

# **Evaluation of Financial Management Practices in the Department of Correctional Services**

by

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## Declaration

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## Abstract

The objective of this study is the evaluation of financial management practices in the Department of Correctional Services (DCS). For the purpose of the study, 'financial management practices' are defined and demarcated as the practices performed by the accounting officer, chief financial officer and other managers in the areas of budgeting, supply chain management, movable asset management and control.

Recurrence of similar internal audit and inspection findings, as well as the continuous poor audit reports that the department had been receiving annually, led the office of the National Commissioner to request all branches and Regional Commissioners to compile action plans aimed at addressing non-compliance.

In order to fulfil the study objective, the normative requirements for the identified financial management practices are first defined in terms of financial management theory, policy and legislation. The accounting officers are heads of departments, and they account personally for financial transactions. The concepts of 'budget processes and 'planning' are explored in order to identify normative requirements. 'Budget' is identified as part of organisational planning, which starts with the aim and the mission of the institution. Under supply chain management, the principles of procurement are discussed, as considerable amounts are spent on goods and services. The life cycle of assets is discussed in detail, including the procedure for giving account of assets. Control is defined as a process through which a manager ensures that activities are carried out as originally planned. With regard to policy and legislation, the Public Finance Management Act (PFMA), Act 1 of 1999 as amended by Act 29 of 1999 (South Africa, 1999) and Treasury Regulations are explained in detail, focusing on the budget process and financial management responsibilities of all different role players. With regard to supply chain management, policies are explained in detail, focusing on the acquisition of goods and services. The acceptable supply chain management system is also highlighted. According to Gildenhuis (1997:137), equipment is called movable assets and this category of assets are obtained and created to be utilised for a number of years as instruments for delivering services. With regard to control, in order to comply with financial management policies, an official in a department must ensure that the system of financial management and internal control established for that department is carried out within the area of responsibility of that official.

The budget and planning processes of the Department of Correctional Services are explained in detail. How the financial management cascades through the department is highlighted by means of an organogram. Supply chain management processes are discussed in detail, focusing on the procurement procedures and requirements for acquisition of goods and services. The policy on asset management for the Department of Correctional Services is considered, focusing on the acquisition and control of assets. The legislative framework of the department is also examined in detail, focusing on the control measures within the department.

The theory of evaluation is discussed in detail, with the emphasis on evaluation questions. A summary is provided of the financial functions of budgeting, supply chain management, asset management and control in terms of the financial functions of each of the following role players: the Accounting Officer, Chief financial officer and other managers. Evaluation questions are formulated, and audit reports contained in the annual reports, the internal auditor's reports and circulars of the department are used to answer those questions.

Finally, recommendations are made, emphasising that Department of Correctional Services needs to continue to invest in the training and development of all staff, regarding The PFMA (South Africa, 1999) and Treasury Regulations.

## Opsomming

Die doel van hierdie studie was om finansiële bestuurspraktyke binne die Departement Korrektiewe Dienste (DKD) te evalueer. „Finansiële bestuurspraktyke’ word vir die doel van die studie gedefinieer en omskryf as die praktyke wat deur die rekenpligtige amptenaar, die hoof finansiële bestuursbeampte en ander bestuurders binne die gebied van begroting, voorsieningsketteringbestuur, roerende batebestuur en beheer beoefen word.

Herhaalde voorkoms van soortgelyke interne ouditerings- en inspeksiebevindings, sowel as die voortdurende swak ouditverslae wat jaarliks deur die departement ontvang is, het die kantoor van die Nasionale Kommissaris genoop om alle takke en Streekskommisariesse te versoek om „n plan van optrede op te stel om nie-nakoming aan te spreek .

Om die doelwit van die studie te bereik, word die normatiewe vereistes vir die geïdentifiseerde finansiële bestuurspraktyke eerstens in terme van finansiële bestuursteorie, beleid en wetgewing gedefinieer. Die rekenpligtige amptenare is hoofde van departemente en hulle doen persoonlik verantwoording vir finansiële transaksies. Die konsepte „begrotingsproses’ en „beplanning’ word verken om normatiewe vereistes te identifiseer. „Begroting’ word as deel van organisatoriese beplanning, wat by die doel en missie van die instelling begin, geïdentifiseer. Die beginsels van aanskaffing word in verband met die voorsieningsketteringbestuur bespreek aangesien aansienlike bedrae op goedere en dienste bestee word. Die lewensiklus van bates word met inbegrip van die prosedure vir verslaglewering aangaande bates in besonderhede bespreek. Beheer word as „n proses waarvolgens „n bestuurder verseker dat aktiwiteite sonder afwyking van „n oorspronklike plan uitgevoer word. Ten opsigte van beleid en wetgewing word die Wet op Openbare Finansiële Bestuur (WOFB), No. 1, 1999 soos gewysig deur Wet 29 van 1999 (South Africa, 1999) en Regulasies van die Departement Finansies in besonderhede verduidelik, met aandag aan die begrotingsproses en die finansiële bestuursverantwoordelikhede van al die verskillende rolspelers. Beleid betreffende voorsieningsketteringbestuur word in besonderhede bespreek met spesifiek aandag aan die verkryging van goedere en dienste. Die aanvaarbare voorsieningsketteringbestuurstelsel word ook toegelig. Volgens Gildenhuis (1997:137) word toerusting as roerende bates aangedui en hierdie kategorie van bates word verkry en geskep om vir „n aantal jare as middele vir die lewering van dienste gebruik te word. Om aan

finansiële bestuursbeleid met betrekking tot beheer te voldoen, moet „n amptenaar binne „n departement verseker dat die stelsel wat binne sy/haar verantwoordelikeheidsveld vir die finansiële bestuur en interne beheer van daardie departement ingestel is, toegepas word.

Die begrotings- en beplanningprosesse van die Departement Korrektiewe Dienste word in besonderhede verduidelik. „n Organogram word gebruik om lig te werp op hoe die finansiële bestuur die hele departement deurvloei. Voorsieningskettingbestuursprosesse word in besonderhede bespreek met klem op die prosedure en die vereistes vir die verkryging van goedere en dienste. Aandag word geskenk aan die beleid oor batebestuur binne die Departement Korrektiewe Dienste, met klem op die verkryging en beheer van bates. Verder word die departement se wetgewingsraamwerk in besonderhede ondersoek, weereens met aandag aan beheermeganismes binne die departement.

Die teorie aangaande evaluering word in besonderhede bespreek, met spesiale klem op vrae wat vir evaluering gestel word. „n Opsomming van die finansiële funksie van begrotings, voorsieningskettingbestuur, batebestuur en beheer in terme van die finansiële funksies van elk van die rolspelers, naamlik die rekenpligtige amptenaar, die hoof bestuursbeampte en ander bestuurders word voorsien. Vrae vir evaluering word geformuleer en antwoorde op daardie vrae word aan die hand van ouditverslae wat in jaarverslae opgeneem is, die interne ouditeur se verslae en departementele omsendbriewe verskaf.

Ten slotte word aanbevelings gedoen wat beklemtoon dat die Departement Korrektiewe dienste sy belegging in die opleiding en ontwikkeling van alle personeel ten opsigte van die WOFB (South Africa, 1999) en Regulasies van die Departement Finansies moet voortsit.

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## List of Abbreviations

BAS	Basic Accounting System
CFO	Chief Financial Officer
DCS	Department of Correctional Services
ENE	Estimates of National Expenditure
GEAR	Growth Employment and Redistribution
GFS	Government Finance Statistics
HOD	Head of Department
ICT	Information Communication Technology
JIT	Just in time
KRA	Key Responsibility Area
MTEC	Medium-Term Expenditure Committee
MTEF	Medium-Term Expenditure Framework
MTSF	Medium-Term Strategic Framework
PFMA	Public Finance Management Act 1 of 1999 as amended by Act 29 of 1999
PPPFA	Preferential Procurement Policy Framework Act 5 of 2000
PSCBC	Public Service Coordinating Bargaining Council
REAL	Revenue, Expenditure, Assets, Liabilities
SCM	Supply Chain Management
SCOPA	Standing Committee on Public Accounts
WBS	Work Breakdown Structure

# Chapter 1

## Introduction to the study

### 1.1 Background

This thesis focuses on the evaluation of financial management practices pertaining to strategic budgeting, supply chain management, movable asset management and control in the Department of Correctional Services (DCS). The Department is entrusted with the responsibility of housing and rehabilitating offenders. The Department receives allocations from the annual budget in order to operate and function to achieve its aim. The aims of the Department are as follows: To contribute towards maintaining and protecting a just, peaceful and safe society, by enforcing court-imposed sentences; detaining inmates in safe custody, while maintaining their human dignity and developing their sense of social responsibility; and promoting the general development of all inmates and persons subject to Community Corrections (Department of Correctional Services, 2009).

Financial management has been a challenge for the Department of Correctional Services for the 2003/2004, 2004/2005, 2005/2006, 2006/2007, 2007/2008, 2008/2009 and 2009/2010 financial years; managers could not spend all the funds allocated to them. It was superficially observed that there is a general perception among officials that financial management is the responsibility of accountants working in finance. However, the National Commissioner, who is the Accounting Officer of the Department, must account to Parliament for the budget allocated to the Department on an annual basis. For the National Commissioner to give account properly, all managers in the Department of Correctional Services must ensure that financial management and the internal control established are carried out within their areas of responsibility.

There is a need to investigate whether different managers are facing challenges in respect of financial management in the Department. In this regard, „managers’ refers to all officials who have financial management responsibilities within the Department. Fox, Schwella and Wissink (1994:5) mention that the modern public manager is confronted with challenges in many and varied fields, as a result of managing in a complex and dynamic environment. In so doing, the Accounting officer of the Department of Correctional Services, through his or her managers, „shall be accountable’ to Government and society, in accordance with the

provisions made in The Public Finance Management Act (PFMA), Act 1 of 1999 as amended by Act 29 of 1999 (South Africa, 1999). It is therefore important to share and reflect on such challenges, to determine how these challenges influence the various financial management practices in the Department. A financial management system has little value if it cannot be evaluated (Bruyns, Gericke, Kriel & Malan, 1997:375). The reason for the current research was to evaluate financial management practices in the Department of Correctional Services.

## **1.2 Financial Management Practices**

For the purpose of the study, „financial management practices’ are defined and demarcated as the practices performed by the accounting officer, the chief financial officer and other managers in the areas of budgeting, supply chain management, movable asset management and control. This definition excludes asset management, because asset management is the joint responsibility of the Department of Public Works as custodian of fixed assets and Correctional Services as user and the responsibilities are directed by the Government Immovable Asset Management Act, 19 of 2007.

The selection of budgeting, supply chain management, movable asset management and control as the four areas of financial management practices is in agreement with the view of Abedian and Biggs (as cited in McThomas, 2003:43) that sound financial management, be it in the public or private sector, is vested in the timely, efficient, effective and economical attainment of objectives by managers. These objectives (as derived from strategic and tactical planning) cannot be achieved without budget planning, implementation, monitoring and adjustment as a cycle whereby resources are assigned to objectives. The introduction of the concept of an integrated supply chain management (SCM) system for Government is considered by the National Treasury as contributing significantly towards the improvement of financial management in the broader public sector (National Treasury, 2004:17). According to the Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government (2003:4), supply chain management is an integral part of financial management that seeks to introduce internationally accepted best practice principles, while it addresses Government’s budgetary planning processes, with a strong focus on the outcome of actual expenditure in respect of sourcing of goods, services and assets. According to Gildenhuis (1993:605), assets (for the purpose of this thesis the focus is on movable assets) are characterised by A items, which are those inventory items with a minimum annual turnover

of less than six for the three preceding years and which are regarded in terms of a certain formula as relatively expensive; B items, which are those inventory items with a minimum annual turnover of six for three years and which are regarded in terms of a certain formula as relatively cheap; C items, namely those items with no specific annual turnover or which have had a minimum annual turnover of less than six for the preceding three years. D items are those items which need to be available on demand, but which are not easily obtainable, for instance items to be ordered from abroad.

Control refers to monitoring and evaluation, but performance monitoring and evaluation must not be an end in itself. We need to use the outcome and output measures to promote a change in behaviour, and create a culture of accountability. We should use the information from the process to help us understand why policies and implementation approaches work, or more importantly, not working so that we can fix them. The data and insights from monitoring and evaluation must relate the planning process.

Pauw, Woods, Van der Linde, Fourie and Visser (2002:133) explain the goal of financial management in government as to ensure that we safeguard and use available funds and other scarce resources in the best interest of the people. The main role players in financial management as selected for this study are the accounting officer, chief financial officer and other managers. Only two of the three role players are referred to in the PFMA (SA, Act 1 of 1999 – see Sections 36 to 45), but in the Treasury Regulations for Departments, Trading Entities, Constitutional Institutions and Public Entities (National Treasury, 2005:7) it is prescribed that each department must have a chief financial officer who is in general responsible “to assist the accounting officer in fulfilling the duties of financial management of the institution including the exercise of sound budgeting and budgetary control practices; the operation of internal controls and the timely production of financial reports”.

The Department of Correctional Services is divided into six regions. Each region is divided into management areas, while management areas are divided into six different components. Each component has managers who are responsible for ensuring that the Department achieves its aim.

In this thesis, „financial management practices’ will be analysed as illustrated in Table 1.1.

<b>Table 1.1: Evaluation of financial management practices in the Department of Correctional Services</b>																
<b>Financial Management Area → Role player ↓</b>	Budgeting				Supply chain management				Movable asset management				Control			
Accounting officer	Requirement (Chapters 2,3)	Practice (Chapter 4)	Evaluation (Chapter 5)	Recommendation (Chapter 6)	Requirement (Chapter 2,3)	Practice (Chapter 4)	Evaluation (Chapter 5)	Recommendation (Chapter 6)	Requirements (Chapter 2,3)	Practice (Chapter 4)	Evaluation (Chapter 5)	Recommendation (Chapter 6)	Requirements (Chapter 2,3)	Practice (Chapter 4)	Evaluation (Chapter 5)	Recommendation (Chapter 6)
Chief financial officer																
Other managers																

### 1.3 Research problem and objectives

According to the Accounting Officer, who is also known as the National Commissioner of the Department of Correctional Services (memorandum, December 3, 2004), his appearance before the Standing Committee on Public Accounts (SCOPA) to account for the lack (and sometimes poor management) of compliance with policies, necessitated that he should take a direct interest in the matter, and perhaps bring it to finality. On the 9th of September 2005, the Deputy Commissioner: Executive manager in the Office of the National Commissioner wrote a memorandum to all chief deputy commissioners and regional commissioners, indicating the following:

Emanating from the recurrence of similar both internal audit and inspection findings, as well as the continuous bad audit report that the department is receiving annually, the office of the Commissioner decided to request all branches and Regional Commissioners to compile action plans aimed at addressing non-compliance issues, particularly those that were forming part of the Auditor-General’s report for the financial year 2003/04, e.g. budget process, purchase and payables, subsistence and travel allowances, overtime, salaries and asset management. Branches and Regions should provide monthly reports to National Commissioners office, on the progress made in rectifying issues of non-compliance.



The National Commissioner also encouraged managers to make a conscious effort to deal with non-compliance matters which continue to dent the image of the Department. The suggestion was that, if managers still found it difficult to comply, it could be the result of financial management practices in the Department not being adequately conceptualised.

It was therefore important for the researcher to conduct this research to evaluate the financial management practices of the Department of Correctional Services. The research question therefore was: To what extent do financial role players in the Correctional Services fulfil the requirements for financial management in their practice of budgeting, supply-chain management, asset management and control?

The research objectives of this study were as follows:

- To describe financial management requirements from the point of view of theory, policy and legislation;
- To describe financial management practices in the Department of Correctional Services
- To evaluate the financial management practices in the Department of Correctional Services
- To make recommendations for improvement

## **1.4 Research design**

According to Mouton (2001:49), research design addresses the key question of what type of study will be undertaken in order to provide acceptable answers to the research problem or question. The researcher therefore indicates what type of research design was followed in the study, why this research design was selected, and possible challenges or limitations in the design which require the reader's attention.

The research approach was qualitative. According to Morse (1991:283), qualitative research is used to explore and describe exactly what the researcher sees. Qualitative field studies can be used successfully in the description of groups, small communities and organisations (Welman & Kruger, 2001:178). Evaluation research (implementation) was used. According to Mouton (2001:158-159), implementation evaluation research aims to answer the question of whether an intervention (programme, therapy or strategy) has been

properly implemented (process evaluation studies); whether the target group has been adequately covered; and whether the intervention was implemented as designed. He further mentions that the multiple method of data collection can be utilised in evaluation research.

For the purpose of this research, a diagnostic evaluation design was used. Diagnostic evaluation is designed to inform the researcher about the present situation in the organisation. It highlights current problems, trends, forces, resources and the positive consequences of various types of interventions. The chosen research design helped the researcher to evaluate the current state of the financial management practices of the Department of Correctional Services, and to identify possible interventions.

## **1.5 Research methodology**

Mouton (2001:56) states that research methodology focuses on the research process and the kinds of tools and procedures to be used. The point of departure is data collection or sampling. It focuses on the individual steps in the research process, and the most objective procedures to be employed. A descriptive literature review was done to obtain knowledge and perspective from available related literature. The problem to be investigated was the evaluation of financial management practices in the Department of Correctional Services. The researcher therefore used the Auditor-General's reports, internal audit reports, inspectors' reports, and circulars of the Department of Correctional Services.

## **1.6 Data analysis**

Chapters 2 to 4 follow an inductive process to define and describe issues of sound financial management, through comparing literature and financial management policies and legislation. In Chapter 5 a deductive process is used to evaluate financial management practices in the Department of Correctional Services (DCS).

