ensure effectiveness and adequacy of internal controls and systems within the Department.

The accounting officer assigns the CFO's duties based on the financial management parameters. Most importantly, these duties must relate to the effective and efficient financial management of the institution. According to Pauw, Woods, Van der Linde, Fourie and Visser (2002), the exercise to ensure expenditure control measures and to prevent irregular expenditure includes sound budgeting and budgetary control practices. In addition, the operations of internal controls, as well as the timely reporting on financial matters are also crucial. All government departments are funded by the National Revenue Fund (NRF), where monies can only be drawn through the passing of the Division of Revenue and Appropriations Bill. To safeguard these resources, the PFMA requires the government Department, through their accounting officers, to establish mechanisms for expenditure control. Section 38 (1) (c) (ii) of the PFMA is one of the most important provisions, which ensures that this is done (PFMA of South Africa, 1999:45).

3.12 Amount of irregular expenditure identified by the Department of Public Works before AGSA audits for the past five years

Section 38 (1) (c) (ii) of the Public Finance Management Act 1 of 1999 requires accounting officers to establish measures that will prevent irregular expenditure. Under normal circumstances, these measures will also detect and identify irregular expenditures in order for the Department to update the register and compile an irregular expenditure report before the AGSA begins its audit process. Due to weak or the non-existence of adequate internal controls, non – compliance with supply chain legislation is part of the root cause of irregular expenditure, hence the Department has not been able to detect and identify irregular expenditure. For instance, in 2009/10 the Department obtained a ***qualified audit opinion with findings***¹⁷ from AGSA on the basis of incompleteness of the irregular expenditure report (Department of Public

¹⁷ Qualified Audit Opinion with findings – referred to as a severe opinion, which is granted by the auditors to the Department when they have concluded that an unqualified or Clean audit opinion cannot be expressed, but that the effect of any disagreement with management, or limitation on the scope of the audit is not material or fundamental as to require an adverse or disclaimer of opinion.

Works, 2009: Auditor General, 2010 - 2013). AGSA further recommended that the Department should revisit all transactions, which were processed since the 2009/10 financial year in order to achieve completeness of irregular expenditure that was disclosed in the annual financial statement.

Owing to the 2009/10 AGSA recommendations, in 2013 the Department published a turnaround strategy with a view to revisit the 2009 transactions. The aim was to identify any potential irregular expenditure that might have been understated. Thus, the weak internal controls and systems led to the disclosure of a skyrocketing figure of irregular expenditure. This amounted to R31.4 billion for both the Department and PMTE combined in 2013. Of the reported figure, PMTE accounted for the larger portion of R31.4 billion, while the Department only accounted for R501 million. As indicated in the previous section, the Department transfers more than 50 per cent of its budget to PMTE under programme 4. Since the PMTE still operates under the auspices of the Department in terms of financial administration, the Department accounts for the overall figure of irregular expenditure.

3.13 Irregular expenditure for the past five years as identified in the Department

Table 3.2 below depicts trends, which relate to irregular expenditure and that was identified after investigation of 395 000 transactions that took place since 2009. The study revealed that the Department received, a qualified audit opinion with findings from AGSA on the basis that the irregular expenditure reports were not complete (DPW, 2016: AGSA, 2015). However, when all 395 000 transactions were investigated the Department was able to discover a huge amount of irregular expenditure from both the Department and the PMTE, (see Tables 3.2 and 3.3 below). The below tables present three sets of columns of irregular expenditure, namely the irregular amounts in the current year and the irregular amounts of prior years, followed by a closing balance. The tables use green colour to denote improvements, while red colour suggests that there is a need for urgent intervention.

Table 3.2: DPW Irregular expenditure for the past five year

Department of Public Works (Main Account)			
Financial Year	Irregular Expenditure for the Current Year	Irregular Expenditure relating to Prior Year	Irregular Expenditure Closing Balance
	R'000	R'000	R'000
2010/11	1 396	-	1 396
2011/12	111 932	56 225	168 157
2012/13	140 528	442 792	583 320
2013/14	114 973	37 242	152 215
2014/15	40 695	-	40 695

Department of Public Works (2016)

Table 3.2 above shows that in 2010/11 the Department recorded R1.3 million in irregular expenditure as opening and closing balance, meanwhile in 2012/13 the Department had irregular expenditure amounted to R583.3 million as closing balance, which was the highest compared to other years and this was a tremendous growth in the closing balance of irregular expenditure. Table 3.3 below depicts the trends of irregular expenditure patterns for PMTE alone.

Table 3.3: PMTE Irregular expenditure for the past five years

Property Management Trading Entity (PMTE)			
Financial Year	Irregular Expenditure for the Current Year	Irregular Expenditure relating to Prior Year	Irregular Expenditure Closing Balance
	R'000	R'000	R'000
2010/11	138 637	291 672	430 309
2011/12	1 057 111	250 430	1 307 541
2012/13	2 404 313	33 470	2 437 783
2013/14	24 583 946	6 214 055	30 798 001
2014/15	1 233 548	-	1 233 548

Department of Public Works (2016)

A comparison between Table 3.2 and 3.3 reveals that the PMTE was the major contributing factor to the increased level of irregular expenditure, as experienced by the Department's portfolio. When the amount of irregular expenditure for the current

year (R24.5 billion) is added to the amount of the prior year (R6.2 billion) amounts to R30.7 billion for the PMTE alone in 2013/14 financial year. This was owing to the weak internal control measures, which led to non-compliance with the PFMA and SCM policies. This is evident in the 2014/15 Annual Report of the Department, which states that the steps taken by PMTE to prevent irregular expenditure, as required by section 38 (1) (c) (ii) of the PFMA, were not effective in certain instances (Department of Public Works, 2014).

