

# FINANCIAL ACCOUNTABILITY & GOVERNANCE IN AN EMERGING COUNTRY

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## Abstract

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In the public sector the agents have the responsibility of being accountable to the exploitation of the resources towards service delivery. The public sector expenditure has been characterised with wasteful and fruitless, irregular and unauthorised expenditures. Therefore governance embraces the engagements set to certify that the anticipated upshots for stakeholders (citizens) are limpid and realized. This study is grounded on agency theory as it seeks out to analyse public expenditure and governance in South Africa's public sector. The research study followed a qualitative research approach based on an interpretative philosophy which examined meaningful and symbolic content of qualitative data from 24 General Reports on The Provincial Audit Outcomes for the three periods (2012-2013; 2013-2014 and 2014-2015). The research results propose that public sector financial governance in South Africa is pitiable as the public agencies perpetrate an act of financial misdemeanour as they continue to errantly make irregular expenditures, unauthorised expenditures and, fruitless and wasteful expenditures. Public finance management reform is a necessity as it can aid governments move to single accounting systems across the public sector, permitting centralised planning and budgeting, as well as the capacity to observe the expenditure of funds centrally. It is recommended that governments should implement integrated financial management systems which allows for integrated budgeting, financial management, procurement and supply chain management.

**Keywords:** Financial Accountability, Governance, Wasteful Expenditure, Fruitless Expenditure, Irregular Expenditure, Unauthorised Expenditure

## 1. INTRODUCTION

Habitually, the common understanding is that the public sector does not meet the expectations of the citizens and governments at all levels, compared with the conventional attitude of the private sector (Malmir, Shirvani, Rashidpour, & Soltani, 2014). Most governments have to collect, allocate and utilize responsibly, efficiently and effectively resources in a satisfactory and suitable manner (Djurović-Todorović & Djordjević, 2009). Public financial management is worried with the planning, organizing, procurement and utilization of government financial resources as well as the crafting of appropriate policies in order to accomplish the aspirations of members of that society (Onyinyechi and Okafor, 2016). These aspirations of the citizens can be raised if there is good performance of public administration partnered with good financial governance which arises only if audit results can be used by the public

to hold the government accountable in the event of abuse of funds (Eckardt 2006).

In Africa the performance on financial governance is intimately allied to broader governance reforms that are taking place (African Development Bank and African Capacity Building Foundation, 2012). Heald (2012) argued that fiscal transparency is essentially important but tricky to achieve since the conceptualization of transparency has to be more urbane than current rhetoric means. Good financial governance on the expenditure side entails regulation-based, effective and efficient planning and implementation of public expenditures in line with priorities that reflect the citizens' preferences and needs (Eckardt, 2006). Appalling governance and its warning signs such as corruption and wastage, crop up from a lack of precise information. Good public financial management can tackle this by providing governments with truthful and timely financial information with which they can make decisions and hold agencies to account (Earnest & Young, 2014). Public sector units that have the function of regulating, organising and

controlling the use of public resources should be involved in the implementation of good financial governance (Eckardt, 2006).

Having sound financial management in the public sector is an imperative contributor in achieving greater transparency, accountability, fiscal responsibility and, and so, improved governance (Barrett, 2004). Public financial accountability is therefore a triangular arrangement involving the executive arm of government, the parliament and the Auditor-General (Hedger & Blick, 2008). They further noted that public audit and parliamentary accountability are thus two dimensions of the process of public financial accountability. Public audit, engages the examination of expenditure by an Auditor-General. To deliver good governance in the public sector, both governing bodies and "agents" working for public sector entities must try to realize their agencies' objectives while acting in the public interest at all times, consistent with the desires of legislation and government policies, avoiding self-interest and, if necessary, overriding supposed organizational interest (IFAC and CIPFA, 2014). Accountability is significant not only as a means of identifying and punishing malfeasance or maladministration, but also as a device for securing unrelenting improvements in the system of public financial management (Hedger & Blick, 2008).

