Analysing the financial internal controls that promote accountability in the Kwazulu-Natal Office of the Premier: A case study approach

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Mini-dissertation submitted in fulfilment of the requirements for the degree Master of Public Administration at the Potchefstroom Campus of the North-West University

Supervisor: Dr Melvin Diedericks

November 2016
Declaration - Plagiarism

I, Seema Sewrathan, do hereby state unambiguously that:

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SEEMA SEWRATHAN

11 November 2016
Acknowledgements

“The condition necessary in the taught are purity, a real thirst after knowledge, and perseverance.”

(Swami Vivekananda)

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Abstract

The advent of new financial reforms has demanded greater accountability from public organizations, expecting financial role players to fully account for entrusted resources in an environment of sound financial management. Critical to fulfilling this function, is the implementation of efficient, effective and economical internal controls to promote accountability, which provides reasonable assurance of the legitimacy of government actions. Inadequate financial internal controls in the Office of the Premier, KwaZulu-Natal, remain a serious challenge, arising from negative audit findings, which culminated in the suspension of financial delegations from senior financial role players. Accordingly, there was a dire need to interrogate current financial internal controls, in order to determine lapses in internal controls resulting in non-compliance with financial prescripts and poor accountability. This research study therefore sought to analyse the extent to which the current financial controls are effective, efficient and economical and the consequent influence thereof on financial accountability.

The study adopted a qualitative research approach, utilizing the case study method, which was deemed most appropriate to meet the objectives of this study. A total of fifteen research respondents constituted the sample, comprising of three cohorts, namely, Office of the Premier senior management, financial support to accounting officers and external experts. Two primary methods to collect data were employed, namely, a review of the relevant literature and semi-structured interviews guided by an interview schedule. Respondents were engaged on questions relating to the successes, challenges and possible interventions pertaining to financial internal controls. The data was thereafter thematically analysed and subsequently synthesized in five salient themes, namely, control environment, risk management, control activities, communication and information and monitoring and evaluation.

The study revealed that Office of the Premier had made substantial strides in strengthening prior internal control deficiencies. This was evidenced by the positive commitment by senior management, alignment of organisation structures, identification and assessment of risks and potential fraud, deployment of essential internal controls,
strong internal and external reporting structures, and regular monitoring of business processes. However, emanating from the data, lapses in internal controls were evident, particularly with respect to accountability. Recommendations in the areas of staff accountability for internal control, extension of risk assessment strategy, strengthening internal communication and with internal audit, implementation of talent management strategy to address inadequate staff capacity and financial competency, enforcement of supply chain management controls and regular evaluation of internal controls, are proposed. These suggestions are aimed at narrowing the identified gaps and further strengthening the internal controls and accountability at the Office of the Premier, KwaZulu-Natal.

**Keywords:** Accountability; audit; auditor-general; compliance; delegations; ethical practice; financial competency; financial internal control; internal control; internal control components; KwaZulu-Natal; monitoring and evaluation; Office of the Premier; public financial management; risk management.
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<td>APP</td>
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<td>CARC</td>
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<td>COSO</td>
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<td>RSA</td>
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<td>SAQA</td>
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Chapter One

Orientation of the study and problem statement

1.1. INTRODUCTION

Public accountability rests both on giving an account and on being held to account (Hondegheim, 1998:132).

Current financial reforms in the Public Sector provide an ultimatum for amplified transparency and accountability in the management of public finances. Indeed, financial controls are integral in the accountability chain, by providing reasonable assurance of the authenticity of the actions of financial role players, for delegated duties. Inadequate financial internal controls in the Office of the Premier, KwaZulu-Natal (OTP, KZN) are an ongoing challenge, as highlighted by the recurring negative audit findings over recent years. The purpose of this research study was to conduct an analysis of the degree to which the current financial controls are effective, efficient and economical, and the consequent influence thereof on financial accountability in the OTP. This chapter introduces the study by locating the context; providing the rationale; delineating the critical questions and objectives and briefly establishing the research methodology. The central theoretical arguments utilised in this research study are also outlined. Following brief indications of the limitations and significance of the study, the chapter concludes with an annotated synopsis of the structure of the entire work.

1.2. ORIENTATION

The good stewardship of taxpayers' money by government is paramount. Accordingly, public organisations have to be held accountable for the effective and transparent management of public funds (Dube-Ncube, 2015:2). The objective of every public financial role player should therefore be to prioritise otherwise scarce resources and achieve value for money by providing the best possible service to the taxpayer, while operating transparently within the parameters of the applicable financial prescripts (National Treasury, 2003:44). In terms of South African law, provincial government departments, including the Office of the Premier (OTP), are accountable to the Provincial
Legislature on a monthly, quarterly and annual basis as to the status of funds that have been appropriated to it by the Legislature (Fölscher & Cole, 2004:116). The KZN Legislature assesses whether the OTP programmes and services are achieving the purposes for which they were authorised and funded, as well as ensuring appropriate measures to rectify non-compliance (2004:116).

All public sector managers are accountable for the resources entrusted to them by the Accounting Officer (AO) and for ensuring that programmes and services are administered effectively and efficiently. Accountability involves the responsibility of senior financial role players to be fully liable for all duties delegated to them (Kuye & Mafunisa, 2003:426). A fundamental factor in public sector managers fulfilling this responsibility, is to ensure that effective, efficient and economical financial internal controls are fully implemented (Fourie, 2007:733). Financial internal controls are integral to the management processes, regulations and structures that provide senior management with assurance of the legality and regularity of actions. The verification of the accuracy of financial transactions is a critical attribute of good governance and service delivery (Ababio, 2007:3). Financial internal controls provide assurance as to whether regulations are followed, without ensuring that the achievement of their objectives are also controlled (Reginato, Nonnis & Pavan, 2011:381).

The advent of the new financial reforms has heralded the end of mere compliance, signifying internal controls in attaining public sector accountability, and justifying to citizens on how their taxes have been utilised (Reginato et al., 2011:381). The Constitution of the Republic of South Africa, 1996, the Public Finance Management Act No. 1 of 1999a (PFMA) and the Treasury Regulations (TR) are the hallmark on which financial reforms are anchored and guide public organisations on managing state resources. As Abedian (2005:11) has shown, the primary objective of the introduction of financial management reforms by the South African government includes introducing transparency and accountability into the process by ensuring fiscal discipline, thereby empowering managers to make effective decisions. It is the contention in this study that the PFMA provides greater flexibility, thereby creating a financial accountability framework on assigning responsibilities and performance measurement, rather than through the imposition of control and sanctions (National Treasury, 2000:2). By executing
these functions effectively, efficiently and economically, senior financial managers will ensure that the maximum results (output) are obtained with the minimum of costs (inputs) (Pauw, Woods, Van der Linde, Fourie & Visser, 2010:66-67).

The US-based, Committee of Sponsoring Organisations of the Treadway Commission (COSO), defines internal control as the integration of the activities, plans, attitudes, policies, and efforts of the employees of an organisation working together to provide reasonable assurance that the organisation will achieve the goals and objectives as set out in its Strategic and Annual Performance Plans, while at the same time ensuring reliability of reporting and compliance with financial prescripts (COSO, 2003:1). In support of the COSO, the International Organisation of Supreme Audit Institutions (INTOSAI, 2004:9-11) recommends that financial internal controls must be designed to provide reasonable assurance to ensure economical, efficient and effective operations; fulfil accountability obligations; comply with laws and regulations, and finally, safeguard resources. Effective financial internal control as a system is imperative, as it supports a department in delivering quality services by promoting financial accountability, compliance and optimal policies and processes, while safeguarding resources against loss due to waste, abuse, mismanagement, errors and fraud (NT, 2003:102). The Autorité des Marchés Financiers Working Group identified five inter-related components in a financial internal control system, namely, (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Communication and Information and (5) Monitoring (COSO, 2007:2; PT, 2013a:19). In terms of the COSO, these components require constant investigation and evaluation in order to ensure effective internal control measures in a public organisation.

All financial role players have a responsibility to strengthen financial internal controls. Internal control is people-dependent; it is developed by people, it guides people, it provides people with a means of accountability, and people carry it out (KZN Provincial Treasury, 2003:24). In order to give effect to the principles of transparency and accountability enshrined in the South African Constitution (SA, 1996), and thereby achieve the government objectives of economic transformation, inclusive growth and effective public service, public organisations require sound internal controls (NT, 2003:105). Moreover, effective and efficient financial controls are a fundamental link in
the assurance chain towards the achievement of financial accountability (Babatunde, 2013:16).

1.2.1. The case of the Office of the Premier, KwaZulu-Natal

The provincial department identified in this case study is the Office of the Premier (OTP) located in the Province of KwaZulu-Natal (KZN). The core business of this department revolves around its constitutionally mandated role of central co-ordination, facilitation and strategic support across the Provincial Government in KZN (OPT-KZN 2015b:8). In order for the OTP, KZN to realise its mandate, vision and mission, services need to be funded and proper financial management controls are essential to ensure optimal service delivery. The primary reason for the selection of the OTP as a case study is that the OTP’s prime focus is on providing strategic leadership and direction for the KZN Provincial Government, and engaging stakeholders in all areas of planning, implementation and control. As such, the OTP’s role is pivotal since ineffective financial controls in the office will impact negatively on its ability to achieve proper accountability and integrated service delivery in creating a better life for all its citizens.

1.3. PROBLEM STATEMENT

Inadequate financial internal controls in the OTP, KZN remain a serious challenge, as highlighted by the negative audit findings raised by the office of the Auditor-General (AG) in the audit reports from 2011 to 2015 financial years. The primary findings cite irregular expenditure, payables exceeding payment terms of thirty days required by Treasury Regulations (TR), the non-compliance in respect of expenditure management, and a lack of implementation of effective internal controls by management (AG, 2011, 2012, 2013, 2014, 2015). Compounding the problem are recurring findings emanating from the Internal Audit (IA) of Provincial Treasury (PT). These include: non-compliance with financial policies, Supply Chain Management (SCM) deviations, and poor management of internal controls by Programme/Sub-Programme Managers (PM/SPM) and responsibility managers (RM) (PT, 2011, 2012, 2013c, 2014b, 2015).
In terms of the management reports issued by the AG, a recurring comment was non-compliance with laws and regulations and poor financial accountability which could have been prevented, had compliance been reviewed and monitored through the implementation of internal controls (AG, 2011, 2012, 2013, 2014).

Emanating from the recurring external and internal negative audit findings, the Accounting Officer (AO) decided with effect from 01 August 2012, to suspend all financial delegations from the respective financial role players, with the exception of the AO, Chief Financial Officer (CFO) and Senior Managers in SCM and Financial and Management Accounting, KZN (OTP-KZN, 2012:1). At the commencement of the research study, the status quo remains the same and all financial documents are counter-signed by the above-mentioned five officials on behalf of all units within the OTP. In light of the withdrawal of the financial delegations, there was a dire need to investigate and interrogate the current financial internal controls, in order to determine areas in which financial internal controls are inadequate and therefore contribute to non-compliance with financial prescripts and poor financial accountability.

The key issue was as follows:

To analyse the extent to which the current financial controls are effective, efficient and economical and the consequent influence thereof on financial accountability in the OTP.

1.4. RESEARCH OBJECTIVES

The key research objectives of the study are as follows:

RO 1: To investigate theories, principles on accountability and effective, efficient and economical financial internal controls in the OTP, KZN.

RO 2: To describe the statutory and regulatory requirements relating to effective, efficient and economical financial internal controls and accountability in the South African Public Sector.
RO 3: To investigate the effectiveness, efficiency and economy of the current financial internal controls with regard to financial accountability, inclusive of successes and challenges in the OTP KZN.

RO 4: To propose corrective measures as recommendations, based on theory that may strengthen effective, efficient and economical financial internal controls and optimise accountability, in order to address negative audit findings as well as enhance service delivery in the OTP, KZN.

1.5. RESEARCH QUESTIONS

Taking into account the aforementioned research objectives, the related research questions of this study were as follows:

RQ 1: What are effective, efficient and economical financial internal controls and accountability within the OTP, KZN?

RQ 2: What are the statutory and regulatory requirements for efficient, effective and economical financial internal controls and accountability in the South African Public Sector?

RQ 3: How effective, efficient and economical, is the current implementation of financial internal controls on accountability, examining both the successes and challenges in the OTP, KZN?

RQ 4: What are the proposed corrective measures to strengthen effective, efficient and economical financial internal controls, to be implemented to optimise accountability and enhance service delivery in the OTP, KZN?

1.6. CENTRAL THEORETICAL STATEMENTS

Public accountability in government towards the public originates from political, administrative, legal and financial responsibility on the part of every official to achieve stated goals and strategic objectives (Kuye & Mafunisa, 2003:426; Ababio, 2007:5; Fourie, 2007:741-742; Kakumba & Fourie, 2007:654). Public accountability is a cornerstone of democracy and each financial role player in the OTP is subject to accountability and has to ensure that systems are in place to fulfil this responsibility.
In terms of financial control measures to enhance good governance, managers of a government department are expected to focus on the optimal utilisation of available resources such as physical, human, information and financial. Sound financial management is pivotal to the control processes in the South African government (SA, 1996:125-126; NT, 2003:3; Fourie, 2007:734 and Pauw, et al., 2010:66-67). Accountable financial management in the OTP, KZN is also subject to effective, efficient and economical control processes.

Internal control is exercised by an institution created by policy making, with organisational arrangements, recording of work procedures, personnel and arranging the finances (KPMG, 1999:19; NT, 2009: 51-53; Visser & Erasmus, 2009:289; and PT, 2014a:3). The aforementioned clearly indicates that proper administration is an integral function and is required to effect, for example, accountable financial management measures. This would also be applicable to the OTP, KZN.

There are internal control components that must be present in order to conclude that internal control is effective, efficient and economical, namely: control environment, risk assessment, control activities, information and communications, and monitoring (INTOSAI, 2004:14; Cohen, 2007:5; COSO, 2007:2; De Koning, 2007:43; Azuma, 2008:81; NT, 2009:9). The effective, efficient and economical implementation of these internal control components by OTP managers is essential for proper stewardship and accountability for the department's resources.

1.7. RESEARCH METHODOLOGY

The aim of the study was to conduct an in-depth analysis of the current financial internal controls and the consequent influence on accountability within the OTP in KZN. The study adopted a qualitative research approach to gain insight into real life intricate situations, contributing to a deeper comprehension of the phenomena based on the participants' perceptions (Leedy, 2001:101). This study adopted a case study methodology to provide avenues for deeper insight into the OPT, KZN (Mouton, 2001:161-162). The purpose for adopting a case study is to encourage purposeful, critical, reasoned thinking to improve analytical skills and to focus on problem solving (Brynard & Erasmus, 1999:7). The case study method also allows for a detailed examination of the financial internal controls within
the OTP and the specific context within which senior financial role players operate on a daily basis. Moreover, it creates a platform to acquire information based on the personal experiences of the financial role players in the OTP (Mouton, 2001:149-150). There were three cohort groups utilised in this study, consisting of: OTP senior management, financial support to the AO and external experts. The research methodology adopted is outlined in detail in chapter four, where a description and discussion of the design, population, sample, instruments and procedures utilised for data collection and processes of data analysis is offered. The chosen case study approach permitted the researcher to determine the current level of internal control systems, analyse the challenges encountered by senior management of the OTP, and identify possible interventions, based on the results of the study.

1.8. ETHICAL CONSIDERATIONS

Fetterman (1989:129) highlights certain fundamental ethical principles that require consideration in research, namely: consent, honesty and integrity, anonymity, reciprocity, and meticulous labour. Accordingly, the study entailed obtaining the necessary approval from the Acting Director-General (ADG) of OTP, KZN to conduct the research within the Office of the Premier (see Appendix A). In addition, ethical clearance was obtained based on the University Institutional Research Ethics Regulatory Committee (see, Appendix A). Blaxter, Christina and Malcolm (2006:158) suggest that it is essential to be clear about the nature of the agreement that the researcher enters into with the respondents. Accordingly, respondents were briefed on the objectives of the study and assured that the information shared will remain anonymous and will only be utilised for purposes of this study. The attitude of openness "is the most fortuitous item in a case study researcher’s dispositional toolkit," enabled engagement with the respondents (Mabry, 2009:224). They were also informed that participation was voluntary and that they could withdraw at any time of the interview process. All respondents signed an informed consent form (see, Appendix B). In addition, their permission was sought to digitally record the interviews. Integrity is closely interlinked with the researcher’s conscious and unconscious actions (Fetterman, 1989:130). Every attempt was made in the study to interact transparently with an established trustworthy research environment by upholding ethical principles as dictated by the code of conduct of the OTP and the four principles suggested by Wassenaar (2006:67-68). Moreover, the final research report does not
contain any personal names or units, but refers only to the respective cohort. In order to reduce the element of "own bias," as the researcher is currently employed in the OTP, KZN, it was imperative to maintain an objective researcher perspective of the proceedings when conducting the interviews and analysing the data. Here again, the researcher was guided by ethical principles. Moreover, the research supervisor closely guided and monitored the process in order to ensure maintenance of reasonable objectivity and that boundaries were not transgressed during the research process. In order to obviate any further element of bias, the researcher ensured that the perceptions of the respondents were reflected accurately as per their narratives from their research interviews. This ultimately ensured a critical validation mechanism in case studies (Mabry 2009:221).

1.9. LIMITATIONS OF THE STUDY

A primary limitation of the study is that the population is limited to financial role players in a managerial capacity, responsible for implementation of internal control measures within the OTP in KZN. This measure was effective in excluding the views and opinions of other role players involved in the implementation of internal control measures for non-financial functions within the OTP. However, cognisance must be taken that despite environmental differences, due to the generic nature of the financial duties performed by role players, the application and findings from this study could potentially be utilised for comparison to other provincial government departments in KZN, who are experiencing similar challenges in the implementation of financial internal controls. In this regard, Rubin and Babbie (2013:250) also identify this as an advantage of a case study as it can inform other government departments.

1.10. SIGNIFICANCE OF THE STUDY

Public accountability is fundamental in the management of public finance. According to Cloete (1996:187), the foundation of democracy demands that all officials appointed in positions of public authority are required to fully account on all aspects of their official duties to the relevant stakeholders. Based on the problem statement outlined above, it is evident that firstly, financial role players are facing constraints in effective, efficient and economical implementation of internal control measures; and secondly, that their actions have contributed to negative audit findings. In order to address these negative findings
and promote accountability, this study proposes recommendations to strengthen financial internal controls in the OTP, thereby promoting and encouraging full compliance to all financial prescripts. In the course of intensive engagement and interaction with financial role players in the OTP, it is envisaged that the study is likely to contribute to best practices in the upholding of public accountability in KZN. The primary significance lies in changing the mind set of financial role players and sensitising the authorities to develop, skill and impart knowledge to officials on matters dealing with public funds, and implement corrective actions in order to address financial accountability by improving the effective, efficient and economical use of scarce resources. Accordingly, the recommendations are not confined to the Province of KwaZulu-Natal, but can inform other provinces that encounter similar challenges affecting accountability when managing public finances in South Africa.

1.11. STRUCTURE OF THE RESEARCH

This research study is structured as follows:

Chapter One: Orientation of the study and problem statement. This chapter provides an extensive background and introduction to the research problem. Furthermore, the research objectives, questions, and brief methodology is presented. The ethical considerations, limitations and significance of the study, are also included.

Chapter Two: Public financial management, internal financial controls and accountability in South African government departments. This chapter presents an overview of public financial management theory of accountability and internal control measures. The key constructs of internal control and accountability is explored in detail, in unpacking RO1 and RQ1. It investigates the management of finances within a public organisation, as it relates to accountability and financial internal controls.
Chapter Three: Regulatory and statutory framework for financial internal controls and accountability with specific reference to the Office of the Premier, KwaZulu-Natal. All relevant legislation and policies within the South African public sector, with regard to effective, efficient and economical internal controls and accountability is explored in this chapter, with a focus on RO2 and RQ2. The various external financial bodies and internal financial role players, together with the process and systems on internal control at the OTP, KZN is also incorporated.

Chapter Four: Empirical findings: Analysing the financial internal controls that promote accountability in the Office of the Premier, KwaZulu-Natal: A case study approach. This chapter describes the research methodology of the study. The case study approach is justified as the unit of analysis of the OTP, KZN. A detailed analysis of the factors of financial internal controls which influence accountability, based on the data collected through the literature review and semi-structured interviews, are presented, in addressing RO3 and RQ3.

Chapter Five: Summary and recommendations. Based on the empirical findings of the study, relevant conclusions and recommendations are indicated in support of RO4 and RQ4 in this chapter.

1.12. CHAPTER SUMMARY

The objective of this chapter was to introduce the study by explaining its rationale and contextually situating the case study of the Office of the Premier, KwaZulu-Natal, as well as introducing the problem statement. Thereafter, the objectives, research questions and central theoretical statements were outlined in respect of the research study. A brief outline of the research methodology was adopted to reach these objectives, as well as the ethical considerations, limitations and significance of the study were also presented. The concluding section provided the structure of the research report.

In the next chapter, the theory in respect of the management of public finances within a public organisation, with specific reference to financial internal controls and accountability will be explored.
Chapter Two

Public financial management, internal financial controls and accountability in South African government departments

2.1. INTRODUCTION

In the previous introductory chapter, an overview was provided of the orientation, problem statement, research objectives and brief methodology of this study. In this chapter, a comprehensive literature review will be presented framed by pertinent scholarly perspectives on public financial management. A theoretical synopsis of public financial management in South Africa will be specifically explored including the Classical and New Public Financial Model as relatable to accountability and internal control measures. The chapter will further outline the effective, efficient and economical functioning of internal controls and accountability in a government department, with specific reference to a case study of the OTP, KZN. The aforementioned OTP is investigated in accordance with the first research objective of this study, which is to investigate theories, principles of accountability, and the effective, efficient and economical financial internal controls within a government department.

The chapter commences with an exploration of the discipline of public administration which is the essence of public service financial management.

2.2. PUBLIC FINANCE IN PUBLIC ADMINISTRATION

Prior to exploring the paradigms of public financial management, it is imperative to offer a comprehensive understanding of how public finance is a core component of public administration, which is the focus of this study.

2.2.1. Defining public administration

The term: 'administration' is derived from a combination of two Latin words *ad* and *ministrate* meaning ‘to serve or manage’ (Dictionary, 2016). Literally, the term
'administration' refers to the management of public or private affairs. Administration is thus an activity undertaken in pursuit of the realisation of a goal (Basu, 2004:1). Finally, 'public' means something that has a universal, collective and nationwide interest (Lungu, 1993:1).

2.2.2. Scope of public administration

There exists little consensus regarding the scope of public administration. Generally, public administration embraces the entire area and all the activity of the government (Gildenhuys, 1993:08; Charkrabarty & Bhattacharya, 2003:04; Thornhill, 2014). Through established usage, the term has come to signify primarily the organisation, personnel, practices and procedures essential to the effective performance of the civilian functions entrusted to the executive branch of government. Public administration is the executive in action (Shafritz & Hyde, 1992:41).

Gulick and Urwick (cited in Ugeulashi, 2012:315) and Agrawal and Vashistha, (2013:248), suggest that the scope of public administration consists of the following generic functions: planning, organising, staffing, directing, coordinating, reporting and budgeting (POSDCORB). These key functions adapted from Ugeulashi, (2012:315-319) and Agrawal and Vashistha, (2013: 248-250), are outlined in Figure 2.1.
According to Gullick and Ilrwich (Ugeulashi, 2012:315), the POSDCORB functions are common to all organisations. This commonality of problems of management, are found in the different agencies regardless of the peculiar nature of the work they undertake (Agrawal and Vashistha, 2013:248). Cloete (2006:88) contends that the national character of public administration is of importance, making it a powerful instrument of national integration. Accordingly, it can be concluded that public administration places a commitment on public employees to serve the general civilian population. Therefore, as in this case study, senior financial role players within the OTP are obliged to execute their duties professionally, thereby ensuring that goods and services are rendered to the citizens of KZN, effectively, efficiently, and economically. It further ensures that the senior financial role players are accountable to the citizenry (Cloete, 2006:91). A key generic function related to public administration for purposes of this study is that of budgeting.
Indeed, budgetary control is a fundamental and indispensable mechanism in government aimed at achieving its strategic goals and objectives.