3.14 Condonation of irregular expenditure for the past five years.

Table 3.4 below depicts irregular expenditure, which had been condoned by the National Treasury or by accounting officers for the past five (5) years. The National Treasury (2014) provides guidelines and procedures for such expenditure to be condoned. As part of the enclosed procedure, provision is made for accounting officers and accounting authorities to forward submissions to the National Treasury or the relevant authority to request condonation for non-compliance with the PFMA or other legislation, respectively. The treasury to which the submission must be forwarded will depend on the provision that was contravened. The National Treasury Guide (2014:7) emphasises that if a department requests condonation, it must make a submission, which covers the following areas:

- a. a detailed motivation as to why the irregular expenditure in question should be considered for condonation;
- b. details of the transgression;
- c. reference to relevant legislation;
- d. reasons for deviating from the required legislation or prescripts;
- e. whether or not the state suffered any loss owing to the transgression;
- f. in the case of supply chain management transgressions, provide reasonableness of price (s) determined in a case where only one price was sourced from one bidder;
- g. the financial implications for such a transgression, in the case of a supply chain management provide contractor (s) that is involved;
- h. corrective steps taken to prevent any occurrence, and
- i. relevant supporting documentation.

Table 3.4 below provides the total amounts of irregular expenditure, which were condoned by National Treasury for the PMTE between the 2010/11 and 2014/15 financial years. In the instance where condonation for irregular expenditure had not been granted by the National Treasury or relevant authority, immediate steps were taken to recover such expenditure from the relevant person (s), as indicated earlier (National Treasury Guideline, 2014: 7).

Table 3.4: Irregular expenditure that passed condonment for the past five years

Department of Public Works (Main Account) (2010/11 – 2014/15)	
Financial Year	Irregular Expenditure Condoned
	R'000
2010/11	-5 939
2011/12	-22 780
2012/13	-947
2013/14	-405 000
2014/15	-173 820

Department of Public Works (2016)

In Table 3.4 it is interesting to note that the total amount that was condoned in the past five (5) years is far less than those that did not qualify for condonment, especially in the 2013/14 financial year. During this financial year an amount of R30.7 billion was recorded as irregular expenditure, including the previous financial years; however, only R405 thousand was condoned as non-irregular. This is indeed an indication of weaker systems that are used to detect and prevent irregular expenditure, as required by the PFMA.

Table 3.5 below provides a five (5) year trend of irregular expenditure condoned by National Treasury for PMTE between 2010/11 and 2014/15.

Table 3.5: Irregular Expenditure for PMTE

Property Management Trading Entity (PMTE) (2010/11 – 2014/15)	
Financial Year	Irregular Expenditure Condoned
	R'000
2010/2011	-38 768
2011/2012	-555 428
2012/2013	-
2013/2014	-229 396
2014/2015	-3 665 577

Department of Public Works (2016)

Again, in Table 3.5 above the same observation is made, which suggests that the amount that qualified for condonation is largely smaller than the amount, which was not condoned. This demonstrates that more effort is still needed to intensify internal controls and prevention measures. The impact of irregular expenditure is negative, particularly because the growth of irregular expenditure damages the image of the department or institution and, therefore, the public loses confidence and trust. The Treasury Guide (2014) requires that once irregular expenditure is subsequently condoned by the National Treasury or by the relevant authority, no further action is required by the department, government component, constitutional institution, or trading entity of a public entity, as the amount has already been expended in the statement of annual financial performance. The guidelines also require that the irregular expenditure register should be updated to reflect that the irregular expenditure was condoned. Furthermore, the notes that accompany the annual financial statements must also be updated to reflect condoned irregular expenditure. But the irregular expenditure, which was not condoned in Tables 3.4 and 3.5 is accounted for in accordance with the relevant accounting standards. Thus, the recovery process shall be implemented against the official in question, including sanctions that are determined by the Department based on the investigation outcomes.

3.15 Mechanisms created to improve accountability and compliance in the Department

The study revealed that as part of the turnaround strategy, the Department developed a unit which is located within the Office of the Chief Financial Officer, called the Inspectorate and Compliance Directorate. The salient purpose of the Office was to ensure compliance in the areas of finance and Supply Chain Management (SCM). The unit's primary focus has been on the inspectorate part to prevent the irregular expenditure from occurring, whilst improving levels of compliance in the area of Supply Chain Management (SCM). The Department further established a Branch called Governance, Risk and Compliance to focus on risk management and compliance, amongst others, within the Department. This reinforces section 38 of the PFMA, which requires that accounting officers should create measures that prevent irregular expenditure and other financial losses. Of note is that, all these new measures are part of the turnaround strategy tabled by the Department in 2013/14.

3.16 Targets that measure effectiveness of expenditure controls to prevent irregular expenditure

The study revealed (DPW, 2016) that irregular expenditure management has been elevated to the Annual Performance Plan (APP) as part of the performance targets of the Department. This would ensure that adequate attention and resources are allocated to it. The extent of effective expenditure control is through the number of transactions that have been prevented against those that have been disclosed. Since irregular expenditure forms part of the APP targets, this means that the Department will be able to monitor this on a regular basis, as it will be part of the monthly and quarterly performance report to the Audit Committee and to the South African Parliament oversight committees. This could reduce a risk of discovering huge amount of irregular expenditure later in the financial year, where there is no space for prompt intervention.