## 1.7 Ethical aspects of the research

The research focused on the following aspects:

- Protection of the documents of the department
- The research did not interfere with the working environment of the staff.
- Only the researcher had access to the data.
- The research would not be used to abuse the researcher's position as Area Coordinator Finance and Supply Chain Management in the Department.

## 1.8 Chapter layout

The research project is distributed over six chapters, namely:

**Chapter 1: Introduction to the study.** This chapter gives a brief background and introduction to the research, outlines the problem statement and objectives, as well as the research methodology.

**Chapter 2: Literature review.** This chapter reviews the relevant literature on financial management theory, with regard to strategic budgeting, supply chain management, asset management and control. The role players who are involved are also considered.

**Chapter 3: Financial management policy and legislation.** This chapter outlines the financial management policies and legislation within the South African public sector, with regard to strategic budgeting, supply chain management, asset management and control.

**Chapter 4: Financial management practices in the Department of Correctional Services.** This chapter outlines the financial management policies and procedures available in the Department, as well how these policies are executed in practice.

**Chapter 5: Evaluation of practice.** This chapter deals with the analysis of evaluation theories from Chapters 2, 3 and 4, and the consolidation of the summaries of the financial functions of the Accounting Officer, Chief Financial Officer and other officials, with the purpose of answering the question of what to look for to evaluate the adherence to policy and procedure.

**Chapter 6: Summary and recommendations.** This chapter summarises the findings as highlighted in Chapter 5, with particular emphasis on practices in the DCS. All non-adherences to policy and procedure are looked at, and final recommendations and proposed solutions are presented.

# Chapter 2

## Literature review

### 2.1 Introduction

In the public sector, financial management focuses on the prioritisation and use of scarce resources, on ensuring effective stewardship over public money and assets, and on achieving value for money in meeting the objectives of Government (Burger, 2008:28). Financial management forms part of the total operation of an organisation. As such, it relates to the other functional disciplines in the organisation, as well as across various managerial levels (Correia, Flynn, Uliana & Wormald, 2003:20-9). It is clear that financial planning and control are an essential part of the overall management process.

In terms of The Constitution of the Republic of South Africa, Act 108 of 1996 (South Africa, 1996), the National Government is identified as one of the three spheres of government that encompass different national departments. National departments are responsible for the delivery of the mandate of Government. The PFMA (South Africa, 1999) gives effect to sections 213, 215, 216, 217, 218 and 219 of the Constitution, for the national and provincial spheres of government. This Act focuses on the basics of financial management, such as the introduction of proper financial management systems, appropriations control and the accountability arrangements for the management of budgets.

According to Abedian and Biggs (as cited in McThomas, 2003:43), sound financial management, be it in the public or private sector, is vested in timely, efficient, effective and economical attainment of objectives by managers. The introduction of the concept of an integrated supply chain management (SCM) system for Government is considered by the National Treasury as contributing significantly towards the improvement of financial management in the broader public sector (National Treasury, 2004:17). According to the Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government (2003:4), supply chain management is an integral part of financial management which seeks to introduce internationally accepted best practice principles while it addresses Government's budgetary planning processes, with a strong focus on the outcome of actual expenditure in respect of sourcing of goods and services.

If one measures outcomes, and monitors the supporting chain of inputs-activities-outputs, then they will receive the fullest attention (South Africa, 2009:12). This chapter aims to give an overview on financial management theory and outlines who the different role players involved in strategic budgeting, supply chain management, asset management and control are.

## **2.2 Financial management theory**

The relevant information in this section is presented in the form of a matrix at the end of the chapter; „financial management practices’ are defined and demarcated as the practices to be performed by the accounting officer, the chief financial officer and other managers in the areas of budgeting, supply chain management, movable asset management and control.

### **2.2.1 The role of accounting officer**

For the purpose of this section, „financial management practices’ are defined and demarcated as the practices performed by the accounting officer in the areas of budgeting, supply chain management, movable asset management, and control. The heads of national and provincial departments are the accounting officers of their departments. They must personally give account of all the financial transactions and activities of their departments (Burger & Woods, 2008:317). To execute their functions properly, accounting officers must have full control over the finances and other activities of their department (Thornhill, cited in Gildenhuis, 1993:157). The accounting officers obviously do not keep the accounts and other financial records personally – they are not the bookkeepers of the department. They also do not physically compile the draft budget of the department. The accounting officer is also the Minister’s chief advisor on policy and departmental financial matters (Burger & Woods, 2008:318).

Trajectories in financial management reform mention that budget reforms have been widespread, and have been driven by two particular external pressures. The first was the need to restrain the growth of public expenditure for macro-economic reasons. The second pressure concerned performance improvement within the public sector – for types of budgeting and financial management that would stimulate greater efficiency, effectiveness, higher quality or some mixture of the three. Taken together, these pressures have led to what in effect has been an expansion in the scope or purpose of budgeting. Instead of a situation where budgets were mainly a process by which annual financial allocations were incrementally adjusted,

legalised and made accountable to legislature, budget has become more intimately linked with other processes – planning, operational management and performance management (Pollitt & Bouckaert, 2004:67).

#### **2.2.1.1 Strategic budgeting**

The accounting officer has the following two functions: the preparation and submission of his/her department's draft budget to the treasury, and the execution of the approved budget of his/her department (Gildenhuis, 1993:157). Budgeting is part of the organisational planning process, which starts with the aim and the mission of an institution (Pauw *et al.*, 2002). Through the strategic management process, top-level managers develop the strategic plans which involve a process of developing mission and long-term objectives, and determining in advance how they will be accomplished (Nieuwenhuizen & Rossouw, 2008:52). The strategic plan leads to the operational plan, indicating how the institution will conduct its activities on a day-to-day basis. The strategic plan defines a broad set of goals for the organisation. Generally, strategic plans do not have specific financial targets; however, they set the stage for specific, detailed budgets that will be established to achieve the goals (Finkler, 2001:27).

#### **2.2.1.2 Supply chain management (SCM)**

Strategic supply chain management is directly linked to the overall business strategy of the firm, and is therefore directly involved in and supportive of the overall objective of the firm (Hugo, Badenhorst-Weiss & Van Biljon, 2006:60). The supply chain has, in effect, been in place for many decades, but it was only in the 1980s that, because of the spectrum of associated activities, it became useful to conceptualise the essential mainstream of procurement transactions as a sequenced range of events and actions, and to build these into a useful management model (Burger & Woods, 2008:237). Every organisation, whether it is a manufacturer, wholesaler or retailer, buys materials, services and supplies to support operations. Historically, purchasing has been perceived as a clerical or low-level managerial activity charged with responsibility to execute and process orders initiated elsewhere in the organisation. The role of purchasing was to obtain the desired resource at the lowest possible purchase price from a supplier. This traditional view of purchasing has changed substantially in the past several decades. The modern focus is on total spent, and the development of relationships between buyers and sellers. As a result, procurement has been elevated to a strategic activity (Bowersox, Closs & Cooper, 2007:81).

Generally, the benefits of effective supply chain management include lower inventories, lower costs, higher productivity, greater agility, shorter lead times, higher profits and greater customer loyalty (Stevenson, 2009:509).

### 2.2.1.3 Asset management

For the purpose of this thesis the focus is on movable assets; the acquisition of capital assets can most certainly exert an effect on an organisation's competitive advantage over the long term. Capital equipment is characterised by large expenditure and non-recurring expenditure.

- **Large expenditure:** Purchasing capital equipment usually requires a relatively large capital outlay, which may sometimes amount to millions of rands and which may have particular financial implications. Buying capital equipment can therefore be regarded as an investment which is financed from long-term, rather than from working, capital. It is important to consider not only the purchase price of capital equipment, but also the total cost of ownership (Hugo *et al.*, 2006:321).
- **Non-recurring expenditure:** Capital equipment is usually purchased at irregular intervals. It is used up gradually in the production process, rather than as a part of the end product. Owing to the relatively long lifespan of equipment, it could take several years before it needs to be replaced and, at the time of replacement, old equipment could prove to be technologically obsolete. If the correct purchasing decision is made, capital equipment generates profits for the organisation. Incorrect decisions may have disastrous consequences for the enterprise, since it will not be able to sell capital equipment over the short term. For the above reason, according to Burt, Dobler and Starling (as cited in Hugo *et al.*, 2006:321), top management should consider the acquisition of capital equipment, with care.

### 2.2.1.4 Control

Strategic control is exercised at top management level, and entails a close study of the organisation's total effectiveness, productivity and management effectiveness (Nieuwenhuizen & Rossouw, 2008:81). Control mainly involves the process through which a manager ensures that activities are carried out as originally planned (Bruyns *et al.*, 1997:146). Gildenhuis (1993:410-411) agrees with the above statement, by defining control as the process of checking to determine whether or not plans are being adhered to. He further mentions two types of control: *a priori* control, which is the control that takes place before



the task is undertaken, and an *ex-post facto* control, which is the control that takes place after the task has been undertaken. He also indicates that the utilisation of the budget for financial control is a comparatively easy task: a comparison is made between the real amounts of money spent and the budgeted amounts. The controls in place to uphold expenditure management are very important, and can be used as a basis for determining the process of budgetary control on the route to accomplishing a desired goal, which can be linked to a certain outcome (McThomas, 2003:60).

Control by the accounting officer entails more than ensuring adherence to financial regulations. It is a process of monitoring and evaluating to ensure that resources are obtained and utilised economically, efficiently and effectively, the latter implying a strong commitment to ensure not only that output is achieved, but integrated outcomes as well.

According to the Presidency (2009:15), “Performance monitoring and evaluation must not be an end in itself”. The outcome and output measures need to be used to promote a change in behaviour, and create a culture of accountability, the information from the process should be used to help to understand why policies and implementation approaches work, or more importantly, do not work, “so that those policies can fixed”. It is also highlighted that “while the concurrency of functions is often premised on joint planning and implementation, budget accountability has a single focus specific to an organisation”. Therefore outcome orientation with a sectoral rather than an institutional focus, coupled with strong monitoring and evaluation and delivery agreements, will enhance integrated outcomes. Budgeting is part of the organisational planning process; therefore this must be feed into the intergovernmental budgeting process to ensure that budget allocations from the national government are spent on what had been agreed upon, rather than being diverted to other priority uses.

### **2.2.2 The role of Chief Financial Officer**

For the purpose of this section, 'financial management practices' are defined and demarcated as the practices performed by the chief financial officer in the areas of budgeting, supply chain management, movable asset management and control.

### 2.2.2.1 Strategic budgeting

A Chief Financial Officer (CFO) is a person who is exclusively responsible for the financial administration and financial record-keeping, and who is directly responsible to the accounting officer (Burger, 2008:80). According to Du Preez (as cited in Lewis, 2005:33), the responsibilities of the CFO include the following:

- evaluation of existing (and development of new) systems and procedures for financial and risk management and internal control
- initiation and coordination of strategic planning
- budgeting, with an emphasis on its link with planning
- monthly and annual reporting on expenditure and performance, as well as the annual report

The CFO also oversees the budgeting (Broyles, 2003:8). “In preparing the budget, the CFO is expected to ensure that estimates of the various directorates (sections) of the Department comply with the direction of executive authority, the Treasury, the Department Minister and the accounting officer” (Burger, 2008:80). Strategic planning and prioritisation present the starting point for preparing departmental medium-term expenditure framework estimates, as they guide departmental reprioritisation within medium-term baseline allocations, and provide the rationale for policy options for changes to baseline allocations over the next three-year period (Burger, 2008:141). The National Treasury, as indicated by Pauw *et al.* (2002:95), regards the development and implementation of strategic plans into the budget process as fundamental to effective and efficient financial management. As part of the budgeting process, departments are responsible for preparing their Medium Term Expenditure Framework (MTEF) budget in line with government and departmental policy and spending priorities (McThomas, 2003:71). Crowther (2004:196) states that the budget process is a planning process for the operational activities of a firm. In the budget process, resources are allocated, efforts are made to keep as close to the plan as possible, and the results are evaluated (Finkler, 2001:45). According to Correia, Flynn, Uliana and Wormald (2003:20–1), financial planning is useful for providing information regarding the future, which may be requested by other parties whose support and cooperation are needed by the company. In this case, both Head Office and the regional offices are supposed to support management areas by allocating a budget and forwarding the needs to National Treasury.

According to Gildenhuis (1993:468), the government budget cycle consists of three phases, namely the preparation, approval and execution phases. Pauw *et al.* (2002:105) emphasise the involvement of everyone during the budgeting process. According to Pauw *et al.* (2002:129), managers should not excuse themselves from financial management responsibilities. Participatory budgeting motivates managers to achieve the budget targets that are set (Crowther, 2004:196). Shah (2007b:21) defines participatory budgeting as a decision-making process through which citizens deliberate and negotiate on the distribution of public resources, and further states that participatory budgeting allows people or officials to play a direct role, and it improves performance. He further indicates that participatory budgeting empowers citizens and officials; therefore it is necessary for officials to be involved in all budgetary processes. Before finishing the discussion on budget processes, however, it is necessary to define budget.

The Oxford Dictionary (2004:58) defines a budget as:

- a plan for spending money wisely
- an amount of money set aside for a purpose

According to Gildenhuis (1993:392, 396), a budget is a financial statement that contains the estimates of revenue and expenditure over a certain period of time, and he further defines budget as a policy statement declaring the goals and specific objectives an authority wishes to achieve by means of expenditure. Crowther (2004:196) states that a budget process is a planning process for the operational activities of a firm. Pauw *et al.* (2002:92) state that budgeting is part of an institution's planning process. Burger and Woods (2008:76) also define a budget as a financial or quantitative statement prepared prior to a specified accounting period and containing the plans and policies to be pursued during that period. A budget is a financial plan that serves as an estimate of future operations, and, to some extent, as a means of control over those operations (Phillips & McConnell, 1996:315). Finkler (2001:29) defines budget in the same way as the above authors. Budget reform requires goals that are both good public policy and achievable (White, 2009:224). Pauw *et al.* (2002:61) clearly explain the budget of Government as the operational plan that it presents to indicate how it will use financial resources to deliver services to the people. Budgets set out:

- how the money will be spent
- the services that will be delivered

- the taxes to be paid

According to Thornhill (as cited in Gildenhuis, 1993:394), the following are the most characteristic aspects of a public budget:

- The budget, after approval by the legislative authority, is enforceable.
- The results of most of the objectives to be realised by the budget are not quantifiable.
- The budget brings together a variety of considerations.
- The process for determining the contents of a public budget is unique.
- Authorities do not always adapt their expenditure to fit their available revenue.

Abedian, Ajam & Walker (1997:70) indicate that the objective of the budget process is to help the spheres of government achieve their fiscal goals and promote coordination between the different spheres of government, and to enable the spheres of government to meet their expenditure priorities. There are different types of budgeting, but for the purpose of this section, the focus is on line-item budgeting. According to FAQ, May 2001 (as cited in Ford, 2006:32) line-item budgeting is defined as the classification of expenditures on the basis of categories called objects-of-expenditure (personnel services, contractual services, and capital outlay), and, within each category, more detailed line-items (salaries, travel telephones). The traditional line-item budgeting system is ill-equipped to handle budget problems and to accommodate effective control. It is ill-equipped for performance auditing, because the goals, objectives and targets of proposed expenditure, as well as performance standards, are not identified, and nobody can identify them from the budget documents. The line-item budgeting system places many obstacles in the way of sound financial management (Gildenhuis, 1993:509).

Line-item budgeting focuses on things to be acquired (inputs). The advantage of this form of budgeting is in the fact that the key management processes of tracking and controlling costs are simplified. Its disadvantage relates directly to its incrementalism (Moeti, Khalo, Mafunisa, Makondo & Nsingo, 2007:87). According to Blöndal and Sang-In Kim (2006:10), Thailand's excellent record of aggregate expenditure control over the years was facilitated by a centralised budgeting process based on line-item input budgeting. It was recognised, however, that allocative and operational efficiencies were not optimal in this environment. As a result, efforts were begun in the mid-1990s to reorientate the budgeting process towards a greater focus on performance and results.

### 2.2.2.2 Supply chain management

Turban, Mclean and Wetherbe (as cited in Lewis, 2005:36) define „supply chain’ as the flow of material, information, payments and services from raw material suppliers, through factories and warehouses, to the end customer. A supply chain also includes the organisations and processes that create and deliver products, information and services to the end customers. Supply chain management falls under the responsibilities of the CFO, as considerable amounts of money are spent annually in the public sector on goods and services. The procurement of these is for the good of the population at large, and the expenditure that is incurred is, in effect, the taxpayer’s money. Public sector purchasers are accountable to the public, whose money is being spent, including disappointed tenderers and potential suppliers (Baily, Farmer, Jessop & Jones, and 2005:344).

According to Baily *et al.* (2005:344), the general principles of government procurement are as follows:

- Purchasing should be based on value for money.
- Competition should be used to acquire goods and services (unless there are convincing reasons to the contrary).
- There should be a clear definition of the roles and responsibilities of personnel involved in specifying the need, giving financial authority, and making the purchasing commitments.
- There should be separation of financial authority and purchasing authority.
- There should be separation of duties between personnel who make contracts, those who receive the goods or services, and those who authorise payments.
- Requirements which are above a certain financial threshold are normally required to be advertised in accordance with particular regulations on public procurement.

The above principles are further supported by Burger and Woods (2008:232), who indicate the following public sector procurement practices:

- All procurement transactions must be undertaken in an ethical and honest way.
- Strong and clear accountability arrangements must be in place.
- Strict transparency requirements must be met.
- Procurement must be open to competition.
- Procurement must be fair and impartial.
- The interests of taxpayers, suppliers and customers must be promoted and protected.

- Infringement of the above must be responded to quickly and decisively.

### 2.2.2.3 Asset management

Equipment is called movable assets; this category of assets are obtained and created to be utilised for a number of years as instruments for delivering services (Gildenhuis, 1997:137).

