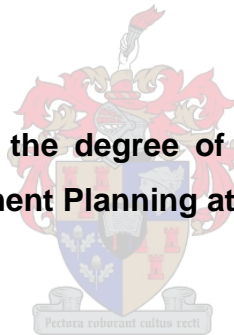**A Public Sector Integrated Financial Governance Framework**

Dr. CL Pieterse

Dissertation presented for the degree of Doctor of Philosophy in Public Management and Development Planning at the University of Stellenbosch.
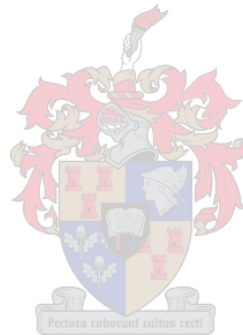
Promoter: Prof. APJ Burger

April 2006

I, the undersigned, hereby declare that the work contained in this dissertation is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

Signature:

Date:

Summary

Using an investigative approach the study starts by outlining the governance quandary that exists within the public sector, with observations made over the past decade by scholars and active role players in the governance arena both in the private sector and in the public sector. It continues to show a growing need for good governance in the public sector, especially in the developing economies of emerging democracies. It uses South Africa as an example in this regard, although the discussion can just as well be applied to other countries finding themselves in a similar situation. It places the governance debate in perspective and provides the background for the development of the *Public Sector Integrated Financial Governance Framework* (IFGF).

A brief look is taken at the reasons for the growing focus on governance in general, governance in the private and public sector, the need for governance, the basic dynamics of governance, stakeholder relationships, the regulatory framework and the role of the judiciary. It then places this understanding of governance – from a financial perspective – within the South African context.

Using the South African context the study discusses the need for an IFGF, the basic requirements for such an IFGF and then as a response proceeds to discuss the role of values and principles, functional application areas and governance-related activities in an IFGF. It develops a financial governance universe, which provides an overview of the various subsections within these aspects.

From this basis the study proceeds to develop the IFGF by identifying specific principles and values applicable to South Africa, followed by a description of functional application areas consisting of leadership, management and control practices required as a minimum to ensure healthy public sector financial governance. It continues to develop governance-related activities based on existing frameworks recognised by public sector agencies globally and in some instance, designed for the private sector. The study proceeds to develop these areas to enable employees in the public sector to discharge their duties in a manner that can form the cornerstone in governance excellence.

Having used a deductive approach during the first few chapters to develop the IFGF, the study then proceed using an inductive process to construct the conditions and the related activities required by the IFGF. It develops detailed information on specific activities that must be in place for the IFGF to be functional. These activities provide the "how" and are grouped together based on a recognised framework. Governance effectiveness depends on a situation where all areas are considered.

Lastly the study focuses on the conclusions regarding the IFGF outcomes and therefore discusses the implementation of the IFGF and the impact on the accounting system, measuring governance and keeping the IFGF updated with developments internally and externally.

The study shows the growing importance for developing countries and emerging economies to demonstrate healthy governance processes and practices. However, no consensus yet exists on the approach or

methodology, particularly with regard to building national ownership of and political commitment to governance (Landell-Mills, 2003:369). Fortunately similar initiatives have been forthcoming from a number of countries and, although they are each focussed differently, they provide a base for developing a public sector IFGF for South Africa in particular, but can also be used as a guideline for other emerging democracies. Developing the governance universe facilitates the process of keeping track of a multitude of possibilities that are relevant in day-to-day management.

The study determined the applicable criteria that an IFGF must satisfy to attract attention when funding is required from the donor community and to provide assurance to stakeholders with limited skills and knowledge that objectives are achieved effectively and efficiently in an ethical environment.

The benefit of this framework is that it has passed the first scrutiny in South Africa namely that of the Provincial Treasury of the Provincial Government Western Cape (PGWC) public sector audit committees in the public sector (PGWC) and is currently being subjected to a four-year implementation process, starting with an awareness phase in all Departments of the PGWC. During this process the senior management of all the departments are being exposed to the principles contained in the IFGF and their practical observations and suggestions will be applied towards formulating an updated version of the Governance Framework of PGWC (Draft version 2.20e).

This is significant, because it represents a healthy interaction between academic research and practical application, a process that is more often than not balanced, but appears to be in favour of either the one or the other.

Summary Afrikaans

Die navorsing fokus aanvanklik op die probleem van korporatiewe regeerkunde (corporate governance) soos wat dit tans beskryf word in die literatuur deur navorsers en ander rolspelers, beide in die privaat en openbare sektore. Dit gaan voort om die aandag te vestig op die groeiende behoefte aan korporatiewe regering in ontwikkelende lande met ontluikende ekonomië. Suid Afrika word gebruik as voorbeeld in die verband.

Die debat oor korporatiewe regering word in perspektief geplaas as agtergrond vir die ontwikkeling van 'n geïntegreerde korporatiewe — finansiële- regeerkunderaamwerk (IFGF) vir die openbare sektor.

Daar word kortliks aandag gegee aan die redes vir die groeiende behoefte aan korporatiewe regering in die openbare sektor, die basiese dinamika van korporatiewe regering, verhoudinge tussen belange-groepe en die rol van die wetgewing in die verband.
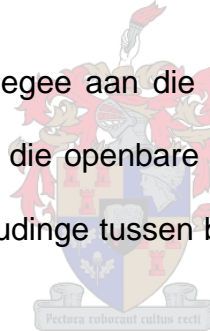
Terwyl Suid Afrika as voorbeeld gebruik word, gaan die studie voort om die behoefte aan 'n geïntegreerde raamwerk in die openbare sektor, die vereistes van so 'n raamwerk, en die rol van waardes, funksionele toepassings areas en korporatiewe regeerkunde-aktiwiteite te bespreek. Dit word gevolg deur die ontwikkeling van 'n korporatiewe regeerkunde universum wat 'n globale oorsig bied oor die verskeie elemente in die raamwerk.

Vanuit bogenoemde basis word die geïntegreerde raamwerk ontwikkel en word 'n spesifieke waarde stelsel bepaal wat op Suid Afrika van toepassing is. Dit word gevolg deur die ontwikkeling van spesifieke funksionele

toepassingsareas bestaande uit strategiese leierskap, bestuur en kontrole praktyke wat as die minimum vereistes beskou kan word en wat noodsaaklik is om finansiële korporatiewe regerings suksesvol uit te voer. Korporatiewe regeerkunde-aktiwiteite word bepaal, gebaseer op praktyke wat wêreldwyd deur openbare sektore aanvaar word. Hierdie voorgestelde ontwikkeling behoort die amptenare in die openbare sektor in staat te stel om hulle pligte so uit te voer dat dit finansiële korporatiewe regeerkunde in die openbare sektor bevorder.

Terwyl die studie aanvanklik 'n deduktiewe proses gevolg het met die ontwikkeling van die raamwerk, maak dit voorts gebruik van 'n induktiewe om die vereiste te bepaal waaraan korporatiewe regeerkunde-aktiwiteite moet voldoen, te bepaal. Spesifiek vereistes word vir díe aktiwiteite ontwikkel om te verseker dat finansiële korporatiewe regering suksesvol en geïntegreerd kan plaasvind.

Laastens fokus die navorsing op die implementeringsvereistes van die raamwerk asook die impak wat dit kan hê op finansiële stelsels, die meting van korporatiewe regering en die noodsaaklikheid om tred te hou met voortgaande ontwikkelings in die verband.

Clarification of topic

*Governance in the context of this study is regarded as:*

Providing stakeholder assurance by applying one's abilities (resources, time and efforts) in such a manner that objectives are achieved effectively and efficiently in an agreed ethical environment.

This study took place simultaneously with the development of a Financial Governance Framework (IFGF) for the Provincial Treasury of the Provincial Government of the Western Cape (PGWC) by this researcher. The Financial Governance Framework for PGWC was completed in March 2005. The original intention was that the dissertation should form the foundation for its development. This is clear when looking back at the dissertation proposal, which described the purpose of this study as follows:

To develop an integrated financial framework for provincial governance. The results of the study should enable government to achieve specific outcomes that meet predetermined governance standards if the framework is implemented. Furthermore, the study aims to implement a relevant portion of this framework within the Provincial Treasury of the PGWC, as a pilot project. The result of the study should allow Provincial Government to give governance assurance to stakeholders that objectives would successfully be achieved with minimum inputs and maximum outputs whilst operating in an ethical environment.

The IFGF has since been completed and is currently (2005) in the process of being implemented (over a four-year period) in all the departments of the PGWC, starting with an awareness campaign. As a result there would be many similarities between the framework suggested in this dissertation and the IFGF developed for the Provincial Treasury, including arguments, statements and references. However, the objective of the PGWC was to develop a framework that can create and sustain a culture within the PGWC that moves towards providing an assurance of governance excellence, i.e. a framework designed to meet their specific requirements.

The dissertation benefited from this situation where theory and praxis (theoretically informed practice) became mutually dependent on each other for their development and would provide imputes for such a dynamic development in both cases. This creates an unique opportunity to include the benefits of this interaction into the IFGF.
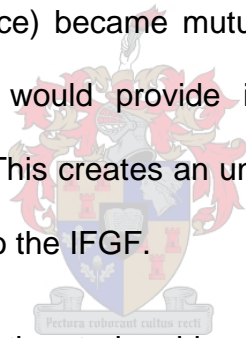
However, one must note that the study addresses issues on a level that goes beyond the current efforts of PGWC and therefore contains additional detail, references, academic reasoning and assumptions, including having the further benefit that the contents already meet the requirements of at least one role player in the public sector, namely PGWC. However, it will take some time before a meaningful assessment of the implementation of the IFGF in PGWC can be made.

It is also important to note that many of the areas discussed in this dissertation can be regarded as study areas and in most cases are recognised as disciplines in their own right. It is not the purpose of this

dissertation to study these areas comprehensively, but rather to determine how the current understanding, application and integration of these fields can be applied towards improving public sector governance.
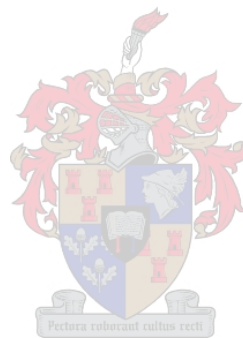
Acknowledgement

For Susan

Thanks for being there

And being you

And bringing so much to my life.
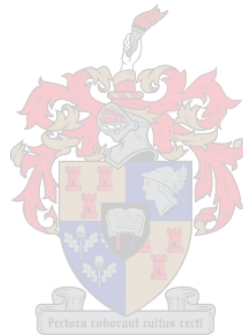
Thank you for sharing this part of my life's journey.
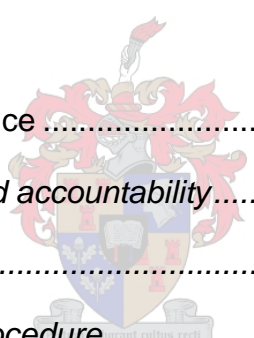
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Abbreviations

ALO   Activity Level Objective

ANAO   Australia National Audit Office

API   Activity Performance Indicator

CoCO   Criteria of Control. Guidance on control developed by the Canadian Institute of Charted Accountants.

COSO   Committee of Sponsoring Organizations of the Treadway Commission

DPSA   Department of Public Service and Administration

EPI   Entity performance indicator

EPI   Entity Performance Indicator

EWO   Entity-wide objective

FS   Financial Statements

IFGF   Integrated Financial Governance Framework

IT   Information Technology

KMO   Key Measurable Objective

KPI   Key Performance Indicator

KRA   Key Result Area

MTEF   Medium Term Economic Framework

MTP   Medium Term Plan

NEPAD   New Economic Partnership for African Development

NTR   National Treasury Regulations

OECD   Organisation for Economic Co-operation and Development

PFMA   Public Finance Management Act 1999 (Act 1 of 1999 as amended by Act 29 of 1999)

PGWC   Provincial Government of the Western Cape

PSC   Public Service Commission

PTR   Provincial Treasury Regulations

Risk ID   Risk Identification

RPI   Result Performance Indicator

TBS   Treasury Board Secretariat Canadian Government

Chapter 1   Governance quandary in the public sector

1.1   Introduction

This chapter focuses briefly on describing the research problem, defines the concept of governance and describes the purpose of the study. It briefly reflects on the methodology followed to provide a solution and the context in which the development took place. It concludes by providing an overview of the content of the dissertation.

1.2   The research problem

Although the roots of the governance concept can be traced back hundreds of years, the last 15 years have seen an increasing focus on governance as a specific category. Reports such as Cadbury, King II and Sarbanes Oxley are examples of the increased focus. These reports, together with the other literature on governance, create the impression that governance in the private sector was the first to receive focused attention. Conformation seems to exist for this impression when governance developments are researched in countries such as Canada, the Netherlands and Australia. These countries are examples of governments that are trying to improve governance practices and process in the public sector, apparently based on their observation of governance practices developed in the private sector. However, care has been taken ensure to include only applicable developments.

There might be an imbalance between the development of governance practices in the private sector and the development of similar governance practices in the public sector, with the governance development of the latter

trailing relatively far behind developments in the former. Having said that, the researcher notes that analytical tools and agreed terminologies are slow in emerging, definitions are not easy to establish clearly and the direction of causality is far from agreed. Compounding the situation, it often appears that the term governance is used as a buzzword rather than expressing what is mutually understood by the term. In the absence of a mutually agreed interpretation of the term, the readers and/or listeners are dependent on the context to determine the meaning.

Reasons for the growing focus on governance globally are multiple and, although similarities are found amongst the different authors, there are also very different opinions that are in some cases based on general observation and in other cases based on a closer scrutiny of the facts. When reviewing the literature an impression is formed that the governance debate is driven by the unexpected failure or collapse of large organisations rather than being driven by a deliberate effort to improve governance.

1.3   Defining governance

Multiple reasons for the growing focus on governance could have caused the multiple ways of understanding the concept of governance that resulted in the development of different measuring indicators, mostly based on the underlying understanding of the concept. This is apparent in Cloete (2006:1) who after referring to other existing definition, conceptualizes good governance as the achievement by a democratic government of the most appropriate developmental policy objectives to sustainably develop its society". The author continues to remark that this is done by mobilizing,

applying and coordinating all available resources in the public, private and voluntary sectors, domestically and internationally in the most effective, efficient and democratic way. Cloete (2006:7) concludes by highlighting the short comings of various initiatives from institutions to improve governance in the South African public sector after noting (2006:2) that "in practices little has come of these lofty ideals, with noticeable exceptions of isolated initiatives".

Whilst agreeing with the above views expressed by Cloete it still appears as if he and those quoted in the study do not attempt to detect the need of providing practical guidance on how daily activities must be performed that would enable the public sector to achieve the expected governance results especially when measured against the vast number of measuring indicators (referred to in the study) that are abundantly developed by all concerned.

 In this study the development of a governance framework that can provide practical guidance on the manner in which activities are required to be performed including their mutual interdependencies on each other are regarded as a central focus point to improve public sector governance and meet the expected results of developed measuring indicators.   Cloete (2002:1) notes, that a number of measuring indicators have been developed, however, a practical guide to ensure that practices are developed to meet these criteria has not been developed.

Although some similarities in the understanding of the concept by the two sectors exist, important differences are noticed. As an example it appears as if one of the objectives of governance in the private sector and the public sector are similar namely; to create safeguards that enable objectives to be

achieved to the benefit of stakeholders. As indicated by Timmers (2000:8) this requires management, control and supervision by management including being accountable to stakeholders for their activities. However, the manner in which accountability, supervision and control can be exercised differs greatly between the sectors.

Another noticeable and important difference between governance in the public sector and that in the private sector can be exemplified by the documents published by each sector to attract public attention. In the private sector organizations mostly publish financial statements on the basis of which profits are appropriated and directors are held accountable to the stakeholders. The public sector, as example in South Africa publishes, publishes its budget linked to policy statements and proposals.

Further, although it appears that there is a trend towards increasing transparency in both sectors, there are critical difference between the collective stakeholders in the public sector and those in the private sectors. Differences that might impact governance expectations, stakeholders' relationships and the power stakeholders can exercise individually or collectively over management. It is therefore understandable that while the private sector move towards improving reporting on financial results, related environmental issues, social responsibility and organizational sustainability, the public sector are increasing placing more emphasis on performance reporting.
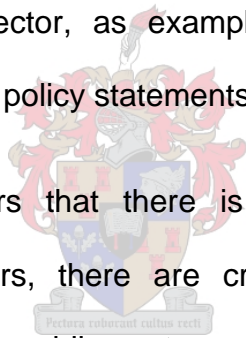
1.4   Purpose

During the initial stages of this research it soon became apparent that no single and comprehensive model of corporate governance for the public sector exists. This concurs with the Organisation for Economic Co-operation and Development (OECD 1999:8), which states that different legal systems, institutional frameworks and traditions have contributed to the fact that a range of different approaches have been developed around the world. The only common denominator in all the approaches is the apparent conviction that the public sector needs to reconsider its own governance practices for a variety of reasons, often originating from very different considerations.

This researcher accepted this situation as a point of departure for this study. Questions arise with respect to this point of departure that compel the researcher to seek for possible solutions. Questions such as why this increase in focus on governance; is there a need for governance in the public sector; are there differences between private sector governance and public sector governance; who are the stakeholders in the public sector and how do they influence the governance processes; what impact, if any, will an agreed value system have on governance in the public sector; are their particular strategies, management practices and related activities that can contribute towards improved governance practices and processes and, if this is the case, what would the relationship between them be? In essence these questions can be collated into a single one: is it possible to develop an integrated financial governance framework, especially for the public sector, that combines the possible answers to all these questions in such a manner that it can assist the public sector to improve its existing governance

processes and practices? Therefore, this dissertation aims to develop a Public Sector Integrated Financial Governance Framework (IFGF) that would enable the public sector to improve its existing governance practices to provide its stakeholders with value for money by reaching objectives, effectively and efficiently in an agreed ethical environment.

An integrated framework is one that indicates the relationships between the different elements of the framework. It identifies stakeholder relationships, the specifics of an agreed value system and the linkages between governance activities. It aims to provide the public sector with guidance on how the sector should conduct its business to ensure that its stakeholders receive value for money, that scarce resources and the environment are protected, and that all activities happen within the parameters provided by agreed values and principles.
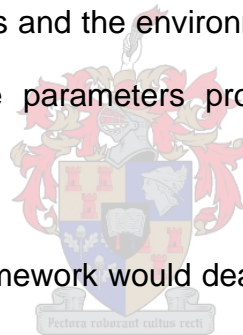
As the title suggests, the framework would deal with governance in the public sector which operates under different dynamics than the private sector. A financial approach will be used in the framework as the public sector, particularly in South Africa, is budget-driven. The budget policy statement of the national Minister of Finance is the starting point for all departmental strategic planning and accompanied execution of the plans. As a governance framework, the contents are organised in a particular manner, depending on similarities between elements, mutual purposes, and the impact it has on governance. The methodology chosen to accomplish the above is explained in the following section.

1.5   Methodology

As such the methodology base is an expletory case study staring with the Provincial Government of the Western Cape but also expanding towards other South African provincial and national government sectors. A limitation of the research that needs to be mentioned is that further research is required to make the results applicable to the local government sector. Given the specific contents of the study the integrated financial governance framework developed can not be directly applied to other countries without considering their unique settings.

The methodology followed in this study is qualitative and investigative in nature, with the aim to build a Public Sector Integrated Financial Governance Framework (model). The investigation is based on a review of governance-related literature and includes considering governance developments and their applications in the public sector globally. Based on this process, the dissertation then develops a Public Sector Integrated Financial Governance Framework.

It is important in this regard to recall the remark made at the beginning: "This study took place simultaneously with the development of anIFGF for the Provincial Treasury of the Provincial Government of the Western Cape (PGWC) by this researcher". In a situation such as this, where theory and practice are dealt with simultaneously, the common trap of over-abstracting formulations that have lost connection with any reality, pointed out by Mouton (2001:117), are avoided. The assumptions made in the dissertation that can be connected with the framework of PGWC were subjected to the

practical consideration and official endorsement (June 2005) of the Audit Committee for The Department of Health and the Shared Audit Committee for nine of the other provincial departments of PGWC.

Therefore the dissertation would contain assumptions, suggestions and choices that are plausible and have passed the first scrutiny of two governmental oversight bodies (the Audit Committees). The fact that the framework is currently in the process of implementation also impacts on the manner in which the contents of the dissertation are presented. It should be noted that the scrutiny, however, went much further, as the dynamics reflected in the framework were subjected during their development to the scrutiny of the Public Service Commission (PSC), Department of Public Service and Administration (DPSA), at least four academics of three South African universities, a representative of the New Economic Partnership for Africa Development (NEPAD) and a member of the current Committee of Sponsoring Organisations of the Treadway Commission (COSO), all of whose inputs were considered and, where found appropriate and incorporated.

Mouton (2001:177) remarks that science cannot make progress without theories and models and that the one is dependent on the other to ensure continuous development. This study took place under such conditions and can therefore provide a basis for further scientific research. The dissertation provides a simplified understanding of governance in the public sector, supported by developing a practical governance framework and accompanied by implementation.

1.6   Context of study

It is important to note that governance is context specific. Therefore, it would be necessary to understand how governance in the private sector differs from that in the public sector, why the public sector needs to consider implementing governance and the dynamics between the public sector and its stakeholders. This would require incorporating existing developments and also creatively designing a framework for the public sector that can be used as a point of departure for further development.

Achieving this would also mean realising that is not merely a matter of making a distinction between public and private sector governance, but that it also requires acknowledging that in the public sector governance relates to the economy, statecraft, global relations and community issues. Using the governance development in PGWC as a case study in this regard would therefore contextualise the study.
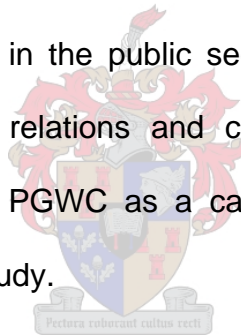
1.7   Chapter outline

In this chapter (Chapter One) the research problem, the purpose of the study and the methodology used to provide a solution was discussed. The chapter also provides information regarding the context and content that the research focus on.

Chapter Two (Governance) places the governance debate in perspective and provides the background for the development of the Public Sector Integrated Financial Governance Framework. It briefly explores at the reasons for the growing focus on governance in general, governance in the private and public

sector, the need for governance, the basic dynamics of governance, stakeholder relationships, the regulatory framework and the role of the judiciary.

Chapter Three (A South African IFGF) places this understanding of governance – from a financial perspective – within the South African context. It starts by determining the need for an IFGF, the basic requirements for such an IFGF and then as a response proceeds to discuss the role of values and principles, functional application areas and governance-related activities in an IFGF. It continues by reflecting a financial governance universe, which will provide an overview of the various subsections within these aspects. The chapter concludes by making deductions and giving an indication of the contents of the next three chapters.

Chapter Four (Public sector IFGF – Values) focuses on identifying specific values applicable within the South African context. The chapter focuses therefore on the South African context.

Chapter Five (IFGF – Functional application areas) defines the areas that are incorporated to enable employees in the public sector to discharge their duties in a manner that can form the cornerstone in governance excellence. It is based on activities recognised by public sector agencies across the globe. With the IFGF, management involve themselves in processes to move toward their objectives against the background of a clear understanding of a predetermined value system, determined especially for the public sector by the relevant stakeholders.

Whilst Chapters Two, Three, Four and Five follow a deductive approach, Chapter Six (based on the previous four chapters) follows an inductive process to construct the conditions and the related activities required by the IFGF. It therefore provides detailed information on specific activities that must be in place for the IFGF to be functional. These activities provide the "how" and are grouped together based on a recognised framework. Governance effectiveness depends on a situation where all areas are considered.

Chapter Seven focuses on the conclusions regarding the IFGF outcomes and therefore discusses the implementation of the IFGF and the impact on the accounting system, measuring governance and keeping the IFGF updated with developments internally and externally. The chapter ends with a final summary and a list of references.

Chapter 2   Governance

2.1   Introduction

This chapter places the governance debate in perspective and provides the background for the development of the Public Sector Integrated Financial Governance Framework. It briefly analyses the reasons for the growing focus on governance, governance in the private and public sector, the need for governance, the basic dynamics of governance, stakeholder relationships, the regulatory framework and the role of the judiciary.

2.2   Why the governance focus

An initial review of literature indicates that throughout history mankind has striven for good government; yet governing well for the benefit of the ordinary citizens has most often been perceived as a secondary consideration of rulers. Some authors suggest that the main ambition was to gain power and to hold on to it (Landell-Mills 2003:358). However, corporate governance in general has only recently received the focused attention of scholars, business executives and a few first world governments; yet, as Barret (2003:3) notes, the practice of governance has been around for more than four hundred years. Iskander and Chamlou (2000:v) remarked something similar when stating "Corporate Governance has only recently emerged as a discipline in its own right, although the strands of political economy it embraces stretch back through centuries." It appears if governance has been receiving growing attention during the past decade.

Those concerned about governance has identified reasons why governance is receiving growing attention. The World Bank, for example, started to focus as early as 1991 on the effect poor governance had on the Bank's mission of promoting development and reducing poverty (Landell-Mills 2003:360). The Auditor General of the Australia National Audit Office (ANAO) (Cameron 2002b:1) reflected during a speech that governance has emerged as a mainstream topic and is receiving increasing attention across both the private and the public sector due to a range of factors, including corporate failures; pressure to perform, because of globalisation; increasing public sector scandals; increasing complexity of stakeholder relationships and expectations; a growing need for foreign investments to alleviate growing poverty in third world countries; changes in the ways the public sector does business; a move towards outsourcing; changed business relationships; and a renewed focus on core public service, ethical, informational, consultative and collaborative arrangements. Cameron (2002b:18) identifies the dominance of individuals, inadequate accountability, non-disclosure and poor reporting as some of the main reasons for the emerging governance crisis in the public sector.

The following year Barret (2003:1-2) indicated that a crisis emerged in Western democracies because the roles, tasks and accountabilities of the board of directors are not understood by politicians, business people or the general public; Barret observed that investors, politicians and the general public have demonstrated a growing unhappiness because of unprofessional relationships with shareholders, executives and the wider social community of stakeholders. As a result, questions regarding governance were beginning to

be asked by those concerned and the same questions addressed to the private sector would also be increasingly aimed at the public sector. Barret (2003:3) summarises his views by stating that there is a global corporate governance crisis in private and public sectors which is a complex mixture of directorial ignorance, strategic incompetence and greed.

Currently (2005) many of the above conditions seem to prevail in the public sector, as reports appear regularly in the media that focus on issues such as NEPAD, the G8 summit held recently (July 2005) in the UK, the Zimbabwean crisis regarding their land reform initiatives, their inability to meet repayments deadlines for foreign loans, and the alleged corruption within the public sector in South Africa that constantly seems to draw the attention of the media. The crises in the private and public sectors seem to be one of the important reasons why there is growing focus on governance in both the sectors. It is therefore necessary to pay attention at governance in the private and public sector.

2.3   Private and public sector

It is noticeable that attention has widely been focused on developing corporate governance in the private sector, and therefore the development of "corporate" governance peculiar to the public sector seems to be lacking far behind. Whilst the public sector appears to ensure that the private sector improves its governance, it has failed to focus on its own level of governance. Both sectors, public and private, are in need of good governance but it does not necessarily mean that good governance in the two sectors can be achieved in a similar manner.

This was confirmed during the initial stages of this research when it soon became apparent that no single and comprehensive model of corporate governance for the public sector exists. The OECD (1999:8) states that different legal systems, institutional frameworks and traditions have contributed to the fact that a range of different approaches has been developed around the world. The only common denominator in all the approaches is the apparent conviction that the public sector needs to reconsider its own governance practices for a variety of reasons, often originating from very different considerations.

More recently initiatives such as Sarbanes Oxley (Sarbanes Oxley Act 2002 Sec 3(a)) in the USA follow a global trend, where an increasing number of governments such as Canada, UK, Australia, Netherlands, and including South Africa and a few others, are starting to play an active role in improving governance in the private sector. These countries pass legislation that enforces various regulations to which boards of directors, CEOs and companies must adhere. Often these initiatives are in reaction to the collapse of large organisations such as Enron.

In the private sector corporate governance excellence provides proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently (OECD 1999:11). Corporate governance is only part of the larger economic context in which organisations operate, which includes, for example, macro-economic policies and the degree of competition in product and factor markets. It is therefore understandable that governments are trying to enforce

governance through legislation on the private sector. In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which it operates can also have an impact on the reputation and the long-term success of an organisation.

The public sector cannot ignore the fact that it is subjected to similar dynamics when starting to move towards governance excellence. As an example, the public sector and the private sector compete for similar resources, such as obtaining the best employees from the same employee market. Also, as in the private sector, government has to provide its stakeholders with an assurance that it is acting in their best interest. In the case of South Africa the situation becomes more sensitive, because the majority of stakeholders lack the skills and knowledge to make meaningful assessment of governments actions. The public sector is not protected automatically from making the same mistakes or being affected negatively in the same manner. However, there might be a possibility that mechanisms applied by the public sector might differ.

In this regard it was remarked in the Governance Framework of PGWC that government and the private sector are exposed to similar failures in governance practices. Failures in governance can always be attributed to some cause and, although not all incidents can be prevented from happening, most could be prevented or controlled if properly structured governance systems were in operation. Examples of failures when endeavours to achieve governance excellence are absent are linked by Cameron (2003a:8) to inadequate internal control systems and non-disclosure; dominance of individuals; the lack of action by management and politicians to challenge

financial information; poor reporting activities as a result of absence of proper reporting criteria; the lack of appropriate action when financial misconduct becomes apparent; the lack of practical and achievable strategic objectives; the lack of effectively monitoring progress made; deficiencies of value and ethics; and the lack of exercising proper oversight and accountability.

Therefore, it is not surprising to note that, while governments are actively involved in addressing the crises in the private sector, the crises within their own sphere resulted a situation where their own governance practices came increasingly under scrutiny, forcing them to consider the state of their own governance. Apart from experiencing similar problems, the question arises whether there are any other reasons for the public sector to focus on improving its governance.

2.4   The need for public sector governance

The need for governance in the public sector can be observed in a variety of issues, depending from which direction the approach is made. The study approaches the issue of possible needs that might exist from a financial perspective, mainly because of the central place finances have in the public sector. In the South African government system the available finances determine the extent of operations planned and achievements are measured in financial terms – to indicate but two examples of the role that finances play. This section therefore highlights a few of these needs to demonstrate the need for governance in the public sector; it is not in any sense a comprehensive list of needs.

2.4.1 Needs of a large organisation

It is commonly accepted that the larger organisations require larger budgets and therefore the need for sound governance is greater. In most instances governments can be regarded as one of these large organisations. In such organisations large numbers of employees perform a great number of activities daily, creating an impression that activities are neither connected nor interdependent. However, this impression can be misleading, because although the activities may appear to be disconnected at any given moment, they are nevertheless connected – they have a common purpose. However, in large organisations and under such circumstances, it is easy to lose focus on their purpose.

Given these circumstances, it can be argued that a governance framework can help to maintain focus on the core business of an organisation. It ensures that common purposes do not get lost along the way, do not mutate into different purposes over time and do not lose their relevance to the original objectives. It can enable management to evoke procedures that provide safeguards against duplication of tasks and that can prevent resources from being applied to tasks that have lost their relevance to objectives, especially when changes in objectives or operational procedures occur.

Large organisations are also faced with the daunting task of continually ensuring that the skills of their employees keep track with developments and changes. Within the public sector political changes often result in changing established objectives without considering the existing skills of the employees. A governance framework can also ensure the continuous

updating of skills-development initiatives to accommodate changes in objectives and procedures; it prevents the relationship with stakeholders from becoming strained because the objectives are kept aligned with stakeholder expectations and agreements. It can be applied to eliminate waste and ensure that efforts are directed to useful activities, especially when more than one government agency is providing services in a specific area and duplication of tasks and the uneconomical use of resources becomes a reality.

The size of the public sector is but one of the many factors that demands a governance framework to ensure that all activities contribute towards the achievement of objectives in the best possible manner. Other factors as are also considered in chapter 4 and chapter 5.

2.4.2 Investment need

If one is to agree with the observation of Barret (2003:3) that the crisis in the private and public sectors is "a complex mixture of directorial ignorance, strategic incompetence and greed", then it can be argued that failing to take measures that can rectify situations where controls are compromised can cause economic policies to erode rapidly. This will mean that the public sector in developing countries with emerging and often struggling economies will be spending their already limited resources and funding at addressing these complex issues instead of applying them more effectively elsewhere. This will increase the need for additional funding, forcing governments to look towards the donor community.

Africa as a developing continent has developed such a dependence on donor funding because it has made little progress to provide for its own inhabitants since the end of colonialism. There is a growing demand from the West that countries in Africa must demonstrate "good" governance practices if they are going to consider asking for assistance. NEPAD is such an initiative that is busy evaluating participating governments across Africa to determine, amongst other things, the effectiveness of their governance. In the Strategic Plan (2004-2005:15) of the National Treasury of South Africa the future role of NEPAD is regarded as a central priority for economic governance and mobilising private capital flows. Developing the NEPAD initiative was therefore also included in the three-year Strategic Plan for 2003-2006.

As long as the public sector has to depend on the donor community for assistance, it will be under pressure to evaluate its governance practices. It is also globally understood that governance is critical to sustainable, broad-based economic development and improvements in human wellbeing. There appears to be awareness globally that poor governance encourages practices such as corruption, which in turn undermines the efficient and equitable provision of public services and blocks opportunities for the poor and weak to benefit from the development process.

2.4.3 Productive social programs

Public sector management with accountable public institutions that give priority to productive social programs and polices designed to reduce poverty and support sound fiscal choices are some of the key components of governance indicated in the literature. Similarly are transparent policy-making

and implementation, clarity, stability and fairness in the rule of law; openness to the participation of the affected citizens in the design and implementation of policies and programs that impact on them (Landell-Mills 2003:357).

Landell-Mills's view represents a widely shared opinion amongst the main donors that focus on providing developmental aid. For them, improving governance is crucial in reducing poverty. The author adds (2003:358) that, although the donor community was slow to recognise this, their field staff have for a long time been acutely aware that poor governance is responsible more than anything else for the disappointing outcomes of development programs and very often the direct cause of failures. It appears that the donor community is now very much more aware of the gap between rhetoric and practice in developing countries regarding governance intentions.

This increases the pressure on governments of developing countries, where the fight against poverty is most severe, to move towards financial governance practices that ensure that their citizens receive the maximum benefit of development processes in the manner that available finances are applied. This is crucial for South Africa where poverty levels are high, resources to address poverty limited, and where the need for assistance from the donor community is becoming a growing reality.

2.4.4 Stakeholder value

Garrett (1996:30) notes that there is little confidence that the interest of stakeholders (large or small), whether they be staff, customers, suppliers, local community or the physical environment, are being looked after satisfactory. Governments seem to struggle to come to terms with the

growing public uneasiness. Some of the shortcomings noticed by the public in the governance systems of public sector are the importance of directions selected that are constantly under-emphasised, the lack of leadership and the lack of effective management to keep the day-to-day activities running to ensure that the system sustains itself in the long term. As noted in the Governance Framework of PGWC, an internal awareness is growing that the constant changes due to the political environment might be regarded as one of the main contributing factors in this regard.

The OECD (1999:8) observed that common to regimes where there is a strong focus on governance are the high value and degree of priority placed on the interests of stakeholders, who place their trust in organisations to use their investments / funds wisely and effectively. There appears to be consensus globally that governance must provide assurance to stakeholders when they entrust their investments to someone else. These assurances include building on experiences such as the fact that objectives are achieved as previously agreed by all, to name but one assurance requirement. Governance provides stability, encourages growth, contributes to sustainability and enables governments in developing countries to address issues such as poverty alleviation much more effectively.

2.4.5 Investment value

The degree to which corporations implement and maintain basic principles of governance excellence is an increasingly important factor for investment decisions. Of particular relevance is the relation between corporate governance practices and the increasingly emerging international character of

investment. International flows of capital enable countries to access financing from a much larger global pool of investors. If countries are to reap the full benefits of the global capital market, and if they are to attract long-term "patient" capital, they need to ensure that their financial governance arrangements are credible and well understood across borders (OECD 1999:12).

Even if countries do not rely primarily on foreign sources of capital, adherence to sound governance practices will help improve the confidence of domestic investors, may reduce the cost of capital, and ultimately induce more stable sources of financing and contribute to sustainable development. Government needs investors that are not concerned solely with the financial return on their investments but rather with results that express the value realised as a result of their benevolent investments.

The need for governance is apparent; however, to respond to this need appears to be a daunting task. The issues seem to be complex and interwoven, complicating any attempt to address them. Governance represent a higher level of sophistication and therefore this dissertation aims to assist the public sector to understand the complexity of public sector governance when striving to meet predetermined objectives, and to ease the managerial burden by enabling the selection of correct mechanism for a specific situation when performing daily duties, while at the same time providing excellent service in an ethical environment.

2.5   Basic dynamics of governance

It is important to understand the basic dynamics of governance in the private sector when developing a governance framework for the public sector. In the simplest form governance in the private sector becomes relevant when ownership and management of an organisation are separated (Wixley and Everingham 2002:1). This leaves owners with the need to monitor the performance of managers. In the absence of the constant presence of the owners, the concept of stewardship calls for independent external assurance providers such as auditors who can perform an independent assessment of the financial performance over a specific period and on the state of the organisation's financial affairs on a regular basis. Assurance providers would check that proper stewardship took place – an important aspect because of the separation of ownership from management. The character of the relationship between owners and managers becomes the driving force of governance.
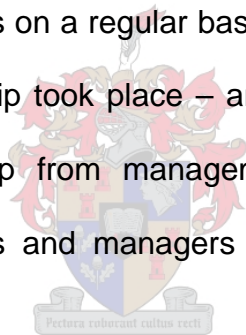
This also holds true for governments that where ownership is separated from management. The Constitution of the Republic of South Africa (Act 108 of 1996), for example includes a bill of rights which expresses the fundamental and basic rights, benefits and privileges of every citizen. The 1996 Constitution assigns the responsibility to government to ensure that these rights and the concomitant services are implemented for the citizens. It can be argued that, in a manner similar to the private sector, ownership and management are separated as the public sector becomes the "managers" of the county's resources on behalf of the citizens (owners). However, as Cameron (2002b:7) points out, ownership is a little more defused in the public

sector. There is a high level of public interest involved, which requires regular provision of information upon which competent judgements can be made.

Governance in the public sector encompasses a much larger set of issues, including the process by which rulers are chosen, the rule of law and the functioning of systems of public accountability, and the participation of citizens in making decisions that affect them. The dissertation aims to provide the framework that allows stakeholders and managers to mutually agree on what is important and thereby enabling assurance control within the areas to focus their efforts on.

2.6 Stakeholder relationships

Relationships among different participants in the public sector are a critical reality that affects the quality of governance. It is important to identify these role players in the public sector and investigate some differences between the public and the private sector in this regard.

Generally stakeholders in the private sector have the power to sever their relationships with organisations when they become dissatisfied with the manner in which their expectations have been met by the organisations. Depending on the degree of their involvement, this action could have little or substantial influence on the continued existence of an organisation.

Controlling shareholders in the private sector, who may be individuals, family holdings, block alliances, or other corporations acting through a holding company or cross shareholdings, can significantly influence corporate behaviour. Institutional investors, such as owners of equity, are increasingly

demanding a voice to impact on the corporate governance in some markets. Individual shareholders usually do not seek to exercise governance rights, but may be highly concerned about obtaining fair treatment from controlling shareholders and management. Creditors are another type of stakeholder playing an important role in some governance systems and have the potential to serve as external monitors over corporate performance. In a similar manner, employees and other stakeholders play important roles in contributing to the long-term success and performance of corporations.

As indicated in the simplified diagram stakeholders can be regarded as the drivers or enforcers of governance – this can occur directly or indirectly – and this is based on their particular relationship with the organisation as illustrated in diagram 2.1. Managers in the organisation can be regarded as the implementers of governance and are focused on providing stakeholder with the assurance regarding the management of stakeholders' interests.
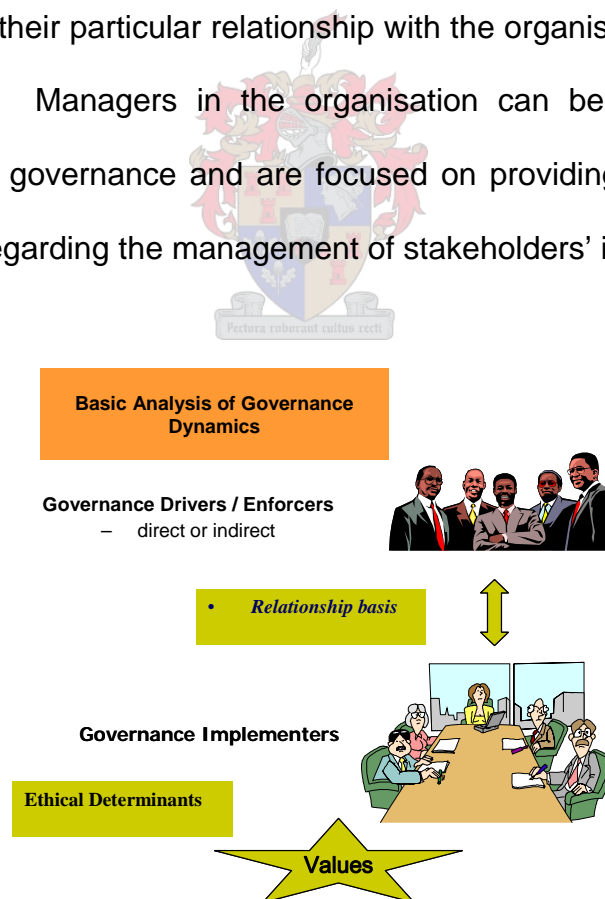
Diagram 2.1 Stakeholders as governance drivers

All these roles are being played while governments are establishing the overall institutional and legal framework for corporate governance (OECD 1999:12). The OECD continues to state how the role of each of these participants and their interactions vary among OECD countries and among non-members as well. These relationships are subject, in part, to law and regulation and, in part, to voluntary adaptation and market forces. The dilemma is: who establishes a framework for the framework makers, in this case governments?