2.2.3. Budgeting

Erasmus and Visser (1997:160) and Gildenhuys (1993, 2009) suggest that the term "budget" derives its origins from "pouch" or "purse." Garrison and Noreen (2000:378) defined a budget as a detailed plan for the acquisition and use of financial and other resources over a specified period. It represents a plan for the future expressed in formal quantitative terms. Essentially, the "purse" is the custodian of public finances and is accountable to taxpayers. After the strategic outcomes of a department are identified, the financial contribution into strategic and operational activities is the next logical step. Budgets are developed within the political priorities which are clearly spelled out in the Medium Term Strategic Framework as per the national and provincial development plans (NT, 2009:56). This process is integral to public financial management.

2.2.4. Public sector financial management

According to the Business Dictionary (2016), public finance is defined as the collection of taxes from those who benefit from the provision of public goods by government and the use of those tax funds toward the production and distribution of the public goods. Financial Management is the planning, directing, monitoring, organising, and controlling of the monetary resources of an organisation (Business Dictionary, 2016). Erasmus (2009:3) posits that public sector finance is fundamental as it affects every facet of the country, ranging from social issues to political factors. In defining financial management in the public sector, Burger (2008:28) emphasises that it revolves around the prioritisation and optimal use of limited resources, in realising value for money and organisational objectives. Gildenhuys (1993:11) further argues that financial management refers to the allocation and control of public money by a government institution whereby economy, efficiency and effectiveness are promoted. This view is supported by Visser and Erasmus (2009:6) and Fourie (2015:271), in that comprehensive financial management is the backbone for prioritisation, deemed to be a critical management tool for the efficient, effective and economical utilisation of public resources in achieving strategic goals and
objectives by the provision of identified goods and services, while concurrently upholding accountability.

According to the NT (2014:14), financial management from a public sector perspective can be defined as:

All decisions and activities of management, as guided by a chief financial officer, that impact on the control and utilisation of limited financial resources entrusted to achieve specified and agreed strategic outputs.

Considering the above, an operational definition and process of financial management for purposes of this study would encompass:

i. **Budgeting**: Determining the income, funding and capital required for the planned expenditure;

ii. **Safeguarding**: Implementing controls to ensure that the income, capital and assets are safeguarded against improper use, loss or theft;

iii. **Monitoring**: Measuring the actual results and performance against those budgeted through management reporting;

iv. **Accountability**: Reporting to all stakeholders by preparing financial reports and financial statements.

Financial management in the public sector focuses on prioritising scarce resources and achieving value for money while providing the best possible service to the taxpayer. This definition encompasses the highest level of transparency and accountability (Pretorius & Pretorius, 2008:12). Consequently, public sector organisations represent an investment for taxpayers which should be managed optimally. To achieve this goal, it is imperative to establish and maintain sound and modern systems of financial management, coupled with appropriately qualified and competent financial staff. In addition, financial management entails the crucial component in the provision of services to the community. Without the allocation of budgets and the processing of various payments, no actual service can be rendered. As enshrined in the South African Constitution (SA, 1996), financial management is the cornerstone of any democratic government and best practices in accounting ensure transparent accountability. It focuses on the utilisation of scarce governmental resources to ensure economical, effective, efficient and transparent
use of public money and assets, to achieve value for money in meeting national objectives.

The financial management system inherited in 1994 was highly centralised through the Exchequer Act, 1975 (SA, 1975), whereby financial role players were hindered as a result of prescriptive measures. Fölscher and Cole (2004:109-110) argue that it was not transparent, with poor underlying information systems, hidden spending and inadequate mechanisms to extract useable information for budgeting and accountability purposes. Consequently, financial accountability was destabilised, since the prime feature of financial management was on expenditure control and not exceeding the appropriated budget. In addressing these challenges, the government embarked on a process of modernisation of financial management practices in the public sector. Abedian (2005:11) articulates that this primary objective of the introduction of financial management reforms by the South African government included: establishing an appropriate link between strategic objectives and expenditure plans; ensuring fiscal discipline; promoting the efficient use of resources; empowering managers to make effective decisions, and introducing transparency and accountability in the process and the accessibility of information. In this regard, the South African Constitution (SA, 1996), the Public Finance Management Act No. 1 of 1999a (PFMA) together with Treasury Regulations (TR) set out the administrative and operational financial framework for government departments and their employees. The legislative framework is explored in detail in chapter three of this study.

Public financial management serves as a foundation for the realisation of government priorities by providing a gateway for economic growth and expansion, good governance and the social upliftment of all citizens (NT, 2014:2). To ensure an improved South Africa as envisioned in the South African Constitution of 1996, and to achieve government's national priorities of economic transformation, inclusive growth, and efficient public service delivery, good public financial management is essential (NT, 2009:56). Management of public finances across the three spheres of government (i.e., national, provincial and local government) dictates transparent, economical, efficient and effective use of public resources. Equally imperative is that managers ensure that communities and taxpayers derive full value for their money. Poor delivery and theft from the fiscus
through fraud and corruption impede such commitment. Moreover, senior financial role players at the OTP are expected to work actively to improve their procurement processes and oversight (NT, 2014:4-5). This represents a core responsibility for managers in the public service as every financial role player has a responsibility towards the public, and are expected to encounter criticisms from the public, press, and political parties.

In the next section, the appropriate and relevant theories underpinning public financial management, specifically including accountability and internal controls will be discussed.

### 2.3. PUBLIC FINANCIAL MANAGEMENT THEORIES

Economic and financial theories are essential for an analysis of government, business, policies and public sector ethics since it provides a framework for thinking about the factors that might influence the behaviour of interest (Rosen & Gayer, 2010:228-236). In addition, economic theory's role in empirical research frames the research question and isolates a set of variables that may influence the behaviour of interest. Empirical work then tests whether the causal relationship between policy implementation and outcomes suggested by the theory is consistent with real world phenomena (Rosen & Gayer, 2010:231). Below are the most suitable theories for this study in assessing the internal controls and accountability in the public sector, particularly in the OTP. Among other conceptual models that underscore PFM as identified by Chan and Xiao (2009:110) in his insightful literature work are the classical PFM model, the New Public Finance Management (NPFM) model and the Governance Model. However, for the purpose of this present study, the central focus will be elaborating on the classical PFM and NPFM models.

#### 2.3.1. The classical public financial management model

Influenced by the ideas of Max Weber, the prevailing approach to public administration for much of the twentieth-century drew on a model of bureaucracy based on the twin principles of hierarchy and meritocracy (Starling, 2002:53; Hughes, 2003:1). Chan and Xiao (2009:110) refer to this model as the classical PFM model. The classical PFM model was initially introduced for wide-ranging bureaucratic reforms in Great Britain and Prussia in the late nineteenth-century to overcome patrimonial systems of administration where
patronage and favouritism dominated government decisions and public appointments. This approach comprises of a number of distinctive features, as illustrated in Figure 2.2.

![Classical Public Finance Management Model](image)

**Figure 2.2.**

**Overview of the Classical Public Financial Management model**

Source: Adapted from Chan and Xiao (2009:117)

As illustrated above, this approach relies on centralised control, set rules and guidelines, separated policymaking from implementation, legal conformity and employs a hierarchical organisational structure (Osborne, 2006:377; Chan & Xiao, 2009:117). A Weberian administration emphasised a trait of control from top to bottom in the form of monocratic hierarchy. It is a system of control in which policy is set at the top and carried out through a series of offices, with each manager and worker reporting to one superior and held to account by that person (Holzer & Schweste, 2011:32). The organisational arrangement according to Sapru (2008:82) is one where "each lower office is under the control and supervision of a higher one." A bureaucratic system based on the classical PFM model includes a set of rules and regulations flowing from public law; the system of control is rational and legal. The role is strictly subordinate to the political superior (Osborne, 2006:315). According to Chan and Xiao (2009:117), the image of a manager is one of a "budget maximising civil servant, obsessed with legal compliance and financial control."
Chan and Xiao (2009:110) offer two definitive mandatory obligations by government to observe the principles of fiscal discipline and prudence in application. First, government units should ensure that it balances its budget. Second, that they should not exceed the expenditure amount allocated to it by the fiscus. In sum, this suggests that government units/departments should be incentivised to maximise their budget allocation (Chan & Xiao, 2009:110). These two cardinal rules are policy instruments at the disposal of government that can be used to ensure compliance with regulatory prescripts and provisions. This principle inherently implies adherence and obligation in all financial transactions of a government unit/department. Accordingly, budget preparation, approval, execution and cash disbursement by the treasury are to receive authorisation based on the laws and regulations of financial management. In turn, this will make financial resources available to implement government policy mandates. There exists procedures and steps that are usually followed in spending the budget on the government mandates. Chan and Xiao (2009:111) emphasise the significance of annual appropriations divided into quarterly allocations, where contractual commitments are approved and payments made on time. A chief concern of the classical PFM model was the accountability of the implementers of public policy to the governing constitutional rulers (Osborne, 2006:315). With the classical model's focus on legal compliance and policy implementation, it provides insufficient incentives for innovation. Additionally, it makes it very difficult to engage in creative thinking and pursue entrepreneurial projects, with the intention of increasing financial and operational efficiency within a government department (Chan & Xiao, 2009:111).

Tasked with improving the above shortcomings and budget deficits, Pretorius and Pretorius (2008:7); Holzer and Schweste (2011:32), suggest that in the 1970s and 1980s, nation states initiated major reforms involving an extensive appraisal of public sector, which culminated in the development and implementation of the New Public Finance Management Model (NPFM).

2.3.2. New public finance management model

The advent, introduction and preference for the New Public Finance Management Model (NPFM), encompassed a wide range of techniques and perspectives intended to
overcome the inefficiencies inherent in the classic Public Finance Management (PFM) model of public finance (Hood, 1991:5; Pretorius and Pretorius, 2008:7). According to Hood (1991:4-5), the NPFM model is based on the founding principles as summarised in Table 2.1.

Table 2.1.
Hood’s seven doctrines of new public management
Source: Hood (1991:4-5)

<table>
<thead>
<tr>
<th>No.</th>
<th>Doctrine</th>
<th>Meaning</th>
<th>Typical justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hands-on professional management in the public sector.</td>
<td>Active, visible, discretionary control of organisations from named persons at the top, free to manage.</td>
<td>Accountability requires clear assignment of responsibility for action, not diffusion of power.</td>
</tr>
<tr>
<td>2</td>
<td>Explicit standards and measures of performance.</td>
<td>Definitions of goals, targets, indicators of success, preferably expressed in quantitative terms, especially for professional services.</td>
<td>Accountability requires clear statement of goals; efficiency requires hard look at objectives.</td>
</tr>
<tr>
<td>3</td>
<td>Greater emphasis on output controls.</td>
<td>Resource allocation and rewards linked to measured performance; break up of centralised bureaucracy-wide personnel management.</td>
<td>Need to stress results rather than procedures</td>
</tr>
<tr>
<td>4</td>
<td>Shift to disaggregation of units in the public sector.</td>
<td>Break-up of formerly 'monolith' units, unbundling of U-form management systems into corporatized units around products, operating on decentralized budgets and dealing with another at an arm's length basis.</td>
<td>Need to create manageable units, separate provision and production interests, gain efficiency advantages of use of contract or franchise arrangements inside as well as outside the public sector.</td>
</tr>
<tr>
<td>5</td>
<td>Shift to greater competition in the public sector.</td>
<td>Move to term contracts and public tendering procedures.</td>
<td>Rivalry as the key to lower costs and better standards.</td>
</tr>
<tr>
<td>6</td>
<td>Stress on private sector styles of management practice.</td>
<td>Move away from military-style public service ethic; greater flexibility in hiring and rewards; greater use of PR techniques.</td>
<td>Need to use proven private sector management tools in the public sector.</td>
</tr>
<tr>
<td>7</td>
<td>Stress on greater discipline and parsimony in resource use.</td>
<td>Cutting direct costs, raising labour discipline, resisting union demands, limiting compliance costs to business.</td>
<td>Need to check resource demands of public sector and do more with less.</td>
</tr>
</tbody>
</table>
The seven doctrines as outlined by Hood (1991:4-5) form the foundation of the NPFM model. The traditional bureaucratic structures that ushered in the industrialised economies of the twentieth-century may have been appropriate for that past era, but today, have reached a point of diminishing returns. The large size and rigid structures of traditional systems are too cumbersome for the new era of instant communication and an economy in which value is based on information and its manipulation rather than industrial production. While production is still vital, it is increasingly based on information and financial systems.

The NPFM model became prominent due to the positive perceptions associated with the business management principles that were successfully applied in the private sector context. As a consequence of this, some of the business management principles applicable in the private sector were borrowed by the government public sector to guide its activities and operations (Carrington, DeBuse & Lee, 2008). Rhodes (2005:9) stresses that the NPFM model is in response to the challenges of globalisation, with the primary objective of promoting professionalism, accountability and transparency in the public sector. Indeed, the market-related lexicon featured strongly in the business plans of the government. Accordingly, scholars such as Chan and Xiao (2009:111) have asserted that:

Government bureaucracies turn into strategic business units competing with each other, and citizens became customers. The budget-maximising bureau chiefs are reformed into cost-conscious and revenue hungry entrepreneurs.

Manning purports that the key common objectives of the NPFM include a customer-centric focus, decentralised authority, separation of policy making from service delivery and accountability for results (Pretorius & Pretorius, 2008:7). This is supported by Chan and Xiao (2009:117), in terms of the five elements of NPFM model, as illustrated in Figure 2.3.
As illustrated above, the NPFM model consists of five specific elements. These are as follows:

i. Transparency;
ii. Mission driven and cost conscious strategic entity;
iii. Public entrepreneurship with a focus on customer satisfaction;
iv. Cost cutting;
v. Efficiency and effectiveness.

All five of these economic elements focus on management and service delivery. The NPFM model represent the public sector reforms that emphasises performance and results as opposed to inputs. In particular, the NPFM model is characterised by features such as outsourcing, downsizing, restructuring and privatisation, as it seeks to improve operational and technical efficiencies. The focus on results and value for money principles are enshrined in the South African Constitution and the PFMA, which is discussed in chapter three of this research study.
For Hughes (1994:02), its primary function being to achieve economical, efficient and effective objectives. In Hughes (2003:3), the Organisation of Economic Co-operation and Development contends that:

This new management paradigm emphasises results in terms of 'value for money' to be achieved through management by objectives, use of markets and market type mechanisms, competition and choice, and devolution to staff through a better matching of authority, responsibility and accountability.

Rhodes (2005:9) also supports the principles of "value for money" and "better use of resources" which are identified in the present study as crucial for the effective, efficient and economical implementation of internal controls that promote accountability in the OTP. This model favours decentralised administration, delegation of discretion, contracting for goods and services, and the use of the market mechanisms of competition and customer service to improve performance. It is useful to think of the NPFM as government units running under private sector practices—government as a business, or more accurately, mission-driven units of government competing with each other to deliver services efficiently to its citizens, who play the role of customers. Moreover, the incentives are market and performance driven (Chan & Xiao, 2009:112,117). Accordingly, the NPFM aims to achieve accountability through the measurement of outcomes rather than accounting for inputs or obedience to the law, as performance measures take the place of tight control from the top through rules and regulations. Manning (cited in Pretorius and Pretorius 2008:7) asserts that the two primary doctrines of the NPFM model authorises managers to manage and expect accountability. This is crucial to the present study, where the senior financial role players are expected to be accountable for the execution of their internal control responsibilities. It also maintains that budgets are mission and outcome oriented compared to the input oriented budgets in the classical model. Finally, audits are based on performance (Pretorius & Pretorius, 2009:8) and are operational in nature (Chan & Xiao, 2009:118).

Hood (1991:5) contends that there is a distinct shift from ruled-driven processes to that of being results-driven, with the key emphasis on cost savings and value for money. The emphasis of cost-cutting as an aspect of the NPFM was adopted by the KZN Provincial Government and this approach was invaluable in reducing irregular payments and increasing social expenditure. Integral to accountability, is granting more discretion to
managers to manage, if they are answerable for their performance and demonstrate flexibility to use their judgment (Pretorius & Pretorius, 2008:7). Consequently, managers under the NPFM are perceived as "public entrepreneurs" who are focused on customer satisfaction and optimising costs of service delivery (Chan & Xiao, 2009:117). They have incentives to innovate and disrupt the systems and processes within their unit and to seek efficiency in service delivery to the public. The focus on efficiency thereby permits managers to manage and holds them liable (Pretorius & Pretorius, 2008:7).

Kelly and Wanna (2000:33) also maintain that the government has been able to address the challenges of over and under expenditure of public funds through the implementation of the NPFM policy reform. In particular, they stress that government forge partnerships in the provision of services rather than sending services to the communities alone (2000:33). In addition, the NPFM allows government to integrate the strategic management, operational management, performance measurement and outcomes-based budgeting with the view to achieving results and targets as entailed in the long term plans (Pollit & Bouckaert, 2004:127; Pretorius & Pretorius, 2008:7). In order to address the fiscal deficit, public debt and stimulating fiscal efficiency, the government preferred to adopt the NPFM policy reforms to improve the financial performance of the government (Bokros & Dethie, 1998:381). The main motivation is on the improvement of performance and achievement of the results without wastage.

Despite the positive impact of the NPFM, a major criticism is its inability to distinguish any difference between the public and private sector and take into cognizance the "uniqueness" of the public sector (Drechsler, 2005; Rhodes, 2005:9). Notwithstanding this criticism, the present study utilised it to demonstrate the relevant linkages to internal controls and accountability in the OTP.

The next section will focus on the key constructs utilised in this study.

2.4. THE CONCEPTUALISATION OF KEY CONSTRUCTS

This study is informed by two key constructs:
i. Internal control;
ii. Accountability.

While they are distinct concepts, they can be viewed as being inter-dependent pillars of good governance.

2.4.1. Internal control

According to the Business Dictionary (2016), control is defined as:

A management function aimed at achieving defined goals within an established timetable, and usually understood to have three components: (1) setting standards, (2) measuring actual performance, and (3) taking corrective action.

Walsh, Seward, Chung, Chong & Jung (cited in Lakis & Giriunas 2012:143) are of opinion that controls focus on "power and influence" within two primary categories, namely, internal and external controls. As Lakis and Giriunas (2012:143) can further state:

Internal control involves the supreme enterprise control apparatus and enterprise shareholders, whereas external control might be defined as the power in the market or branch, competitive environment or state business regulation.

This present study emphasises the concept of internal controls, which in terms of the Business Dictionary (2016), can be defined as:

Systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organisation to (1) conduct its business in an orderly and efficient manner, (2) safeguard its assets and resources, (3) deter and detect errors, fraud, and theft, (4) ensure accuracy and completeness of its accounting data, (5) produce reliable and timely financial and management information, and (6) ensure adherence to its policies and plans.

The earliest formal definition articulated by the American Institute of Certificated Accountants in 1949, revolved around internal control being a coordinated plan by management to protect assets and achieve data integrity (Lakis & Giriunas, 2012:146). It is evident that this initial definition has evolved as social scientists have their own perceptions of what internal controls are and definitions differed based on impact of stakeholders at various echelons in the organisation. This could lead to misperceptions
A comparative analysis of the introduced concepts of internal control illustrate that their usage is expansive as they are supposed to involve the performance not only of the State, but also of the private sector. Although the conception of internal control is often defined differently, the core concepts of inspection, observation, maintenance and regulation of the enterprise's work are consistent. Of particular is importance is the idea that internal control is a self-defence instrument. The Commonwealth of Massachusetts (2007:6-8) reports that internal control is an integrated process impacting on every facet of an organisation, designed to offer provide realistic assurance in the areas of compliance, provide financial and non-financial reporting and improvement in effectiveness and efficiency of operations. In support of this view, Puttick and van Esch (in Visser, 2011:84) describe internal control "as the policies and procedures employed by executives of an institution to realise their set objectives.” Visser and Erasmus (2009:277) establish it as
an institutional mechanism of oversight with the primary objective of enhanced financial management.

The US-based, Committee of Sponsoring Organisations of the Treadway Commission (COSO 2003:2, 2005:1), define internal control as the integration of the activities, plans, attitudes, policies, and efforts of the employees of a department working together to provide reasonable assurance that the department will achieve the goals and objectives as set out in its Strategic and Annual Performance Plans, while at the same time ensuring reliability of reporting and compliance with financial prescripts. Based on the literature consulted, several common elements arise as management's primary objectives for implementing financial internal controls. These include: consistent reliable financial information; safeguarding of assets; promoting efficiency; compliance with applicable prescripts (Fourie, 2007:736-737; Visser and Erasmus, 2009:293-294; NT, 2014:106). In addition, Arwinge (2013:22-30) also proffers that internal control serves as a mechanism that an institution initiates in order to uphold the integrity of financial and accounting information. Power (cited in Arwinge 2013:9) declares that despite the presence of a multitude of varying classifications of internal control, the COSO definition presently serves as a principal guidance for management and for internal and external audit institutions across the world. The COSO definition represents an evolution that introduced internal control as a process rather than a rigid structure that moves beyond the financial checks and balances in an organisation. For the purposes of this present research study, the definition by the COSO will be adopted as it is an internationally accepted framework, embraced by the International Organisation of Supreme Audit Institutions (INTOSAI, 2004:9-11; Mattie et al., 2005:6; Lakis.& Giriunas, 2012:144; Arwinge, 2013:9), in the auditing of government departments.

In analysing the abovementioned definition by COSO and management objectives by INTOSAI, the following themes emerge as it relates to this case study of the OTP, KZN:

i. **Integral process:** Internal control is not a once-off activity, but rather a dynamic integrated process that is constantly being assessed and modified based on the challenges that the OTP is confronted with;
ii. **Efforts of all employees:** It affects every employee in the OTP, and as such, each has a responsibility in the achievement thereof. In particular, this concentrates on responsibility for internal controls by senior financial role players;

iii. **Achievement of goals and objectives:** The primary concern of the OTP is the achievement of its mission and ultimately improved service delivery, thereby uplifting the lives of its citizens;

iv. **Economical, efficient and effective operations:** The OTPs internal control objectives must be ethical, economical, efficient and effective in order to be accountable to the taxpayers.

The dominant theme dictates that internal control is an integral process that affects every employee in an organisation and therefore allocates responsibility in achievement of all at the OTP (NT, 2003:105; INTOSAI, 2004:9-11; COSO, 2005:2-3).

### 2.4.2. Accountability

Accountability is equivalent to the words: responsibility, answerability, liability, ethics and chargeability (Seemela & Mkhonto, 2007:204). Stewart (cited in Hondeghorn, 1998:132) contends that "Public accountability rests both on giving an account and on being held to account." Similar views are resonated by Cloete (1996:97) who argues that the foundation of democracy expects every public official to be fully accountable for their actions and may even have to justify such actions to the community in a public forum. Mulgan (2003:1) contributes to this argument accentuating the significance of accountability in providing critical checks and balances, thereby reducing exploitation and abuse of power by officials. Kakumbe and Fourie (2007:652) contend that this will be realised by developing, maintaining and making available reliable and relevant financial and non-financial information by means of a fair disclosure of information in timely reports to internal and external stakeholders. Kakumba and Fourie (2007:654) maintains that financial reports highlight expenditure trends and value for money, while non-financial information may relate to the achievement of performance objectives. Kakumba and Fourie, further assert that "accountability is identified as the pivot, around which effective public management and good governance revolve." (2007:650).
Schillemans (2008:16) agrees that public accountability is steadily being seen as a yardstick for optimal government performance. According to the European Commission:

An entity or individual is accountable when their actions, practices, and policies are open to scrutiny by those whom they affect, those to whom they have obligations and those who regulate them. Also when there are clear consequences for actions, practices, or policies that are illegal, harmful, unethical, differ from what was agreed, or incompetent (2014:4).