The life cycle of the assets comprise the following: Before assets can be acquired, they must be budgeted for in a capital budget. Demand for public accountability and democratic control; the high standards of efficiency and effectiveness expected by civil society; the ease with which disappointed tenderers can sow suspicion and mistrust about acquisition procedures; and the widely varying requirements of the various functional entities in a government complicate acquisition procedures (Gildenhuis, 1997:186).

In order to address these complexities, formal acquisition procedures must exist and be published. These procedures must be extensive enough to prevent irregularities. Users in functional entities must also compile professional product or performance specifications that form part of tender documentation, and upon which tenderers base their prices. Tendering and procedures for rendering are often considered bothersome for both the tenderers and end users, but they serve the purpose of avoiding irregularities and utilising the benefits of competition. Assets can be acquired by means of the following types of tenders (Gildenhuis, 1997:188):

- Public tenders, whereby all potential suppliers of civil society are invited by way of an official notice in the press
- Limited public tenders, whereby tenders are still open to any supplier, but limited by means of selected advertising in technical journals aimed at specialised industries or professionals
- Private tenders, whereby a limited number of approved specialist suppliers are invited
- Negotiated contracts, whereby tenders are invited to supply specifications, samples and demonstrations of their products
- Divided contracts, whereby one project is broken up into various parts and each of the parts is then given out to tender.

Tender procedures include having a closing date and closing time, with only tenders received on or before that time to be accepted.

According to Hodges (1996:34), recording of assets entails the process of recording movable assets on a central register, as part of ensuring the economic management of such assets throughout their useful life phase. Operation and maintenance of assets are important. „Operational’ includes planning and executing the operation of the assets with safety and a minimum possible cost per unit of product in mind. Maintenance is carried on to keep the asset effective. Throughout the useful life of an asset, its economic applicability must be reviewed to determine when disposal must take place. According to Burger (2008:108), during the useful life phase of assets, their management will include controlling them to ensure that they remain safely and economically operational and to prevent damage or theft (in case of movable assets). It is the duty of the Finance Department to ensure that economic analyses of assets are correctly assessed (Hodges, 1996:800). Assets need to be accounted for through being able to identify assets that belong to a specific organisation or section. According to Baily *et al.* (2005:321), bar-coding enables a situation in which every stock line can be uniquely identified.

Planning for write-off of assets starts during the useful life phase, in order to ensure continuity of services by budgeting for new assets. The legislature must provide clear delegation of power for the writing-off of assets. In the case of movable assets, reusable materials should be recovered and diverted to a new use. Such assets can still be used by other organisations or can be sold. The aim should be to obtain the maximum credit from the sale of disposed items. This may be obtained by selling the asset as a whole, or by splitting it up. The cost of dividing and disposing of separate parts, must, however, also be taken into account. Sometimes high-tech equipment may contain specialised parts that can be sold separately (Hodges, 1996:138). When considering how to dispose of scrap materials, questions to be considered might include:

- Can we dispose of material within the business?
- Can the item be cannibalised for useful parts, prior to scrapping?
- Can we sell the items in the marketplace, rather than as scrap?
- If we are to sell material as scrap, can we get a better price if we segregate by type or size, or by bailing into cube form, or cutting to smaller sizes?
- Can we come to an agreement with merchants, whereby they provide containers for housing the scrap prior to collection? (Baily *et al.*, 2005:409)

#### 2.2.2.4 Control

It is the responsibility of the CFO to supervise and control all financial transactions of the department on behalf of the accounting officer (Burger, 2008:80). It is also the CFO's task to exercise budget control on behalf of the accounting officer. The annual budget comes into effect on the 1st of April each year, and it is further divided into different components under the responsibilities of the line managers. According to Burger and Woods (2008:68), this is the operational management and control stage, in which management implements and manages the plans (budget) on a day-by-day basis within a particular year. After the allocation of budget, it becomes the responsibility of all managers and other officials to follow the procurement processes when money is spent.

The Preferential Procurement Policy Framework Act (PPPFA), Act 5 of 2000 (South Africa, 2000), regulates the spending of budget through the following procurement processes: petty cash, verbal/written price quotations, or competitive bids other than staff salaries. Managers must follow the principles of procurement when they spend the budget, e.g. segregation of duties, authorisations, and source documents to be attached to all orders. According to Bruyns *et al.* (1997:146), control mainly comprises the process through which a manager ensures that activities are carried out as originally planned.

Finkler (2001:220) and Burger and Woods (2008:281) state that control systems must be in place in order to have sound financial management (e.g. internal control), as these are the tools that managers use to ensure that there is compliance. McThomas (2003:60) mentions that a proper expenditure control framework will allow the determination of expenditure patterns. To ensure that there is continuous monitoring of the budget allocated to management areas, financial meetings must take place on a monthly basis. Different heads of components have to report the status of the finances under their control. Phillips and McConnell (1996:315) state that the budget is also a control over day-to-day operations in the management area. It is clear from the above information that, for the Department to have good financial management, all budget processes must be adhered to by all managers and all other officials in the Department of Correctional Services. Budgetary control goes hand-in hand with other accounts department and inventory department controls.



The important issues are that:

- only goods and services that are actually needed are ordered.
- goods and services received meet the required standard
- payment is made only for goods and services actually received
- all purchases received are recorded correctly in accounting terms, and, where necessary, in stock records and fixed asset registers

The procurement of goods and services has often been the dominant issue of both financial control and accounting records of organisations (Pauw *et al.*, 2002:228). Budgeting is important as a managerial control tool (Abedian *et al.*, 1997:14).

According to Shah (2007a:284), the basics of compliance control in budget execution are:

- that the proposal to spend money has been approved by an authorised person;
- that the money has been appropriated for the purpose stated in the budget;
- that sufficient funds remain available in the appropriate category in the budget;
- that the expenditure is classified in the correct way;
- that when goods and services are delivered (verified), the documentary evidence that the goods have been received or services were carried out as required, must be verified;
- that before payment is made, confirmation that all source documents are attached

If all systems perform in the way that they were designed to, it could easily be assumed that the organisation is likely to meet its goals and objectives (Gildenhuis, 1993). Based on the above, the need for internal control in any organisation is important. According to Burger and Woods (2008:282), the following is a list of general controls that should be in place in any accounting environment: segregation of duties, limited access, security control, authorisation, countersigning, reconciliation, cross-balancing, control procedures, comparison of the budget to actual results, and competent supervision. These should be provided to ensure that internal control objectives are achieved.

They further explain internal control as systems of controls which are necessary to:

- carry on the operations of the organisation in an orderly and efficient manner.
- ensure coherence to management policies.
- safeguard the organisation's assets.

- prevent and detect fraud and corruption.
- secure the competences and accuracy of the organisation's records.

The Preferential Procurement Policy Framework Act of 2000 guides Government procurement/purchases. Budgetary control emphasises that, before any purchase is made, it is first verified as being acceptable in terms of the budget, and that payments are made only for goods and services actually received (Burger & Woods, 2008:235-236). According to Burger (2008:123), a budget is an excellent control/evaluation instrument to be used by the hierarchy of legislative, executive and administrative authorities in the public sector and by the various levels of managers in both the public and private sectors. The budget provides both *a priori* control and *ex-post facto* control (Gildenhuys, 1993:410).

### **2.2.3 The role of other managers**

For the purpose of this section, „financial management practices’ are defined and demarcated as the practices performed by the other managers in the areas of budgeting, supply chain management, movable asset management and control. According to the Tshwane University of Technology (2005:68), the following are the additional responsibilities of other officials:

- Comprehensive planning and costing of needs
- Resource management and expenditure control
- Financial management with regard to monitoring and internal control
- Cascading strategic plans down into operational plans

#### **2.2.3.1 Strategic budgeting**

The departmental MTEF budget submission involves bottom-up estimation of the cost and resource implications of the revised departmental strategic plan in relation to the medium-term budget allocation, which means that strategic plans must link to medium-term expenditure plans (Burger, 2008:142). All managers, except at the lowest level, are both superiors and subordinates in the budgeting process (Finney, 1994:23). Financial plans should be developed in a bottom-up fashion for each department (McKoen & Gough, 1997:81).

Performance budgeting strives for the most economical, efficient and effective utilisation of personnel and other public resources for rendering public services. Performance budgeting has the following characteristics: budget choices and budget information are structured in terms of activities, rather than individual standard expenditure items; performance measurements are determined for each activity; and, the associated cost per activity unit is established

(Gildenhuis, 1993:516–517). The extensive literature on performance budgeting reforms in the past two decades suggest that performance budgeting can enhance communication between budget actors, improve public management in terms of efficiency and effectiveness, facilitate more informed budgetary decision making, and achieve high transparency of and accountability for government activities (Shah, 2007a:151).

Performance budgeting emphasises the work to be done (activities) and that the activities of the organisation are judged on the basis of their efficiency and effectiveness; however, the performance standards set for performance budgeting are normally based on quantity only, and do not consider quality (Moeti *et al.*, 2007:89).

According to Burger (2008:144), programme budgeting requests are arranged, not by input cost as with line-item budgeting, or by activities as with performance budgeting, but by programmes. These programmes are linked to the mission, objective and goals of the organisation. Programme budgeting is consistent with the concept of „management by objectives’. Programme budgeting can be relatively effective when money is in short supply, and with programme budgeting those programmes that best contribute to the objectives of the organisation will garner financial support away from less effective programmes (Moeti *et al.*, 2007:91).

The concept „zero-based budgeting’ implies a comprehensive, bottom-up process, which may be perceived as cumbersome (Burger, 2008:145). One of the goals of zero-based budgeting is to involve all programme managers at all levels in the budget process (Gildenhuis, 1993:527). Some government activities may not be suitable for zero-based budgeting (Moeti *et al.*, 2007:96). Zero-based budgeting implies constructing a budget without considering what has gone on in the past. Houston (1999:129), however, highlights that Taylor has pointed out that this type of budgeting has been criticised as being naïve and simplistic.

### **2.2.3.2 Supply chain management**

Mangan, Lalwani and Butcher (2008:11) define supply chain management as “the management, across a network of upstream and downstream organisations, of material, information and resource flows that lead to the creation of value in the form of products and services”. Rhodes, Warren and Carter (2006:41), and also Christopher (as cited in Mentzer, 2001:5), support the above definition. Supply chain management is crucial to other officials at an operational level in managing funds allocated for procurement of resources or materials needed for the

day-to-day operation of the organisation. This level is where the real financial expenditure takes place; therefore, management involvement is also crucial in ensuring that supply chain management procedures or processes are adhered to.

#### **2.2.3.3 Asset management**

All movable assets must be coordinated, tracked and delivered as instructed in the contract. The assets must also be identified, labelled and documented. The primary responsibilities of the administrator of the assets are: to develop an ongoing accounting and inventory of all assets acquired; develop or implement an existing identification system; ensure that the assets are properly marked (labelled); and create a database that lists information such as the date acquired, location of assets and the value of assets (Hugo *et al.*, 2006:282). For an organisation to run its business effectively, most assets are procured at an operational level at which other officials are working. Because there is value attached to these assets, proper asset management by other officials is crucial.

#### **2.2.3.4 Control**

According to the document from the Presidency: improving government performance: our approach, “the centre of government can provide top-down political impetus and drive that lends legitimacy and urgency to a focus on outcomes”. But meaningful change in how civil servants think and work needs bottom-up support, especially from middle management” (South Africa. The Presidency, 2009). Without the support of a critical mass of the individuals who actually deliver government services, the contemplated reforms would be illusory. Control is the process by which management ensures that the business’s goals are realised, or that actual performance ties in with predetermined standards.

Three levels of control can be distinguished: strategic, tactical/functional and operational control. For the purpose of this section, only operational control is considered. Operational control is concerned with the organisation’s processes which entail transforming resources into products and services. Operational control is exercised at different points: preliminary control, which is designed to anticipate and prevent possible problems, and concurrent control, which involves taking action as inputs are transformed into outputs to ensure that standards are met (Nieuwenhuizen & Rossouw, 2008:82).

## 2.3 Summary and Conclusion

This chapter has provided a literature review whereby „financial management practices’ have been defined and demarcated as the practices performed by the accounting officer, chief financial officer and other managers in the areas of budgeting, supply chain management, movable asset management and control

Literature on strategic budgeting, supply chain management, asset management and control clearly illustrates that financial management cuts across all levels of management or personnel of an organisation. The budget itself is the culmination of the budget process, and is a powerful policy statement declaring the goals and specific objectives that an authority wishes to achieve by means of the expenditure concerned. It is somewhat disturbing to find that there is a good deal of theory on financial management, especially on the budget and budgeting process, but there are still instances in which organisations are not complying with policy and procedures in financial management.

Within the responsibility chain it is clear that operational managers are responsible for the actual financial management and the accountability aspect linked to it. It has also been made clear that financial management cannot be insulated from political influence. It should be managed within a legal framework, e.g. The PFMA (South Africa, 1999). SCM is an important process for the procurement of goods and services in all government institutions. To have sound financial management, all role players need to recognise that the implementation of The PFMA (South Africa, 1999), The PPPFA (South Africa, 2000) and Treasury Regulations needs to take place. Through proper financial management (with the help of a budget), co-operation, involvement and coordination are established. A budget is still one of the main determining factors for planning and controlling in government. The next chapter presents a look at financial management policy and legislation.

The following table (2.1) summarises the theoretical requirement in the areas of financial management as executed by the accounting officer, chief financial officer and other managers in the areas of budgeting, supply chain management, movable asset management and control

<b>Table 2.1: Matrix - Summary of Requirements</b>				
<b>Strategic budgeting</b>				
Role players	Requirements Chapters 2 & 3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Preparation and submission of department draft budget. Budgeting forms part of organisational planning.			
Chief financial officer	Responsible for the financial administration and financial record keeping, and directly responsible to the accounting officer. Oversees the budgeting process of the organisation			
Other managers	Submission of bottom-up estimations or budget plans			

<b>Supply chain management</b>				
Role players	Requirements Chapters 2 & 3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Links SCM to overall business strategy			
Chief financial officer	Responsible for the SCM of the organisation			
Other managers	Responsible for the procurement of goods and services			

<b>Asset management</b>				
Role players	Requirements Chapters 2 & 3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Purchasing of capital assets Considers the acquisition of capital assets with care			
Chief financial officer	Before assets can be acquired they must be budgeted for Ensures that assets are accounted for or are safeguarded			
Other managers	Create a database that lists information such as date acquired, location of assets and			

	the value of assets Ensure that all movable assets are marked			
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<b>Control</b>				
Role players	Requirements Chapters 2 & 3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Establishes a system of monitoring and evaluation			
Chief financial officer	Supervises and controls financial transactions of the department on behalf of the accounting officer			
Other managers	Exercise operational control			

## **Chapter 3**

### **Financial management policy and legislation**

#### **3.1 Introduction**

This chapter focuses on a broad policy and legislation on financial management in the public sector – the South African public sector specifically. „Financial management practices’ are defined and demarcated as the practices performed by the accounting officer, chief financial officer and other managers in the areas of budgeting, supply chain management; movable asset management and control. Financial management practices are also looked at by focusing on the guidelines for budget processes given by National Treasury. The Public Finance Management Act 1 of 1999 is used as a basis for discussing financial management policies.

The management of revenue, expenditure, assets and liabilities, and control is also discussed. In government, budgeting serves as the backbone of the regulatory framework for managing the taxpayers’ money. Proper budgeting serves as a guide to the efficient, effective and economical use of limited resources, and can consequently enhance proper financial management and control.

#### **3.2 Broader financial management policy**

Before one can start to discuss financial management policy, the term ‚policy’ needs to be defined. Hogwood and Gunn (1992:13-27) describe it as follows: “Policy is a field of activity, desired state of affairs, specific proposal, decision of government, formal authorisation, programme, output, outcome and process.” The PFMA (South Africa, 1999) gives effect to sections 213, 215, 216, 217, 218 and 219 of the Constitution for the national and provincial spheres of government. The Act adopts an approach to financial management which focuses on outputs and responsibilities. This is the 11th year after the introduction of this Act, and both provincial and national departments mostly have appointed accounting officers as heads of different departments according to the PFMA, section 36. The relevant information in this chapter is presented in the form of a matrix at the end of the chapter; „financial management practices’ are defined and demarcated as the



practices performed by the accounting officer, chief financial officer and other managers in the areas of budgeting, supply chain management, movable asset management and control.

### **3.2.1 The role of accounting officer**

For the purpose of this section, „financial management practices’ are defined and demarcated as the practices performed by the accounting officer in the areas of budgeting, supply chain management, movable asset management and control.

#### **3.2.1.1 Strategic budgeting**

Each year, the Accounting Officer of an institution must prepare and produce a strategic plan with a five-year planning horizon that outlines the planned sequencing of projects and programme implementation, and associated resource implications and other prescribed information for the forthcoming MTEF period, for approval by the relevant executive authority (National Treasury, 2005:15). The link between strategic planning, budgeting and spending plans is important in compiling a credible budget, as inadequate planning could lead to budgets which do not give effect to strategic priorities (National Treasury, 2008:4). Medium Term Expenditure Framework (MTEF) Treasury guidelines are issued by the National Treasury to assist national and provincial departments in preparing their budgets annually, and accounting officers must comply with any annual budget circulars issued by the relevant treasury (National Treasury, 2007:1). The MTEF budget process is designed to match the overall resource envelope, with the estimation of the current and medium-term cost of existing departmental plans and expenditure programmes (National Treasury, 2007:3). According to National Treasury (2009:3), the departments should consider all their funding priorities when compiling expenditure estimates. The emphasis should also be on the following:

- All budget submissions must be linked to the programme structure of a department and should reflect costing at activity level within sub-programmes.
- Departments are required to submit their expenditure estimates and related output targets to inform the determination of appropriation requirements.