3.17 Role of line managers in detecting and preventing irregular expenditure in their respective divisions/sections / units within the Department

The study revealed that line managers are under the illusion that steps to prevent and detect irregular expenditure are the responsibilities of the finance division. Despite Section 45 of the PFMA, which assigns such responsibilities to other officials other than the accounting officer, most respondents indicated that the responsibility to monitor expenditure had been abdicated to finance managers by all respective line managers in the Department. It is believed that the monitoring of expenditure is the purview of the finance division alone or it is for select few. Hence the responsibility to monitor and prevent irregular expenditure lies with a Directorate within the Office of the Chief Financial Officer, Inspectorate and Compliance in the Department. This is part of the general attitude that leads to irregular expenditure being unmanageable because certain line managers do not believe that they should take full responsibility for financial management systems, notwithstanding that they have a responsibility to manage the budgets of their respective areas.

Visser, and Erasmus (2008) argue that expenditure controls should form part of the overall planning objectives, but also emphasises the importance to introduce the role that programme managers should play in order to ensure the achievement of desired outcomes. This should be enforced at various levels within the Department. Pauw *et. Al*, (2000:42) also argues that the understanding of financial management instruments and the management of funds is not a responsibility of the select few, but the entire management as a custodian of institutional resources. They emphasise the significant role of line managers in ensuring a better management of resources and better governance as opposed to be preoccupied by deliverables only. This further prevent the financial management office being centralised which results in line managers being frustrated and a huge backlog of invoices become a responsibility of one office. In turn, it becomes inefficient, processes invoices and approves memos in a very slow space, this could be due to the larger amount of work which would have been decentralised to line managers if they all understood and take financial management as part of their responsibility.

3.18 Role of internal oversight and external structures such as the expenditure management committee and internal auditors, the audit committee and Parliamentary committees

The study revealed that the Department does not have an expenditure management committee (DPW, 2016: AGSA, 2014). However, as the PFMA (1999) indicates that, the accounting officer has a duty to appoint a qualified CFO that will ensure better financial management systems. The study revealed that in the Department the expenditure management function resides within the Office of the Chief Financial Officer, and this is called the Inspectorate and Compliance Directorate. The study also revealed that the Department recently established an office called Governance and Risk Compliance whose primary function is to focus on compliance issues. Clearly, considering the levels of irregular expenditure revealed in the past five years, the role of internal auditors has been inadequate at best and reactive at worst. The study revealed that internal auditors have not been focusing on the internal control system, which has led to the AGSA not relying to the information of the internal auditors at the Department.

The Department appointed a new Audit Committee, whose appointment coincided with the turnaround strategy by the new Executive, which placed a firm focus on improving systems of the internal controls. The new Audit Committee has elevated the targets of irregular expenditure to the level of the Annual Performance Plan (APP). This means that the Department will have to report on irregular expenditure as a target in each quarterly performance report. Quarterly performance reports are normally published every three months after the start of the financial year. This will allow the Department to track progress during the in - year monitoring and make the necessary interventions sooner than later.

The study also revealed the importance of the role which has been played by external oversight structures, especially the Standing Committee on Public Accounts (SCOPA), Standing Committee on Appropriations (SCoA) and the Portfolio Committee on Public Works (PCoPW) in Parliament. The intention was to assist the Department to improve

the implementation of Section 38 (1) (c) (ii) of the PFMA. These Committees kept the new senior management on its toes to make sure that there was improved compliance in the Department. It became clear that in order for the Department to curb the culture of irregular expenditure, there was a need for a properly qualified CFO, experienced independent Audit Committee and properly qualified Internal Auditors with capacity to ensure adequate financial and risk management systems and expenditure controls.

3.19 Consequence management against transgressors in the Department

The study revealed that effective and appropriate disciplinary steps in certain instances were not taken against officials who either made or permitted irregular expenditure, as required by section 38 (1) (h) of the PFMA. The study revealed that levels of non-compliance had permeated too much within the Department such that it would have meant that more than half of the personnel would face disciplinary process for the past period. Furthermore, the senior managers also had to shoulder some level of responsibility, as the main causes included internal controls, which were non-existent, especially in the area of Supply Chain Management. For example, the study revealed that the Supply Chain Management policy of the Department was last updated during 2008, and major changes had taken place since SCM was in the spotlight as the source of fraud and corruption in government. The policy was then updated in 2013 as part of a new turnaround strategy that was adopted by the new senior management. The study indicated that circulars, which had the effect of changing the policy, were continuously issued without clear communication or training of the relevant staff. These were implemented on the basis of how the staff understood them. The study also revealed that the Finance Delegations were last updated in 2005 and up to date, much has not been done to update these. All these took place against the backdrop of continuous changes within the personnel structure. The section below provides a summary of findings emanating from the study.

3.20 Research findings

The study covered a population of 80 per cent of senior officials and Members of Parliament within the area of Public Works. From the responses that were elicited by the empirical evidence, the following are major findings that were deduced.