In a similar vein, Witthoft (2014:1) proposes that accountability is the process whereby public service organisations and individuals within them are held responsible for their decisions and actions, including their stewardship of public funds, fairness, and all aspects of performance, in terms of the responsibilities that have been conferred or delegated to the official.

In terms of South Africa, Sydney Mufamadi, the then National Minister of Provincial and Local Government contextualised public accountability in South Africa as:

The initiative to promote good governance and accountability is premised on the principle that serving the public is fundamentally a privilege. It means that discipline and integrity required of those who serve the public as elected representatives or appointed administrators, is higher than that expected of other sectors in our society. The obligations of public office need honest and ingenuous accounting, also require commitment to democratic process. We, who are entrusted with this privilege, should possess a strong sense of responsibility to act with efficiency and competence, and to discipline personal desires to standards of law and democratic expectation. We have a duty to frame judgements within the context of our constitutional values, yet shape them in response to legitimate public demands. We have further obligation to seek outcomes that are respectful of the public, within the demands of the law, particularly since we are trustees of the public good in an environment dominated by private interests. (South African Local Government Association, 2006:3).

This statement has direct impact on the present study, as it analyses the implementation of internal control by senior management to determine the extent to which accountability is promoted and upheld.

Accountability in its simplest form can be described as the requirement to give an account of how a responsibility that has been conferred or delegated to some person or institution has been carried out or fulfilled by that person or institution (Witthoft (2014:1). It therefore becomes apparent why accountability is usually a central problem for governments which
are, or claim to be, democratic. The activities of a democratically-elected government and all its employees follow the will of the people to whom they are ultimately responsible. Furthermore, performance and limited resources impact on good governance. Generally, as the public becomes more educated, awareness is created on their rights and they demand more and are less willing to accept average performance from government. Accordingly, accountability and performance even in the OTP, being a coordinating office of government in KZN, is nevertheless expected to comply, commencing with the head of office.

2.4.2.1. Accountability and ethical practice

Inextricable to accountability is ethical conduct. "Ethics are as important for the public servant as blood for the body" (Unknown in Van der Waldt & Helmbold, 1995:170). Kabumba and Fourie (2007:652-654) posit that accountability is an ethical norm as ethics relates to the framework that forms the backbone of the moral and values underlining human behaviour. Hanekom (1984:58) is also of the opinion that ethics comprises of virtuous and immoral behaviour that is evaluated in terms of laid down criteria. Similarly, Guy (1990:6) views ethics as a third eye highlighting a state's consciousness of right or wrong and good and bad. Kubambu and Fourie, (2007:652-654) claims that in the public service, an official's behaviour is moulded on the grounds of ethical values such as honesty and integrity. Theletsane (2014:362) proposes that in the pursuit of integrated service delivery, there is an inherent responsibility on all public officials to display ethical conduct beyond reproach in the proficient execution of roles and responsibilities.

In addition, Visser and Erasmus (2009:50) and Frederickson and Gher (2005) advocate that the ethical values and accountability of public officials are rigorously tested on a daily basis based in an ever-changing environment. He contends that in addressing this, ongoing training in ethics and accountability is indispensable. Fourie (2015:290) holds that every politically elected delegate and every public official, irrespective of rank, is subject to accountability and required to give a full account of all their actions or inactions to the communities they serve. In terms of the Nolan Committee's seven principles of public life:
Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office (Chapman, 2000:230-231).

Unlike the private sector, which is driven in terms of the realisations of profits, the public sector focuses on service delivery in order to improve the lives of the citizens of the country. Management of performance in the public sector is based on "The Three E's," of Efficiency, Effectiveness and Economy. The next section will expand on the Three E's.

### 2.4.2.2. The three E's: Effectiveness, Efficiency and Economy

i. **Effectiveness**: Effectiveness is defined as "the degree to which (an organisation) realises its goals" (Etzioni, 1988:215). Since organisations are established to accomplish specific goals and most of the activities that occur are undertaken for conscious specific aims, effectiveness is pivotal to their existence. Within this understanding, organisational effectiveness is the extent to which an organisation fulfils its objectives. Because organisations in general do not have a single goal, analysing effectiveness of multiple and often conflicting goals in many organisations is challenging. Accordingly, effectiveness in one set of goals may potentially lead to ineffectiveness in another.

ii. **Efficiency**: The concept of efficiency is generally considered as being synonymous with rationality and in financial terms is related to reducing expenditure (Kakumba & Fourie, 2007:653). Efficiency is defined as "the amount of resources used to produce a unit of output" (Etzioni, 1988:215). In this sense, efficiency is directly related to how an organisation uses its resources in the production of goods or services. In order to measure an organisation's inputs and outputs, the concept of efficiency is useful and relevant in both operation and evaluation. While it is difficult to measure the inputs and outputs of an organisation, this should not prevent paying attention to the concept of efficiency in evaluating the performance of an organisation. Since the resources at the disposal of an organisation are limited, how they are used in the accomplishment of goals is vital. A beneficial approach is to identify waste and unused inputs. If inputs are not used, if there is a large amount of idle manpower or machinery, this would indicate inefficiency in that organisation (Etzioni, 1988:218).
iii. **Economy:** This refers to an organisation’s capability to procure the necessary goods and services under the most optimal conditions, while adhering to the minimum quality standards (European Commission, 2014:6). It measures the extent to which the cost of the inputs is minimised. The primary purpose is value for money in terms of the budget. The key element is to prevent wasteful or lavish expenditure (Kakumba & Fourie, 2007:653-654; NT, 2014: 103).

Undoubtedly, effectiveness, efficiency and economy are essential concepts related to the performance of government organisations. Not only are these concepts inextricably connected, but together they are crucial in terms of an organisation attaining value for money. The following linkages between public finance management, internal control and accountability illustrate and demonstrate these interconnections.

2.4.3. **The linkages between public finance management, internal control and accountability**

Accountability is to answer for the execution of assigned responsibilities and for the associated results that arise from the implementation of such responsibilities. This suggests holding individuals and organisations responsible for performance measured as objectively as possible. For the purposes of this research, only two types of accountability are relevant and elucidated as follows:

i. **Financial accountability:** This is deemed critical in financial management since public sector organisations are held accountable to their constituents, electorate and citizens for collecting and distributing public funds according to budget priorities and at minimum cost (Ababio, 2007:6; Erasmus, 2009:68). Financial accountability results from holding an individual accountable for effectively performing a financial activity (NT, 2014:117). A well-defined financial accountability structure serves as the foundation for establishing effective financial processes (Fourie, 2007:741). The Accounting Officer (AO) has to ensure that the OTP operates in the most effective, efficient and economical manner in order to meet predetermined strategic goals and objectives (NT, 2000:3). In executing this responsibility, the AO delegates various financial delegations to senior
management in an organisation so as to achieve predetermined goals and objectives. Fourie (2007:741) maintains that financial accountability carries with it a major commitment for all officials tasked with managing budget, expenditure and revenue and implementing financial delegations. Administrative accountability encompasses critical systems of internal control that complement and ensure the proper functioning of checks and balances, including financial (Fourie, 2007:741-742; Witthoft, 2014:2-3). All government employees are bound by the prescribed rules and regulations of a legislative framework. These prescripts dictate their behaviour in the workplace as the work performed is evaluated and they are held accountable for each action or inaction. As Kakuma and Fourie (2007:655) propose, senior financial role players have to account fully for both financial and performance matters.

ii. **Transparency:** This is a key principle underlying accountability. Duties and responsibilities are clearly defined when staff members accept and undertake these responsibilities. In particular, senior financial role players are accountable for the resources entrusted and for ensuring programmes and services are administered effectively and efficiently. Visser and Erasmus aptly sums up the relationship between internal controls and accountability in the public sector in the following terms:

> The increasing public demand for accountability of officials has led to the realisation that effective and efficient use of resources, in accordance with applicable statutory requirements, can only be achieved, if a sound and comprehensive internal control system is in place and functional (2009:277).

The effective, efficient and economical implementation of internal control is an integral process that is effected by a department’s management and personnel and is designed to address risks and to provide reasonable assurance for the achievement of objectives in pursuit of the department’s mission, thereby promoting accountability (Changchit, Holsapple & Madden, 2001:438; NT, 2014:104). The principle of accountability, if implemented correctly and meticulously applied by the OTP can lead to prudent and sound financial management and performance. The achievement of sound financial management, through the implementation of effective, efficient and economical internal controls, demands proper accountability from all role players. Each role-player is obliged
on the basis of their respective responsibilities to achieve strategic goals and objectives. These core constructs which associate themselves in the case study of the OTP will be further explored in the section which follows.

2.5. INTERNAL CONTROLS AND ACCOUNTABILITY: THE CASE OF THE OFFICE OF THE PREMIER, KWAZULU-NATAL

The OTP, as the foremost office of provincial government in KZN, is required to epitomise good governance. With particular reference to public finance, this should include: internal controls and accountability.

2.5.1. Internal control pillars

Apstolou and Crumbley (1992:17.6, 17, 12); KPMG (1999:19); INTOSAI (2004:8); Fourie, (2007:737); Visser and Erasmus (2009:284) and NT (2009:51-53) all concur that there are fundamental standards for the efficient, effective and economical functioning of internal controls in a department. Functioning as pillars of internal control within an organisation, these are illustrated in Figure 2.5.
Each pillar of internal control will now be analysed and justified in the section which follows.

2.5.1.1. Policies

KPMG (1999:19) maintains that policies establish what should be done and thereby serve as the basis for all procedures. If these are defined, then officials have clear guidance on how each department should operate. Internal control and internal audit will monitor and assess the implementation of the procedures and provide recommendations where necessary. The Accounting Officer of the OTP or her/his delegated authority will develop their own policies for each area of responsibility e.g., a policy for payments. The relevant policy will incorporate the legislative requirements from the PFMA, TR and other pertinent practice notes issued by the NT and the PT. Apstolou and Crumbley (1992:17) emphasise that the policy is customised for the OTP in order to factor in the uniqueness of the
department. Policies form the basis upon which the OTP operates and the AG will audit the Office against these policies to ensure compliance (NT, 2009:65).

2.5.1.2. **Standard operating procedures**

According to KPMG (1999:20), in order to ensure uniformity and consistency in the performance of work activities, it is crucial for the OTP to prepare standard operating procedures for every approved policy. The NT (2009:75) insists that the procedure manuals must include the following minimum requirements: step by step instructions of how to perform the tasks; internal control measures; approval, and review and monitoring. In addition, all procedure manuals must be approved by the AO and reviewed on a regular basis so as to ensure they cater for changes in the OTP (Fourie 2007:737; NT 2009:85). When designing such procedures, the uniqueness of each department and the practical implementation of the procedures must be considered.

2.5.1.3. **Delegations**

The PFMA and TR assign all responsibilities to the AO. Indeed, it is impractical for the AO to perform all the functions by her/himself. These functions have to be assigned to the managers and officials. Apstolou and Crumbley (1992:17) and supported by Visser and Erasmus (2009:288) caution that management should ensure that the conditions and terms of authorisation are clearly documented in writing, approved by the AO and noticeably communicated, in order to be valid and serve as a mechanism to hold financial role players liable for the execution of their duties. KPMG (1999:22) further caution that delegations must be regularly reviewed and amended in line with changes in policies, procedures, risks identified, appointment or termination of officials. In this manner, the delegations will remain relevant. In the OTP, financial delegations are issued for financial transactions. Accordingly, transactions up to certain values can only be approved by certain officials.
This is a control mechanism designed for the review, approval and segregation of duties (AG, 2011:5). Specifically, it is designed to ensure that all financial transactions are authorised and executed only by persons acting within the scope of their authority. Accordingly, the Accounting Officer (AO) of the OTP authorises employees to perform certain activities and/or to execute certain transactions within limited parameters. Delegation forms an indispensable pillar upon which all functions are sanctioned and performed within well-defined parameters (KPMG, 1999:19).

2.5.1.4. Segregation of duties

Segregation of duties is a primary pillar in any internal control plan in order to provide adequate checks and balances. The basic goal of segregation of duties is that no one person should have excessive control over one or more critical processes. It also defines authority and responsibility over an activity and the use of limited resources (Visser & Erasmus, 2009:279). These are called incompatible duties when performed by the same individual. The NT highlights the following examples of incompatible duties: managing operations of an activity and record-keeping for the same activity; custody of assets and recording receipt of said assets; authorisation of transactions and disposal of the related assets or records, and operating and computer program systems (2009:51-53).

The abovementioned examples illustrate the fundamental premise of segregated duties that an individual or small group of individuals should not be in a position to initiate, approve, undertake, or review the same action (AG, 2011:6).

2.5.1.5. Competent personnel

All officials, irrespective of rank, are duty bound to adhere to the departmental code of conduct and display the highest standards of integrity in the execution of their duties. Furthermore, officials must be equipped with the necessary skills and experience relevant to their work function. This will entail ongoing training and development to ensure that skills are relevant and up to date. According to KPMG (1999:66), officials need to be trained and on board with the critical role that internal control plays in effectively, efficiently and economically implementing, relevant and respective functions. Officials who possess an in-depth understanding of internal control are an asset to the organisation (NT,
2009:54). As part of the recruitment process, Human Resource has to verify the necessary qualifications by the South African Qualifications Authority (SAQA) and perform reference checks, prior to appointment of new staff members. Once appointed, all employees must undergo a compulsory induction programme as well as be subjected to both on-the-job and formal training (Visser & Erasmus, 2009:279). For Visser and Erasmus (2009:279), the importance of job rotation to widen an employee's work horizons is paramount. Equally important is ensuring that employees make use of their annual leave and that their respective functions are performed by their counterparts in their absence (KPMG, 1999:22).

Together, all these pillars justify internal control and how this principle impacts on public financial management and accountability at the OTP. Other critical components of internal control will now be discussed.

2.5.2. Components of a system of internal control

Effective financial internal control as a system is imperative as it supports the OTP, KZN in delivering quality services by promoting financial accountability, compliance and optimal policies and processes, while safeguarding resources against loss due to waste, abuse, mismanagement, errors and fraud (NT, 2003:102). The presence of these components ensures effective, efficient and economical, internal controls (INTOSAI, 2004:14; Cohen, 2007:5; COSO, 2007:2; De Koning, 2007:43; Azuma, 2008:81; NT, 2004:9; COSO, 2013). The five inter-related components require constant investigation and evaluation for effective internal control measures in the OTP. These five components and their relationship to one another is illustrated in Figure 2.6.
These five components do not exist independently but rather fully interface with all areas of the processes of the department. These five components will be further examined in the sub-sections which follow.

2.5.2.1. **Control environment**

The control environment is the foundation for the internal control system in providing fundamental discipline and structure and sets the tone for the organisation, thereby influencing the overall consciousness of its people (AG, 2011:144-145). The control environment embodies the overall philosophy to and awareness of the control system and serves as a conduit for the department’s accountability towards, "ethical and honest behaviour, effective internal controls and proper financial reporting" (COSO, 2013:5). It is essential that this environment is conducive to effective, efficient and economical control procedures. Should the control environment be flawed, internal controls are compromised and will not function as originally intended. It is important therefore that senior management must establish a control environment and demonstrate to the departmental employees that control is at the forefront of their agenda (NT, 2014:105).
A comprehensive governance structure is fundamental, with special emphasis on attitude and management's style. This include: professional integrity; continuous dedication to compliance, and striving for the highest level of competence. Documented departmental policy statements, codes of conduct, standard operating procedures and service delivery charters, form the backbone for an effective control environment (INTOSAI, 2004:17). Essential to a proper functional control environment is the implementation of an organisational structure linked to the strategic plan that provides for adequate line functions, responsibility, reporting and accountability levels, and balancing the need for internal controls and available resources (KPMG, 1999:20). Human Resources policies and practices that promote the timeous recruitment, appointment, promotion of credible and competent staff members, who are equipped with the necessary skills knowledge, expertise and institutional experience; training and skills development, together with performance evaluations and disciplinary actions must also be incorporated in the OTP policies. Finally, the control environment calls for the establishment of internal control, Internal and external audit committees to play a crucial oversight function (NT, 2014:105).

As highlighted in the preceding paragraph, the control environment is the foundation for the realisation of the internal control objectives (Lannoye, 1999:1). The success or failure of internal controls is dependent on the "actions, attitude and values" of the top management in a department (Commonwealth of Massachusetts, 2007:6). Whether employees view internal control as critical in the functioning of a government department or simply as "red tape" hindering their work processes, is solely based on the level of adherence to internal control by senior management. Ultimately, while is it "important to establish and implement policies and procedures, it is equally important to follow them" (2007:6-8). Therefore, the tone established at top management reiterates the importance of internal control and the commitment to expected standards of conduct of all officials in the OTP is therefore of vital importance.

**2.5.2.2. Risk assessment**

Every department faces a multitude of risks from external and internal sources. It is therefore essential for the department to not only identify, but also conduct an assessment of the potential risk (King, 2009:74). A risk assessment is an intensive perpetual process
to identify, analyse and respond to risk factors that may affect the achievement of strategic goals and objectives of the OTP (KPMG, 1999: 20; Kloman, 2002:1, McNamee, 2002; AG, 2010; NT, 2014:105). As DiNapoli (2010:5) has noted, these consist of:

Building blocks that create, implement and review the policies and procedures that constitute a system of internal controls.

For Kloman (2002:1), risk assessment is a measure by government to promote accountability. The key elements of risk assessment are illustrated in Figure 2.7.

![Figure 2.7. Elements of risk management](image)

Source: Adapted from (INTOSAI, 2004: 24; DiNapoli, 2010:3 and NT, 2014:114-119)

2.5.2.3. **Control activities**

Control activities are those specific procedures that ensure necessary actions to mitigate risks, thereby providing reasonable assurance that strategic departmental objectives will be realised. Control activities permeate the entire department and are implemented at every level and are inclusive of all operations (INTOSAI, 2004:28). Control activities comprise both detective and preventative control activities, including, but not limited to authorisation, delegations, segregation of duties, document access controls, analysis and verification of documentation, data reconciliation and operational reviews (Visser & Erasmus, 2009:292). In order to have the desired effect, control activities need to be appropriate and comprehensive in addressing the identified risk (KPMG, 1999:20, 2013)
2.5.2.4. **Information and communication**

This component is considered indispensable in the internal control framework. Effective decision making by management is largely reliant on the relevance, accuracy, integrity and timeliness of data. Management information systems play a pivotal role in the production of financial and non-financial reports, highlighting progress in the achievement of goals and objectives. This serves as an effective management tool to assess the economical, efficient and effectiveness of departmental operations (INTOSAI, 2004:37). Information pertinent to the operation of an organisation must be identified, captured and communicated in an effective form. Effective communication must occur at every tier of the structure by every employee in every unit in the department. Communication is multi-faceted and includes verbal, non-verbal and written exchange. Employees must have a clear understanding of management expectations, and management must hear and understanding employees' concerns. Furthermore, relevant information must be communicated to all stakeholders timeously. Communication occurs both internally and externally and provides the organisation with the information needed to carry out day-to-day internal control activities. Communication enables personnel to understand internal control responsibilities and their importance to the achievement of objectives (KPMG, 1999:21, 2013; INTOSAI, 2004:36-39).

2.5.2.5. **Monitoring and evaluation**

Monitoring and evaluation represents a significant component as ongoing evaluations, separate evaluations, or some combination of the two, which are used to ascertain whether each of the five components of internal control are present and functioning as intended. Findings are evaluated and deficiencies are communicated in a timeous manner, with serious matters reported to senior management for further action (KPMG, 1999:21). Monitoring is an important management tool with the objective of establishing if internal controls are effective, efficient and economical, as originally envisaged, or whether it is necessary for amendments based on organisational changes to take place. Monitoring also involves an analysis of the internal and external audit recommendations with a view to determine if the auditing findings have been adequately addressed and further internal controls implemented (KPMG, 1999:21; INTOSAI, 2004:36-39). The Department of Performance, Monitoring and Evaluation (2015:3) has developed a
management performance assessment tool for monitoring management practices and service delivery in government.

Imperative to the success of the monitoring component is a clear and comprehensive understanding by all officials of the department’s strategic direction and how their individual job functions relate to the overall departmental goals and objectives (INTOSAI, 2004:40-42). Changchit et al., (2001:437) point out that despite the critical importance of monitoring and evaluation, it is a neglected area in the public service. The effective, efficient and economical implementation of the five inter-related internal control components by OTP financial role players is essential for correct stewardship and accountability of the department’s resources. The discussion and justification of the components of internal control systems at the OTP are a means to strengthen good governance. However, there exists limitations and risks to internal control. These risks will now be discussed below.

2.5.3. Internal control limitations

Visser (2011:89) asserts that no system of internal control, irrespective of the design and implementation, is fool-proof, as there are always certain inherent limitations present. An effective internal control system will not guarantee an organisation’s success due to its dependence on the corporate culture of the OTP and the human element. According to KPMG (1999:22); INTOSAI (2004:9-11); Visser (2011:89); KPMG (2013) and NT (2014:104-106), no matter how good an internal control system implemented by the OTP, the following factors (amongst others) will always limit its effectiveness:

i. The effectiveness of the internal control system depends on the competency and dependability of the people using it. The human factor plays a role in design, mistakes and errors of judgment/interpretation, collusion or abuse of internal control, and therefore errors are more likely to occur;

ii. Challenges in the work flow may result in the breakdown of internal control;

iii. Employees in pressurised environments may circumvent normal work processes, thereby compromising internal control;

iv. In most instances, management can easily override internal control procedures;
v. Internal controls must be cost effective. This will lead to a situation where an organisation will implement the best system they can afford based on a cost benefit exercise, which is not necessarily the best system there is (KPMG, 1999:22; INTOSAI, 2004:9-11; Visser, 2011:89; KPMG (2013) and NT (2014:104-106).

In the final analysis, it is imperative to note that internal control can only provide "reasonable, but not absolute, assurance" that the entity's objectives can be met (KPMG, 1999:22).

2.6. CHAPTER SUMMARY

This chapter has provided a theoretical overview of financial management theory with respect to accountability and internal control measures. The examination of the classical and NPFM models provided a solid platform for an in-depth understanding of internal control and accountability in a public sector environment. Thereafter, the core constructs were explored in relation to the OTP, KZN as a case study. The effective, efficient and economical implementation of internal control and accountability in a government department was also examined. This encompassed the components of internal control, including: control environment, risk assessment, control activities, communication and information, and monitoring. It is important that senior managers develop appropriate internal control over operations and resources to address identified risk areas. Ensuring public accountability requires rigorous effort in addressing all aspects of accountability. Accordingly, maintaining accountability is a continuous process. Visser and Erasmus (2009:277) aptly sum up the relationship between internal controls and accountability in the public sector, when they state:

The increasing public demand for accountability of officials has led to the realisation that effective and efficient use of resources, in accordance with applicable statutory requirements, can only be achieved, if a sound and comprehensive internal control system is in place and functional.