(National Treasury, 2009:3)

According to National Treasury (2007:3), the MTEF tabled annually in Parliament is guided by the following principles:

- Within limited resources, affordable changes should be used to make trade-offs between and within spending programmes.
- Resources should be reprioritised from low priority programmes and activities towards higher priorities and activities.
- The allocation of new resources should be driven by the existence of credible implementation plans.
- An evaluation of past spending performance against measurable objectives and targets should be central to the discussion of future funding.

According to McThomas (2003:71), the phases of the budgeting and financial management process comprise an integrated process that needs to be coordinated from a national perspective, in order to create a uniform working relationship between different role players and structures; they also build on previous budget reforms and propose further enhancement, to promote effective planning and budgeting. The purpose of the budget process is to strengthen the link between policy objectives, implementation plans and available resources (National Treasury, 2007:3).

According to the Public Finance Management Act 1 of 1999 (as cited in McThomas, 2003:55), the responsibilities of the accounting officer involve the following:

- **Effectiveness, efficiency and transparency**

The Accounting Officer needs to comply with the above in order to enhance financial management and internal control (section 38).

- **Budgetary control**

This refers to the procedures that need to be complied with by the Accounting Officer in terms of budgetary control, e.g. expenditure of the Department in accordance with the vote (section 39).

- **Reporting**

This refers to the manner of accountability that needs to be complied with by the Accounting Officer, i.e. keeping full records of the financial affairs of the Department (section 40).

- **Information to be submitted**

This refers to prescribed documents and information that the Accounting Officer needs to make available to the Auditor-General or Treasury, such as returns (section 41).

- **When assets and liabilities are transferred**

These are the procedures that need to be adhered to by the Accounting Officer when assets and liabilities are transferred, e.g. drawing up an inventory of such assets and liabilities and providing records to the receiving Accounting Officer (section 42).

- **Virement between main divisions within votes**

This involves processes that need to be followed by the Accounting Officer when funds are transferred from one part of a budget to another (section 43).

- **Assignment of powers and duties**

This refers to the powers that are given to the Accounting Officer to delegate some of his responsibilities to other officials of his or her department, e.g. delegation, in writing, of any powers entrusted or delegated to the Accounting Officer in terms of this Act, to another official in that department (section 44).

- **Responsibilities of other officials**

The Accounting Officer must ensure that all other officials adhere to the responsibilities given to them, e.g. ensuring that officials adhere to the established system of financial management and internal control (South Africa, 1999: Section 45).

In addition to the above responsibilities, the accounting officer is also responsible for the management of revenue, expenditure, assets and liabilities (REAL) (National Treasury, 2005: 21-22; 29). It is obviously impossible for the accounting officer to execute these responsibilities personally. According to the PFMA (South Africa, 1999) section 44(1) the accounting officer for a department, trading entity or constitutional institution may

- (a) in writing delegate any of the powers entrusted or delegated to the Accounting Officer in terms of PFMA, to an official in that department.
- (b) Instruct any official in that department to perform any of the duties assigned to the Accounting Officer in terms of PFMA. In order for the Accounting Officers to carry out these

responsibilities successfully, there are processes to be followed, and other bodies that assist.

According to McThomas (2003:71), as far as the budget process is concerned, the National Treasury is responsible for:

- advising Cabinet on the economic trends and the overall level of spending that can be afforded within the macro-economic and fiscal framework;
- advising the Ministers' Committee on the budget, and Cabinet on the division of revenue between the spheres of government;
- evaluating departmental budget submissions and policy options;
- submitting comments and views to departments regarding proposed department options;
- negotiating allocations, reprioritisation and funding levels of programmes, including savings therein; and
- developing and presenting the national Medium Term Expenditure Framework (MTEF) for consideration by the Ministers' Committee in the budget, and by Cabinet. (McThomas, 2003:71)

The key dates in the budget process are illustrated in Table 3.1 below.

Departments receive MTEC guidelines, database templates and indicative allocations	End May
Information sessions on expenditure estimate guidelines	Mid June
Submission and approval of amendments to programme structures	July
Submission of capital/infrastructure funding request	July
Cabinet lekgotla to discuss policy priorities and MTSF	July
Departments submit expenditure estimates and database	July
MTEC starts	August
Departments' final date for distribution of Treasury Committee memoranda for unforeseeable and unavoidable expenditure	September
Departments submit adjusted estimates, chapters, database and Adjustments Appropriation Bill	September
MTEC ends	September
Treasury Committee as scheduled on parliamentary programme	October
Departments submit final adjustment estimate inputs (database and chapter including expenditure until end of September and additional funds allocated, as well as Adjustments Appropriation Bill)	October
Adjusted estimates tabled in Parliament	October
ENE guidelines to departments and entities	November

Appropriation Bill format to departments and ENE database to departments and entities	November
Inputs from departments for revised drawings after adjusted estimates	November
Allocation letter to departments	November
Departments submit first draft on ENE chapter database and Appropriation Bill	December
Departments submit revised (2nd draft) ENE chapters, databases and Appropriation Bill	January
Departments submit estimated under/overspending for the financial year	January
Budget day – budget tabled in Parliament	February

### 3.2.1.2 Supply chain management

The PFMA (South Africa, 1999) assigns considerable powers to Accounting Officers/authorities to enable them to manage their financial affairs within the parameters laid down by prescribed norms and standards (National Treasury, 2004a:9). To this end, Cabinet resolved that the concepts of supply chain management be introduced within the public sector (National Treasury, 2004:9). The Accounting Officer or Accounting Authority of an institution to which these regulations apply must develop and implement an effective and efficient supply chain management system in his or her institution. The supply chain management system referred to above must be fair, equitable, transparent, competitive and cost effective (National Treasury, 2005:49). Objectives of the new supply chain management policy are to:

- transform Government procurement and provisioning practices into an integrated SCM function;
- introduce a systematic approach for the appointment of consultants;
- create a common understanding and interpretation of the preferential procurement policy; and
- promote the consistent application of best practices throughout Government supply chain. (National Treasury, 2004a:9)

According to the National Treasury (2004a:11), the elements of supply chain management comprise the following:

- **Demand management:** Demand management represents the beginning of the supply chain management where –
  - needs assessments are carried out to ensure that goods or services are acquired in order to deliver the agreed service;

- specifications are precisely determined; and
  - requirements are linked to the budget, and the supplying industry has been analysed.(National Treasury, 2004a:11)
- **Acquisition management:** “Traditionally, all the focus of procurement activity has been given to this stage” (National Treasury, 2004a:11).
- **Logistics management:** This aspect addresses the setting of inventory levels, receiving and distribution of material, stores, warehouse and transport management, and the review of vendor performance.
- **Disposal management:** At this stage consideration should be given to obsolescence planning, maintaining a database of redundant material, inspecting material for potential re-use, determining a disposal strategy, and executing the physical disposal process.
- **Supply chain performance:** this is a monitoring process, undertaking a retrospective analysis to determine whether the proper processes have been followed and whether the desired objectives were achieved.

### 3.2.1.3 Asset management

The accounting officer of an institution must take full responsibility and ensure that a proper control system exists for assets, and that:

- (a) preventative mechanisms are in place to eliminate theft, losses, wastage and misuse; and
- (b) stock levels are at an optimum and economical level.

From the above it is clear that the proper management of and accounting for assets have been set as an important responsibility of the accounting officer (National Treasury, 2004b:8). “The Accounting Officer must ensure that processes (whether manual or electronic) and procedures are in place for the effective, efficient, economical and transparent use of the institution’s assets” (National Treasury, 2005:29). Asset management decisions should therefore be integrated into the strategic planning processes of an entity.

### 3.2.1.4 Control

According to The PFMA (South Africa, 1999), the accounting officer for a department must ensure that the department has and maintains a system of internal audit under the control

and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77.

The accounting officer of an institution must establish procedures for quarterly reporting to the executive authority to facilitate effective performance monitoring, evaluation and corrective action (National Treasury, 2005:15). It is further indicated that there must be an internal audit function to assist the accounting officer in maintaining efficient and effective controls; by evaluating those controls to determine their effectiveness and efficiency; and by developing recommendations for enhancement or improvement (National Treasury, 2005:10).

### **3.2.2 The role of Chief Financial Officer**

For the purpose of this section, „financial management practices’ are defined and demarcated as the practices performed by the chief financial officer in the areas of budgeting, supply chain management, movable asset management and control. “Unless directed otherwise by the relevant treasury, each institution must have a Chief Financial Officer serving on the senior management team” (National Treasury, 2005:7). The chief financial officer is directly accountable to the accounting officer (National Treasury, 2005:7).

#### **3.2.2.1 Strategic budgeting**

The general responsibility of the chief financial officer is to assist the accounting officer in discharging the duties prescribed in part 2 of Chapter 5 of The PFMA (South Africa, 1999) and the Annual Division of Revenue Act 12 of 2009 (National Treasury, 2005:7), but without limiting the right of the accounting officer to assign specific responsibilities. These duties relate to the effective financial management of the institution, including the exercise of sound budgeting and budgetary control practices; the operation of internal control and the timely production of financial reports (National Treasury, 2005:7). Taking into consideration the accounting officer’s responsibilities discussed under section 3.2.1.1, the chief financial officer must ensure that there is adherence to all the National Treasury budget guidelines provided to the Department annually. It is also the responsibility of the chief financial officer to ensure, after the budget has been allocated, that there is proper expenditure management in place, i.e. before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure compliance with any limitations or conditions attached to delegation or authorisation. It further says, in section 8.2.3 of the Act, that all payments due to creditors must be settled within 30 days from receipt of an

invoice unless determined otherwise in a contract or other agreement (National Treasury, 2005:22). The chief financial officer must take effective and appropriate steps for the timely collection of all money due to the institution, including the maintenance of proper accounts and records for all debtors on behalf of the accounting officer (National Treasury, 2005:30).

Then, on behalf of the accounting officer needs to be a person who is well conversant with the economic reporting format, because this forms part of expenditure management. The budget reform programme was initiated in 1998 when the National Treasury started a process of reclassifying the existing expenditure items of Government in line with the Government Finance Statistics (GFS). The economic classification of government transactions serves to provide policymakers with information about sources of receipts and the uses of funds. Economic classification basically is an analytical presentation of government receipts and payments (National Treasury, 2009b:35).

### **Economic classification of payments**

According to the National Treasury (2009b:55), this is the summary of payments table:

- **Compensation of employees:** This consists of salaries and wages paid to government employees. Funds come from the budget of the specific government department in a particular financial year.
- **Goods and services:** This item includes payments for all goods and services to be used by a government department, excluding purchases of capital assets. Goods and services constitute required payments.
- **Transfers and subsidies** include all unrequited payments made by a government department.
- **Capital assets** are goods that are expected to be used during more than one reporting period, from which future economic benefits are expected to flow, provided that their value exceeded the capitalisation threshold when originally purchased. The following are examples of capital assets: buildings and other fixed structures such as machinery and equipment, heritage assets, specialised military assets and biological assets.



### **3.2.2.2 Supply chain management**

According to the National Treasury (2005:7), the chief financial officer is responsible for assisting the accounting officer in discharging his duties. The accounting officer must establish a separate supply chain management unit within the office of the institution's chief financial officer, to implement the institution's supply chain management (National Treasury, 2005:50). Procurement of goods and services is one of the key elements of supply chain management, therefore procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury (National Treasury, 2005:50).

It is a risk to run an organisation such as a government department, without limitations – especially where public tax money is used for procuring goods and services. It is therefore important to have threshold values. Government has established policy guidelines in this regard, and authorities are required to apply the following threshold values when procuring goods, works or services, hiring or letting anything, acquiring or granting any right, or disposing of movable state property. According to the National Treasury (2007/2008:1), authorities may procure requirements without inviting competitive bids or price quotations by means of petty cash – up to a transaction value of R2 000,00 (VAT included). “Authorities must establish their own internal procedures to ensure sound financial management of funds when goods and or services are obtained by means of petty cash” (National Treasury, 2007/2008:1). Authorities should invite competitive bids for all procurement above R500 000,00 from as many suppliers as possible, that are registered on the list of prospective suppliers (National Treasury, 2007/2008:2).

### **3.2.2.3 Asset management**

The general responsibility of the chief financial officer is to assist the accounting officer in discharging the duties prescribed in part 2 of Chapter 5 of The PFMA (South Africa, 1999) and asset management is part of those responsibilities. Since the promulgation of The PFMA (South Africa, 1999), and as part of the move towards proper management and recording of assets, a strategy was adopted to gradually enable entities to comply therewith. The strategy involves the compilation of asset registers, validation of the completeness thereof through physical identification and counting of assets. An asset register is the asset database, and all assets should be recorded in the asset register. A good asset register identifies an individual or entity responsible for the asset (National Treasury, 2004b:11). Historically, the public sector has not placed much emphasis on the principle of cost versus

benefit – largely due to the system for recording income and expenditure, which accounted only for the movement of cash, which in turn led to the misconception that the use of assets, once paid for, was free or without cost (National Treasury, 2004b:5).

Under the cash-based system there is a tendency to focus on whether or not to spend on new assets, rather than measuring the full and most effective and efficient use of available assets. In addition, maintenance of assets on hand is frequently ignored or postponed in favour of other pressing needs. (National Treasury, 2004b:6). Departments continue to buy new assets while there are other assets that are serviceable. It is indicated above that threshold values are important for proper expenditure management. Therefore assets also need to be classified according to different thresholds, e.g. all assets costing less than R5000.00 are classified as minor assets. These assets must be recorded in the asset register, but will be fully depreciated/written off in the year of acquisition, and not over their useful life, as is the case with assets costing R5 000,00 and more (National Treasury, 2004b:12).

The life cycle of an asset can be defined as that period over which an entity can foresee itself utilising an asset, on an economically effective and efficient basis, for the furtherance of the entity's trade or service delivery. An asset is defined as a resource controlled by an entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity. The following is the life cycle approach:

- **The planning phase:** This is when assets are recorded and reflected in monetary terms to allow performance to be measured both internally for management purposes, and externally for accountability. The common understanding of an asset is that it is something of enduring value – something that is worth having. The key point to understand is that it is control of the economic benefits or service potential of the asset, rather than physical control, which is important. The role of assets is to support the delivery of a government service to the public. Assets should only exist to support programme delivery (National Treasury, 2004b:16).
- **The acquisition phase:** This involves reviewing the conclusion drawn in the planning phase. Using historical cost, an asset should be recognised in the financial statement of an entity if it meets all of the following criteria:
  - The asset has service potential for the entity.
  - The entity has the capacity to control the service potential of the asset.
  - The asset has a cost or value that can be reliably measured.

- The estimated value of the asset is above the entity's recognition threshold (National Treasury, 2004b:36–37).
- **Disposal phase:** An item of property, plant and equipment should be eliminated from the statement of financial position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential is expected from it (National Treasury, 2004b:15). “Disposal of movable assets must be at market-related value or by way of price quotations, competitive bids or auction – whichever is most advantageous to the state, unless determined otherwise by the relevant treasury” (National Treasury, 2005:51).

### 3.2.2.4 Control

It is mentioned above that the chief financial officer is directly responsible to the accounting officer in terms of financial management. It therefore is the responsibility of the chief financial officer to ensure that all internal control measures as outlined in “sections 38(1) (a) (i) and 76(4) (e) of The PFMA” (South Africa, 1999) and the Treasury Regulations (National Treasury, 2005:9) are implemented within the Department.

### 3.2.3 The role of other managers

For the purpose of this section, „financial management practices’ are defined and demarcated as the practices performed by the other managers in the areas of budgeting, supply chain management, movable asset management and control

#### 3.2.3.1 Strategic budgeting

Other managers function at an operational level; therefore they are responsible for the submission of budget estimates according to the policy priorities of the Department and also according to operational needs. Apart from submitting budget estimates, they are responsible for the expenditure of the allocated budget, which is crucial to taxpayers. Budgeting is a line manager's responsibility; therefore middle managers must comply with the provisions of The PFMA (South Africa, 1999) to the extent applicable to that official, including any delegations and instructions in terms of section 44.

According to section 45 of The PFMA (South Africa, 1999), other managers:

- must ensure that the system of financial management and internal control established for the department is carried out within the area of responsibility of that official.

- are responsible for the effective, efficient, economic and transparent use of financial and other resources within that official's area of responsibility.
- must take effective and appropriate steps to prevent, within that official's area of responsibility, any unauthorised, irregular, fruitless or wasteful expenditure and any under collection of revenue.

### 3.2.3.2 Supply chain management

Other managers function at an operational level and they are responsible for the implementation of the institution's supply chain management. The procurement of goods and services has often been the dominant issue of both financial control and accounting records of organisations (Pauw *et al.*, 2002:228); therefore it is important for other managers to understand the procurement processes. According to Burke (1999:156) and Oosthuizen, Koster & De la Rey (1998:117), the procurement process consists of the following phases:

- **Procurement planning**

During this phase, the scope definition and a work breakdown structure (WBS) are used, together with the corporate strategy, to determine what resources are required, where they will be procured (in-house, a single outside source or multiple outside sources), when they will be required, when they must be procured to allow for the required lead time, and how they should be procured (tendering options).

- **Listing procurement data and solicitation requirements**

This list is developed from the scope of work, and provides all the required specifications of materials, equipment and services, as well as their possible suppliers, and specifications on what solicitation processes are to be followed.

- **Scheduling procurement**

The schedule is compiled from the network diagram and procurement data list. The early start of each activity is used, and the required order lead time and the just-in-time (JIT) margin are subtracted to determine the order date.

- **Selecting sources**

The selecting process entails setting up a weighting system and a screening system; negotiating with possible sources and regulators; and analysing risks relating to the source in order to ensure the best possible value from procurement in terms of the relationship between price, quality, and positive externalities of options.

- **Acquiring resources**

During this phase, a contract between the supplier and the legal body representing the project for procurement and delivery comes into being.