In South Africa the Public Finance Management Act, Section 63 highlights on financial misconduct by accounting authorities and officials of public entities. "The accounting authority for a public entity commits an act of financial misconduct if that accounting authority wilfully or negligently...makes or permits an irregular expenditure or a fruitless and wasteful expenditure". More so Municipal Finance Management Act, Section 62 highlights that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically; that the municipality has and maintains effective, efficient and transparent systems, and that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

Against this backdrop the study seek out to analyse public expenditure and governance in South Africa's public sector. The mainstream of the paper covers the contribution of the study, theoretical framework, literature review, methodology, findings and discussion, conclusion, and implications of the study.

### 1.1. Contribution of the study

The study add to the body of knowledge in that it is focussed in the South African context with reference to public expenditure and governance issues in the public sector using content analysis. Even though studies using data across various countries may offer more foremost insights, a study in the setting of one state is of the deep-seated nature since one explicit nation has its incomparable characteristics which allow adoption of the implications. Subsequently, searching studies on public expenditure and governance in the public sector of South Africa, centred on information provided by Auditor General on Provincial Audit Outcomes are moderately odd in the literature.

## 2. THEORETICAL FRAMEWORK

Governance inconveniences may arise in relation with many principal-agent relationships. Explicitly agency theory is directed at the ever-present agency relationship, in which one party (principal) delegates work to another (agent) (Eisenhardt, 1989). In an agency rapport, one party acts on behalf of another (Shapiro, 2005). Agency theory is concerned with resolving two problems that can occur in agency relationships. Eisenhardt (1989) argued that there is agency problem that crops up when the goals of the principal and agents are inconsistent and it is complicated for the principal to verify what the agent is actually doing and the principal cannot verify whether the agent has performed aptly. Principal-Agent Theory in economics makes lucid accountability relationship management (agent) to shareholders (principal) and this have the effect of creating new public management and administration (Malmir, Shirvani, Rashidpour, & Soltani 2014). The agency theory of public administration causes agents to act and be accountable to their citizens' interests. In public sector administration the citizens are the principal unlike in the private sector where the shareholders are, and the public sector administrators are agents. The agents have the responsibility of being accountable to the exploitation of the resources in service delivery. The public sector expenditure has been characterised with wasteful and fruitless expenditure, irregular expenditure and unauthorised expenditure.

## 3. LITERATURE REVIEW

Governance embraces the engagements set to certify that the anticipated upshots for stakeholders are limpid and realized. The concept of governance has become a fundamental catchphrase across the social and political sciences (Kooiman, Kooiman, Bang & Kooiman, 2003). The elementary purpose of good governance in the public sector is to make certain that agencies attain their planned goals whilst performing in the public interest every time. The push to relate corporate governance arrangements from the private sector into the public sector are an expression of in progress search for ways to get better accountability and performance (Howard, 2005). The comparison of the performance of public sector agencies with private organizations reveals that there is lack of fitting performance and inefficient administrative system (Malmir et al, 2014). According to (Fryer, Antony, & Ogden, 2009) the expected enhancements in performance, accountability, transparency, quality of service and value for money have not yet materialised in the public sector.

Many public agencies do not have suitable procedures for assessing their own governance arrangements (Howard, 2005). Public sector, consequently, sets the economic agenda and this implies that a vigorous system of internal checks needs to be put in place to offer assurances that government funds are used for purposes they were meant (Nwannebuike & Nwadiakor 2016). Non-compliance with internal control systems almost certainly impacts upon service delivery through latent waste of resources (Ecorys, 2013). The World Bank has also encouraged the use of decentralized decision making and private sector participation to accomplish superior efficiency, transparency and accountability in the delivery of social and

infrastructural services (Kulshreshtha, 2008). In a study Zinyama (2013) noted that incidents of corruption, financial waste and mismanagement are unbridled in the public sector.

Andreeva, Ansell & Harrison (2014) posit that public risk governance although it is complicated by the assortment of different stakeholders and the network of interactions it affects any part of society and government is expected to act in response, implying a need for governance and accountability. Contemporary states finance their inputs through taxes collected from the citizens and when this process is prejudiced by bureaucratic corruption, the efficiency of public expenditure dwindles (Del Monte & Papagni, 2001). Polidano (2000) defines public sector capacity in terms of three elements that is policy capacity, implementation authority and operational efficiency. Notwithstanding the suggestion from international agencies to advance governance in the public sector, the recent governance reforms show that public governance is not well developed (Yapa, 2014). Governments of OECD countries are under pressure to improve public sector performance as citizens are demanding that governments be made more accountable for what they achieve with taxpayers' money (Curstine, Lonti & Joumard, 2007).