3.20.1 Familiarity with the irregular expenditure concept

- Most officials, including members of Parliament within the Public Works sector, understood the concept of irregular expenditure used in government. The definition confirmed the claim that irregular expenditure was a result of violating or non-compliance with certain financial and procurement legislations or any applicable legislations.

3.20.2 Measures or steps taken by line/ division managers/ section managers to ensure the prevention of irregular expenditure

- Most line managers, division managers and section managers believed that financial management legislation and processes are a responsibility of the finance management division in the Department (FMO).

3.20.3 Impact of irregular expenditure for the past five years in the Department

- The impact of irregular expenditure in the Department was both financial and non-financial. **(i)** The Department lost the general public's confidence and trust as a result of persistent irregular expenditure. The levels of negative perceptions were high and led to the media describing the Department as it being a department of "*irregular expenditure*". This made a huge non-financial negative impact in the Department and government in general. **(ii)** In 2013, about R30.7 billion was reported as irregular expenditure even though the figure included the previous years in the PMTE account, as it was not always reported accurately in the past years. Whilst this only consisted of 395 000 transactions up to 2009,

it made a huge negative financial impact on the Department's budget implementation.

- The impact of irregular expenditure in the Department for the past five years has been conflated with fraud and corruption as if it was the same thing, while the definition of irregular expenditure does not cater for the concept of fraud and corruption.
- The Department was unable to achieve unqualified Audit Opinion owing to incomplete irregular expenditure report, which led to the skyrocketing of irregular expenditure amount in 2013.

3.20.4 Root causes of irregular expenditure for the past five years

The following are cited as the root causes:

- Non – compliance with the Public Finance Management Act, Treasury Regulations and Supply Chain Management policy. Lack of updating important policies such as SCM and Finance policies, as well as lack of staff training to be able to correctly implement policies without committing errors;
- The lack or non-existence of internal controls and risk management systems in the Department and PMTE remains a challenge. This finding echoes section 38 (1) (c) (ii) of the Public Finance Management Act, which requires that accounting officers should create measures to prevent irregular expenditure (Public Finance Management Act, 1999: 32);
- The non – appointment of suitable and properly qualified staff in Supply Chain Management, Human Resources Management and Financial Management, as well as the unwillingness of officials to do the right thing both in the Department and PMTE;

- The inadequate capacity in the office of the Internal Auditor as well as the lack of independent Audit Committee to ensure effective internal control systems and good governance;
- The slow pace in responding and implementing AGSAs' findings and recommendations by senior management remained a challenge for the Department and its entities;
- Some of irregular expenditure amounts were recovered from officials, although there was a lack of consequence management or action being taken against the officials who have violated the Public Finance Management prescripts and procurement policies leading to irregular expenditure;
- The staff turnover, particularly among senior management levels resulted in instability within the Department, which also hampered serious initiatives to improve governance and continuous improvement in general;
- Agremen South Africa played a major role in contributing towards the irregular expenditure of the Department, as it was not properly constituted according to the requirements of the Public Finance Management Act No. 1 of 1999 and, therefore, this meant that it was not defined as a juristic person. Thus, any form of payment that was made was classified under goods and services budget, and eventually was defined as irregular expenditure by the AGSA;
- PMTE also played a major role in contributing to irregular expenditure, as it contributed the largest amount of R30.7 billion which was recorded in 2013. This was owing to weaker internal controls and other measures, which were created to prevent irregular expenditure; and
- PMTE still operates under the Department of Public Works, so all expenditures and budgets are accounted for under the Department. The accrual system was not established in the entity and therefore, accrual transactions were not recorded until the money was either paid or received.

3.21 Key findings

- Non – appointment of properly qualified financial management officials (CFO) and a high level of senior staff turnover lead to instability in the Department. Most importantly, the institutional memory is often lost during staff turnover, as people with experience leave the Department. This makes it difficult for the Department to maintain the existence of proper internal controls and risk management systems.
- The inadequate capacity of the Internal Auditor Office, as well as the lack of independent Audit Committee to ensure effective internal control systems and compliance with the Supply Chain Management Policy as means to promote good governance.
- Agreemen South Africa (ASA) was not constituted in terms of the Public Finance Management Act, hence all payments made to the entity were classified as irregular expenditure, because they were withdrawn from goods and services budget as opposed to the transfers and subsidies budget.
- PMTE contributed a larger amount of R30.7 billion towards the overall irregular expenditure in the Department for the past five years, as it still operates under the Department, where all its budget expenditures are still accounted for under the Department. This was owing to weaker internal controls and lack of other measures to prevent irregular expenditure or improved financial management.
- Any persistent irregular expenditure trend in government creates both financial and non-financial negative impact. The negative perception and mistrust by society, and the amount of R30.7 billion reported in 2013/14 financial year, which included transactions of the previous financial year was deemed to be the largest amount of irregular expenditure reported in the history of the Department.

3.22 Discussion

The research problem is stated as the high incidence of irregular expenditure within the national Department of Public Works. The research was conducted amongst senior officials within the Department and other various institutions, namely the National Treasury (NT), the Auditor General of South Africa (AGSA), and the South African Parliament. The research project faced some challenges since the full sample of people that was earmarked for the study could not be reached, and the study was hence limited to the national Department of Public Works. For instance, the participant from the FFC withdrew from the study, citing confidentiality clauses in his employment contract.