- **Administering procurement**

During this stage the following processes take place: authorisation, performance control, expediting procurement where necessary, reviewing progress, controlling funding, authorising progress payments, and auditing and resolving contract disputes. During this phase, meticulous attention to paperwork is of paramount importance. It has been mentioned above that other officials are functioning at an operational level, therefore, they are responsible for this whole process as discussed by both Burke (1999) and Oosthuizen *et al.* (1998).

### 3.2.3.3 Asset management

According to section 45 of The PFMA (South Africa, 1999), other officials are responsible for the management, including the safeguarding, of the assets and the management of the liabilities within such an official's area of responsibility.

Although the research focuses on national departments, asset management cuts across all three spheres of government, therefore policy on local government is also looked at to establish how assets are managed at local government level. Based on best practices, according to Kaganova, Nayyar-Stone, Merrill and Peterson, (1999:iii), municipal real property asset management can be summarised as follows:

- **Inventory:** Developing and maintaining a comprehensive property management and accounting system on a property-by-property basis.

- **Property management:** Including the estimated market value of each property and financial liens against it in the accounting database, and using private sector property management approaches for improving public property management.
- **Financial implications of municipal asset management:** Decreasing revenues have motivated some local governments to turn to public asset management to strengthen their finances. Following the example of the private sector, government entities have realised that real estate portfolios can be managed more efficiently for use and investment, and may be a source for funding government activities and community needs.

#### 3.2.3.4 Control

More control is needed at an operational level, because that is where a lot of equipment is used for the day-to-day operations of the organisation. This is the reason why Government is making other managers responsible for assets under their disposal. An official in a department must ensure that the system of financial management and internal control established for that department is carried out within the area of responsibility of that official (The PFMA, South Africa, 1999:54).

### 3.3 Summary and Conclusion

Financial management has to do with proper budgeting and successful allocation of limited resources. The aim of Government is to make it possible for managers in the public sector to manage, while also being accountable for the use of the resources made available to them.

This chapter outlined the policies that are applicable for financial management, especially in the South African public sector. The next chapter concentrates on what is happening in practice within the Department of Correctional Services.

The table that follows (Table 3.2) summarises the policy requirement in the areas of financial management as executed by the accounting officer, chief financial officer and other managers in the areas of budgeting, supply chain management, movable asset management and control.

<b>Table 3.2: Matrix - Summary of Requirements</b>				
<b>Strategic budgeting</b>				
<b>Role players</b>	<b>Requirements Chapters 2 &amp; 3</b>	<b>Practices Chapter 4</b>	<b>Evaluation Chapter 5</b>	<b>Recommendations Chapter 6</b>
Accounting officer	Preparation and submission of department draft budget Budgeting forms part of organisational planning Responsible for budget control			
Chief financial officer	Responsible for the financial administration and financial record keeping, and directly responsible to the accounting officer Oversees the budgeting process of the organisation Appropriation statement Assists the Accounting officer in discharging his/her duties			
Other managers	Submission of bottom-up estimations or budget plans Must ensure that the system of financial management and internal control established for the institution is carried out within the area of responsibility of that official			

<b>Supply chain management</b>				
<b>Role players</b>	<b>Requirements Chapters 2&amp;3</b>	<b>Practices Chapter 4</b>	<b>Evaluation Chapter 5</b>	<b>Recommendations Chapter 6</b>
Accounting officer	Link SCM to overall business strategy Develops and			

	implements an effective and efficient SCM system			
Chief financial officer	Responsible for the SCM of the organisation Assists the accounting officer in discharging his/her duties			
Other managers	Responsible for the procurement of goods and services Complies with the processes of procurement			

<b>Asset management</b>				
<b>Role players</b>	<b>Requirements</b>	<b>Practices</b>	<b>Evaluation</b>	<b>Recommendations</b>
Accounting officer	Purchasing of capital assets Considers the acquisition of capital assets with care Ensures that proper system for asset management exists			
Chief financial officer	Before assets can be acquired, they must be budgeted for Ensures that assets are accounted for or are safeguarded Ensures proper management of assets			
Other managers	Create a database that lists information such as the date acquired, location of assets and the value of assets Ensure that all movable assets are marked Responsible for management and safeguarding of assets			



<b>Control</b>				
Role players	Requirements Chapters 2&3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Establishes a system of monitoring and evaluation Ensures that there is a system of internal audit			
Chief financial officer	Supervises and controls financial transactions of the department on behalf of the accounting officer. Assists the accounting officer in discharging his/her duties			
Other managers	Exercise operational control Ensure that the system of internal control established is carried out			

# Chapter 4

## Financial management practices in the Department of Correctional Services

### 4.1 Introduction

For the purpose of this chapter „financial management practices’ are defined and demarcated as the practices performed by the accounting officer, chief financial officer and other managers in the areas of budgeting, supply chain management, movable asset management and control in the Department of Correctional Services. The Department of Correctional Services is a national department responsible for the rehabilitation and safe custody of people who are detained in custody for participating in criminal activities. The aim of the Department is to contribute towards maintaining and protecting just, peaceful and safe custody by enforcing court-imposed sentences; detaining inmates in safe custody while maintaining their human dignity and developing their sense of social responsibility; and promoting the general development of all inmates and persons subject to community corrections. According to the Department’s strategic planning document of 2009/10 – 2013/14, its vision, mission and core values are:

- **Vision:** To be one of the best in delivering correctional services with integrity and commitment to excellence.
- **Mission:** To contribute to maintaining and protecting a just, peaceful and safe custody:
  - by enforcing the decisions and sentences of the courts in the manner prescribed by legislation.
  - by detaining all inmates in safe custody whilst ensuring their human dignity.
  - by promoting the rehabilitation, social responsibility and human development of all offenders.

**Table 4.1: Core values of the Department of Correctional Services**

<b>Development</b>	<b>Integrity</b>	<b>Efficiency</b>	<b>Recognition of human dignity</b>	<b>Accountability</b>	<b>Justice</b>	<b>Security</b>	<b>Equity</b>
Enablement and empowerment	Honesty	Productivity	Accepting people for who they are	Desire to perform well	Fair treatment	Public safety through secure incarceration	Non-discrimination
Faith in the potential of people	Disassociation of oneself from all forms of corruption and unethical conduct	Best work methods and excellent services	Humane treatment of offenders	Accepting accountability for own behaviour	Justice for all	Public safety through effective management of probation and parole	Affirmative action
Providing opportunities and facilities for growth	Sound business practices		Recognising the inherent human rights of all people	Commitment	Fairness and equality before the law	Safety of employees, inmates and service providers	Gender equality and integration of disability issues

## 4.2 Financial management practices

In order to align the financial management processes with the strategic direction of the Department, the following financial management budget programmes were created within the Department of Correctional Services:

- **Programme administration**

The purpose of the administrative programme is to provide administrative support to the core of the Department. The following directorates form part of programme administration: Finance and supply chain management, Corporate services (ICT, research, policy coordination and good governance), and the support functions necessary for all service delivery by the Department and in support of functions of the Ministry.

- **Programme security**

The purpose of the security programme is to provide safe and healthy conditions consistent with human dignity for all incarcerated persons and thereby provide security for personnel and the public.

- **Programme corrections**

The purpose of the corrections programme is to provide needs-based correctional sentence plans and interventions based on an assessment of the security risk and criminal profile of individuals, targeting all elements associated with offending behaviour and focusing on the offence for which a person is sentenced to correctional supervision, remanded in a correctional centre, or paroled.

- **Programme care**

This provides needs-based care programmes aimed at maintaining the wellbeing of incarcerated persons in the Department's care.

- **Programme development**

The purpose of the development programme is to provide needs-based personal development services to all offenders.

- **Programme social reintegration**

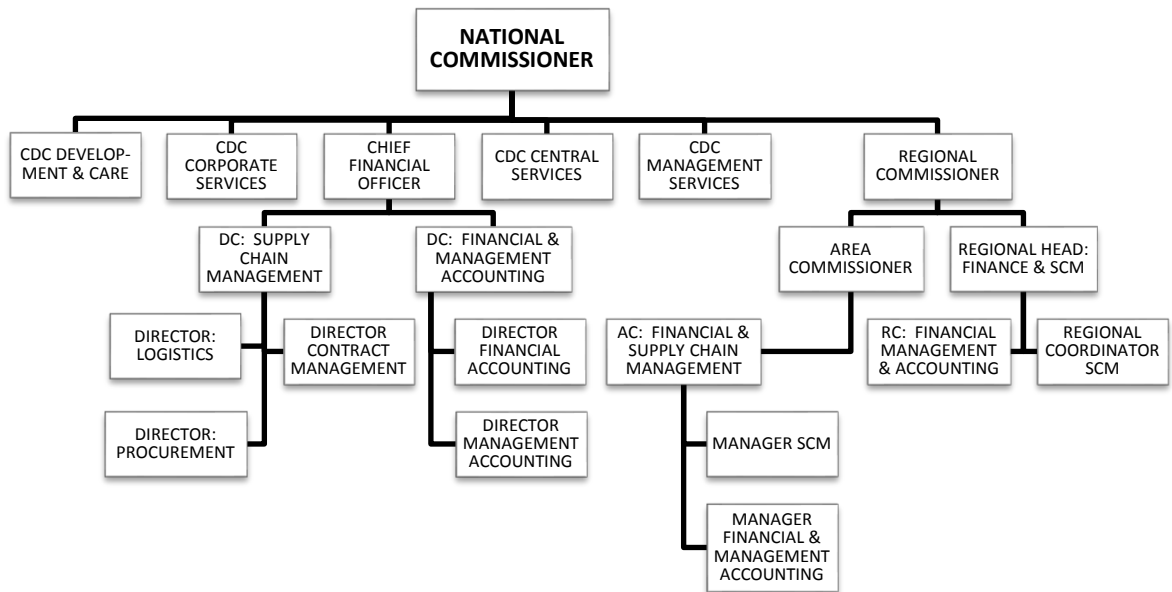
The purpose of the social reintegration programme is to provide services focused on offenders’ preparation for release, their effective supervision after release on parole, and on the facilitation of their social reintegration into their communities.

- **Programme facilities**

The purpose of the facilities programme is to ensure that physical infrastructure supports safe custody, humane conditions, and the provision of corrective services, care and development, and general administration.

Table 4.2 below presents the Organogram of the Department of Correctional Services.

**Table 4.2: Organogram – Department of Correctional Services**



## **4.2.1 The role of the accounting officer**

The accounting officer of the Department of Correctional Services is the Head of the Department and is known as the National Commissioner (see Table 4.2 above). For the purpose of this section „financial management practices’ are defined and demarcated as the practices performed by the accounting officer in the areas of budgeting, supply chain management, movable asset management and control.

### **4.2.1.1 Strategic budgeting**

“The strategic planning of the Department of Correctional Services provides direction to the department, and sets out how the department aims to provide service delivery to its clients, the public and officials” (Strategic planning document for 2009/10–2013/14, see South Africa. Department of Correctional Services, 2009). It is also explained in this document that the other important element of a strategic plan is to ensure that strategies are sufficiently funded, although this is the requirement in the auditor general report contained in the Annual Report for the 2008/08 financial year which revealed that the DCS recorded unauthorised expenditure to the amount of R483 million (to be explained in greater detail in the next chapter). During the strategic planning session of the department, future objectives and outcomes are explained, and this strategic planning session is followed by work sessions at national, regional and management area levels in order to compile operational plans for each branch, region and management area (Department of Correctional Services, 2005:3).

On confirmation of budget to the department, the strategic and operational plans of the national, regional and management areas are amended and adjusted, in order to fund the strategies of the department. This amended national strategic plan is made available to the National Treasury and all relevant officials in the department before the beginning of the new financial year, in order to put them in a position to adjust their operational plans and estimates on the system. The expenditure process is implemented on the first day of April. The approved allocated budget must be spent according to the strategic plan of the Department. It was indicated above under section 2.2.1 (The role of accounting officer) that if accounting officers want to execute their functions properly, they must have full control over the finances and other activities of their departments (Thornhill, cited in Gildenhuys, 1993:157). Obviously, the accounting officer does not personally keep the accounts and other financial records as accounting officers are not the

bookkeepers of the department. They also do not physically compile the draft budget of the department.

In terms of Treasury Regulations 8.2.1, the accounting officer of the Department of Correctional Services therefore delegates the expenditure management of the Department of Correctional Services to other managers including the chief financial officer: At head office level: Deputy commissioner ministerial service, all chief deputy commissioners, chief financial officers, all deputy commissioners, all directors and deputy director auxiliary services; at the regional level: Regional commissioner, Deputy Regional commissioner, all regional heads and all managers who report to the second level heads; and at management area level: Area commissioner and all second level and third level managers. These delegates occupy key positions in the above organogram (Table 4.2). Therefore an official of the institution will not spend or commit public funds except with the approval of the delegated official.

#### **4.2.1.2 Supply chain management**

Since the origin of the Department of Correctional Services in 1911, logistics, as a support function in the context of the department, has tried to meet the basic needs of offenders and members as effectively as possible with regard to supplies or goods and services (Coetzee, Kruger & Loubser, 1995:301). In order to manage the supply chain management unit effectively, the following policies have been developed by the Department of Correctional Services: Directives in respect of procurement), Logistical administration procedure manual, Transport manual and Logistical information systems policy.

#### **4.2.1.3 Asset management**

According to section 38(d) of The PFMA (South Africa, 1999), the accounting officer is responsible for the management, including the safeguarding and the maintenance, of assets, and the management of the liabilities. He must also ensure that there is effective and efficient use of the resources of the Department. From this it is clear that proper asset management has been set as an important responsibility of the accounting officer. In order to comply with the Act the accounting officer of the Department of Correctional Services has formulated the policy on asset management, i.e. Chapter 6 in the Logistical Administration Procedure manual.

#### 4.2.1.4 Control

According to the Correctional Services Act 111 of 1998, section 95 (1), the Commissioner has to conduct an internal service evaluation by means of internal auditing, performance auditing, inspections and investigations, to promote the economical and efficient operation of the Department and to ensure that the objectives and principles of this Act are met.

Such a service evaluation must assess, at regular intervals, the effectiveness of internal control at national and provincial level, in individual prisons for:

- determining whether the departmental operations are conducted effectively
- reviewing the reliability of financial, operational and management information
- assessing the effective utilisation of human and other resources
- monitoring whether established objectives for programmes are being achieved
- ascertaining whether departmental assets and interests are controlled and safeguarded against losses.

The following mechanisms are in place as control measures in the Department: Internal auditors who conduct auditing in the Department and inspectors who conduct detailed inspections in different management areas. The Department has also introduced the Compliance Improvement Plan, emanating from the Auditor General's report of 2003/04 and onwards. According to this plan, the management areas are expected to confirm their compliance in the areas of non-compliance identified by the Auditor General on a monthly basis, and inspectors verify those confirmations bi-monthly.

#### 4.2.2 The role of Chief Financial Officer

For the purpose of this section, „financial management practices’ are defined and demarcated as the practices performed by the chief financial officer in the areas of budgeting, supply chain management, movable asset management and control. The first Chief Financial Officer of the Department of Correctional Services was appointed during the 2000/2001 financial year. This officer is directly responsible to the National Commissioner who is the accounting officer (refer back to Table 4.2), to assist him to discharge the responsibilities as prescribed under part 2 of Chapter 5 of the PFMA (South Africa, 1999). Within the Department of Correctional Services,



the chief financial officer is responsible for both finance and supply chain management (Table 4.2).

#### **4.2.2.1 Strategic budgeting**

It is mentioned above, under section 4.2.1.1, that the top management of the Department determines the future strategies of the department, and that the Chief Financial Officer is part of the top management team of the department. It has also been mentioned, under section 4.2.2, that the CFO discharges the financial management responsibilities of the accounting officer, therefore all budgetary or expenditure management responsibilities of the department are executed by the CFO. It is the responsibility of the CFO to ensure that all branches at head office prepare and submit inputs, according to the strategies and objectives included in the strategic plan of the Department, in order to compile the Medium Term Expenditure Framework working document, to ensure timely submission to the National Treasury during August of each year. The negotiation process (with the budgetary council) by top management to get the budgetary proposal for the next three financial years approved will begin at this time. The National Treasury will inform the Department on the final budgetary allocations for the next three financial years (Year 0+1, 0+2 and 0+3) during November of each year. It is also the responsibility of the Chief financial officer to ensure that the income and expenditure of the Department is received and spent in accordance with the budget vote, because the National Commissioner is at all times liable and accountable for income and expenditure (Department of Correctional Services, 2005:2).

#### **4.2.2.2 Supply chain management**

The organogram of the Department of Correctional Services (presented above as Table 4.2) shows supply chain management as one of the responsibilities of the CFO. Therefore it is the responsibility of the chief financial officer to ensure that the procurement of goods and services is done according to the manual of directives in respect of procurement within the Department of Correctional Services (2008:1), which makes provision for the following procedures to be followed when goods or services are procured:

▪ **Period contracts**

Periods contracts are divided into three categories, namely transversal contracts, general period contracts and specific period contracts.

- *Transversal contracts:* These are contracts arranged by National Treasury for the supply, over a specified period of time, of the repetitive requirements of various participating organisations, for goods, works or services; the hiring or letting of anything; the acquisition or granting of any right; or the disposal of movable state property.
- *General period contracts:* These are contracts arranged by the Department of Correctional Services and represent procurement for the supply, over a specified period of time, of the repetitive requirements of various participating procurement units for goods, works or services; the hiring or letting of anything; the acquisition or granting of any right; or the disposal of movable property.
- *Specific period contracts:* These are contracts for the supply, over a specified period of time, of the repetitive requirements of only one procurement unit for goods, works or services; the hiring or letting of anything; the acquisition or granting of any right; or the disposal of movable state property.