In the public sector the system of governance is not exempt from the effects of the relationship among the participants. It is therefore crucial that a government considers who the participants in the governance system are and how the relationships amongst them will affect the quality of the governance system especially, in South Africa's case, with reference to the Public Finance Management Act (PFMA) Act 1999 (Act 1 of 1999 as amended by Act 29 of 1999) and King II. Diagram 2.2 demonstrates the some of the stakeholders in the public sector in South Africa.

The public sector stakeholders are not able to terminate their interest in the same manner as counterparts in the private sector can and therefore the dynamics of the governance drivers are different. One of the important differences is that citizens representing the majority of stakeholders in government are all dependent on government to provide them with required services. A second difference is that stakeholders can express their level of satisfaction / dissatisfaction only when they exercise their right to vote for a new government every five years – at least this is the case in South Africa. However, votes carry an equal value (immaterial of any other contribution),

with the result that a single vote can have little impact on the total votes cast, except when supported by a significant total of other votes.
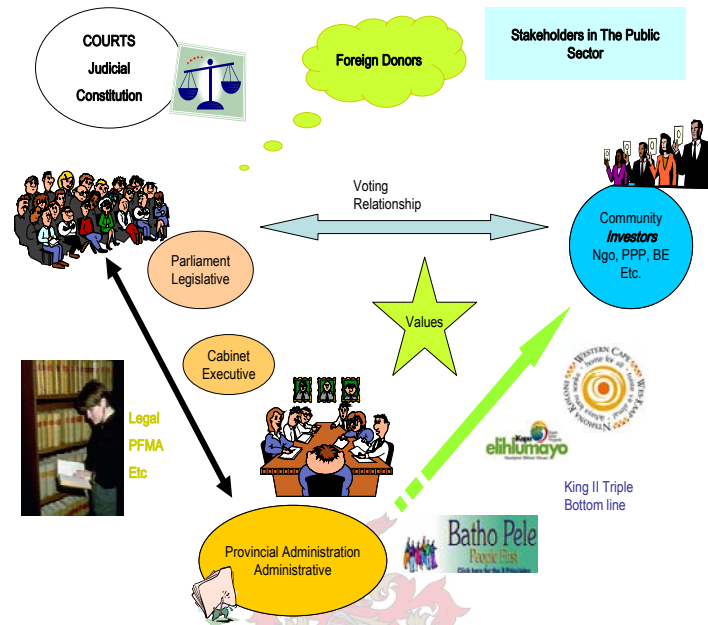
Diagram 2.2 Stakeholders' relationship in the public sector

Furthermore, citizens remain dependent on the elected government for services, whether it is their government of choice or not, whether they are satisfied with services delivered or not. It is therefore understandable that dissatisfaction is often expressed by forming pressure groups in an effort to force government to listen to their complaints. This is a reality in South Africa, where public demonstrations are a regular practice by dissatisfied groups, both regarding the public sector and the private sector. This is in stark contrast with the private sector, where the action of a single main contributor can lead to the demise of an organisation when withdrawing all contributions.

The role of stakeholders in government as the drivers / enforcers of governance are also affected by the level of personal development of the

majority of stakeholders. In developing countries, including South Africa, the majority of citizens / voters are unfamiliar with the mechanisms used by government when conducting their daily activities. In most instances they lack the skills to access government activities in a fair and objective manner and are unable to determine when the public sector as a whole or parts thereof have preformed a task well, making them subject to whatever the quality of service being delivered. In such a situation it is impossible for stakeholders to be effective drivers of governance as they are unable to develop meaningful criteria to access services delivered by government.

Adding to these differences, it must be noted that the dynamics between the public sector and its stakeholders are determined by legislation, which very often has a direct influence on the type of relationship that can be formed. Although they differ in content and from country to country, the principles are still the same, i.e. legislation will have an influence on the governance system developed and implemented.
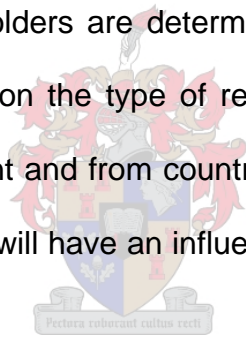
2.7 Regulatory framework

The cornerstone of this regulatory framework in South Africa is the 1996 Constitution and, as in all democracies, the public sector in South Africa is subjected to laws from which it derives its authority to act. According to the 1996 Constitution, the Constitution is regarded as the supreme law of the country and the obligations it imposes on government and others must be fulfilled, and any law or conduct that is inconsistent with the Constitution is regarded as invalid. As such, the 1996 Constitution determines the roles and therefore the dynamics between government and its stakeholders, of which

the citizens can be regarded as the major role players. Relationships between government and any other stakeholders are ultimately for the benefit of the citizens.

Chapter Three of the Constitution determines that the government of the Republic of South Africa is constituted as three spheres, i.e. national, provincial and local government, which are distinctive, interdependent and yet interrelated. It further binds the spheres of government to prescripts contained in the Constitution when exercising their responsibilities. It will be meaningful if these spheres of government derive their guidance for governance practices from the same basic Public Sector Integrated Financial Governance Framework. This will create mutual understanding, development and implementation of healthy governance practices reinforcing a unified "governance culture" that can attract the support of stakeholders.

Bernstein (1999:17) found during a study that members of Cabinet bypass Parliament and first submit their reports to the President and only after his approval will they submit their reports to Parliament for approval. The study further points out that the reports from Ministers to the President are of limited use because they more often than not provide something that could be regarded as the songs of praise to themselves regarding their achievements. The reports also concludes that the reports to Parliament take second place to the reports to the President, and therefore means in effect that Parliament is nothing more than a rubber stamp.

An important governance question arises from Bernstein's findings, namely who will and can instigate action against such practices (when those

governing on their behalf fail to act according to the Constitution), especially if the citizens have not developed their skills to act against such practices. The framework can provide a solution to such a problem.

In well-developed countries such as Canada the electorate ask different questions. Their questions are aimed at holding government accountable for promises made and quality of services delivered. In this regard the president of the Treasury Board of Canada remarked during her speech on 14 January 2004, "equip the Government of Canada to provide the Canadians with high-quality, cost-effective programs and services they want expect and deserve" (TBS 2004:1). It could rightly be asked whether the majority of South Africans want, expect and know they deserve high-quality and cost-effective services. If there's any indication that they are not aware of this, the question again arises: who would hold government accountable to deliver these types of services? Not attending to these issues makes governance awareness irrelevant for the majority of citizens.

Therefore, in emerging democracies such as South Africa, the role of oversight by the Public Service Commission (PSC), Department of Public Service and Administration (DPSA), Standing Committee on Public Accounts (SCOPA) and the Auditor General (AG) is important from a governance perspective. The dissertation provides a framework that can integrate these roles and enable the role players to mutually have the same understanding of public sector governance and associated concerns.

It is noted by a number of authors (Barret 2003:19; Hood 2000:446; Robillard 2003:5) that governance starts at the top. This holds true for the public sector.

Therefore, any movement towards implementing a governance framework in the public sector, such as in South Africa, must ultimately receive nationally the support of the President, Parliament, Cabinet and the national departments, and provincially the support from the Premiers, Provincial Parliaments, Provincial Cabinets and the Accounting Officers of the departments, and similarly the support of the top officials in local governments. In the ideal circumstances this support must be required by the voters as a concern.

Adding to this, it appears as if the main thrust of governance reforms is aimed at improving transparency, accountability and the rule of law, all serving to strengthen democracy broadly defined. Landell-Mils (2003:364) enhances this further when noting that the donor community places a heavy emphasis on the participation of stakeholders and recognises that implicitly the only way to protect the interests of the poor is by giving them an effective voice in the decisions of government that directly affect them. The improvements are slow to emerge because reforming the judiciary is normally a slow and tedious process.

2.8 Deductions

Having noted all of the above, it appears that in the South African context participation by relevant role players often demonstrates the lack of understanding of the dynamics of the economy and often regarded by some to be nothing less than unreasonable demands based on a culture where rights are demanded, one's own responsibilities ignored and a failure to

respect the rights of others.[1] Therefore, the public sector in South Africa should benefit when implementing a governance framework.

The Bill of Rights incorporated in the 1996 Constitution states that everyone has the basic right of access to the courts. However, the majority of citizens find it difficult to approach the courts to receive justice. One of the reasons in the South African context appears to be the fact that a large proportion of the citizens do not understand the role and function of the Constitutional Court and how it can protect their rights imbedded in the Constitution. Although not tested common sense indicates that the value of an independent judiciary is a foreign concept within their own cultures. Another reason may be that citizens are illiterate and lack the skills to read and write in their own language. This may have an indirect impact on the role of the judiciary to promote public sector governance.

Governance in the public sector is affected because the mechanisms to ensure maintenance of the principles and values such as accountability, responsibility and transparency, to name but a few, are not as easily enforced as is desirable. However, governance in the public sector is much more than compliance with, or the prevention of, irregularities, fraud and financial misconduct; it is also about a framework of principles and values linked with managerial practices and strategic planning, which facilitate governments' ability to achieve long- term objectives efficiently and effectively. It is about maintaining satisfactory performance over the long-term and about assurance

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[1] An example in this regard is the strike of Metro Rail employees in the Western Cape from 6 – 9 June 2005 in demand of a salary increase that was roughly only 1% percent above that offered, which left countless other commuters stranded and some even at risk of losing their employment for failing to arrive at work on time.

that all these activities are carried out in an ethical environment. Ultimately, it is about providing stakeholders with an assurance of that all of the above are executed within the boundaries of a legal framework. The following chapter places governance in a South African context.

Chapter 3   A South African IFGF

3.1   Introduction

The previous chapter focused on governance in general and provided a basis for understanding governance. This chapter places this understanding of governance – from a finance perspective – within the South African context. It starts by examine the need for an IFGF, the basic requirements for such an IFGF and then, as a response, proceeds to discus the role of values and principles, functional application areas and governance-related activities in an IFGF. It then takes a brief view at the financial governance universe that provides an overview of the various subsections within these aspects. The chapter concludes by making deductions and giving an indication of the contents of the next three chapters.

3.2   The need for an IFGF

The main objectives of investors are to receive a return on their investment that equals or betters their expectation of making a profit. In the absence of a satisfying return on investment, they would withdraw their investment or refuse to invest if they haven't already done so. However, there is also a donor community whose return on investment is the successful achievement of agreed objectives.

They normally invest in – and/or financially assist – worthwhile causes and their only expectations are that their contribution will change things for the better. These investors require the assurance that internal control systems exist that would ensure the funding they provide is being applied as agreed

and that sound governance practices exist that would safeguard their investment from being misappropriated. As previously indicated, the need for investment is a reality in developing countries such as South Africa and it is this type of investor whose attention will be attracted when effective and efficient governance practices exist. It is therefore important to develop and implement an IFGF that represents an investment focus and that can provide these assurances.

Government operates in a complex world and one must recognise the synergy between macroeconomic and structural policies (TBS 2004:4). One key element in improving economic efficiency involves a set of relationships as illustrated by diagram 3.1 between a company's management, its board, its shareholders and other stakeholders (OECD 1999:1). This entails the ability to adapt existing operations to meet the requirements of new realities, ranging from economic and political globalisation to demographic challenges, often requiring shifting public priorities and changing structures.
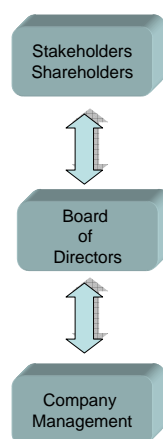
Diagram 3.1 Relationships between stakeholders and top management

Having an IFGF allows the public sector to synchronise the roles and relationships between the stakeholders (citizens, etc.), Parliament (Legislator), Cabinet (Executive Authority) and the Departments (Administrators), including Treasury as financial regulator as illustrated by diagram 3.2. This places Treasury in s specific role and therefore a financial approach to a governance framework must be a requirement.
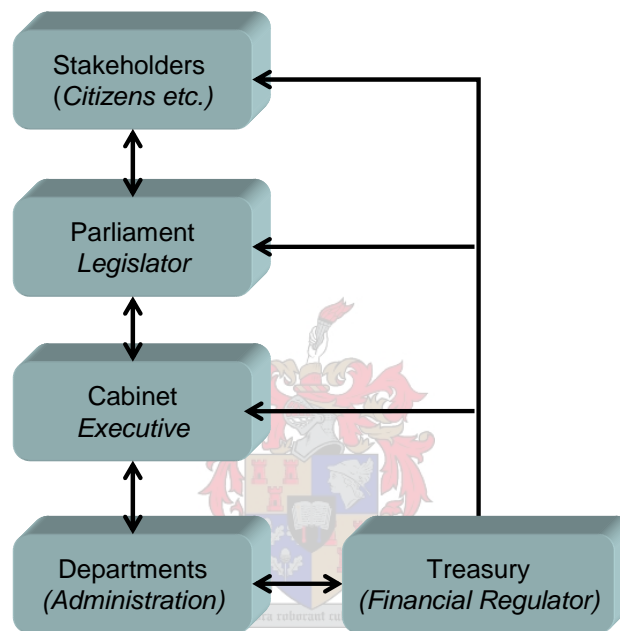
Diagram 3.2 Relationships between stakeholders and government

The complexities within which it operates are simplified by developing and implementing an IFGF that should provide assistance to avoid the *appearance that government is ruled by dealing with incidents rather than by management's efforts* (The Netherlands, Ministry of Finance Government Governance 2000:4)**; i.e. by *being re-active rather that pro-active.***

South Africa is one of the governments globally that is facing management challenges such as balancing different governance developments with the accompanying governance expectations of foreign investors. The challenges are numerous due to the fact that Africa is a developing continent emerging from years of colonialism and apartheid, which created large differences in development – both on a personal level and an economic level – between various ethnic groups. South Africa's history in this regard had an impact on its citizens as reflected in the "Towards a Ten Year Review" (Policy Coordination and Advisory Services, The Presidency, 2003:10). This left government with the task to implement measures to address the differences, in turn placing a demand on limited financial resources. Within such an environment, management must consider committing themselves to processes that allow them to meet these demands appropriately. This is by no means an easy task, yet it remains a necessary one.
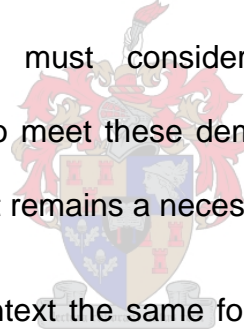
Within the South African context the same four main areas identified by the TBS (2003a:9) – i.e. citizen focus, values, managing for results and responsible spending – play a crucial part in the direction management takes when developing and implementing governance processes and practices. Service delivery is an important aspect when developing a citizen focus. As indicated by Newman and Vidler (2005:65), "a one size fits all" approach does not satisfy citizens, who require being treated as individuals and therefore increase the demand on government to respond appropriately. An IFGF provides mechanisms to consider designing, delivering, evaluating and reporting on its activities and monitoring planning programs to ensure service delivery to citizens. Progress can be tracked against predetermined plans and

deviations detected and corrected timeously. This is an important aspect of any governance endeavours, as indicated in many remarks made in speeches publicised on the Internet made by government officials (Cameron 2002, 2003(a), 2003(b), 2003(c), 2003(d); Barret 2001, 2002) in countries such as Canada and Australia when conveying their views on governance.

After elections, new initiatives are often launched to direct activities towards fulfilling promises made during the elections. Initiatives such as Batho Pele and "iKapa elihlumayo" in South Africa are typical of these types of initiatives (http://intrawp.pgwc.gov.za) as illustrated by diagram 3.3. However, they have little value if they do not lead towards improved and sustainable service delivery to its citizens. Implementing an IFGF should provide management with a mechanism to execute these initiatives successfully.

Diagram 3.3 Existing (2005) initiatives in PGWC

Executing these initiatives is not an easy task. South Africa faces a unique dilemma. On the one hand, it has well developed metropolitan areas, where the citizens' expectations for service are similar to those of citizens of well-developed countries, who want to access government services using Information Technology (IT) implemented worldwide. This requires expensive IT infrastructures stimulated by the demand to keep up with global developments. On the other hand, the country has many rural areas where services are required, but where the literacy level is very low, with the majority of citizens unable to read or write in their own language and with limited knowledge and/or a limited need for technologically advanced infrastructures – with their only concern being to have basic services such as running water, housing, education, medical services and the opportunity to provide for themselves by being employed.

Therefore, the South African government has to perform a balancing act between the diverse needs of its citizens, an act that is further complicated with the reality of different ethnic groups that exist. The balancing act would place unique demands on the available financial resources required by government and government's ability to apply the resource adequately.

It would be wise to take note of the Canadian emphasis in focussing on continuously balancing three things: (i) ensuring fairness, equity and reasonable treatment to protect the broad and diverse interests of its citizens; (ii) providing effective and responsive services to clients; and (iii) exercising sound stewardship for the taxpayer by keeping a close eye on programme affordability and cost effectiveness. However, a more complicated balancing effort is required because of the diversity of needs of the citizens in South

Africa, and the necessity for the country to meet the requirements of global development. An IFGF should enable government to address this dilemma by providing a mechanism whereby different objectives can be compared and prioritised and, in doing so, avoid the risk of regressing to the level of those countries where governments are dependent on aid provided by foreign relief organisations to prevent starvation of large portions of citizens.

The balancing act should also include balancing the power given by the voters with being accountable to the voters for results. It is important within the South African context, where the 1996 Constitution determines that Parliament represents the citizens. Having an IFGF should place the public sector in the unique position of balancing the power given with being accountable to the citizens and to prevent the misuse power. It ensures that power given to individuals is balanced with being held accountable.

It is also important for the population to develop the skills and ability to perform a fair evaluation and assessment of the different government initiatives. Where they lack these skills, government should demonstrate its commitment to empowerment and provide information in such a manner that citizens can make proper evaluations and assessments, and that the population can at the same time develop their assessment and evaluation skills.

Underdeveloped countries rely on partnerships of various kinds to provide much needed services to the citizens. These partnerships, which often exist across departmental boundaries, across different levels of the public sector with non-governmental organisations and the private sector to provide

services, are perceived to be the correct focus when benchmarked against other countries. An IFGF should therefore incorporate an approach that can be universally applied. The implementation would create a standardised way of management, resulting in the mutual understanding between departments of each other's core activities and assisting the public sector to manage for results.

In developed countries managing for results is based on citizens' concern to receive value for taxes they pay. This is only partially true for South Africa. Whilst a portion of the citizens is concerned about the value they receive for taxes paid, the majority is concerned about the service they perceive to be rightly theirs – as reflected by the authors of the "Towards a Ten Year Review" (Policy Coordination and Advisory Services, The Presidency, 2003). Whatever may be the case, the fact remains that service delivery is an important issue and so, therefore, is managing for results.
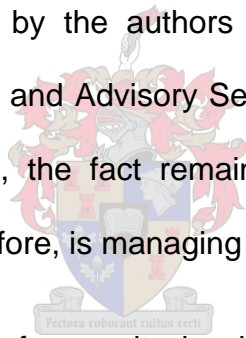
A similar view on managing for results is also expressed by the National Department of Public Service and Administration (DPSA 1999:6; DPSA 2003:7), which states in its "Implementation Guide" that service delivery must be improved by focussing on managing for results rather than the administration of rules. The "Towards a Ten Year Review" (Policy Coordination and Advisory Services, The Presidency, 2003), which primarily reflects on the South African government's performance in realising its objectives, makes it quite clear that government aimed to provide the basic services to the majority of citizens that are mainly poverty stricken as a result of apartheid. It continues by indicating that providing services to this portion of the population was the main objective of the Reconstruction and Developing

Programme (RDP) during the ten years between 1994 and April 2004. The focus of the South African government is not primarily on providing value for taxes paid, but rather to use income received to adjust the negative results that apartheid had on the majority of the population. Whatever the focus, it is important to plan, assign resources and execute the plan in an effort to achieve the objectives.

A cornerstone of result-based management is to plan extensively and then to monitor the execution of the plan in such a manner that corrective action can be effectively taken when required. An IFGF should allow for developing objectives during different stages of the planning process. It should also focus on determining evaluation criteria and linking measurement indicators to track progress made against plans.

The literature indicates that when organisations evaluate the results of their work, they find that the information transforms and empowers them (Butler 1999:3). This is also the view expressed by DPSA (2003:65), which states that a focus on results will empower the public sector to monitor its achievements and that competency evaluation will empower employees to be able to work and train towards meeting their goals. Evaluating achievements allows the opportunity to consider better alternatives that can improve current service delivery. It can be argued that measuring and evaluating results is a prerequisite to delivering programs and services of quality.

In this regard the "Towards a Ten Year Review" (Policy Coordination and Advisory Services, The Presidency, 2003:10) expresses the opinion that there can be no direct comparison to pre- 1994 indicators, given the quantum

nature of the changes in governance within the South African context. The main reason appears to be that new policies were imposed on the pre-1994 structures and practices. Brinkerhoff (1991:8) indicates that the main reason why delivery fails is because programs are vulnerable to the weaknesses of the organisation. This concurs with observations made in the "Towards a Ten Year Review" (Policy Coordination and Advisory Services, The Presidency, 2003:13) that some initiatives had uneven success and that weaknesses were apparent. An IFGF should enable managers to link structures and practices to specific objectives and to implement changes required by changes in objectives.

Programs developed to achieve objectives are based on a number of assumptions and at any given time the possibility exists that some of these assumptions will be proven wrong. It is therefore important to develop creatively measurable indicators, which can measure progress made against the expectations reflected in the plans. Programs in developing countries often fail because measurable indicators are poorly designed and therefore unable to provide reliable information that allows progress made to be monitored adequately.

As an example reference is made to the strategic plan for Provincial Treasury PGWC for the period 2003/04 to 2005/06. On pages 14-21 it lists measuring indicators for at least 33 objectives. Twenty-seven (27) of these indicators are the same, although the objectives they measure relate to different programs such as human resource management, internal audit, normative financial management and others. The measurements given in these instances was describe as "meeting all due dates". In not a single instance

was a performance measurement provided to measure the cost, and in only 8 cases were quantitative performance measurements developed. This is a typical example of a poorly developed strategic plan that fails to provide measuring indicators that can track progress made against plans. Without well-developed measuring indicators, any organisation will fail to provide corrective action in a timely manner when required – and this includes developing countries.

Within an IFGF evaluations and reports should be designed to measure performance in key aspects of programs and not only on employee levels and should include: clearly defining the objectives to be achieved in the short, medium and long term; pre-determining the resources needed, both operational and strategic; monitoring the progress made according to predetermined measurable objectives; developing and implementing risk-management strategies; developing and implementing systems of internal controls to mitigate risks; exercising responsibility and accountability during the process; and making timely adjustments when instances occur that effect the predetermined outcomes.

An IFGF should determine the way performance is measured (see section 2.5). When done effectively, it would contribute towards quality in governance and in effective and efficient service delivery, providing stakeholders with value for money. It should provide guidance on how strategic plans can be linked to activities and how progress made can be tracked against plans on a continuous basis for a lengthy period of time.

Developing performance indicators in an IFGF is a prerequisite to build a foundation for result-based evaluation. It would be difficult to measure any performance without suitable indicators. Measurable indicators must be developed on all levels of planning and be interdependent on each other. Key performance indicators should be developed that measure performance against predetermined criteria and not only collate information. An IFGF should provide guidance for the development of these indicators and link the indicators to objectives in a manner that allows them to be mutually supportive of each other.

An IFGF should link performance-based management on employee level with performance-based management on service-delivery activities, regardless of whether the activity is aimed at external or internal services. Financial governance imbedded in the IFGF must require that the public sector should exercise accountability towards those responsible for achieving results, and should provide assurance that analysis is unbiased and that both good and bad performances are transparent – an important and critical factor when resources are limited.

Responsible spending is a priority in any governance framework aimed at moving towards excellence. Underdeveloped countries face the reality of inadequate resources to meet the demands of basic service delivery. Resources are limited to address the constantly growing needs of citizens. This results in a growing need to supplement inadequate resources. Maintaining existing infrastructures compounds the impact on resources. It becomes a critical situation for any government in these conditions to determine priorities when selecting how to utilise available resources in the

best possible manner. With the IFGF the public sector should be enabled to strike a balance between investing in service improvement, maintaining the integrity of existing programs and developing new programs, whilst coping with budgetary constraints. This can be possible if an IFGF can accommodate an integrated view on spending that assesses the integrity of existing programs and the support given to national priority setting.

Integrated views enable wise spending on things that matter most to the citizens in a country, normally a complicated task. Resources can be reallocated and programs restructured when indicated by predetermined criteria. It should allow for ending a programme when the need ends, and identifying information that is relevant and adequate by designing monitoring and reporting structures. This should enable management to make sound decisions and limit any negative impact on the citizens that might occur because of changes.
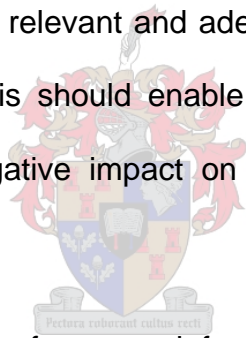
Financial and non-financial performance information must be linked with the cost of actual or expected results. Responsible spending depends on proper risk management to establish adequate systems of internal control. These activities should be accommodated in an IFGF and result in providing spending proposals that are well rooted in policy and that contribute to achieving objectives as indicated in the different plans. It should embrace the rigorous enforcing of public accountability and the best of current management practices. In this regard DPSA (n.d.:17) noted that external communication must be aimed at building constructive relationships with stakeholders that can lead to improved service delivery.

Ryan, Stanley and Nelson (2002:263) argue that as the level of education across society and the quality of the reports improve, the more stakeholders may take an interest in the accountability processes. Developing countries therefore face the reality that the general level of education in the society will impact on the quality of the reports provided until society shows an active interest in the accountability processes. Complicating the South African context is also the fact that the population is geographically dispersed which makes it difficult for government to provide services to improve the level of education.

National priority settings must consider services required by the residents within a particular geographical area, especially on the African continent where populations are dispersed and different ethnic groups with their own culture are usually centralised in specific areas. It appears that those areas where services are available constantly experience an inflow of people. Determining where to create infrastructure with limited resources to provide adequate services to citizens becomes a daunting task with the constant influx of people from rural to metropolitan areas, also placing additional strain on limited natural resources such as water. The task includes identifying the best opportunities.

Officials working in the public sector using an IFGF can identify the best opportunities to consider whether programme results are consistent with policies and priorities providing all risks are properly identified, their impact and likelihood determined and strategies are in place to mitigate those with an unacceptably high impact and likelihood of accruing. This allows for the consideration of alternative programs that might improve performance and

service delivery, based on comparable information and, as such, increase the efficient and effective use of allocated resources. Achieving the above will be a move towards responsible spending.

Responsible spending will always require making difficult choices, choices between investing in new initiatives or investing or reallocating funds to maintain the integrity of existing programs and assets. While investment in new programs always attracts more attention, maintaining the integrity of existing programs very often forms the basis of governance excellence as it provides a sense of stability and sustainability. An IFGF should provide the mechanisms to make these difficult choices when new programs are developed and implemented. This will require clear objectives as a point of departure.

Programs must be developed around clear objectives. It is important to design an IFGF that consists of the minimum elements required to embark on a path that would lead towards achieving governance excellence within the public sector. Remarks made by the Auditor General of Victoria (Cameron 2003a:7) can be regarded as providing some of the prerequisites of a basic integrated financial governance framework. Cameron regards the following as being important guidelines on the way towards improving governance:

- Establishing clear roles and responsibilities throughout the organisation and ensure that these roles are understood by everyone;

- Constructing relationships and accountabilities based on these roles;

- Aiming to become an effective governing body;

- Having effective monitoring arrangements, which reflect a balance between the interest of Parliament, Executive Authority and the autonomy of the governing body and/or management;

- Providing effective communication;

- Ensuring transparency through good external reporting; and

- Maintaining a systematic and integrated risk management system.

However, as indicated by the principles of the OECD (1999:11), improving governance should be a shared responsibility, between the public sector, private associations, companies, investors and other parties committed to improving governance practices. Therefore an IFGF should provide the mechanism to determine the responsibility of each of these role players.

An IFGF should also provide the structure through which the objectives of the public sector are set, and the means of attaining those objectives and monitoring performance are determined (OECD 1999:12). This should enable the public sector to rise to the governance challenges that provide real stakeholder value by focussing on the needs of the citizens, and at the same time operates within predetermined public service values and cultivating a specific governance culture.

It would enable the public sector to manage for results, improve responsible spending and achieve the objectives of financial governance. Whilst financial management focuses mainly on selecting possible mechanism whereby

finances are managed, financial governance focuses on managing financial resources in such a manner the activity provide governance assurance to those involve. In addition, it would provide management in the public sector with the ability to link activities to strategic plans, determine applicable values and principles for activities, perform a realistic budget allocation, select from a range of possible management choices when decisions are made, and to establish a "corporate identity" of choice that can be maintained and publicly recognised.

3.3 Basic requirements for an IFGF

It is important in any framework to determine the basic requirements necessary to achieve sound governance. Cameron (2003b:4) emphasises strategic leadership, stewardship and management as being necessary to achieve sound governance in the public sector. There should be a process to determine the capacity a government department has to achieve for sound governance.
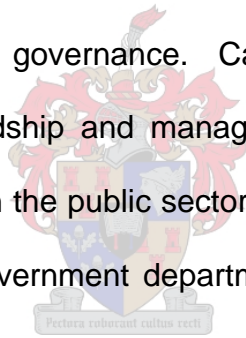
The Treasury Board Secretariat of Canada (TBS), with the assistance of KPMG, has developed a suite of diagnostic tools called "Capacity Check" to help public service executives to assess the capacity of their organisations to meet the goals set by ministers. Seven areas are identified as key elements to achieve sound governance, namely strategic leadership; motivated people; shared values and ethics; integrated performance information; mature risk assessment; and clear accountability.

This can be aligned with the opinion of Cameron (2003a:2), who regards the following "principles" as a prerequisite for good governance, namely establish

roles for management and board; employ the required skills and experience appropriate to the extent of the operation; adopt principles and values such as integrated ethical decision-making skills; implement effective and up to date risk-management processes; institute a rewards programme to attract the required skill necessary to achieve the objectives; recognise the legitimate interests of all stakeholders. However, the danger is that each of these develops in isolation from the rest.

As indicated by Barret (2003:10), the key to better practice governance in the public sector lies in the effective integration of the main elements of corporate governance within a holistic framework; these elements should be communicated effectively throughout the entire organisation and underpinned by a corporate culture of accountability, transparency, commitment and integrity. As the public sector is often perceived to be risk averse, a particular challenge is to strike an appropriate balance between performance and conformance, with all decisions made within a risk-management framework that properly weighs potential benefits as well as potential costs. Importantly, a cultural change is necessary in many agencies for them to be able to accept risk as an opportunity as well as something to be minimised or avoided.

It is important to note similarities and organise the above possibilities. In this regards an IFGF should focus on three areas to improve governance: predetermined principles and values; functional application areas; and governance-related activities.

3.4 Components of an IFGF

This section briefly discuses the components of an IFGF. It identifies four components, namely values; functional application areas; governance-related activities; and the governance universe.

3.4.1 Values

The principles that should be contained in the IFGF should in the South African context be based on values expressed in the 1996 Constitution and should be adopted and fostered by all in the public sector. It represents the attitude and spirit with which important and mundane activities are performed daily by personnel. Furthermore, it is the standard by which service delivery is conducted both internally and externally, and expresses the "corporate identity" of the public sector.

The risk exists that each employee contributes his/or her own value system without necessarily considering the impact on the organisation. The effect can undermine existing governance intentions as is clearly demonstrated by Tambulani and Kayuni (2005:23). The value systems are most often reflected in various codes. However, having relevant codes does not ensure that principles / values are automatically observed. A process is required to determine when a specific principle / value becomes applicable and relevant, and to monitor adherence. An IFGF should incorporate processes that allow a specific value / principle, regarded as appropriate for the specific services, to be determined and to be applied during the execution of the specified activity. This allows management to purposefully embark on a process to cultivate and

maintain a desired corporate culture and to monitor progress made in this regard.

This is a slow and often tedious task, but it appears from global reports that the effort is out-weighed by the value realised in the long term. The legacies of the past and corrective actions taken by the public sector during the past decade have played a significant role in trying to establish a corporate culture. Failure to cultivate a corporate culture leads to a situation where the value system that emerges at a given time is the one pertaining only to the individual that performs the action.

It is therefore important that the public sector determines the desired value system and deliberately cultivates a specific "corporate identity" that proclaims clearly how it conducts official business. In a multicultural society the public sector dare not risk having the value system of the individual who is performing the activity badly being regarded as that of government.
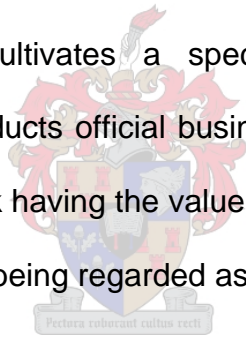
3.4.2 Functional application areas

Governance processes are defined in a variety of publications some of which are listed in the references. It appears that most of the leading experts divide and group the governance process into three main areas. Recognising this as best practise, the study aims to divide practices into three main groups, collectively referred to as the **functional application areas** and consisting of a range of existing management activities that are divided into strategic leadership, management and stewardship, and control assurance (see diagram 3.4).

The first group, **strategic leadership** refers to those activities that determine where the organisation is going, what it is going to do, when it is going to do it, why it is going to do it and for how long it is going to do it.

Those responsible for giving direction are also setting the tone for governance. The cue is taken from the top (Cameron 2002a:6) and incorporates vision, collaboration / openness and respect for different views. Attitudes and aptitudes with respect to compliance with laws, treatment of employees using open and transparent control over expenses, management of conflicts of interest, and provision of public access to reliable information are set through the example provided by top management.

Strategic leadership defines elements or managerial processes that are incorporated by the IFGF to enable employees in the province to discharge their duties in a manner that has been recognised as being important cornerstones in financial governance excellence by public sector agencies across the globe. With the IFGF, management involves themselves in processes to move toward their objectives against the background of a clear understanding of the department's predetermined value system.

The second main group is **management and stewardship,** consisting of two sub-groups (se diagram 3.4). The first is *structure and relationships,* which refers to those activities that require resources and which determine who is going to do what, how they are going to do it, and who will be informed of what and when. The second sub-group is *performance measures* and refers to those activities that regularly assess whether the organisation is doing what it has planned to do, if the progress being made is according to plan and

expectations, and if risks are properly managed. It includes managing operational and individual performance.

The last main group, **control assurance**, refers to those activities that determine who is accountable and/or responsible for what and to whom, and if they comply with the prescribed policies and procedures, regulations, instructions and applicable laws (see diagram 3.4). Independent internal and external sources should provide assurance in this regard.
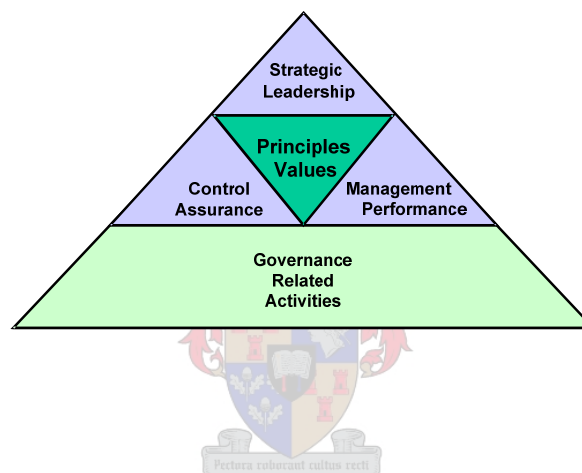
Diagram 3.4 Main components in public sector governance

The elements allocated to these groupings vary in their application according to objectives, scale of activities, size of departments and the particular managerial approach. Although they appear to be independent activities, performing each will have an impact on the rest. Therefore, the IFGF is focused on cultivating specific financial governance that can only be successful when the activities contained in these elements are not performed in isolation from each other, but are performed interdependently.

3.4.3 Governance-related activities

The governance-related activities are all those activities preformed regularly as part of the functional application areas. They collate all those activities that can have a direct influence on the quality of governance and that are normally directly and indirectly linked to the government culture, values and principles. These activities are performed on a daily basis and have the potential to express and reflect the culture, values and principle throughout the organisation. Mostly they are applied without considering the possible impact they have on the quality of governance. Diagram 3.4 highlights the most important activities, but that does not mean that these are the only activities. The purpose of collating them is to provide an overall view and understanding of how they can be selected and combined to improve governance and guide senior managers in the public sector to consider adopting and incorporating this understanding into their specific management style. If approached correctly, they can improve the quality of governance within their own area of responsibility and make a meaningful contribution the whole.

3.4.4 Financial governance universe

The governance universe organises the management activities, processes, values, principles and activities related to an IFGF into a meaningful whole. It aims to bring about a comprehensive understanding of the relationships between individual aspects and the possible combinations of choices and strategies that management can follow.

As an example, principles and values cannot be limited to pre-selected focus areas such as having a code of conduct; they are part of each activity and,

although they do not have the same weight in each circumstance, their role in governance must be noted. Values and principles are reflected through all daily activities and embedded in the attitude and aptitude of the employees performing these activities. An IFGF should provide cultivation of a corporate identity that would reflect the culture of PGWC and relies on processes that would enable such cultivation. Furthermore, the deliberate cultivation of a predetermined "corporate" culture by the public sector would require identifying elements, principles and the related governance activities. Therefore, an IFGF should include a governance universe to provide an overview of the most important aspects. Diagram 3.5 is derived from the PGWC IFGF and reflects a governance universe for the public sector.

Efficiency | Effectiveness

Responsibility to Purpose | Economical

Honesty | Fairness

Integrity | Sustainability

Transparency | Commitment

Conflict of Interests | Leadership

Accountability | Stewardship

IT Plans
HR Plans
Strategic Assets | Reporting Structure
Budget | Roles & Relationships | Balance Score Card
Operational plan | Organisatinoal Structure | Risk Management | PSC
Annual Business Plan | Business Process | Performance Management | SCOPA
Medium Term Plan | | Monthly FS | Policy & Procedures | AG Annual Report
Strategic Plan | Structure Relationships | Performance Management | Delegations | Internal Audit
| | | Compliance Accountability | Audit Committee

Strategic Leadership | **Management Stewardship** | **Control Assurance**

Principles → **Functional Application Areas**

Governance Universe

Governance Related Activities ← **Governance related Activities**

Control environment | Enterprise Risk management | Information Communication | Control Activities | Monitoring

Governance culture | Activity level objectives | Info Collating & Distribution | Compliance, PFMA PTR, NTR Acts Contracts | Financial

Ethical Moral values | Entity Wide objectives | Com. Internal External | Safeguarding assets | Operations

Commitment | Risk ID Monitoring Implementation | Norms & Standards | Accomplishment of objectives | Compliance

Purpose | Fraud Prevention | IA Reports | Reliability of Information | Governance Environment

Capability | Whistle Blowers | Corporate Culture | Effect, Efficiency Economical use of resources | Report Resolutions

Control Self Assessment | Manage Risk During Change

Diagram 3.5 an IFGF – governance universe

The governance universe allows management to easily identify the appropriate area that is applicable during a particular management process. It also provides an overall view of the elements, principles and environment related to an IFGF. At the same time it reflects the different relationships that can exist between functional application areas, principles / values and the related activities. It consists of all those activities in an IFGF that can assist management to strive towards governance.

Although grouped in a particular manner, it must be noted that the combined interaction of all these processes and activities determines the degree of governance assurance that will be achieved. After having identified these

different activities and processes, management is then in a position to take appropriate action that can cultivate financial governance. It further opens the possibility for them to make alternative choices should a specific choice fail to deliver a required result. It creates an understanding of the interaction between various management activities and the variable effect that can be achieved by alternative actions. The governance universe provides an *integrated* understanding of all management processes that should create a healthy balance between financial management and financial governance. Ultimately, the financial results reflected in financial statements are the direct consequence of processes that have been employed or in some instances that have not been employed.

This section briefly discussed the components of an IFGF and the financial governance universe that places each component in relationship with the other. It also reflects on the inter-relationships that should exist between the components from a financial governance perspective.

3.5 Deductions

This chapter placed governance within the South African context. As indicated throughout the chapter, an IFGF for the public sector is a reality to improve governance in the sector. It is clear that financial governance entails more than financial management decisions, as it incorporates a vast number of other management activities as become apparent in this chapter. Governance is determined by the interrelationships that are formed between the activities due do the combination of choices exercised by management. The combined effect of all these activities should ensure financial

governance, or rather that objectives are achieved effectively and efficiently in an ethical environment.

As indicated, the South African context has an influence on management's focus in the public sector. The IFGF developed later in this dissertation should enable managers in the public sector to anticipate results; to continually focus their attention on results achievement; to measure performance regularly and objectively; to learn from this information; and to make adjustments that improve efficiency and effectiveness. It should allow them to become more governance orientated and to recognise the role of their stakeholders; define the resources, processes and practices necessary to assist those responsible for providing assurance of good governance; to understand the governance-related activities which improve governance; and to identify and select the applicable ethical values necessary to ensure governance in each endeavour.

After all, good governance is about working smarter for better results, making better-informed decisions, implementing better public policies and rendering better service delivery. Governance is ultimately about effective stewardship of resources of all types, with greater attention invested in service delivery for stakeholders.

Simply put, this means healthy governance requires stakeholder relationships to drive it, ways to achieve it, an environment within which to operate, supported by agreed values and principles, and a judiciary to oversee it. The previous paragraphs describe the basic requirements needed to move towards an IFGF that can provide governance assurance to stakeholders. In the following three chapters the dissertation develops the IFGF by providing

the details regarding the values and principles, the functional application areas and the governance related activities.
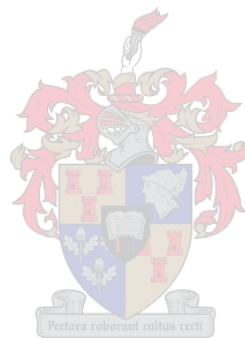
Chapter 4   Public Sector IFGF – Values

4.1   Introduction

The previous chapter placed the understanding of governance – from a finance perspective – within the South African context. It determined the requirements for an IFGF and then briefly discussed the role of values, functional application areas and governance-related activities. This chapter focuses on identifying specific values applicable within the South African context.

