



Gallant efforts made in implementing management accounting principles in the public sector, but ...

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The Public Finance Management Act No. 1 of 1999 as amended by Act No. 29 of 1999, the Public Service Regulations and the new Draft National Treasury Instructions, attempt to place the South African public sector in the same arena in which other leading global role players are currently placed. This is the end result of a process of determining the best practices globally and the subsequent benchmarking of the South African public sector against these. These changes have been necessitated by effects of globalisation and the need for South Africa to compete in the international arena.

By means of this exercise, a number of important management accounting principles have been identified which will need to be put into place in order to create an environment within which management in the public sector can operate in an attempt to achieve the objectives of the Public Finance Management Act. These objectives are namely ensuring that all revenue, expenditure, assets and liabilities of government are managed efficiently and effectively and ensuring that those to whom responsibilities of managing activities in government have been entrusted, are held accountable for the outcomes of such activities. The new norms and standards, should if applied correctly, result in the establishment of such an environment.

The various management accounting aspects which have now emerged in the public sector as a result of the aforementioned process, will now be discussed with reference to the focal points of the subject domain of Management Accounting being control (incorporating governance), planning, performance measurement and general financial management procedures.

Governance

The new Draft National Treasury Instructions have attempted to bring about an environment in which management can operate to ensure that revenue, expenditure, assets and liabilities are managed effectively, efficiently, in a cost effective and transparent manner. In ensuring the such an environment is created, the Accounting Officer will in future be held accountable for ensuring that an Internal Audit function is operative in their department or entity. The draft instructions allow for the outsourcing of this function, which would obviously have to take place in accordance with an acceptable procurement system. It would be advantageous for departments and public entities to however start building capacity in this area as they would be able to reap the benefits thereof over the long term.

The instructions also call for the establishment of an Audit Committee for each body of state, which the Public Finance Management Act applies. It is the Accounting Officer who will be held accountable for ensuring that such a committee is in place in the department or entity.

Control

A great deal of emphasis is placed by the new Draft National Treasury Instructions on ensuring that adequate internal controls are in place in the various organs of state. From a management accounting perspective, management must not only ensure the adequate functioning of an effective and efficient system of internal controls, but they should also ensure that adequate monitoring and feedback takes place regularly, to monitor the activities of the department or entity.

In this regard, positive steps have been taken to ensure that an early warning system be put in place in the departments and entities. The objective of the system is to indicate problem areas as soon as they arise so that management can take remedial action, where it is cost effective and beneficial to do so, at the earliest possible point in time. The control system will be implemented in the form of the monthly management reports regarding levels of revenue generated, expenditure incurred, projections for the rest of the year, and so on. It will be the Chief Financial Officer's function to ensure that the management reports are prepared timeously and accurately. The post of Chief Financial Officer was created to strengthen the corporate services of departments and entities.

Planning

The importance of the strategic plans of the departments and entities is highlighted by the new regulations. The new Draft National Treasury Instructions require departments and entities to prepare strategic plans which cover a 3-year cycle and which are to be updated at least annually. The intensity and frequency of the changes in global markets and other external variables which impact on the performance of the aforementioned organs of state, have necessitated focus being placed on this aspect.

In light of this, annual budgets and the contribution of the departments and entities to the Medium Term Expenditure Framework will have to be congruous with the strategic plans of those departments and entities. A further requirement is the submission to Parliament of a set of measurable objectives for the various programmes, which are operational in the departments or entities. This

should have a positive impact on the preparation of budgets – namely that budgets will become increasingly more objective and output driven, and should ensure that they are prepared in accordance with the strategic plans of the entity or department. Furthermore, more emphasis will more than likely be placed on the quality of the business plans prepared and ensuring their timely submission to management.

Performance management

Central to the Public Finance Management Act, is the empowerment of management. Decisions must be taken at an appropriate level of management to enhance the quality of decisions made. As a result of the deregulation which will then have to occur, an effective system of measuring performance will have to be put in place. This will have to be done to ensure that those to whom responsibility has been delegated are held accountable for what they did with the powers delegated to them. The extent to which activities took place economically and efficiently, and the extent to which the objectives of the department or entity were achieved as a result thereof, will have to be measured.

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In this regard, the Internal Audit division of the department or entity will play an important role. They will not only be expected to perform financial audits, but will in future also be required to perform audits to assess the performance of the department or entity.

The Accounting Officer will have to ensure that performance reports are generated on at least a quarterly basis and submitted to the executive authority. The measurement of performance together with the initiative of

implementing performance contracts, should if implemented correctly, result in government's objective of improving service delivery, being met.

A word of warning should be sounded however with regard to performance management systems. When managing and measuring performance, one must ensure that a person's performance is only measured in terms of those factors over which the official has control. If an official's performance is going to be measured on the grounds of factors over which they had no control, then this aspect could have very negative results on the performance management systems in place. Instead of attempting to motivate officials to strive towards better performance, the effect is in fact the opposite - people become unmotivated.

Financial management principles

The new Draft National Treasury Instructions also attempt to encourage the implementation of sound financial management principles. Aspects addressed are those of revenue management, expenditure management with the view to eliminating unauthorised and irregular expenditure, asset management and improvements in the system of managing liabilities.

The aforementioned instructions set out to improve the collection of revenue, with principles such as creditworthiness of customers being assessed, speedier invoicing, and the monitoring and following up of outstanding amounts through the use of age analyses.

Improvements in controls over expenditure have been made to shorten the settlement period of amounts owing by government. This will allow government to benefit from settlement discounts, which could result in considerable savings. For effective expenditure controls to be applied, the implementation of a system of effective and efficient cash management is required. For this reason, greater pressure will be exerted on departments or entities in future, to forecast cash requirements more accurately. Concepts such as that of a *virtual bank* have even been rearing their heads.

The instructions require management to furthermore ensure that an effective, efficient,

cost effective and transparent system be in place for the evaluation of investment decisions, procurement of assets and the safeguarding and recording thereof. The importance of the tendering process is once again being emphasised. Regarding the evaluation of investment decisions, it would appear that great leaps are being made in getting officials to apply discounted cash flow techniques in evaluating prospective investments opportunities. This is indeed a very positive move. Management will also be forced in future to devise Physical Strategic Asset Plans which will detail the various kinds of assets which the department or entity will have to invest in. These plans will go a long way in ensuring that only assets, which will facilitate the achieving of the strategic plans of the department or entity, being procured.

Potential problems as regards the implementation of these requirements

The intentions of Treasury are most admirable in attempting to enforce best practices in South Africa. A number of potential problems exist which could hamper the extent to which the requirements are successfully implemented.

In order to ensure that the systems highlighted earlier being put in place, officials will have to be adequately empowered to do so. This would entail providing them with adequate training as to the functioning of the proposed systems and the establishing of the proposed structures. Furthermore, officials will have to rely more heavily on the information technology systems available. These systems will have to provide officials with accurate and timely information if they are to carry out their tasks effectively and efficiently. Other aspects of the available infrastructure could also be problematic. A devolution of power will also have to take place to empower officials to be able to take the decisions which are expected of them - will current structures and existing personnel be able to cope?

Taking these factors into consideration, improvements in the infrastructure and skills base in government will have to take place if implementation of the legislation and the new Draft National Treasury Instructions is to be successful.

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