In chapter three, the relevant legislation within the South African public sector and the various internal control role players at OTP, KZN will be deliberated upon.
Chapter Three

Regulatory and statutory framework for financial internal controls and accountability with specific reference to the Office of the Premier, KwaZulu-Natal

3.1. INTRODUCTION

Since the advent of a new democratic dispensation in April 1994 in South Africa, the work environment is transformational, with immense social and political changes taking place in the past two decades. Organisations and particularly the public sector are being re-engineered towards greater speed, efficiency and flexibility in the management of government finances. It therefore becomes imperative to comprehend the legislative requirements in South Africa, such as the 1996 South African Constitution, the Public Finance Management Act No. 1 of 1999. (PFMA) and the associated, Treasury Regulations, 2002 (TR), which together have introduced radical and fundamental change to the manner in which government conducts its business.

Emanating from negative audit findings in internal audit and external audit reports (AG, 2012, 2013, 2014; PT, 2012, 2013c, 2014a), it is evident that the execution of financial reform remains an enormous challenge for the key financial role players in the Office of the Premier, KwaZulu-Natal (OTP, KZN). Shauket Fakie, a former Auditor-General (2006:13), confirms this and reiterates the lack of priority afforded to financial management in the public sector. In order, therefore, for the OTP to realise its strategic goals and objectives and be entirely accountable for the utilisation of public resources, all key financial role players need to embrace and comprehend the financial reforms stipulated by the statutory, regulatory and policy frameworks that have been introduced. This view is validated by Gitman (2003:10) who asserts that senior financial role players must display an in-depth understanding of the environment that they operate in as well as be ever-alert to fluctuations in the public finance arena.

In the previous chapter, the financial theories, key constructs, internal controls and accountability as applicable to public organisations was explored. This chapter
commences with an overview of the pertinent legislation applicable to this study and the Office of the Premier (OTP) in particular. By so-doing, Research Objective #2 (see section 1.4 RO 4 above), namely, the legislative and regulatory framework, relating to effective, efficient and economical financial internal controls and accountability, will be explored to afford a comprehensive understanding of the financial reforms in South Africa, with special reference to the OTP, KZN. Thereafter, analyses of the various pertinent financial policies will be presented. The chapter concludes with the examination of the numerous roles and responsibilities of the various external financial functionaries and internal financial role players.

3.2. FINANCIAL LEGISLATION IN SOUTH AFRICA

The financial management system inherited in 1994 was essentially centralised. In implementing the Exchequer Act (SA, 1975), financial role players were unable to exercise any discretion as they were bound by prescriptive measures in terms of legislation, regulations and instruction, resulting in ineffective financial management. As Fölscher and Cole have observed, the financial management systems under the Exchequer Act:

> Was not transparent, with poor underlying information systems, hidden spending and inadequate mechanisms to extract useable information for budgeting and accountability purposes (2004:109-110).

During this phase, the appropriated budgets of each government department were centralised with the primary focus on compliance to the legislation on the control of inputs and expenditure. There existed a definitive distinction in the roles and responsibilities between finance and line managers, which Fourie (2002a:101) aptly describes as "finances were only for financial people," while line managers' sole concern was the delivery of goods and services. Ultimately, service delivery became the fatality as with the Exchequer Act, accountability and value for money was systematically compromised. In addressing these challenges, the government embarked on a process of modernisation of financial management practices of the public sector. Abedian (2005:11) articulates that the primary objective of the introduction of financial management reforms by the South African government included establishing appropriate links between strategic objectives and expenditure plans, ensuring fiscal discipline, promoting the efficient use of resources,
empowering managers to make effective decisions, introducing transparency and accountability in the process, and the accessibility of information. These key financial reforms are illustrated in Figure 3.1.

![Figure 3.1. Legislative framework](image)

As alluded to in the above figure, pertinent legislation attempted to set out the administrative and operational financial framework, with respect to internal control and accountability for public organisations. These legislation instruments will now be explored in more depth.


The South African Constitution (RSA, 1996), heralded a fundamental transformation from the past legislation. Cloete (1996:79) declares the Constitution as the "first policy statement of the state" serving as a mandate for all government departments. Specifically, section 215 of the South African Constitution emphasises the significance of sound financial management:

> National, provincial and municipal budgets and budget processes must promote transparency, accountability and the effective management of the economy, debt and the public sector (RSA, 1996).
Effective and efficient management of public finances is therefore enshrined within the provisions of the South African Constitution, all of which dictate a critical link in financial internal controls to ensure the accountability chain and the appropriate, effective and efficient utilisation of resources. Fölscher and Cole (2004:114); van der Waldt (2004:85); Visser and Erasmus (2009:55) also assert that Chapter 13 of the South African Constitution provides a broad framework for financial matters and necessitates that further Acts of Parliament set out further requirements for the implementation thereof. According to the NT (2003:2), section 215-217 of the South African Constitution provide an essential foundation for the implementation of key budget reforms. Indeed, it obligates all financial role players to ensure the execution of a moral and accountable government, where the emphasis is upon transparency and value for money, in the execution of their duties. Crucial to the successful execution of these functions, is the implementation of financial internal controls by senior financial role players.

3.2.2. Public Service Act No. 103 of 1994

Since 1994, fundamental public service operational reforms have occurred. It therefore became essential that the Public Service Act had to be amended and be read in conjunction with the Public Service Law Amendments Act, 1997. Deloitte and Touche (2004:20) add that the primary objective was to provide for the organisation and administration of the public service by regulating conditions of employment and other human resource matters. In reference to this present research study, the prime purpose of the Public Service Act No. 103 of 1994 was to afford heads of departments control over work organisation. In terms of the act, performance must be managed with a view to promoting accountability by ensuring the optimal use of resources in the achievement of goals and objectives (van der Waldt, 2004:93).

3.2.3. Public Finance Management Act No. 1 of 1999

The Public Finance Management Act No. 1 of 1999 (PFMA) is a critical milestone in the National Government's budget and financial reform agenda (RSA, 1999a). It has been understood by many as one of the most significant pieces of legislation that forms the foundation for strategies for effective, efficient and economical public financial
management at all levels of government (Visser & Erasmus, 2009:56). Its primary goal was to modernise financial management and enhance accountability (NT, 2003:3). This goal is clearly enunciated in the opening remarks of the PFMA:

The Act promotes the objective of good financial management in order to maximise delivery through the efficient and effective use of limited resources.

Moreover, the object of the Act is: "to secure transparency, accountability, and sound management of the revenue, expenditure, assets and liabilities" (NT, 2014:18). The approach of the Act towards financial management emphasises outputs, responsibility and accountability, as opposed to being rule-driven.

Prior to the promulgation of the PFMA, there were numerous weaknesses in financial management (NT, 2014:18), including, little to no concept of financial management and reporting, a rules-based approach, and a highly centralised budget system. The PFMA was introduced to address these exact areas of weaknesses. It was evident that responsibility or accountability for results (inputs, outputs and outcomes) features prominently in the PFMA, with the ultimate goal of achieving value for money through the effective, efficient and economical use of limited resources. Abedian (2004:37) encapsulates the long-term vision of this prominent financial legislative instrument as enforcing fiscal discipline by enabling financial role players to manage, while simultaneously be held accountable for all actions, thereby enhancing transparency and accountability. As part of the strategy on improving public financial management, an implied objective was the prioritisation of service delivery. This ideology represented a pivotal shift from the previous financial dispensation and was a clear articulation of the political will to ensure an enriched quality of life for all citizens of South Africa (Abedian, 2004:8). For Gloeck (2000:5), the PFMA heralds a new era of "statutory performance management," thereby solidifying a firm pledge to accountability and sound financial management. In executing their financial duties, financial role players should therefore ensure that internal controls are implemented effectively, efficiently and economically to promote accountability.
3.2.4. Prevention and Combating Corrupt Activities Act No. 12 of 2004

This Act serves as a blueprint for the culmination of various measures with a sole purpose in averting and combating fraud and corruption (SA, 2004). It regulates offences in respect of corrupt activities relating to contracts, acceptance or offering of any gratification, and the improper influence of another person and offences in respect of corrupt activities relating to procuring and withdrawal of tenders and auctions. It also provides for miscellaneous offences relating to possible conflict of interest and other unacceptable conduct such as the acquisition of private interest in contracts, agreements or investments of a public body. All financial role players have to ensure that proper financial internal controls are put in place to serve as early warning signals and thereby reduce the risk of fraud and corruption occurring in the OTP, KZN.

3.2.5. Division of Revenue Act No. 1 of 2015

There exist stringent regulations pertaining to the withdrawal of funds from the national and provincial revenue funds. One of the methods of distribution such funds is through an Act of either parliament or the provincial legislature. As per section 214 of the South African Constitution, the Division of Revenue Act No. 1 of 2015 (DORA) allocates an equitable share of revenue to each of the provinces (SA, 2015a). This Act serves to regularise, (1) the distribution of public funds across national departments and provinces, and (2), the distribution of the "provincial slice" across provincial departments. DORA sets out the disclosure requirements for transfers made, allocations received, and reporting requirements for conditional grants. (NT, 2010a:6). Arising from DORA, the allocation for the OTP is further distributed to all units, based on projects as per the strategic and annual operational plan. It is this baseline allocation that the respective financial role players are accountable for to the AO.

The above brief overview of the statutory financial management framework and the legislation instruments pertaining to financial management provide a general context that does not articulate specific procedure. In this next section, the regulatory framework that governs internal controls and accountability in financial management will be discussed.
3.3. REGULATORY FRAMEWORK

Arising out of promulgated legislation, it is common practice that within public organisations, it is the responsibility thereafter of the relevant minister to develop detailed regulations, with the primary purpose of the efficient and effective implementation of the said legislation. The regulatory instruments that are critical to this research study are summarised in Figure 3.2.

![Figure 3.2. Financial regulatory framework](image)

3.3.1. White Paper on Transforming Public Service Delivery, 1997

For van der Waldt (2004:87), the foremost priority for South Africa lies in enhancing public service delivery. Accordingly, this White Paper postulates the improvement of service delivery to all South African citizens (DPSA, 1997:1). Batho Pele is a Sesotho phrase meaning "People First," with the primary objective of ensuring that all public role players implement the principles of Batho Pele in the execution of their specific duties (DPSA, 1997:4). Financial role players are required to uphold the principles of Batho Pele, which are aligned to the ideals expressed in the South African Constitution, by maintaining the highest standard of professional ethics in providing accountable and transparent financial management services (NT, 2010a:22-25). The eight service delivery principles of Batho Pele are as follows:

i. Consultation with citizens;
ii. Setting service standards;
iii. The right to redress;
iv. Increasing access;
v. Ensuring courtesy;
vi. Providing accurate information;
vii. Openness and transparency;

For van der Waldt (2004:88), Batho Pele is both simple, yet ambitious. Its overall purpose is for the South African Public Service to embark on an extensive long-term process of transformation and demands a change in the mind-set of all public servants. In terms of this present study, the pertinent focus is upon Batho Pele Principle #8 which relates to value for money. Essentially, value for money is pivotal to accountability as it revolves around the effective, efficient and economical use of resources (NT, 2010a:22-25). Financial role players are required to undertake meaningful analysis of their performance in terms of value for money. In light of the current cost-cutting initiatives across all provinces, financial role players are required to “do more with less” at all service delivery points due to the severe constraints on available resources. Key to these mechanisms are financial controls aimed at minimising wastage and streamlining procedures. Van der Waldt (2004:88) commends Batho Pele for its innovative customer-centric focus, whereby for the first time, citizens are given the power to hold public servants accountable for their actions or inactions.

3.3.2. Public Service Code of Conduct, 1999

The Public Service Code of Conduct, 1999 serves as a reference for financial role players in terms of ethical behaviour not only in an individual capacity, but also in their relationship with other role players (RSA, 1999b). National Treasury (2010a:20) highlights the key elements of the code as being the employee’s relationship with the legislature, the executive, and other government employees. Compliance is mandatory for all financial role players with the primary objective to enrich professionalism and competency in the public sector (NT, 2014:177). Notwithstanding the primary objective, employees shall be guilty of misconduct in terms of section 20(t), if they contravene any provision of the code (NT, 2014:178).
3.3.3. Public Service Regulations, 2001

The Public Service Regulations, 2001 represented a radical move away from the detailed rules and regulations as prescribed in the existing staff code. According to van der Waldt (2004:92), the new public service regulations “entail an integrated framework designed to promote effective performance.” This view is supported by regulations which permit public organisations the flexibility to develop their own human resource management policies within a broad framework of norms and standards. The regulations give effect to specific provisions of the Public Service Act, 1994 relating to general provisions, code of conduct, financial disclosure, and senior management service (NT, 2004:66). Of specific reference to this present study are the issues of financial disclosure. In terms of chapter three of the regulations, the financial role players, as identified in this study, are required to disclose to the Premier, on an annual basis by 30 April, the details of all shares, directorships/partnerships, consultancies, sponsorships, gifts and ownership in land and property, in respect of the previous financial year. A code of conduct frames such an exercise.

3.3.4. Treasury Regulations, 2002

Pauw, et al., (2010:42) maintain that while the PFMA stipulates the fundamental principles for sound public financial management, the comprehensive directives regarding the effective, efficient and economical use of allocated funds is specifically outlined in the Treasury Regulations, 2002 (TR). Their primary objective is to operationalise the PFMA, providing comprehensive direction to all stakeholders on minimum requirements for effective, efficient and economical financial management (NT, 2014:48). According to Pauw et al., (2010:37), the TR encompass the entire arena of financial management without binding financial role players with exhaustive procedures. Accordingly, these regulations stipulate the various financial control reports that are necessary so that public organisations are accountable for the resources they receive. These financial control reports serve as critical early warning signals for the financial role players and afford remedial opportunities, thereby ensuring the successful achievement and maintenance of strategic goals and objectives.
3.3.5. Medium Term Strategic Framework, 2014

The Medium Term Strategic Framework (MTSF) comprises of a five-year national strategic plan, considered by the cabinet Lekgotla, informing the budgeting process and subsequent annual updates (SA, 2014a). According to NT (2014:179), the MTSF is a public document with broad objectives to:

Promote shared economic growth, sustainable social programmes, combating crime, strengthened international relations and increased efficiency and effectiveness of the state machinery.

Based on the 2030 vision of the National Development Plan, the MTSF guides the coordination of policy and resource distribution through twelve outcomes that shape allocations to government functions, as illustrated in Figure 3.3.

### Figure 3.3.

**Twelve national outcomes**

Source: PGDS (KZN Planning Commission, 2012:8)

Outcome #12: Developmental, competent and accountable government is of particular relevance to this study. In realising Outcome #12, the importance of financial internal controls cannot be over emphasised.
3.3.6. Medium Term Budget Policy Statement, 2014

The Medium Term Budget Policy Statement (MTBPS) as introduced in 2004, sets out the South African Government's programmes and policies, as approved by the national cabinet at the commencement of each term of office. In essence, the MTBPS comprises a summary overview of medium term fiscal and budget plans, spending priorities, and key service delivery considerations (NT, 2010a:5). Arising out of the twelve national outcomes, the MTBPS is designed to facilitate sustainable economic growth, reduce growing inequality, and promote environmental sustainability (SA, 2014b).

3.3.7. Medium Term Expenditure Framework, 2015-2018

The Medium Term Expenditure Framework, 2015-2018 (MTEF) designates the resource envelope for the upcoming year, as well as indicative baseline allocations for the outer two years. According to Pauw et al., (2010:73), the MTEF is pivotal in the government's budget reform. This can be attributed to the MTEF augmenting long-term stability and promoting a transparent process, by providing a platform for government to accurately budget for projects by aligning the planning and performance delivery to identified strategic goals over the Strategic Plan, in a period spanning three years. An added advantage of the transparent process of the MTEF is that it promotes investment, as there is a full declaration of government spending and revenue, as published by NT (SA, 2015b). However, Fölscher and Cole (2004:114) caution that while the MTEF provides a broad overview of the government's proposed spending and revenue generation, cognisance must be taken that in the daily operations of the department, it is the PM, SPM and RM who are responsible for financial decisions that could potentially impact expenditure and revenue forecasts. This further highlights the critical role played by the financial role players at management level.

Beyond an analysis of the financial regulatory frameworks pertaining the financial internal controls and accountability, it is appropriate to examine the policies that have emanated from the statutory and regulatory framework.
3.4. OFFICE OF THE PREMIER, KWAZULU-NATAL FINANCIAL POLICIES

The key policies relevant to this present study will now be examined in the sub-sections which follow.

3.4.1. National Treasury Practice Notes, 2007

Practice notes issued by NT further supports the PFMA and the TR. These policies assist financial role players to implement effective financial management systems, allowing for consistent treatment of transactions and continuity of these actions regardless of a change in personnel. They also serve as a standard of performance as actual results are measured against policy to determine success or failure.

3.4.2. Provincial Treasury Practice Notes, 2013

In order to comply with the national imperatives, the PT has embarked on a number of financial reforms, by introducing provincial norms and standards in the form of practice notes. The financial management practice notes relate to financial, management accounting, SCM, risk and internal controls in provincial departments (PT, 2013b).

3.4.3. Office of the Premier, KwaZulu-Natal Departmental Polices, 2015

The foundation for an effective and efficient financial management system is the development of appropriate financial policies and procedures (OTP-KZN, 2015c:2). Together, these ensure compliance with the legislative mandates that govern the OTP, its systems of internal control, and the appropriate delegation of authority. The OTP has documented policies and procedures in order to enable financial role players to monitor the compliance of individuals to policies and hold them accountable for non-performance. The policies in the OTP were last reviewed in 2006. However, following various audit queries (AG, 2013, 2014), a revised set of financial policies were drafted and subsequently approved by the AO in 2015. At the time of conducting this study, the following financial policies were in place and are directly pertinent to this study:
3.4.3.1. **Office of the Premier, KwaZulu-Natal 03/2015: Financial Delegations of Authority**

As per the OTP, KZN financial departmental policy (OTP-KZN, 2015c:27), the AO has issued financial delegations to financial role players, detailing the division of decision-making authority between the different performer levels in the OTP. This represents a necessary internal control as financial role players often cannot cope with all administrative functions individually.

3.4.3.2. **Office of the Premier, KwaZulu-Natal 08/2015: Expenditure Management**

The expenditure management policy provides a policy framework for financial role players to manage and control expenditure, and ensures internal controls are firmly in place. The financial role players have to ensure full compliance in terms of expenditure management, within any limitations attached to relevant delegations or authorisation prior to approving expenditure or incurring a commitment to spend. Of specific significance, is the obligation to settle all contractual obligations and process payment to suppliers within thirty days of receipt of invoice.

3.4.3.3. **Office of the Premier, KwaZulu-Natal 17/2015: Financial Misconduct**

As per the policy, section 38 of the PFMA (SA, 1999a:44), states that the AO must take effective and appropriate disciplinary steps against any official in the OTP, who commits an act which undermines its financial management and internal controls.

3.4.3.4. **Office of the Premier, KwaZulu-Natal 20/2015: Unauthorised, Irregular and Fruitless Expenditure**

In terms of section 38(1) of the PFMA (SA, 1999a:44), the ADG is responsible for the timeous detection and prevention of unauthorised, irregular and wasteful expenditure. As
a consequence of this, all financial role players must implement effective, efficient and economical internal controls, by ensuring full compliance to financial prescripts.

The abovementioned policies make reference to relevant financial prescripts, revolving around the implementation of effective, efficient and economical internal controls, for which financial role players are responsible and accountable. Having examined the statutory, regulatory and policy environment, the section below focuses on the external financial functionaries and internal financial role players.

3.5. EXTERNAL FINANCIAL FUNCTIONARIES

As outlined in the preceding section, within the context of financial management, the public service provides a clearly defined framework within which all financial role players must function. The necessary legislative and regulatory framework aims to secure transparency, accountability and effective financial management and further defines the responsibilities of external functionaries as is relevant to the OTP. The key financial functionaries pertinent to this study are summarised in Figure 3.4.

![Figure 3.4. Office of the Premier, KwaZulu-Natal external financial functionaries](image-url)
The external and internal financial functionaries pertaining to financial internal control and accountability illustrated in the above figure will now be examined in greater detail:

3.5.1. KwaZulu-Natal Provincial Legislature

The KwaZulu-Natal Provincial Legislature is the legislative branch of the provincial government. The legislative authority is responsible for policy-making and ensuring the policies of government are carried out. As per section 114(2) of the South African Constitution (SA, 1996), the legislature renders an oversight role and loyally ensures that the policies of government are executed (van der Waldt, 2004:120-121). Kakumba and Fourie (2007:656) add that public accountability is not an event, but rather a continuous process of evaluation and improvement in the achievement of the goals and objectives of an organisation. The accountability cycle, portrayed in Figure 3.5. below, illustrates the linkages between the OTPs strategic plan, medium term budget, in-year monitoring and annual report:

![Accountability cycle](source.png)

**Figure 3.5.**

**Accountability cycle**

Source: NT (2014:135)
As the above figure illustrates, the Premier, via the AO must provide the KZN Legislature performance information from various years and for the current year. Financial role players are assessed for accountability for their effectiveness (if outcomes are met), efficiency (if outputs are sufficient) and economy (if outputs are delivered in a cost-effective manner) (NT, 2014:12). The implementation of financial internal controls is invaluable to financial role players in order to adopt a results-based approach.

3.5.2. Public Service Commission

The mandate for the Public Service Commission (PSC) stems from section 196(1) of the South African Constitution and its primary role is upholding ethics and accountability by monitoring the optimal use of state resources (SA, 1996:107). The PSC serves as a critical role player in accountability and establishes working relationships with the Auditor-General (AG) in the performance of its duties with specific reference to the appraisal of value for money within public organisations.

3.5.3. Auditor-General

The Auditor-General (AG) is the supreme Governmental audit institution of South Africa. Established in terms of section 181(1)(e) of the South African Constitution (SA, 1996:103), its role is to audit and report on financial management in all spheres of government (RSA, 1996:103). According to Barberton (2000:4), the auditing role performed by the AG, serves as a crucial instrument for realising transparency in the public arena. Detailed within its audit reports is the manner in which public funds are utilised and whether value for money has been achieved. The AG is an indispensable financial role player in promoting ethics and accountability. It entrenches the principle of accountability, thereby ensuring that public officials perform their duties effectively, efficiently and ethically. In addition, it expects public officials to be aware that their actions may be investigated in order to establish that effective management principles are considered and that resources are procured economically and utilised efficiently (Kusi, 2004:21). The level of effectiveness of the AG is ultimately determined by the degree of implementation of the recommendations found in its in audit reports, by the financial role players in the OTP.
3.5.4. KwaZulu-Natal Provincial Treasury

The KwaZulu-Natal Provincial Treasury (KZN-PT) is responsible for the oversight function of the management of all public funds in the province. It is responsible for preparing and managing provincial budgets and enforcing uniform treasury norms and standards as prescribed by the NT and PFMA. The intention of this power is not to reintroduce the prior-approval approach, but to be an extension of NT regulations that create the foundation for prudent financial management (NT, 2014:41).

3.5.5. KwaZulu-Natal Audit and Cluster Committee

A centralised audit committee has been appointed in KwaZulu-Natal since 2003. Accordingly, the KwaZulu-Natal Audit and Cluster Committee (CARC) represents a fundamental role-player in assessing internal controls and accountability within the OTP. As per the internal audit methodology manual (PT, 2013a:5), the CARC’s central responsibility is to review the effectiveness of the internal control systems, activities of the internal audit function, and the adequacy, reliability and accuracy of the financial information provided by the OTP. While the CARC reports and provides appropriate recommendations, the AO retains overall responsibility for implementing such recommendations. The AO is dependent upon the financial role players in the OTP to ensure that the weaknesses in financial management are adequately addressed and the risk of re-occurrence is reduced. This involves constant assessment by financial role players in order to refine financial internal controls as deemed suitable for risk levels.