Stakeholder interest and the role of Parliament, Cabinet and the Administrative Authority with its regulatory bodies, including the Treasury, as prescribed by the 1996 Constitution and legislation are key role players in the execution of the governance principles. Their roles should be clear and exercising accountability based on performance and expected values and principles must be exercised diligently and consistently, and given the highest priority. Appointments must be based on experience, skills and qualifications that are relevant to the core objectives of each ministry on all levels of government. Many writers on the topic seem to agree that governance starts at the top (ANAO 2003:2; Barret 2001:7; Newsom 2001:6). These authors emphasise that values such as integrity, accountability, transparency, compliance and commitment flow from the top, setting the tone for the rest of the organisation. Therefore, the message should be clearly communicated that striving towards excellence in government governance start at the top and those entrusted with the responsibility are serious about it. Only when the highest authority in government demonstrates commitment towards

developing and implementing a governance system that meets the requirements of global practices will the negative effects of under-developed skills and limited knowledge of stakeholders, which is so typical of underdeveloped countries, be avoided, providing the system is continually updated with the results of research and best practices. Consistency in exercising accountability and clarity in public communication about government's endeavours when moving towards governance excellence can indirectly educate and empower those stakeholders who lack the relevant skills and knowledge. As Cameron (2003b:1) states: "Good governance will result from behaviour rather than process." It is therefore argued that the ultimate success and level of governance excellence in government can only be determined by the behaviour of those entrusted to rule and govern the country. As the TBS (2003:1) states, the ethical values and principles are something that should be shared by all.
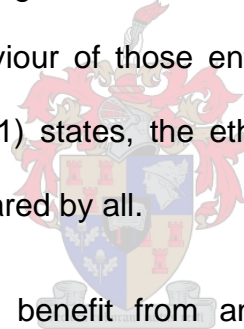
Those entrusted to govern benefit from an IFGF as it allows them to deliberately direct behaviour when striving towards achieving objectives efficiently and effectively in an ethical environment. As mentioned earlier, the IFGF focuses on three areas to establish public sector governance, predetermined values, functional application areas and governance-related activities. The first important cornerstone for an IFGF is a predetermined set of principles and values, and it must be noted that these values are interrelated and in many cases mutually dependent on one another.

4.2   Principles underpinning values

Public service principles have become crucial in the achievement of goals, as the public sector chooses to lose its monopoly on service delivery when it accepts the principle of partnerships. According to the ANAO (2003:9), frameworks for corporate governance in the public sector can only be implemented effectively through the application of key corporate governance principles.

A well performing public sector would be an asset and can be regarded as critical for sustainable development. As indicated by the Canadians, the public service is exposed to constant changes, as demands and pressures change, and therefore continued improvement can only be achieved successfully if activities are grounded at all levels on a solid and sustaining base of values underpinned by principles (TBS 2004:10). As such, principles[2] form the foundation of the value system and express its fundamental beliefs. The following four basic sets of principles identified by TBS (2004:11) appear to be very relevant within the South African context and therefore should be implemented in the IFGF as guidance:

- **Respect for democracy:** this recognises that authority lies with democratically elected officials who are accountable to parliament and thereby to the citizens. A well-performing public service takes its democratic responsibilities seriously, constantly

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[2] Although principles and values can be separately defined it is used in this dissertation interchangeable and often together depending on the context.

providing Ministers, Parliament and the public with full and accurate information on the results of its work.

- **Deliver quality services:** this requires government employees to provide high-quality, impartial advice on policy issues, while committing to the design, delivery and continued improvement of programs and services.

- **Ethical environment** (integrity, trust and honesty): this forms the personal cornerstone of governance excellence and democracy. It requires public servants to support the common good at all times and recognise the need for openness, transparency and accountability in what they do and how they do it.

- **Respect for the individual:** this requires that everyone should be treated with respect, decency, responsibility and humanity. In a well-performing workplace, it shows in respect, civility, fairness and caring. Organisations driven by values support learning and are led through participation, openness, communication and a respect for diversity.

Principles are regarded as the compass for the organisation and therefore need ongoing attention, and all policies, systems and interaction amongst public servants, parliamentarians and citizens must be aligned with them. They express the attitude and spirit with which important and mundane activities are performed daily and become the standard by which service delivery is conducted both internally and externally. Each employee contributes his or her own value system without necessarily considering the

impact on the organisation of doing so. However, having relevant codes defined and determined does not ensure that principles are observed. It is therefore necessary to implement processes that determine when a specific value becomes applicable and relevant, and to monitor adherence. The IFGF should incorporate processes that allow a specific value, regarded as appropriate for the specific services, to be defined and to be applied during the execution of the specified activity. This will enable management to purposefully embark on a process to cultivate and maintain a desired corporate culture and to monitor progress made in this regard.

To do this, however, is a slow and often tedious task, but it appears from global reports that the effort is out-weighed by the value realised in the long term as reflected in the "Towards a Ten Year Review" (Policy Coordination and Advisory Services, The Presidency, 2003). Within the South African context corrective actions taken by the government within the past decade have played a significant role in the attempt to establish a corporate culture. Failing to cultivate a corporate culture leads to a situation where the value system that emerges at any given time is the one pertaining only to the individual that performs the action.

Therefore the government should determine the desired value system and deliberately cultivate a specific "corporate identity". Such an identity will proclaim clearly how it conducts official business. In multicultural societies the public sector dare not risk having the value system of the individual who is performing the activity regarded as that of the public sector.

The IFGF should provide the mechanism to align preferred principles with values, and to have continued dialogue and reinforcement. However, this remains a key challenge for the public sector.

The unique environment in which the public sector operates emphasizes the importance of incorporating a distinctive value system and the principles underlying such values that relate to the peculiar circumstances into the IFGF. This will ensure the ongoing attention and continued reinforcement of governance, and allows management to ensure that values become an integral part in the daily activities of the public sector.

4.3   Public service values

Selecting key values for governance is influenced by a variety of factors such as diversity in culture, worldview, accepted business practices and environment, to name but a few. Certain ethical and moral values that should be considered by the public sector when determining its value system are often rooted in the history of a specific government. The 1996 Constitution of South Africa therefore includes specific values as part of a value system for the public sector in South Africa (see diagram 4.1).

Efficiency	Effectiveness
Responsibility to Purpose	Economical
Honesty	Fairness
Integrity	Sustainability
Transparency	Commitment
Conflict of Interests	Leadership
Accountability	Stewardship
Principles	

Diagram 4.1 Principles in the IFGF

Governance is not simply a case of defining the various elements of effective governance, but the real challenge is to ensure that they are holistically integrated as an important element of a coherent corporate approach by individual departments and that they are well understood and applied throughout government. When implemented effectively, governance should provide management with the ability render effective and efficient services in an ethical environment.

The specific values selected as derived from the 1996 Constitution are incorporated because the nature of these values appears to be universally applicable to all developing countries and to democracies such as South Africa. Having these values will create a unified corporate culture and for the public sector.

4.3.1 Accountability

Accountability is fundamental to the South African democratic system of government as it is embedded in the 1996 Constitution (section 195(e)) and the Public Service Commission (PSC) has been assigned the task of ensuring compliance. It is also one of the fundamental elements identified by those who are concerned with governance.

Those involved in management should be able to identify and articulate their responsibilities and their relationships; consider who is responsible for what, to whom, and by when; acknowledge the relationships that exist between stakeholders and those who are entrusted to manage resources; and deliver required outputs and outcomes whilst sharing a common value system.

A clear understanding and appreciation of the roles and responsibilities of the relevant participants, especially those of the responsible Minister(s), Accounting Officer and CFO, are key components of an IFGF. Reforms in the public sector involve direct relationships between stakeholders and service providers, and greater flexibility in decision-making. This enhances the need for accountability, regardless of the manner in which it is determined or exercised.

The literature indicates that where public money is concerned, a need for improved accountability of Ministers to Parliament exists, especially in view of the significant responsibilities involved. Barrett (2003:18), for example, notes that officials in the public service should be held accountable for financial performance and operational performance as a cornerstone to public service governance and, as such, confirms the view of Cameron (2002:1) that

governance refers to the process by which organisations (the government in this case) are directed, controlled and held to account. The World Bank, in their mission to fight poverty, seems to focus on effective financial governance that can assure accountability and regards accountability as an essential foundation of the global financial architecture (Iskander 2000:2).

Accountability can be approached in at least two ways. On the one hand, there are those thinking about accountability in the old way of command, control and hierarchical organization, to use it to appoint blame and to punish those who have done wrong. The problem arises that, when one thinks that being held accountable means being held at risk of being blamed, one's learning system shuts down. Another emerging approach, and more preferred one, uses the concept of partnership or shared accountability, which is based more on a learning organization environment, and focuses on trying to open up learning opportunities, and seeing learning as a form of insurance, so that if something goes wrong you can say, "Here's what we learned from it" (Mackay 1999:128).

The role of accountability in any governance system is generally accepted, as is the meaning of accountability, namely that people are held accountable for the way they discharge their responsibilities. It presumes that positive actions are rewarded and that bad and/or negative actions should release a negative response towards those who did not achieve the predetermined results.

4.3.2 Conflict of interest

Cameron (2002a:6) indicates that a person in the public service cannot serve two masters. Defining conflict of interests is an appropriate way to ensure that

only one master is served at any given time. This requires having explicit guidelines about what constitutes conflicts of interest and what to do about it whenever these situations occur or might occur. As indicated by Cameron, the Enron case provides an example in this regard, especially when the following remark of HIH Insurance is considered:

> *Enron's board worst failure according to governance experts was that they overlooked the dual role of the CFO who reaped $30m by simultaneously running limited partnerships business with ENRON. This should have been a red flag to the board. Having your CFO on both sides of a transaction reflects badly on the judgement of management."*

It appears to be amazing that such a simple control procedures did not exist or, if they did, were most probably circumvented. Officials employed in the public sector are exposed to so many situations where conflict of interest may occur that declaring interest should be the normal way of operating.

Declaring their interest, safeguards officials from being involved in activities that are in their own private interests and / or of being blamed for serving their own interests, when taking important decisions. The IFGF provides the mechanism that enables the identification of those processes where the declaring conflict of interest is applicable and to implement controls to ensure compliance in this regard.

4.3.3 Transparency

In South Africa the 1996 Constitution (section 195 (e) and (g)) mandates the Public Service Commission (PSC) to ensure that government exercises transparency by providing the public with timely, accurate and accessible information and encourages public participation. This is in agreement with the opinion of Sir Adrian Cadbury (Iskander 2000:VI), who emphasised that the foundation for any corporate structure is disclosure. Globally there appears to be consensus in the public and private sectors that transparency is the foundation for ensuring observance of all governance principles and, without it, the pressure to adhere to principles diminishes, often leading to difficulties in achieving financial governance excellence.

Transparency must be included in the value system to ensure openness when providing stakeholders with information regarding the decision-making processes and actions of public sector agencies in managing their activities. Being open, through meaningful consultation with stakeholders and communication of complete, accurate and transparent information, contributes towards creating opportunities where effective and timely action can be taken, thus enhancing processes of scrutiny. As noted by the TBS (2004:5), the public service no longer has a monopoly on relevant knowledge. If the public sectors want to be transparent it must allow decision making to be influenced by public participation. Therefore, the sector needs to engage with its citizens to be able to determine services that would add value and give choices to its citizens. In this regard transparency is crucial to ensure that relevant services are provided.

The ANAO (2003:3) states that poor governance often involves inflexible, mechanistic approaches that provide an image of compliance (such as simple 'tick-a-box' approaches, for instance, to satisfy the auditors) with little real commitment to the principles of accountability, successful integration of the governance elements, and full disclosure aimed at improving transparency and performance.

Central to sound financial governance is the value of transparency aimed at improving performance and providing reliable information essential to help ensure that public bodies are fully accountable. In the future the trends in governance practices will probably require greater transparency, as the use of the Internet and other electronic media will aid continuous disclosure, particularly of financial performance and operational performance.

Information is the currency of sound governance and underlies both the principles and frameworks of governance. Public sector entities must therefore develop quality information systems, systems that communicate widely the corporate objectives, the plans and strategies to achieve them, and provide assessable information on progress made towards achieving them. It is also imperative to have sound records- and information management, particularly in electronic form, which also puts a focus on privacy, security and accountability concerns.

The IFGF enables the public sector to collate relevant information at predefined stages, ensure that meaningful, understandable and reliable information is provided to the public, facilitate public participation, collate public response and consider public inputs before making decision based on

the information originally provided for public participation. In South Africa the past places a demand on the public sector to ensure that the nature of transparency is not only informative but also educational to enable citizens to acquire the ability that will allow them to make better-informed decisions when assessing results achieved by the public sector.

4.3.4 Integrity

According to the ANAO (2003:11), integrity is based on honesty and objectivity, and high on the list of standards regarding the stewardship of public funds and the management of a department's affairs. This is confirmed by Barret (2003:1), who regard integrity as one of the four principles for good governance in the public sector. Watson (1999:6) is of the opinion that the public sector cannot make decisions strictly on a commercial basis and must always strive to maintain its integrity and ethical standards. This means that the public can rely on management in the public service to be consistent in their approach. This also appears to be a very familiar value understood by the general public. However, it is dependent on the effectiveness of the control framework and on the personal standards and professionalism of the individuals within the department.

Decision-making practices, procedures, and the quality and credibility of performance reporting of government managers reflect the level of integrity. Jones (1999:75) remarks that a manager's integrity (never breaking his/her word, delivering on promises and constantly walking the talk) cultivates and builds an atmosphere of trust in managerial leadership. Similar remarks are also expressed by IFAC (2002:20), when the report discussed the principles

of public sector governance. Senior management needs to hold itself to the highest standards before it can demand similar integrity from those on lower levels (Gilman 2003). Kouzes and Posner (1990, as sited in McMahon 2002:2) found the 87% of 7500 managers surveyed regard integrity as the most important characteristic required of leaders.

Integrity is therefore much more than merely the integrity of financial data, which is so often emphasised by government institutions (Provincial Government Western Cape, 2004). It is being able to be consistent over a period of time. Saucier (2001:21) expresses a more comprehensive view of integrity by stating that men and women of integrity, competence and judgment demonstrate their integrity through their careers, in leadership, independence of thought, capacity to understand business, and talent for working with a team in pursuit of a common goal. They would bring a diversity of skills and experiences that, taken together, add value to the stewardship role they must perform. They would understand the business, and they would be prepared to actively seek out whatever education and training they need to develop that understanding and to keep their knowledge and skills up to date. They would dedicate the time and energy necessary to the effective governance of the enterprises.

Within the South African context integrity is therefore a key element in the development of social capital and the value placed on it should be constantly made clear to all. The IFGF includes this value and provides the mechanism to identify and monitor the critical areas where this value is of particular importance. There is a direct link between integrity and employing those who

have the experience, skills and knowledge to manage the core business effectively.

4.3.5 Stewardship

Stewardship is another shared value in all governance frameworks. The ANAO (2003:11) states that public officials, ministers, public servants and office holders exercise their powers on behalf of the nation. Resources used by them are held in trust and are not privately owned by them and therefore they are stewards of those powers and resources. Therefore they have to ensure financial sustainability and the efficient and effective management of resources, as well as maintaining less tangible factors, such as the trust placed in the public sector as a whole.

The IFGF must ensure that these factors are considered during the planning and execution phase of the activities, and thereby allowing officials to be real stewards of the resources entrusted to them. Saucier (2001:35) is of the opinion that stewardship means that top officials would assume responsibility for adopting a strategic planning process, identifying possible risk in strategic planning and ensuring the integrity of data, controls and communication processes.

 It appears that the definition of the Treasury Board Secretariat of Canada (2003:7) confirms this view when they state that stewardship entails the effective stewardship of resources of all types to deliver the best services to the citizens. IFAC (2002:31) adds to this by remarking that stewardship is the collective responsibility of those responsible for leading the organisation and is exercised by the strategic planning process within the prescribed policy and

resource framework; overseeing the delivery of planned results by monitoring performance against strategic objectives; maintaining an effective communications framework; monitoring of potential risks and opportunities and establishment of effective system of internal control.

Stewardship can be expressed as a set of management activities and as a value. As expressed in the preceding paragraphs, it refers to a value system and attitude with which resources are utilised to the benefit of the citizens. It is an important value in the IFGF that plays an integrated part in the daily activities of those employed by the public sector. This value might be well remembered when attention is focused on building social capital. King (2002:114) notes importantly that the public sector has a special duty of transparency and accountability in respect of its stewardship of national assets in the pursuit of the national interest.

4.3.6 Leadership

A direct relationship exists between the quality of leadership provided and the quality of governance achieved. Therefore it is important that the value of leadership be included as part of the values system applicable to the public sector, especially if that sector is part of a developing country or democracy.

According to ANAO (2003:2), there is increasing evidence that *behaviours* consistent with good governance (for example, leadership, communication, encouraging difficult questions to be asked, and holding people to account) increase the probability of positive and sustainable outcomes. In the same document (ANAO 2003:7) the opinion is expressed that leadership should be supported by a robust ethical culture based on well promulgated and

supported organisational values. It regards leadership as a personal quality of those in the organisation. Saucier (2001:3) remarks that continued improvement of governance depends upon people and the leadership they provide. Leadership thus entails providing the example, setting the pace and demonstrating the value requirements. Leadership is also described as the ability to innovate and motivate throughout the organisation (Saucier 2001:46). TBS (2003:9) refers to leadership as the awareness and commitment of managers at all levels to establish and sustain a results-oriented environment where modern management practices are supported by strong and effective functional advice, corporate planning and resource allocation and reallocation processes and mechanisms.

Ultimately, it is this tone at the top that would cultivate a specific identity for the public sector as a whole. Leadership must demonstrate an active commitment to values and principles and would provide the basis of the "corporate identity" that would become visible. The ANAO (2003:14) notes that the Independent Commission Against Crime and Corruption (ICAC) considers that unethical, or conversely ethical behaviour is influenced more by leadership practices or the 'tone at the top' than the ethics and morals that an individual brings into an organisation. This underlines the importance of promoting and demonstrating ethical work practices in order to improve the effective functioning of an organisation.

Public sector governance requires effective leadership from those entrusted to govern. It requires clear identification and articulation of responsibility and a real understanding and appreciation of the various relationships between the organisation's stakeholders and those who are entrusted to manage

resources and deliver required outcomes. In the public sector this necessitates lucid and unambiguous communication and clearly stated government priorities, including a clear understanding of the IFGF by all involved. As noted in the Governance Framework of PGWC in this regard, leadership is a quality that excels on the basis of education, experience and personal qualities and those entrusted to lead should be worthy to do so.

4.3.7 Commitment

ANAO (2003:10) in Australia has been expressing concerns that there has been more emphasis on the form rather than the substance of sound financial governance in both the public and private sector. A strong commitment is needed from all participants in the public sector to effectively implement all elements of financial governance. The approach of the IFGF is very much people oriented, involving better communication; a more systematic approach to corporate management; a greater emphasis on corporate values and ethical conduct; risk management; relationships with citizens and clients; and an emphasis on quality of service delivery.

The value of commitment assumes people operate in the public sector who would be able to commit themselves to something. When used as a value in the IFGF enables management to determine the level of commitment that can be expected from individual role players within the public sector. It further enables the public sector to determine the values that require the collective commitment of all in the public sector.

Remarks made by Asmal and Mdladlana (2003:38) indicate how the of commitment to a specific process in one instance can be affected by the lack

commitment made to another process. The IFGF enables the public sector to synchronise commitment to specific values in such a manner that they are inclusive and supportive of one another rather than exclusive. It is in such a situation where the benefits of an integrated framework and the possibility to make meaningful decisions under what normally would be regarded as conflicting circumstances become more apparent,

It is expected that there would be a strong link between the success of the framework and the personal commitment demonstrated by all of the participants in the governance process. This is indicated by the baseline implementation guide, Part 2 of DPSA, which states:

"In line with the need to shape services to meet customer needs, an executing authority must do two things:

- Establish and sustain a service delivery improvement programme; and

- Publish an annual statement of public service commitment.

The statement must indicate the standards of service that customers can expect. It must also explain how the department will meet each of the standards."

4.3.8 Sustainability

In South Africa the principle of sustainability is especially crucial where development is paramount and the resources, including finances, to address the variety of factors confronting all three levels of government, are limited. In

this regard the Auditor General (2001:16) highlighted the problem of providing adequate services whilst ensuring sustainability of services and infrastructure. The existing political processes that result in major changes in leadership on all levels of government and the important roles assigned to political leaders enhances the importance of sustainability. Leaders should regard this value as crucial for the building of the country and any short-term view on service delivery is bound to create concerns amongst the public and the trust they place in government to sustain services over the medium and long term. Sustainability is also one of the main focus areas in the King II Report (King 2002).

The IFGF used as a tool by management ensures sustainability during the application of a strategic plan that can contain at the same time current objectives, and those for the medium and long term. The framework allows management to embark on achieving objectives that are sustainable and that can form the basis in the future for planning, growth and development. Current backlogs can be alleviated in this manner and all efforts can be assigned to reaching objectives in a timely, efficient, effective and economical way. Indirectly it places a constraint on the public sector to finance the same initiatives every year and encourage them to consider other initiatives because those previously financed should have become self-sustainable. These will, however, only materialise if the value of sustainability is embraced during the planning and execution of initiatives.

4.3.9 Fairness

The 1996 Constitution assigns to the Public Service Commission (PSC) the responsibility of ensuring that the public service operates in a manner that it is fair, equitable and without bias. PWC (2002:3, referring to the King 2002 report) defines fairness as the "acknowledgement of, respect for and balance between the rights and interests of the organisation's various stakeholders." This could mean that under certain circumstance decision makers should consider providing stakeholders with the opportunity to respond before making final decisions. It requires demonstrating equality in various activities before making a choice that influences more than one party?

In South Africa this value is paramount because of past injustices that resulted in large portions of the public being disadvantaged. It is a necessary value when management performs the balancing act between processes that allow for the diminishing of the bad legacy of the past, whilst at the same time retaining the positive and continuing to achieve objectives that developed as a response to the same past. The value system of the IFGF incorporates fairness and therefore allows management to perform this balancing act when required. It is a value that assists the public sector in safeguarding the balancing act from creating further injustices in the process of correcting those of the past.

4.3.10 Efficient, Effective and Economical

The 1996 Constitution (par 95 (d)) assigns to the Public Service Commission (PSC) the objective of ensuring that the public service operates in such a manner that it is effective and up to standard in terms of of professional

values. These values reflected in the 1996 Constitution are even more crucial in a financial governance framework because they ensure value for money. The IFGF therefore facilitates the successful application of these values ensuring that resources are applied in an optimum manner and that maximum results are received from every input that is made in achieving objectives. It could mean that more services can be delivered at the same cost and that financial recourses are optimally used and progress being monitored. These values ask three kinds of questions regarding specific activities in any organisation: is the outcome we achieve useful (effective) in reaching our objectives, are we wasteful (efficient) regarding the resources that we use to produce these outcomes, and / or is this specific approach affordable or best value for money (economical)? Although these appear to be three different questions, closer scrutiny would prove the opposite. All three questions are aimed at the same activity, each providing a different approach during the evaluation process and each providing answers that require responses. The IFGF provides the guidelines to determine when, how and which approach to use under different circumstances and the mechanism to respond appropriately.

Buckmaster (1999:192) states that the ratio of inputs to outputs suggests resources are not being used efficiently. Although Buckmaster does not develop this point further, this study applies similar thinking to provide a distinction between the understanding of effectiveness, efficiency and economical (see diagram 7.5).

4.3.11 Responsibility to purpose

Regardless of the particular framework that is used, governance in both the public and private sectors at least requires a clear identification and articulation of the definitions of responsibility. This appears to be supported by bodies such as the ANAO (2004:9).

This is particularly important in the South African government, which is a three-tier form of government, i.e. national, provincial and local. In such a situation decisions at one level of government have an impact on the other levels of government, creating a situation where shared responsibility becomes a reality. In these situations responsibility must be clearly defined to allow accountability to be assigned and exercised. Failing to clearly define responsibility leads to situations where efforts and resources are wasted on programs that don't achieve the desired outcomes.

In developing countries governments are faced with limited financial resources, making sustainable programs a necessity, especially with an abundance of challenges consisting of new projects on which to embark in their effort to provide services to the population. Under these circumstances it becomes easy to start various initiatives and, when failing to complete them, to move on the next one. This creates the risk of losing focus on the "core business" of a department, resulting in a situation where service delivery becomes extremely difficult and unintentionally cultivating a culture of failure. Having "responsibility to purpose" included as one of the values provides the opportunity to constantly focus on the core business of a department. Having it included in the IFGF provides mechanisms to discover when the value

becomes applicable in a given situation. The role of this value also becomes apparent with the approach of the South African government to implement a cluster system, where departments are clustered together in an effort to minimize the duplication of services and to ensure that communities can be developed by jointly focusing on the same areas.

Using the IFGF should provide the public sector with the opportunity to exercise *responsibility towards purpose* when governing under constrains, as is apparent in the South African context. It empowers the public sector to limit unnecessary changes to previously determined objectives, while at the same time sensitising this sector to the future value of new objectives before including them in the different plans; it also provides the means to sufficiently scrutinise the future role and value of a specific objective.

Once this has taken place, responsibility towards purpose becomes a reality and one of the cornerstone values that can ensure the successful achievement of objectives. Ignoring or neglecting this value may cause the failure to achieve important objectives, because changes are implemented without duly considering the plans of the past, resulting in past expenditure becoming wasteful and fruitless. Responsibility to purpose means that the public sector can be trusted by the stakeholders to achieve the promised objectives without allowing new initiatives to cause delays and / or failures in achieving previous set objectives.

4.3.12 Honesty

It is not possible to develop and implement systems of internal control to safeguard against all possibilities that might occur in the public sector. Very

often new situations arise or new initiatives are required before any control measures can be developed or implemented. The view of Schwella, Burger, Fox (1996:149) on the role that a social cost–benefit analysis can play must be noted. As reflected by them, the criteria used to guide decisions in the private sector may not be appropriate for the public sector, especially given the often changing of objectives in the public sector; therefore the value of honesty is paramount.

Values such as honesty together with integrity and accountability are regarded by many authors as a basic requirement for achieving good governance (ANAO 2003:11; Barret 2003:22; Lea 1999:152; Leitch and Davenport 2002:8). In a survey conducted by McMahon (2002:13) 87% of respondents selected honesty as a characteristic of superior leaders.

Being able to rely on the action of a leader contributes towards stakeholder confidence. Honesty is one of the universal values incorporated into the value system of the IFGF that appears to be applicable to all persons in all activities when performing their duties and / or when they are involved in delivering services. This provides the foundation for a sound financial governance culture to be cultivated and maintained. It appears that without honesty all other values lose their role and become unreliable. Honesty is a personal trait and a critical element in the development of social capital. The IFGF relies on this value, especially in circumstance where funds are limited, to implement controls that can sometimes be very costly. On the one hand, the absence of this value can be costly to government as the real effectiveness and efficiency are hidden behind information compiled with the objective to conceal the real state of affairs. On the other hand, when employees in the

public sector embrace this value, they create an environment where problems can be identified shortly after occurring and applicable solutions developed and implemented. Honesty means that in the absence of adequate system of internal control employees on all levels in the public sector can still be trusted to deliver services to the best of their abilities and in a manner that is compliant with the desired principles and values system.

The above key values are only a few of those available to government to determine the nature of the "corporate identity" it wishes to cultivate. It is only a suggested list, guided by the South Africa Constitution of 1996, to stimulate possibilities for those responsible to make the decision in this regard.

4.4 Deductions

Management should determine which values they consider to be important, how to cultivate them and what controls should be developed and implemented to ensure these values become part of a specific "corporate" identity they wish to cultivate. Values can act as one of the safeguards against unnecessary financial expenses in the public sector service delivery, and without them the danger exists that financial cost will escalate increasingly, in turn resulting in poor service delivery.

It must be noted that these values cannot be isolated from each other, because to maximise the benefits derived from them, they need to be mutually interdependent before they can contribute effectively to the overall governance of the public sector. In a similar manner they cannot only be part of the make-up of a single individual, but must be embraced by all employees at every level in the public sector to make a significant impact on the quality of

governance of the public sector. Having values alone does not ensure sound governance – these values have to be applied in specific areas of activities. The next chapter identifies specific functional application areas, which are discussed in the next section.
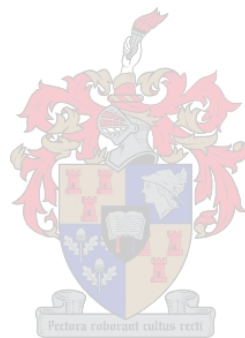
Chapter 5   IFGF – Functional application areas

5.1   Introduction

Having defined the values in the IFGF in the previous chapter, the focus in this chapter shifts towards identifying the areas within which these values are applicable and arranging the areas into a meaningful framework.   These areas are based on existing (2005) management practices applied by the public sector in South Africa. Diagram 5.1 provides an overview of the areas on which the focus will fall.

Moving towards governance requires one to organise and construct the activities into different areas and to describe the interrelationships required between the areas to improve governance. During this process the traditional areas applicable in the government were incorporated into the framework (see diagram 5.1).

Diagram 5.1 Functional application areas

This chapter defines the areas that are incorporated to enable employees in the public sector to discharge their duties in a manner that can form the cornerstone in governance excellence. It is based on activities recognised by public sector agencies across the globe. With the IFGF, management involve

themselves in processes to move towards their objectives against the background of a clear understanding of a predetermined value system determined especially for the public sector by the relevant stakeholders.

As reflected in section 3.4.2, the functional application areas are divided into three main groups: strategic leadership; management stewardship; and control assurance. The following section focuses on strategic leadership with the aim to organise the areas into a meaningful framework and therefore the debate is focussed on the relevance rather than elaborating in detail on each area.

5.2 Strategic leadership

The first main area consists of all those activities grouped together and that are normally associated with a strategic leadership function (see diagram 5.2). The development of this area was based on a combination and selection of relevant developments of similar governance initiatives in other countries that were identified during the research process. The IFGF incorporates the initiatives of TBS 2003(a), the ANAO (Cameron 2003a) and the Netherlands (Timmers 2002) with regards to strategic leadership.

TBS (2003a:9) regards strategic leadership as the awareness and commitment of managers at all levels to establish and sustain a results-oriented environment where modern management practices are supported by strong and effective functional advice, corporate planning and resource allocation, and reallocation processes and mechanisms. Reporting back on the implementation with the purpose of timely consideration of any appropriate improvements creates a climate at senior management levels

which encourages a constant review of planning, executing and allocation of resource whilst making progress towards achievement of objectives (TBS 2003:13).
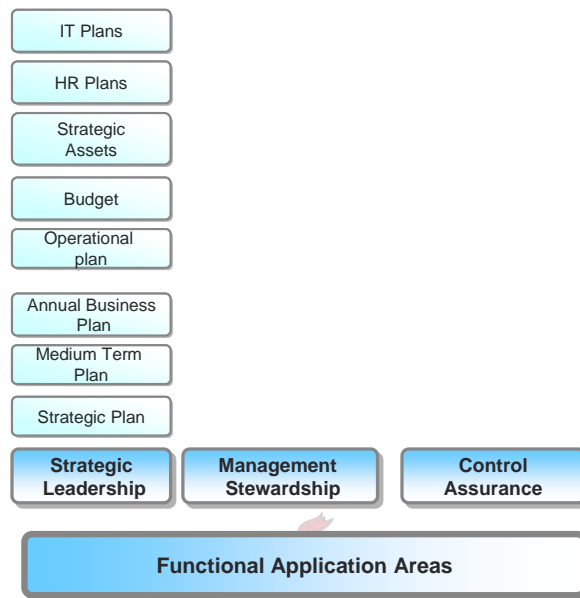
Diagram 5.2 Strategic leadership

Strategic leadership refers to the awareness and commitment of managers at all levels to establish and sustain a results-orientated environment, where modern management practices are supported by strong and effective functional advice, corporate planning and resource allocation, and reallocation processes and mechanisms.

This view is adopted by the researcher and regarded as a cornerstone and basis for determining the core business of a specific Ministry and or Department. It encompasses the direction in which those leading choose to perform the core business and the place where possible changes in the future can be evaluated in terms of past decisions, results achieved, and the effect external changes have on established business activities. With the South

African context in mind, this would be the place where the negative effect of constant changes in leadership can be minimized by visionary leadership that can ensure the establishment of long-term, sustainable strategic objectives that are realistic to allow committed progress to be made on a yearly basis. As indicated by Nutt and Backoff (1992:9), the public sector faces a number of complex dilemmas and is constantly under pressure to act and act decisively. Changes made at strategic level should be extensively evaluated with regards to the impact on existing services provided, the financial resources – direct and indirect – available and resources required before being accepted. This means performing a thorough feasibility study before making changes to existing plans.

5.3   Strategic planning

Strategic planning requires from those with governance responsibilities that they establish the strategy and direction. This is where objectives are set; overall strategic policies to govern day-to-day operations are developed; mechanism to oversee the implementation of these policies are designed, and where measurement indicators to monitor the effective and efficient achievement of objectives or different time frames are developed. As expressed by Nutt and Backoff (1992:109), the key notion is to link mission, strategy, resources and direction so that their interrelationships can be identified and carefully managed. As indicated by Segal-Horn (1998:414) a large number of strategic categorisations are available during the planning phase.
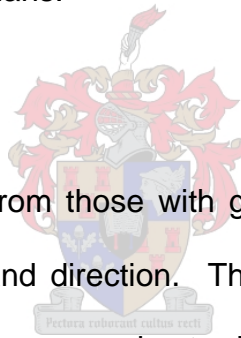
The public sector is subjected to political stability and instability and therefore the timeframes are affected in which objectives in the different plans can be achieved. One of the benefits of the IFGF would be that planning for the longer term that in turn would contribute to stability towards achieving the objectives with limited financial resources.

It is crucial in a changing environment to development both medium- and short-term goals and objectives supported by specific strategies for their achievement. Therefore, a strategic plan should contain clear information on what the direction is in which the department will move, what the objectives are and what measurable objectives should be achieved at specific times along the way, thus ensuring the main objectives are ultimately achieved as planned.

This area ensures that strategies, policies and other directions are clearly specified, communicated and understood by those responsible for their implementation. It enables development of long-, medium- and short-term objectives that are aimed at the needs and expectations of the stakeholders and provides for developing clear strategies for their achievement. This requires plans to reflect explicit performance indicators for objectives and linking them to cost-saving processes, funding and time schedules.

When striving towards improved governance, the focus must be to ensure that the development of each of the different areas is linked to the different objectives in each plan (see Nutt and Backoff 1992). In this way it becomes possible to determine and to quantify the effect of each activity with respect to the related objectives contained in the separate plans (Segal-Horn 1998:330).
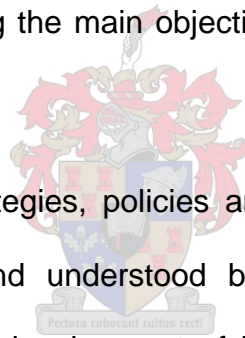
Management must be enabled to make appropriate decisions regarding any occurrence on any level of plan or on any stage of the execution of the plans. Linking the objectives and ensuring developments are aligned with strategic objectives are crucial aspects of the integrated financial governance process that contributes towards striving for governance excellence.

Successful planning incorporates the development of measuring mechanisms that can track progress made against predetermined plans. The purpose of these measurements is to identify possible problems and to develop appropriate corrective measures in a timely way.

Developing performance indicators becomes necessary when striving towards improved public sector governance. However, as indicated by the ANAO (2003:12), a balance should be maintained between conformance and performance. This is particularly important for the public sector, traditionally subjected to conformance rather than performance and where slow and poor service delivery was most probably the result of poor planning and accompanied emphasis on conformance to prescripts.

Rutherford (2000:1) states that the literature has widely indicated that performance indicators can make an important contribution to the promotion of accountability in the public sector. In this regard the author refers to Day and Klein (1987: 243), who remark that performance indicators are the "life blood of accountability". Developing performance indicators therefore plays a crucial part in establishing effective accountability measures in government and at the same time measuring progress against plans. Rutherford (2000:1) also argues that performance indicators must be distinguished from
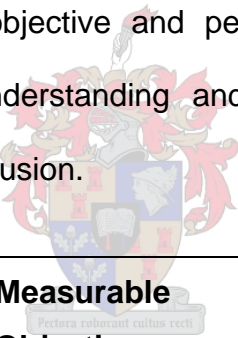
measurable objectives. The IFGF therefore defines measurable objectives as descriptive of what will be measured and performance indicators as how objectives will be measured.

Measurable objectives are required for successful execution of activities and should be identified for each measurable objective. Therefore there must be a corresponding performance indicator developed for each measurable objective. However, as stated by Nutt and Backoff (1992:47), vague performance indicators have several consequences: it is difficult to recognise success; it is difficult to determine progress; and difficult to detect and correct possible failures in a timely manner.

Performance indicators should measure progress made towards achieving goals and objectives. They must be quantifiable and should measure long-term progress. Although many things are measurable, measuring them does not make them a key to the success of achieving objectives. When developing performance measures it is crucial to select those factors that are essential to reaching objectives. Rutherford (2000:225) observes that the focus on developing key performance indicators resulted in a battery of indicators each focusing on a single aspect of a body's activities. Although this can be helpful in some circumstances, it also creates the danger of information overload, causing key changes to pass unnoticed. Therefore the number of indicators should be limited to those that are essential to measure progress and the need is thus to spend adequate time in developing useful indicators that measure progress successfully.

Key performance indicators must be developed for all relevant measurable objectives contained in the separate strategic plans. As Rutherford indicated (2000:225), the public sector might need a battery of indicators for each one, focusing on a single aspect of the sector's activities. These indicators should be easily identifiable with the different objectives, and should be supportive of each other yet easily distinguishable. When developed, long-term indicators should be supported by short-term indicators. This means that the same performance is measured throughout the strategic process.

The following diagram (diagram 5.3) has been developed and offers a overview of the different plans in the strategic processes and the corresponding measurable objective and performance indicators. These distinctions enhance the understanding and application of the strategic processes and can avoid confusion.

Plan	Measurable Objective	Performance Indicator
Strategic Plan	**EWO** (Entity-Wide Objective)	**EPI** (Entity Performance Indicator)
Medium Term Plan	**KRA** (Key Result Area)	**RPI** (Result Performance Indicator)
Annual Business Plan	**KMO** (Key Measurable Objective)	**KPI** (Key Performance Indicator)
Operational Plan	**ALO** (Activity Level Objective)	**API** (Activity Performance Indicator)

Diagram 5.3 Measurable objectives

The previous table in the IFGF adds a new dimension to current practices by defining different naming conventions for measurable indicators and performance indicators regarding the different plans. Even if these naming conventions are implemented over a period of time, they would greatly assist in distinguishing at a specific moment in time between different objectives of the different plans. Speaking of a KRA or API immediately refers to a specific plan without making long verbal references to the plan. Adequate planning is essential in the rapidly changing environment of the public sector and therefore strategic planning is linked to the following plans.

5.3.1 Strategic Plan

In South Africa, which has a five-year voting cycle, it would be difficult to achieve plans going beyond the voting cycle. This will be true for any country that is subjected to changes or possible political changes. However, from an investment perspective the Strategic Plan should contain objectives for even more than five years ahead and ideally should be a rolling process. This area ensures that objectives are sustainable and that there is continuity in the service delivery process. It is important that the strategic plan is linked to the budget, is time bound and contains high-level measurable objectives. Measurable objectives on this level would be described as Entity-Wide Objectives (EWO). They form the basis for developing the Medium-Term Plan (MTP) and all the relevant activities that flow from it. It should only change when the core focus changes, which normally results in new objectives, and then only after thorough consideration has been given to previous plans and the influence that the changes will have on future planning.

The Strategic Plan should contain long-term goals and objectives, linked to a budget, and should form the basis for developing the MTP. It must be noted that the strategic objectives bear a direct impact on the organisational structure and should therefore contain the expected impact on the existing structure. It should also indicate the application of existing resources and define plans to acquire additional resources when needed.

The Strategic Plan also defines the value system that is expected to support the activities that are planned towards achieving the objectives. The Entity-Wide Objectives contained in the Strategic Plan should be subjected a high-level risk assessment to determine possible risks that might occur. A high-level system of internal control to mitigate risks identified must be developed and supported by developing Key Result Areas (KRA) for each year in the medium term. The KRAs are the measurable objectives for the MTP. Adequate planning is essential in the rapidly changing environment of the public sector and therefore the Strategic Plan is linked to the following plans.

5.3.2 Medium-Term Plan (MTP)

The Medium-Term Plan (MTP) contains the Key Result Areas (KRA) for each entity-wide objective (EWO) for at least the next three to four years of any strategic plan. The plan is a mechanism for generating a limited but also focused set of medium-term strategic priorities that are shared by all spheres of government. Developing the public sector planning process along these lines can only be beneficial and contributes to aligning activities on one level of government with those on other levels.

The MTP provides the objectives of subsequent years' Annual Plans and enables the public sector to act proactively rather than reactively. Pressure on existing resources can be identified early, allowing timely corrective measures to be taken.

The MTP reflects in a compounded way the activities, procedures and the policies applicable to ensure that the system on internal controls is adequate and effective. It is applied to ensure that the objectives will be achieved and that progress is evaluated on an ongoing basis against predetermined plans for the medium term. It is directly linked to the budget[3] which, reflects the required organisation structures and forms the basis for all the managerial activities for the next 3-5 years.

It should confirm the risk strategy selected by management to constrain risk identified for each objective. Ideally, it should form the basis of a risk assessment to ensure that management develop a system of controls to mitigate identified risks. The MTP must also provide and/or indicate the required control measures that should be implemented in the system of internal control to facilitate roll out of previously determined objectives.

Linking Key Result Areas (KRA) to a budget, however, must be time bound to ensure that management can constantly measure progress during the year. Determining reporting structure, contents and frequency of reports should also be performed on this level, ensuring that the correct information on the right level is collated to provide measuring information contained on strategic plan level (See section 5.8.6.).

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[3] The Medium-Term Economic Framework (MTEF) are currently the reference to the available budget for subsequent years of the MTEF period, normally four years.