Accountability is being answerable to those who have endowed their reliance, faith, and resources and it means doing things transparently in line with appropriate process and the provision of feedback (Onyinyechi and Okafor, 2016). Hence financial accountability means the compulsion of anyone dealing with public funds to report on the anticipated and authentic use of resources and to be made responsible for it (Eckardt, 2006; Onyinyechi and Okafor, 2016). Accountability auxiliary requires an autonomous control system and an independent legal system for the public which ensure that germane rulings are applied and observed and that non-compliance is endorsed (Eckardt, 2006). Onyinyechi and Okafor (2016) found that the level of accountability is very poor in Nigeria and the findings also revealed that there is significant relationship between efficiency of public sector expenditure, recurrent expenditure and capital expenditure. Kristiansen, Dwiyanto, Pramusinto & Putranto (2009) concluded that there is a noteworthy lack of transparency, and checks and balances in public financial affairs.

#### 4. METHODOLOGY

This research study followed a qualitative research approach based on an interpretative philosophy which examined meaningful and symbolic content of qualitative data (Maree, 2013) from 24 General Reports on The Provincial Audit Outcomes for the three periods (2012-2013; 2013-2014 and 2014-2015). This was best accomplished through a process of inductive analyses of qualitative data where the main purpose was to allow research findings to emerge from the frequent inherent in the data (Maree, 2013). In the study the sample size was made up of 8 out of the 9 provinces in South Africa owing to the availability of data. The sample size however, was measured to be a representative sample (du-Pooley-Cilliers et al, 2014). General Reports on The Provincial Audit Outcomes for the periods (2012-2013; 2013-2014 and 2014-2015) were used as primary documents for data analysis. The

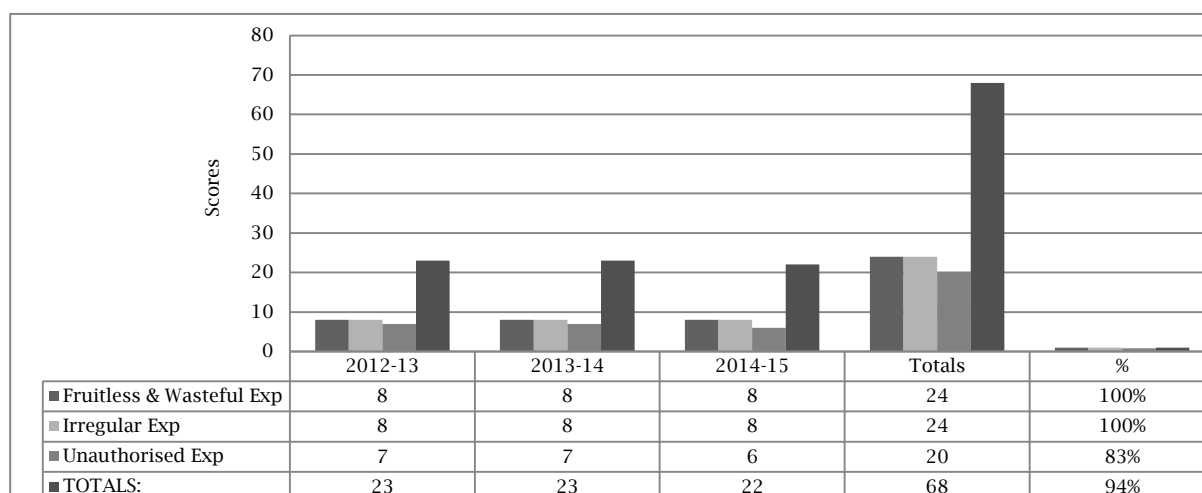
Auditor General is recognized in terms of the Constitution to audit and report on the accounts, financial statements and financial management of all national and provincial departments, municipalities, or any other institutions compulsory by national legislation to be audited by them. As the exceptional Audit Institution of South Africa, it qualifies oversight, responsibility and good governance in the public sector. According to de Renzio (2006) superlative audit institutions have the role to communicate information to public authorities and the general public through the publication of objective reports concerning proper and effective use of public funds; the proper execution of administrative activities; the development of sound financial management (DFID, 2005). The information involving the public sector performance against encoded objectives is subject to audit by the Auditor General in terms of Section 20(2)(c) of the Public Audit Act, 2004 (Act No. 25 of 2004). Data analysis and scoring of the findings for each province was conducted through content analysis using Atlas-ti qualitative research data analysis software. Scoring of the items was basically bipartite, where an item scores 1 if the findings by Auditor General were unfavourable and 0 if it is favourable, without any consequence for each undisclosed item.