▪ **Invitation and consideration of price quotations**

Invitation of price quotations is another procedure to be followed when goods and services are procured. Below are the categories of price quotations:

- Price quotations up to R2 000,00 per case:  
Procurement of goods, works or services; the hiring or letting of anything; acquisition without inviting competitive bids or price quotations, by means of petty cash.
- Price quotations between R2 000,00 and R30 000,00 per case
- Price quotations equal to or exceeding the estimated value of R30 000,00 to R500 000,00 per case.

- Urgent cases:  
Where early delivery is of critical importance and the invitation of competitive bids is either impossible or impractical.
- Emergency cases:  
Where immediate action is necessary in order to avoid a dangerous or risky situation.
- Invitation of bids:  
The Procurement Directorate will invite bids for goods, work or services above R500 000,00 per case, following which the bid evaluation committee will award the best supplier who has met all requirements (Department of Correctional Services, 2008:2).

As a result of the wide scope of the Department's activities, it can be expected that losses and damages are a large risk. This may happen as a result of the actions of officials and employees of the Department, members of the community, and inmates. Considering that the money of taxpayers is being used, the occurrence or increase of loss and damage cannot be allowed. The accounting officer has appointed the chief financial officer as the department's loss control officer. Duties of the CFO include, among others: Obtaining all details, statements and relevant information in connection with claims and losses; following up and settling of such cases; liaising with the Office of the State Attorney via legal services; sensitising all officials to prevent claims against the State, following departmental instructions; and indicating, as far as possible, the actions or failure to act which may lead to potential claims against the State.

#### **4.2.2.3 Asset management**

According to section 38(d) of The PFMA (South Africa, 1999), the accounting officer is responsible for the management, including the safeguarding and the maintenance, of assets, and the management of the liabilities. It is the responsibility of chief financial officer to discharge this responsibility on behalf of the accounting officer. The Department of Correctional Services (2007:7) states that asset management has to be based on evaluation of alternatives that take into account the full life cycle costs, benefits and risks of assets. Determining and identifying asset needs is the responsibility of the end user. The process of identifying the need may involve the following: In order to save more money on buying new assets every time, start by looking at the physical condition of the existing asset to establish whether it requires

refurbishment, repair or replacement. It is important to assess the item to establish its functionality; sometimes the asset has not been used for the purpose of purchasing it. In order to avoid misuse of state funds in buying assets, the end user, when budgeting for assets, should estimate the cost, using any means available, e.g. quotations, or information from previous purchases. Each responsibility (component) has to estimate for their own requirements against respective activities (Department of Correctional Services, 2007:7).

The end user should make proper decisions during the acquisition of an asset, because the end user needs to decide whether to hire, build or buy an asset. In case the decision is to buy, the process prescribed in the Department's Procurement Manual should be followed. The Department has workshops that manufacture a variety of items. Should the need arise for items (e.g. furniture, trolleys) manufactured by the departmental workshops, the first option should be to requisition the item from the workshops. Where the end user decides to hire an asset, it should be in terms of an operating lease (Department of Correctional Services, 2007:8).

The acquisition plan should be developed by the end user, together with the activity/responsibility manager. The acquisition plan is developed once the budget allocation is known and prioritisation of purchases has been done for that particular financial year (Department of Correctional Services, 2007:9).

The asset register is the asset database that provides the basis for the figures in the financial statement. All assets should be recorded on the asset register, regardless of the funding source (Department of Correctional Services, 2007:1). All assets costing less than R5 000,00 are classified as minor assets, and assets costing over R5 000,00 are classified as major assets (Department of Correctional Services, 2007:13). Asset controllers must be appointed in writing, and be issued with duty sheets. When it is necessary for an asset controller to be replaced, it is the responsibility of the delegate to appoint an asset controller in writing, to take over the assets. It is also important for managers to ensure that quarterly spot checks of assets are conducted, and also that an annual asset verification is conducted, in order to ensure that assets are properly accounted for.

#### **4.2.2.4 Control**

The chief financial officer is responsible for budget control within the whole Department, on behalf of the accounting officer. The Regional Commissioner is responsible for the budget control of the region, and the Area Commissioner for the management area. The following standard returns are submitted by management areas to Regional Office, and by Regional Office to Head Office as a control measure within the Department, by the Directorate of Finance and Supply Chain Management on policies and procedures of the Department, i.e. in-year monitoring; debt management; report on control accounts (section 32); payments made after 30 days to suppliers; fruitless and wasteful expenditure; financial misconduct; outstanding losses; efficiency savings; reconciliation of assets; disposals of livestock and other equipment; donations by the State; and irregular expenditure.

### **4.2.3 The role of other managers**

For the purpose of this section „financial management practices’ are defined and demarcated as the practices performed by the other managers in the areas of budgeting, supply chain management, movable asset management and control.

#### **4.2.3.1 Strategic budgeting**

Regional Commissioners can be regarded as the accounting officers of their regions, although the DCS has only one National Commissioner or Accounting Officer. Within the limitations and conditions set for the Commissioner, delegated authority is given to Regional Commissioners, so that they can operate financially independently within their different regions.

The Regional Commissioners therefore have more or less the same financial management responsibilities as those of the National Commissioner. According to the financial management duty sheet of the Regional Commissioner, they have the following responsibilities: They must ensure that the budget for the region is allocated effectively to each activity, according to the set guidelines and objectives of the national head office; they must ensure that estimates are reflected correctly on financial reports, and that expenditure is reflected on the right activities; they must ensure that instructions regarding the receipt, safekeeping and disposal of State money and trust money are adhered to. They are chairpersons of regional budget and audit committee meetings. The following managers form part of those financial meetings: Deputy

Regional Commissioners; Regional Heads of Corrections, Development and Care, Corporate Services, Finance and Supply Chain Management; and Area Commissioners.

The Area Commissioner is the manager who has the overall responsibility of the management area. The financial management responsibilities applicable to the National Commissioners are cascaded down via the Regional Commissioners to the different Area Commissioners who are also regarded as „other officials’ in terms of section 45 of The PFMA (South Africa, 1999). The Area Commissioners are responsible for the management of finance and supply chain management services in their management areas, with reference to the following activities:

- Improvement of the alignment of planning and budgeting
- Ensuring that control measures are in place to stay within allocated budget
- Dividing the budget between different responsibility managers during a formal financial meeting
- Improvement of organisational compliance with financial legislation, policies and procedures

The budget process of the DCS starts at a lower level – the Area Commissioner’s level. In order to cost expenditure, Area Commissioners must issue a certificate to certify that their estimates on the basic accounting system (BAS) are correct and that the planning schedules are available, and submit documents in the prescribed format to the Regional Commissioner who will submit a consolidated certificate to the Director: Management Accounting. After the budget for a specific financial year is allocated to the Department and distributed among programmes, sub-programmes and activities on all responsibility levels, it is the responsibility of all managers on all levels to manage the allocated budget in a responsible and effective manner.

#### **4.2.3.2 Supply chain management**

It is mentioned above that Area Commissioners are also responsible for supply chain management in their management areas. Therefore they are expected to implement the procedures outlined in the procurement manual of the Department of Correctional Services when procuring goods and services, i.e. under procurement administration, a database of suppliers must be kept and maintained per commodity. Purchases with a value up to R2 000,00 per case must be done by means of petty cash. When exceeding R30 000,00 per case, prior functional approval must

be obtained from the Head: Correctional Centre/Area Commissioner. Creditors must be paid within 30 days after receiving the invoice (Department of Correctional Services, 2010:17).

#### 4.2.3.3 Asset management

It is mentioned above that asset management is an important matter for the accounting officer. Other managers are delegated by the accounting officer to manage assets. According to the DCS Compliance Improvement Plan (2010:17), managers must ensure that the following procedures are adhered to:

- Asset controllers/sub-asset controllers must be appointed in writing and assets are accounted for on an asset register.
- All asset controllers must acknowledge receipt of their letters of appointment and duty sheets.
- Assets must be well maintained/well looked after and safeguarded.
- Assets purchased must be immediately recorded in the asset register.
- A transport officer/controller must be appointed in writing.

#### 4.2.3.4 Control

Financial meetings are a good tool for ensuring effective and efficient monitoring and control of expenditure and resources. The following are discussed during financial meetings, at which the Area Commissioner is a chairperson at management area level (Department of Correctional Services, 2005:23):

- **Internal control**
  - Report on audit queries
  - Report on debt/losses
  - Report on inspections
  - Confirmation by line managers that internal control measures are in place within their line of responsibility (leave administration, asset management, payment certification of pay sheets, fleet management, contract management, subsistence and travelling claims)
- **Expenditure**
  - Actual state of expenditure for the specific time of the financial year
  - Projected expenditure for the remainder of the financial year

- Adjustment to the budget
  - Report on any savings/overspending on the budget
  - Financial implications if there are changes in policy
- **Revenue**
    - Confirmation by line managers that revenue due to the State was recovered and accounted for (payment of private telephone calls, sales of goods and services)
- **Report on the multi-year budget estimates**
    - The financial implications of the operational plan of the Area Commissioner
    - Cost implications of new policies, projects and activities
    - Certification that estimates are correct and reflect the real needs of all activities/responsibilities

#### **4.3 Summary and Conclusion**

In this chapter „financial management practices’ have been defined and demarcated as the practices performed by the Accounting Officer, Chief Financial Officer and other managers in the areas of budgeting, supply chain management, movable asset management and control in the Department of Correctional Services. The researcher was able to access both finance and supply chain management policies and procedures of the Department of Correctional Services for this research.

The following table (4.3) summarises the practices in the areas of financial management as executed by the Accounting Officer, Chief Financial Officer and other managers in the areas of budgeting, supply chain management, movable asset management and control



**Table 4.3: Matrix - Summary of Practice**

<b>Strategic budgeting</b>				
Role players	Requirements Chapters 2&3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Preparation and submission of department draft budget Budgeting forms part of organisational planning Responsible for budget control	Responsible for the strategic planning of DCS		
Chief financial officer	Responsible for the financial administration and financial record keeping, and directly responsible to the accounting officer Oversees the budgeting process of the organisation  Assists the accounting officer in discharging his/her duties	Coordinates budgeting process of DCS Oversees the expenditure management of DCS  Assists the accounting officer in discharging his/her duties		
Other managers	Submission of bottom-up estimations or budget plans  Must ensure that the system of financial management and internal control established for the institution is carried out within the area of responsibility of that official	Responsible for the submission of estimates  Responsible for the management of allocated budget		

<b>Supply chain management</b>				
Role players	Requirements Chapters 2&3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Links SCM to overall business strategy Develops and implements an effective and efficient SCM	Develops SCM policies		
Chief financial officer	Responsible for the SCM of the organisation Assists the accounting officer in discharging his/her duties	Ensure compliance with procurement procedures		
Other managers	Responsible for the procurement of goods and services Comply with the processes of procurement	Implement the procurement procedures as stipulated in the DCS policies		

<b>Asset management</b>				
Role players	Requirements Chapters 2&3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Purchasing of capital assets Considers the acquisition of capital assets with care Ensures that proper system for asset management exists	Ensures that there are proper asset management procedures within DCS		
Chief financial officer	Before assets can be acquired, they must be budgeted for Ensures that assets are accounted for or are safeguarded Ensures proper management of assets	Ensures that asset management procedures are implemented within DCS		
Other managers	Create a database that lists information such as the date acquired, location of assets and	Adhere to asset management procedures		

	the value of assets Responsible for management and safeguarding of assets	within DCS		
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<b>Control</b>				
Role players	Requirements Chapters 2&3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Establishes a system of monitoring and evaluation Ensures that there is a system of internal audit	Responsible for internal service evaluation system within DCS		
Chief financial officer	Supervises and controls financial transactions of the department on behalf of the accounting officer Assists the accounting officer in discharging his/her duties	Ensures that there is compliance with the established internal control measures.		
Other managers	Exercise operational control Ensure that the system of internal control established is carried out	Conduct financial meetings as a control tool		

# Chapter 5

## Evaluation of practice

### 5.1 Introduction

The purpose of this chapter is to evaluate the financial management practices which have been defined and demarcated as the practices performed by the accounting officer, chief financial officer and other managers, and the summary of those practices derived from Chapters 2, 3 and 4.

- Evaluation theory
- Summary of financial management practices of Accounting Officer
- Summary of financial management practices of Chief Financial Officer
- Summary of financial management practices of other managers

### 5.2 Evaluation theory

Rossi, Lipsey & Freeman (2004:9) indicate that evaluation research emerged as a distinct speciality field in the social sciences in the early 1970s. Implementation evaluation research aims to answer the question of whether an intervention has been properly implemented. The authors further mention that the main aim of outcome or product evaluation studies is to establish whether the intended outcomes of the programme have materialised, and also that outcome evaluation research aims to answer the question of whether the programme, therapy, policy or strategy has been successful or effective (Mouton, 2001:158). Empowerment evaluation concerns the use of evaluation concepts, techniques and findings to foster improvement and self-determination (Mouton, 2001:161).

According to Mark and Henry (as cited in Patton, 2008:313), evaluation can be influential not only by demonstrating the consequences of a programme or other intervention, as casual methods can, but also by demonstrating the feasibility of its implementation. Evaluation research is the method of social science that can be used to assess the design, implementation and usefulness of social interventions (Bless & Higson-Smith, 1995). Evaluation may be intended to help management improve a programme or gain knowledge about the programme's effects.

Diagnostic evaluations are designed to inform researchers and project managers about the present situations within communities, highlighting current problems, trends, forces and resources, as well as the possible consequences of various types of interventions (Bless *et al.*, 1995:48). According to Rossi *et al.* (2004:130), adequate diagnosis of social problems and identification of the target population for interventions are prerequisites to the design and operation of effective programmes.

Formative evaluation is an evaluation of the programme in order to improve it. According to Scriven (as cited in Rossi *et al.*, 2004:34), an evaluation intended to furnish information for guiding programme improvement is called formative evaluation.

Summative evaluation sets out to determine the extent to which programmes meet their specified aims and objectives (Bless *et al.*, 1995:51). According to Scriven (as cited in Rossi *et al.*, 2004:36), the purpose of summative evaluation is to render a summary judgement on a programme's performance.

Rossi *et al.* (2004:16) define programme evaluation as the use of social research methods to systematically investigate the effectiveness of social intervention programmes. Programme evaluation involves the systematic collection of information about the activities, characteristics and outcomes of programmes to make a judgement about the programmes, improve their effectiveness and/or make informed decisions about future programming (Patton, 2008:39). Patton further argues that evaluation, at its best, distinguishes what works from what does not, and helps to separate effective change makers from resource wasters.

The evaluation of a programme generally involves assessing one or more of the following: the need for the programme, the programme's design, its implementation and service delivery, its impact or outcome and its efficiency.

Conducting programme evaluation requires resources of various kinds, such as equipment, personnel and facilities (Rossi *et al.*, 2004:46). Good evaluation questions must address issues that are meaningful in relation to the nature of the programme and also of concern to key stakeholders (Rossi *et al.*, 2004:68).

According to Finkler (2001:49), the organisation, by looking at its results, can assess what needs to be corrected. How good a job has the organisation's management done? How well did the organisation itself do? Ideally, the organisation's performance should be evaluated in a number of different ways. Finkler further indicates that the last element in the budget cycle is the evaluation of results.

According to Rossi *et al.* (2004:52), a programme evaluation essentially concerns information gathering and interpretation to answer questions about a programme's performance and effectiveness, and that an important step in designing an evaluation, therefore, is determining the questions the evaluation must answer, because a carefully developed set of evaluation questions gives structure to the evaluation.

What makes a good evaluation question? The form that evaluation questions should take is shaped by the functions they must perform. The main reason is to focus the evaluation on the areas of programme performance for the benefit of decision makers and stakeholders. What distinguishes evaluation questions is that they have to do with performance, and are associated, at least implicitly, with some criteria by which that performance can be judged.

Dimensions of programme performance are that the evaluation questions must be reasonable and appropriate, and they must identify performance dimensions that are relevant to the expectations of stakeholders. Evaluation questions must also be answerable. They must involve performance dimensions that are sufficiently specific, practical and measurable, so that meaningful information can be obtained about their status.

In summary, the above emphasises the following:

- A critical phase in evaluation planning is the identification and formulation of the questions the evaluation will address.
- Good evaluation questions must be reasonable and appropriate, and they must be answerable.
- An evaluation question involves performance criteria by which the identified dimensions of programme performance can be judged.
- Evaluation issues can be arranged in a useful hierarchy, with the most fundamental issues at the bottom.

- The evaluation questions are best formulated through interaction and negotiation with the evaluation sponsors and other stakeholders
- The evaluator must also be prepared to identify programme issues that might warrant inquiry.

It is mentioned above that the critical phase in an evaluation is the identification and formulation of the questions that the evaluation is to address, and also that good evaluation questions must be reasonable and appropriate. For the purpose of this research, the following evaluation question was formulated: To what extent do Correctional Services financial role players fulfil the requirements for financial management in their practice of budgeting, supply-chain management, asset management and control?

## **5.3 Summary of financial functions of the accounting officer**

### **5.3.1 Strategic budgeting**

According to Pauw *et al.* (2002), as discussed in Chapter 2, budgeting forms part of organisational planning. As mentioned in Chapter 3, the National Treasury (2007:3) further indicates that the accounting officer as Head of Department is responsible for the strategic planning and the preparation of MTEF budget submissions, in line with government spending priorities, and that the link between strategic planning and budgeting is important in compiling a credible budget. It is also indicated, in chapter 4, that the top management of the DCS, in practice, holds strategic sessions to determine the future strategies and objectives of the department for the next five financial years. They also ensure that strategies are sufficiently funded. It was therefore important to find out if, in practice, the DCS has complied with the strategic budgeting processes, and also to find out to what extent strategic budgeting practices by the accounting officer adhere to sound theoretical and policy requirements.