The KRAs should be subjected a high-level risk assessment to determine possible risks that might occur. Addressing these risks produces Key Measurable Objectives (KMO) for each year in the short term. The KMOs are the measurable objectives for the Annual Business Plan.

5.3.3 Annual Business Plan

A benefit of the MTP is having an Annual Business Plan for the current and the following years. Reaching objectives is normally not achieved at financial year end and therefore having Annual Business Plans for subsequent years can only be beneficial. The Annual Business Plan contains more detail and therefore supports the MTP, providing assurance that KRAs in the MTP can be achieved on a yearly basis as planned. It also defines the various specific processes required to achieve the objectives for the following three years. It contains report requirements and details the organisational structure, roles and relationships to ensure that objectives are achieved as planned. It describes the specific interrelations between the various areas in the model and to the degree each is considered essential to achieving the objectives. An effective Annual Business Plan clearly links the KMOs to the MTP and the strategic objective.

A high-level risk assessment should be performed on KMOs to determine possible risks that might occur. Addressing these risk results in establishing Activity Level Objectives (ALO) for each year in the short term. The ALOs are the measurable objectives for the Operational Plan.

5.3.4 The Operational Plan

Activity Level Objectives for each KMO are contained in the Operational Plan for a specific year, normally the current year plus the following one. Thus the public sector should always have an Operational Plan in place for at least two years. These activity levels are subjected to a detailed risk assessment to determine what activities and control measures are required to ensure the achievement of ALOs. The plan links each activity to a specific ALO.

The plan is used to develop a system of internal control to ensure that risks pertaining to the ALOs and activities are mitigated and to ensure the objectives are achieved as planned. From this plan each activity is assigned to the organisational structure and subjected to the areas of the governance framework to ensure that progress can be monitored, control exercised, accountability be assigned and resources be effectively and economically used.
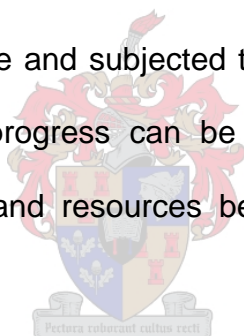
The Operational Plan represents the day-to-day activities performed to make progress towards objectives as planned. It describes the daily business life of the public sector and provides measurements to determine whether the public sector fails or achieves objectives and whether effectiveness, efficiency and economical use of resources mineralises or not; provides safeguards to prevent fraud or misuse of funds; provides policies and practices to ensure that values are preserved and ultimately that progress is made.

The different plans ensure that objectives are thoroughly developed, achievable over a period of time and that progress is measured during the

entire lifecycle of the achievement process. Applying strategic information technology could enhance these processes.

5.4   Strategic information technology

Robbins and Barnwell (2002:219) describe the impact of the development of information technology (IT) over the last 30 years. They argue that traditional tasks such as scheduling, coordination and routine information processing were positively influenced by the changes. Some of the influences indicated by them (2002:220) are as follows: it improves the ability to facilitate the flow of communication, especially when tasks are complex; its usage led to a reduction in the number of middle managers required in centralised functions; it supports lower-level, routine decision making rather than higher-level conceptualised thinking; and it facilitates the dispersion of organisational activities and reduces the cost of integration and coordination. These changes can have advantages if applied to the benefit of the organisation (Schwella, Burger and Fox 1996:231). However, developing countries often lack implementation of information technology.

Having strategic plans regarding information technology in a developing country such as South Africa is paramount to align public sector practices with global best practices. This can contribute positively towards the process of service delivery to citizens and can assist the public sector to achieve its objectives in different service delivery programs. However, the use of information technology (IT) must be well planned to ensure data are protected against corruption and that adequate control measures exist to prevent

possible manipulation of data. This requires the integration of strategic IT plans with other strategic plans.

Using information technology in large organisations such as the public sector is very often an expensive exercise and therefore it should be thoroughly planned, integrated, expanded and be used to its full potential to be justified. As indicated by the Provincial Government Western Cape (2004:56), there is a large demand for IT skills in this regard to deal with the associated risks as a result of the lack of skills and competencies. This in turn requires developing countries to ensure on-going training, re-training and assistance.

Landell-Mills (2003:1) argue that the dramatic evolution of information technology has opened up a tremendous new potential for increasing public accountability and that for the future a more coordinated and structured approach to reform may result in better outcomes; this highlights the importance of having an IT Strategic Plan. The application of infrastructures globally compels the public sector to increase the usage of information technology and its reliance on IT.

The Strategic IT Plan therefore forms an integral part of the strategic planning process that can contribute positively towards increasing the effectiveness of processes responsible for collating and distributing of information and provide amongst other benefits the opportunity to decrease the lead-time in providing required reports. Care should be taken to ensure that the IT plan are continually aligned with the rest of the operations.

5.5 Budget

All the areas in which government operates have a vast number of factors that need consideration before a sound financial decision can be made. Schwella, Burger and Fox (1996:127) define an operational definition of a budget as follows:

> "A budget is a *plan* for achieving *programs* related to *goals* and *objectives* within a definite *time*, incorporating estimates of *resources required,* together with estimates of *resources available*, usually compared with one or more *past periods* and showing *future requirements*".

Budgets are only the first stage in public expenditure management. Landell-Mills (2003:360) note that large discrepancies often arise between amounts budgeted and the actual expenditure that often may not be known for several years because of weak accounting and auditing. And, even when they are known, the public sector rarely takes action to censure those responsible for misuse of funds.

The overarching objective for the public sector should be to meet the fiduciary obligation to the public through honest, effective and answerable government. Landell-Mills (2003:366) observed that global experiences provide conclusive evidence that the public sector rarely reforms unless strongly pressed by the media, the legislator and civil society. Contributing to this might be the lack generally demonstrated by the public sector to quantify promises or results of decisions, especially in developing countries, where stakeholders' skills are

limited to demanding that the public sector provide reliable information regarding cost of decisions.

The budget must be linked to strategic objectives that are accompanied by relevant activities. It is clear from the "Towards a Ten Year Review" (Policy Coordination and Advisory Services, The Presidency, 2003) that the budget plays a central role in the South African government. Failing to link strategic objectives and relevant activities to a budget can create a situation where financial resources are unnecessarily applied to maintain existing infrastructures that are not contributing towards achieving specific objectives. The public sector must have processes in place to ensure that the budget allocated is adequate to achieve the objectives and to facilitate making timely changes when the inadequacy of the budget becomes apparent, often caused by changes of objectives and when under-spending appears to materialise.

Implementing governance frameworks such as the one suggested in this dissertation should enable developing countries to revaluate existing objectives and to consider alternative objectives or to approach the donor community successfully for the possible supplementation of existing funding. Learning therefore form one another can increase the success of implementation.

5.6 Strategic resources / assets

The IFGF should provide the opportunity for government to determine the strategic resources available, and the resources required and needed to meet those objectives. As Segal-Horn (1998:208) argues, that this can be a daunting task where managers are faced with anticipating possible futures;

assessing interactions with each projected future; and overcoming organisational internal disputes in order to realign the organisation's strategic assets with objectives. The resources must be linked to the different strategic plans and budgets. This requires careful planning in the selection of resources and consideration in the light of current and future objectives.

Where additional resources are required acquisitions must be well planned and linked with specific objectives. The strategic processes as explained thus far demonstrate the possibility of successfully executing predetermined plans to make required acquisitions in a timely manner. In South Africa the DPSA (2003:120) assigns the responsibility to the Head of a Department in the public service for ensuring that strategic resources are effectively used to implement the strategic plan.

However, allocating strategic resources includes more than allocating existing resources. It also includes constant alignment with plans, especially in developing countries, where the public sector is faced daily with the battle against poverty, there is a constant flow of the poor towards areas experiencing economic growth. Therefore a process is required to ensure that strategic resources do not lose their alignment with strategic plans, ensuring a continued emphasis on the correct deployment and development of strategic resources, which in most cases are expensive by nature. A strategic asset plan linked to the different strategic plans ensures public sector governance regarding these resources.

5.7 Human resource plan

The "Towards a Ten Year Review" (Policy Coordination and Advisory Services, The Presidency, 2003) indicates that the development of human resources is a key objective in the South African government. In the absence of capable human resources the best plans are prone to failure. In 2001 the Auditor General reported that human resource spending totalled between 50% and 60% of the total expenditure of the South African government. The IFGF links the different objectives and infrastructures to the planning process to form the basis when determining the human resources needed for delivering services.

However, these resources are by nature expensive. Other initiatives such as the Baseline Implementation Guide (DPSA 1999:29) suggest the following five steps to HR planning: (1) assessing the human resources needed by a department; (2) assessing the human resources supply to meet this need; (3) analysing the differences between the resource needed and the supply available;(4) developing a strategy to meet all the HR needs of the department; and (5) monitoring and evaluation. The IFGF allows management to determine the appropriate timing to use such guides by providing an overall view of all processes required to ensure good governance in the public sector. It is a mechanism that gives a total approach and overview, from the conception of a long-term objective (goal) to the final activity required to achieve the objective. Therefore, it facilitates the use of existing guides and other prescripts that may be required from time to time. It encourages the seamless integration of other guides and requirements and, as such, provides a clear understanding of the contribution that different

guides make towards the accomplishment of objectives in a department. The framework is the link between all the initiatives and activities required to be able to achieve the objectives. All the processes can be synchronised into a meaningful unity in a manner that allows all personnel to discharge their responsibilities effectively and efficiently.

Failing to synchronise all the required processes with strategic objectives on a regular basis often leads to a situation where resources are not suited to achieving the objectives effectively and efficiently, and therefore governance excellence would not materialise. This can result in additional cost when making corrective changes in assets, including the retraining of personnel or the use of contractors to supplement the lack in skills and resources to achieve predetermined objectives.

Saucier (2001:8) claims that that HR plans should normally be based on the general consensus in the private sector that governance excellence is only achieved when positions are filled with the best-qualified persons from the top of the organisation to the bottom. This is one fact amongst several others which appears to have crystallised over the last few years when governance in the private sector was subjected to scrutiny. Various authors (TBS 2003a:16; OECD 2001:83) claim that there is a direct link between the level of qualifications of employees and the quality of governance.

It is not the purpose of this dissertation to substantiate arguments that good qualification correlates with good governance. It is nevertheless accepted that employing inappropriately equipped persons results in poor governance and ultimately in poor service delivery. Human Resource Plans in developing

countries carefully consider this reality and are well aware of this direct relationship between the qualification of people employed and the level of governance that can be achieved. No system can provide the experiences and discretionary ability developed over years that comes with employing the best people available at a given time. Landell-Mills (2003:363) notes that staff should be paid competitive salaries accompanied by tough performance targets.

South Africa, where the original affirmative action policies were replaced by the transformation processes, has often suffered the consequences of making appointments in the public sector according to transformation requirements rather than on the quality and level of skills, education and experience required. The result is that services often suffer and that serious situations arise because of this practice.[4] It is not possible to achieve results that meet the requirement of sound governance if there is a failure to appoint the best available skills, qualifications and experience. To settle for less would be like claiming that sound governance is less important.

Once adequate plans have been prepared, the public sector will need *inter alia* processes and organisational structures to execute those plans. This is explained in the second area, *management and stewardship*.

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[4] An article in the *Cape Argus*, "Why criminals walk free" (11 June 2005), states that aggressive transformation policies have undermined the credibility of forensic evidence to convict rapists and people involved in drug dealing. A case was dismissed in the courts recently because the employees responsible for providing forensic evidence could not satisfy the magistrate that they are capable of doing so. Apparently transformation appointments where made, although the candidates did not have the required experience or qualifications to carry out scientific work. This resulted in the resignation of two top health officials, who stated that they were no longer willing to work under such conditions.

5.8 Management and stewardship

Swartz (2000:73) has remarked that the different policy initiatives in South Africa between the years 1994 and 2000 changed the social composition of the public service institutions, reconstructed the core of some institutions, including rules and procedures, and raised the scope, quality and intensity of service provision. These changes will impact existing governance practices and therefore governance practices should be subjected to regular review.

Public sector governance as approached in this dissertation encompasses how a department is managed, its functional structures, its culture, its policies and strategies, and the ways in which it deals with various stakeholders. Governance is often a combination of legal and organisational structure and management requirements, aimed at facilitating accountability and improving performance (see diagram 5.4). All this should be linked in the IFGF to the strategic plan and is one of the cornerstones for calculating the budget required to achieve objectives. Guidelines, regulations, structures and systems can provide a robust and useful framework, but it is only through the actions and decisions of public sector staff that their benefits can be realised. The IFGF guides these actions into a powerful combination that leads to successful achievement of objectives.

Stewardship in the public sector must be rigorously exercised and attention be given to implementing an effective and integrated control framework, applying sound procedures, practices and competencies that support the public sector in their achievement of citizen-focused results, while ensuring highly effective management of public resources. It must promote the ability

to assess each activity and the impact it has in mitigating risk and/or its contribution to effective and efficient service delivery, and should allow for alternatives to be considered and as such ensure that available resources are maximised in their usage.

Diagram 5.4 Management and stewardship

One must remember that the actions in these areas should be a direct result of the plans made during the strategic planning phase. A trend in the public sector is the growing disparity between objectives contained in the strategic plans and the adjustments in management practices often caused by rapid changes in the political arena. It is therefore understandable that the public sector always appears to be busy aligning its management and stewardship practices with strategic objectives.

The IFGF should provide the mechanism to ensure constant alignment between strategic planning and management and stewardship practices. The

first subsection under management and stewardship is structure and relationship, which will be discussed in the following paragraphs.

5.8.1 Structure and relationships

Robbins and Barnwell (2002:7) define organisational structure as the degree of complexity, formalisation and centralisation in an organisation. Structures enable coordination between resources, define how task are allocated, provide the way for the flow of reports and other information, and provide boundaries for responsibility and accountability assignments. As such they appear to be complex in functioning, yet when linked to objectives in the different plans they can provide the detail required when problems are detected and corrective action is planned.

Structures and relationships are the area where the objectives are divided and assigned to ensure that activities are synchronised to achieve them. It is important that appropriate resources are allocated to the processes needed to achieve strategic objectives and that processes will be placed into a relationship with one another. This will allow for the exercising of control and the meaningful flow of information throughout the organisation. It facilitates the optimal use of resources and can play an active part in preventing duplication of activities. Assigning and exerting accountability cultivates the understanding and awareness in each employee how his/her duties relate to the achievement of specific objectives.

The IFGF should greatly reduce the risk of forcing new objectives to be accomplished by personnel who were originally employed to achieve other objectives. This is a reality in the public sector due to the constant changes,

which demands regular reviewing of organisational design to ensure alignment with strategic objectives (Robins and Barnwell 2002:8). These changes often result in existing structures and relationships not being appropriately suited to accommodate newly developed objectives. As indicated by Segal-Horn (1998:265), in the literature the rich content of strategies has never been adequately related to structure.

However, it is a prerequisite in the IFGF that structures and relationships should be firmly established around the permanent core business of an organisation and more freely around objectives that are of a less permanent nature and that are further removed from the core business.   Structures and relationships should be supportive of the business processes required to achieve objectives.

5.8.2 Business processes
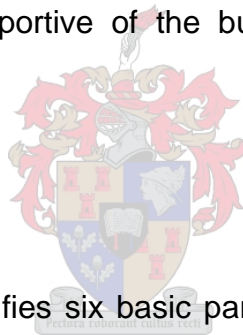
Segal-Horn (1998:239) identifies six basic parts of an organisation that play different roles in the accomplishment of work within an organisation. The roles of these parts must be coordinated and therefore the work must be broken down into smaller units.

Robbins and Barnwell (2002:104) define procedures as specific standardised sequence of steps that result in a uniform output. Accepting this definition, one can then argue that a process is a specified standardised step or group of steps within a procedure.

Business process is the means by which the public sector applies allocated resources to achieve objectives. Collins and Butler (2002:3) point out that in a

rapidly changing business environment, where turbulent conditions are increasingly evident, it has become axiomatic that speed, pace and timing are critical success factors and most probably the reason for the business process re-engineering that has taken place. It would be fair to argue that this certainly has become a trend in the public sector. It might well be that this is the reason why the public sector always seems to be slow in delivering service. If this is indeed the case, it means that Hughes (1998:18) was correct when observing and quoting Osborne and Gaebler (1992):

> *'. . . Bureaucracies designed earlier in the century "simply do not function well in the rapidly changing, information-rich, knowledge-intensive society and economy of the 1990s".'*
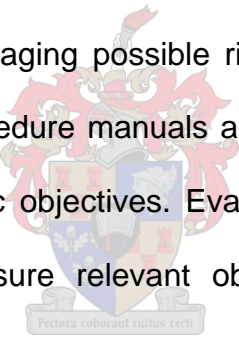
As long as the public sector is subjected to the political environment in the current manner, this will remain a risk to be noted and mitigated as effectively as possible. As stated by TBS (2003b:34), rigorous stewardship is aimed at developing and implementing a consistent set of processes and tools to improve business processes and options (including alternate service delivery options) and to share knowledge and best practices used within the department or agency. This view is also supported by the Institute of Charted Accountants of Alberta (ICAA 2002:34) summarizing Roth (1999):

> *"Value must be created through strategic partnerships and business transformations. Transforming business processes by leveraging and integrating people, processes and technology will result in quantum leaps in effectiveness. Finance groups can then focus on eliminating non-value-added activities (and*

hence, cost) and reallocate resources to value creating business activities."

Applicable business processes therefore form a key cornerstone on the way towards achieving objectives. Giving careful consideration to them during the development and application phase is essential because it can contribute positively or negatively towards the effective, efficient and economical use of resources.

The IFGF must be applied to enable the public sector to develop and implement business processes based on risk assessment to ensure the effective and efficient use of resources when striving to achieve objectives, whilst at the same time managing possible risks. Identified processes are reflected in policies and procedure manuals and should allow evaluating the effect it can have on specific objectives. Evaluations are means to identify possible adjustments to ensure relevant objectives can be successfully achieved.

The public sector must move away from a control-dominated environment towards service delivery-orientated government by moving the focus from enforcing policies and procedures towards the cost of service delivery, ensuring that policy and procedure are adapted to maximise service delivery and minimising cost. This will require management to develop guidelines and appropriate flowcharts, which indicate key controls that can be enforced without preventing effective and efficient service delivery. When doing this, care should be exercised to ensure that changes in operational plans do not

undermine earlier risk assessment processes and accompanied control measures.

Business processes must ensure interdependencies between the different "units" within the public sector and that accountability and responsibility are assigned appropriately. Policies and procedures are reconsidered whenever changes and events occur that can effect the achievement of objectives. This requires a constant review of business processes and their design as indicated by TBS (2003:13). It will also require identifying those processes that are critical to deliver core services during times of disasters. PSC (2002:28) emphasises the importance of mapping and documenting processes. This especially is the key to achieving objectives and to determine the role of key controls. Because business processes are by nature responsible for a large portion of the costs, care should be taken when designing, developing and implementing new processes or when reviewing existing processes. Therefore, financial governance can be improved when using process flow charts indicating key controls assigned to specific objectives, indicating accountability assignments, document flows and planned outputs. This will enable the public sector to identify unnecessary controls; ensuring stakeholders receive value for money. The successful development and implementation of business processes depend on the organisational structure, which is discussed in the next section.

5.8.3 Organisational structure

As indicated in section 5.8.1, the organisational structure must be linked to the objectives, amongst other requirements. The ANAO (2003:2) states that

in many ways governance is a combination of legal and 'better practice' organisational structure and management requirements, aimed at facilitating accountability and improving performance. An organisational structure should structure the public sector by aligning resources with objectives, timeframes and deliverables. It is yet another cornerstone of public sector governance.

The structure must be based on annual plans and strategic plans and any changes will impact on existing structure. It utilises skills available and is required to achieve short-term (operational plan) and medium-term objectives (MTP), and also determines the future skills requirements to meet strategic objectives in the long term. Many objectives require specific skills and adequate attention should be given to such skills when changes in objectives are considered. As stated in the Governance Framework of PGWC, organisational structures utilise existing potential by developing objectives mindful of the current structures and relationships, and allows for making seamless changes when required to do so.

It is important to ensure that organisational structures are aligned with objectives instead of aligning objectives with structures. This danger often becomes a reality because the public sector fails to ensure that the organisational structure remains aligned with objectives when changes occur – mostly in objectives. The public sector should be objective-driven and not structure-driven. This is a key factor to improve public sector governance in South Africa, where the public sector has for years embarked on organisational development (OD). Very often the OD imitative has caused delays in service delivery because of the requirement of having the correct structure in place. It does not appear as if the way that OD has been

deployed has enhanced public sector governance. If OD is not carefully applied, the public sector can become structure-driven instead of objective-driven.

Improving public sector governance requires regularly assessing the contribution of existing structures to effective achievement of objectives. The focus must be on continuing to be objective-driven, avoiding being structure-driven and to develop structures that can adapt to the constant changes in government environment. An IFGF provides the opportunity to determine training requirements proactively – an essential trait in any organisational structure that aims to achieve objectives and that anticipates probable changes in objectives. Employees within these structures should demonstrate specific standards of behaviour, which is discussed in the next section.

5.8.4 Standards of behaviour

According to some writers, the role of managers in the public sector is purely instrumental; for example, Esman (1991:40) argues that their function is to convert public laws and government policies to routine courses of action and to deliver predictable services to a specific public in a cost effective way. Esman (1991:40) then argues that in the implementation of programs they demonstrate a certain discretionary power when they decide what is relevant and when they interpret policies and rules in a way that often makes important differences to the public and that can be described as the discretionary dimension of their role. In such circumstances the possibility of poor discretionary decisions can lead towards corruption and similar behaviours.

Segal-Horn (1998:289) regard standards of behaviours as strategic thought that has been converted into policy and behaviour guidelines to help employees decide what to do on a day-to-day basis. It is important to identify the values and behaviour lying behind the objectives in the strategic plan and to communicate these to those who have to perform the related activities.

The ANAO (2003:2) notes that there is increasing evidence that *behaviours* consistent with good governance (for example, leadership, communication, encouraging difficult questions to be asked, and holding people to account) increase the probability of positive and sustainable outcomes. It is important to understand, as indicated later in the same document (ANAO 2003:9), that good governance should not only be found at the corporate level, but it should also be apparent among all staff and evident in their behaviour and attitudes in the workplace at all levels of the organisation.

This means that improving governance in the public sector will be the function of the behaviours and values of the public sector's leaders and of the overall culture applied by the public sector as a whole. As stated by TBS (2003b:9), shared ethics and values relate to communication and demonstration of strong values and ethics in all management practices, behaviours and processes that support the ethical stewardship of public resources. In this regard it is important to note that, although rules, structures and processes are certainly important, they are primarily the vehicles by which the crucial values and behaviours are applied (ANAO 2003:11). This was noted as early as 1994 by Dixon (1994:61), who stated that new legislation and more regulations do not automatically change behaviour.

Standards of behaviour provide guidance, and where they are unclear it can be expected that undesirable results would follow, as noted in research undertaken by the NSW Independent Commission Against Corruption (ICAC). They found that when standards of behaviour are unclear, unethical activities flourish. The following point summarises some of their findings:

> *Managers behaved unethically (tone at the top, as discussed in subsection 4.3.6); when organisational values are unclear; ethical behaviour is not rewarded; sanctions for unethical behaviour are unclear; and when there is no practical ethics training (ANAO 2003:11).*

However, it still remains important to communicate and demonstrate the standards of behaviour regularly that are required throughout the organisation and to monitor behaviour in previously identified areas.

The public sector must link activities with appropriate standards of behaviour, including the value system regarded by management as essential in achieving the objectives. This ensures that relevant values and principles are identified throughout from the planning through to the execution phase. As Curtis (1999:263) noted, one has to determine what kinds of qualities are needed to deliver these objectives and what the implications are in terms of corporate skills and competencies and values that is needed in terms of corporate behaviours and working styles.

Standards of behaviour must be continually identified, developed, adjusted and implemented to ensure good governance. The IFGF must ensure that those activities that are value / principle intensive are identified and linked to

specific values. This will assist the public sector to move away *from having values / principles* and move towards *reflecting and demonstrating values and principle*s. In doing so a specific culture and corporate identity is cultivated where all personnel are aware of their own unique role and contribution when executing their daily duties and where stakeholders start to observe the demonstrated values and principles.

5.8.5 Roles and relationships

The World Bank (Iskander 2000:47) remarked that poor governance does not arise solely from bad intentions. It can also be the by-product of a lack of competence, training and/or uncertainty about roles and responsibilities. Poor governance is hardly ever the intention and most often rather the result of not adhering to those practices that would allow one to move towards improved governance. Saucier (2001:200) indicated that where roles and responsibilities are understood and respected in a healthy and constructive way, issues are more easily managed.

Hamilton (2003:6) more directly links roles with governance when remarking that fundamental to any governance structure is establishing the roles of management and the board with a balance of skills, experience and independence on the board appropriate to the nature and extent of company operations. This certainly is also applicable to the public sector.

In the complex public sector environment, one of the most important components of robust accountability is to ensure that there is a clear understanding and appreciation of the roles and responsibilities of the relevant participants in the governance framework, including the public

sector's stakeholders and those who are entrusted to manage resources and deliver required outcomes. The absence of clearly designated roles weakens accountability and threatens the achievement of objectives. Any uncertainty experienced by private and/or public participants in this respect can create confusion both as to who is accountable for what and about what the requirements are for achieving the objectives based on the various relationships with stakeholders.

Roles in the public sector must be clearly identified and communicated to all. This is one of the processes that is required when responsibility is assigned and accountability exercised. Failing to identify and communicate roles and responsibilities ultimately results in poor service delivery, to name but one consequence. Assigning roles and relationships determines the nature, timing and method of information flows in the organisation and influences the processes designed to track progress against plans. It requires that explicit role definitions of key participants in the governance process are identified, developed and implemented.

Assigning clear roles and structures assist with the development of the control and accountability structures established to facilitate communication, action and monitoring on the objective and the activity levels. This provides the basis for a reporting structure, which is discussed in the following section.

5.8.6 Reporting structure

Making decisions forms a part of the daily routine in any organisation. As stated correctly indicated by Fox (1996:134), individuals have to make decisions within their institutions and therefore they must be able to identify

issues and make decisions to act appropriately. Some routine decisions have minor consequences, but others have significant consequences (Graber 1992:115). However, decisions are always based on available information.

Therefore, information must be available at the right time and at the right levels of the organisation and reflect reliable content. Segal-Horn (1998:313) provides a closer look at the different ways in which information can be processed, i.e. collated and distributed. The adequacy of information flows in the organisation is a crucial factor when members assess their working climate (Schwella, Burger and Fox 1996:228). With a reporting structure the responsibilities and accountabilities regarding reporting are structured and assigned, ensuring that relevant information is available at the right levels reflecting reliable information.

The public sector must have reliable information available on a timely basis and at the correct management levels to assist strategic decision-making and to ensure effective and efficient governance, especially when tracking progress and reflecting the results to date. However, it is possible to unintentionally embark on reporting processes that collate and generate large volumes of information without the information being helpful to make any meaningful assessments both internally and/or externally.

The reporting structures must focus on predetermined measurable objectives in the different plans and ensure that progress is monitored in a timely fashion and corrective actions instigated without unnecessary delays. This requires that monitoring systems should be developed within the organisation that collate and distribute relevant information regarding performance and

compliance with various requirements, and that enable management to track progress made in achieving objectives against plans.

The reporting structure must ensure that *relevant* information flows up, down and across all levels in the departments in a timely manner to allow for effective decision-making. There should be no need to collate and disseminated information that is not relevant within the organisation.

The IFGF should enable the public sector to develop an objective and/or purpose for each report, indicating the relevance of the information for strategic and operational decision-making and to ensure that information contained in the reports is reliable.

This keeps the personnel on all levels aware of how their actions are contributing towards the achievement of objectives. Having appropriate structures ensures that responsibility is assigned across the public sector and that reporting is done as planned and facilitates appropriate reporting of changes when needed.

5.9 Performance measures

Performance management is the area under Management and Stewardship, and groups those activities that mainly aim to measure performance on an individual and operational level. Schwella, Burger and Fox (1996: 269) note that public institutions and public managers have to respond to increasing pressure to improve performance and public service. The public sector should determine the content and frequency of reports regarding performance in general. This requires developing clear criteria to be applied to measure the

performance of staff, relevant stakeholder partnerships (i.e. suppliers/private) as well as measuring the progress made towards achieving objectives.

Therefore the public sector has to design monitoring systems to track performance against agreed on goals, money allocated in the budget, assigned tasks, risks and other relevant management activities. (See Burger 1999:424 for financial performance in the public sector.) The public sector should use the IFGF as a mechanism when designing performance measures that can evaluate financial report results based on the current budget control prescripts and that can link individual performance reports with the personnel performance management system. Information required via the reports must enable the public sector to allow for timely monitoring and reporting, using the most current information ensuring that all information is reliable by developing and implementing processes in this regard.

Well-designed performance measures will enable the public sector to take corrective actions when diversions from planned outcomes occur. This ensures that they can deal with problem areas timely and appropriately, and identify meaningful answers to tough question such as identifying explicit information required to evaluate accountability issues.

5.9.1 Monthly financial statements

Financial terms represent the common denominator by means of which all processes can be expressed and whereby meaningful analysis of current results can be compared with historical results, including original plans and budgets. Information provided by financial statement need to be

understandable; in other words, the user needs to be able to perceive its significance and relevance.

Burger and Ducharme (2000:49) show that financial statements as required by legislation can be analysed to measure the performance of the public sector in South Africa. However, the majority of stakeholders might be unable to understand these results and these analyses, as emphasised by Rutherford (2000:4).the author adds that the way the information is presented should take into account the willingness to evaluate performance and the ability of the users of the information.

This should be kept in mind in a developing country such as South Africa, with large proportions of the population unable to read financial statements to assess financial results. In developing countries proper analysis tools to evaluate the financial results of the public sector have not been developed. In South Africa the public sector has struggled since accepting the PFMA in 1999 to move from cash accounting to a procurement accounting system and to date (June 2005) this process has not yet been completed.

Public sector governance requires that progress must be tracked against budgets and predetermined plans. This also improves public sector governance, if it can evaluate business processes, control measures and other management policies employed in financial terms. This will contribute to enhancing the implementation of the required improvements.

Governance can enhance the current budget control process by making inquiries from a financial governance perspective.[5] Financial statements and other financial reporting prescripts can be enhanced when the review of financial results includes asking governance-related questions such as what processes are currently being developed to ensure that the future occurrence of a specific problem are avoided or that changes that lead to under-spending can be prevented or addressed in good time when they occur.

The public sector can improve governance by allowing critical management decisions to be expressed in financial terms and comparing actual results against plans in financial terms. Such statements allow for critical management decisions that ensure cost effective and efficient service delivery-enhancing processes, where decisions can be expressed in financial terms before embarking on executing them. This process is linked with performance management, which is discussed in the following section.
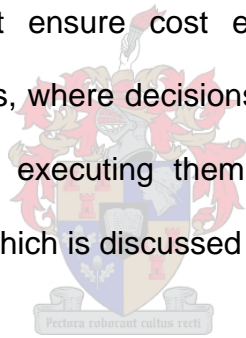
5.9.2 Performance management

Performance management is an essential component of a corporate governance framework. According to the ANAO (2003:33), it allows Ministers and committees to lead, monitor and respond to how a department delivers in terms of its goals, mission and the outcomes required.

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[5] The Governance Framework of PGWC remarks as follows in this regard: "The point in case being par 12- 7 t in the 'Memorandum to the President's Coordinating Council of July 2004, Province of the Western Cape' that deals with under-spending of the budget. There is not a single indication in any of these paragraphs that governance-related questions or evaluations were considered on how similar problems in the future can be avoided using a financial governance prospective. It appears as if the lack of resources and finances are the only considerations". The emphasis of Financial Government Governance Framework as the achievement of objectives relies on much more than finances and resources.

More importantly, an effective approach to performance management enables employees to understand the goals and how individual and team outputs contribute to the achievement of objectives and values. In this regard the ANAO (2003:34) remarks that integrating people, planning and performance with objectives develops individual and organizational capability and thereby promoting better performance. It is not surprising therefore that the Canadians (TBS 2003:9) regard performance as an "enabler" of public sector governance.

Popovich (1998:20) indicates that opportunities exist for enhanced performance through partnerships when boundaries are not rigid and when the focus is on the mission and required outcomes for accomplishing the mission. Once a department in the public sector has analysed its strategic objectives, identified all the stakeholders and determined all the processes and activities that are required to achieve the objectives, it has to design appropriate ways to measure progress towards those objectives. These measurements should be communicated both internally and externally. Internally, performance management provides standards against which progress can be made and externally it provides an evaluation mechanism to determine if services are delivered as promised.

Many things are measurable and one can spend a lot of time in reporting on measurements taken. However, only those aspects that are a key to success should be subjected to performance measurement. In this regard DPSA (1999:3) states that, in line with the emphasis on managing resources for better results, the new approach to performance management does the following: it looks ahead by setting clear objectives as well as time frames for

achieving them; it emphasizes measurable outputs and outcomes for those objectives; and it links performance planning to strategic planning. Strategic objectives are cascaded down the hierarchy of the department and are fully integrated into the working practices and management structures of the department; they require a commitment to continuous improvement through regular performance assessment that supports coaching, training and affirmative action.[6]

Although one can support most of the above guidelines by DPSA , one has to question the last statement, i.e. that performance management should support affirmative action, unless affirmative action does not cause the public sector to fail in its primary objective of delivering services to the public. There is no indication in the literature that affirmative action is a requirement for a good performance management system.

Sound performance information can reduce the workload for individuals within the public sector by making management information at all levels in the planning hierarchy readily available and applicable to their activities. Appropriate performance information enables individuals to determine how their activities contribute to the outputs and, hopefully, the outcomes. For this reason, among others, it is essential that public sector staff be made aware that performance information is a valuable management tool and that accountability-related information, and general management performance information are part of the same integrated framework (ANAO 2003:32).

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[6] This demonstrates a typical problem within developing countries such as South Africa, where performance measurement criteria are mixed with an objective, resulting in "affirmative action" being regarded as the result / criterion for a performance management system.

Performance management refers to the ongoing management, measurement and analysis of information, activities and progress toward goals and objectives. This means that organisational and procedural controls are in place, supported by an effective management information system, and they measure performance and allow management to pursue any necessary remedial action against risk. This requires performance indicators to be quantifiable measurements – agreed to beforehand – that reflect the critical progress made towards objectives. The public sector must exercise care in developing them and ensure that they reflect progress made towards objectives. This requires that coherent data collection and reporting systems should be co-ordinated, integrated and designed to meet predetermined criteria, which should enable management to track progress against plans on all levels of the organisation's activities.

Measurement to indicate 'performance' must convey what was done and also how well it was done in relation to other indicators. It is critical that public sector limits performance indicators to those factors that are essential to measure success and to limit the number of indicators by creatively designing indicators that measure more than one objective. A limited number of performance indicators keeps everyone's attention focussed on achieving the same objectives. This requires spending enough time on developing performance indicators. It is important for the public sector to develop performance indicators that can track through all the processes implemented in achieving objectives over the time span of the strategic plan. Critical processes must therefore be identified and monitored in relation to progress made towards objectives, be regularly communicated and should function as

indicators and standards by which daily progress towards objectives can be measured. Performance indicators must be developed on the different levels of planning. Having different performance indicators that are conducive to measure performance and interdependent should improve governance and diagram 5.5 is an example of how this can be done.

Plan	Measurable Objective	Performance Indicator
Strategic Plan	**EWO** (Entity-Wide Objective)	**EPI** (Entity Performance Indicator)
MTSF	**KRA** (Key Result Area)	**RPI** (Result Performance Indicator)
Annual Business Plan	**KMO** (Key Measurable Objective)	**KPI** (Key Performance Indicator)
Operational Plan	**ALO** (Activity Level Objective)	**API** (Activity Performance Indicator)

Diagram 5.5 Performance indicators

Based on best practices, the IFGF includes different naming conventions for performance indicators in the different plans. The API in the operational plan must measure the same performance as the KPI, RPI and EPI, with the only difference between the indicators being the level of detail, the time period and frequency. Confusing the performance indicator with a specific plan will be avoided when these naming conventions are implemented in the future. The

following table indicates the various performance indicators relevant to specific plans.

5.9.3 Personnel performance management

A personnel performance management system should motivate employees to deliver exceptional quality of work. While reformers have correctly stressed the emphasis on pay, insufficient attention has been given to non-wage incentives and to finding ways to link incentives to performance (Landell-Mills 2003:367). Performance management is based on the private sector initiative to increase profitability by rewarding the performance of staff who contributed exceptionally towards the increase. This is of particular value in the public sector, which is more often than not plagued with a bureaucratic and hierarchical mindset. As indicated by Jones (2003:66), this mindset has been the perpetuation of a system which has become notorious for being self-serving, inefficient, ineffective, and non-responsive. According to the same author, this has resulted in inadequate customer orientation (service delivery) and inadequate competitive orientation.

Jones (2003:66) observed the following in this regard: non-customer-focused outlook and activities; insufficient community consultation, responsiveness and public input; insufficient emphasis on open government; inward-looking focus; insufficient accountability; input-oriented rather than outcome-focused work culture; insufficient cost-effective and business-like operations; non-performance-based culture: lack of real performance criteria and incentive, and a lack of data for analysis and performance management; *a*bsence of competition and contestability; and no notion of being commercially driven.

Although this section deals with primary with personnel performance management and therefore is mostly interested in Jones's observation that the public sector demonstrates a *non-performance-based culture: lack of real performance criteria and incentive, and a lack of data for analysis and performance management,* it was decided to list all his observations because they are regarded as being relevant to other areas discussed in this dissertation.

One should note at this stage that the public sector should guard against implementing private sector practices without adjusting such practices to suit the public sector environment. As indicated in PSR (2001:32), when providing guidance on performance management, it is fairly known that government lacks the finances to reward staff according to the regulations. However, applying the principle of rewarding performance does improve governance in the public sector, even if such rewards are non-financial as indicated by the PSR. This is also aligned with the view of the World Bank (Mackay 1999:13) that emphasizes recognizing individual performances as important in improving governance in the public service. It also mentions that public sector reforms should shift the focus to performance rather than only having methodologies.

5.9.4 Balance scorecard

A fundamental starting point, once the key elements of the governance framework have been settled, is in good scorekeeping systems (balanced scorecards or executive snapshots) which firstly translate the organisation's strategies into key operational indicators and then systematically report on the

health of the business, both in terms of operational responsibilities and future positioning initiatives. This provides the feedback loop on the effectiveness of organisational strategies and the basis for communicating with staff and other stakeholders on how the agency is travelling. Without such reporting, there is a very significant risk of unfortunate surprises and belated, often expensive, recovery action. The emphasis is on ensuring prompt and effective decision-making (ANAO 2003:32).

The balance scorecard provides four perspectives: a financial perspective, where the strategy and execution are measured in financial terms; a service delivery perspective, where the strategic objectives are measured in the value created for the public; an internal perspective, where objectives are measured in terms of all the processes required for successful service delivery; and an innovation and learning perspective, where the strategic objectives are measured in terms of the public sector ability to develop innovative value added service delivery. The public sector should implement the balance scorecard as a measuring mechanism.

A balance scorecard approach will enhance current performance measures employed, because it is a mechanism that allows for financial measures and operational measures to be complemented with client service delivery satisfaction processes and the departments' innovation and improvement activities. It can also be implemented to report on the triple bottom line, i.e. social, environmental and economical.

The balance scorecard is a management system (not only a measurement system) that enables a department to clarify its vision and strategy, and to

translate it into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results.   When fully deployed, the balance scorecard transforms strategic planning from an academic exercise into the nerve centre of a department in the public sector.

In summary, as far as performance management is concerned, it can be concluded that the public sector must measure performance on four levels: analyzing financial statements; measuring personnel performance; measuring operational performance; and using the balance score card approach, which in a certain sense combines the first three. However, the effectiveness of these measurements will be greatly enhanced within the IFGF.

5.10   Risk management

Risk management is crucial in the public sector, where political changes are paramount and have a direct influence on every aspect of the public sector. While some risks encourage innovation and better performance, uncontrolled risk can lead to adverse exposure or losses and prevent a department from meeting objectives. Assessing risks must be regarded by the public sector as a major component of an effective control structure and a critical phase during the development of Strategic Plans, the MTP, the Annual Business Plan and Operational Plans. It forms the basis for the development of Key Result Areas (KRA), Key Measurable Objectives (KMO) and Activity Level Objectives (ALO)

The public sector carries the burden of additional risk apart from the normal financial risk, i.e. there is also political risk, loss of confidence, social risk,

environmental risk and public safety risk. The public sector should develop and implement a risk-management and system that would ensure processes are developed that mitigate risk and will identify the residual risk exposure to which the public sector is subjected.[7]

In the public sector in South Africa risk management is regarded as primarily the responsibility of the Accounting Officer.[8] Effective public sector governance requires the identification of business risks, identifying potential opportunities and ensuring the establishment, by management, of appropriate processes and practices to manage all risks associated with the organisation's operations. The goal should be to embed a culture of risk management in the sector so that the consideration of risks and any risk-mitigation strategies become second nature. This is particularly important because the public sector is prone to significant risks change as the role of the public sector itself continuously changes. Poor administration can generally be regarded as a direct reason why suitable risk management practices do not exist and most probably why the public sector often fails to deliver the services as planned. The IFGF regards risk management as an important step during the whole governance process.

A risk-management framework will properly weigh potential benefits as well as potential costs. Importantly, the public sector should consider adopting a risk culture that can accept risk as an opportunity as well as something to be minimized or avoided. However, the field of risk management in the public

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[7] At the time when the Governance Framework of PGWC was completed, PGWC were still in the process of trying to adapt the Enterprise Risk Management Framework developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) for application in the public sector.

[8] PFMA Section 38 (1)(a)(i) Act 1 of 1999 (as amended by Act 29 of 1999).

sector is an area that is well worth considering for further development and study.