#### 5. FINDINGS AND DISCUSSIONS

Unauthorised expenditure is expenditure that is not in accordance with the approved budget; fruitless and wasteful expenditure is expenditure that is made in vain and that would have been circumvented had even-handed care been taken; and irregular expenditure is expenditure that is not incurred in the manner prescribed by legislation. The findings from Figure 1 below suggest that financial administration particularly on fruitless and wasteful, irregular and unauthorised expenditures for the three periods (2012-13; 2013-14 and 2014-15) has been an inveterate state of affairs in almost all the provinces in South Africa included in the sample size. In most public agencies the unauthorised expenditures were in respect of overspending of the votes, insufficient budgetary controls and poor budget monitoring processes. As much the fruitless and wasteful expenditures were due to an increase in the number of late payments to creditors which resulted in public agencies incurring interest and penalties. The irregular expenditures were mainly due to subsidy contract payments, unsolicited bids and expired contracts. Also unjustifiable deviations from supply chain management regulations and inadequate performance and consequence management.

Fruitless and wasteful, and irregular expenditures have had 100% for the three periods whilst unauthorised expenditure has 83% showing that some provinces managed to avoid completely such kind of expenditures. In the period 2014-15 two provinces have managed to prevent unauthorised expenditure. Overall financial administration in the public sector in South Africa is poor as is denoted by 94% frequency score. The results propose that public sector financial governance in South Africa is pitiable as the public agencies perpetrate an act of financial misdemeanour and continue to errantly make irregular expenditures, unauthorised expenditures and, fruitless and wasteful expenditures.

Figure 1. Public Expenditure



The results from this study concurs with Yapa (2014)'s study in Brunei that notwithstanding the suggestion from international agencies to advance governance in the public sector, the results show that public governance is not well developed. Also Kristiansen et al (2009) concluded that there is a remarkable lack of transparency, and checks and balances in public financial affairs are largely absent in public sector. In another study Onyinyechi and Okafor (2016) found that the level of accountability is very poor in Nigeria because the attributes of accessibility, comprehensiveness, relevance, quality, reliability and timely disclosure of financial information, social and political information about government activities are completely non available or partially available for the citizens to assess the performance of public officers.

## 6. CONCLUSION AND IMPLICATIONS

The accounting authority in the public agencies commits an act of financial transgression as they continue to wilfully or negligently make an irregular expenditure or a fruitless and wasteful expenditure. More so Municipal Finance Management Act and Public Finance Management Act highlight that the accounting officers in the public sector are responsible for managing the financial administration, and must for this purpose take all reasonable steps to ensure that the resources are used effectively, efficiently and economically; maintains effective, efficient and transparent systems, and that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

Public finance management reform is a necessity as it can aid governments move to single accounting systems across the public sector, permitting centralised planning and budgeting, as well as the capacity to observe the expenditure of funds centrally. It is recommended that governments should implement integrated financial management systems which allows for integrated budgeting, financial management, procurement and supply chain management, and human resources functions. This will trim down the incurrence of wasteful and fruitless, irregular and unauthorised expenditures in the public sector. The reforms are aimed at enhancing financial discipline, redirecting

public expenditure to service delivery; enhancing efficiency and effectiveness of public expenditures; and improving transparency and accountability in the use of public resources.

However, this study could lead to facts for future researches involving other emerging countries which can give more insightful results concerning financial accountability and governance in the public sector and other related topics.

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