The major findings of the research project indicate that the persistence of irregular expenditure within the department can be attributed to a few critical phenomena, namely lack of appointing suitably qualified officials for the right positions; and a lack of compliance with financial management prescripts and Supply Chain Management policies. As discussed in Chapter Two, the literature defines such conduct or any expenditure that is incurred without complying with the prescribed financial management prescripts, as an irregular expenditure (National Treasury, 2014:2; Public Finance Management Act, 1999:9, Municipal Finance Management Act, 2003:10, Makwetu, 2014; Moeti, 2007:9, *Pauw et al*, 2009:40, SCOPA: 2014).

Furthermore, part of the findings was the lack of consequence management or disciplinary action that was supposed to be taken against officials who transgressed or violated the public finance management prescripts and procurement policies. Even though section 38 (g) and (h) (iii) of the PFMA spell out the steps that should be taken against such conduct. It is against this backdrop that even the Auditor General (2012) has raised concerns about his findings and recommendations not being implemented by the Executive. The instability that resulted from staff turnover was also part of the challenges, particularly at senior management level.

Some of the suggestions that participants made in order to overcome these challenges included ensuring a clear recruitment and retention plan, which would ensure that properly qualified officials are appointed to the correct positions, and they will be retained. Potgieter *et al.* (1997:19) emphasise that the accounting officer has a duty to appoint a properly qualified Chief Financial Officer (CFO) to establish financial management systems that will ensure that the departmental budgets are used effectively, efficiently and economically. Furthermore, the study revealed that there was a need to establish a unit within the office of the Chief Financial Officer (CFO) whose salient purpose would be to ensure compliance in areas of finance and Supply Chain Management (SCM). As part of his duties, the CFO should make sure that the office is well capacitated with properly qualified officials as a means to improve financial management practices.

The study revealed that there is a need to ensure adequate capacity in the Office of the Internal Auditor, as well as the independent Audit Committee to ensure the implementation of efficient, effective, risk management and adequate internal control systems. Spiral (2002:07) agrees that internal controls are an important mechanism to provide reasonable assurance, safeguarding assets against unauthorised use or disposition; and the maintenance of proper accounting records and the reliability of financial information, which is used within the business. Spiral (2002:07) further underscores the risk management strategy as part of the internal control mechanism to prevent any possible financial losses in the organisation. Thus, the existence of a fully capacitated Internal Audit Office and an independent Audit Committee in the Department is vital to ensure implementation of adequate internal controls for proper financial management, whilst ensuring a better governance.

The research revealed that most line managers were under the impression that proper financial management was a core function of the finance division. This means that there was no need for line managers to know anything about financial management. This phenomenon is an indication that interventions are necessary for line managers to be capacitated around financial management in order to understand the importance of good governance and proper financial management in their units/sections/divisions.

Furthermore, the literature has stressed the fact that most line managers do not believe that they should be held accountable for not preventing irregular expenditure in their respective areas. Visser and Erasmus (2008:101) define expenditure control as part of the line manager's expenditure management responsibility to achieve overall departmental objectives, and further emphasise the importance of involvement of all line and programme managers in the Department. Pauw, Woods, Van der Linde, Fourie and Visser, (2009:119) further suggest that understanding financial management prescripts is not only a domain of a select few, but for the entire management, including line managers through their function to manage. Managers should be able to manage and control resources, give full accountability for the usage of such in their respective areas.

Some participants also suggested that there is a need to update certain policies to keep up with the prescribed reforms, particularly in the area of Supply Chain Management. The research also revealed the need for continuous training of staff as part of staff development to ensure improved performance and level of compliance in the Department. Despite the PFMA calling for the development and implementation of measures to prevent irregular expenditure through section 38 (1) (c) (ii), there is also a wide range of support from various scholars (Timothy, 2006:3; Visser & Erasmus, 2008) who emphasise that improved reporting on accounts and budgeting, coupled with the strengthening of procedures and internal controls of budget commitments, are the most important pillars, which ensure expenditure controls.

The literature further stresses that the accounting tools of public institutions should strive to achieve fundamental objectives of expenditure controls, accountability, while internal and external reporting processes should be adequate. The literature agrees that the accounting officer must indeed prevent irregular expenditure by always ensuring compliance with laws and procedures. This will further ensure that departmental budgets are used effectively, efficiently and economically (Potgieter, Visser, Van der Bank, Monthata & Squelch, 1997; PFMA, 1999). However, such a situation can only occur where there is adequate capacity to ensure that proper

financial management systems are in place. Moreover, adequate internal controls, and a risk management system with adequate capacity will always ensure good governance, coupled with good behavior and discipline from officials.

3.23 Summary

As much as this chapter discusses the research methods and approaches to the study, it also reports on the responses to the different variables in the form of content analysis and tables, which depict the views of the 80 per cent population, which was sampled. However, based on the findings and the nature of government departments, the findings are not conclusive at all government departments in South Africa, however these findings are based on responses that were received from the sampled institutions. The discussion section was provided with an aim to breach the gap between the empirical evidence and the literature by summarising the major findings and major recommendations. The next and final chapter presents a summary of the study and recommendations for future research.

CHAPTER FOUR: DISSERTATION SUMMARY, RECOMMENDATIONS AND CONCLUSION

4.1 INTRODUCTION

The previous chapter explored the research methodology that was used in this study. Besides the official from Financial and Fiscal Commission who withdrew from the interviews, questionnaires were distributed and completed by officials and members of Parliament, as well as by senior officials from the national Department of Public Works, National Treasury, and the Auditor General of South Africa. The responses from participants were analysed and presented by means of content analysis. The discussion section intends to align the major findings and suggestions with the literature, since the literature concurs with the empirical evidence. This chapter provides a summary of the previous chapters, findings, recommendations and conclusion.