3.5.6. Internal Audit

Provincial Treasury has established a shared Internal Audit (IA) for KwaZulu-Natal that provides advice on the adequacy and effectiveness of internal controls in the OTP. As an essential and effective role player, the IA objectively highlights potential problems, thereby allowing the OTP the opportunity to remedy deficiencies (King, 2009:96). Essentially, the IA delivers significant benefits to the OTP, by evaluating internal controls and making recommendations where necessary for improvement, resulting in improved risk management. Cognisance must be taken of the fact that the IA cannot ensure the
effectiveness of internal control as ultimately it is the responsibility of the financial role players to implement the recommendations emanating from audit reports. These internal OTP financial role players will now be examined.

3.6. INTERNAL FINANCIAL ROLE PLAYERS

All financial role players are accountable for the utilisation of state resources to ensure it is utilised effectively, economically and efficiently. There are numerous internal financial role players that impact on the implementation of the financial management practices in the OTP. For Pauw et al., (2010:66), the executive authority, AO, CFO, PM, SPM, RM, programme coordinators, departmental accountant, and budget advisory committee are all considered important role players. In terms of this present study, the key financial role players in senior management are illustrated in Figure 3.6.

![Figure 3.6. Office of the Premier, KwaZulu-Natal financial role players](source: Adapted from OTP Generic Financial Structure (OTP-KZN, 2015a:1))

In the section which follows, the different roles and responsibilities of each financial role player will be concisely described.

3.6.1. Executive Premier of KwaZulu-Natal

Within the Province of KwaZulu-Natal, the executive authority is vested in the Premier, who is accountable to the KZN Legislature. The PFMA determines that the Premier is
responsible for policy matters and outcomes, which must be agreed upon with the AO and subsequently approved by the KZN Legislature. The NT (2009:65-68) outlines the designated roles of the Premier, including: signing a performance contract with the AO, considering monthly reports by the AO, and ensuring that written directives are issued in cases of potential unauthorised expenditure. These designated roles are critical to accountability, as are all statutory functions, per the PFMA (1996:46-50), and must be performed within the parameters of authorised available funds.

3.6.2. Accounting Officer

As defined in section 36 of the PFMA (SA, 1996:43), the Accounting Officer (AO) is the head of department and is responsible for the administration of public funds under the control of the OTP, thereby ensuring the objectives as outlined in the Strategic Plan are achieved. The AO must ensure that all the resources of the department are utilised effectively, efficiently and economically. While the AO may delegate responsibility to any official in the OTP, the AO is ultimately accountable to the Premier (NT, 2014:15). As outlined in the PFMA (SA, 1996a: 44-50), the AO has three strategic responsibilities. These responsibilities are duly summarised in Figure 3.7.

![Figure 3.7. Accounting Officer strategic responsibilities](image)

Source: Adapted from PFMA (SA, 1999a:44-50)

Internal controls are critical to these strategic responsibilities and the AO has to ensure that financial role players are accountable for their specific internal control responsibilities.
3.6.3. Chief Financial Officer

In terms of the TR, the Chief Financial Officer (CFO) must support the AO in terms of sound financial management practices. These include: sound budgetary controls, operation of internal controls, and the timely production of financial reports (NT, 2014:15). However, the CFO's function is not limited to accounting functions alone, but spans the provision of advisory and operational services across the full range of financial management responsibilities. The CFO is a pivotal role player in the OTP and is a strategic financial pillar of support to the AO (AG, 2010:2). With specific reference to this research study, the role of the CFO primarily involves maintaining a close liaison with the AO and associated financial role players, as well as maintaining systems of internal control that promote accountability.

3.6.4. Senior management

Section 45 of the PFMA (SA, 1999a:53), emphasises that senior management must ensure that internal controls be carried out within their area of responsibility. The roles of senior management, namely PM, SPM and RM will now be examined comprehensively.

3.6.4.1. The role of Programme Managers and Sub-programme Managers

In terms of the financial delegation, the AO in the OTP has appointed PM/SPM at the level of Deputy Director-General and Chief Director to manage the financial affairs of their respective programmes/sub programmes. The PM/SPM are responsible for the financial management of their respective programmes/sub-programmes and are accountable to the AO for the effective, efficient and economical use of resources to achieve the OTP’s objectives (NT, 2014:16). According to Pauw et al., (2010:67), the financial responsibilities of PM/SPM include evaluating and consolidating the various budget inputs from responsibility managers, making recommendations on these inputs, ensuring prompt submission to higher authorities, and controlling expenditure at the programme level. Essential to this present study, is a tacit understanding of the process that the PM/SPM fully implement financial internal controls that promote accountability.
3.6.4.2. The role of the Responsibility Manager

In terms of the PFMA and TR, the AO may issue financial delegation to other officials within the department in order to discharge her/hid duties; nevertheless, accountability rests solely with the AO. Accordingly, the AO in the OTP, appoint RM, at the level of senior management to manage the financial affairs of their respective units. The primary responsibility of RM is to ensure the effective administration, financial management operations, and internal controls within their respective units. Pauw et al., (2010:66-67) maintains that in order for RM to fulfil these responsibilities, the RM should perform a raft of functions and responsibilities. These are illustrated in Figure 3.8.

![Figure 3.8.
Functions and responsibilities of Responsibility Managers](image)

Source: Adapted from Pauw et al., (2010:66-67)

The functions and responsibilities of RM are clearly outlined by Pauw et al., (2010: 66-67). Accordingly, RM are responsible for:

i. **Classification of functions**: Analysing the business plan and identifying actual tasks related to the planned outputs and activity;
ii. **Costing:** Estimating the expenditure required to execute the outputs in terms of the business plan and prepare monthly cash flow data related to the estimates of expenditure;

iii. **Control over income and expenses:** Ensuring that all income due to the unit is recovered and that payments are authorised in terms of the delegated authority. Accordingly, RM should be constantly analysing expenditure control reports, which serve as vital internal controls, and considering corrective actions where necessary;

iv. **Asset management:** Ensuring internal controls are firmly put in place so that assets in the component are used for official purposes only;

v. **Budget and expenditure control:** The budget and expenditure are to be monitored monthly in accordance with the outputs as detailed in the business plan. RM should scrutinize the expenditure reports, to detect early warning signals relating to lapses in internal controls;

vi. **Financial reporting:** The financial reports can be utilised to manage the activities and general reporting of actual performance against planned outputs;

vii. **Internal control:** To ensure that the system of financial control is operational within their unit and should promote a culture of effective and honest management of resources.

The PM/SPM/RM are vital role players in the efficient implementation of financial internal controls. Any non-compliance will result in the weakening of the accountability chain. Hence, non-compliance could result in financial misconduct being instituted by the AO against PM/SPM/RM, in terms of section 38(i)(h) of the PFMA (SA, 1999a:44).

### 3.7. CHAPTER SUMMARY

This chapter has presented pertinent legislative, regulatory and policy framework within which the OTP is required to operate. Thereafter, the roles of external financial functionaries and internal financial role players were explored. The chapter also included brief outlines of the operational responsibilities of senior financial role players, as key personnel in maintaining internal controls and accountability. In the chapter which follows,
the methodology employed in ascertaining financial accountability in the OPT, KZN will be presented as it relates to meeting the key objectives of this research study.
Chapter Four

Empirical findings: Analysing the financial internal controls that promote accountability in the Office of the Premier, KwaZulu-Natal: A case study approach

4.1. INTRODUCTION

Thus far in this research study, a theoretical overview, including the regulatory and statutory framework in terms of financial internal controls and accountability, with specific reference to the OTP have been deliberated upon. The primary objective of this chapter will be to present the empirical findings of the study in accordance with Research Objective Four (RO 4) as stipulated in chapter one of this dissertation. The chapter commences with an exploration of the research methodology, design and empirical methods utilised in this research study. The chapter will describe the data collection instruments as well as the sampling method applied and the data analysis techniques utilised. Later in the chapter, the emphasis shifts to a discussion and analysis of the research findings emanating from the empirical investigation. Finally, the theoretical framework and research questions will be used to inform the development of key analytical themes.

4.2. RESEARCH METHODOLOGY

This section presents the research methodology employed as it relates to the objectives of the study. The study was essentially exploratory in nature, which was conducted typically when little was known about the topic (Marlow & Boone, 2011:38).

4.2.1. Qualitative research design

As discussed in chapter one, in order to meet the declared objectives of this study, a qualitative research approach was adopted, utilising the case study method. Henning (2004:5), Cresswell (2008), Maxfield and Babbie (2009) and Dantzker and Hunter (2013:57) concur that the qualitative research method provides deeper insight into real
life conditions and contributes to a descriptive examination and elucidation of the perceptions of specific phenomena based on the individual respondent's personal experiences. While these scholars recognise that qualitative research may be tedious, due to the length of time taken to conduct the study, they nevertheless concur that the positive results of obtaining rich descriptive data, far outweigh this challenge. Denzin and Lincoln (2000:3) maintain that qualitative research, "is a situated activity that locates the observer in the world." In this manner, the qualitative research design approach enhanced the comprehension of complex circumstances faced by OTP senior financial role players in their attempts to implement effective, efficient and economical financial control measures, as well as to comply with statutory financial and regulatory frameworks.

4.2.2. Case study design

According to Merriam (1998:9) a case study is "an examination of a specific phenomenon such as a programme, an event, a person, a process, an institution, or a social group." Brynard & Erasmus (1999:7), Mouton (2001:161), Welman, Kruger and Mitchell (2005:193) and Maree (2007:75) concur that the primary objective in case study research design is to provide opportunities for an intensive comprehension of the uniqueness and eccentricity of the specific case under review. Essentially, case studies involve an extensive examination of limited units of analysis and may involve human beings and departmental documentation (Miles and Huberman, 1994; Maree, 2007:75). In order to obtain credible data, Welman et al., (2005:194) consider that there should be three critical elements present when adopting case studies approaches:

i. Clearly defined boundaries;

ii. Searching for deeper meaning;

iii. Analysis of the data gathered and triangulation undertaken to establish common themes.

A common criticism of case study design is that often the research findings cannot be generalised to other similar conditions. However, as Yin (2002:41) argues, irrespective of the number of cases, there is no guarantee that it would equate into a "macroscopic study." Instead, the importance lies in establishing clear parameters applied consistently
to all research, thereby ensuring that even a single case is valid and credible, on condition that it satisfies all criteria of the original objective.

Maree (2007:76) further advances a case study method seeks to provide crucial answers to the "how" and "why" questions. The purpose for adopting a case study is to encourage purposeful, critical, reasoned thinking to improve analytical skills and to focus on problem solving (Brynard & Erasmus, 1999:7). The case study method was most suitable as it allowed for a detailed examination of the financial internal controls within the OTP and the specific context within which financial role players operate on a daily basis. It created the platform to acquire rich descriptive data, based on the personal experiences of the financial role players in the OTP (Mouton, 2001:149-150). Furthermore, it offered the space for the researcher to determine the current level of implementation of the internal control systems, analyse the successes and challenges encountered by senior management of the OTP, and identify possible interventions, based on the data generated.

4.2.3. Population and sampling

Polit and Hungler (1995:43) define population as the sum of all subjects which fully comply with set specified criteria. Welman et al., (2005:52) refer to the population as the study object relating to a specific research problem. It was evident that the study of the entire population would be impractical due to time constraints, non-availability of all senior managers, etc. This is supported by Struwig and Stead (2003:109) who state that attaining information from a sample is frequently more useful and precise than attempting to source the similar information from an entire population. The total population of the OTP, KZN amounts to 39 senior financial role players. Accordingly, it was deemed prudent to select a smaller subset, which would be representative of the entire research population. The population in this study therefore consists of all senior financial role players in a managerial capacity, performing the duties of PM, SPM or RM, as well as senior managers which render a financial support to the AO and the external organisations which provide an oversight role in the OTP.
According to Welman, et al., (2012:55), a representative sample is a "miniature image" of the total population, in order for results from the study to be generalizable. Babbie (2013) emphasises that the individuals selected must be the individuals who can work as credible knowledgeable witnesses, giving rich descriptive portrayals of the encounters being researched. It is for this reason that the sample is normally purposefully chosen (Maree, 2007:79) which was the approach adopted in this research study. Marlow and Boone (2011:146) cite that a critical advantage of utilising non-probability sampling is that it is economical and allows the research to specifically identify information and rich elements and include them accordingly in the sample. Hence, based on the research objectives and questions, non-probability sampling was deemed most suitable for this research study, whereby the senior financial role players who possessed in-depth knowledge and experience of financial internal controls in the OTP, were selected. Moreover, in a case study of the OTP, the three categories of the department's personnel as noted in the table below offered an in-depth examination of the internal control mechanism (Rubin & Babbie 2013: 250). A total of fifteen participants finally constituted the sample as illustrated in Table 4.1.

Table 4.1.
Sample utilised in research study

<table>
<thead>
<tr>
<th>Cohort</th>
<th>Unit of Analysis</th>
<th>Respondent</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>OTP Senior Management</td>
<td>PM, SPM, RM</td>
<td>8</td>
</tr>
<tr>
<td>2</td>
<td>Financial Support Service to AO</td>
<td>AO, CFO, SCM, Finance</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>External Experts</td>
<td>PT, AG, IA</td>
<td>3</td>
</tr>
</tbody>
</table>

In Cohort #1, eight (8) respondents were identified in terms of their roles as PM, SPM and RM within their respective programmes. In Cohort #2, four (4) research respondents were selected based on their duties to render a financial support service to the AO, namely, the CFO and as representatives from SCM and Finance. As ultimate responsibility for finances rest with the AO, it was deemed appropriate that the AO be included in Cohort #2. Cohort #3 consisted of three (3) research respondents, with one (1) representative each from PT, AG and IA in order to provide a comprehensive external perspective. The
small sample size was seen to be judicious, as in the case of qualitative studies where the focus was not on quantity but quality of the data accumulated during in-depth interviews. Welman and Kruger (2001:62) give credence to this chosen technique by highlighting the benefits of non-probability samples, as not being complicated and more economical than probability samples.

4.2.4. The research instrument

Beyond a review of the relevant literature pertaining to the problem statement, as outlined in chapter one, semi-structured interviews were deemed the most appropriate method of data collection. Braun and Clarke (2013:77) argue that interviews are deemed to be most common option selected by qualitative researchers, as it allows for direct contact with the sample, leading to the collection of rich information from a few participants. The primary motivation for selection of the semi-structured interview was that it produces a qualitative understanding of the topic under study (Allison, O'Sullivan, Owen, Rice & Saunders, 1996:117). Accordingly, it provides an ideal vehicle to gain further insight into significances of personal experiences of the interviewees in their unique milieu (1996:118). Babbie and Mouton (1998:289) emphasise that an interview:

| Allows the object of the study to speak for him/herself, rather than to provide respondents with a battery of our own predetermined hypothesis-based questions. |

Stake, (2010) and Braun and Clarke (2013:78) are of the opinion that semi-structured interviews are ideal instruments for data collection in that similar questions were posed to each participant in the study allowing for comparable responses, while simultaneously providing room for conversation as open-ended questions promote space for some divergence (Wisker, 2001:87). Moreover, to enhance the quality of data collected, semi-structured interviews allowed for the researcher to probe for further clarity on particular issues, while at the same time allowing the respondent to raise pertinent concerns to the research problem. An interview guide was developed to assist in this process (see, Appendix C).
4.2.5. Data collection

As mentioned above, two primary data collection methods were utilised:

i. A review of the relevant literature;

ii. Semi-structured interviews with the use of an interview schedule.

Permission was obtained from the AO at OTP in March 2016 to conduct the study (see, Appendix A) as per guidelines from North-West University. Upon identification and finalisation of the sample, respondents were invited to participate in the research study. Once confirmation of their willingness to participate was received they were provided with consent forms, which were duly signed at the interview itself. The consent form is attached (see, Appendix B). Upon determining their availability for the interviews, all respondents were interviewed in their respective offices, in order to ensure that they were relaxed and comfortable. Interviews were digitally recorded with permission. Seidman (2012:8-97) validates the necessity to digital or tape-recorded interviews and holds that it promotes credible data by transcribing the interviews into written text. Each interview was conducted for approximately forty-five to sixty minutes.

4.2.6. Pilot study

Stake, (2010) purports that pilot interviews provide a vital opportunity for the qualitative researcher to test out the effectiveness of the research interview guide. The primary objective is to determine whether the interview guide is easily understood by the respondents and adequately addresses all pertinent questions as per the objectives of the research study. In an effort to enhance both the validity and reliability of the research, interview guideline was pre-tested with three respondents across the three cohort groups. Minor adjustments were subsequently made to the original interview guideline.

4.3. Research findings and analysis

Johnson (1992:90) states that the general approach to data analysis in a case study is to examine the data for meaningful themes, issues, or variables, to discover how these are patterned, and to attempt to explain the patterns. Prior to analysis, all interviews were
transcribed, three transcriptions were verified with the relevant respondents to validate its textual authenticity. Mabry (2009:220) also asserts that participants have a stake in the accuracy of how they are presented.

4.3.1. Coding / thematic analysis

For Braun and Clarke (2006:84), coding is a meaningful method of classifying characteristics, in terms of the relationship of the data to the research question. The research study adopted the use of thematic analysis, which allowed for the emergence of various themes and sub-themes, through the utilisation of coding (Maree, 2007:217). The phases of thematic analysis as posited by Braun and Clarke (2006:92; 2013:206) were implemented in the research study as depicted in Figure 4.1.
Figure 4.1.
Phases of thematic analysis
Source: Adapted from Braun and Clarke (2006:92-99; 2013:206)

The next section will present the empirical findings, based upon the semi-structured interviews with the participants to elicit their understanding of the research problem. The analysis will commence with a presentation of the demographic data.
4.3.2. Section A: Biographical Information

A1: Gender

As illustrated above in Figure 4.2., the sample comprised of nine (9) male and six (6) female respondents. The pie graph demonstrates a higher representation of males (9), as compared to females (6). Although no specific gender criteria was employed for gender representation in the selection of sample, it was interesting to note that this gender representation was reflective of the current gender demographic that exists in senior management at the OTP, namely 67% male and 33% female (OTP-KZN, 2016d:1).

A2: Age
As can be seen from Figure 4.3., the majority of respondents (eight) belonged to the 40 to 49 years category; six were above 51 years, and only one over the age of 60. One respondent was between 30 to 39 years old. The age distribution of the respondents demonstrated that as expected, the majority (fourteen) of senior management were over 40 years old. This is supported by the fact that 44% of the senior management in the OPT, KZN are over 40 years of age. (OTP-KZN, 2016d:2). It is interesting to note that one respondent in the sample and 12% of the OTP SMS are over 60 years of age. As per chapter five of the Public Service Act, 1994 (SA, 1994:SS16), the normal retirement age is 60, however the maximum age limit for retirement is 65 years. Potentially, the OTP will have to consider succession planning, prior to the senior management reaching the maximum retirement age.

A3: Educational qualification

![Graph showing educational qualifications]

Figure 4.4.

Highest educational qualification

The highest qualifications of each the respondents is illustrated in Figure 4.4. Fourteen (14) respondents possess a post graduate qualification, with one (1) respondent possessing a bachelor's degree. This is indicative of a highly qualified senior management cohort that is employed at the OTP. It should be noted that according to the OTP PERSAL records, 33% hold a post-graduate degree, 52% a bachelor's degree and the remaining 15%, a matric qualification (OTP-KZN, 2016d: 4).
The relationship between the number of years in the current portfolio and the years in a financial role is highlighted in Figure 4.5. In sum, nine (9) respondents had occupied their present senior positions for a period of less than 10 years; of the remaining six (6) respondents, three (3) had 10-14 years' service, and two (2) respondents had over fifteen (15) years' service. Finally, a majority of twelve (12) respondents possessed a widespread and extensive experience in performing financial management duties.

A6: Training in public financial management

Training in public financial management
The type of financial management training undertaken by the respondents per cohort is illustrated in Figure 4.6. All fifteen (15) respondents indicated that they had undertaken some form of public financial management training. In determining the sample, each cohort consists of respondents in terms of their roles as PM, SPM and RM within their respective programmes. In Cohort #2, four (4) respondents were selected based on their duties to render a financial support service to the AO, namely, the CFO as well as representatives from SCM and Finance. It must be noted that the AO was also included in Cohort #2. Cohort #3 consisted of three respondents, with one (1) representative each from PT, AG and IA in order to provide a balanced external perspective.

In terms of PFMA and TR training, seven (7) respondents in Cohort #2 and #3 respondents in Cohort #1 had undergone training. Three (3) respondents acquired training in the specific financial management module, a component of the Executive Development Programme.

The public sector risk management framework views risk management as strategic imperative and training is essential for all staff involved in coordinating and supporting institutional risk management process (NT, 2010b:19-25). In risk management and fraud prevention, all three (3) respondents in Cohort #3 and #2, as well as respondents in Cohort #1 completed such training. The two (2) respondents in Cohort #1 who participated in this training, were involved in work relating to integrity and risk management functions. Notably, all cohorts acquired training on financial management, which is a good indicator of the OTP’s firm commitment to continual training by upgrading the skills level of its employees. As per the annual report 2015/16 (OTP, 2016a:114), a total of thirty (30) SMS members had undergone skills development training for the period 01 April 2015 to 31 March 2016. A total of twenty-five skills programmes and other short courses were conducted for SMS for the same period. Furthermore, the Public Service Training Academy is housed within the OTP with the sole purpose of providing training and development to public servants within KwaZulu-Natal (OTP-KZN, 2016b:9). The training budget for the OTP was R7, 791m and R7, 901m for the 2016/17 financial years. The number of training opportunities increased from 22 in 2015 to 32 in 2016 (OTP-KZN, 2016b:38). The increase in the number of training opportunities due to the appointment of a skills development facilitator who ensured that training gaps identified in the Personal
Development Plans were dealt with, resulting in increased training opportunities (OTP-KZN, 2016a:39). This commitment by the OTP ensures credibility to its policy on human resource development, as it is deemed necessary to train new appointees and to develop and re-skill existing staff in line with the revised strategies of the department, where appropriate.

Having presented an overview of the demographic data of the sample, in the next section, the empirical findings that emanated from the data collected with fifteen (15) respondents distributed in three cohort groups on the effective, efficient and economical implementation of financial internal controls in the OTP will be presented and analysed.

4.3.3. Section B: Semi-structured questions according to themes

The narratives from the semi-structured questions relating to the successes, challenges and possible interventions relating to the five salient themes and sub-themes that emanated from the research are analysed below. The narratives of the respondents are here recorded in an italic font and in terms of field-research ethics are anonymous.

4.3.3.1. Theme B1: Control environment promoting accountability

The control environment represents the most vital component of internal control as it determines the tone of the department, which subsequently determines the level of control consciousness of its staff (COSO, 2007:2; AG, 2011:144). The verbatim responses regarding Theme B1 included the following.

Theme B1.1. Leadership commitment to internal control and integrity

Here the most salient subtheme was leadership commitment to internal control and integrity. This commitment is endorsed by the OTP, KZN, whose central purpose is to instil and maintain high levels of ethical and professional behaviour by public servants in line with section 195 (1) (a) of the South African Constitution, 1996 and section 38 of the PFMA (OTP-KZN, 2016a:7). The majority of the respondents (14) affirmed this commitment, particularly by those within management. The four common sub-themes
that emanated in respect to the commitment of the OTP leadership to internal control and integrity are illustrated in Figure 4.7.

![Figure 4.7. Commitment to internal control and integrity](image)

Each of the sub-themes will now be further explored in the section which follows.