5.11   Control assurance

In the public sector governance processes must provide assurance to stakeholders that political and fiscal risks are well managed and that the management is transparent.   This is especially true where a political sensitivity exists regarding a particular programme and its delivery, but it is also true for all other processes. This approach is also supported by the ANAO (2003:21). This role of governance is also regarded as important by the ANAO (2003:21).

The need for assurance exists on two levels. In the first place, there is a need for internal assurances within the public sector. The need exists internally on various levels of the organisation to be sure that controls are working as intended. As indicated by King II, internal controls should focus on the efficiency and effectiveness of operations, safeguarding of organisational assets, legal and regulatory compliance, business sustainability, reliable reporting, and responsible behaviour.

In the second place, stakeholders need to be provided with an assurance in this regard. In both instances independent assurance providers can provide these assurances to role players that the system of internal control is mitigating the risks that management has identified and associated with each objective, and thereby increasing the probability that objectives can be achieved as planned.

The public sector needs to cultivate a culture where all employees take responsibility for ensuring that controls are operational and effective. However, the ultimate responsibility and accountability for control rest with management. Diagram 5.6 provides an overview of the elements implemented in this regard.

These mechanisms allow for the public sector to develop and implement cost effective controls and to evaluate existing controls to determine their suitability. Striving for absolute assurance is neither cost effective nor possible and therefore controls implemented must be commensurate with the nature of business, an acceptable level of risk tolerance and programme delivery requirements. Needless to say, in sound public sector governance changes in programme requirements and programs lead towards a review of implemented controls to ensure the controls are adapted to meet the requirements brought about by the changes.
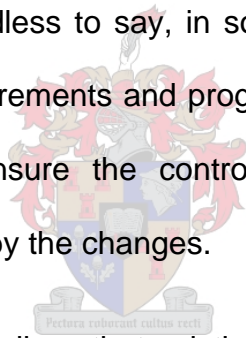
Very often the danger materialises that existing controls are not subjected to review, resulting in the likelihood of associated risk occurring with the accompanied detrimental impact on achieving the objectives.
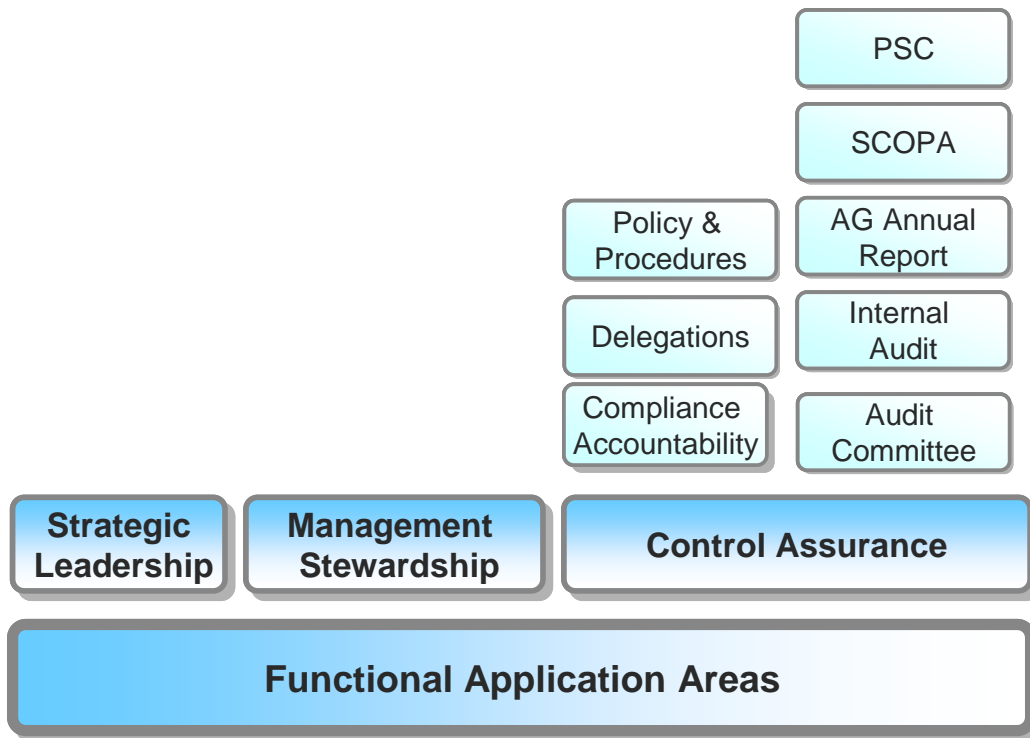
Diagram 5.6 Control assurance

The basic governance measures that the public sector is using to provide assurance internally and externally will be briefly discussed.

5.11.1 Compliance and accountability

The history of the public sector in South Africa shows that it was based on a system of compliance based only on programs, where only activities prescribed by legislation, regulations and prescripts were carried out. In the absence of a values-based ethics system – and the presence of one in favour of compliance only programs – employees often make a very fine distinction between good conduct and misconduct. For many of them the tendency is to ask whether an action violates the law, not if it exemplifies behaviour that the citizens expect from their public servants. This agrees with the observations made by Gilman (2002:2) regarding the public sector in the USA. As Gilman so correctly points out, ironically, that because legislation is often so hard to understand, overly complex rules might actually lead to misbehaviour or

corruption. However, the trend to favour legislative compliance above a values-based system still prevails in leading democracies such as Canada (TBS 2002:10).

When a compliance-based approach is preferred, the public sector must integrate compliance controls with its overall approach to risk management to allow it to effectively determine and prioritise functions and activities to be controlled. The sector should move towards a service delivery focus and away from a control focus and in the process allow the two choices to be balanced. When focussing on service delivery, controls are evaluated according to the purpose and the contribution they make to service delivery. The control is adjusted when applicable. When focussing on controls, compliance becomes the main focus, with the result that service delivery always suffers in the process to ensure compliance.

Compliance and assigning accountability go hand in hand. Accountability and responsibility must be assigned at the correct levels. However, assigning responsibility and accountability without holding people to account is ineffective and fosters a culture where the view is entertained that nothing will happen if things are manipulated for personal purposes.

In healthy governance environments, accountability always starts at the top, which results in a trickle-down effect throughout the organisation into effective and appropriate accountability at all levels of the organisation. Accountability should be aimed at the public sector administration and politicians, who very often move between departments without having the decisions they made quantified and evaluated to determine their effectiveness and efficiency.

The IFGF is an approach that will allow the "top" to discharge its duties in such a manner that meaningful information can be supplied to the satisfaction of all oversight role players. The manner in which the framework assigns accountability at determined levels must allow for real empowerment that can unleash hidden potential and creative improvement to systems to surface to the benefit of the public sector, yet at the same time exercise control when such potential and creativity surface to ensure that any negative impacts are avoided.

5.11.2 Delegation

It is important that delegations assigned are appropriate to capabilities and, as indicated by TBS (2003:7), to realise that this can be an instrument of empowerment in effective governance as it requires that decisions not only seem to be fair and accountable but are indeed so. Mechanisms are established to ensure that the public sector acts with integrity, in a timely and responsible manner, complies with legislation and that deviations are addressed as soon as they occur and therefore they should be subjected to regular review.

Responsibilities and accountabilities must be well understood by those affected and it is important that the correct levels are selected. In a healthy governance system the ability to diligently monitor and enforce accountabilities over those inside the public sector and over those outside is not only present but is applied. The governance system must provide the ability to act swiftly and appropriately when required, to demonstrate the

importance for the sector to hold people responsible and accountable, while at the same time being fair.

5.11.3 Policies and procedure

As correctly remarked by Cox (2000:249), few subjects has raised so much debate as the manner in which discretion is used in the public sector. As reflected further by Cox, some observers have made the deduction that official discretion has caused governments in Africa to slip into the murky waters of corruption.

Policies are the guidelines that set constraints on the decisions of employees, while procedures are a series of interrelated sequential steps that employees follow in the accomplishments of their tasks (Robbins and Barnwell 2002:104). De Coning (2000:3) defines a policy as a statement of intent that specifies the basic principles to be pursued in attaining specific goals. The danger is that policies and procedures can result in limiting the creative capabilities of employees. Therefore the public sector must balance the level of policy with the ability of employees and their accompanied value system to improve governance.

The sector should maintain, and have freely available, all current management policies, procedures and standards covering all administrative matters, internal controls, financial management, human resources, information technology, risk management strategies and operational policies. The IFGF should provides the mechanism to determine the relevant policy and procedures at a given moment on a process and to determine the impact and / or possible changes that might be required to ensure that service

delivery does not suffer. This allows focussed areas to be reviewed and adjusted when required. Policies and procedures must be linked to activities and ultimately to strategic objectives. The IFGF provides the capability to ensure that existing policies that fail to promote effective and efficient service delivery are identified and improved in good time. It enables management to avoid the trap of having generic policies that impact negatively on achieving objectives that are normally planned without specific detail.

In summary, assigning responsibility and accountability, providing delegations for decision making and implementing policies and procedures are three areas that the IFGF focuses on when the public sector embarks on a path to provide assurance that internal controls exist to mitigate risks. However, the effectiveness will depend on the level of integration between finances, strategic objectives and management practices.

5.12 Assurance providers

Within developing and emerging democracies there appears to be convergence of the public and private sectors, making the business environment inherently riskier and heightens concerns about public accountability. In these circumstances it is important to have independent assurance providers that have all the professional and functional freedom required to fulfil, fearlessly and independently, the role of providing assurance. They should be providing independent assurance on the performance and accountability of the public sector in delivering programs and services and the implementation of public (ANAO 2003:26).

The IFGF enables the public sector to include verifiable information in annual reports reflecting some of the key aspects of governance and operations, and in doing so increase the advantage of using independent assurance providers in addition to the normal financial reporting.

Public sector governance must inform stakeholders on all achievements in an unbiased way and they must be enabled to fairly evaluate government's performance against expectations and/or promises. The following features are listed as features that inform stakeholders about financial governance, management and performance:

- Information about governance arrangements, including internal audit and audit committee activities;

- A meaningful narrative about performance of the organisation over the year compared with expectations, including comments about future years, reflecting the results of performance measurements,

- Information about the external interests of governing members together with adequate disclosure of relevant transactions;

- A good standard of financial statements;

- Details of the organisation's risk-management strategy and how the organisation manages its risks in practice;

- Other matters of public interest;

- Value placed on the reports of Independent Assurance Providers.

Principle-based standards and related policies in the IFGF can adequately encapsulate the intention of the standard setters and regulators. One of the benefits where standards and regulations are principle-based rather than rules-based is that it becomes more difficult to introduce schemes that are designed to manipulate financial results. Financial governance is improved when the role of independent assurance providers is maximised.

5.13 Audit Committee

An integrated financial governance framework should address the minimum requirements to achieve governance in the public sector. Maintenance and sustainability of governance are subject to the role of independent assurance providers, which in the South African context are the Auditor General, Internal Audit, Audit Committee, the Public Service Commission and the Standing Committee on Public Accounts (SCOPA). The dissertation will briefly discuss each one.
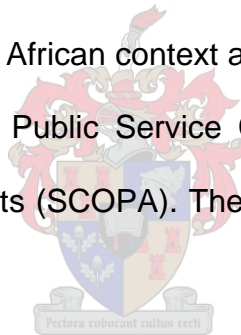
"The audit committee is a vital part of your company's governance structure. It is crucial that you have confidence in their integrity and commitment, and that they have confidence in yours. An independent and fearless audit committee will report accurately back to you on the true state of the company" (ANAO 2003:10)

Audit committees are a crucial part of any accountability model. The committee should be chaired by an independent member and should have a majority of independent members. All members should have sufficient skills to discharge their responsibilities effectively. They should be familiar enough with the organisation's arrangements to make an effective contribution.

It is widely agreed that the public sector is accountable to the electorate for the conduct and the results of their operations. Although the annual report is regarded as the main mechanism in this regard, it remains difficult to measure the reliability of the disclosures in the reports. Ryan (2002:267) is of the opinion that, according to best practice guidelines, the essence of accountability means that outside bodies determine the content of financial reports. The IFGF therefore promotes the view that an audit committee should be totally independent and perform the task of assessing the information disclosed in the annual reports.

In this regard the question must be raised whether the prescripts of PFMA par 77 (a) do not impair the independence of the Audit Committee by allowing personnel of the department to be on the committee, providing that they are not the majority and that none of them acts as chairperson. It is generally accepted that a person with a domineering personality can very often exercise great influence on the decisions taken by a committee. In this regard it is wise to note the remarks made by the Auditor General of Victoria (ANAO 2003:27), who expressed his concerns about the loss of independence that occurs when members of a department form part of the audit committee.

This approach can have a major effect on governance and therefore the IFGF takes this approach as its point of departure and would require in the near future that current prescriptions in the legislation that require only the *majority* of members to be independent are reconsidered. Independence appears to be an important instrument in the hands of the public sector to provide assurance that systems developed and implemented ensure sound governance practices.

A crucial component in the approach of the IFGF is an effective audit committee, that will provide a complementary vehicle for implementing relevant control systems and incorporate sound risk-management plans. It can assist Accounting Officers to meet their statutory and fiduciary duties by overseeing risk management, reviewing accounting and reporting structures, monitoring internal controls and performance, and ensuring compliance with controls. An effective audit committee improves communication and coordination between management and internal as well as external audits.

The audit committee must show its strength and demonstrate its independence and power by seeking explanations and information, as well as demonstrating its understanding of the various accountability relationships and their impact, notably on financial performance. In particular, it has the responsibility to ensure that accepted audit recommendations are followed up and properly considered, which will greatly improve both internal and external audit effectiveness.
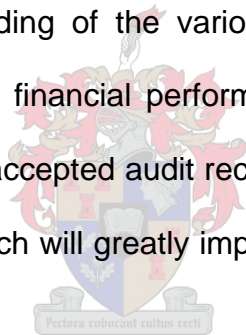
When establishing an audit committee, consideration must be given to possible conflicts of interest, auditor rotation, selection of auditors, and the role and responsibility of the audit committees as part of the corporate governance framework. One challenge is, therefore, how to strengthen those roles to enhance the committees' effectiveness and credibility in the eyes of both internal and external stakeholders. This can only become a reality when the leaders in the public sector grant the audit committee authority, support and commitment.

In order to maintain independence, most authoritative commentators recommend that, in the private sector, either the audit committee consist only of independent directors or at least include a majority of independent directors. The fundamental position taken in the IFGF is aligned with that of the Auditor General of Victoria, namely that an audit committee should be in a position to discuss matters with the auditors without the constraint of having senior management on the committee. This principle must be applied within the government sector, where short- and medium-term political pressures are a reality and very often exercised to the detriment of governance excellence. It is therefore essential that Audit Committee members are totally independent from the department's activities. This will also provide the assurance to the stakeholders that only a fully independent audit committee can.

The essential requirement of an audit committee member include common sense, wide experience, good judgement, a general understanding of the role of an audit committee, healthy scepticism, an ability and willingness to ask difficult questions that challenge management's actions and not to put up with unintelligible 'techno speak'. It is about being equipped to perform the tasks well.

The IFGF must promote the understanding that the audit committees should adopt a formal written mandate that is approved by Cabinet and that sets out the scope of the committee's responsibilities. Such a formal agreement should charge the audit committee with the responsibility to provide a formal sign-off on issues relating to audit independence. Central to such responsibility is an imperative to be informed about audit issues, including the

work of both internal and external audits, as well as being in a position to assess both management and audit performance. However, separate evaluations should be regularly performed on the effectiveness of the Audit Committee. Such evaluations are performed annually by the Auditor General, whose role is discussed in the next section.

5.14 Auditor General

The Constitution 1996 determines the role of the Auditor General within the public sector in South Africa and therefore not much space is allocated to discussion here, except for the following quotation from an Auditor General's report dated 5/10/2001 to demonstrate how the principles of governance and of independence are already imbedded.

> **"The mandate of the Auditor-General**
>
> The Auditor-General conducts audits of government departments and other public sector bodies in order to provide assurance to the respective legislators and the governing bodies in the spheres of public entities and local government that these accountable entities have fairly presented their financial position, results and cash flows and managed their financial affairs according to sound financial principles and in accordance with the existing legal framework.
>
> Legal research must be conducted to better understand the implications of section 188(2). Recent changes in structures and substructures of government have given rise to questions about the role of the Auditor-General as external auditor of such institutions.

These questions will have to be answered in the interests of accountability and the protection of the public purse. If necessary, the Auditor-General Bill, currently under review, will have to be enhanced to ensure an appropriate role for the Auditor-General on behalf of the legislatures and the taxpayer. It is also an issue that has been debated extensively in other countries. The Auditor-General Act, 1995 (Act No. 12 of 1995) further sets out the powers and functions of the Auditor-General in terms of the Constitution 1996 and other legislation. The Auditor-General Act is currently being reviewed also to:

(a) align it with the Constitution 1996 and with any other relevant, newly promulgated legislation;

(b) improve specific operational provisions; and

to bring the provision of services into line with the latest trends in international public sector auditing. The purpose of the review process is to enhance the current act to ensure that the Auditor-General of South Africa functions as an independent state institution supporting the constitutional democracy and promoting public accountability and transparency in the public sector."

5.15   Internal Audit

The IIA (SPPIA 1100 and Practice Advisory 1100-1) defines internal audit *as 'an independent and objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organization*

accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.' This definitions provide guidance when establishing an internal function.

An internal audit cannot achieve its independence and effectiveness without the establishment of an Audit Committee. The independence of an internal audit can only be achieved through the organizational status, i.e. the reporting channels. The Audit Committee is responsible for ensuring that the internal audit operates in an enabling environment.

It has been established that some Accounting Officers delegate the internal audit functions to either the CFO and / or the financial division. The internal audit function cannot be delegated as it is prescribed that the internal audit should report to the highest authority within an organization that carries the mandate of ensuring that the recommendations are implemented.
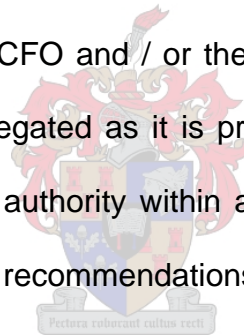
An internal audit is a component in ensuring the effectiveness of internal control, risk management and corporate governance, and provides the necessary assurance and advisory services in the normal reporting relationship of an organisation. The component is seen as integral to the process of transparency and improved financial management. The importance of an internal audit has been recognised in the PFMA *Section 38(1)(a)(ii)* and 76(4)(e) and Treasury Regulation 3.2. The King Report on Corporate Governance for South Africa states that the internal audit function is an important part of corporate governance and one of the mechanisms for necessary checks and balances in a company.

Therefore the internal audit function must have an audit charter to set out the nature, role, responsibility, status and authority of an internal audit within the public sector and to outline the scope of the internal audit work. An Internal Audit Charter should be developed for each internal audit function, approved by the Audit Committee and accepted by management.

The charter should cover the following topics: the purpose and mandate of internal audit; the mission, objective and scope of work; the accountability of internal audit; independence of internal audit; the responsibility of internal audit; authority of internal audit; and quality assurance matters. As a minimum requirement the internal audit charter should give the internal audit unit free and unrestricted access to all information, records, documentation, data and employees of the organization from both internal and external sources.

5.16   Standing Committee on Public Accounts (SCOPA)

On 5 October 2001 the Auditor General reported as follows: "SCOPA, being the oversight committee of Parliament, plays an important role in dealing with the audit reports and bringing to a logical conclusion the work of the Auditor-General. *SCOPA has been dysfunctional during the first half of 2001* and has not been very effective in fulfilling its oversight role. The Auditor-General has communicated these concerns to SCOPA. In the last few months SCOPA has made a concerted effort to be more effective; however, it will have to focus on planning and follow-up procedures to achieve this."

The reports of the Standing Committee on Public Accounts (SCOPA), which normally contain a number of recommendations based on their review of audit reports tabled by the Auditor-General, are to be responded to by the

executive government of the day. This is an obligation in terms of the 1996 Constitution and the Standing Rules of the National Assembly. These recommendations are an expression by the legislature of its expectations. The response by the executive authority provides an opportunity for it to demonstrate its ability to deal with the concerns of the legislature and provide a perspective on its successes, failures, or the difficulties being experienced in responding to expectations.

The important role in respect of public sector governance that a committee such as SCOPA fulfils can not be overstated. However, the above clearly demonstrates the struggle of emerging democracies such as South Africa, to implement a functional system of public sector governance. A search of media articles to determine electorate response during October and November 2001 also indicates an absence of response regarding the situation described by the Auditor General, thereby demonstrating electoral apathy towards the functioning of oversight bodies, most probably due to the level of electorate education in the South African democracy.

5.17   Public Service Commission (PSC)

The 1996 Constitution reflects the role and responsibilities of the Public Service Commission (PSC) as an independent, impartial Commission that performs its functions without fear and prejudice in the interest of the maintenance of effective and efficient public administration and a high standard of professional ethics in the public service. The 1996 Constitution (par 196 (4)(a) to (f)) assigns powers and functions to the PSC that on closer investigation appear to be governance related. These includes: to promote

the values and principles set out in section 195, throughout the public service; to investigate, monitor and evaluate the organisation and administration, and the personnel practices, of the public service; to propose measures to ensure effective and efficient performance within the public service; to give directions aimed at ensuring that personnel procedures relating to recruitment, transfers, promotions and dismissals comply with the values and principles set out in section 195; to report in respect of its activities and the performance of its functions, including any finding it may make and directions and advice it may give, and to provide an evaluation of the extent to which the values and principles set out in section 195 are complied with; and either of its own accord or on receipt of any complaint of employees in the public service.

From an IFGF approach the responsibility assigned to the Commission can be regarded as an assurance that acceptable public sector governance is implemented by the government. As such, the PSC reports can be regarded as providing assurance to Parliament in this respect.

During the development of the Governance Framework of PGWC possible concepts were discussed with the PSC to ensure that the Framework will meet the requirements of the responsibilities assigned to it by the 1996 Constitution. These same concepts are reflected in this dissertation, with the result that it is possible to note here that the IFGF will enhance the role of the PSC to align its activities with the processes implemented by the different administrative authorities on all three levels of the public service in South Africa.

5.18   Deduction

This chapter defined the areas that are incorporated into the IFGF to enable employees in the public sector to discharge their duties in a manner that can form the cornerstone of excellence in governance. It is based on activities recognised by public sector agencies across the globe. It provides the detail regarding the IFGF and specifically the functional application areas in which the values determined in the previous chapter should operate.   The next chapter focuses on the governance-related activities that are performed within these functional application areas.
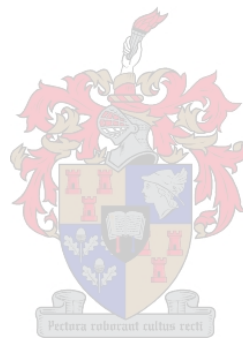
Chapter 6   Governance-related activities

6.1   Introduction

Having established the principles and values and the functional application areas in public sector governance, it is next relevant to determine the governance activities to be included in the IFGF.
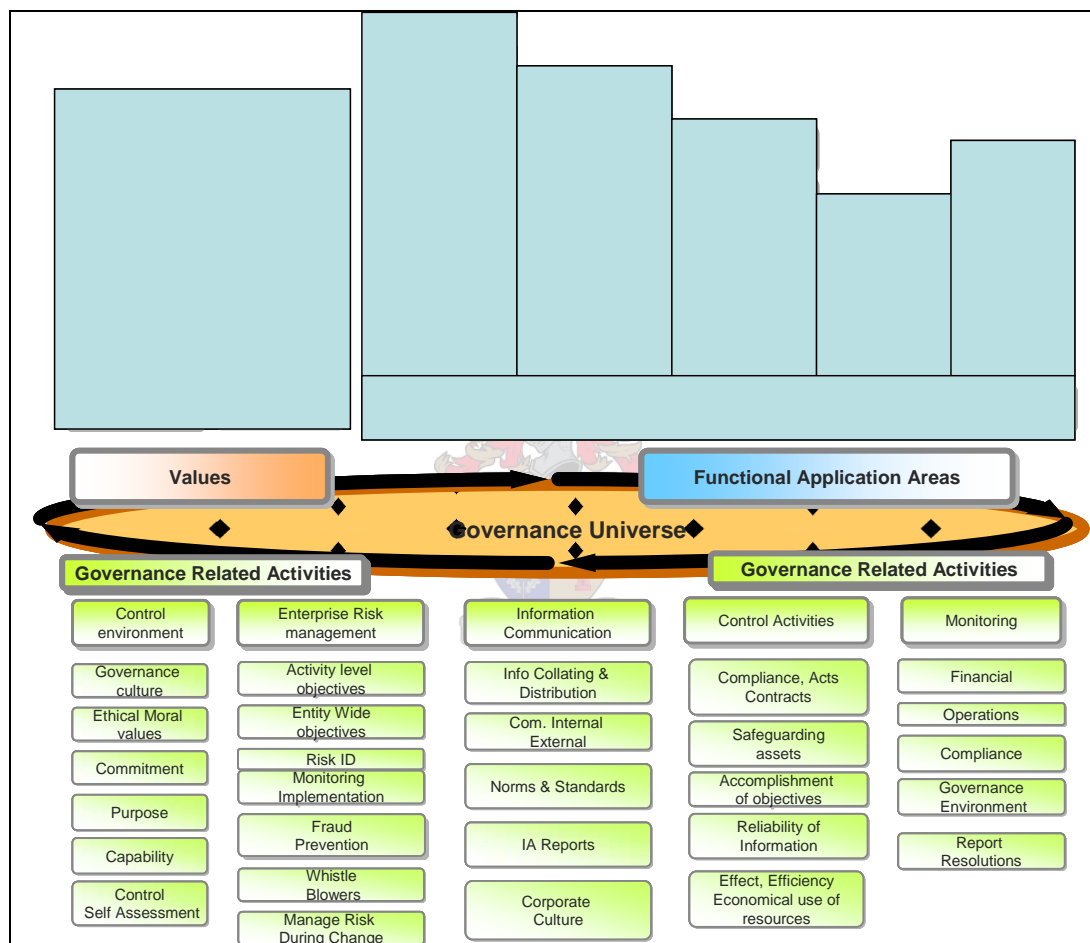
Diagram 6.1 Governance-related activities in the IFGF

In the previous two chapters the applicable values and the functional application areas of the IFGF were determined by following a deductive process based on the literature reviewed. These aspects are represented by the blue shaded areas in diagram 6.1 detail of these areas can be found in

diagram 3.5, 4.1, 5.1, 5.2, 5.4, and 5.6. In this chapter an inductive process is followed to construct the governance-related activities (see Diagram 6.1) based on the content of the previous two chapters. The chapter will provide detailed information regarding specific activities that must be in place for the IFGF to be functional. These activities are clustered in terms of the control environment, enterprise risk management, information communication, control activities and monitoring. The activities provide the "how" and are grouped together based on the COSO framework. As noted by COSO, these areas must be operational and functioning if an organisation wants to have effective governance processes. Deloitte (2004:4) indicated that focusing exclusively on control activities will result in other areas not correctly aligned with the governance processes. Governance effectiveness depends on a situation where all areas are considered.

Selecting and grouping the activities was based partly on work done by others, including COSO,[9] Criteria of Control (CoCO)[10] and the Internal Audit Methodology[11] developed in PGWC. The IFGF incorporates relevant practices as implemented and reported by the Treasury Board Secretariat of the Canadian Government, and Australian government (ANAO).

The governance activities included in the IFGF can be regarded as the minimum requirements prescribed in IFGF and can be expanded during future developments. The activities will also vary in relevance depending on

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[9] Criteria of Control Framework by the Committee of Sponsoring Organisations of the Treadway Commission. Originally initiated by the American Institute of Certified Public Accountants.

[10] Guidance on Criteria of Control (CoCo). Developed by the Canadian Institute of Charted Accountants.

[11] Although it was never formally accepted, it later became the basis for the Internal Audit Methodology developed by National Treasury.

the character of the objectives. The relevance, implementation and development of each activity would be determined by the nature of the service delivery, specific legal requirements and the specific leadership, management and control preferences exercised by accounting officers under the authority of the relevant ministers.

The IFGF organises the activities in a way to assist management to understand the interrelationships and interdependencies and thereby empowers management to keep track of processes in an effort to ensure public service governance. These activities are discussed in separate groups to assist the understanding of each in practice and hopefully alleviate any confusion that appears to exist in large organisations regarding activities that sometime appear to be performed in isolation.

Once these activities have been identified, they contribute to uniform public sector governance that can only be beneficial to the sector and to the various stakeholders. However, these activities are intermingled, mutually dependent and supportive of each other; they do not operate in isolation and therefore must be understood as interrelated tools or mechanisms by which management execute their responsibilities.

Upon achieving the required operational levels, it becomes possible to improve governance to an acceptable level and to provide stakeholders accordingly with an assurance of the public sector's ability to achieve predetermined objectives effectively and economically in an ethical environment. Therefore activities are identified that can ensure that the principles and values materialise in the functional application areas. They can

be regarded as governance activities that are essential to establish an ethical environment.

These governance activities form the foundation of the framework; they are the basis of the whole integrated financial governance process on which the interrelationships between all the components depend. Without the foundation the framework will be reduced to activities that are performed in isolation, very often resulting in crisis management, loss of perspective, managing incidents rather that predetermined plans, and loss of effectiveness and efficiency, all culminating in the escalation of costs. The activities are divided into five groups: control environment, risk management, information communication, control activities and monitoring. The first group of activities consists of those that can be associated with a control environment.

The conditions and relevant activities required discussed in the following sections will be grouped in table format. In the tables the columns labelled "Condition required" refer to the governance requirement and the columns labelled "Activities" reflect the activities that must be performed in this regard. When management fails for any reason to execute these activities successfully, the condition will then be regarded as a governance risk in the public sector.

The approach in this section will be to provide guidance on each of the items, with the intention that this creates an understanding that will also allow selecting other activities based on personal preferences and management style.

6.2   Establishing the control environment

Financial governance takes place within a specific *control environment* where management and employees in the public sector establish and maintain an environment that sets a positive and supportive attitude toward internal control and ethical values. This section addresses the "soft issues" in the managerial processes that are usually hard to evaluate with regard to influence and existence, and difficult to control and monitor. Yet there appears to be global consensus on the impact they have on the daily operations within any organisation and as such the impact can be measured (see section 4.1). Therefore, the soft issues can be measured, although in most cases only indirectly by ensuring that the related activities are performed.

Several key factors that affect the accomplishment of objectives fall within this category are identified here. These factors enable management to consider whether a positive control environment has been achieved. The following paragraphs provide details regarding these factors and should serve as guidance in developing a specific environment as determined by management. It contains guidance in the implementation of the following areas (see diagram 6.2) that form part of the control environment:

➢ Cultivating a governance culture;

➢ Maintaining integrity and ethical values;

➢ Commitment to competence;

➢ Understanding the purpose of tasks;

➢ Ensuring suitable capability and;

➢ Performing control self-assessment.

Diagram 6.2 Control environment

The control environment collates all those activities that can be directly linked to the government culture and identity, and that is expressed throughout various activities that are performed on a daily basis. The IFGF demands the consideration of each of the items with the intent to create an understanding that will allow selecting other activities based on personal preferences and management style. There are various options to predetermine a governance culture and to cultivate it. Specific activities in the IFGF are more ideally

suitable to determine and cultivate a governance culture and are therefore briefly indicated.

6.2.1 Cultivating governance culture

There are various options to predetermine a governance culture and to cultivate it. A governance culture always emerges from the manner in which management discharge their duties. The strategic plan is the first area where a governance culture must be developed and where the ethical values are determined. It must reflect the willingness to ensure that a culture is created at the top that can filter down. However, certain activities are more suitable to promote a specific governance culture. This section describes those activities which have a direct impact on cultivating a governance culture.

Governance culture is also determined by the operating style which management demonstrate and their general management philosophy. Operational philosophy and style deals with the application of performance management.

As indicated in subsection 5.9.2, performance management is regarded as an essential component in the IFGF for the public sector. Therefore the IFGF demands that management will cultivate a governance culture by duly considering their approach towards performance-based management.

Performance appraisals must include appraising integrity and ethical values and be linked to goals and objectives in the different strategic plans and supplement the performance indicators. Table 6.1 indicates management philosophy and style regarding performance-based management for

personnel and Table 6.2 their philosophy and style regarding performance-based management for operations.

Table 6.1 Performance-based management – personnel

Condition required	Activities
Develop and implement successful performance-based management for personnel	• Implement a performance based management system for all employees. • Ensure that employees participate in developing appropriate goals. • Ensure the performance management system encourages employees to strive towards meeting their goals. • Provide attractive rewards to employees performing above expectations. • Implemented a reward system consisting of a range of rewards, designed to encourage employees striving to perform above agreed goals. • Subject the performance management system annually to review and ensure all employees participate in developing improvements to the system. • Align performance requirements. with performance measurements in strategic plans.

Performance based management must not be limited to individual performance measurements but also include operational performance measurements. As indicated, Table 6.1.2 indicates the condition and activities required by IFGF in this regard.

Table 6.1.2 Performance-based management – operations

Condition required	Activities
Develop and implement	• Implement a performance-based management

Table 6.1.2 Performance-based management – operations

Condition required	Activities
successful performance-based management for operational activities	system for all objectives. • Allow employees to participate in developing appropriate goals. • Implement monitoring mechanisms to ensure that measuring indicators are appropriate in design and application to monitor progress made against predetermined plans. • Determine regular monitoring intervals. • Determine required content of monitoring reports. • Monitors response time in operational activities.

Personnel turnover can undermine governance in any sector, including the public sector. It often results in losing corporate intelligence in terms of knowledge, skills and abilities to be utilised by someone else elsewhere. Therefore the IFGF requires the monitoring and reporting of excessive personnel turnover in key functions, such as operations, programme management, accounting and internal audit. This includes giving special attention to those cases where reports indicate a problem with internal control. The IFGF requires management to investigate the reasons when key personnel quit unexpectedly and to make the required adjustments, especially when the reasons relate to constraints such as salary caps.

Excessive turnover must be prevented, especially of supervisory personnel relating to key internal control areas. After all, in well-developed governance systems personnel turnover is not so great as to impair internal control when new people are employed, normally unfamiliar with existing control activities and responsibilities.

Cultivating a governance culture is a tedious task (see section 3.41; 4.2) and a high personnel turnover makes it that much more difficult. Therefore mechanisms must be in place to monitor personnel turnover and to ensure that the governance culture is not negatively impacted on when resignations occur. In Table 6.2 the IFGF lists the activities required to ensure that the governance culture can be maintained.

Table 6.2 Personnel turnover

Condition required	Activities
Prevent excessive personnel turnover in key functions, such as operations and programme management, accounting, or internal audit, especially if there is an indication that a problem exists with the emphasis on internal control.	• Implement a monitoring system to inform management of turnover in key control areas such as supervisory personnel and or other key functions. • Develop a strategy for dealing with turnover related to constraints such as salary caps. • Ensure that key personnel do not quit unexpectedly. • Prevents internal control from being impaired as a result of employing many people who are new to their jobs and unfamiliar with the control activities and responsibilities. • Develop a system to detect emerging patterns related to personnel turnover that would indicate a problem with the emphasis that management places on internal control. • Monitor and investigate reasons for resignations. • Conduct exit interviews and bring the results to management's attention.

Cultivating and maintaining a governance culture are influenced by the attitude personnel have towards the different tasks reflected in the functional

application areas (see Chapter 5). Management must develop and demonstrate a positive and supportive attitude toward functions of accounting, operations, information management system, personnel operations, monitoring internal and external audits, and other evaluations. Therefore, financial accounting and budgeting operations are considered essential to the well being of the public sector and viewed as methods for exercising control over the entities' activities. This requires that accounting, financial and programmatic data should be reliable to support the decision-making processes.

A negative attitude towards the implemented systems, policies, procedures and reporting structures is amongst those components that can cause an existing healthy governance culture to erode rapidly. Therefore the public sector must ensure that the desired attitude prevails towards all operational activities. The IFGF listed in Table 6.3 gives the condition required and the relevant activities that can ensure that a positive and supportive attitude towards practices and processes can be cultivated and that improvements to the culture can be maintained.

Table 6.3 Positive and supportive attitudes

Condition required	Activity
Management cultivates a positive and supportive attitude toward functions of accounting, information management systems, personnel operations,	• Consider financial accounting and budgeting operations as essential to the wellbeing of the organisation. • Implement financial accounting and budgeting operations as methods for exercising control over the entity's various activities. • Rely on accounting/financial and programmatic data from its systems for decision-making purposes and performance evaluation.

Table 6.3 Positive and supportive attitudes

Condition required	Activity
monitoring, internal and external audits and evaluations.	• Ensure unit accounting personnel also have reporting responsibility to the central financial officer(s), if the accounting operation is decentralized. • Place financial management, accounting operations, and budget executing operations under the direction of a senior manager on the appropriate level. • Synchronize financial management and accounting, and coordinate budgetary and proprietary financial accounting activities. • Ensure personnel operations have a high priority and senior executives emphasize the importance of good human capital management. • Place a high degree of importance on the work of the internal audits, external audits and other evaluations and studies, and respond to information developed through such products. • Sign off on accounting reports of results. • Place financial management under the direction of the Chief Financial Officer (CFO). • Place accounting operations under the direction of the Chief Financial Officer (CFO). • Place budget execution operations under the direction of the Chief Financial Officer (CFO). • Ensure strong synchronization and coordination exists between budgetary and proprietary financial accounting activities. • Ensure senior executives emphasize the importance of good human capital management.

A governance culture is also cultivated and maintained through the manner in which management looks after the organisation's assets. Neglecting assets can have costly consequences, especially regarding the maintenance of the

assets. Table 6.4 indicates the condition and the corresponding activities required in this regard by the IFGF.

Table 6.4 Safeguarding of assets

Condition required	Activity
Management safeguard assets and information from unauthorized access or use.	• Identify areas where access control is critical to implement controls that safeguard assets. • Reconcile information provided by access control systems. • Develop exceptions reports to bring discrepancies to the attention of management. • Investigate and take appropriate and timely action when required. • Establish a cash-management plan for regular reconciliation of cash received and cash deposited. • Protect valuable assets, including intellectual assets and information from unauthorized access or use.
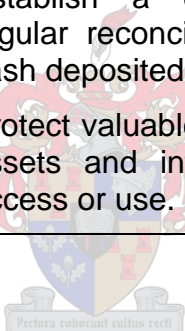
The relationship between financial management and operations has a direct influence on financial governance. If these two functions are separated, a healthy interaction and reporting system must be ensured; the tone at the top (see section 4.3.6; 5.8.4) should filter down through the organisation, but it can only do so effectively if the interaction between financial management and operations occurs frequently and is healthy. Table 6.5 provides the requirements of the IFGF in this regard.

Table 6.5 Interaction between management and operations

Condition required	Activity
There is frequent interaction between senior management and operating/programme management, especially when operating from geographically dispersed locations.	• Include managers operating from geographically removed locations in correspondence. • Frequently visit decentralized operational sites. • Hold group or divisional management meetings frequently. • Ensure decentralized managers visit central offices often enough to keep a broad organizational perspective.

Governance is directly impacted on by the decisions made by management. However, there is link between the quality of decisions and the quality of information on which they are based. Therefore the IFGF requires a management information system that provides management with information that is both reliable and presented in good time. Table 6.6 provides the conditions and related activities to ensure that the management information system provides information that meets these requirements.

Table 6.6 Management information system

Condition	Activity
Provide management information regarding financial, budgetary and operational/ programmatic reporting that is reliable and timely.	• Implement criteria that define what are to be regarded as critical information issues. • Ensure management is informed of all critical financial reporting issues. • Ensure management implements a conservative approach toward the application of accounting principles and estimates. • Disclose all financial information needed to fully

Table 6.6 Management information system

Condition	Activity
	understand the operations and financial condition of the department.
	• Disclose all budgetary information needed to fully understand the operations and financial condition of the department.
	• Disclose all programmatic information needed to fully understand the operations and financial condition of the department.
	• Avoids focussing only on short-term results.
	• Personnel submit appropriate and accurate reports in order to meet targets.
	• Do not exaggerate facts to a point of unreasonableness.
	• Do not stretch budgetary estimates to a point of unreasonableness.

The above tables provide the conditions and activities required by the IFGF to develop and cultivate a culture of good governance. The following section will focus on maintaining integrity and ethical values.

6.2.2 Maintaining integrity and ethical values

The strategic plan is the first area where management must determine, foster and encourage a departmental culture that emphasizes the importance of integrity and ethical values. The plan must reflect management's willingness to ensure that an ethical tone (see subsection 5.8.4) is set at the top and that it can filter down. This requires different codes to be developed and implemented.

Therefore a formal code of conduct and other policies that communicate appropriate ethical and moral behavioural standards must be developed. It must be comprehensive in nature and directly address issues such as improper payments, inappropriate use of resources, conflicts of interest, political activities of employees, acceptance of gifts or donations or foreign decorations, and the use of due professional care and all employees must periodically acknowledge the content by signature. Table 6.7 provides the requirements the IFGF has regarding the code of conduct.

Table 6.7 Code of conduct

Condition required	Activity
A formal code of conduct and other policies exist and communicate appropriate ethical and moral behavioural standards and address what is regarded as acceptable operational practices and conflicts of interest.	• Ensure codes that define what is to be regarded as improper payments. • Ensure codes that define what is to be regarded as appropriate use of resources. • Ensure codes that define what is to be regarded as a prevention of conflicts of interest and state clearly when declaration of interests is required. • Ensure codes that define what are to be regarded as procedures for disclosure of potential conflicts. • Codes define what are to be regarded as unacceptable political activities of employees. • Ensure codes that define what is to be regarded as inappropriate acceptance of gifts or donations or foreign decorations. • Ensure codes that define what is to be regarded as the use of due professional care. • Ensure codes that define what is to be regarded as unacceptable business practices. • Ensure codes that define what are to be regarded as unacceptable standards of ethical and moral behaviour to prevent illegal or improper activities. • Ensure codes are distributed to all employees.

Table 6.7 Code of conduct

Condition required	Activity
	• Ensure codes are periodically acknowledged by means of a signature from all employees.
	• Employees indicate that they know what kind of behaviour is acceptable and unacceptable.
	• Ensure employees indicate that they know what penalties unacceptable behaviour may incur.
	• Ensure employees are able to indicate that they know what to do if they become aware of unacceptable behaviour.
	• Establish a process for investigating violations.
	• Ensure employees understand there are "whistle-blower" statutes to protect them from retribution if they call attention to such problems.