4.2 Definition of the research problem

In Chapter One the problem statement referred to a serious persistence of irregular expenditure, wherein most government departments seem not to comply with the provisions of the Public Finance Management Act No. 01 of 1999. Section 38 (1) (c) (ii) of the Act requires that the accounting officer should take effective and appropriate steps to prevent irregular expenditure. The research objectives were identified in clear terms through defining irregular expenditure concept. The researcher explained the legislative framework for public finance management in the South African government environment. Furthermore, the foundation for public finance in the South African government environment was described. Finally, expenditure control reforms in the South African public finance domain post 1994, were also discussed.

The research questions were posed as follows: What was the impact of the irregular expenditure in the Department for the past five years? What was the cause of irregular

expenditure in the Department for the past five years? Why has the national DPW not been able to implement appropriate and effective expenditure control measures to detect and prevent irregular expenditure for the past five years? What steps have been taken to ensure that expenditure control systems are effectively implemented in the Department? The study has provided solid answers to these questions and are summarised in the findings section in chapter 3. The same chapter indicated the qualitative research approach as a preferred approach for the project, and this was confined to the Public Works portfolio.

4.3 Theoretical issues on the impact of irregular expenditure

Chapter Two presents a literature review, government regulations and studies that have been conducted in the field of the South African public finance environment. Among the various studies that had been conducted, none of them dealt with the impact of irregular expenditure in the South African public finance environment. This presented an opportunity for the current study to explore this area even further. Senior officials, including members of Parliament, were sampled by means of the judgemental sampling technique. These officials were sampled because they were directly involved at a strategic management level of the Department, and members of Parliament were part of the external oversight body for the Department through the portfolio committee.

Furthermore, the literature (National Treasury, 2014:2; Public Finance Management Act, 1999:9, Municipal Finance Management Act, 2003:10, Makwetu, 2014: Moeti, 2007:9, Pauw *et al*, 2009:40, SCOPA: 2014) defines irregular expenditure as expenditure other than unauthorised expenditure, which is incurred in contravention of or that is not in compliance with a requirement of any applicable legislation, including the Public Finance Management Act, Treasury Regulations, Procurement Procedures, the State Tender Board Act, or any regulation in terms of the Act, and this also includes any provincial legislation providing for procurement procedures in the provincial government. The foundation and legislative framework of South African public finance management were also described. Various expenditure control reforms which were

introduced when the democratic government took control in 1994 to democratise South African public finances, were discussed.

4.4 Discussion of research approach as a qualitative survey

The research approach that the study used is a qualitative survey in the form of a questionnaire and face-to-face interviews. The questionnaires were distributed amongst the selected research population, which comprised of senior officials from national Department of Public Works, the National Treasury, the Auditor General of South Africa, the South African Parliament, and the Financial and Fiscal Commission officials withdrew from the study. From the sample a response rate of 80 per cent was attained within a month. The major trends in the empirical study indicate that officials understand the concept of irregular expenditure, thus the causes of irregular expenditure included non-compliance with the prescribed Public Finance Management Act, Treasury Regulations and Supply Chain Management policies and many other factors outlined in the findings section. Another trend that was revealed is that weaker internal control systems were used to prevent and detect irregular expenditure, which led to the Department receiving a qualified audit opinion. In addition, the weaker systems have led to incomplete irregular expenditure register for the past period.

Due to the weak or absence of internal control systems to detect and prevent irregular expenditure, the Department could not report anything accurately for the part period. Thus the Auditor General was unable to rely on the information provided by the internal audit unit of the Department. As part of its turnaround strategy, in 2013 the Department decided to review all 395 transactions which were incurred since 2009, which resulted in a drastic increase in irregular expenditure amount reported up to R30.7 billion in 2013 for the PMTE account alone. The trend has also emerged around non-compliance with laws and non - appointment of properly qualified staff in the right positions, including lack of disciplinary action against those who violated the public finance prescripts and supply chain policies. In view of the aforementioned findings in Chapter Three, some recommendations are made to assist the Department of Public

Works and other government institutions to improve their financial management and governance practices.

4.5 Recommendations

- The findings, which emanate from the study proved to be more constructive in identifying areas of weaknesses that led to the high level of irregular expenditure by the Department. While most respondents have agreed that there is a greater need for the Department to improve its financial management practices and systems, it is important to be mindful that these recommendations are based on findings outlined in Chapter three for the past five year period (2010/11 – 2014/15).

4.5.1 Recommendation One

- The Department and PMTE should create measures and mechanisms, which will prevent irregular expenditure, as required by section 38 (1) (c) (ii) of the PFMA. This includes developing a clear irregular expenditure register, which can be updated each time that irregular expenditure is discovered.
- The Department and PMTE should ensure that line managers, division managers and section managers are well capacitated to understand their role to improve the Department's governance and financial management through implementing effective internal controls in their respective areas. This will ensure that all public managers understand their role in implementing financial management prescripts, which should result in improved financial management practices of the overall Department and better governance.