**Theme B1.1.1. Values, ethics, and conduct**

The OTP management personnel display a sustained commitment to internal control, integrity and ethical values and maintained high standards of governance, which is fundamental to the management of public resources. This is supported by Lannoye (1999:1), Commonwealth of Massachusetts (2007:6) and Ratliff (cited in Visser and Erasmus 2009:287), who argue that tone set by management of the OTP is critical to the overall success of directive controls. All fifteen (15) respondents concurred that management actions does translate into an organisational statements of beliefs, values and standard of conduct that staff ultimately aspire to. This is illustrated in some of the respondent responses:

*The tone at the top has been set and it has been positive…even if there are acting positions or change in personnel, we have always regarded this concept as important…the tone at the top has never changed.*

*Management has ensured the values and ethics of the Public administration, including ethical standards are firmly entrenched in all employees. Officials are capacitated to ensure professional ethical conduct.*
The research respondents also established how the *Batho Pele* Principles continue to guide and inform the commitment:

*We subscribe to Batho Pele Principles—integrity, professionalism, accountability, transparency etc.*

*In addition to Batho Pele principles, all staff embrace the values of integrity, professionalism and Ubuntu that promotes and ensures effective service delivery in terms of the Public Sector Service Delivery Charter.*

*We are focused on ethical behaviour. The values of the Department being professionalism, Ubuntu, integrity and accountability. Accountability is most essential for us in the control environment we as managers in particular, all staff are accountable for our actions or inactions.*

As Buzotta (1996:1) confirms:

>If you think of vision and mission as an organisation's heart and head, the values it holds are its soul.*

The above comments are indicative of the OTP’s commitment to services which accord to the values of integrity and accountability. Beyond reiterating the inherent ethical ethos, one respondent in Cohort #1 narrated how commitment is articulated within the OTP:

*There are workshops on ethics that we address for various departments and state entities. We have got meetings with the departments and the normal quarterly interactions with other stakeholders in the environment of anti-fraud, anti-corruption…some people call it ethics.*

Support on holding of workshops on ethics is also supported of Visser and Erasmus (2009:50) who confirm the importance of ongoing training in ethics and accountability. One respondent in Cohort #1, also validated how this commitment is further sustained during strategic planning:

*As per our strategic plan, OTP promotes participative and accountable governance…this was embraced by management at our strategic session.*

From the above narratives, it can be seen that senior management commitment to values, ethics and conduct, invariably ensured that the ethos of good governance was maintained and sustained in all sectors of the OTP. This is echoed by the commitment displayed by the OTP to training and development of its staff, as highlighted under section A6.
Over and above the training in the functional areas, the OTP has also embraced ethical governance, as evidenced by all staff attending ethics workshops. This is in support of van der Waldt and Helmbold (1995:170) and Kabumba and Fourie (2007:652) who support accountability as an ethical norm. Moreover, this commitment is enshrined within the mission and vision of the OTP.

**Theme B1.1.2. Articulation of organisational mission and vision**

According to Prokesch (1997:148), the purpose and vision of an organisation aligns the actions of people across the entire organisation. The OTP subscribes to the vision of the province, namely: "To be the centre of governance, providing leadership towards achieving KZN Vision 2030" (OTP-KZN, 2015b:8). The mission statement is a full declaration of the organisation's "reason for being" (Wickham, 2004:269). The mission is to support the Premier in carrying out his constitutional and statutory duties (OTP-KZN, 2015b:8). The mission facilitates how the vision is implemented (Manning, 2016:1). Respondents shared their view of how the OTP has effectively and strategically ensured alignment between strategy and finance. The narratives below attest to this articulation:

*We have linked quite directly to our constitutional mandate as the OTP, section 1 to 5 in particular. We also look at the office of the Premier as the centre of governance. If we are talking about control issues, risk management…it talks and contributes to sound governance. The link is actually quite clear.*

*One of our goals is improved performance and accountability…so we are heading in the right direction.*

*The Department's Strategic Plan is aligned to the National Development Plan, PGDP, and to the Medium Term Strategic Framework. We have gone to great lengths to make sure that the strategic objectives are aligned to its goals and have been incorporated in the annual performance plan, to ensure strategic alignment.*

As discussed in chapter three, the mandates of the OTP, KZN in its supportive role to the Premier are embodied in the South African Constitution, Public Service Act, other pertinent statutory provisions, and national and provincial policy papers. Government's priority areas and outcomes have been incorporated in the KZN PGDP and adopted in 2011 (OTP-KZN, 2015b:13), which is also observed by the respondent above. The KZN PGDS sets a long-term vision and direction (20 years+) for development in the province,
as well as serving as the overarching strategic framework for development. In addition, it provides the spatial context and prioritisation (not just 'what,' but also 'where' and 'when') (OTP-KZN, 2015b:14). Respondents cite such collaborative efforts. These provisions are expected to be enacted by the OTP by virtue of its constitutional and legislative mandates, as well as contribute to its role to coordinate, legislate and provide strategic direction. The following respondent narrative endorses the achievement and attainment of success of the OTP in this regard:

The one area where we have done well is our PGDP because that document is actually approved and endorsed by the executive council. We take that and the reporting through to the LAKOTLA twice a year. With that process, we have got our plan for the province we have consulted widely in the development of that plan, therefore we now also can report widely on the development of the plan. You get that level of accountability. In the broader picture that guides government and tries to pull us together into the right direction. We also have the systems in terms of our strategic plan, our annual performance plan taking it through into the legislature, which also brings in the aspect of internal control but in the process of developing those APPs. We also look at the issue of is there sufficient controls in terms of the planning cycle to develop credible performance information.

The aforementioned narration reveals how coherence is achieved through the PGDP, which is inextricably interrelated to the OTP's vision and mission. Moreover, the abovementioned respondent demonstrates how internal controls impact the development of APP's. The organisational mission and vision was discussed under the NPFM (section 2.3.2) and linkages between strategic and budget plans under control environment (section 2.5.2.1) in chapter two of this present work. Puttick and van Esch (cited in Visser, 2011:84) also mention how internal controls implemented by management assists in the realisation of strategic goals and objectives, as contained in the strategic plan. These strategic goals and objectives are the long term outcomes and outputs that the OTP seeks to accomplish in pursuing its mission (Thorhill, van Dijk and Ille, 2014). In order to confirm such coherence, the OTP has also adopted and adheres to the Public Service Code of Conduct as facilitated by the Department of Public Service and Administration (SA, 1999b).
Theme B1.1.3. Code of Conduct

The OTP has an active Directorate devoted specifically to the Code of Conduct and ethical guidelines which also addresses any violation thereof. This directorate was established in 2011. It was revealed during the interviews that the code of conduct is presented to new officials joining the Department, so that they can be acquainted with its importance in public service. The research respondents provided the following confirmation:

*I have got to make an assumption, having sat at the top and really tried to make sure that everybody knows about it. New managers had the code of conduct presented at induction programmes and everybody has signed the code of conduct in management.*

*Enforcement of integrity and ethical values by having a code of conduct shows commitment to professional work practices and standards.*

Furthermore, the OTP has excelled in minimising conflicts of interest by adopting the code of conduct. This is enforced by the policies established and adopted by the OTP with regard to risk management, risk control and fraud prevention, as discussed in chapter three. As was discussed in section A6, as part of the OTP's training commitment, the code of conduct forms part of its ethics workshops. Over and above this, the OTP also holds management workshops and branch training sessions, as discussed in section 4.3.3.4. Internal Reporting Structures under Theme B4. At these workshops and training sessions, the human resource team incorporates all aspects of the Public Service Act, inclusive of the code of conduct.

Senior Management and other stakeholders are required in terms of Public Service Regulations, 2001 to disclose any conflict of interest inherent in doing business with the department. The OTP has achieved 100% compliance, as evidenced by the following Respondent statement:

*I must give credit to the ADG's office. It is our role to ensure that on the financial disclosures and on meeting the compliance issues in respect of integrity management that we need to set the tone, by the 15th of the month all managers signed it. It was good, but we literally tracked down some managers in Departments. We are very proud of the Province having achieved that 100%.*
Previously, non-disclosure by senior management has been an audit concern (AG, 2013, 2014; PT, 2013c, 2014b). Responding to this, in April 2016, the OTP implemented internal controls to ensure 100% compliance. This accomplishment is highlighted by a respondent in Cohort #2, that the OTP, KZN is a forerunner when compared to other provinces:

*Definitely we are winning as KZN. Compared to other provinces which are not necessarily a benchmark that one should measure yourself against. It also starts to show when comparing or doing cross tabulations of their performance in other fields. There are strides that have been made in the OTP, getting it right is very important to us.*

Beyond the implementation of the code of conduct and disclosure by its senior management, one respondent suggested that disclosure should extend to the entire department:

*It is only compulsory for SMS to disclose and yes we got that right but what about the rest of the department, staff below level 13, there is no disclosure. That is the loophole.*

Other initiatives and campaigns were also noted by respondents to ensure adherence to the code of conduct. These will now be discussed below.

**Theme B1.1.4. Integrity campaigns**

The "I Do Right" Awareness Campaign is directed at public servants, service providers, labour and civil society in general. Its aim is to create awareness about the need to curb unethical behaviour involving public funds and emphasises the need for cooperation in not only devising effective initiatives to curb unethical behaviour, but also to report the practice whenever it occurs.(OTP-KZN, 2016a:7). The OTP, KZN, through the Integrity Management Unit, conducts workshops on ethics for all government officials in departments and state entities as noted above. This is in support of KPMG (1999:20, 2013) and INTOSAI (2004:17-21), who assert that ethical behaviour and integrity by all senior financial role players is essential to maintaining a comprehensive control environment. This was discussed in section 2.4.2 and section 2.5.2.1 above. The associated narratives below address the OTP's firm commitment to integrity and accountability:
We try our best to continuously instil the ethos of what we call "I do right even when nobody is watching." It is an ethos that every public servant has to live by and hence we run these workshops. We run road shows where we include public servants, municipalities, citizens, labour movement and media, in working together with us to highlight these issues of ethics, that we are together in this to ensure that we have an ethical public service in the province. We try to live by that ethos and we try to instil it even in the committees that we sit in or forums, we continuously preach that Gospel.

Over the period of four years that we are running this campaign we have seen a very drastic decline in the number of cases reported on fraud or on unethical behaviour across the province.

"I do right even when nobody is watching"….Calls us to possess a high level of integrity, ethical value, to be professional, accountable to various structures within and outside of the department.

Every one of us is aware, because we run internal ethics workshops for each chief directorate. We have a very open and frank discussion that we have on the processes, on the policy and on common professional behaviour in a work environment.

We have done the workshops through sessional activity for each unit. It is on the website, as part of a provincial and national campaign that goes out.

The OTP’s leadership commitment to internal controls, integrity and ethics and the views of Cohort #3, which reflects an external perspective, are concurrent with those of Cohort #1 and #2. A respondent in Cohort #3, shared a personal observation as a budget analyst on internal controls in the control environment:

As a budget analyst, I have seen the reforms of public financial management over the years. The OTP has gone a long way from then until now. With the financial management controls sometimes things are being dictated by national treasury to provinces, so there is little leeway to do your own things or to deviate from what is prescribed nationally. There used to be a lot of unauthorised expenditure, fruitless and wasteful expenditure. Over the years, through the strengthening of internal controls financially and reforms that are happening with treasury, there has been an enormous amount of progress in terms of the financial management at the OTP.

Of particular note is the reformatory mechanism dictated by NT that cascades provincially to ensure integrity and accountability. According to the International Federation of Accountants (2001:12), openness, integrity and accountability form key foundations of good governance. The progressive change as noted by the above respondent over the years is not only encouraging as a success, but validates the commitment of the OTP, KZN to good governance through the implementation of internal control. This is validated
by Kakumba and Fourie (2007:650) who contend that accountability is a key foundation of good governance and financial management. A key principle that promote accountability is that of clearly defined roles and responsibilities (Khan 2007:6-7; AG, 2011:3-4; NT, 2010a:5-6). The findings of this study are in support of this statement, as will be discussed in the next sub-theme.

**Theme B1.2. Appropriate structures and reporting lines**

As part of the effective, efficient and economical implementation of internal controls that promote accountability, assurance is required to demonstrate that the OTP possesses good governance structures to optimally utilise State resources.

**Theme B1.2.1. Revised Office of the Premier organisational structure**

The process of reconfiguration of the OTP, KZN was underscored by several key factors. These included the importance of outputs and outcomes throughout the entire office due to the way functions had been grouped together logically, with clearly assigned roles and responsibilities (OTP-KZN, 2016b:18). Since the beginning of 2015, The OTP, KZN has been engaged in the consultation process with the relevant stakeholders including the Department of Public Service and Administration (DPSA), NT and Department of Labour to seek sufficient consensus on the structure for final adoption (OTP-KZN, 2015b:38). The structure has been approved and a phased approach is being followed for implementation. In the State of the Province Address 2015, the Premier of KwaZulu-Natal province, the Honourable Mr. E.S. Mchunu, made pronouncements on the establishment of the new sub-programmes and Units (2015b:38), During the interviews, the respondents explained that the OTP had as part of the as illustrated in Figure 4.8
This revised high-level organic structure within the OTP was approved in 2014. Its success is evidenced by the following remarks of some of the research respondents:

We have done well in terms of the organisational structure…authority, roles and responsibilities for financial management are assigned…reporting structure in place…delegation and approval processes and committee structures and framework.

The first thing that we actually got right was the understanding of the separation of roles and functions, which is critical in setting the tone at the top. So my instruction basically from the Premier was that, you are the accounting officer, you have got to account…to make sure that you do not let us down in the department…it is actually him saying to me “that is what I want you to do, and I was saying to him I promise that I will do it and our relationship must be such that I will consult you on issues that I believe will need direction. I will not commit the Department to undertake functions that are not functions that we had pre agreed, and if there is anything extraordinary that comes up as would always be the case I will consult with you on it. I think once you have set certain basic principles, it becomes a habit within the OTP, and the trend is for that to continue.

During the interviews, the respondents explained that the OTP had as part of the restructuring exercise ensured compliance with generic structures of the DPSA. The following respondent comment illustrates this compliance:

We continue to follow new approaches as introduced by the DPSA, in a form of organisational directives, in the main, the implementation of generic
structures. We are currently getting ourselves ready to implement the newly introduced Operational Management System which will move the OTP towards improved efficiency.

Over and above the issue of compliance, respondents noted that roles and responsibilities were also revisited and updated, with a view to strengthening internal controls and accountability. This perspective is delineated by the following remarks:

*The clear demarcation of responsibilities has promoted the level of accountability with the department.*

*We have an organisational culture now where they actually understand the linkages and the importance of reporting. We are not just reporting for the sake of meeting targets or ticking the boxes.*

*Delegated authority and responsibilities of all role players are clearly defined, Officials understand what is required of them because training is routinely carried out.*

The OTP has worked closely with the assistance of the DPSA in redefining the functions of the OTP and aligning it with the mandated generic structure. This has created a control environment conducive for effective accountability. The research findings are endorsed by Khan (2007:4-5); and AG (2011:3-4), who view clearly defined roles and responsibilities as one of the five principles for effective financial accountability. As part of the organisational restructuring process, two new units were specifically created which are relevant to this study, namely the Integrity Management Unit and the Risk Management and Internal Control unit. These will now be examined in greater detail, commencing with the Integrity Management Unit.

**Theme B1.2.2. Creation of Integrity Management Unit**

During the research study interviews it was established that the Integrity Management Unit only became operational in 2011. A respondent in Cohort #1 outlines the critical role played by this unit:

*Although integrity issues have been there, it was institutionalised in 2011, to ensure that we develop and sustain ethical behaviour, in terms of section 1951a of the South African Constitution, which enjoins us to maintain high ethical professional standards in the public service. Of course we also have to ensure that we compliant with the PFMA and other financial prescripts. So it is within that environment that we try to ensure that all the systems*
and procedures are really in line with the ethos of the organisation which has its own values. We have got a section called the complaints management section dealing with citizen complaints on poor service delivery and maladministration. We have another section which deals with anti-fraud and anti-corruption issues basically also ethical issues.

Accordingly, the Integrity Management Unit has played a pivotal role in raising awareness and strengthening integrity within the OTP, KZN. This has contributed positively to the control environment, whereby internal control and accountability has been enhanced. Moreover, a dedicated unit to deal with Risk Management and Internal Control was created.

**Theme B1.2.3. Creation of a Directorate: Risk management and internal control**

A Directorate for Organisational Risk and Internal Control has been established, tasked with monitoring compliance and assisting in the continuous improvement of governance in the province. The creation of the Risk Management and Internal Control unit in 2015 represents a major accolade for the OTP, as prior to 2015, there was no dedicated unit overseeing this critical function. To compensate for its lack of capacity, the OTP, KZN relied previously on the Provincial Internal Audit Unit for review of the system of internal control and compliance with prescripts. A respondent in Cohort #2 narrated that the process of creating this new Unit was a difficult journey and involved him as ADG to motivate for its importance:

*It was said that quite clearly in our MANCO meetings where we had to motivate why this post of the director post internal control and risk management. Secondly, to get the post established, while I was acting DG, is to say I cannot perform my functions as the accounting officer in the department unless I have someone reporting directly to me who is able to go out and ensure that the internal control systems are in place, so that, by the time there is even an internal audit done, not even before the external, that we would have picked up any deficiencies in our control systems that would prevent any form of mismanagement or anything that would put the department at risk.*

The following respondent comments endorse the contribution made by this unit in elevating the issues of risk management since its establishment:
I think the structures such as MANCO and EXCO understand, why risk management exists as people in whatever they do they have to make sure that they also wear the risk management hat as well. We are actually working in that to make it be one of the top departments in terms of governance in the province. We have the support to achieve it.

There is actually a positive moment in terms of the how people view risk management in the office. The OTP drives Goal #6 of the PGDS, namely Governance and Policy and we make sure we set the example. Integrity and internal control units are key instruments.

We have got a risk manager now which shows now that we are really meaning business, when it comes to risk assessment and risk management.

In addition, the research respondents emphasised that the new unit was elevated to the level of a directorate, whereby the head of the unit reported directly to the AO:

For example, the risk management function had been elevated to a directorship component…you have finance being part of management.

The OTP has appointed a Director level official to coordinate, support and manage risk related matters. Having a manager at level thirteen who base responsibility for that with a fully-fledged staff, for me actions that we had to do. It has everyone within the organisation conscious to the imperatives of risk management.

Due to Risk Management and internal control being a newly established unit, the position of Senior Manager was only filled during August 2015. With its focal area being risk management, a number of respondents verbalised their concern that merely having a structure in place was insufficient:

We do have a risk manager but we only have a one man show.

I have just been dealing with risk management only…also we have to make sure that everyone is on board when it comes to risk management…not just few role players.

Risk management is part of that financial management is elevated at director level, but in the control side you do not have a similar situation…the focus is only on risk management…internal control is neglected.

This sentiment was also echoed by Cohort #3 respondents:

One of them is that you have got only one person looking at internal control risk management. It is not a small area, it is a huge area given the number of branches the number of sub-programmes in this department…also this
department is the coordinating department, therefore the quality has got to be extra ordinary, that goes without saying. But if we have got only one person then it is a recipe for disaster.

Is the commitment really there? Yes...we have created the risk management unit...but we only have one staff member...we are setting him up for failure,

You have only one individual dealing with internal control and risk management. The OTP might seem a small department, but there are three programmes, so you need a lot of hands to specifically look to each unit. When you are one individual, you do not have the time.

In terms of the control environment, Cohort #3, concurs with the comments of the internal respondents within the OTP, in terms of the successes achieved by the department. The external perspective reveals that the OTP leadership is committed to internal control and accountability. The following comments are pertinent in this regard:

The OTP is doing well in terms of leadership when looking at the internal control dashboard...all leadership is green as from an oversight perspective as the Premier sets the tone and gives direction and its filters through and made people more aware that they needed to do the right things. The ADG's attitude was very good. He was committed and had a no-nonsense approach when it comes to compliance issues...this is right, this is wrong. He did not entertain maybe right, it was either right or wrong...no grey areas.

There have been great strides in creating awareness and inculcating the importance of internal controls as part of the culture of the OTP.

Positive attitude towards control and what is right...you can see they want to do the right things....So it is driving it strategically...The ADG drives compliance...they have all worked hard to get the control measures right, so credit is going where credit is due. The OTP is committed. Integrity Management was established in 2011 and there has been a reduction in fraud and corruption, largely due to the success of the awareness and education campaigns. Now we finally have a dedicated unit for Risk Management...it is still in its infancy stage but the first step has been taken.

The OTP has gone a long way from then until now with the financial management controls...over the years through the strengthening of internal controls financially and reforms that are happening there with national and provincial treasury. There has been an enormous amount of progress in terms of the financial management at the OTP...the people at the helm of financial management they are committed.

With new units, integrity and risk management, which is a step in the right direction.
The success beyond the establishment of the Risk Management directorate was notably its relationship with the IA.

**Theme B1.3. The relationship with Internal Audit**

According to King (2009:96) and NT (2014:110), Internal Audit (IA) assists the OTP in the accomplishment of its objectives by bringing a systematic, disciplined approach to evaluate and improve internal control and accountability. This was previously discussed under section 2.5.2.1 in chapter two and in section 3.5.6 in chapter three above. Similarly, the majority of respondents verbalised the positive relationship that has been established with IA, since the inception of the shared provincial internal audit service in 2003 (OTP-KZN, 2015b:25). This was reflected in the following comments from the research respondents:

*Internal Audit is always supportive...due to capacity issues, they conduct the annual risk assessments workshops for the OTP...they have assisted with training in risk management.*

*We are in constant liaison with our colleagues in internal audit which runs the shared service of internal control to do the assurance and see whether things are working...always good co-operation and joining forces.*

*Internal Audit has played a pivotal role in the OTP...they perform a number of internal audit based on high risk areas identified by management...also do follow up audits relating to AG audit issues....I think we must remember we both share the same view.*

Despite this positive working relationship, two respondents in Cohort #2, expressed their caution on it promoting an effective communication process:

*We still have a long way to go, for example, there is room for improvement with the internal audit plan, which cannot be executed because of capacity issues on their side and our side. I cannot just put the blame on their side so it is absolutely it is a reciprocal type of arrangement that we have. We have also been at fault in the OTP...it boils down to the issue of communication. We sat with them and we said we need to communicate effectively because otherwise you are not going to place any value on yourself, it is like you are rushing to report and not adding value to your department.*

The above respondent suggests differing perspectives on shared responsibilities which may compromise a culture of shared vision. Daft and Marcic, (2012:502) therefore
promote an establishment of a climate of trust and openness. An organisational reporting mechanism is an additional concern, as claimed by one of the research respondents:

To a certain degree they sometimes do not communicate effectively. There are a number of cases where they will go up to the level of reporting to the risk committee without having discussed the report at senior level. To me, that is the only weakness. There are some issues that you could clear with them. Sometimes it is even a misunderstanding on their part.

The process of functional communication is also shared by a research respondent in Cohort #2, who cited a specific example:

It goes back to the issue of communication. The recent example when they were auditing our assets, the problem with our scanners affected most of our department. When you get to the bottom of the issue of the scanner, had they discussed it with us there would have been an explanation. We would have retested and verified the assets for the second time, perhaps we would have come up with a different conclusion.

Acknowledging how communication can be improved, Cohort #3, offered a nuanced perspective which raised notable suggestions towards developing a conducive working relationship that would ultimately add value to good governance:

There is limited communication with internal audit, only when it is CARC time. That is the only time that sometimes management are seeing the report for the first time. When it becomes an audit committee meeting, then only everybody wants to make sure that they have all the reports right. We did not have the audit committee here for about three months last year. We noticed that people were relaxed, they did not care, because they do not have an external person to be reporting to and accountable to.