Reporting by the accounting officer (in the Annual Report for the 2004/05 financial year) indicates the total under spending of R155, 960 million for the year and the DCS requested roll-over from National Treasury. The auditor general's report contained in the Annual Report for the 2008/09 financial year also revealed that the DCS had an unauthorised expenditure to the

amount of R483 million. This was incurred as a result of implementing the Public Service Bargaining Council (PSCBC) Resolution no. 1 of 2007 on the improvement of salaries and other conditions of service for the financial years 2007/2008 to 2010/2011. Although the Department of Correctional Services reported budget shortfalls to the National Treasury, additional funds were not made available to the Department. Reference was also made to the internal audit report of 2009/2010 at head office, which indicates that the DCS budget is not aligned with the strategic plan.

### **5.3.2 Supply chain management**

According to Hugo et al. (2006:60), as shown in Chapter 2, supply chain management is linked to the overall strategy of the departments, and is directly involved in support of the overall objective of the organisation. Every organisation, whether a manufacturer, wholesaler or retailer, buys materials, services and supplies to support operations. It is expected, according to National Treasury (National Treasury, 2005:49), as mentioned in Chapter 3, section 3.2.1.2, that the accounting officer of an institution develops and implements an effective and efficient supply chain management system in his/her institution for the acquisition of goods and services. The supply chain management system must be fair, equitable, transparent, competitive and cost-effective (National Treasury, 2005:49). According to Coetzee, Kruger and Loubser (1995:301), logistics has been a support function since the origin of the Department of Correctional Services in 1911. The DCS organogram (Table 4.2) illustrates the SCM unit under the leadership of the CFO, which confirms that there is a system of supply chain management in practice within the DCS, as per both theoretical and policy requirement.

### **5.3.3 Asset management**

According to The PFMA (South Africa, 1999), as shown in Chapter 3, the accounting officer must ensure that a proper system of control exists for assets, and that preventative mechanisms are in place to eliminate theft, losses, wastage and misuse. Within the Logistical Administration Procedure Manual discussed in Chapter 4, it is indicated that Chapter 6 of this manual is about asset management. It was therefore important to find out if, in practice, the DCS has a system of asset management, and also to find out to what extent asset management practices by the accounting officer adhere to sound theoretical and policy requirements. Although there is a policy of asset management within the DCS (see section 4.2.1.3), the Report of the Accounting



Officer in the Annual Report 2005/06 financial, indicated that the DCS utilises several systems for the purchase, payment and management of assets, and therefore ensuring that information on all systems correlates is quite a challenge. In the Annual Report of 2008/09, the Auditor General also indicated that the current structure does not have asset management units in the regional offices or in the management areas.

#### **5.3.4 Control**

According to Nieuwenhuizen and Rossouw (2008:81), as cited in Chapter 2 of this thesis, strategic controls are exercised at top management level and entail a close study of the organisation's total effectiveness. It is also indicated by The PFMA (South Africa, 1999), as shown in Chapter 3, that the Accounting Officer of a department must ensure that the department has a system of internal audit under the control of an audit committee. It is important to find out whether the DCS, in practice, has internal control systems, and also to find out to what extent control practices by the accounting officer adhere to sound theoretical and policy requirements. It is mentioned in section 4.2.1.4 that the Correctional Services Act 111 of 1998, section 95(1) states that the National Commissioner, who is the accounting officer, must conduct an internal service evaluation by means of internal auditing, performance auditing and investigations. The following mechanisms are in place as control measures in the Department: Internal auditors who conduct auditing in the department; inspectors who conduct detailed inspections; and a compliance improvement plan in different management areas.

### **5.4 Summary of financial functions of the chief financial officer**

#### **5.4.1 Strategic budgeting**

According to Du Preez (as cited in Lewis, 2005:33), and as mentioned in Chapter 2, one of the CFO's responsibilities is budgeting, with an emphasis on the link between budgeting and planning. It is also mentioned in Chapter 3 that other duties of the CFO relate to the effective financial management of the institution, which includes the exercise of sound budgeting and budgetary control practices or expenditure management (National Treasury, 2005:7). The CFO accounts to the accounting officer in all financial management matters.

It was therefore important to establish whether the DCS complies with strategic budgeting processes, and also to find out to what extent strategic budgeting practices by the CFO adhere to sound theoretical and policy requirements. The Internal audit report for the 2009/10 financial year of the audit conducted at DCS Head Office revealed that regions were not given adequate time for the preparation and submission of MTEF. The annual report by the accounting officer for the 2005/06 financial year indicated the reasons for under spending as delayed tenders and contracts with regard to equipment, re-prioritisation, and down management of expenditure. Under spending of capital was due to delays experienced during the planning stages of capital projects. Reference made to the report of the accounting officer in the annual report for the 2009/2010 financial year indicated under spending on compensation for employees.

#### **5.4.2 Supply chain management**

It is mentioned in Chapter 2 that supply chain management forms part of the key responsibilities of the CFO, as considerable amounts of money are spent annually in the public sector on goods and services. The procurement of these goods and services is for the good of the population at large, and the expenditure that is incurred in effect is the taxpayer's money. Also in Chapter 2 of this thesis, mention was made of Baily *et al.* (2005:344) who outlined principles for procurement, indicating that purchasing should be based on value for money. According to the National Treasury (2005:50), as shown in Chapter 3, procurement of goods and services, either by way of quotations or through bidding processes, must be within the threshold values determined by the National Treasury. In Chapter 4, the Department of Correctional Services Procurement Policy Manual was referred to outline the threshold values when procuring goods and services. The organogram of the Department of Correctional Services also clearly shows that supply chain management falls under the responsibility of the CFO.

Based on this background, it is important to find out if the DCS has complied, in practice, with supply chain management processes, and also to find out to what extent supply chain management practices by the CFO adhere to sound theoretical and policy requirements. The Accounting Officer in the annual report of 2007/08 indicated that over expenditure of R18 million was incurred under the security programme GFS item goods and services. Also referred to is the supply chain management Circular Number 4 of 2010/2011 on procurement of goods, works and services for the Department of Correctional Services, which indicates that the report

of the Auditor General for the 2009/2010 financial year, was studied and aspects were identified concerning which the SCM did not adhere to procurement prescripts.

### **5.4.3 Asset management**

According to Burger (2008:108), as shown in Chapter 2, their management of assets during their useful life phase will include controlling such assets to ensure that they remain safely and economically operational, and to prevent damage or theft – especially that of moveable assets. In Chapter 3 it is mentioned that, as part of the move towards proper management and recording of assets, a strategy was adopted since the promulgation of The PFMA (South Africa, 1999), to gradually enable entities to comply with the act. The strategy involves the compilation of asset registers; validation of the completeness thereof through physical identification; and counting of assets. It is also indicated in Chapter 4, that the DCS policy includes that assets should be recorded on the asset register, regardless of the funding source.

It is further indicated above that assets have been designated as an important responsibility of the accounting officer, and also that the CFO is responsible for discharging accounting officers' responsibilities. The CFO therefore has to ensure that there is compliance in terms of asset management on behalf of the accounting officer. It was therefore important to find out if, in practice, the DCS has complied with asset management requirements, and also to find out to what extent asset management practices by the CFO adhere to sound theoretical and policy requirements. The Auditor General in the annual reports for the 2003/04, 2006/07, 2007/08, 2008/09 and 2009/10 financial years gave the DCS a qualified report on asset management for non-compliance with asset management requirements.

### **5.4.4 Control**

According to Burger (2008:80), as discussed in Chapter 2, the CFO is responsible for supervising and controlling all financial transactions on behalf of the accounting officer. It is also mentioned in Chapter 3 of this thesis that the CFO is directly responsible to the accounting officer in terms of financial management, which includes the responsibility to ensure that all internal control measures, as outlined in section 38(1)(a)(i) and 76(4)(e) of The PFMA (South Africa, 1999) and National Treasury Regulations (2005:9) are implemented within a department. Lastly, it is indicated in Chapter 4 that the CFO of the DCS is responsible for

budget control within the whole Department, on behalf of the accounting Officer. Therefore, it was important to find out if, in practice, the DCS complies with financial management control measures, and also to find out to what extent control practices by the CFO adheres to sound theoretical and policy requirements. The Auditor General, in the Annual Reports for the 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 financial years identified shortcomings with regard to the internal control put in place and also mentioned that the non-compliance with regard to financial management in the DCS is mainly due to the lack of a proper management framework, and monitoring. This means that the other managers did not comply with control mechanisms available within the Department.

## **5.5 Summary of financial functions of other managers**

### **5.5.1 Strategic budgeting**

According to Burger (2008:142), as mentioned in Chapter 2, the departmental budget submission involves bottom-up estimation of the cost and resource implications of the revised departmental strategic plan, in relation to the medium-term budget allocation. This means that strategic plans must be linked to expenditure plans. Therefore, the role of other managers is crucial in the budgeting process. As operational managers they must ensure that there is a budget available for the day-to-day operations of the organisation. It is at this level that the budget is spent, so proper expenditure management is important.

According to section 45 of The PFMA (South Africa, 1999), as indicated in Chapter 3, the other managers/officials must ensure that the system of financial management and internal control established for the Department is carried out within the area of responsibility of that official. It is also mentioned, in Chapter 4, that the financial management responsibilities of the National Commissioners are cascaded down via the Regional Commissioner to the different Area Commissioners, who are also regarded as „other managers’, and it is further mentioned in Chapter 4 that Area Commissioners are the managers taking overall responsibility in their management areas. It is therefore important to establish whether the other managers comply with strategic budgeting processes, and also to find out to what extent strategic budgeting practices by other managers adhere to sound theoretical and policy requirements. As discussed

in Chapter 4 of this thesis, policies of the Department of Correctional Services indicate that, once a budget for the specific financial year has been allocated to the Department, and distributed among programmes, sub-programmes and activities on all levels of responsibility, it is the responsibility of all managers to manage the allocated budget in a responsible and effective manner. The Auditor-General reported a recurring problem with receivables; for the 2005/06 financial year, an amount of R36 million and, for 2006/07, an amount of R40 million for staff debtors could not be verified for completeness or accuracy.

### **5.5.2 Supply chain management**

Other managers, as delegates of the Accounting Officer as per section 44 of The PFMA (South Africa, 1999), need to ensure that a system of supply chain management is implemented effectively and efficiently. It is clear that other managers in spending funds allocated to them, must ensure that all supply chain management procedures are followed. In Chapter 4 it is mentioned that Area Commissioners are responsible for the overall management of SCM in their management areas. According to Mangan *et al.* (2008:11), as pointed out in Chapter 2, supply chain management comprises management across a network of upstream and downstream organisations, of material, information and resource flows that lead to the creation of value in the form of products and services. Therefore, it is important to find out whether the DCS in practice complies with supply chain management processes, and also to find out to what extent supply chain management practices by other managers adhere to sound theoretical and policy requirements. The Auditor General's annual report for 2006/07 indicated that accruals to the value of R25 million were not included in note 21 of the 2006/07 financial statements.

### **5.5.3 Asset management**

According to The PFMA (South Africa, 1999), the Logistical Administration Procedure Manual of the Department, as well as other literature, „other officials’ are supposed to ensure that they safeguard the assets within the area of their responsibilities. It is therefore important to find out if, in practice, the DCS complies with asset management requirements, and also to find out to what extent asset management practices by other officials adhere to sound theoretical and policy requirements.

According to Hugo *et al.* (2006:282), as indicated in Chapter 2, the primary responsibilities of the administrator of the assets are to develop an ongoing accounting and inventory of all assets acquired; to develop or implement an existing identification system; and to ensure that the assets are properly marked. According to section 45 of The PFMA (South Africa, 1999), as discussed in Chapter 3, other officials are responsible for the management, including the safeguarding, of the assets, and the management of the liabilities within the particular official's area of responsibilities. In Chapter 4 it is also mentioned that managers must ensure that the following procedures are adhered to: all asset controllers have to be appointed in writing; all assets have to be accounted for on an asset register; and assets must be well maintained/well looked after and safeguarded. The DCS internal audit report for the 2009/10 financial year, for the audit conducted on asset management within the regions, revealed that the other managers were not complying with asset management requirements. The Auditor General's annual reports for the 2008/09 and 2009/10 financial years also gave the DCS a qualified report on asset management.

#### **5.5.4 Control**

According to Nieuwenhuizen and Rossouw (2008:82), as pointed out in Chapter 2, operational control is exercised at different points. This concerns primary control, which is designed to anticipate and prevent possible problems, and concurrent control, which involves taking action, when inputs are transformed into outputs, to ensure that standards are met. According to The PFMA (South Africa, 1999), as explained in Chapter 3, an official in a department must ensure that the system of financial management and internal control established for that department is carried out within the area of responsibility of that official. In Chapter 4 it is indicated that financial meetings are a good tool for ensuring effective, efficient monitoring and control of expenditure and resources. It is therefore important to find out whether the DCS in practice complies with financial management control measures, and also to find out to what extent control practices by other officials adhere to sound theoretical and policy requirements. The internal auditor's report for the 2009/10 financial year of the audit conducted at Pollsmoor management area identified a number of significant non-compliance matters and control deficiencies. Reference was also made to the internal audit report of the 2009/2010 financial year for the Johannesburg management area, which revealed control deficiencies.

## 5.6 Summary and Conclusion

The Department of Correctional Services has a functional financial and supply chain management directorate. Policy and procedures have been developed to assist functionaries in the execution of their duties. With the filling of vacancies, the Department will eventually improve the internal control measures that are in place. Continuous training and development of staff regarding The PFMA (South Africa, 1999), SCM, and all other financial management related policies, is necessary.

The following table (5.1) summarises the evaluation undertaken in the areas of financial management as executed by the accounting officer, chief financial officer and other managers in the areas of budgeting, supply chain management, movable asset management and control

<b>Table 5.1: Matrix - Summary of Evaluation</b>				
<b>Strategic budgeting</b>				
<b>Role players</b>	<b>Requirements Chapters 2&amp;3</b>	<b>Practices Chapter 4</b>	<b>Evaluation Chapter 5</b>	<b>Recommendations Chapter 6</b>
Accounting officer	Preparation and submission of department draft budget Budgeting forms part of organisational planning Responsible for budget control	Responsible for the strategic planning of DCS	Internal audit report for the 2009/10 financial year of the audit conducted at DCS Head Office revealed that DCS budget is not aligned with the strategic plan. Report by Accounting Officer in the annual report for the 2004/05 financial year indicated total under spending of R155, 960 million for the year. Audit report in the annual report 2008/09, showed DCS had unauthorised	

			expenditure to the amount of R483 million.	
Chief financial officer	<p>Responsible for the financial administration and financial record keeping, and directly responsible to the accounting officer Oversees the budgeting process of the organisation</p> <p>Assists the Accounting officer in discharging his/her duties</p>	<p>Coordinates budgeting processes of DCS</p> <p>Oversees expenditure management of DCS</p> <p>Assists the Accounting officer in discharging his/her duties</p>	<p>Report by Accounting Officer in the annual report 2005/06, financial indicated the reasons for under spending as: delayed tenders and contracts with regard to equipment, re-prioritisation and down management of expenditure. Under spending of capital due to delays experienced during the planning stages of capital projects.</p> <p>Internal audit report for the 2009/10 financial year of the audit conducted at DCS Head Office revealed that regions are not given adequate time for the preparation and submission of MTEF.</p> <p>Report by Accounting officer of DCS in the annual report for 2009/2010 financial year indicated the under spending on compensation of employees.</p>	
Other managers	Submission of bottom-up estimations or	Responsible for the	The Auditor-General reported a	



	<p>budget plans</p> <p>Must ensure that the system of financial management and internal control established for the institution is carried out within the area of responsibility of that official</p>	<p>submission of estimates</p> <p>Responsible for the management of allocated budget</p>	<p>recurring problem with receivables. For the 2005/06 financial year, an amount of R36 million and for 2006/07 an amount of R40 million for staff debtors could not be verified for completeness or accuracy.</p>	
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<b>Supply chain management</b>				
<b>Role players</b>	<b>Requirements Chapters 2&amp;3</b>	<b>Practices Chapter 4</b>	<b>Evaluation Chapter 5</b>	<b>Recommendations Chapter 6</b>
Accounting officer	Links SCM to overall business strategy Develops and implements an effective and efficient SCM	Develops SCM policies	The DCS organogram (Table 4.2) reflects the SCM unit under the leadership of the CFO, which confirms that there is a system of supply chain management in practice within the DCS, as per both theoretical and policy requirement.	
Chief financial officer	Responsible for the SCM of the organisation Assists the accounting officer in discharging his/her duties	Ensures compliance with procurement procedures	The accounting officer in the annual report of 2007/08 indicated that an over expenditure of R18 million was incurred under the security programme GFS item goods & services. SCM Circular Number 4 of 2010/2011 on procurement of goods, works and	

			services for the DCC indicates that the report for the Auditor General for the 2009/2010 financial year was studied and aspects were identified in which the SCM did not adhere to procurements prescripts.	
Other managers	Responsible for the procurement of goods and services Comply with the processes of procurement	Implement the procurement procedures as stipulated in the DCS policies	The Auditor General in the annual report for 2006/07, indicated that accruals to a value of R25 million were not included in note 21 of the 2006/07 financial statements.	