4.5.2 Recommendation Two

- The Department and PMTE should ensure that officials who violate financial Supply Chain Management and other financial management prescripts are held accountable for such transgressions. When the accounting officer discovers any irregular expenditure, he/she should follow section 38 (h) with section 81 of the Public Finance Management Act to address this. These provisions set out clear steps that should be followed once, such expenditure is discovered, including disciplinary processes.

4.5.3 Recommendation Three

- The Department should ensure that the Internal Audit Office is adequately capacitated by recruiting properly qualified personnel and establish an independent Audit Committee to ensure that effective and efficient internal controls and risk management systems are established. This will enable the Department to detect and identify irregular expenditure during the financial year and then address it before annual performance reporting.

4.5.4 Recommendation Four

- The Department and PMTE should ensure that proper qualified officials are appointed to manage the Department, particularly in the Supply Chain Management, Human Resource Management and Financial Management division and continuous training is provided to capacitate them continuously.

4.5.5 Recommendation Five

- The Department should also ensure that all public entities are properly constituted in line with the requirements of the Public Finance Management Act

schedules, namely Agreement South Africa (ASA) and the Property Management Trading Entity, which led to the high level of irregular expenditure in the Department for the past five years.

4.5.6 Recommendation Six

- Considering that the Department has cited irregular expenditure as one of its Annual Performance Plan (APP) targets and part of its turnaround strategy, there should be explicit regular monitoring by both internal and external oversight bodies, as well as continuous reporting on a monthly, quarterly, and bi annually and annually. The Department should consider establishing expenditure management committee, this will assist the Department to monitor expenditure and track red flags and progress in relation to the prevention of irregular expenditure to be able to make necessary interventions soon. The expenditure management committee shall seat once a month to look into the work done by financial management offices including the office of Inspector Compliance Directorate whose silent focus is to ensure compliance with laws in the Department. This Committee should compose of managers across various divisions and sections of the Department in order to inculcate the culture of understanding public financial management practices and share skills.

4.5.7 Recommendation Seven

- For future research, it is recommended that unauthorised, fruitless and wasteful expenditure should be included in the research project to complete the study on the Section 38 (1) (c) (ii) of the Public Finance Management Act No. 1 of 1999. This may lead to a complete and better understanding of section 38 (1) (c) (ii) of the PFMA.

4.6 Conclusion

This chapter provided a conclusion of the study and important recommendations, which are aimed at assisting the Department of Public Works and other departments that facing similar challenges. The Department could find these recommendations useful in dealing with the prevention of irregular expenditure going forward. The research project identified the research problem as a concern around the perpetual increase in the levels of irregular expenditure in the South African public finance management space. The qualitative research approach was followed by using a questionnaire survey and face-to-face interviews as a means to collect data. Even though the findings indicate that senior government officials do understand the concept of irregular expenditure, but the root causes of such expenditure, as explained in the findings, remained a challenge within the Department. This included weaker internal control systems, a risk management strategy and non-appointment of properly qualified officials in finance and Internal Audit office. Furthermore, certain line managers believed that financial management responsibility was a purview of the finance division alone. Consequence management or disciplinary action, which was not taken against officials who transgressed or violated the regulations, was also identified as one of the major challenges.

As a result, the study concludes by recommending that there is a need to capacitate all managers to be able to take responsibility for the financial management and governance of their respective sections, units or divisions. This is owing to the fact that they also manage budgets and other resources in their own sections within the Department. Thus, they should be able to implement effective internal controls as Section 38 (1) (c) (ii) requires. Properly qualified personnel should be appointed who understand public finance and procurement regulations at all times. Capacitating the Internal Audit Office and establishment of an independent Audit Committee is also vital. The Department should report on irregular expenditure on a quarterly basis like any other performance targets. This will indeed improve the current situation in the Department, and government, in general. Moreover, future research in this area has been recommended with the addition of the other two areas of the clause (unauthorised, fruitless and wasteful expenditure) of Section 38 (1) (c) of the PFMA.

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APPENDIX A

Antigua Flat 52

Bratton Street

Bloubergsand

Millerton

7441

Director General: Mr Dlabantu

National Department of Public Works

Head Office: Public Works

CGO Building

Cnr Bosman and Madiba

Pretoria Central

Private Bag X65

Pretoria

0001

Request for Data Collection Permission from the Department of Public Works

Dear Mr Dlabantu

I hereby request permission to interview some of your Public Finance Management specialists in your Department. This is part of the research for my Masters degree in Public Management, which I am currently undertaking at the Cape Peninsula University of Technology. My study focuses on the impact of irregular expenditure in the South African public finance management space.

I will appreciate it if I can receive permission in writing so that it can be submitted with my proposal before the Ethics Committee for consideration. Thank you for your kind assistance in this regard.

Kindly be advised that the information that is provided by any participant as part of the research will be treated as private and confidential, and will appear in the dissertation as part of the study's findings and recommendations.

Kind Regards

Phelelani A. Dlomo

(021) 403 8355

073 33 45516

APPENDIX B

To: All respondents

A letter to guarantee confidentiality and anonymity

Dear Sir/Madam

This letter serves to guarantee confidentiality and anonymity for respondents in this research project, which is a requirement for my studies towards acquiring the M Tech: Public Management qualification. As a participant or respondent in this study, the information that you provide will be treated as strictly confidential for the purpose of this study alone. Your identity will not be known by your responses. To ensure anonymity, the names of all the respondents will not be recorded or required anywhere in the questionnaire.