The respondent also alluded to how a systematic process of timeous planning on report submission, etc., would avoid poor planning. This undoubtedly would ensure an emphasis on what can be called a 'disciplined approach.'

Internal audit is here to help you. The quicker you implement internal audits recommendations, it is going to make you as management plug the gaps. We tend to not do that because we do not take internal audit seriously.

From the above, the respondent reasserted the role of IA to improve internal controls. Accordingly, effective communication by the OTP and the IA about such processes was seen as pivotal for a conducive working environment. The supportive responsibility to adhere to a disciplined methodology ultimately contributes to efficacy in managing
potential risks. Promoting an organisational culture of fluid communication also ensures harmony and synchronicity (Kirst-Ashman 2014:232). As observed by a respondent in B1.2.3, in the next section, issues of capacity will be examined through the lens of the reports of the research respondents.

**Theme B1.4. Staffing: Capacity and competence**

As outlined in section 2.2.2 in chapter two above, Gullick and Ilrwich state that one of the generic functions of public administration is staffing. This is affirmed in the NPFM model with its inherent people-oriented focus (Chan & Xiao, 2009:117). The revision of the organisational structure and assigning of comprehensive roles and responsibilities, witnessed the alignment between the strategic planning and departmental budgets in 2015. Despite however the structure being approved in the same year and a moratorium placed on the filling of vacant posts (OTP, 2016a:1), only critical vacant posts were to be approved by the Premier and Minister of Finance.

**Theme B1.4.1. Staff capacity**

As highlighted in the Public Sector Risk Management Framework (NT, 2010b:19), inadequate staff capacity has been identified as a unique challenge of the public service. Accordingly, the OTP has experienced difficulties in filling critical vacant posts. In addition, the funded vacancy and establishment report revealed that the vacancy rate as at 31 March 2016 was 25% (AG: 2016:37). This was endorsed by all fifteen (15) research respondents who cited the high vacancy rate as a prominent and salient internal control challenge and risk factor which impacted negatively on the operations of the OTP. They unanimously narrated as follows:

> One of the biggest challenges in terms of internal control is the number of vacant posts in our organisational structure. The biggest risk is actually not having staff.

The potential risks of insufficient personnel was a central concern of the respondents.

> There is no capacity. In my unit for one year, we lost four people and we have not replaced them. I am actually alone in my office for the last three
weeks. Right now it is me and two PA’s. We are expected to do everything…that in itself is a risk.

Beyond the incremental increase as addressed by the respondent below, the need for support staff in particular was emphasised.

The organisational structure has doubled to six hundred, but no one has addressed the support staff…there is just inadequate personnel in the finance section.

People are overworked in the process are bound to make mistakes because of the shortage of staff…you cannot employ as there is a moratorium on the employment.

Confirmation of how limited human resources impacts the value chain was convincingly related by one respondent:

It is a risk on its own. I have committed myself to in terms of the departments APP, but it is dependent on having the necessary capacity. You are already starting on a negative, as whatever the targets the OTP has committed themselves, that it reports to the legislature itself…if those capacity constraints relate to some units responsible for carrying out, certain internal controls and managing risks…if there is a gap there, you are already at a crisis, which affects the entire value chain if you do not have capacity.

The research interviews revealed that certain units, for example, Assets and Monitoring and Evaluation were crippled due to a severe lack of capacity:

There are serious issues in Assets especially with the asset register, there is only staff member in that unit. The weaknesses in the asset environment are determined by the fact that we have some very critical vacancies in that section.

Young (2006:13) contends that despite OTP employees deemed as an imperative resource, it is an aspect that is often overlooked in the evaluation of risks. The inherent threat of risks offered a compelling claim by one of the research respondents:

Look at Monitoring and Evaluation, she is the Chief Director of four directorates, with one director in place currently, who is going on retirement shortly. She has one deputy director and the rest are administrative staff. How do you expect a person like that to cope?

Due to staff shortages however, a conflation of roles exists. Visser & Erasmus (2009:279) and AG (2011:6) warn that the segregation of duties is the foundation of any internal control plans in order to provide an adequate system of checks and balances.
Observations by Cohort #2 respondents revealed that the high vacancy rate has had a serious impact on the segregation of duties. The logical consensus is that internal control and accountability processes are compromised, as confirmed by Cohort #2 respondents:

_There is only one person who is doing everything in service delivery. When critical positions are not filled, the vacancy rate compromises segregation of duties, and effectiveness and efficiency of unit._

_Because of capacity constraints we have often had a case where a task is supposed to be done by a particular post holder, but because that individual is not there, it is taken on, so the process is not followed. The segregation could be compromised._

_If one person is sick and there is only the only person who can do that job, we pull in other staff. I have a 50% vacancy rate._

The undesirable impact on the segregation of duties is compounded not only by a high vacancy rate as noted by the respondent above, but also when staff are on sick leave. Clearly, occupational stress impacts the taking of sick leave. AS Partab (2010:497) has shown, the physiological effects of stress ultimately impairs an employee's function and contributes to burnout which is a constant reality. Additionally, this has also contributed to situations whereby conflict of interest exists. This also compromised quality, as one respondent was to identify:

_There is conflict of interest because you do not have sufficient capacity. You find that they do not differentiate between the same asset management, staff deals with acquisition and disposal. Who ensured the quality assurance in terms of disposal? They are compromised._

Employees are generally susceptible to psychological stress which has the potential to affect their ability to produce quality work and meet critical deadlines. While attempting to cope under demanding circumstances, they unwittingly place themselves under duress as confirmed by Swartz, De La Rey, Duncan and Townsend (2011). Due to such challenges, a debilitating environment is created for the over-extension of duties, thereby placing public servants under further duress. This reality was pointed out by one respondent, who stated: As identified by the research respondents, the risk register and risk workshops were of

_I am abusing her because she is still running my diary which is normally as a PA. She is making my bookings but at the same time, she is also running MANCO minutes, sending out following up, she gets finance reports and_
puts them together. She is being placed under constant pressure to perform and deliver....From a branch level there would be at least the two people assisting.

The respondent below advanced the opinion that within such a debilitating environment, even interns are not a logical choice:

The whole finance unit needs to be really looked at. There is a lapse in internal controls and segregation is being compromised, plus we have staffs that are incapacitated or off sick because they are being overworked. You cannot run a section with interns.

A conducive work environment will ensure productivity. According to Bergh and Geldenhuys (2014:166), a conducive work environment, where staff are content and gratified, will foster higher levels of motivation and ultimately ensure productivity. Respondents in Cohort #2, emphasised the associated low staff morale as a further consequence of the high vacancy rate:

It affects the morale of the employee to a large degree, which to some degree are basically as a result of capacity constraints. There is also the question of time because if you have high vacancy rate, you have not got time to attend training, which is a challenge, so staff are despondent.

She is doing all this work herself so she is not managing. She is a production unit at this stage and because of these pressures you find that managers become production units and not managers.

The respondent above suggests yet another dimension of conflating roles. This can lead to resentment and antagonism as one respondent was to report:

There is a lot of negativity amongst staff, they are unhappy in the office and over worked and doing the job of two or three people.

The duality of roles was further expressed by another respondent:

I have got to take my deputies and request them to perform level eight work. We end up doing work to meet the volume and to meet the deadlines, which is not ideal at all. Staff are burnt out, they are tired.

The adverse effects on low staff morale contribute to other concerns such as absenteeism and poor job satisfaction (Malherbe and Hendriks, 2004:25). The high vacancy rate was also acknowledged from the external perspective by Cohort #3 and thus raised the adverse effect on internal control and accountability:
At the moment, Monitoring and Evaluation is running with the chief director and PA. This is the reality of the situation, this is the coordinating department. With two people there is no ways that two people can do justice...It is a recipe for disaster.

This added concern is exacerbated by the scope of practice that the M&E department is supposed to concentrate on within the entire KZN province and not just the OTP. The respondent astutely offers an observation as to why this situation persists organisationally.

Maybe the critical posts are being evaluated incorrectly as the focus is only on higher levels but maybe the asset clerk is actually a critical post because that person is performing all functions. Why is the asset manager opening balance incorrect? We do not have a lower level staff making sure that all the assets additions are there. You cannot rely on the asset manager to do that because that is not his function but then there is nobody on the ground to actually do that, so internal control is compromised.

An overwhelming majority, across all cohorts of the sample, shared a consensus on the high vacancy rate which had serious and diverse effects on the operationalisation of executing functions coherently and productively. One such concern was the competency of staff.

**Theme B1.4.2. Financial management competency levels**

Adequate human resources capacity, represented by the requisite number of people with the right skills, is a fundamental prerequisite for the OTP to achieve its strategic goals (NT, 2010a:25). The requirement of having competent staff was discussed in section 2.5.1.5, in chapter two of this research study. This emerged as a prominent sub-theme, where respondents indicated that the lapse in internal control was due to units not consisting of appropriately qualified and competent staff to execute the duties that they were appointed to do. This negatively impacted on accountability. The following commentaries from respondents bear testimony to this:

We must first acknowledge that there is an elephant in the house, we have people who find themselves inside the organisation without the necessary financial skills. They do not have to comply with rules that are in place. They are here to stay and withdraw from responsibility. So the commitment to learn is not there.
The commitment to learning for the above respondent was paramount:

*It is a huge challenge to get competent staff. Some people that are employed do not have any idea of what needs to be done and lots of mistakes happen that could impact negatively on the OTP. If you have shortage of staff in the supply chain management and in addition to that you have a staff that is not properly trained or competent to manage supply chain management, you are likely to get one red flag in the area of fraud. Incompetent staff do not necessarily adhere to financial prescripts, resulting in them not complying.*

The inherent effects of incompetency within an already constrained environment was emphasised by the above respondent, who also alerted to a compromise in organisational objectives being experienced. According to KPMG (1999:22); INTOSAI (2004:9-11); Visser (2011:89); KPMG (2013) and NT (2014:104-106), the level of competency of senior financial role players is seen as an inherent limitation to internal control.

As revealed by the following respondent statements, the effectiveness of the internal control system depends on the competency and dependability of the people using it:

*Sometimes necessary skills are lacking, if you do not know the rules of the game you are going to flaunt them. There are people who are here for years, who do not understand how the whole system functions. They are negligent, or plead ignorance.*

*RM not knowing the processes that one should follow. It is a serious gap in knowing the processes, it’s a case of pleading ignorance.*

*At the senior management level, there is a lot of work to be done in financial management and a level of an acknowledgement of the deficiency.*

The respondent below raised the concern of possessing a qualification that does not necessarily translate into competence in a systems orientated environment:

*We have got a manager with an MBA but cannot put together an operational plan. So I am going to ask where you got your MBA. At that level, they are not systems process orientated and if they do not understand the need for internal controls.*

For some respondents, this challenge often began at the stage of recruitment, where staff were recruited on the basis of line function skills only. The majority of respondents expressed their dissatisfaction that questions were often posed about the management
of human resources, but not specifically on the management of finances which was an adversely affected system:

*The whole thing was actually systematic, people were sourced through recruitment processes. The overlooking the significance of finance in the organisation is living large. As a result, you find panels which do not have a single panellist member who stands for finance. Finance is actually part of support, same as human resources. Now why do we have only one element of support of the organisation and not finance?*

The respondent above remarked that the presence of a financial representative on the panel during the recruitment process was vital to ensure an appropriate candidate being appointed. This recruitment concern was narrated by the respondent:

*I am talking about human bodies without the prerequisite knowledge and experience, but are recruited. The area of internal control in terms of philosophy and even the activities is a huge risk area in bringing in new managers who have not been exposed to such training and have scored low competence in terms of requirements.*

Such mismatching of skills exposed the system to further scrutiny as noted by the respondent below who also linked responsibility with competency:

*Promotion to senior management of officials with no requisite financial management… assignment of responsibility powers is more a virtue linked to the post, than a responsibility linked to the competence.*

A concomitant factor, as highlighted in chapter one of this research study, was the decision taken by the AO that as from 01 August 2012, to suspend all financial delegations from the respective financial role players. During the course of 2013 and 2014, the PWC conducted competency tests for all senior management in the OTP (OTP-KZN, 2015b:3). Moreover, the EXCO required that all senior financial role-players undertake competency assessments and subsequent training in financial management. One of the respondents confirms the process that was adopted by the EXCO:

*All managers are actually responsibility managers and tasked with daily observation of control provisions. The tendency is that financial competence of many managers is actually weaker and that has been indicated by the report of the PWC, where almost 90% of the managers in the Office of the Premier were required to go through their financial training course….That is the level of financial management illiteracy.*
The financial delegations were then subsequently re-issued to those senior financial role players that passed the training. Respondents in Cohort #2 conceded that the financial training did not bear the desired results in all cases:

There has been courses like finance for non-financial managers, but I do not think it addresses the root cause of it. I think they merely attend it and they do not implement, not all of them obviously. But there is a negative attitude towards finance as a whole...if you are an RM you also subscribe. Then when the CFO and I do an investigation we see, it is a blatant disregard for financial rules or PFMA rules.

Respondents in Cohort #3 reiterated their agreement with the KPMG Report (2013:22), that internal control can only provide reasonable assurance. They emphasised that the gaps in internal control negatively influenced accountability, due to the levels of staff capacity and financial competency in the OTP. Accordingly, respondents expressed the following sentiments:

Some people are in the wrong position, the qualifications, experience maybe they should not be in finance. There is a possibility that there are wrong people in the jobs.

How many RM know what they are doing? If RM are not controlling their budgets, you are going to have a big problem.

The respondent below illustrated how a mechanism of internal control is not adhered to due to lack of competency:

We found that a lot of managers lack in that financial background, for example some of those submissions, they come a day before the event and by then treasury does not have adequate time to assess and analyse the costs and other requirements.

As well as the example of the asset manager being mentioned by the respondent, the additional issue of terminations outweighing appointments was an added concern echoed by other sample cohorts:

I am not sure that the right person is in charge of assets.

There has been more terminations this year than appointments.

Respondents in Cohort #3, noted that the previously appointed DG had assured them that should managers fail the financial training, the delegations would not be issued to them; however this did not transpire in all cases:
I know that a responsibility manager has been through training and some of them failed, but they are still sitting in their posts so there is no actions. There are people that are trained, but they do not quite understand. It is just a cascading effect downwards. So who is going to enforce the control measures?"

This is going back to now four years, the ex-DG promised us that they would be trained, if they failed the training they would be out, but five people were made ultimately responsible for the whole departments’ compliance.

From the above, it can be deduced that certain financial role players were not held accountable for their internal control responsibilities. In turn, this negatively impacted on the organisational culture. Although the initiative for further training is laudable, there still remained the concern of competency being demonstrably enacted. Payne (2005:151) suggests that competence involves people’s sense that they have relevant skills. It is within such an understanding that competency should promote confidence in executing and facilitating organisational tasks. The comments of the respondents are in line with the sentiments expressed by the Auditor General, Mr Kimi Makwetu (Mokone, 2014:1), to the Standing Committee on Public Accounts, when he stated that, "[the] most senior finance managers were failing to meet required competency standards."

The influence of financial incompetence on accountability within an organisation will be discussed in the next section.

**Theme B1.5. Staff accountability for internal control responsibilities**

Internal control is people-dependent; it is developed by people, it guides people, it provides people with a means of accountability and people carry it out (PT, 2013b:24). Cloete (1992: 186), Stewart (cited in Hondeghorn, 1998:132) and Seemela and Mkhonto, 2007:204) all emphasise how senior financial role players are accountable for their actions in terms of executing their financial duties. The research data demonstrated that accountability for internal control posed a challenge at the OTP as cited below:

*There is a lack of enforcement. Organisational structures are inadequate to monitor and enforce compliance to financial internal controls…officials do not implement corrective measures agreed on and there are no consequences.*
Despite the existence of organisational structures that promote accountability, for the above respondent, corrective measures were not implemented and no disciplinary steps materialised. The goal of accountability is to promote efficiency to ensure that organisational imperatives are maintained. The organisational culture was questioned by the respondent below:

*The culture in the Office of the Premier is that we can do everything wrong and nobody gets it for doing something wrong.*

Osborne (2006) identifies with this situation resulting from a lack of accountability. Accordingly, senior financial role players must be held accountable for the results of their actions or inactions. This was supported by the AG in the management report for the 2015/16 financial year, where the issue of lack of consequence management was raised regarding internal control deficiencies and no disciplinary steps were implemented by the OTP (AG, 2016:21). Respondents were in agreement that for senior financial role players, accountability was a huge concern:

*We could attribute the lack of compliance with control measures to absence of consequence management infrastructure in the first place…the absence of the consequence management system, consequent management framework, consequent management programme or plan of action…it becomes convenient for management to ignore controls knowing very well that in any way they are not going to account for it.*

The above respondent highlighted the absence of infrastructural systems to ensure accountability. Moreover, the respondent below suggested that despite audit findings, limited compliance materialised and no consequences were recorded for such inaction.

*Starting from the audit findings themselves…you try and trace how many actions have been performed, but the people who have been responsible for those, have not really complied and nothing happens.*

Another concomitant factor mentioned by a respondent concerned the differing levels of accountability in the private sector versus the public sector:

*The Public service is not like private service, where you are accountable for your actions. Issues of discipline are not done, we are always asked if people have complied, if they have not disclosed? What is done by management? It is an individual who is not accountable, so accountability is a gap.*
Beyond being acknowledged, this accountability gap demonstrates inherent systemic challenges that holds departmental management accountable:

*The department does not actually enforce lack of implementation…no one is made to account, that has not yet happened.*

The following respondent captured well the broader ramifications on the organisation’s strategic goals and objectives:

*Despite being aware of their duties relating to internal controls in the pursuit of the strategic goals and objectives. In cases where there are delays in the projects or budgets not spent…management do take any action again the non-performers…it’s a vicious cycle that continues as managers never face any disciplinary action.*

Skinner (cited in Swartz *et al.*, 2011:128), postulates that the manner in which staff behave is dependent on whether they have been rewarded or punished for a specific behaviour and future behaviour is premised on the expectancy of incentive or penalty. This view is supported by the majority of respondents in Cohort #2, as resonated by the following commentaries:

*We do not build the case…that is what we do, when there is non-performance.*

*Problems are just being made to go away, they do not have to account for it. The co-ordination process is done by finance and they do not get involved. When the CFO present irregular expenditure, people just keep quiet. It's finance's problem, not RM's. This then goes back to the issue, managers not having the interest in internal controls.*

The lack of responsibility permeates throughout, as suggested by the following respondent:

*If you do not do it correctly, nothing happens, even when there are proper controls in place or you are trying to introduce new controls. They don't have to account, there is no consequences for a person who does not want to perform their key performance areas.*

The external role-players concurred with respondents in Cohort #1 and #2 and agreed that this issue has been a recurring internal and external audit query. For Witthoft (2014:1), it is important for senior financial role players to be responsible for their decisions. This is a critical area where the accountability chain is weakened. The following
remarks by the research respondents illustrate the lack of consequence management relating to the gaps in internal controls and compromising accountability:

In PT, we are of the view that every sin has got to be punished….this is not been adhered to in the OTP…no action is being taken…in this department the people have become so used to getting away with things or not worrying.

One respondent expressed the concern that that punitive measures were not instituted:

It has to come from the leadership mainly. We have interacted with consequence management for years. That has not changed, as your responsibility managers are still getting away with things and that is the problem.

The respondents in Cohort #3 reported that the lack of consequence management was a recurring internal and external audit query:

Even the CFO and the ADG should be taking action…if the same supplier is used two years in a row that just shows that nobody is actually worried.

Although strict policies are in place, they are not adhered to as illustrated by the following respondent:

This audit finding is a recurring issue. The attitude is not worry to continue the sort of development of the relevant compliance checklist or further internal controls or deal with the root causes of these. The PFMA is quite explicit, if you do not pay within thirty days, the AO can be charged. These are issues that we have never done and we do not discipline.

Despite there being a general consensus on staff not being held accountable for internal control responsibilities, one respondent from Cohort #2, cautioned that consequence management is complex and complicated, especially around union disputes:

It is a hard concept. It is something that needs to be preached over and over. People are so protected about their rights these days. You are trying to act in a fair manner as expected in terms of the prevailing laws and regulations. For example, implement the register because people have got to account for their time. This is a common practice that is accepted in terms of DPSA rules, but you have an argument from the union you are taking us back to the old system where a person was never trusted by the superior... Until we all come to a certain consensus and agreement with the unions and all stakeholders, it is going to take time.

The differing positional perspectives were also noted:
My objective as a CFO will be different from somebody who is a unionist. Sometimes they will play ignorant as if they do not know. But they know but they do not want to show that outright because they lose members.

According to Theme B1 the presence of creditable organisational structures prescribe processes and protocols which seemingly are challenging to implement. This point was substantiated by the research respondents. In line with NT (2010b:21) recommendations, the OTP's control environment serves as the foundation of risk management. This in turn provides an underpinning philosophy, ethos and structure that impacts how strategy and objectives are established and operational requirements implemented. It is within the process of identifying, assessing and mitigating of risks by implementing internal controls, that the lack of commitment to consequence management creates a fertile space for inherent risks.

4.3.3.2. **Theme B2: Risk assessment process towards promoting accountability**

The fundamental principle of risk management is that the OTP exists to provide value for money for its stakeholders. (King, 2009:74). Such value is based on the quality of service delivery to its citizens. As with many public entities, the OTP encounters uncertainty. Accordingly, the challenge for management is to determine how much uncertainty the OTP is prepared to accept. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. It was accepted by all stakeholders that the OTP will manage the risks faced in an appropriate manner (NT, 2014:105). From the research data three prominent sub-themes arose.

**Theme B2.1. The identification and assessment of internal and external risks**

The OTP confronts internal and external risks. Indeed, it is obligatory for the department to not only identify, but also conduct an assessment of potential risk. A risk assessment is an intensive, perpetual process of identifying, analysing and responding to risk factors that may affect the achievement of strategic goals and objectives of the department (KPMG, 1999: 20; NT, 2014:105). DiNapoli (2010:5) also emphasises the internal control concept by stating that risk management are the “building blocks that create, implement
and review the policies and procedures that constitute a system of internal controls.” The risk issues that were highlighted by the research respondents are captured in Figure 4.9.

**Figure 4.9.**

**Risk assessment**

Within this space, internal controls exist to mitigate risks that threaten the achievement of OTP’s strategic objectives (Kloman, 2002:1; DiNapoli 2010:5; NT 2014:114). The OTP has succeeded in the area of Risk Assessment and 100% of the respondents agreed that the OTP has adopted an intensive process of identifying potential risks that could contribute to the delay in the achievement of the department’s goals and objectives. As identified by the research respondents, the risk register and risk workshops were of particular importance. These are illustrated in Figure 4.9. The following explanations exemplify the achievement of the OTP in increasing the level of awareness of risk management:

*Risk workshops held by Treasury have really been positive, especially because there is awareness of the risk management and its impacts.*

*In the name of achieving excellence, the OTP introduced risk management. We can achieve excellence in governance in all areas if we always check the blind spot, because those are the ones that get you over the precipice, so the OTP has done well.*

Beyond creating awareness the above respondent praises this achievement as a contribution toward realising excellence. Moreover, it afforded a comprehensive understanding of assessment procedures, as was noted below:

*They now understand how the risks are evaluated and monitoring implementation of action plans. There is greater consciousness of risk assessment and compliance.*

Such mindfulness is further endorsed by a respondent who narrated the benefits of ensuring compliance:
We are more consciousness about risk management. We have succeeded as we now have a level of consciousness and compliance and vigilance.