The establishment of an ethical tone at the top is also determined by the extent to which those in these leading positions deal with problems on their level.[12] Unhealthy tolerance of unethical or perceived unethical behaviour filters through much more quickly to stakeholders than the ethical issues on lower levels.

The public sector therefore needs to establish the ethical tone at the top and communicate it throughout government. This must be supported with speedy reaction against unethical or even perceived unethical behaviour.

The IFGF requires an ethical tone to be established at the top; this includes the willingness to exercise values such as accountability (see 5.11.1). The

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[12] An example is the action or lack of action in Parliament after the investigation into the travel fraud became known publicly. The impact of the perceived ethical tone in Parliament as a result of the way that they are dealing with members implicated soon became evident in all the media coverage.

requirements of the IFGF regarding the establishing of an ethical tone are reflected in Table 6.8.

Table 6.8 Ethical tone at the top

Condition required	Activity
Establish an ethical tone at the top of the department and communicate it throughout the department to the effect that management foster, encourage and emphasise the importance of integrity and ethical values.	• Consider the relevant ethical values before taking decisions. • Consider the relevant ethical values in day-to-day activities. • Ensure employees indicate that peer pressure exists for appropriate moral and ethical behaviour. • Take quick and appropriate action as soon as there are any signs that a problem may exist.
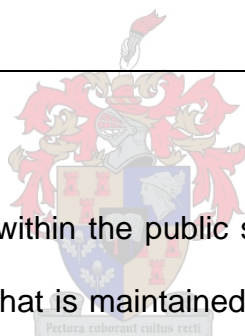
Establishing an ethical tone within the public sector must be supported by a corresponding ethical plane that is maintained when interacting with different stakeholders outside the public sector. The IFGF requires management to take quick and appropriate action as soon as there are any signs that a problem may exist. This includes co-operating with auditors and other evaluators, disclosing known problems to them, and valuing their comments and recommendations.

Under-billings by suppliers or overpayments by users or customers that are quickly corrected are an example of day-to-day activities that reflect the ethical tone in the public sector. Table 6.9 indicates the condition and relevant activities required by the IFGF in this regard.

Table 6.9 Ethical plane in external activities

Condition required	Activities
Maintain an ethical plane in conducting dealings with the public, Cabinet, employees, suppliers, auditors and others.	• Provide financial reports to Cabinet, Treasury, personnel management and the public that are proper and accurate. • Ensure budgetary reports to Cabinet Treasury, personnel management and the public are proper and accurate. • Provide operational / programmatic reports to Cabinet Treasury, personnel management and the public that are proper and accurate. • Cooperate with auditors and other evaluators. • Disclose known problems to auditors and other evaluators. • Value auditors and other evaluator's comments and recommendations. • Correct under-billings by suppliers quickly. • Correct overpayments by users and customers quickly. • Implement a well-defined process for dealing with employee claims and concerns in a timely and appropriate manner.

Progress towards governance excellence will always be limited when management fails to take appropriate disciplinary action when there are violations of policies, procedures, or the code(s) of conduct. Therefore the types of disciplinary actions that can be taken must be widely communicated throughout the department so that others know that, if they behave improperly, they will face similar consequences. Where disciplinary actions are taken, the results must be communicated to demonstrate management's

commitment to cultivate a corporate culture. This would eventually contribute to establishing a corporate identity for government.

The value of having codes developed to maintain ethical values and cultivate a corporate culture is greatly enhanced when the detection of violations triggers appropriate responses. Without the proper response to a violation of any of the codes, codes will involve little more than paying lip service to a set of values and perhaps expressions of good intentions. Table 6.10 gives the condition and relevant reactions required by the IFGF to ensure that the purposes for implementing codes are actually achieved.

Table 6.10 Disciplinary action – integrity and ethical values

Condition required	Activity
Take appropriate disciplinary action in response to departures from approved codes, policies and procedures or violations of the various codes.	• Ensure a system is in place to detect violations of codes, policies and procedures. • Take appropriate and timely action when there are violations of codes, procedures and policies. • Communicate types of disciplinary actions that can be taken throughout the department so that others know that, if they behave improperly, they will face similar consequences.

The success of a governance system in the public sector will depend on the level of independent assurance that can be provided to stakeholders regarding the efficiency and effectiveness of the system of internal control to mitigate risks associated with public sector objectives.

Although management can be focussed on acting proactively, it is still impossible to anticipate every possibility that can go wrong. One of these

types of activities is when internal controls fails due to circumstances where those responsible are unable to fulfil their roles. To maintain the appropriate level of governance assurance there must be procedures in the public sector to ensure that management takes action to appropriately address any intervention or overriding of internal control. Guidance must be provided concerning the circumstances and frequency with which intervention may be needed and the management levels which may take such action.

In such cases the IFGF requires specific responses to maintain governance. Table 6.11 indicates the condition and relevant activities that are required form management.

Table 6.11 Overriding internal control

Condition required	Activities
Develop and implement a specific action plan to appropriately address any intervention or overriding of internal controls, when it occurs.	• Provide guidance in the form of documentation concerning the circumstances and frequency with which intervention may be needed. • Provide guidance concerning the management levels that may take such action, and the type of action that might be taken under specific circumstances. • Document fully any intervention or overriding of internal control with respect to reasons and specific actions taken. • Prohibit overriding of internal control by low-level management, except in emergency situations that are predefined. • Notify upper-level management immediately. • Approve overriding or intervention activities documented as soon as possible.

The public sector operates over a wide area of activities on a daily basis. Some of activities are more likely to provide temptation to employees than other activities. Public sector governance is reflected and determined by management's action to remove temptation for unethical behaviour. This includes blacklisting those outside the public sector for their role in the unethical behaviour.

Governance can be further improved by setting realistic and achievable goals and protecting employees from pressure to meet unrealistic ones, and by providing fair, non-extreme incentives (as opposed to unfair and unnecessary temptations) to help them to act with integrity and adhere to ethical values. In this regard the public sector must have a market-related compensation practice and promotions must be based on achievements and performance which will create security, work satisfaction and can lead to the public sector becoming a preferred employer of choice.
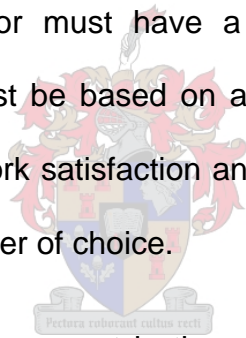
The IFGF requires that management in the public sector consider all areas under their management and identify those that provide an opportunity where employees can be tempted to participate in unethical activities. Table 6.12 provides the condition and relevant activities required by the IFGF to maintain governance in this regard.

Table 6.12 Removing temptation

Conditions required	Activities
Take deliberate action to remove temptation to commit unethical	• Identify and document areas prone to providing possible temptations to employees. • Develop specific controls for such areas to ensure that employees are not tempted to act

**Table 6.12 Removing
temptation**

Conditions required	Activities
behaviour.	unethically.
	• Set realistic and achievable goals.
	• Develop a set policy to remove extreme pressures that might occur when goals cannot be met.
	• Do not pressurize employees to meet unrealistic goals.
	• Establish controls to reduce temptations.
	• Provide fair, non-extreme incentives (as opposed to unfair and unnecessary temptations) to help ensure integrity and adherence to ethical values.
	• Inform supplier that unethical behaviour will result in their blacklisting, entailing exclusion from doing further business with the public sector.
	• Ensure employees understand how the larger, long-term issues relate to short-term performance.
	• Base compensation and promotion on achievements and performance.
	• Revaluate the established goals when situations occur that might result in delaying their achievement.

The above tables provided the conditions and activities required by the IFGF to develop cultivate and maintain integrity and ethical values in the public sector. The following section will focus on commitment to competence.

6.2.3 Commitment to competence

This subsection focuses on those governance-related activities that impact on the commitment to competence in the public sector. Governance in the

public sector very often fails because of the poor competence and commitment of employees. Commitment and competence are based on the knowledge and skills needed to perform assigned tasks. Management must decide how well these tasks need to be accomplished by weighing the entity's strategy and objectives against plans for strategy implementation and achievement of the objectives. Budgetary constraints often cause a trade-off between competences and cost, it is not necessary, for instance, to hire an electrical engineer to change a light bulb. The opposite is also true, it is not necessary to hire an unskilled person and then training them to be able to change a light bulb. Objective must always be to hire the best available skill for any position.

The ability of senior, middle and junior managers and their extensive practical experience in operating public sector or private sector business entities must be ensured. Therefore, human resource plans and policies are critical for the governance culture of government and have a direct impact on the success or failure of governance systems developed and implemented. Employment policies based on political ideologies rather than on the principle of employing the best candidate for the job, however praiseworthy, will not guarantee good governance in government.

In good governance systems adequate policies and procedures exist for hiring, orienting, training, evaluating, counselling, promoting, compensating and terminating the services of employees. This information is communicated to all concerned, including recruiters, to ensure agreement exist about the level and type of competencies required for specific tasks. This creates a

governance environment where existing qualifications, abilities and skills are aligned with operational manuals and standardised for job requirements.

As stated in section 5.7, it is generally agreed by authors that governance is directly related to the level of competence within an organisation. One of the main contributors to poor governance is the failure to link objectives and operational performance indicators with performance agreements, existing knowledge and skills, and formal job descriptions. Good governance requires adequate job descriptions and performance agreements to define the tasks required for accomplishing particular jobs and filling the various positions. Performance agreements should be linked with operational objectives.

This includes the possibility of terminating employment, following established policies, when performance is consistently below standard or there are significant and serious violations of policies. Therefore, in well-developed governance systems, management will have established criteria for employee retention and consider the effect upon operations if large numbers of employees are expected to leave or retire in a given period.

This will require management to analyse the tasks that need to be performed for particular jobs and to give consideration to issues such as the level of judgment required and the extent of supervision necessary. Therefore, formal job descriptions or other means of identifying and defining specific tasks required for job positions must be established and kept up-to-date. This must be supported with analyses of the knowledge, skills and abilities needed to perform jobs appropriately. The knowledge, skills and abilities needed for various jobs identified must be made known to employees. Evidence must

exist that the department attempts to ensure that employees selected for various positions have the requisite knowledge, skills and abilities.

The IFGF therefore requires that the public sector must be committed to competence. There are a number of areas where commitment to competence can be documented and indirectly implemented.

One of these areas is job descriptions and performance agreements. Table 6.13 provides the condition and activities required in the regard.

Table 6.13 Job descriptions and Performance agreements

Condition required	Activities
Define job descriptions, performance agreements, tasks and the required competence to accomplish particular jobs and fill the various positions.	• Analyze tasks that need to be performed for particular jobs. • Determine the level of judgment and competence required for particular jobs. • Determine and provide supervision needed for particular jobs. • Establish formal job descriptions or other means of identifying and defining specific tasks required for job positions. • Keep formal job descriptions up to date. • Adhere to personnel rules for hiring, for performance evaluation, for discipline and for compensation.

The gap between knowledge, skills and abilities available and those that are required is appropriately addressed in good governance systems. The filling of vacancies is one of the options available to management to close the gap. However, this must take place timeously with the people having the right skills. Salary levels should be market related and service delivery must not

suffer because of the delays in filling vacancies. Minimum standards should be determined and applied to ensure that the time between identifying the vacancy and filling it is kept within management's parameters.

Ability in general management and extensive practical experience in operating in the public sector have a direct influence on governance. The public sector must ensure that the ability and experience of managers meet the required standards. It must be noted that the training of employees can never be substituted for hiring the best available skills.

It can be detrimental to governance in the public sector if persons with poorly developed skills are hired with the aim to provide skills training during employment, especially if this leads to an inability to provide services as planned. The core business of the public sector is to deliver services and not to provide training. Service delivery must not suffer because of the skills hired and any training must always be secondary to service delivery. When budgetary constraints are a reality, good governance cannot justify the cost of hiring poorly skilled people at same salary level of skilled persons and then having to spend additional finances for training them to perform their task, while there are skills available for hire without the need for immediate training.

Therefore another condition required to ensure commitment to competence is a focus on the knowledge, skills and abilities required to maintain governance in the public sector. Table 6.14 indicates the condition and activities required by the IFGF in this regard.

Table 6.14 Knowledge skills and ability

Condition required	Activity
Determine knowledge, skills, and abilities needed to perform jobs appropriately and align them with employee profiles.	• Determine and identify the knowledge, skills and abilities needed for various jobs. • Inform employees regularly regarding the knowledge, skills and abilities needed for various jobs. • Ensure that employees selected for various positions have the requisite knowledge, skills and abilities. • Align knowledge, skills and abilities required with employee profiles.

Sustaining sound governance in today's fast-changing world requires training and counselling programs in order to help existing employees to maintain and improve their competence for their jobs. Therefore an appropriate training programme is developed to meet the needs of all employees.

The public sector must ensure that training programs are established that include orientation programs for new employees and ongoing training for all employees. Training, compensation and rotation of employees must be based on performance appraisals. This requires that employees be provided with appropriate feedback in this regard, including suggestions for improvements.

Commitment to competence must be an ongoing value for the public sector, especially in a rapidly changing environment. The IFGF therefore requires that employees are encouraged to update their abilities to meet the requirements of their tasks. Table 6.15 gives the condition and activities required in this regard.

Table 6.15 Training and counselling

Condition required	Activities
Provide training and counselling in order to help employees maintain and improve their competence for their jobs	• Reconcile employee's career development with the knowledge, skills and abilities required to perform their tasks. • Encourage employees to continually update their skills, knowledge and abilities to meet the requirement of their tasks. • Document the reconciliation between knowledge, skills and abilities required for jobs and those of the employees and continually update it. • Ensure that there is an appropriate training programme to meet the needs of all employees. • Provide training opportunities for all employees, as necessary, to update and increase their knowledge and skills. • Implement an incentive programme to encourage employees to participate continually improve their skills, knowledge and abilities. • Implement control mechanisms to ensure that all employees actually receive appropriate training. • Ensure supervisors have the necessary management skills. • Ensure supervisors are trained to provide effective job performance counselling. • Base performance appraisals based on an assessment of critical job factors. • Clearly identify areas in which the employee is performing well, and identify areas in which the employee needs improvement. • Provide candid and constructive job performance counselling.

This subsection focussed on the conditions required to ensure commitment to competence in the public sector. The following subsection focuses on understanding the purpose of the tasks.

6.2.4 Understanding the purpose

This subsection focuses on the understanding that employees must have regarding their role and function within the public sector. The IFGF requires that the employees must be familiar with the purpose of their task as well as how it relates to the tasks performed by other employees.

The quality of governance increases when management ensure that personnel understand the purpose of the activities they perform. This means that all personnel are aware of how their activities contribute towards the achievement of specific objectives.

Delegations must be communicated to all employees and must be clearly linked to the assignment of authority, and everyone must be aware that individuals are held accountable accordingly (see subsection 5.11.2). Along with increased delegation of authority and responsibility, management must have effective procedures to monitor results.

This is relevant for those employees to whom authority and responsibilities are assigned.   Their subordinates must also be aware of how their performance relates to the execution of responsibilities. The requirement of the IFGF in this regard is indicated by Table 6.16.

Table 6.16 Assigning authority and responsibility appropriately

Condition required	Activity
Delegate authority and responsibility appropriately; assign it to the proper personnel to deal with	• Clearly assign authority and responsibility throughout the department. • Clearly communicate authority and responsibility assignments to all employees. • Link responsibility for decision-making to the

Table 6.16 Assigning authority and responsibility appropriately

Condition required	Activity
departmental goals and objectives.	assignment of authority. • Exercise accountability for decision-making. • Monitor results with increased delegation of authority and responsibility.

Sustaining governance requires empowering personnel. This entails appropriately assigned authority and delegated responsibility to the proper personnel to deal with departmental goals and objectives. This must be regularly assessed for effectiveness and to ensure all assigned authority and delegated responsibility are in line with the Strategic Plan. This includes personnel acknowledging in writing the assignment of authority and responsibilities. Table 6.17 indicates the condition and activities required by the IFGF in this regard.
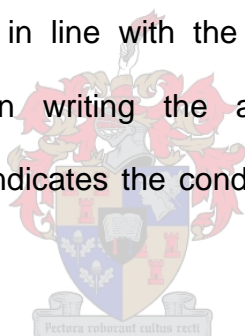
Table 6.17 Acknowledging the assignment of authority and responsibility

Condition required	Activities
Ensure employees are certain as to (1) how his or her actions interrelate with others (considering the way in which authority and responsibilities are assigned), and (2) are aware of the related duties concerning internal control.	• Ensure job descriptions clearly indicate the degree of authority and accountability delegated to each position and the responsibilities assigned. • Ensure job descriptions and performance evaluations contain specific references to internal control-related duties, responsibilities and accountability • Ensure job descriptions reflect the key internal control assigned to an employee. • Ensure employees acknowledge in writing their acceptance of assigned authority and responsibilities.

The IFGF requires that relationships exist between delegation and the assignment of authority to ensure employees are empowered to make decisions that are aligned with their responsibilities and accountabilities. The requirements for the public sector in this regard are indicated in Table 6.18.

Table 6.18 Relationship between delegation and authority

Condition required	Activity
The delegation of authority is appropriate in relation to the assignment of responsibility	• Empower employees at the appropriate levels to correct problems to implement improvements and to make relevant decisions. • Ensure there is an appropriate balance between the delegation of authority at lower levels to get the job done and the involvement of senior-level personnel.
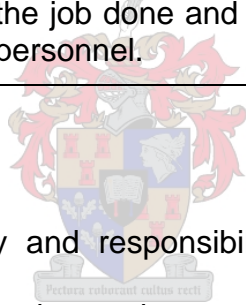
The assignment of authority and responsibility must be accompanied by human resource policies and practices to have a positive effect on governance. Therefore the purpose will be expressed in the human resource policies and practices regarding the acquisition of employees. Table 6.19 gives the condition and activities required by the IFGF in this regard.

Table 6.19 Human resource policies and practices

Condition required	Activity
Implement human resource policies and procedures for hiring, orienting, training, evaluating, counselling, promoting,	• Communicate detailed information to recruiters about the type of competencies needed for the work and participate in the hiring process. • Apply standards or criteria for hiring qualified people, with an emphasis on education, on experience, on their accomplishment in similar

Table 6.19 Human resource policies and practices

Condition required	Activity
compensating, disciplining and terminating employment that reflect the importance of understanding the purpose of each position and the accompanying tasks.	circumstances and on ethical behaviour.
	• Apply personnel policies and procedures that result in recruiting or developing competent, trustworthy people who support an effective management control system.
	• Communicate expectations about the types of people to be hired or employed.
	• Provide post descriptions and qualifications that are in accordance with the operational manual.
	• Standardize post description qualifications that are task specific for similar jobs.
	• Ensure that a training programme exists and includes orientation programs for new employees.
	• Develop a training programme that includes ongoing training for all employees.
	• Base promotion, compensation, and rotation of employees on periodic performance appraisals.
	• Link performance appraisals to the goals and objectives included in the strategic plan.
	• Ensure performance appraisal criteria reflect the importance of integrity and ethical values.
	• Provide employees with appropriate feedback and counselling on their job performance and suggestions for improvements.
	• Take disciplinary or remedial action in response to violations of policies and ethical standards.
	• Terminate employment, following established policies, when performance is consistently below standard and when there are significant and serious violations of policies.
	• Apply criteria for employee retention when applicable.
	• Consider the effect upon operations if large numbers of employees are expected to leave or retire in a given period.

One of the requirements for public sector governance is to ensure that employees receive guidance, review and on-the-job training from supervisors to help ensure proper workflow and processing of transactions and events to help reduce misunderstandings and discourage wrongful acts. In this regard supervisory personnel play a key role in ensuring that personnel are aware of their duties and responsibilities and management's expectations.

Supervision can enhance employees' understanding of the purpose of their tasks. The IFGF requires that the public sector must provide adequate supervision in this regard and therefore Table 6.20 provides the condition and activities required.

Table 6.20 Proper supervision

Condition required	Activities
Provide proper supervision to ensure employees understand the purpose of the task they perform.	• Ensure supervisors provide employees with guidance, review and on-the-job training to ensure *proper work flow.* • Ensure supervisors provide employees with guidance, review and on-the-job training to ensure *proper processing of transactions and events.* • Ensure supervisors provide employees with guidance, review and on-the-job training to *reduce misunderstandings.* • Ensure supervisors provide employees with guidance, review and on-the-job training *to discourage wrongful acts.* • Ensure that staff are aware of their duties and responsibilities and aware of management's expectations.

This subsection provided tables regarding the understanding that employees should have about their daily tasks. The following subsection will focus on capability.

6.2.5 Suitable capability

It essential from a financial governance perspective that adequate capacity exists, particularly in managerial positions, so that managers and supervisors have time to carry out their duties and responsibilities and employees do not have to work excessive overtime or outside the ordinary workweek to complete assigned tasks. Managers and supervisors must be protected from fulfilling the role of more than one employee and therefore capacity is also based on having an appropriate organisational structure.

This subsection focuses on the governance requirement that the public sector should operate in a governance environment where the capability to achieve objectives is a reality for management. An appropriate organisational structure (see subsections 5.8.3; 5.8.4; 5.9; 5.13) forms the basis for achieving objectives. Table 6.21 provides the condition and activities required by IFGF in this regard.

Table 6.21 Organizational structure

Condition required	Activities
An appropriate departmental structure for the size and nature of its operations.	• Ensure the departmental structure facilitates the flow of information throughout the department. • Align the tasks of supervisors with the appropriate size of, the activity and the organization. • Appropriately centralize or decentralise the departmental structure, given the nature of its

Table 6.21 Organizational structure

Condition required	Activities
	operations.
	• Articulate the considerations and factors taken into account in balancing the degree of centralization versus decentralization.

A basic requirement for proper governance is the identification and communication of key areas of authority and responsibility. This means executives in charge of major activities or functions are fully aware of their duties and responsibilities, and that an accurate and updated departmental chart showing key areas of responsibility is provided to all employees. Linking this to process flowcharts that reflect key control areas further improves governance in the public sector. It also assists management when changes require a reassessment of existing key controls to determine their appropriateness and applicability to the new processes.

Therefore, maintaining the appropriate departmental structure must be supported by the identification and communication of key areas of authority and responsibility throughout the department. Table 6.22 provides the condition and activities required by the IFGF in this regard.

Table 6.22 Identifying and communicating key areas of authority and responsibility

Condition required	Activities
Identify and communicate key areas of authority and responsibility throughout the	• Inform executives in charge of major activities or functions of their duties and responsibilities.
	• Ensure executives in charge of major activities or functions acknowledge their acceptance in

Table 6.22 Identifying and communicating key areas of authority and responsibility

Condition required	Activities
department.	writing. (Delegation of authority)
	• Document and chart key areas of responsibility and keep it updated.
	• Provide all employees with a departmental chart showing key areas of responsibility.
	• Ensure executives and key managers understand their internal control responsibilities.
	• Ensure that executives and key managers ensure that their staff understand their own responsibilities.

The IFGF requires the public sector to ensure that adequate, appropriate and clear internal reporting relationships are developed and are operational. Established reporting relationships must effectively provide managers with information necessary to carry out their responsibilities (see subsection 5.8.6). Employees must be informed of reporting relationships and their purpose. Communication between all levels must flow effectively.

Capability of the public sector is also impacted on by developing clear reporting relationships (see subsection 5.8.6 and section 5.13). Table 6.23 indicates the condition and civilities required by the IFGF in this regard

Table 6.23 Internal reporting relationships

Condition required	Activities
Develop and implement appropriate and clear internal reporting	• Establish the need for dual or direct reporting relationships. • Establish clear reporting relationships that are aligned with objectives.

Table 6.23 Internal reporting relationships

Condition required	Activities
relationships.	• Ensure reporting relationships effectively provide managers with information they need to carry out their responsibilities and perform their jobs. • Inform employees of the existing reporting relationships. • Ensure reporting relationships allow easy communication between all levels of managers.

Developing performance measures and indicators is essential in a proper governance system. A strategic plan indicating established performance measures and indicators, and monitoring them, must be well developed by and continually subjected to review to ensure the demands generated by an ever-changing environment can be met.

The capability of the public sector can be negatively influenced by the misalignment of departmental structures with objectives and the relevant measure indicators. The misalignment can easily occur due to the constant changes that form part of the public sector. The departmental structure required as indicated in Table 6.23 must be periodically reviewed to ensure that it remains aligned with changes that occur in objectives and in the operating environment. The requirements of the IFGF in this regard are indicated in Table 6.24.

Table 6.24 Periodical evaluation of the organisational structure

Condition required	Activities
Perform periodic evaluation of the	• Review the organizational structure determines if it is still aligned with objectives, especially when

Table 6.24 Periodical evaluation of the organisational structure

Condition required	Activities
organisational structure.	changes occur.
	• Modify the organizational structure when required to ensure it meets the criteria determined by the strategic plan.
	• Communicate changes to the relevant employees.

The capability in the public sector is impacted on by the capacity that exists in the public sector and very often the capacity is influenced by government policies regarding human resource management (see section 5.7). Within the South African context the affirmative action policy of the government is applicable and serves as an example which is reflected in the "Towards a Ten Year Review" (Policy Coordination and Advisory Services, The Presidency, 2003). The requirement of the IFGF in this regard is shown in Table 6.25.
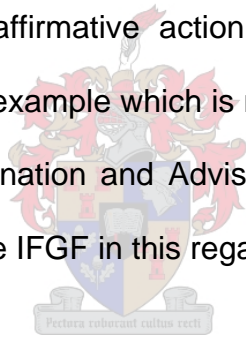
Table 6.25 Capacity in managerial positions

Condition required	Activities
Ensure that adequate and appropriate capacity in key managerial positions exists.	• Ensure managers have the required experience, knowledge, and training to fulfil their responsibilities.
	• Ensure managers update their management skills as their responsibilities change.
	• Provide managers and supervisors with adequate time to carry out their duties and responsibilities.
	• Ensure employees do not have to work excessive overtime or outside the ordinary workweek to complete assigned tasks.
	• Ensure managers and supervisors are not fulfilling the roles of more than one employee.

Human resource policies and practices directly impact on public sector governance. They often fail because background checks are not performed on applicants. Table 6.26 indicates the condition and activities required by the IFGF in this regard.

Table 6.26 Performing background checks

Condition required	Activities
Conduct background checks on candidates applying for employment.	• Give close attention to candidates who often change jobs and have gaps in their employment history. • Ensure hiring standards require investigation for criminal records for all potential employees when applicable. • Contact references and previous employers provided by candidates. • Confirm educational and professional certifications reflected in applications.
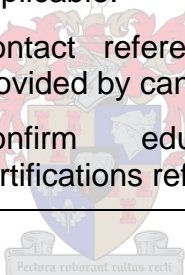
The tables provided in this subsection focused on the capability of the public sector. The following subsection focuses on control self-assessment.

6.2.6 Control self-assessment

Governance is promoted when senior management are able to perform control self-assessments to determine their management strengths and weaknesses. This includes subjecting themselves to the principles of peer review as a way to perform self-assessments. Self-assessment programs must be developed and implemented to improve management skills.

The IFGF requires that the public sector performs control self-assessment to be able to respond appropriately in the different circumstances that can occur. These responses can impact on the governance of the sector and therefore a culture must exist whereby the sector assesses itself (see section 5.13).

Oversight groups play a major role in a self-assessment process, even more so in the public sector where their role is much more critical. Mechanisms must be in place to provide ongoing assurance to stakeholders and therefore the mechanisms must monitor and review operations, programs and the implementation of recommendations or the lack thereof.

These oversight groups, such as internal audits, must be independent from management, as the review of systems provided by them are a key factor in providing assurance of governance. Stakeholders' confidence will also be impacted on by the way that management responds to recommendations. The use of oversight groups can greatly improve the efforts of management to provide assurances to public sector stakeholders – and especially so if taken seriously. A variety of possibilities are available which can be implemented in this regard. Table 6.27 indicates the condition and activities required by the IFGF when the sector uses oversight groups as a manner to perform control self-assessments.

Table 6.27 Oversight groups

Condition required	Activities
Develop and implement mechanisms to monitor and review operations and	• Establish an independent internal audit function. • Ensure internal audit is independent from management, and performs audits and reviews department activities.

Table 6.27 Oversight groups

Condition required	Activities
programs.	• Establish an audit committee or senior management council consisting of high-level line and staff executives.
	• Ensure the audit committee or senior management council reviews the internal audit work.
	• Ensure the audit committee or senior management council coordinates closely with the internal and external auditors.
	• Ensure the internal audit operation reports to the department head.
	• Ensure the internal audit function reviews the department's activities and systems and provides information, analyses, appraisals, consultations and recommendations to management.
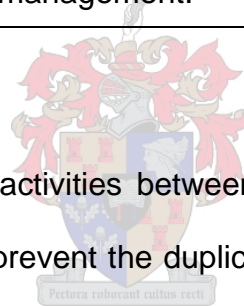
The IFGF requires that the activities between the various oversight groups are coordinated, as this will prevent the duplication of work, or subjecting the same area to oversight over and over, whilst other areas are neglected; it will also distribute oversight over a wider area of operations and activities – and by doing so create a more complete overview of the total operations of the public sector.

Within the public sector in the South Africa this would mean good working relationships between Treasury and major officials, including the CFO, and regular meetings with personnel to discuss areas such as financial and budgetary reporting, internal control and management's performance. This capability is enhanced by having high-level personnel and maintaining good working relationships with other executive branch departments that exercise

multi-department control responsibilities. In this regard communication must be based on reliable information.

The IFGF requires that oversight groups must be coordinated to enhance the effectiveness of all the groups; this includes ensuring that regular and relevant communication takes place. Table 6.28 indicates the condition and activities required by the IFGF from the public sector in this regard.

Table 6.28 Coordinating oversight groups

Condition required	Activities
Coordinate the activities of oversight groups and ensure reliable communication between groups.	• Ensure good working relationship with Treasury and major officials, including the CFO exist. • Meet regularly with Treasury personnel to discuss areas such as financial and budgetary reporting, internal control and management's performance. • Maintain good working relationships by high-level department personnel with other executive branch departments that exercise multi-department control responsibilities, such as the Department of the Treasury and the General Services Administration. • Provide Cabinet and oversight committees such as SCOPA with timely and accurate information to allow monitoring of department activities, including review of the department's (1) mission and goals, (2) performance reporting, and (3) financial position and operating results. • Meet regularly with Cabinet and auditors to discuss major issues affecting operations, internal control, performance and other major department activities and programs.

The above section focused on the requirement regarding governance-related activities that the IFGF requires to ensure that the public sector operates

within a governance environment that is based on a particular governance culture. However, the IFGF requires that the public sector also implements risk management as indicated in section 5.10. The following section focuses on those governance-related activities that are peculiar to the risk-management activities.

6.3 Risk management

As stated in the PFMA, every department must have an accounting officer who is the head of the department and who must ensure that the department maintains effective, efficient and transparent systems of financial and risk management and internal control. This also appears to be the focus of the TBS (2003:3) with their Modern Comptrollership Initiative, which aims at establishing a strong foundation of management practices intending to provide managers with integrated financial and non-financial performance information, provide a sound approach to risk management, implement appropriate control systems and a shared set of values and ethics. In addition to this, research on best practices indicates that effective risk management is based on regular information on which, in turn, competent judgments can be based, which is mandatory when aiming for improving governance. It incorporates the understanding that the precondition for risk assessment is the establishment of clear, consistent management goals and objectives at both the entity-wide level and at the activity (programme or mission) level.

Diagram 6.3 provides an overview of the governance related activities in this regard.

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┌─────────────────────┐
│     Governance      │
│      Related        │
│     Activities      │
└─────────────────────┘
┌─────────────────────┐
│  Enterprise Risk    │
│    management       │
└─────────────────────┘
┌─────────────────────┐
│   Activity level    │
│     objectives      │
└─────────────────────┘
┌─────────────────────┐
│    Entity Wide      │
│     objectives      │
└─────────────────────┘
┌─────────────────────┐
│  Risk Identification│
└─────────────────────┘
┌─────────────────────┐
│     Monitoring      │
│   Implementation    │
└─────────────────────┘
┌─────────────────────┐
│       Fraud         │
│     Prevention      │
└─────────────────────┘
┌─────────────────────┐
│      Whistle        │
│      Blowers        │
└─────────────────────┘
┌─────────────────────┐
│    Manage Risk      │
│   During Change     │
└─────────────────────┘
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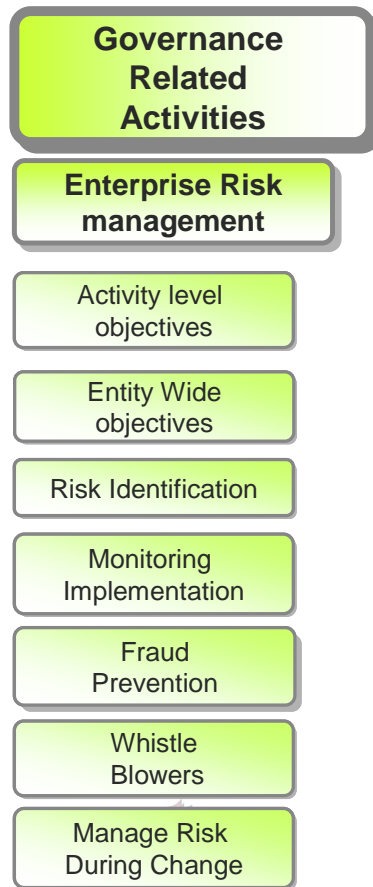
Diagram 6.3 Enterprise risk management

The IFGF requires the public sector to set clear objectives in the various plans and to identify the risks that could impede the efficient and effective achievement of those objectives at the entity level and the activity level. It provides for an assessment of the risks that the department faces from both internal and external sources. Risks that have been identified must be analysed for their possible effect. This requires that management formulate an approach to risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

The IFGF provides a meaningful approach to objective setting, risk identification, risk analysis and management of risk during times of change. In healthy governance systems management determines the risk strategy and consider the likelihood and impact of risks, the relation to risk tolerances and the costs versus benefits, and only then design and implement response options. The consideration of risk responses and selecting and implementing a risk response are integral to enterprise risk management. Effective enterprise risk management requires that management select a response that is expected to bring risk likelihood and impact within the entity's risk tolerance.

Risk responses fall within the categories of risk **avoidance** (take action to eliminate the activities that give rise to the risks), **reduction** (reduce the risk likelihood, impact, or both)**, sharing** (transferring or otherwise sharing a portion of the risk) **and acceptance** (take no action to affect likelihood or impact).
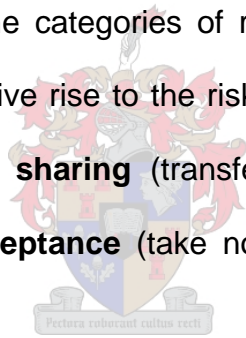
As part of enterprise risk management in the IFGF, management must consider potential responses from a range of response categories for each significant risk and entity. This gives sufficient depth to response selection and also challenges the status quo. Having selected a risk response, management recalibrates the risk on a residual basis and considers risk from an entity-wide, or portfolio perspective.

The ERM framework discusses in detail areas such as entity-wide objectives (EWO), activity-level objectives (ALO), risk identification, monitoring implementation, and managing risk during change. The information

contained in the following paragraphs provides guidance for the implementation of risk management as it relates to the governance process, including fraud prevention and whistle-blower programs.

The IFGF requires the public sector to focus on governance-related activities that are essential in the risk-management process. This section provides tables that indicate the conditions and activities required in this regard.

6.3.1 Establish entity-wide objectives

The internal environment in the public sector is the first focus in the risk-management section of the governance environment. The internal environment influences the way that strategy and objectives are established, business activities are structured and risks are identified, assessed and acted upon. It influences the design and functioning of control activities, information and communication systems, and monitoring activities.

The internal environment consists of many elements, including an entity's ethical values, competence and development of personnel, management's operating style and the way that it assigns authority and responsibility. As part of the internal environment, management must establish a risk-management philosophy and determine the entity's risk appetite, develop a risk culture and integrate enterprise risk management with related initiatives.

From a financial governance perspective, risk management plays a leading part in developing the strategic plan, which must reflect established entity-wide objectives that must consist of sufficiently broad statements and provides guidance about what the public sector is supposed to achieve. Yet

the objectives must be specific enough to relate directly to the smaller units within the public sector. It is critical that these objectives are based on the result of a high-level risk-identification process and developed to mitigate possible risks. This includes expressing the objectives in the form of mission, goals and objectives, such as those defined in strategic and annual performance plans.

One of the governance-related activities regarding risk management is the establishment of entity-wide objectives. Table 6.29 indicates the condition and activities required by the IFGF.

Table 6.29 Establishment of entity-wide objectives

Condition required	Activities
Establish a strategic plan that has entity-wide objectives that provide sufficiently broad statements and guidance about what the department is supposed to achieve, yet are specific enough to relate directly to the department.	• Establish overall entity-wide objectives in the form of a **mission.** • Establish overall entity-wide objectives in the form of **goals.** • Establish overall entity-wide objectives in the form of **objectives.** • Define measuring indicators for each. • Ensure entity-wide objectives that relate to and stem from programme requirements established by legislation. • Ensure entity-wide objectives are specific enough to clearly apply to the department instead of applying to all departments. • Ensure established entity-wide objectives are specific enough for the organization, but sufficiently broad to address the objectives necessary to fulfil major statutory responsibilities and achieve the organization's desired results**.** • Periodically evaluate and update objectives when required.

Risk management must also identify the risk relating to the communication of objectives to all employees, and the failure of management to obtain feedback signifying that the communication has been effective. Table 6.30 gives the condition and activities required by the IFGF.

Table 6.30 Communicating entity-wide objectives

Condition required	Activities
Clearly communicate entity-wide objectives to all employees, and obtain feedback signifying that the communication has been effective.	• Communicate entity-wide objectives to **all employees of the organization.** • Communicate entity-wide objectives to **oversight boards or committees.** • Communicate entity-wide objectives to **the State Legislature, if applicable.** • Communicate entity-wide objectives to **the organization's audit committee.** • Obtain feedback from key managers, employees and others to determine if communication to employees is effective. • Evaluate feedback and objectives and adjust when needed.

The IFGF requires the risk-management process to ensure that there is consistency between operational strategies and the entity-wide objectives. This includes assurance that strategic plans support the entity-wide objectives, address resource allocations and priorities, and that budgets are designed with an appropriate level of detail for various management levels. Assumptions made in strategic plans and budgets must be consistent with the historical experience and current circumstances. The requirements of the IFGF in this regard are shown in Table 6.31.

Table 6.31 Relationships between strategies and objectives

Condition required	Activities
Ensure there is a relationship and consistency between the department's operational strategies and the entity-wide objectives.	• Ensure the strategic plans support the entity-wide objectives. • Ensure the strategic plans address resource allocations and priorities. • Ensure the strategic plans contain realistic time frames and clearly defined roles and responsibilities. • Design strategic plans and budgets with an appropriate level of detail for various management levels. • Align budget proposals with the entity's strategic plan. • Ensure assumptions made in strategic plans and budgets are consistent with the department's historical experience and current circumstances.
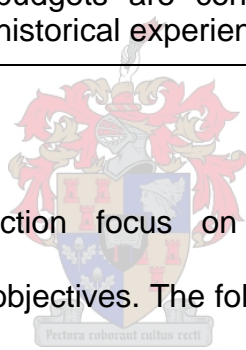
The tables in this subsection focus on risk management and the establishment of entity-wide objectives. The following subsection will focus on establishing activity-level objectives.

6.3.2 Establish activity-level objectives

Risk management must also identify possible risk associated with a situation where activity-level (programme- or mission-level) objectives flow from and are linked or not linked with the department's entity-wide objectives and strategic plans. Healthy governance systems require that all significant activities be adequately linked to the entity-wide objectives and strategic plans. This includes processes to ensure that activity-level objectives are reviewed periodically to ensure that they have continued relevance. Table 6.32 shows the requirements of the IFGF in this regard.

Table 6.32 Establishment of activity-level objectives

Condition required	Activities
Provide an operational plan where activity-level (programme- or mission-level) objectives flow from and are linked with the department's entity-wide objectives and strategic plans.	• Identify activity-level objectives critical to the success of the organization. • Give consideration to areas that must be avoided to successfully achieve those critical activity-level objectives. • Link all significant activities to the entity-wide objectives and strategic plans. • Base budgets on the relative importance of activity-level objectives. • Focus attention on critical factors. • Review activity-level objectives periodically to ensure continued relevance.

Financial governance in the public sector demands that activity-level objectives are complementary to each other and not contradictory, and that they are relevant to all significant processes. Objectives must be established for all the key operational activities and the support activities must be consistent with effective past practices and performance, including being consistent with any industry or business norms that may be applicable to operations. Table 6.33 indicates the condition and activities required by the IFGF in this regard.

Table 6.33 Relationship between activity-level objectives

Condition required	Activities
Ensure activity-level objectives are	• Establish a process for reconciling inconsistent objectives.

Table 6.33 Relationship between activity-level objectives

Condition required	Activities
complementary, reinforce each other, and are not contradictory, and are relevant to all significant department processes.	• Ensure objectives are complementary and reinforced within each activity and between activities. • Establish objectives for all the key operational activities and for all the key support activities. • Ensure activity-level objectives are consistent with effective past practices and performance. • Ensure that activity-level objectives are consistent with any industry or business norms that may be applicable to the department's operations.

Governance requires that measurable indicators are developed for all critical objectives as indicated in subsection 5.9.2. This assumes that adequate resources are allocated to ensure that objectives can be achieved as planned. Key measurable indicators must be subjected to the risk-management process to ensure all objectives have key measurable indicators and that resources are adequate to ensure achievement. Resources required must be identified and plans to supplement inadequate resources must be subjected to the risk-management processes to determine their potential to be successful. The condition and activities required by the IFGF in this regard are indicated in Table 6.34.

Table 6.34 Key measurable indicators

Condition required	Activities
Develop key measurable indicators for activity-level objectives and	• Develop measurable criteria that are quantifiable, specific, measurable, achievable, realistic and time bound. • Determine the required resources needed.