Your participation is highly appreciated, since the success of the project is dependent on your cooperation. I, therefore, urge your maximum participation. Be frank and informative, as the outcome of this study might add value to the organization. The research is conducted for the purpose of academic studies. This is a pure voluntary exercise within which a respondent can withdraw his or her participation at any time.

Thank you for your cooperation and assistance.

Kind Regards

Phelelani Dlomo (Mr)

APPENDIX C

TITLE: THE IMPACT OF IRREGULAR EXPENDITURE IN THE SOUTH AFRICAN PUBLIC FINANCE MANAGEMENT

- Please tick the appropriate blocks with an X.
- Write comments eligibly with block letters, where necessary.
- Please use a black pen to complete this questionnaire.

The aim of the study is:

- *To assess the impact of irregular expenditure in the Department of Public Works; and*
- *To assess expenditure control measures in the Department of Public Works.*

Section A:

Bibliographical information:

1) Gender

M	
F	

2) Age

35 – 40 years	
41 – 45 years	
46 50 years	
51 – 55 years	
56 – and more	

3) Marital status

Never married	
Married	
Divorced	

Widowed	
---------	--

4) Highest educational qualifications

PHD	
Masters	
Honours	
Postgraduate diploma	
Degree	
Diploma	
Certificate	

5) Years of working experience

Between 10 – 14 years	
Between 15 – 20 years	
Between 21 – 25 years	
Between 25 – 30 years	
More than 30 years	

Section B: Kindly answer the following questions briefly.

1. Are you familiar with the concept of irregular expenditure and how do you define it in your organisation?

.....

2. What has been the impact of irregular expenditure in the national Department of Public Works since 2010/11 – 2014/15? Please explain.

.....

3. What has been the main root cause of irregular expenditure in the national Department of Public Works (the Department) from 2010/11 – 2014/15 financial year? Please explain.

.....
.....
.....

4. (a) How much irregular expenditure has been identified by the Department through its systems before the AGSA audit process? (b) What is the amount of irregular expenditure that has been identified by AGSA during audits for the past five years?

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.....

5. What has been the role of the internal auditors and the Audit Committee of the DPW to ensure stronger internal control systems to prevent irregular expenditure for the past five years?

.....
.....
.....

6. How much of the irregular expenditure has passed the condonment test in the past five years in the Department?

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.....
.....

7. Are line managers taking any specific, concrete steps to detect and prevent *Irregular Expenditure* in their respective units/sections, as required by section 38 (1) (c) of the Act? Please explain.

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8. Do line managers monitor expenditure and provide monthly expenditure reports with red flags/ early warnings of irregular expenditure?

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9. Is there an Expenditure Management Committee that monitors expenditure of the Department on a regular basis?....Please elaborate on the role and powers of the Committee.

.....
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.....
.....

10. What has been the role of the external oversight structure to ensure that the Department improves the level of compliance with section 38 (1) (c) to prevent irregular expenditure? Please explain.

.....
.....
.....

11. What has been the consequences for those Departmental officials who have not been able to comply (transgressors) with section 38 (1) (c) of the PFMA for the past five years? Please explain.

.....
.....

.....
.....

12. Does the organizational culture recognize and reward expenditure controls, efficiency, cost effectiveness and compliance? Please explain.

.....
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13. What concrete measures / mechanisms have been established by the Department to improve levels of compliance with the Public Finance Management Act No. 1 of 1999 (as amended by Act 29 of 1999), as well as Treasury Regulations? Please explain.

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14. Are there targets to measure the effectiveness of expenditure control systems to prevent irregular expenditure? Please explain.

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15. What constraints has the Department experienced in implementing section 38 (1) (c) of the Public Finance Management Act (as amended by Act 29 of 1999)? Please explain.

.....
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.....
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.....

16. Is there a need to amend section 38 (1) (c) of the PFMA to ensure effective and efficient implementation or full compliance? Kindly provide a recommendation to ensure improved compliance and effective implementation of section 38 (1) (c) of the PFMA.

.....
.....
.....
.....

THANK YOU

APPENDIX D

GRAMMARIAN CERTIFICATE

SHAMILA SULAYMAN PROOF READING AND EDITING SERVICES

16 August 2016

Dear Sir / Madam

This confirms that I have proof read and edited the research dissertation, entitled "***The impact of irregular expenditure in the South African public finance***", and that I have advised the candidate to make the required changes.

Thank you.

Yours faithfully



(Mrs) SHAMILA SULAYMAN

Communication Lecturer: CPUT

Professional Editor's Group

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071-478-1020

APPENDIX E



Private Bag X65, PRETORIA. 0001 Int Code: +27 12 Tel: 406 2165 Fax: 86 276 8607 email address: Cox.Mokgoro@dpw.gov.za
website: www.publicworks.gov.za

Antigua Flat 52
Bratton Street
Bloubergsand
Millerton
7441

Attention: Mr Phelani Dlomo

Dear Sir

Permission granted for Data Collection from the Department of Public Works

This letter serves to acknowledge receipt of your request for Data Collection Permission from the Department of Public Works.

You are hereby granted permission to interview a Public Finance Management specialist within our Department. Information obtained during your research can be utilized for your Masters in Public Management at University of Cape Peninsula, as requested.

Hope you find our response in order.

Yours sincerely


.....
Mr. Cox Mokgoro
Chief Financial Officer
Date: 15 July 2015