<b>Asset management</b>				
Role players	Requirements Chapters 2&3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Purchasing of capital assets Considers the acquisition of capital assets with care Ensures that proper system for asset management exists	Ensures that there are proper asset management procedures within DCS	Report by Accounting Officer in the annual report 2005/06 financial, indicated that DCS utilised several systems for the purchase, payment and management of assets, and ensuring that information on all systems correlates is quite a challenge. The Auditor General in the annual report of	

			2008/09 also indicated that the current structure does not have asset management units in the regional offices or in the management areas.	
Chief financial officer	Before assets can be acquired, they must be budgeted for Ensures that assets are accounted for or are safeguarded Ensures proper management of assets	Ensures that asset management procedures are implemented within DCS	The Auditor General in the annual reports of the 2003/04, 2006/07, 2007/08, 2008/09 and 2009/10 financial years, gave the DCS a qualified report on asset management.	
Other managers	Create a database that lists information such as the date acquired, location of assets and the value of assets Responsible for management and safeguarding of assets	Adhere to asset management procedures within DCS	The Auditor General in the annual report 2007/08 financial year gave the DCS a qualified report on asset management. DCS internal audit report for the 2009/10 financial year, conducted on asset management within the regions, revealed non-compliance on asset management requirements.	

<b>Control</b>				
Role players	Requirements Chapters 2&3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Establishes a system of monitoring and evaluation	Responsible for internal service	Auditor General in the annual report, 2008/09 financial	

	Ensures that there is a system of internal audit	evaluation system within DCS	year, indicated that management should focus more attention on improving the current system of internal control, especially as far as asset management is concerned.	
Chief financial officer	Supervises and controls financial transactions of the department on behalf of the accounting officer Assists the accounting officer in discharging his/her duties	Ensures that there is compliance with the established internal control measures	The Auditor General, in the Annual Reports for the 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 financial years, identified shortcomings with regard to the internal control in place and also mentioned that the non-compliance with regard to financial management in the DCS is mainly due to the lack of a proper management framework, and monitoring.	
Other managers	Exercise operational control Ensure that the system of internal control established is carried out	Conduct financial meetings as a control tool	The internal auditor's report for the 2009/10 financial year of the audit conducted at Pollsmoor management area identified a number of significant non-compliance matters and control deficiencies. Internal audit report for the 2009/2010	

			financial year in the Johannesburg management area, also revealed control deficiencies	
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# **Chapter 6**

## **Summary and Recommendations**

### **6.1 Introduction**

The PFMA (South Africa, 1999) was implemented in April 2001, and has been in operation for nine financial years. As mentioned in Chapter 3, The PFMA (South Africa, 1999) assigns considerable powers to accounting officers/authorities to enable them to manage their financial affairs within the parameters laid down by prescribed norms and standards (National Treasury, 2004:9). To this end, Cabinet resolved that the concept of supply chain management (SCM) be introduced within the public sector. In this chapter, the work done for this thesis is summarised, and recommendations applicable to the financial management practices performed by the accounting officer, chief financial officer and other managers in the areas of budgeting, supply chain management, movable asset management and control are made.

### **6.2 Summary**

The objectives of this study were related to determining the financial management practices in the Department of Correctional Services. To reach these objectives, the researcher focused on the financial management practices performed by the accounting officer, chief financial officer and other managers in the areas of budgeting, supply chain management, movable asset management and control. It was important to compare theory, policy and practice – specifically from the perspective of South African public sector financial management.

Chapter 1 identified the research topic and provided a brief background, the literature review, research problem and objectives, and also the research design and methodology.

Chapter 2 explained the theoretical background of the financial functions of budgeting, supply chain management, asset management and control, in terms of the financial functions of each of the following role players: the accounting officer, chief financial officer and other managers. The accounting officers are heads of different departments, and they give account personally for the financial transactions. The concepts of budget process and planning were discussed in

this chapter; the budget was identified as part of organisational planning, which starts with the aim and the mission of the institution.

Under supply chain management, the principles of procurement were discussed, as considerable amounts are spent on goods and services. The life cycle of assets was discussed in detail, including the procedure for how to account for assets. The chapter concluded by defining control as a process through which a manager ensures that activities are carried out as originally planned.

Chapter 3 continued with the same financial functions, as explained above in the summary of Chapter 2, by focusing on financial management policies and legislations. The PFMA (South Africa, 1999) and the Treasury Regulations were explained in detail, focusing on the budget process and financial management responsibilities of all the different role players.

The supply chain management policies were also explained in detail, focusing on the acquisition of goods and services. An acceptable supply chain management system was also highlighted, and the strategy for proper management and recording of assets was detailed. The chapter concluded that, in order to comply with financial management policies, an official in a department needs to ensure that the system of financial management and internal control established for that department is carried out within the area of responsibility of that official.

Chapter 4 discussed the financial functions mentioned above in the summary of Chapter 2, focusing on the financial management practices of the Department of Correctional Services. The budget process and planning process of the DCS were explained in detail. An organogram indicating how financial management cascades through the DCS, was presented to highlight this process.

Supply chain management processes were discussed in detail, focusing on the procurement procedures and requirements for acquisition of goods and services. The policy on asset management for the DCS was examined, focusing on the acquisition and the control of assets. The chapter concluded by looking at the legislative framework of the DCS in detail, focusing on the control measures within the Department.

Chapter 5 focused on the evaluation of Chapters 2, 3 and 4. The theory of evaluation was discussed in detail, with the emphasis on evaluation questions. A summary was provided for

the financial functions of budgeting, supply chain management, asset management and control, in terms of the financial functions of each of the following role players: the accounting officer, chief financial officer and other managers. Evaluation questions were formulated and answered from the Auditor General's reports, the internal auditor's reports, and circulars from the DCS.

Chapter 6 summarises the thesis, and makes recommendations and concluding remarks. Each chapter of the thesis is briefly summarised. Recommendations are made on gaps identified during evaluation.

## **6.3 Recommendations**

### **6.3.1 Recommendations regarding strategic budgeting**

**6.3.1.1** The Department of Correctional Services must continue to invest in the training and development of all staff, regarding The PFMA (South Africa, 1999) and Treasury Regulations requirements. The under spending of budget, unauthorised expenditure and poor budget planning, as pointed out by audit reports, can be largely ascribed to the lack of continuous training. Constant focused training will assist to improve effectiveness and efficiency of financial management.

The DCS must revive the training on checking and control for both current and newly appointed managers. The recurring problem with receivables, as pointed out by audit reports, can be ascribed largely to the lack of checking and control. It is also recommended that the basic training colleges of the DCS should include financial management in their curriculum, so that newly appointed officials can be empowered with financial management skills before they start working. This will enhance compliance with regard to financial management.

**6.3.1.2** In addition to the above recommendation (6.3.1.1) the DCS must outsource the services of debt collection to private debt collectors. Alternatively, the Department must outsource training in debt collection to the professional debt collectors. Collection of debt is not followed up on a regular basis as per guidelines; no monthly statements are sent to debtors; and reconciliations are not prepared. Debts owed by officials whose employment was terminated were not recorded on the prescribed form to ensure follow-up and recovery of monies owed to the Department. There was no evidence of recoveries being made from an employee's subsequent salary for allowances incorrectly paid while the official was suspended from work, as pointed



out by audit reports. This can also be ascribed largely to non-filling of vacancies and lack of training of the current staff.

### **6.3.2 Recommendations regarding supply chain management**

**6.3.2.1** It is mentioned in Chapter 4 that the DCS has developed a supply chain management user manual, which includes directives in respect of procurement of goods and services during 2008. Non-compliance with regard to SCM procurement prescripts, as pointed out by audit reports can be ascribed largely to lack of knowledge on the part of the majority of staff. Therefore training on the DCS procurement manual should be rolled out as speedily as possible to all SCM administrative staff, financial administrative staff, cost centre managers, cost centre clerks and all other managers. Other than formal training in SCM, the general staff must be educated regarding supply chain management procedures, through general personnel meetings, notice boards and flyers. An informed staff will comply with supply chain management policies. Training according to this manual will put the DCS in a better position to comply with this manual, The PFMA (South Africa, 1999) and Treasury Regulations.

**6.3.2.2** In addition to the above recommendations (6.3.2.1), the DCS should translate current positions at supply chain management from correctional officials to administration clerks and provisioning administrative officers (PAO). In addition, the requirement for appointments to these positions should be a three-year diploma or degree in supply chain management, or any related qualification, as opposed to the current situation that sees correctional officials without relevant qualifications, appointed to SCM positions. This will enhance compliance in terms of policy and procedures.

### **6.3.3 Recommendations regarding asset management**

**6.3.3.1** Asset management in the DCS has been a qualified matter for the past eight years, including the 2009/10 financial year. The reason for such non-compliance could be that other managers are seeing asset management as the responsibility of the SCM section only. It is therefore recommended that section 45 (e) of The PFMA (South Africa, 1999) should be included in the performance plans of all other managers, as one of the key responsibility areas (KRAs). The Auditor General, in the annual report of 2008/09, indicated that the current structure of the DCS does not have asset management units in the regional offices or in the

management areas structures. Therefore it is recommended that the DCS should amend the SCM structure and include positions of asset administrators at both Regional office and management area level.

**6.3.3.2** In addition to the above recommendations, all assets that are manufactured in the DCS workshops should be bar-coded before they leave the workshops, with the asset number of the specific management area or directorate they are to be delivered to. As for the assets that are purchased from institutions other than departmental workshops, asset administrators at the SCM section must ensure that assets are delivered at SCM stores and that they are bar-coded before they leave the SCM store to different sections. Movable assets in different offices should be chained to the wall or on the floor.

#### **6.3.4 Recommendations regarding control**

**6.3.4.1** More concerted efforts must be made to assist management areas in their preparation for being audited by the Auditor General. This assistance from both Head Office and the regional office can be used as a monitoring mechanism to assess compliance with financial management policies in different management areas.

**6.3.4.2** The internal auditor's report for the 2009/10 financial year of the audit conducted at Pollsmoor and the Johannesburg management areas identified a number of significant non-compliance matters and control deficiencies. In order to ensure effectiveness and efficiency of the existing control mechanisms, performance audits by both internal auditors and inspectors should be rolled out as speedily as possible in the DCS. These performance audits should spell out clearly what corrective measures need to be taken to ensure compliance with financial management. According to Abedian et al. (as cited in Lewis, 2005), performance management is concerned with measuring, monitoring and evaluating performance, and then initiating steps to improve performance where it is warranted.

**6.3.4.3** Bi-monthly inspections into the compliance improvement plan by inspectors should focus on inspecting all transactions or work done during the previous two months, and not on samples. As this approach will enhance checking and control conducted by supervisors and managers, the DCS should also consider increasing the post establishment of current inspectors.

## 6.4 Summary and Conclusion

**6.4.1** In order to address the problem of the recurrence of similar internal audit and inspection findings, as well as the continuous poor Auditor General reports that the DCS has received annually, as pointed out in Chapter 1, the researcher considered the theory on financial management within the literature, financial management policies and legislation, and, lastly, financial management practices within the Department of Correctional Services.

The following table (6.1) summarises the recommendations in the areas of financial management as executed by the accounting officer, chief financial officer and other managers in the areas of budgeting, supply chain management, movable asset management and control.

<b>Strategic budgeting</b>				
<b>Role players</b>	<b>Requirements Chapters 2&amp;3</b>	<b>Practices Chapter 4</b>	<b>Evaluation Chapter 5</b>	<b>Recommendations Chapter 6</b>
Accounting officer	Preparation and submission of department draft budget Budgeting forms part of organisational planning Responsible for budget control	Responsible for the strategic planning of DCS	The internal audit report for the 2009/10 financial year of the audit conducted at DCS Head Office revealed that the DCS budget is not aligned with the strategic plan. Report by the Accounting Officer in the annual report for the 2004/05 financial year indicated the total under spending of R155, 960 million for the year. Audit report in the annual report 2008/09: DCS had unauthorised expenditure to the amount of R483	The DCS must continue to invest in the training and development of all staff regarding the PFMA (South Africa, 1999) and Treasury Regulations requirements. DCS must revive the training in checking and control for both current and newly appointed managers. DCS should include financial management in its training curriculum, so that newly appointed officials can be

			million.	empowered with financial management skills before they start working.
Chief financial officer	<p>Responsible for the financial administration and financial record keeping, and directly responsible to the accounting officer</p> <p>Oversees the budgeting process of the organisation</p> <p>Assists the accounting officer in discharging his/her duties</p>	<p>Coordinates budgeting processes of DCS</p> <p>Oversees the expenditure management of DCS</p> <p>Assists the accounting officer in discharging his/her duties</p>	<p>Report by accounting officer in the annual report 2005/06, financial, indicated the reasons for under spending as: delayed tenders and contracts with regard to equipment, re-prioritisation and down management of expenditure.</p> <p>Under spending of capital due to delays experienced during the planning stages of capital projects.</p> <p>Internal audit report for the 2009/10 financial year of the audit conducted at DCS Head Office revealed that regions are not given adequate time for the preparation and submission of MTEF.</p> <p>Report by accounting officer of DCS in the annual report for the 2009/2010 financial year indicated the under spending on compensation of</p>	Same as for the accounting officer

			employees.	
Other managers	<p>Submission of bottom-up estimations or budget plans</p> <p>Must ensure that the system of financial management and internal control established for the institution is carried out within the area of responsibility of that official</p>	<p>Responsible for the submission of estimates</p> <p>Responsible for management of allocated budget.</p>	<p>The Auditor-General reported a recurring problem with receivables. For the 2005/06 financial year, an amount of R36 million and also for 2006/07 an amount of R40 million for staff debtors could not be verified for completeness or accuracy.</p>	Same as for the accounting officer

<b>Supply chain management</b>				
Role players	Requirements Chapters 2&3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	<p>Links SCM to overall business strategy</p> <p>Develops and implements an effective and efficient SCM</p>	Develops SCM policies	The DCS organogram (Table 4.2) reflects the SCM unit under the leadership of the CFO, which confirms that there is a system of supply chain management in practice within the DCS, as per both theoretical and policy requirements.	<p>Training regarding the DCS procurement manual should be rolled out as speedily as possible to all SCM and all other managers. Other than formal training in SCM, the general staff must be educated regarding supply chain management procedures, through general personnel meetings, notice boards and flyers.</p>
Chief financial officer	<p>Responsible for the SCM of the organisation</p> <p>Assists the</p>	Ensures compliance with procurement	The accounting officer in the annual report of 2007/08 indicated	Same as for the accounting officer

	accounting officer in discharging his/her duties	procedures	that an over expenditure of R18 million was incurred under the security programme, GFS item goods & services. SCM Circular Number 4 of 2010/2011 on procurement of goods, works and services for the DCC indicates that the report for the Auditor General for the 2009/2010 financial year was studied and aspects were identified in which SCM did not adhere to procurement prescripts.	
Other managers	Responsible for the procurement of goods and services Comply with the processes of procurement	Implement the procurement procedures as stipulated in the DCS policies	The Auditor General in the annual report of 2006/07 indicated that accruals to a value of R25million were not included in note 21 of the 2006/07 financial statements.	Same as for the accounting officer

<b>Asset management</b>				
Role players	Requirements Chapters 2&3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Purchasing of capital assets Considers the acquisition of capital assets with care Ensures that a	Ensures that there are proper asset management procedures within DCS	Report by accounting officer in the annual report 2005/06, financial, indicated that	Section 45(e) of The PFMA (South Africa, 1999) should be included in the performance plans of all other

	proper system for asset management exists		DCS utilises several systems for the purchase, payment and management of assets, and that ensuring that information on all systems correlates is quite a challenge. The Auditor General in the annual report of 2008/09 also indicated that the current structure does not have asset management units in the regional offices or in the management areas.	managers, as one of the key responsibility areas (KRAs). DCS should amend the SCM structure and include positions of asset administrators at both Regional office and management area level. All assets that are manufactured within the DCS workshops should be bar-coded before they leave the workshops. Movable assets in different offices should be chained to the wall or on the floor.
Chief financial officer	Before assets can be acquired, they must be budgeted for Ensures that assets are accounted for or are safeguarded Ensures proper management of assets	Ensures that asset management procedures are implemented within DCS	The Auditor General in the annual reports for the 2003/04, 2006/07, 2007/08, 2008/09 and 2009/10 financial years, gave the DCS a qualified report on asset management.	Same as the Accounting Officer
Other managers	Create a database that lists information such as the date acquired, location of assets and the value of	Adhere to asset management procedures within DCS	The Auditor General in the annual report for the 2007/08 financial year gave the DCS a qualified report	Same as for the accounting officer

	assets. Responsible for management and safeguarding of assets		on asset management. The DCS internal audit report for the 2009/10 financial year, conducted on asset management within the regions revealed non-compliance with asset management requirements.	
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<b>Control</b>				
Role players	Requirements Chapters 2&3	Practices Chapter 4	Evaluation Chapter 5	Recommendations Chapter 6
Accounting officer	Establishes a system of monitoring and evaluation Ensures that there is a system of internal audit	Responsible for internal service evaluation system within DCS	Auditor General in the annual report for the 2008/09 financial year indicated that management should focus more attention on improving the current system of internal control, especially as far as asset management is concerned.	Performance audit should be rolled out as speedily as possible within DCS. Compliance improvement should focus on inspecting all transactions or work done during the previous two months, and not on samples. DCS should also consider increasing the post establishment of current inspectors.
Chief financial officer	Supervises and controls financial transactions of the department on behalf of the	Ensures that there is compliance with the established	The Auditor General, in the Annual Reports for the 2003/04, 2004/05, 2005/06,	Same as for the accounting officer



	<p>accounting officer. Assists the accounting officer in discharging his/her duties</p>	<p>internal control measures</p>	<p>2006/07, 2007/08 and 2008/09 financial years identified shortcomings with regard to the internal control in place and also mentioned that the non-compliance with regard to financial management in the DCS is mainly due to the lack of a proper management framework, and monitoring.</p>	
<p>Other managers</p>	<p>Exercise operational control Ensure that a system of internal control established is carried out</p>	<p>Conduct financial meetings as a control tool</p>	<p>The internal auditor's report for the 2009/10 financial year of the audit conducted at the Pollsmoor management area identified a number of significant non-compliance matters and control deficiencies. Internal audit report for the 2009/2010 financial year for the Johannesburg management area also revealed control deficiencies.</p>	<p>Same as for the accounting officer</p>

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