Table 6.34 Key measurable indicators

Condition required	Activities
assign adequate resources to them.	• Develop plans to acquire additional resources when existing resources appear to be inadequate. • Link allocation of resources to budget processes.

All levels of management must be involved in establishing the activity-level objectives and are committed to their achievement. Table 6.35 indicates the condition and the activities required by the IFGF in this regard.

Table 6.35 Commitment to achieve objectives

Condition required	Activities
Ensure all levels of management are involved in establishing the activity-level objectives and are committed to their achievement.	• Ensure the managers establish activity-level objectives for which they are responsible. • Ensure the managers support the objectives. • Ensure the managers are committed to achieving the objectives.

This subsection provides the requirements regarding activity-level objectives. The next subsection focuses on risk identification.

6.3.3 Risk Identification

Risk identification must be integrated with risk assessment and strategies (see section 5.10). The IFGF requires the existence of a risk-management framework that reflects various and appropriate risk methodologies

specifically developed for the public sector. Qualitative and quantitative methods must be used in specific situations to identify risk and determine relative risk ratings. The results of this process (how risk is to be identified, ranked, analysed and mitigated) must be communicated to appropriate staff. Risk identified during execution of activities must be brought to the attention of senior management. The condition and activities required by the IFGF in this regard are indicated in Table 6.36

Table 6.36 Comprehensive risk methodologies

Condition required	Activities
Perform comprehensive risk identification using various methodologies as appropriate.	• Develop qualitative and qualitative methods to identify risks. • Use qualitative and quantitative methods to determine relative risk rankings. • Schedule risk assessments on a periodic basis. • Communicate how risk is to be identified, ranked, analyzed and mitigated to appropriate staff. • Ensure that risk identification and discussion take place at senior-level management conferences. • Ensure the risk identification take place as part of a short-term and long-term forecasting and strategic planning. • Ensure risk identification occurs as a result of consideration of findings from audits, evaluations and other assessments. • Ensure the risks identified at the employee and mid-management level are brought to the attention of senior-level managers. • Ensure the informal, day-to-day management activities are included in the establishment of risk-analysis processes and guidelines.

Risk management must ensure that adequate mechanisms are applied to identify risks to the department arising from external factors. This includes considering risks associated with technological advancements and developments; considering possible risks as the result of changing needs and expectations of the stakeholders; considering risk as a result of changes introduced by new legislation; considering risk as the result of possible natural catastrophes or criminal or terrorist actions; considering risks resulting from business, political and economic changes; considering risks associated with major suppliers and contractors; and carefully considering any risks resulting from interactions with various other public sector entities, including parties outside the sector. Table 3.37 indicates the condition and activities required by the IFGF regarding external risk identification.

Table 6.37 External risk identification

Condition required	Activities
Provide adequate mechanisms to identify risks arising from external factors.	• Consider risks associated with technological advancements and development. • Consider risks arising from the changing needs or expectations of Cabinet, department officials and the public. • Identify risks arising from new legislation or regulations. • Identify risks as a result of possible natural catastrophes or criminal or terrorist actions. • Identify risks resulting from business, political, sociological and economic changes. • Consider risks associated with major suppliers and contractors. • Consider risks resulting from interactions with various other public sector entities and parties outside the government. • Perform periodic re-evaluations of external risks.

Risk management must ensure that adequate mechanisms are applied to identify risks to the department arising from internal factors. This includes considering the risks resulting from downsizing of operations and personnel, including those that can be associated with business process re-engineering or redesign of operating processes. This includes those risks resulting from the lack of qualifications of personnel hired or the extent to which they have been trained or not trained, and those resulting from extensive reliance on contractors or other related parties to perform critical department operations, which must also be identified during the risk-management process.

Risk management also contributes towards sound public sector governance when risks are identified that can be associated with major changes in managerial responsibilities. This includes human capital-related risks, such as the inability to provide succession planning and retain key personnel who can affect the ability of the department or programme activity to function effectively, and the inadequacy of compensation and benefit programs to keep the department competitive with the private sector for labour.

Governance can be severely affected when the risk management processes fail to identify possible risk resulting from unusual employee access to vulnerable assets, and those related to the availability of future funding for new programs or the continuation of current programs.

Risk management must ensure that adequate mechanisms are applied to identify risks relating indirectly from the following contributing factors: risks related to past failures to meet department missions, goals or objectives, or

failures to meet budget limitations; risks indicated by a history of improper programme expenditures, violations of funds control, or other statutory non-compliance; and risks inherent in the nature of the department's mission or to the significance and complexity of any specific programs or activities it undertakes.

All these risk can be regarded as internal by nature and include risks posed by the disruption of information systems' processing. Hence the extent to which back-up systems are available and can be implemented must be identified and any applicable risk mitigated, especially where highly decentralised programme operations are deployed. Table 6.38 indicates the requirements of the IFGF in this regard.

Table 6.38 Internal risk identification

Condition required	Activities
Develop and use adequate mechanisms to identify risks to the department arising from internal factors.	• Identify risks resulting from downsizing of department operations and personnel. • Identify risks with business process re-engineering or redesign of operating processes. • Identify risks posed by changes in personnel duties such as the departure of key management personnel or changes in responsibilities which could affect the ability of employees to function effectively. • Identify risks posed by appropriation requests such as the availability of funds for new initiatives or continuation of key programs. • Identify risks posed by employee relations such as compensation and benefit programs. • Identify risks posed by information systems such as the back-up systems, in case systems fail and significantly affect operations. • Identify risks posed by data processing such as disclosure of data, data integrity, and error,

Table 6.38 Internal risk identification

Condition required	Activities
	fraud, or misuse of data.
	• Identify risks posed by cash management activities.
	• Identify risks posed by asset protection and preservation.
	• Identify risks posed by disruption of information systems processing and the extent to which back-up systems are available and can be implemented.
	• Identify potential risks due to highly decentralised programme operations.
	• Identify risks resulting from the lack of qualifications of personnel hired or the extent to which they have been trained or not trained.
	• Identify risks resulting from heavy reliance on contractors or other related parties to perform critical operations.
	• Identify risks that might be associated with major changes in managerial responsibilities.
	• Identify risks resulting from unusual employee access to vulnerable assets.
	• Identify risk-identification activities that consider certain human capital-related risks, such as the inability to provide succession planning or to retain key personnel who can affect the ability of the department or programme activity to function effectively.
	• Identify risk-identification activities by considering certain human capital-related risks, such as the inadequacy of compensation and benefit programs to keep the department competitive with the private sector for labour.
	• Identify risks related to the availability of future funding for new programs.
	• Identify risks related to the availability of future funding for current programs.
	• Perform periodic re-evaluations of risks assessment of internal nature.
	• Identify risks related to past failures to meet

Table 6.38 Internal risk identification

Condition required	Activities
	department missions, goals or objectives.
	• Identify risks related to past failures to meet budget limitations.
	• Identify risks indicated by a history of improper programme expenditures.
	• Identify risks indicated by a history of violations of funds control.
	• Identify risks indicated by a history of other statutory non-compliance**.**
	• Identify risks inherent to the nature of the mission or to the significance and complexity of any specific programs or activities undertaken.
	• Establish a formal process to analyse risks.
	• Establish criteria for determining low, medium and high risks.
	• Involve appropriate levels of management and employees in the risk analysis.
	• Link risks identified and analysed to the corresponding activity objective.
	• Risk analysis must include estimating the risk's significance, estimating the likelihood and frequency of occurrence of each risk and include determining whether it falls into the low-, medium- or high-risk category.
	• Determine mitigation strategies for all risks identified.

Risk management must also consider the impact and likelihood of all risks identified to determine and develop an appropriate internal control system. This process requires the involvement of the relevant personnel with management ultimately deciding on the risk-tolerance level and mitigation processes.

A determination is made on how best to manage or mitigate the risk and what specific actions should be taken. This requires management's consideration of how much risk can be prudently accepted, outsourced, managed, and diversified. This approach will vary between the different government departments and government levels. However, the basis of the approach is to keep risks within levels judged appropriate and the responsibility management takes for setting the tolerable risk level. Only thereafter are control activities decided upon with respect to the way to manage or mitigate specific risks and what monitoring processes must be applied. The requirements of the IFGF in this regard are indicated in Table 6.39.

Table 6.39 Risk assessment approach

Condition required	Activities
Establish an approach for risk management and control based on how much risk can be prudently accepted, outsourced, managed and diversified.	• Establish an appropriate approach relevant to the activities of the public sector. • Design the approach to keep risks within levels judged to be appropriate. • Determine risk tolerance and risk levels. • Decide on specific control activities to manage or mitigate specific risks entity-wide and at each activity level. • Developing monitoring mechanisms.

The tables in this subsection focus on risk management regarding activity-level objectives. The following subsection focuses on monitoring the implementation strategies.

6.3.4 Monitoring implementation

The IFGF requires management to monitor the implementation of mitigating strategies developed during the risk-assessment process. The monitoring must focus on the level of success with which the mitigation strategies prevent the risks from occurring or the responses triggered when risks do occur. Table 6.40 indicates the conditions and activities required by the IFGF in this regard.

Table 6.40 Monitoring implementation

Condition required	Activities
Develop monitoring mechanism to provide information regarding the implementation and successful application of mitigation strategies.	• Assign responsibility to personnel for the implementation of mitigation strategies. • Develop mechanisms to trigger exception reporting when progress regarding mitigation is not aligned with implementation plan. • Develop mechanisms to trigger exception reporting when risks occur that should have been mitigated by mitigation strategies. • Ensure that improvements implemented regarding mitigation strategies are made according to plan.

The tables in this subsection focus on monitoring the implementation of mitigation strategies. The following subsection focuses on the fraud-prevention plan.

6.3.5 Fraud-prevention plan

Fraud prevention is regarded by Balia (1999:7) as an evolving strategy to control and prevent corruption in South Africa. Therefore, the IFGF requires risk management to determine the appropriateness of a fraud-prevention plan that is relevant to the specific core business of the public sector. Table 6.41 indicates the condition and activities required by the IFGF in this regard.

Table 6.41 Fraud prevention

Condition required	Activities
Develop and implement a fraud-prevention plan relevant to the nature of activities and the circumstance under which they are performed.	• Identify critical areas where fraud could occur. • Develop fraud-prevention strategies to prevent fraud from occurring or to trigger exception reports when it does occur. • Monitor effectiveness of the fraud-prevention plan by predetermined measuring indicators. • Communicated fraud-prevention strategies to all relevant role players. • Develop response strategies to ensure timely corrective action when fraud is detected.

The tables in this subsection focus on he fraud-prevention plan. The following subsection focuses on focuses on a whistle-blowers policy.

6.3.6 Whistle-blowers policy

Calland (1999:172) remarks that poor people are excluded from power and therefore corruption hits them the hardest. The IFGF demands that a whistle-blowers policy be implemented that provides protection to those who want to report their awareness regarding the occurrence of fraudulent and corrupt

activities. Therefore the IFGF requires that the risk-management activities focus on having an effective whistle-blowers policy. Table 6.42 indicates the condition and activities required in this regard.

Table 6.42 Whistle blower's policy

Condition required	Activities
Develop and implement a whistle-blowers policy that provides adequate protection for those wishing to expose fraud and corruption.	• Identify possible areas where fraud and corruption can materialise. • Ensure those persons exposing corruption are protected against retaliation and that they can do so anonymously. • Provide sufficient mechanisms to protect identities of whistle blowers. • Provide mechanisms that allow the opportunity to provide adequate evidence of corruption. • Provide attractive incentives to encourage people to expose corruption.

The tables in this subsection focused on risk management regarding a whistle blower's policy. The following subsection focuses on managing risk during change.

6.3.7 Managing risk during change

The constant changes in government compel government to develop process to mitigate the risks associated with changes, specifically within the public sector environment. The development of alternative service-delivery models in the public sector will continue to occur and during these changes there must be clear and explicit consideration, decisions and communication

related to the impact of these changes on maintaining effective governance arrangements.

Risk management mechanisms must be developed and implemented to enable management to anticipate, identify and react to risks presented by changes in governmental, economic, industrial, regulatory, operating or other conditions that can affect the achievement of entity-wide or activity-level goals and objectives. There is hardly any area that might not be significantly affected by changes within the top levels of government.

The public sector is faced with a myriad of different risks, all with a potentially severe impact. Governance therefore requires the implementation of a system reflecting criteria by which risk can be prioritised. It must be noted that priorities can change, as is noticeable in government a few months before and after the elections. Risk prioritising must be consistent to support a governance system that can provide assurance to stakeholders. Table 6.43 provides the condition and activities required by the IFGF in this regard.

Table 6.43 Managing risk during change

Condition required	Activities
Develop mechanisms to anticipate, identify and react to risks presented by changes in governmental, economic, industrial, regulatory, operating, or other conditions that can affect the achievement of	• Identify all activities within the department that might be significantly affected by changes. • Review routine changes through the established risk-identification and analysis processes. • Develop ways to anticipate, identify and react to routine events possibly affecting the ability of the organization to achieve its objectives. • Involve managers most responsible for the affected activities. • Encourage employees to identify and communicate changing conditions or events.

Table 6.43 Managing risk during change

Condition required	Activities
entity-wide or activity-level goals and objectives.	• Identify risks resulting from conditions that are significantly changing at sufficiently high levels within the department so that their full impact on the department has to be considered. • Review all affected activities within the organization. • Consider risks caused by the hiring of new personnel to occupy key positions, caused by high personnel turnover in any particular area. • Ensure mechanisms exist to assess the risks posed by the introduction of new or changed information systems. • Ensure mechanisms exist to assess the risks involved in training employees to use the new systems and to accept the change. • Determine the appropriateness of existing control activities before new computer systems are developed and implemented. • Ensure management gives special consideration to the risks presented by rapid growth and expansion or rapid downsizing. • Ensure management gives special consideration to the risks presented by the effects on systems capabilities. • Give special consideration to the risks presented by revised strategic plans, goals and objectives • Given consideration to the risks introducing major new technological developments and applications. • Give consideration to significant shifts in the work force, externally or internally, that could affect available skill levels. • Assess risks resulting from the establishment of operations in a new geographical area.

In summary, this section discussed the demands of the IFGF within the public

sector. As indicated, governance can be greatly improved when risk appetite

is established by management and reviewed by members of the MEC, and used as a guidepost in strategy setting. Enterprise risk management, applied in strategy setting, helps management select a strategy consistent with its risk appetite. It enables aligning the organization, people, processes and infrastructure to facilitate successful strategy implementation and enables the entity to remain within its risk appetite.

Good governance in government reflects the risk culture of government and is expressed by the shared attitudes, values and practices that characterize how government operates in its day-to-day activities. Therefore the risk philosophy determined at the top must be explicated and communicated to all within government.

Part of government's approach to risk includes performing a risk analysis focussing on the likelihood of a risk occurring, the impact when it does occur and the cost of control versus the benefit of mitigation before a response is designed and implemented. Responses should be designed to bring the likelihood and impact within the risk-tolerance levels.

Risk responses by management fall within the categories of risk avoidance, reduction, sharing and acceptance. (Avoidance responses take action to eliminate the activities that give rise to the risks. Reduction responses reduce the risk likelihood, impact, or both. Sharing responses reduces risk likelihood or impact by transferring or otherwise sharing a portion of the risk. Acceptance responses take no action to affect likelihood or impact.)

As part of enterprise risk management, for each significant risk management considers potential responses from a range of response categories. Having

selected a risk response, management recalibrates the risk on a residual basis. However, management should recognize that some level of residual risk will always exist, not only because resources are limited, but also because of inherent future uncertainty and limitations intrinsic in all activities.

Risk management is also responsible for assisting with the development and implementation of a system of internal controls based on the key measurable objectives in the strategic plan, the organisational structure, and resources available. The system developed must be in accordance with the results of the risk assessment performed. It must be subjected to regular review to determine its adequacy, effectiveness and efficiency to mitigate risks and to ensure excellent service delivery, especially when changes occur in strategic objectives, resources, organisational structure and the risk environment. The following section will focus on information and communication.

6.4 Information and communication

Another group of activities in public sector governance is those related to information and communication. The lack of quality information is singled out by Cameron (2002:7) as the single most important reason why difficulties develop that may prevent the public sector from achieving its objectives. Management must have relevant and reliable information, both financial and non-financial, relating to external as well as internal events, to manage and control its operations.

The IFGF makes it possible to identify the information that should be recorded and communicated to management and others within the public sector who need it. It allows management to determine the format and time

frame of the information required to assist them to carry out their internal control and operational responsibilities. As such the IFGF aims to ensure the effective use of information and encourages efforts that prevent spending resources on collating information that does not really contribute towards management processes. In addition, the IFGF assists management to make sure that the forms of communications are broad-based and that Information Technology Management contributes towards useful, reliable and continuous communication. It puts management in a position to consider the appropriateness of information and communication systems to the public sector needs and the degree to which they accomplish the objectives of internal control. It allows management to ensure that uniform norms and standards are set within the public sector as a whole. Diagram 6.4 provides the governance related activities regarding information and communication.

Diagram 6.4 Information and communication

The IFGF divides information and communication into information collation and distribution, internal and external communications, forms and means of communication, communicating norms and standards, internal audit and other assurance providers' reports, and communicating the desired corporate culture.

6.4.1 Information collation and distribution

Public sector governance requires that strategic initiatives, which are most critical in the governance process, must be adequately documented and supported by existing legislation, regulation and instruction. Procedures must be in place to ensure that the current activities, procedures and policies are regularly updated to accommodate changes in legislation, regulations and instructions to ensure compliance, conformance and performance.

Governance is also dependent on being benchmarked regularly and therefore government must ensure that business activities and governance processes are continuously benchmarked against best practices and updated accordingly. Therefore the IFGF requires that the relevant information should be collated and distributed appropriately. Table 6.44 indicates the condition and activities required in this regard.

Table 6.44 Collating information

Condition required	Activities
Establish effective processes to gather information from internal and external sources and provide it to management as	• Identify internally generated information critical to achieving the departmental objectives, including information relative to critical success factors. • Include information relative to critical success

Table 6.44 Collating information

Condition required	Activities
part of departmental reporting on operational performance relative to established objectives.	factors. • Obtain relevant external information on legislative or regulatory developments. • Obtain relevant external information on economic and social changes. • Obtain regularly and report to managers any relevant external information that may affect the achievement of its missions, goals and critical objectives, particularly those related to legislative or regulatory developments and political or economic changes. • Report internal and external information needed by managers at all levels.

Healthy public sector financial governance systems function on relevant, reliable information, both financial and non-financial, relating to external as well as internal events, to run and control their operations. This requires that information be recorded and communicated to management and others within government who need it, in a format and at specified times that enable them to carry out their internal control and operational responsibilities. Therefore forms of communication must be broad-based and information technology management must ensure useful, reliable and continuous communication. The appropriateness of information must be constantly reviewed by management to ensure that the information and communication systems meet government's needs to determine the degree to which they accomplish the objectives of internal control.

Acquiring relevant information timeously in usable formats must be supplemented by processes that identify, capture and distribute pertinent information to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and responsibilities efficiently and effectively. Where applicable, information must be subjected to analysis to assist government to identify specific actions that need to be taken. Providing this information to the right levels inside the public sector is crucial in a governance system. This may require information to be summarised in some instances and providing more detail for closer inspection in other instances.

Information must be available on a timely basis to allow effective monitoring of events, activities and transactions, and to allow prompt reaction. It should include both operational and financial details to help government to determine whether they are meeting the strategic and annual performance plans and meeting the goals for accountability of resources.

Operational information must be provided to managers so that they may determine whether their programs comply with applicable laws and regulations, and appropriate financial and budgetary information must be provided for both internal and external financial reporting. Any information system must be integrated with existing business processes and practices. This also means that management must develop an information system that is integrated with information technology. The information system is integrated into the culture of the organisation and all personnel are enabled to use it effectively. Table 6.45 indicates the requirements of the IFGF in this regard.

Table 6.45 Identification of relevant information

Condition required	Activities
Implement processes to identify, capture and distribute pertinent information to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and responsibilities efficiently and effectively.	• Ensure managers receive analytical information that helps them identify specific actions that need to be taken. • Provide information in the right level of detail for different levels of management. • Summarise information and present it appropriately permitting a closer inspection of details as needed. • Ensure information is available on a timely basis to allow effective monitoring of events, activities and transactions, and to allow prompt reaction. • Ensure programme managers receive both operational and financial information to help them determine whether they are meeting the strategic and annual performance plans. • Ensure program managers receive both operational and financial information to help them determine whether they are meeting the department's goals for accountability of resources. • Provide operational information to managers so that they may determine whether their programs comply with applicable laws and regulations. • Provide appropriate financial and budgetary information for both internal and external financial reporting.

Table in the above subsection focused on the collating and distributing of information. The following subsection will provide a closer analysis to internal and external communication.

6.4.2 Communication – internal and external

Sound public sector governance ensures that effective internal communications occur and that top management provide a clear message

throughout the public sector that internal control responsibilities are important and must be taken seriously. Specific duties of employees must be clearly communicated to them and they must understand the relevant aspects of internal control, how their role fits into it, and how their work relates to the work of others.

Therefore employees must be informed that when the unexpected occurs in performing their duties, attention must be given to the event, and also to the underlying cause, so that potential internal control weaknesses can be identified and corrected before they can do further harm. This includes informing them what can be regarded as acceptable behaviour versus unacceptable behaviour and what the consequences of improper conduct are.

Effective communication provides personnel with means of communicating information upstream within the public sector through someone other than a direct supervisor, and there must a demonstration by senior management that they have a genuine willingness to listen and respond appropriately. It requires mechanisms to allow the easy flow of information downwards, across and upwards in the public sector.

When applicable, personnel must be given the assurance that there will be no reprisals for reporting adverse information, improper conduct, or circumvention of internal control activities. A healthy governance system provides these mechanisms and the requirements of the IFGF in this regard are indicated in Table 6.46.

Table 6.46 Internal communications

Condition required	Activities
Ensure that effective internal communications occur.	• Provide a clear message from top management throughout the department that internal control responsibilities are important and must be taken seriously.
	• Communicate employees' specific duties clearly to them.
	• Ensure employees understand the relevant aspects of internal control, how their role fits into it, and how their work relates to the work of others.
	• Inform employees that when the unexpected occurs in performing their duties, attention must be given not only to the event, but also to the underlying cause.
	• Ensure that potential internal control weaknesses can be identified and corrected before they can do further harm to the department.
	• Communicate what behaviours are regarded as unacceptable.
	• Provide personnel with the means to communicate information upstream within the department through someone other than a direct supervisor.
	• Ensure there is a genuine willingness to listen on the part of management.
	• Provide mechanisms to allow the easy flow of information downwards, across and upwards in the department.
	• Provide employees with informal or separate lines of communications which serve as a control for normal communications avenues.
	• Ensure personnel understand that there will be no reprisals for reporting adverse information, improper conduct, or circumvention of internal control activities.
	• Ensure mechanisms are in place for employees to recommend improvements in operations.
	• Ensure management acknowledges good employee suggestions with awards or other

Table 6.46 Internal communications

Condition required	Activities
	meaningful recognition.
	• Communicate frequently with internal oversight groups, such as senior management councils, and keep them informed of performance, risks, major initiatives, and any other significant events.

Management must also communicate frequently with internal assurance providers and oversight groups to keep them informed of performance, risks, major initiatives and any other significant events. After all, stakeholders are dependent on information that is provided from the public sector and because of the composition of stakeholders they will all have different expectations in this regard. An effective governance system ensures that effective external communications occur with groups that can have a serious impact on programs, projects, operations and other activities, including budgeting and financing.

This require the establishment of open and effective communication channels with customers, suppliers, contractors, consultants and other groups that can provide significant input on quality and design public sector products and services. All outside parties dealing with the public sector must be clearly informed of the the ethical standards and also understand that improper actions, such as improper billings, kickbacks, or other improper payments, will not be tolerated. The financial governance system must ensure that these communications occur frequently. Table 6.47 indicates the condition and activities required by the IFGF in this regard.

Table 6.47 External communications

Condition required	Activities
Ensure that effective external communications occur with groups that can have a serious impact on programs, projects, operations and other activities, including budgeting and financing.	• Establish open and effective communications channels with customers, suppliers, contractors, consultants and other groups that can provide significant input on quality and design of department products and services. • Inform outside parties dealing with the department of the department's ethical standards. • Ensure outside parties dealing with the department understand that improper actions, such as improper billings, kickbacks, or other improper payments, will not be tolerated. • Encourage communications from external parties, such as other provincial departments, state and local governments, and other related third parties, since this can be a source of information on how well internal control is functioning. • Welcome complaints or inquires, especially those concerning services, such as shipments, receipts and billings, since they can point to control problems. • Make certain that the advice and recommendations of internal audit and other auditors and evaluators are fully considered. • Make certain that the advice and recommendations of internal audit are implemented to correct any problems or weaknesses they identify. • Communicate regularly with Cabinet, Treasury, other provincial departments, state and local governments, the media, the public and others. • Provide information relevant to the requesters' needs so that they can better understand the department's mission, goals and objectives, as well as the risks facing the department, and thus better understand the department.

Government governance requires well-developed communications methods. The different communication methods such as policy and procedures manuals, management directives, memoranda, bulletin board notices, internet and intranet web pages, videotaped messages, e-mail, motivations, written request, leave applications and speeches must be identified and the purpose, role, typical content and authority of each must be determined and communicated to all employees. Response times must be stipulated in general for each form of communication and provision must be made to ensure that mechanisms exist to indicate when earlier response times than the normal are critical. The IFGF demands that means of communications be established to ensure information is effectively distributed and promptly acted on. Table 6.48 provides the conditions and requirements.

Table 6.48 Forms and means of communications

Condition required	Activities
Develop a system to communicate important information with employees and others.	• Use effective communications methods, which may include policy and procedures manuals, management directives, memoranda, bulletin board notices, internet and intranet web pages, videotaped messages, e-mail and speeches. • Use positive actions in dealing with personnel throughout the department and demonstrate support of internal control. • Determine the different forms to be used for communication under specific circumstance and the relevant responses required. • Determine desired response time on various communication forms and the level of authority assigned to each means. • Develop mechanisms to assess and improve communication response time when required.

Table in the above subsection focused on internal an external communication. The following subsection will provide a closer analysis of norms and standards.

6.4.3 Norms and standards

A governance system has to ensure that the communication system is continually subjected to review and best practices introduced to improve the usefulness and the reliability of information. A clear link must exist between strategic objectives and the content of information. This requires the quality of information captured to be compared to the quality of information provided and the quality of information needed. It is possible to generate large volumes of information without the communication effort being effective. Financial governance relies on specific information that relates to the core objectives of government and therefore the following tables are essential from a governance perspective.
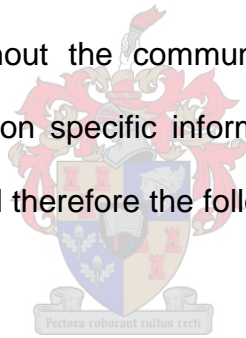
Relying on information requires management to use the information management function for acquiring critical operating data and to support efforts to make improvements in the systems as technology advances. However, at all times information must be reliable, ensuring certain norms and standards are maintained. Table 6.49 indicates the condition and activities required by the IFGF in this regard.

Table 6.49 Review information systems

Condition required	Activities
Review, manage, develop and revise	• Base the information management systems on a strategic plan for information systems that is

Table 6.49 Review information systems

Condition required	Activities
information systems to continually improve the usefulness and reliability of information communicated.	linked to the departments overall strategic plan. • Identify emerging information needs • Monitor, analyse and evaluate improvements and advances in technology to help the department respond more rapidly and efficiently to those whom it serves. • Introduce improvements and advances in technology to help the department respond more rapidly and efficiently to those whom it serves. • Continually monitor the quality of the information captured, maintained and communicated as measured by such factors as appropriateness of content, timeliness, accuracy and accessibility.

Table in the above subsection focused on norms and standards The following subsection focuses on reports from internal audit and other evaluators.

6.4.4 Investigation and audit reports

The IFGF requires that complaints or inquiries, especially those concerning services, are encouraged and dealt with in a timely manner. Results from investigations and audits must be fully considered, and actions implemented to correct any problems or weaknesses they identify.

A corporate identity is very much influence by response times on internal and external communications. Therefore management must place a high degree of importance on the work of the internal audit, external audits, other evaluations and studies. These assurance providers regularly consider management information regarding financial, budgetary and operational

programs and, therefore, management must be informed and involved in critical financial reporting issues and must demonstrate a conservative approach toward the application of accounting principles and estimates. Improving governance depends on management disclosing all financial, budgetary and programmatic information needed to encourage users to fully understand the operations and financial condition of the public sector.

The manner in which government responds to separate evaluations will affect the governance perspective stakeholders have on the public sector, including that of potential international donors. Therefore systems must be in place to ensure the communication of results and corrective actions taken in reaction to separate evaluations. This system should also provide mechanisms for management to measure the effectiveness and efficientcy of recommendations. Table 6.50 indicates the requirements of the IFGF in this regard.
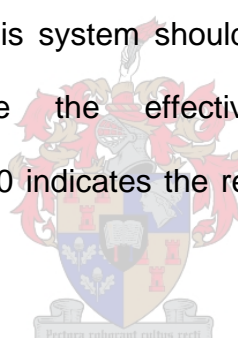
Table 6.50 Communicating with assurance providers

Condition required	Activities
Ensure timely response to reports received from assurance providers.	• Ensure that responses to reports received from evaluators are appropriate. • Ensure timely responses. • Monitor implementation of recommendations. • Ensure that stakeholders are informed of management's reactions to recommendations.

Table in the above subsection provided a closer analysis of internal and external communication. The following section focuses on information and communication regarding the corporate culture.

6.4.5 Corporate culture

In public sector governance the corporate culture is a crucial aspect of strategic planning and the manner in which the sector performs its daily activities. Therefore sound governance systems include concerted efforts to cultivate a corporate culture and identity that are regularly communicated to all, sometimes by direct communication, but mostly indirectly through the manner in which daily activities are performed. Public sector governance requires that a corporate culture be purposefully established and cultivated. The requirements of the IFGF in this regard are indicated in Table 6.51.

Table 6.51 Communicating corporate culture

Condition required	Activities
Ensure that information on the corporate culture is regularly communicated to all.	• Determine measuring criteria (such as response time) regarding the corporate culture. • Report regularly on incidents significant to the establishment of corporate culture. • Communicate improvements achieved regularly. • Communicate responses in order to correct violations.

This subsection focused on the related governance activities regarding information and communication. The following section focuses on control activities that are governance related.

6.5 Control activities

As indicated by the Institute of Charted Accountants in England and Wales (1999:7), the system of internal control should be embedded in the operations

of the company and form part of its culture; be capable of responding quickly to evolving risks to the business arising from factors within the company and to changes in the business environment. The system must include procedures for reporting immediately any significant control failings or weaknesses that are identified together with details of corrective action being undertaken to appropriate levels of management. Governance requires one to understand that a sound system of internal control reduces, but cannot eliminate, the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management taking liberties in overriding controls, and the occurrence of unforeseeable circumstances. Therefore governance in the public sector can only rely on a sound system of internal control that provides reasonable, but not absolute, assurance that it will not be hindered in achieving its business objectives, or, in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. However, a system of internal control cannot provide protection with certainty against failure to meet business objectives or against all material errors, losses, fraud, or breaches of laws and/or regulations.

The IFGF is therefore based on internal control activities, which are expressed in policies, procedures, techniques, and mechanisms that help ensure that management's directives to mitigate risks, which were identified during the risk assessment process, are carried out. Control activities are an integral part of the planning, implementing and reviewing processes (see diagram 6.5).They are essential for proper stewardship and accountability for

public sector resources, and for achieving effective and efficient programme results.

Diagram 6.5 Control activities

The IFGF assumes that control activities occur at all levels and functions of the public sector. They include a wide range of diverse activities, such as approvals, authorizations, verifications, reconciliations, performance reviews, security activities, and the production of records and documentation. Therefore management must focus on control activities in the context of the directives to address risks associated with established objectives for each significant activity (programme or mission) and therefore, consider whether control activities relate to the risk-assessment process and whether they are appropriate to ensure that management's instructions are carried out.

The IFGF facilitates assessment of the adequacy of internal control activities to determine whether the proper control activities have been established, whether they are suitably designed for effectiveness, and the degree to which those activities are operating effectively. Governance requires this to be done for each significant activity. This analysis and evaluation should also include controls over computerized information systems. The IFGF demands consideration of whether established control activities are relevant to the risk-assessment process and if they are being applied properly.

Therefore the IFGF allows departments to put into place control activities that may vary considerably from those used in other public sector environments. These differences may occur because of the (1) variations in missions, goals, and objectives; (2) differences in environment and manner in which they operate; (3) variations in degree of complexity; (4) differences in departmental histories and culture; and (5) differences in the risks that the public sector faces and tries to mitigate.
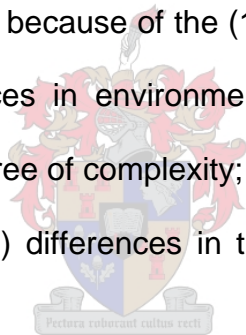
It is probable that, even if two departments did have the same missions, goals, objectives and departmental structures, they would employ different control activities. This is the result of individual judgment, implementation of processes, risk appetite and a management style that is closely linked with personnel abilities. All of these factors affect control activities, which should be designed accordingly with the goal of contributing to the achievement of missions and objectives.

Given the wide variety of control activities that the public sector may employ, it would be impossible to address them all. However, when focussing on

governance there are some general overall points to be considered by management, as well as several major categories or types of control activity factors that are applicable at various levels throughout the public sector. The IFGF provides a basis on which selections of control activities can be made and it assists the public sector in developing unique controls when required by circumstances to do so. This range of control activities can be divided into directive controls, preventive controls, detective controls and corrective controls and can be divided into the following categories; compliance with laws, regulations, contracts and prescripts; safeguarding of assets; accomplishment of objectives; reliability of information; and the effective and efficient use of resources.

6.5.1 General application

A governance system requires specific control activities to be developed and implemented. In general the public sector must ensure the development and implementation of appropriate policies, procedures, techniques and mechanisms with respect to each of the activities. All relevant objectives and associated risks for each significant activity must be identified in conjunction with conducting the risk assessment and analysis function. This must be followed by identification and implementation of the actions and control activities needed to address the risks.

Governance in the public sector can be measured by the control activities that are in place or being applied. These control activities must be described in policy and procedures manuals and actually be applied properly. This calls for supervisors and employees to understand the purpose of internal control

activities. After all, they are performing these activities and need to review the functioning of established control activities and remain alert for instances in which excessive control activities should be streamlined. Only when they are familiar with the purpose of a control will they be able to evaluate its effectiveness and the cost, and be in a position to suggest changes.

Control activities must be designed to ensure timely action can be taken on exceptions, implementation problems, or information that requires follow-up. Therefore, performing periodic evaluation to ensure that these activities are still appropriate and working as intended is a necessity.

The IFGF requires the public sector to develop and implement the necessary policies, procedures, techniques and mechanisms regarding activities (see section policies and procedures). Table 6.52 provides the condition and activities demanded by the IFGF in this regard.

Table 6.52 General application

Condition required	Activities
Develop appropriate policies, procedures, techniques and mechanisms with respect to each of the departments' activities	• Identify appropriate polices, procedures and instructions relevant to the applicable objectives. • Identify key controls and assign responsibility and accountability accordingly. • Monitor progress made during implementation and execution. • Apply control activities properly as described in policy and procedures manuals. • Ensure supervisors and employees understand the purpose of internal control activities. • Review the functioning of established control activities. • Remain alert for instances in which excessive control activities should be streamlined.

Table 6.52 General application

Condition required	Activities
	• Take timely action when exceptions, information and implementation problems require follow-up.

The following subsection focuses on governance- related activities regarding compliance controls.

6.5.2 Compliance with acts

Another special category of controls that contributes towards healthy governance in the public sector is those ensuring compliance with legislation, prescripts and contracts. This requires management to keep a register of all laws, regulations and prescripts with reference to specific activities and processes to ensure compliance with laws, regulations and instructions. Therefore controls must be developed and implemented that ensure that all process comply with acts, regulations and instructions. The public sector, mostly mandated by legislation, has to ensure that procedures are constantly updated when changes occur. Table 6.53 indicates the condition and activities required by the IFGF in this regard.

Table 6.53 Compliance with Acts and rules and regulations	
Condition required	**Activities**
Ensure that processes, policies and procedures comply with legislation, regulations, instructions and	• Document and link all key controls related to legislation, instructions, regulations and contracts. • Ensure that controls are adequate to meet requirements related to legislation, instructions, regulations and contracts.

Table 6.53 Compliance with Acts and rules and regulations	
Condition required	**Activities**
contracts, and are updated accordingly when changes occur.	• Monitor and document all changes that occur related to legislation, instructions, regulations and contracts. • Reconcile changes with existing system of internal controls and make the required improvements or changes as required.

The following subsection focuses on governance-related activities regarding the accomplishment of objectives.

6.5.3 Accomplishment of objectives

A special category of controls is those that are developed and implemented to ensure that objectives can be accomplished. These controls must be closely linked with performance indicators identified in the different plans. Achievements must be tracked against plans and therefore they must regularly be reviewed and compared against plans, budgets and prior results.

Reporting on actual results and performance must be linked to the different plans. This includes major initiatives that must be tracked to determine if targets have been achieved and if follow-up actions are required. This is the purpose of having performance indicators that are a category of controls that enable management to analyse detected trends, to measure these trends against predetermined targets, and to develop and implement corrective action when deemed necessary. These controls ensure regular reviews and comparisons of financial, budgetary and operational performance to planned or expected results.

The number of indicators that are developed and linked to the plans must be limited. This will assist public sector units to focus on the achievement of objectives. However, the fewer indicators that are developed, the more creative and careful the development process needs to be. This includes developing processes to ensure corrective actions can be taken when it becomes apparent that progress does not materialise as planned.

The IFGF therefore require controls to be in place to ensure that actual performance on activity level is measured against targets and supports the results reflected by other controls. Table 6.54 indicates the condition and activities required by the IFGF in this regard.

Table 6.54 Control activities

Condition required	Activities
Perform reviews to track department achievements against its plans	• Review regularly actual performance against budgets, forecasts and prior period results. • Track initiatives against performance indicators. • Ensure managers at all activity levels review performance reports, analyze trends and measure results against targets. • Review both financial and programme results and compare financial, budgetary and operational performance to planned or expected results. • Implement appropriate control activities such as reconciliations of summary information to supporting detail and checking the accuracy of summaries of operations.

The following subsection focuses on governance-related activities regarding controls ensuring the reliability of information.

6.5.4 Reliability of information

There is also some control activity factors specifically designed for information systems. Reliability of information is crucial in the decision-making processes. Therefore the IFGF requires the condition and activities indicated in Table 6.55 that ensures that the decisions making process mandates the use of reliable information.

Table 6.55 Reliability of information

Condition required	Activities
Develop control activities to ensure accuracy and completeness of information.	- Use edit checks to control data entry. - Perform accounting in numerical sequences. - Compare file totals with control accounts. - Examine and act appropriately and timeously on exceptions or violations indicated by other control activities. - Control access to data, files and programs.

The following subsection focuses on governance-related control activities regarding the safeguarding of assets.

6.5.5 Safeguarding of assets

Safeguarding of assts is another special category of control activities in government governance. In entails, first of all, controls that ensure that physical controls exist to safeguard and protect vulnerable assets. This requires that physical safeguarding policies and procedures are developed, implemented and communicated to all employees. This includes identification and protection of critical infrastructures.

The IFGF acknowledges that certain assets are particularly vulnerable to loss, theft, damage, or unauthorized use, and must be physically secured and access to them must be controlled, especially cash, securities, supplies, inventories and equipment. Furthermore, assets such as cash, securities, supplies, inventories and equipment must be periodically counted and compared to control records and exceptions investigated. Another option to safeguard assets is to affix identification plates and numbers to office furniture and fixtures, equipment and other portable assets.

Facilities must be protected from fire by means of fire alarms and sprinkler systems. Fences, guards and/or other physical controls must control access to premises and facilities, and all access to facilities is restricted and controlled during non-working hours. The IFGF demands certain conditions and activities in this regard as indicated by Table 6.56

Table 6.56 Physical control activities

Condition required	Activities
Apply physical control to secure and safeguard vulnerable assets.	• Develop, implement and communicate physical safeguarding policies and procedures. • Develop a disaster recovery plan, which is regularly updated and communicated to employees. • Develop a plan for the identification and protection of any critical infrastructure assets. • Control assets that are particularly vulnerable to loss, theft, damage, or unauthorized use, such as cash, securities, supplies, inventories and equipment. • Reconcile physical verification data with data records. • Sequentially pre-number, physically secure and control access to forms such as blank cheques

Table 6.56 Physical control activities

Condition required	Activities
	and purchase orders.
	• Protect mechanical cheque signers and signature plates and strictly control access to them.
	• Securely fasten or protect in some or other manner any equipment vulnerable to theft.
	• Affix identification plates and numbers to office furniture and fixtures, equipment and other portable assets.
	• Store inventories, supplies and goods in physically secured areas and protect from damage.
	• Protect facilities from fire by fire alarms and sprinkler systems.
	• Control access to premises and facilities by fences, guards and/or other physical controls.
	• Restrict and control access to facilities during non-working hours.

The IFGF demands that transactions and events is appropriately classified and promptly recorded so that they maintain their relevance, value and usefulness to management in controlling operations and making decisions. The controls must ensure that proper classification and recording take place throughout the entire life cycle of each transaction or event, including authorization, initiation, processing and entry into summary records. This includes having appropriate codes, specific formats of information on original documents (hardcopy paper or electronic) and summary records from which reports and statements must be prepared. The controls must be developed in such a manner that excessive adjustments to numbers or account classifications are not necessary before finalization of financial reports. Table 6.57 indicates the condition and activities required by the IFGF in this regard.

Table 6.57 Recording transactions and events

Condition required	Activities
Properly classify and/or promptly record transactions and other significant events.	• Appropriately classify and promptly record transactions and events so that they maintain their relevance, value and usefulness to management in controlling operations and making decisions. • Ensure proper classification and recording take place throughout the entire life cycle of each transaction or event, including authorization, initiation, processing and final classification in summary records. • Include appropriate departmental information on original documents (hardcopy paper or electronic) and summary records from which reports and statements are prepared. • Avoid and investigate excessive adjustments to numbers or account classifications prior to finalization of financial reports. • Ensure segregation of duties and that no single person is responsible for completing a transaction or event from beginning to end.

There are two broad groupings of information systems control, namely general control and application control. General control includes the structure, policies and procedures that apply to the overall computer operations deployed by the public sector. It applies to all information systems, i.e. mainframes, minicomputer, network and end-user environments. General control creates the environment in which application systems operate. There are six major factors or categories of control activities that need to be considered by the user when evaluating general control: entity-wide security management programme; access control, application software development and change; system software control; application control; segregation of

duties; and service continuity. Sustainable governance requires a well documented plan that clearly describes the entity-wide security programme, policies and procedures that support it. This includes the structure to implement and manage the security programme and security responsibilities must be clearly defined.

Governance in the public sector can be severely impacted on by the use of information technology. Therefore it is critical to perform periodic comprehensive, high-level assessment of risks to its information systems. These assessments must be documented and regularly updated, and whenever systems, facilities, or other conditions change. Determining data sensitivity and integrity is critical in the governance system.

The IFGF facilitates the burden of identifying and selecting the most appropriate control in a given situation without suppressing individual expertise within management when they apply these controls. Table 6.58 provides the requirements in this regard.

Table 6.58 Entity-wide security management programme

Condition required	Activities
Develop security management programme and monitor the effectiveness, and make changes as needed.	• Periodically assesses the appropriateness of security policies and compliance with them • Implement promptly and effectively corrective actions that are needed and tested. • Establish and communicate resource classifications and related criteria to resource owners. • Resource owners classify their information resources based on the approved criteria and with regard to risk determinations and assessments, and have documented those

Table 6.58 Entity-wide security management programme

Condition required	Activities
	classifications.
	• Establish and monitor access control.
	• Establish controls to prevent and monitor software changes.
	• Monitor access to sensitive data and reconcile with records of permissions granted.
	• Investigate unauthorised access attempts and act appropriately and timeously.
	• Ensure adequate back-up systems.
	• Develop a contingency plan and test its adequacy at regular intervals.

The following subsection focuses on governance-related control activities regarding the effective and efficient use of resources.

6.5.6 Effective and efficient use of resources

In effective governance systems another group of control activities has been developed to ensure management has a system in place to measure the effective and efficient use of resources and that activities performed can be quantified to determine the effective and efficient use of resources. These controls are based on comparing the relationships between cost of resources, output and outcomes. The comparison between the estimated costs and actual costs will provide management with the required information to determine if resources were applied effectively and efficiently. Table 6.59 indicates the conditions and activities required by the IFGF in this regard.

Table 6.59 Effective and efficient use of resources

Condition required	Activities
Ensure that resources are used effectively and efficiently.	• Develop measuring criteria to determine the effective and efficient use of resources. • Compare estimations with actual costs at regular intervals. • Develop mechanisms to trigger exceptions reports when resources are not applied as planned. • Implement changes to rectify processes when resources are not used optimally.

Table in the above section focused on control activities. The following section focuses on the governance-related activities regarding monitoring.

6.6 Monitoring

Monitoring is the final group of governance-related activities incorporated into the IFGF. As indicted by Curtis (1999:264), any enterprise would benefit by clarifying goals and monitoring progress. Monitoring, when planned adequately, ensures that the quality of performance is assessed over time and that the findings of audits and other reviews are promptly addressed. This section in the IFGF (see diagram 6.6) enables management to consider the degree to which the continued effectiveness of internal control is monitored by focussing on ongoing monitoring activities and on separate evaluations of the internal control system.
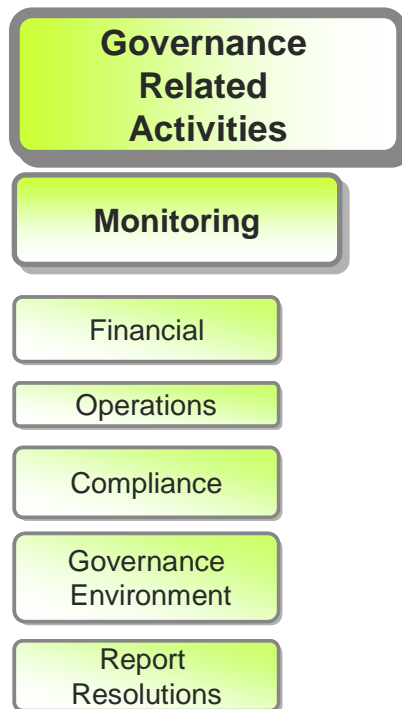
Diagram 6.6 Monitoring

Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations and other actions taken by people when performing their duties. It includes ensuring that managers and supervisors know their responsibilities for internal control and the need to monitor the effectiveness of controls as part of their regular operating processes.

The IFGF demands management's attention to separate evaluations as a way to take a fresh look at internal control by focusing directly on the effectiveness of controls at a specific moment in time. These evaluations may take the form of self-assessments, review of control design and direct testing. In addition, monitoring includes implementing policies and procedures for ensuring that the findings and recommendations of any audit or review are brought to the attention of management and are resolved promptly.

It enables and reminds managers to consider the appropriateness of the department's internal control and the degree to which it helps them accomplish their objectives. The following paragraphs will provide guidance on the monitoring activities that the IFGF requires management to consider with respect to monitoring of financial statements; monitoring of key operations; monitoring of compliance; monitoring of governance environment; and monitoring the implementation of report resolutions.

6.6.1 Monitoring financial statements

In healthy governance systems management compare operational information obtained in the course of their daily activities to system-generated information and follows up on any inaccuracies or other problems that might be found. Therefore the IFGF requires them to sign-off on the accuracy of their units' financial statements and they are held accountable if errors are discovered. This responsibility must be broadened to include the sign off on operational results.

The monitoring section of the governance activities in the IFGF provides supervision over internal control functions regarding the finances, and enhances financial controls with implementing automated edits and checks that can assist to ensure accuracy, completeness and validity of transaction processing. Oversight is provided by an independent internal and external audit functions and can provide critical oversight to stakeholders.

The approach in the IFGF requires that periodic reconciliations be performed between data recorded by information and financial systems with physical assets and progress results; this is an important element in the supervision

process. Custodial accountability for assets, resources and services delivery must be assigned to responsible individuals. Relevant issues, information and feedback concerning financial control arising from training seminars, planning sessions, and other meetings must be captured and used by management to address problems or strengthen the internal control structure. Employee participation to improve the financial control system must be encouraged. Table 6.60 provides the condition and relevant activities required by the IFGF in this regard.

Table 6.60 Financial monitoring

Condition required	**Activities**
Develop mechanisms to monitor the recording of data in the financial systems and to ensure that reconciliations between data recorded by the financial systems agree with physical assets.	• Periodically check inventories, levels of materials, supplies and other assets. • Correct differences between recorded and actual amounts. • Resolve the reasons for the discrepancies in inventory levels. • Assign custodial accountability for assets and resources to responsible individuals. • Develop mechanisms to ensure that data are recorded correctly and timeously. • Apply automated edits and checks as well as clerical activities to help control accuracy and completeness of transaction processing. • Apply separation of duties and responsibilities to deter fraud.

Financial monitoring must be supplemented by operational monitoring.
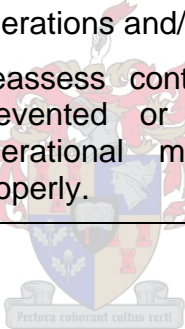
6.6.2 Monitoring operations

Ongoing monitoring is a crucial part of the governance activities in the public sector. In principle the IFGF requires the public sector to implement a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations where problems are identified or systems are critically important and hence testing is periodically desirable. It is further based on the principle that monitoring is exercised over activities that are critical to the achievement of objectives and includes a monitoring strategy that provides routine feedback on performance and control objectives.

Therefore the monitoring strategy must include methods to emphasize to programme and operational managers that they have a responsibility for internal control and must monitor the effectiveness of control activities as a part of their regular duties. This includes the identification of critical operational and mission support systems that need special review and evaluation. Feedback to personnel on the effectiveness of control activities is crucial if the public sector wants to improve governance. The requirements of the IFGF in this regard are indicated in Table 6.61.

Table 6.61 Monitoring operations

Condition required	Activities
Develop monitoring processes to obtain information about whether internal control is functioning properly.	• Integrated and reconcile operational reports with the financial and budgetary reporting system data. • Use operational reports to manage operations on an ongoing basis. • Ensure monitoring mechanisms exist that inform management of inaccuracies or exceptions that could indicate internal control problems.

	• Compare service delivery results, and/or other operating information obtained in the course of its daily activities to system-generated information.
	• Follow up on any inaccuracies or other problems that might be found during the comparison of operating information.
	• Units must sign-off on the accuracy of their financial statements.
	• Hold personnel accountable if errors are discovered.
	• Use communications from vendors and monthly statements of accounts payable as control monitoring techniques.
	• Investigate supplier complaints about any unfair practices by departmental purchasing agents.
	• Ensure information flows seamlessly between Cabinet and oversight groups regarding operations and/or other matters.
	• Reassess control activities that should have prevented or detected any problems with operational matters, but did not function properly.

Operating reports must be integrated or reconciled with financial and budgetary reporting system data and used to manage operations on an ongoing basis, and management should be made aware of inaccuracies or exceptions that could indicate internal control problems. The next subsection focuses on monitoring compliance.

6.6.3 Monitoring compliance

Monitoring compliance is a key activity in a governance system. The public sector, with its legacy of operating through command and control established by legislation, has accumulated a large number of acts with which to comply.

The IFGF enables management to develop objectives and implement relevant strategies to achieve these objectives and at the same time keep track of the relevant regulations. However, this requires monitoring mechanisms that focus on compliance issues. Table 6.62 indicates the requirements of the IFGF in this regard.

Table 6.62 Monitoring compliance

Condition required	Activities
Ensure that controls regarding compliance are effective and operating as planned.	• Capture the relevant issues, information and feedback concerning internal control raised at training seminars, planning sessions and other meetings. • Improve compliance controls by designing monitoring mechanisms that limit the number of controls required. • Act appropriately concerning employee suggestions on internal control. • Allow and encourage the participation of employees to identify internal control weaknesses. • Report identified control weaknesses to the next supervisory level.

6.6.4 Monitoring governance

The IFGF ensures that governance can be improved by developing monitoring mechanisms that ensure that employees are regularly asked to state explicitly whether they comply with the code of conduct or similar pronouncements of expected employee behaviour. In this regard signatures are required to evince performance of critical internal control functions, such as reconciliations.

The scope and frequency of separate evaluations of internal control required by the IFGF enhance the governance system and are critical to sustain financial governance in the public sector. However, the IFGF requires that separate evaluations must be done by personnel with the required skills, using a logical and appropriate methodology.

The magnitude of government's activities requires a coordinated evaluation strategy by all the internal and external assurance providers. Evaluation teams must gain sufficient understanding of government's missions, goals and objectives, and its operations and activities.

Therefore the IFGF demands that the evaluation processes are properly documented and sufficient resources are provided to perform evaluations. Deficiencies found during separate evaluations must be promptly resolved. Table 6.63 indicates the condition and activities required by the IFGF in this regard.

Table 6.63 Monitoring governance

Condition required	Activities
Develop mechanism to ensure values are preserved and communicated through the organization.	• Ensure personnel periodically acknowledge compliance with the code of conduct. • Signatures are required to evince performance of critical internal control functions, such as reconciliations. • Use methodologies such as self-assessments, checklists, questionnaires, or other tools. • Perform separate evaluations of the units control design – mechanisms. • Use computer-assisted audit techniques to identify indicators of inefficiencies, waste, or abuse in departments where large amounts of data are processed by the information and/or

Table 6.63 Monitoring governance

| Condition required	Activities
	financial systems.
	• Ensure the evaluation team develops a plan for the evaluation process to ensure a coordinated effort.
	• Ensure the evaluation process is conducted by department employees, and that it is managed by an executive with the requisite authority, capability and experience.
	• Ensure the evaluation team gains a sufficient understanding of the department's missions, goals and objectives, and its operations and activities.
	• Ensure the evaluation team gains an understanding of how the department's internal control is supposed to work and how it actually does work.
	• Ensure the evaluation team analyzes the results of the evaluation against established criteria.
	• Ensure the evaluation process is properly documented.
	• Ensure consideration is given to the risk-assessment results and the effectiveness of ongoing monitoring when determining the scope and frequency of separate evaluations.
	• Ensure separate evaluations are often carried out after events such as major changes in management plans or strategies, major expansion or downsizing of the department, or significant changes in operations or processing of financial or budgetary information.
	• Ensure appropriate portions or sections of internal control are evaluated regularly.

The following subsection will provide a closer analysis of monitoring report resolutions.

6.6.5 Report resolutions

Audit resolution includes the resolution of findings and recommendations not just from formal audits, but also resulting from informal reviews, separate internal evaluations, management studies and assessments made pursuant to the requirements of the PFMA.

Mechanisms to ensure the prompt resolution of findings from audits and other reviews play a central role in governance quality in the public sector. This requires the prompt review and evaluation of findings resulting from audits and other reviews, including those showing deficiencies and those identifying opportunities for improvements. Corrective action must be taken and improvements must be made within established timeframes to resolve the matters brought to attention. In cases where there is disagreement with the findings or recommendations, management demonstrates that those findings or recommendations are either invalid or do not warrant action.
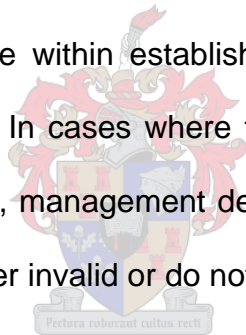
Management must consider consultations with auditors (such as AG, the internal audit, and other external auditors) and reviewers when they are believed to be helpful in the audit resolution process. They should respond promptly to the findings and recommendations of audits and other reviews aimed at strengthening internal control. Executives with the proper authority must evaluate the findings and recommendations and decide upon the appropriate actions to take to correct or improve control. Implementation of improvements must be verified.

Top management must be kept informed through periodic reports on the status of audit and review resolution, so that they can ensure the quality and timeliness of individual resolution decisions.

An audit methodology was developed during 2000 to 2003 by the Internal Audit Directorate of the Provincial Government Western Cape. Unfortunately it was never formally adopted for various reasons, of which one was the absence of clear strategic direction from the leaders in the Province, who failed to value the use of independent assurance provided by an independent internal audit function, and another was, most probably, because of the personal preferences of the leaders. The condition and activities required by the IFGF are indicated in Table 6.64.

Table 6.64 Report resolutions

| Condition required	Activities
Ensure that separate evaluations are regularly performed and that agreed recommendations are implemented.	• Ensure executives with the proper authority evaluate the findings and recommendations • Ensure executives decide upon the appropriate actions to take to correct or improve control. • Ensure managers promptly review and evaluate findings resulting from audits, and other reviews, including those showing deficiencies and those identifying opportunities for improvements. • Ensure management determines the proper actions to take in response to findings and recommendations. • Ensure corrective action is taken or improvements made within established time frames to resolve the matters brought to management's attention. • Ensure that in cases where there is disagreement with the findings or recommendations, management demonstrate that those findings or recommendations are

Table 6.64 Report resolutions

Condition required	Activities
	either invalid or do not warrant action.
	• Ensure management consider consultations with auditors (such as AG, the internal audit and other external auditors) and reviewers, when they are believed to be helpful in the audit resolution process.
	• Ensure that desired internal control actions are followed up to verify implementation.
	• Ensure the audit resolution includes the resolution of findings and recommendations not just from formal audits, but also resulting from informal reviews, separate internal evaluations, management studies and assessments made pursuant to the requirements of and the Public Finance Management Act (PFMA) of 1999.
	• Ensure problems with particular transactions or events are corrected promptly.
	• Ensure that the underlying causes giving rise to the findings or recommendations are investigated by management.
	• Ensure actions are decided upon to correct the situation or take advantage of the opportunity for improvements.
	• Ensure management and auditors follow up on audit and review findings, recommendations and the actions decided upon.
	• Keep management informed through periodic reports on the status of recommendations so that they can ensure the implementation, quality and timeliness of individual resolution decisions.

6.7   Deduction

This chapter focussed on the governance-related activities required by the IFGF to implement sustainable governance in the public sector. These activities were grouped into five areas. Performing these activities will ensure

that governance in the public sector meets the requirements of existing global practices in this regard. The next chapter focuses on the conclusions of these governance outcomes.
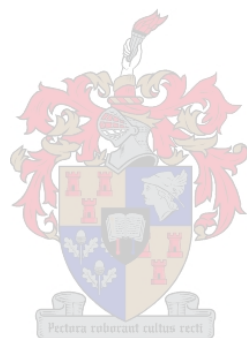
Chapter 7   Further interpretation of the IFGF outcomes

7.1   Introduction

Chapter One discussed, the research problem, the purpose of the dissertation and the methodology used to provide a solution were. This was followed by a discussion in Chapter Two that placed the governance debate within a specific perspective by focussing on the background for the development of the IFGF. In Chapter Three the governance debate was contextualised by focussing on the South African context. This then formed the basis for the developing the three main components of the IFGF: respectively, the IFGF Values in Chapter Four, the Functional Application Areas in Chapter Five and the Governance-Related Activities in Chapter Six. Whilst Chapters Four and Five followed a deductive approach, Chapter Six adopted an inductive process to provide the conditions and the related activities required by the IFGF.
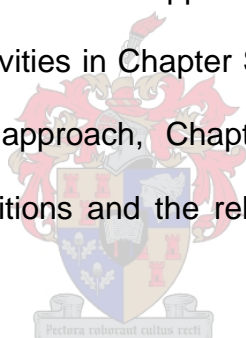
This chapter presents the conclusions regarding the IFGF outcomes and therefore focuses on the implementation of the IFGF and the impact on the accounting system, measuring governance and remaining updated with developments internally and externally. The chapter ends with a final summary.

7.2   Implementing an IFGF

Although there are more than enough issues that have an impact on implementing governance practices in the public sector, certain of them are more specifically relevant within the South African context. Implementing the

IFGF requires the implementation of the activities reflected in Chapter Six. However, this will have an impact on current processes and practices, the first being moving from a *command and control* approach towards a *management by accountability* approach.

Government has for many years functioned as a command and control environment. The possible reasons that may exist for this situation have not been the focus of this research, but during this research it became apparent that the view globally is that this manner of management has become outdated.

Jones (1999:66) describes the command and control culture in government as "the last bastion of command and control workplaces"; it fosters a mentality based on "leaving your brains at the door", encourages a work environment based on compliance, and stifles staff talent, participation, involvement, devolution, empowerment, team work and responsibility for decision making. The end result of this bureaucratic, divisionalised, and hierarchical mindset has been the perpetuation of a system which has become notorious for being self-serving, inefficient, ineffective and non-responsive. Cheng (2000:11 as sited by Kok 2002:120) has a similar view: "As a society becomes more dynamic, volatile and complex, the conventional notion of government in terms of using force, taking command and imposing order, regulation and control is rendered inappropriate."

Robillard (2003:6) noted that there has been a great deal of discussion over the last decade on the need to move away from the rigid command and control structures of the past. This means adopting flexible regimes and doing

a better job at balancing innovation with control and accountability .the author emphasizes that a shift is both desirable and, in some respects, inevitable. Clearly the public sector cannot approach twenty-first century problems with outdated and cumbersome structures.

Having a more empowered and values-based approach does not mean abandoning rules and regulations. Focusing on values is not inconsistent with having a large suite of rules and policies. In fact, it is quite the contrary. However, before moving towards a value-based approach, the public sector needs to establish the parameters for responsible decision-making and ensure that people have the right tools, including knowledge to do so. Even in the most flexible and ethical of workplaces, you need to have certain key touchstones to direct people. There must be a small number of key policies and regulations to provide a common and clear understanding of what is and is not appropriate. This requires balancing a command and control strategy with a value-based approach, because after all the public sector must have realized that stringent command and controls do not ensure that nothing goes wrong and that with the growing number of acts, regulations and prescriptions, it becomes that much more difficult to keep track of what is applicable in specific circumstances.

As stated by Mackay (1999:128), "Some talk about accountability in two ways. One, that if we think about accountability in the old way of command, control and hierarchical organization, then we use it to appoint blame and to punish those who have done wrong. But when one thinks that being held accountable means being held at risk for blame, one's learning system shuts down. Another emerging approach uses the concept of partnership or shared

accountability, which is based more on a learning organization environment, and focuses on trying to open up learning opportunities, and seeing learning as an insurance so that if something goes wrong you can say, 'Here's what we learned from it'".

It is a crucial transition to make, albeit a difficult one, from appointing blame and punishment towards shared accountability that fosters a learning culture. In healthy governance systems where an ethical culture exists that is based on acceptable values and principles, it would be the logical next step to move away from a command and control culture. In unhealthy governance systems, where values and principles do not form the basis of governance, the trend might be to exercise a command and control management style.

7.3   The accounting system

One of the problems the public sector faces in South Africa is an accounting system that is based on a budget cycle that does not necessarily correspond with the service delivery cycle. This is compounded by the fact that up to 1999 public sector finances were recorded on a cash accounting basis, which resulted in assets acquired being written off in the same budget year, poor investments in maintaining existing infrastructure and poor recovery of outstanding debt. The result is that records of government property have become unreliable and that a complete asset register for the public sector does not exist. With the acceptance of the PFMA (1999) in 2000, a decision was made to implement the new act over a four-year period. The PFMA prescribes an accrual accounting system. Full compliance in this regards has not been achieved to date (2005).

Governance in government is moving closer to what is normally required and expected from the private sector and a growing number of similarities can be noticed and therefore implementing an IFGF can accelerate this process. However, this will have an impact on the existing planning cycle.

The planning cycle in the public sector is most of the time related to the election cycle. The most obvious reason for this is that after elections changes are made in Parliament and the Cabinet, and often the Heads of Departments are replaced. With these replacements previous objectives are replaced with new ones, resulting in what can be called the limited lifecycle of objectives. Governance quality is therefore affected negatively. During this time projects are often cancelled at critical stages because the new "appointed replacement" does not share the same vision as his or her predecessor. For those employed in government it is obvious that shortly before and after elections an attitude of uncertainty prevails, causing employees to be slow in making decisions and taking responsibility.

Planning cycles should be based the service delivery objectives and the effect of changes caused by the election cycle must be limited. Government must develop governance systems that can provide assurance to stakeholders that objectives planned will be safeguarded against unnecessary changes during the election cycle. Such assurance will increase sustainability of services and increase stakeholder confidence in government. Implementing the IFGF enhances the process of providing assurance to stakeholders, ensuring that objectives are achieved even beyond the election cycle and that infrastructure will be maintained on an ongoing basis, even if that means extending plans

over more than one consecutive financial period. The process will, however, impact on existing management processes.

Management processes are also in the firing line during the election cycle; many appointments are made based on political decisions rather than the competencies of people.   This often places authority and management responsibility in the hands of persons ill qualified and lacking experience regarding the core objectives of government departments. When these appointments result in service delivery failures, the same persons are often moved to another Department, with similar effect. It is apparent that, where appointments are made based on qualifications and experience, service delivery is sustained and improved.   Implementing the IFGF will enhance exercising accountability when people fail to deliver services according to well developed performance indicators and will convey to the stakeholders that service delivery is a priority and that officials are held accountable accordingly. It is therefore understandable that existing control processes will be impacted on.

In a command and control environment controls are normally not developed and linked to objectives. Most often controls are designed to control employees rather than to ensure that objectives can be achieved. Existing controls are often designed in previous years, when different objectives were set, but are still in operation even though the objectives have changed and in some instances changed even radically.

Control processes must be linked to specific objectives. When objectives change the obvious next step must be to review the existing control

processes and change them, if necessary. A similar situation exists with employees. People employed with skills based on previous objectives are tasked with activities relating to new objectives, even though they lack the skills and experiences. Having a training programme looks excellent on paper, but the reality is that resources in government are limited and this includes human resources and financial resources to continue training employees. The data suggest that the five-year electoral cycle and the accompanying changes play a major role in this situation. In both these situations the implementation of the IFGF provides the opportunity and the means for the public sector to keep control processes aligned with existing objectives and to ensure that employees are timely trained to meet the requirements of new objectives.

Financial governance in the public sector is determined by how well the planning processes have been performed and therefore implementing an integrated approach as suggested in the IFGF enhances planning. This starts with determining long-term objectives and then selecting the activities required on a yearly basis to achieve these objectives over the determined time period. In its basic form it means having objectives that are broken down into the different activities that must be performed to achieve the objectives. The dependencies between objectives must be determined to ensure that processes to achieve objectives can proceed seamlessly from one year to the next. This highlights the importance of giving thorough consideration to each activity that is required to achieve an objective. After all, it is when the activities are performed that resources are consumed. At the same time the manner in which they are performed determines the effectiveness, efficiency

and the ethical environment, all of which culminate in projecting a typical corporate identity. By nature long-term objectives in the public sector require a vast number of activities to be performed over a period of time.

Activities can seldom be constricted to the financial year-end as their start dates and end dates very often extend over two or more years. The IFGF provides four different plans (see diagram 7.1) that supplement each other to determine the most effective and efficient way to start and end activities.

Plan	Period covered
Strategic Plan	**> 5years**
Medium-Term Plan	**3 – 5 years**
Annual Business Plan	**1 – 2 years**
Operational plan	Current year plus 1

Diagram 7.1. Strategic planning and its relevant periods.

These plans are progressively evolving in nature and each plan is dependent on the achievement of objectives contained in the preceding plan. This means that for each year in a five-year cycle, details contained in the Operational Plan for the current year and the following year could be continued in the second year, and so on. The current year's activities will pave the way for the activities required in the following years' that will ultimately result in the achievement of objectives in the strategic plan. The principle is not to move the detail in the strategic plan forward, but to plan and to execute the plan in such a manner that objectives contained in the strategic plan will be achieved successfully over the planned period.

The IFGF will enable the public sector planning to plan well ahead and even exceeding the five-year election cycle. Due to the lack of having sufficient planning processes, the public sector very often finds itself struggling to achieve objectives in the fifth year that should have been completed according the plans during year one of the planning cycle.

Adequate planning processes (see diagram 7.2) ensure that progress made is monitored regularly. This means achieving the planned objectives in the preceding years as indicated in the relevant plans. However, without a mechanism to plan the performance of activities, good governance will remain beyond reach. The following matrix provides an example of how each activity can be planned to ensure effectiveness, efficiency and an ethical environment.

Operational Plan Level 4 - Level System of Control							
Controls ACT 1		Organisational Structure	Control Environment	ERM	Information & Communication	Control Activities	Monitoring
Output Require	Quantity / per time frame / resource						
Business Process	Process 1						
	Process 1						
Policy & Procedure	Policy 1						
	Policy 2						
Reporting Relationship	Report 1						
	Report 2						
Standards Of Behaviour	Standard 1						
	Standard 2						
Organisational Structure	Structure						
Other Resource	Detail						
Budget Cost Detail	Detail						
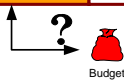
Budget

Diagram 7.2 Example of an adequate planning process

It is only once this planning phase has been completed that a realistic assessment can be made, if the objectives reflected in the different plans are to be achieved within the budget constraints. The planning process facilitates the consideration of alternatives such as moving an objective to the next year, or developing other activities, or revaluating the risk tolerance employed in

the public sector. This process of planning in the IFGF provides the basis of costing activities as well as the accompanied internal control measures implemented.

The governance universe provides (see diagram 3.5) a comprehensive and overall view to all the critical activities. It improves decision making processes and reduces guesswork, provides a mechanism to answer questions during the planning process and a mechanism to provide detail to the level of assurance that objectives at any given moment are achievable or not. Those assigned the responsibility to manage are thereby enabled to take appropriate action on any level and to evaluate the impact of such action on the total process. It also provides the capability to pre-empt any risks that could occur as the result of changes or the failure of activities as a direct result of errors in planning. The following diagram 7.3 on the next page provides a simple guide to of the IFGF.
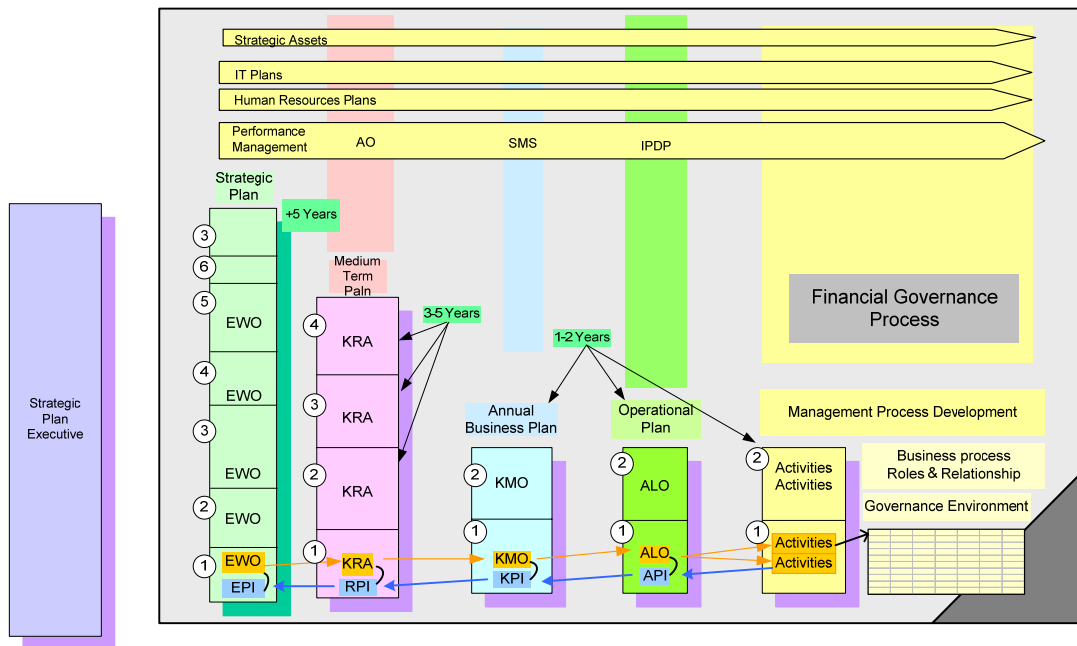
Diagram 7.3 High level overview of the IFGF process

It provides a global view of how the processes flow and feed into each other; it is apparent from this view that inter-dependencies exist that are critical for achieving governance excellence. Performing these activities in isolation will be detrimental to any process that strives towards excellence.

7.4 Measuring governance

Implementing the IFGF will have an impact on how the public sector develops measuring indicators. It enables the public sector to implement measuring indicators that are applicable to its particular circumstances. The IFGF ensures that measurements are linked to one another and in this study it is proposed that the measurements take place on at least four levels (see diagram 7.5).

The first level of measurement takes place on the operational / process side and requires developing measurable indicators and performance indicators for the objectives contained in the different plans. The following diagram (diagram 7.4 – previously discussed – see section 5.92) shows how these measurements relate to each other.

Plan	Measurable Objective	Performance Indicator
Strategic Plan	**EWO** (Entity-Wide Objective)	**EPI** (Entity Performance Indicator)
MTP	**KRA** (Key Result Area)	**RPI** (Result Performance Indicator)
Annual Business Plan	**KMO** (Key Measurable Objective)	**KPI** (Key Performance Indicator)
Operational Plan	**ALO** (Activity-Level Objective)	**API** (Activity Performance Indicator)

Diagram 7.4 Measurable objectives and performance indicators

With this approach it is possible to track progress made in respect of specific objectives in the different years. However, it is necessary to link the measurable objectives and performance indicators with the second level of measurements, i.e. budget expressing in financial terms the allocation between cost of inputs, resources and strategic assets required to deliver services.

Implementing the IFGF will produce strategic objectives that are linked to the budget and by linking financial measurements and performance measurements to objectives will greatly improve the process of determining progress made. It will enable the alignment of the reporting and monitoring function with strategic objectives and will contribute towards eliminating lengthy financial reports that are normally of limited use.

A third level of measurement proposed in the IFGF is a utility measurement consisting of the well-known efficiency and effectiveness measurements. The use of these measurements has a specific meaning in the IFGF and must be clarified.

In the IFGF efficiency measures the level of wastefulness in the application of inputs (resources, etc.) to deliver specific outputs. Thus, it raises the question of wastefulness, such as how much of the inputs and resources applied (time effort and money) contributed towards generating outputs and how much did not. This is normally expressed in a relationship between calculation of financial cost and output, i.e. R/output. The benefits of linking these calculations with measurable indicators are apparent, especially if they could be compared with original plans.

Effectiveness in the IFGF measures the impact of an *output* to provide the best possible *outcomes* as a stepping stone to achieving predetermined objectives. Thus, it raises a question on how useable is the output to produce required outcomes. This normally requires measuring the changes that occurred as a result of the outputs and is not limited to financial expressions.

The IFGF regards efficacy as measuring the value that outcomes have in achieving predetermined objectives. This will require measuring the changes that occurred as a result of the efforts made and to determine whether the strategy developed produced the required result, or if alternative options must be considered. It measures a programme in terms of its ability to acquire inputs, process the inputs, and channel the outputs for maximum external effect and include the related costs.

Economic measurements are also applied in IFGF to enhance financial governance in the public sector. Apart from the normal financial expressions of cost calculated on various resources and other direct and indirect costs, it specifically suggests how cost/efficiency and cost/effectiveness are to be understood.

Cost efficiency expresses the efficiency in financial terms compared to that of other options available and/or previous results, demonstrating possible improvements that can be made. It is also useful to detect negative trends that would normally pass undetected and can draw the attention to new developments elsewhere that reflect a better ratio. Cost efficiency is primarily concerned with the relationship between *inputs* and *outputs*.

Cost effectiveness expresses the effectiveness in financial terms compared to that of other options available and/or previous results, demonstrating possible improvements that can be made. It is also useful to detect negative trends that would normally pass undetected and can draw the attention to new developments elsewhere that reflect a better ratio. Cost effectiveness is primarily concerned with the relationship between *inputs* and *outcomes*.

Economically use of resources measures the relationship between cost of resources to produce outputs (*cost efficiency*) and the relationship between cost resources of outputs to produce outcomes (*cost effectiveness*). The sum of these two costs (*cost efficiency and cost effectiveness*) can indicate the *economical use* of resources in producing the total outcomes required to achieve objectives. To be *cost efficient* means eliminating all waste when applying resources to achieve outputs, while to be *cost effective* means only investing in resources that provide outputs that can maximise the potential of outcomes. Therefore being economical means minimising waste and maximising outcomes in achieving objectives.

The diagram 7.5 reflects the four measurements and the relationships between them.
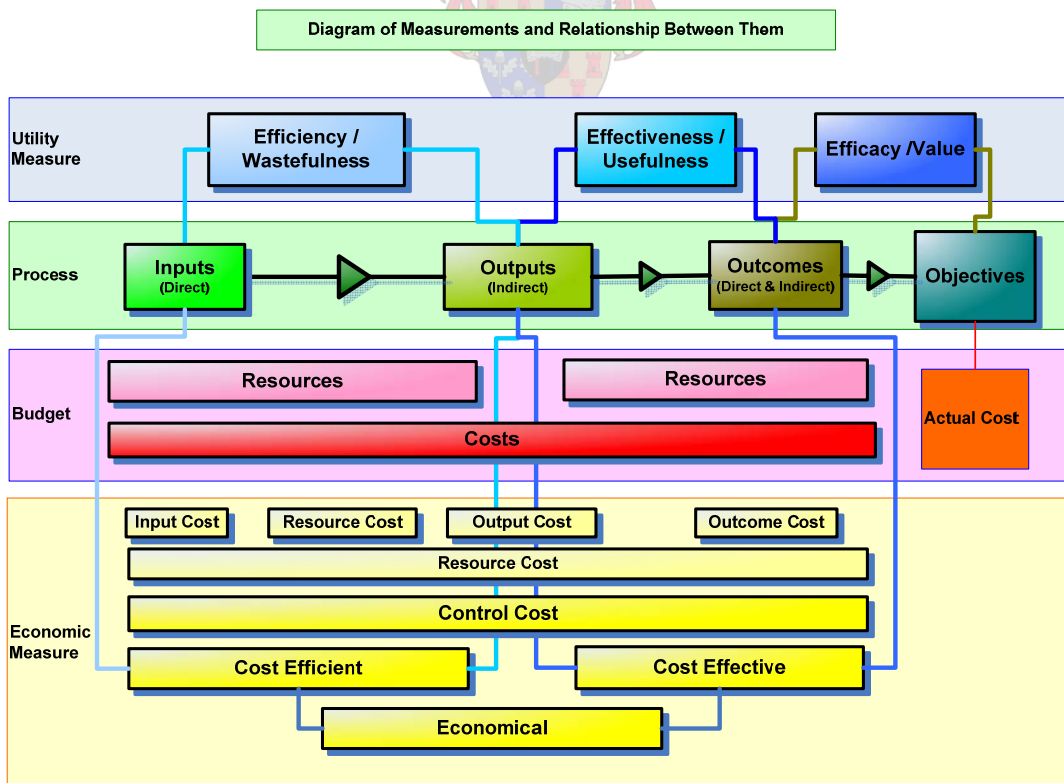

Diagram 7.5 Measurements in the IFGF

Having these measurements in place will improve accountability, ensure that resources are used effectively and economically, and will enable the public sector to evaluate possibilities to ensure that the best option is selected in all instances. The measurements improve the evaluation of different programs as well as the policies, process and resources chosen to execute them. It enables making timely changes when indicators reflect unacceptable results and improves the means to hold employees accountable for their actions.

## 7.5   Keeping pace with change

As indicated in the first chapter, governance has been a growing concern for the past decade and will continue to be so in the years to come. Therefore, efforts to implement IFGF must be sustainable by including processes that ensure the Framework is continually updated with respect to global developments and specific developments within the public sector.

Implementing the IFGF ensures that the integrated approach can be updated with internal developments based on changes in objectives, potential risks and recommendations as a result of other investigations. Reports received from separate evaluations such as risk assessment and internal audit must be reviewed to identify possible financial governance-related issues and making improvements to the IFGF.

Implementing the IFGF enables the public sector to adjust to internal changes proactively. This ensures that the implementation of public sector governance is an ongoing process and provides a mechanism for developing and implementing prescriptions, and assesses if recommendations are meeting

the demands of public sector governance. However, the public sector is also subjected to external changes.

As already indicated, the development of corporate governance has received growing attention only over the past decade. The public sector must align its governance practices with these developments. Implementing the IFGF enables the public sector to regularly update governance practices with changes that occur outside the government environment. It ensures that the latest developments occurring outside the government sector are considered for incorporation, thereby causing the IFGF to continually be aligned with applicable governance developments globally.
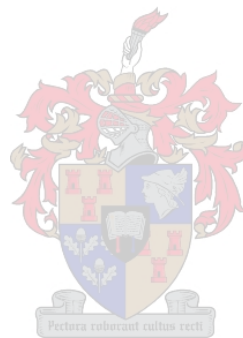
Chapter 8   Final Summary

In summary, it is apparent that developing economies and emerging economies of young democracies pose great challenges to those elected to take charge of the public sector. The demands of public sector governance are well documented and it is clear that the public sector faces similar governance challenges to those of the private sector, although the opportunities available to implement healthy governance practices and the motivations are far from being the same.

The IFGF has been developed on the basis of research that focused on developments in the private and the public sector. It consists of the better parts of the two worlds, allowing both the private sector and the public sector to share a similar understanding of governance practices. This is done by establishing a governance universe that combines the functional application areas, principles and values with governance-related activities. The governance universe facilitates the process of keeping track of a multitude of possibilities that are relevant in day-to-day management.

The study shows the growing importance for developing countries and emerging economies to demonstrate healthy governance processes and practices. Although no consensus yet exists on approach or methodology, particularly with regard to building national ownership of and political commitment to governance, the results of this dissertation provide an integrated point of departure. Similar existing initiatives from a number of countries (albeit focussed differently) can be better aligned with the IFGF for South Africa in particular. The results can also be used as a guideline for

similar developments in other emerging democracies. The study determined the applicable criteria that an IFGF must satisfy to attract attention when funding is required from the donor community and to provide assurance to stakeholders with limited skills and knowledge that objectives are achieved effectively and efficiently in an ethical environment.

The benefit of this framework is that it has passed the first scrutiny of Provincial Treasury (PGWC) public sector audit committees in the public sector (PGWC) and is currently being subjected to a four-year implementation process, starting with an awareness phase in all Departments of the PGWC. During this process the senior management of all the departments are being exposed to the principles contained in the IFGF and their practical observations and suggestions will be applied towards formulating an updated version of the Governance Framework of PGWC (Draft version 2.20e). This is significant, because it represents a healthy interaction between academic research and practical application, a process that is more often than not balanced, but appears to be in favour of either the one or the other.

The content here represents many disciplines, which are specialist areas on their own. Although this study is very much aware that experts in these areas might feel that their applicable area was not represented to the fullest, it still maintains that future research in any of these specialist disciplines can only benefit from the fact that this IFGF places the different disciplines into relationship with each other regarding their mutual contribution towards public sector governance.

Therefore future research has the advantage of considering a framework that is busy finding its way within the public sector and that provides a comprehensive and inclusive approach rather than a narrow single-focused approach. It can be expected that this IFGF has paved the way for future integrated processes and research on governance improvement within the public sector of a young emerging democracy determined to provide services that can be compared with the best on the globe.

The study did not attempt to review all the processes that exist in the public sector, but tried to add value by looking at the sector from a governance perspective and to contribute towards improving public sector governance. It can therefore be expected that, as the public sector proceed to improve their governance, it will discover valuable existing practices that ended up between the cracks along the way.

The IFGF provides an integrated financial approach that allows the public sector to proceed with the development and implementation of healthy governance practices, limiting the risk of losing focus on other alternatives that will materialise as progress is made towards achieving objective effectively and efficiently in an ethical environment. Lastly, it would enable the public sector to increasingly assure stakeholders that activities are being conducted in a healthy ethical environment and that actions to the contrary are unacceptable and subject to swift corrective measures.

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