The risk assessment process involves workshops conducted by the PT and includes: risk identification, internal control identification and action plans to mitigate identified risks. These were discussed under section 2.5.2.2 in chapter two of this present research study. These activities culminate in the compilation of a risk register (NT, 2010b). In particular, the respondents observed the vital role of the risk register:

All responsibility managers understand now that they have to keep a risk register...they must identify their own risks and those that are being monitored through CARC. It is getting us there. It is a habit of excellence is just not an act but it is a habit.

The above respondent concedes that the tradition of maintaining a register will ensure that control measures are continually put in place:

We have a risk register, having rated the risks and with reporting done on a quarterly basis, we know if those risks have been achieved. There are controls measures in place and we have got to account for those gaps.

The identification of gaps was viewed as beneficial by the above respondent. The optimistic observations of Cohort #1 was supported by Cohort #3, particularly because the OTP has elevated the status of risk assessment. As the respondents confirmed, risk assessment is now regarded as a priority by the department:

The OTP is progressing well in terms of risk assessment by implementing risk activities, in particular regular risk assessments. Risk management unit together with internal audit have done the risk assessment workshops...so we have looked at risks facing the OTP and commend the department on the development of internal controls.

According to the following respondent, the risk assessment workshops appeared to be a good mechanism towards ensuring commitment:

Internal audit has partnered with the OTP and risk assessment is receiving priority...annual risk workshops are been held with management...risk registers where risks are identified, impact assessed and development of controls to reduce risk from occurring.

These affirming observations by all three cohorts are validated by INTOSAI (2004: 22-27); DiNapoli (2010:3) and NT (2014:114-119), who understand risk assessment as a key
building block in creating effective, efficient and economical internal controls. That said, Cohort #2 respondents expressed some caution regarding a few nodal issues:

As managers, I think we really need to understand our risk register and associated internal controls, before we actually put something onto that register. We are on the right road but we are on a compliance basis. We need to understand that is of value. It is all linked in terms of strengthening internal controls and helping us to be accountable. Those linkages are important for us to understand.

Although the above respondent validates the control mechanism of the risk register, the respondent below points to the importance of identifying the most prominent risks:

They are not looking at the bigger risks in terms of prioritisation. We look at silly things that might not even be such a big risk. We are not looking at important things like human resource capacity of the office; that was the biggest specialised skill.

Another concern voiced by the respondent below was that of the exclusion of key personnel in determining risk:

While we have workshops and have developed the risk register, it is not a process involving all staff, only senior management are involved. For the risk register to be comprehensive, it must be the whole unit involved because sometimes the risks are right at the bottom, they know more of the risks than the senior managers on top.

Extending the strategy beyond the organisation is suggested by the following respondent:

The OTP risk management strategy is a strategy of the entire organisation.

A committee devoted to risk management is also suggested by the following respondent:

Currently EXCO looks at risk issues but the OTP does have a dedicated Risk Management committee…so there is no dedicated focus, but rather an ad hoc one.

It is evident from the abovementioned gaps that the OTP’s risk register requires deeper reflection and should not just be compiled for compliance purposes alone. There exists the space for strategically incorporating policy to identify any potential risk to the organisation in its entirety. Arising from the risks identified during the comprehensive risk assessment process, the OTP is also required to design strategies in terms of identified risks to prevent fraud and corruption in the department (PT, 2013a:2).
**Theme B2.2. Assessment of potential for fraud**

As stipulated in the PFMA and TR, and outlined in chapter three above, the primary responsibility for the prevention and detection of fraud rests with OTP management. In terms of section 8(2)(b), the OTP must have a fraud prevention policy in place which is approved by the AO, which expresses its commitment to managing fraud and corruption (PFMA, SA, 1999a). The lack of attention devoted to the potential risk of fraud and corruption has been an audit query in the past (AG, 2013; PT, 2013a). It is estimated that fraud and corruption costs Africa approximately US$148 billion a year and worldwide approximately US$400 billion annually (Mthethwa, 2013:4). Furthermore, the Public Service Commission identified fraud as a major risk in KZN and it encourages the progress that has been made in addressing such a prominent and pervasive concern not only in the OTP, but globally (PSC, 2015: 28). The following respondents confirmed that the OTP had developed a fraud prevention plan, approved by the AO in 2014, which expresses the OTP's commitment to managing fraud and corruption:

*The fraud prevention plan is utilised to direct internal audit effort and priority and to assist staff to improve controls and manage potential fraud risks.*

*People are educated and know procedures to follow, if fraud and corruption is either suspected or detected by the staff.*

Furthermore, a respondent elaborated on the success achieved by the OTP in not only reviewing the internal plan but also revising the Provincial Anti-fraud and Anti-Corruption Plan, as follows:

*We have just completed the annual review of the OTP Fraud Prevention Plan for approval by the ADG. Also we produced a draft of the revised Provincial Anti-Fraud and Anti-Corruption Strategy and anti-fraud policy, which now awaits Cabinet approval.*

As part of its anti-fraud initiatives, the OTP has specifically developed a complaints and anti-fraud hotline for KZN, wherein citizens can call toll free to express any dissatisfaction with the level of service delivery (OTP-KZN, 2016a:8). The functioning of the hotline was elaborated upon by one of the respondents as follows:

*The services that are provided to the people, tend not to be sufficient and it is understandable as government works within budget constraints. So, you receive complaints, in the area of housing, public roads, electricity, water,*
sanitation. All these types of services, we deal with in this one aspect called complaints management.

The Integrity Management unit is responsible for the coordination of the hotline and ensures that all complaints are followed up and feedback provided on outcomes. As outlined under Theme 1, the creation of this unit in 2011, has ensured that the OTP now has fraud initiatives in place ensuring that all staff strive toward the prevention and detection of fraud and corruption, which could potentially have a severe impact on the OTP (OTP-KZN, 2016a:116). Despite the major achievement in the area of Theme B2: Risk Assessment, the respondents also stressed the fact that despite the advances achieved in the development of a risk register, apprehension regarding the monitoring thereof remained.

**Theme B2.3. implementation of action plans to mitigate identified risks**

All respondents acknowledged the work conducted by the OTP relating to Risk Assessments and the achievements of the risk management works, risk register and fraud initiatives. KPMG (1999:21) and INTOSAI (2004:36-39) also assert that the monitoring of the risk action plans is critical, in order to determine if the risk has been adequately addressed, or whether further internal controls have still to be developed. Similarly, four (4) respondents across Cohort #1, raised the problem of the lack of implementation of the action plans emanating from the risk assessment process as noted below:

*The risk assessment tool is not automated and locked. It allows for limitless manipulation both on content and deadlines…unfortunately to a certain extent it goes to the issue on compliance.*

*In the majority of cases we always postpone but also we should assess the reason why we are not implementing actions timeously.*

*There is a lack of commitment to implement the action plans.*

*Not all action plans are being implemented or there are delays in implementation.*

Cognisance must be taken of the fact that the success or failure of the risk action plans is wholly dependent on the collaborative efforts of all senior financial role players:
I think we need the buy in of all the managers in the department in terms of making sure that they are complying with the risk management principle.

The following respondent illustrates exactly how it should be executed to obviate problems:

For example, I have my risk register, which contains a number of action plans with certain due dates—and in some cases, there is delays in the implementation of this action plan and it is very important that they understand that this is actually opening up the opportunity for something negative to occur if it is not managed accordingly. There is some risk that is likely to occur because management is not up to scratch in terms of making sure that they act timeously—that could spell disaster.

The respondents in Cohort #2 reinforced the view of Cohort #1, as the following remarks reveal:

Bear in mind that there is low maturity of the risk management within the public sector including the OTP. Currently there is a limited understanding of the risk management process by some officials and delays in implementing risk management action plans which could have an impact on the accuracy of risk register.

As the respondent went on to note, the inherent presence of risk can be minimised if identified timeously.

Some of the managers are not implementing internal control action plans timeously where we have achieved all our intended outcomes and objectives.

All Cohort #3 respondents overwhelming concurred with this when they expressed the following:

I have sat in the audit committee and the same things have come up two or three times...Risk action plans not on target. In some cases overlapping between financial years. The problem is the monitoring and control thereof is not very good. It goes to MANCO more than once, it goes to the audit committee, and it goes to portfolio committee. There is no consequence for actions not implemented.

Now audit committee is monitoring internal audit findings and implementation of action plans. They are looking at the percentage in terms of the length of time taken to implement actions, looking at 180 days, where 100 action plans are not done.
The abovementioned challenges are inextricably linked to consequence management discussed in Theme B1 above. Accordingly, gaps in internal controls can have a debilitating effect on accountability within a department. In the area of risk assessment, it is evident that the OTP has demonstrated a concerted effort and commitment to mitigate the risk of fraud and corruption, through conducting risk assessment workshops, compiling a risk register and promulgating fraud-prevention plans. Nevertheless, it is acknowledged that there are still gaps relating to the monitoring of risk action plans. Arising out of the risk assessment, various policies and procedures aimed at reducing the identified risks which could impede the realisation of the OTP's strategic goals and objectives have been developed. Collectively these policies and procedures are referred to as control activities, which frame: Theme B3: Control Activities, discussed in the section which follows.

4.3.3.3. Theme B3: Control activities towards promoting accountability

Two pertinent sub-themes were identified under Theme 3:

i. The deployment of controls in essential business processes;

ii. Lapses in internal control activities.

These two issues will now be examined in detail.

Theme B3.1. Deployment of controls in essential business processes

The OTP has achieved successes in implementing extensive control activities in strategic businesses processes that promote accountability in (AG, 2016:4). The control activities identified by the research respondents are illustrated in Figure 4.10.
Control activities such as these are indispensable for virtuous stewardship and accountability for OTP resources (KPMG, 2013).

**Theme B3.1.1. Financial control activities that promote accountability**

Respondents were largely affirming in their remarks and indicated that in an effort to address negative internal and external audit findings, the OTP had introduced a number of internal control activities that promote accountability. For Apostolou and Crumbley (1992), KPMG (2013) and INTOSAI (2013:8), internal controls in the OTP have been developed to provide reasonable assurance for the achievement of objectives. In this regard, the following comments were obtained from the research respondents:

> Finance has put in place a regime of procedures to ensure regulation of expenditure and accountability. These start with an application for authority to spend from the AO through a submission which motivates and justifies expenditure, therein begins accountability.

> Internal controls have been effective to a very large degree. We now have in year monitoring systems, monthly budget and expenditure review, cash flows and financial policies. Quarterly performance reports on financial data have also been introduced.

**Theme B3.1.2. Segregation of duties**

The segregation of duties was previously discussed under section 2.5.1.4 and section 2.5.2.3 above. In this regard, the research respondents emphasised that beyond the
development of financial policies, a concerted effort had been undertaken by the OTP, KZN to finalise all job descriptions so as to facilitate the segregation of duties. The following comment aptly describes this success:

At the moment, the EXCO have ensured that financial management policies have been recently reviewed and implemented. Responsibility Managers have been appointed and trained. The next step was to ensure all staff had updated job descriptions...these are now in place and that means that it promotes effective segregation of duties.

In acknowledging the success achieved, six (6) respondents reported that the OTP had excelled in this process. The following statements procured from the research respondents are reflective of this accomplishment:

There has been a substantial improvement and we have gone through pains this year to try and align budget and plans more effectively....This was commended by the AG.

The five-year strategic plan is appropriately aligned to APP and budget. Organisational structure has been aligned to generic financial structure.

The development of procurement plans was mentioned by twelve (12) respondents as a vital control measure efficaciously implemented by the OTP. The following comments from the research respondents attested to this:

Having an approved procurement plan…it has been a long time coming but we finally have 100% compliance…all units in the OTP have procurement plans…no one can procure without a budget, an item reflected in the procurement plan…it has worked.

Bid committee appointed and trained….All managers have to answer in respect of outstanding commitments at MANCO…especially commitments over thirty days.

Respondents in Cohort #2, were in agreement with Cohort #1, as evidenced in the following comment:

To a certain extent the awareness on internal control and finance has been made because you could even the new people that are coming. We have also introduced these MANCO workshop which is a very good thing as well for everyone to be aware of the process in each and every component.

The abovementioned remarks are reflective of the work conducted by the OTP in terms of the implementation of effective, efficient and economical internal controls. These
ranged from policies, in-year financial monitoring systems, financial executive reports reflecting budget, expenditure and revenue, and procurement plans. Clearly, these internal control activities are in response to addressing prior internal and external audit queries.

**Theme B3.1.3. Reduction in late payments**

As revealed by prior internal and external audit reports, (AG, 2012, 2013, 2014), the issue of payments not being made within the statutory thirty days was identified as a recurring audit concern. Eight (8) respondents cited a major improvement in this area. This was primarily attributed to the new invoice tracking system, DOCTRAX that was implemented in 2015, by Finance in an effort to track the length of time taken to process the invoice from the date of receipt (AG, 2016:19). The following remarks by respondents were pertinent in this regard:

*The sort of suppliers that we are utilising are broad based economic…those are the individuals that do not have cash flow. Previously, we looked so bad as government, as people would lose their business because we took such a long time to pay…now we have no more late payments because there is now a tracking system….DOCTRAX is helping us to improve service delivery.*

*Since the implementation of tracking system, responsibility managers are more alert and conscious to finalise the payment timeously.*

Although cited as generally encouraging, the problem has not been entirely eradicated. This was revealed by a respondent in Cohort #3:

*The thirty days ultimately ends up being OTP related, even if the invoice is not correct or whatever, you need to ask the supplier to resubmit to you and you should have all documented. Ultimately the audit trail come back to the OTP, however, with DOCTRAX, we are seeing improvement in turnaround times.*

**Theme B3.1.4. Delegations**

Fourie (2007:741) contends that a clearly demarcated financial accountability structure serves as an important base for establishing effective financial processes. As discussed under section 2.5.1.3. above, Apstolou and Crumbley (1992:17.6, 12, 17); Fourie
(2007:737); Erasmus (2008:58); NT (2009:51-53; KPMG (2013:19); and INTOSAI (2013:8) all concur that financial delegations is a critical pillar for the efficient, effective and economical functioning of internal controls within an organisation. In the OTP, the legal prescripts and regulatory framework elaborated upon in chapter three above, declares that the AO's critical responsibility is to achieve the predetermined strategic goals and objectives as per the strategic and annual operational plans (NT, 2009:3). In executing such responsibility, the AO has issued various financial delegations to senior financial role players in the OTP. As noted in chapter one above, these delegations were revoked in August 2012 as a result of recurring internal and external audit queries relating to lapses in internal controls (AG, 2011, 2012, 2013); (PT, 2011, 2012, 2013c, 2014a). This fact was acknowledged by ten (10) respondents who cited the work undertaken by the OTP in reviewing the financial delegations, thereby ensuring that senior finance role players undergo training, as discussed in B1.4.2. after which delegations were subsequently re-issued. This was captured in the following comment:

*If you look at the fact that delegations were taken away, they attended the training and were informed as to the reasons why delegations were taken away…largely due to financial non-compliance…In that way, all managers in financial roles were made aware of their financial duties and the impact on accountability. Then delegations were given back to them, so now there is no counter signature.*

The review of the financial delegations by the OTP is in support of KPMG (2013) as it guarantees that the delegations are pertinent in terms of the current work environment. The success achieved by the OTP is captured in the following intimations by respondents:

*Once areas of weaknesses are identified, we do devote priority, for example the issue of delegations…it was reworked and now has been reissued to management.*

*Areas of delegation have been reviewed…it has taken a long time to reconsider them but at least now we have got our delegations that have been communicated.*

*Delegations and regulations regarding financial control is clear and all officials within the OTP understand their role in the process. The financial units enforce compliance in the normal course of their work, which helps in addressing potential risk areas.*

Delegations serve as a crucial control mechanism, providing checks and balances as well as promoting proper segregation of duties (AG, 2011:5). The importance of the delegation
to managers and the subsequent link to accountability and improved service delivery was captured by the following respondent comment:

_The devolution of delegations, not only fast track service delivery but accentuates accountability, as managers have a direct sense of ownership, authority and accountability, compared to one, who is a peripheral role player in the process. It also aids proper segregation of duties, which is vital for effective controls._

As intimated by the above respondent, the existence of trust and ethical conduct within the workplace improves employee relations, whose discussions are characterised by openness and willingness to share information and ideas. Robbins (2001) postulates that the trust relationship between supervisor and staff is a fundamental constituent in fostering good working relationships in an ethical environment.

An interesting theme that arose during the interviews relates to the frustration experienced by seven (7) respondents from Cohort #1, who stated that there appeared to be a lack of trust on the part of the AO and CFO, from whom delegations are issued. However, in terms of its financial expenditure management policy, (OTP-KZN, 2015c:2), the PM, SPM and RM still have to seek authority via the CFO and DG in terms of administrative processes, even when minor expenditure needs to be incurred. The following statements encompass the feelings of these seven respondents:

_We do have delegations, but there are signs that people think they do not have power over their money. These things are being discussed at the EXCO where branch managers believe that powers are too centralised to the CFO, because for every little thing I have to buy it must go via the CFO. The bureaucracy does unnerve people….So delegations are just there in name. It really unnerves people and causes unnecessary service delivery delays. Why would you not trust me because that is where you must also build responsibility for accountability?_

_Too much of micro management can also be a problem as we are learning in the process. With delegations, we really need to look at it more innovatively, allowing managers to implement delegated authority and hold them accountable._

In response to the frustration expressed by Cohort #1, the respondents in Cohort #2, cautioned that the various administrative financial processes were necessary as they formed the basis of essential control measures. The following respondent comments portray their opinion on this issue:
The delegations, works well. It is good although, I suppose that managers might complain they have to do a lot of submissions, but it allows the AO to have a better control.

There might be a complaint that people have to do submissions since we started having delegations. We have in the past where our budget is out like by November, December we cannot spend anymore. We have not had that kind of thing any more.

The majority of respondents in Cohort #2, cautioned that the issue of delegations is a major financial responsibility and must be executed sensitively, so as not to compromise the necessary controls which serve as a monitoring mechanism. The following comments by the research respondents are illustrative of this:

One has to be very careful how you manage the delegations. You only delegate to a point where the CFO feels comfortable, where those delegations are not going to be abused.

If you look at the weaknesses or the issues that have been raised by auditors; people always complain about the delegations. They are not given sufficient delegations and I am saying you do not understand we are minimising the risk…Imagine if you sign one million…for me as a CFO that is material. For you, if it is irregular and you have not complied with the laws already, you could be subjected to liability of one million.

The OTP has achieved substantial improvement in the implementation of financial controls that promote accountability. This is supported by Visser and Erasmus (2009); INTOSAI (2013) and KPMG (2013), who note that the financial controls implemented by OTP, KZN have ensured the integrity and accuracy of financial data and enhanced accountability in the process. This sentiment was resonated by the majority of respondents in all cohorts in Theme B3. Despite however the success achieved by the OTP, the respondents were of the opinion that there were still areas that needed improvement. These lapses in control activities will now be examined in detail.

Theme B3.2. Lapses in internal control activities

In terms of lapses in internal control activities, the respondents cited one noticeable concern, namely, irregular expenditure arising out of SCM deviations.
**Theme B3.2.1. Irregular expenditure**

According to Siswana (2007:141), the South African Constitution and associated regulatory framework demands elevated levels of accountability on the part of senior financial role players. In terms of the statutory and regulatory framework, the AO must take steps to prevent irregular expenditure, as outlined in chapter three of this study (PFMA, SA, 1999a:44). It was evident however, that certain financial role players did not exercise due diligence in ensuring compliance with financial prescripts, as laid out in the departmental financial policy document of the OTP, KZN, 20/2015 (OTP-KZN, 2015c). Such non-compliance resulted in irregular expenditure being incurred. According to NT (2008:51) and Visser and Erasmus (2009:287), non-compliance is indicative of preventative controls not functioning as designed. As per the 2015/16 financial year audit, the AG reported on irregular expenditure amounting to R17.8 million incurred by the OTP (AG, 2016:4). The following respondent statement reviews the contraventions as per the OTP, KZN financial policy document 20/2015 (OTP-KZN, 2015c), on irregular expenditure:

*The controls are there but people flaunt it. There is a difference between management and leadership. If you are a leader you would find ways creative ways of making sure of what the executive authority wants to get done but in a proper manner within the rules.*

Not adhering to time frames as protocol dictates was cited as a recurring concern by one respondent:

*The staff just wait till the last minute before indicating this has to be done. . . . no one can tell me that we do not know the 16th June or World AIDS Day 1st December.*

Emanating from these respondent statements, planning was described as being pivotal:

*It is a matter of no plan at all as managers create emergency situations, which sometimes circumvent internal controls. Financial controls are routinely circumvented and top management sometimes abets this process because of expediency.*

One respondent in Cohort #2, reported that beyond the issue of circumventing internal controls, the OTP had still not finalised standard operating procedures, which inevitability led to irregular expenditure, as essential controls were bypassed. This was referred to by one respondent as follows:
We have not yet gone far enough down the line of developing, our control measures in particular standard operating procedures and because we do not have the standard operating procedures for all our critical processes.

One of the respondents fervently addressed non-compliance with SCM regulations and cited the following example:

*The gap is that units are not always following required processes, for example with this contract for Gandhi trust, the heritage unit brought it straight to legal...because they promised this Gandhi trust and the Indian Prime Minister is coming, so we have got to finalise. The question is those SCM processes have not been requested. That process has not been followed, that is also coming from RM's.*

The abovementioned example cited by a respondent in Cohort #1, is reflective of the fact that financial internal controls are in place with respect to SCM processes. Nevertheless, in certain instances, it has been found that senior financial role players circumvent such controls. Respondents in Cohort #2 and #3, echoed the abovementioned opinions, but added that irregular expenditure is largely attributed to poor planning on the part of certain senior financial role players. This judgement was portrayed by the following respondent remarks:

*I sit in those portfolio committees when those things arise...actions that have not been planned, when there are events that need to happen, then we yield to impulsive actions because we do not have any other options. That is how irregular expenditure comes out of not proper planning, and a system that is not working systemically.*

Another research respondent stated that shared responsibility attributed to poor planning had had a harmful effect in the OTP:

*Fortunately I have sat on a lot of meetings with the head of treasury and the ADG and OTP management, with regard to deviations resulting in irregular expenditure. We found that most of the reasons are not water tight on deviations. It just points out to lack of planning and things that are done on a last minute.*

According to DiNapoli (2008:3) red flags are indicative of something out of the ordinary or a discrepancy in the conventional process. The lapses in internal controls point out that the red flags of the preventative controls of the OTP are not being addressed, which serve as early warning signs of a defective system which invariably has had an adverse effect on accountability.
The next theme will examine the extent to which the OTP has succeeded in communicating relevant financial information to all levels in the department. In particular, it will determine whether respondents accessed financial information easily and obtained a clear understanding of their roles and responsibilities, such information as it relates to the implementation of financial internal controls that promote accountability.

4.3.3.4. Theme B4: Communication and information towards promoting accountability

The Accounting Officers (AOs) carry a major responsibility for ensuring that all employees clearly understand their specific roles and responsibilities (Fourie, 2007:741-742). This serves as an effective management tool whereby senior management can assess the economical, efficiency and effectiveness of departmental operations (INTOSAI, 2013). Communication is not an isolated internal control component as it affects every aspect of the OTP's operations. Communication and information was discussed under section 2.5.2.4. above. The feedback from this communication network can help senior management evaluate how well the various components of the system of internal control are working. The connection between information and communication and internal controls will now be discussed in the section which follows.

Theme B4.1. Internal reporting structures

In terms of the success of internal reporting structures within the OTP, a general consensus was expressed between the respondents across all three cohorts that financial internal controls promote accountability. As reported by all fifteen (15) respondents, such internal reporting structures can be found in the following management structures: the Management Committee (MANCO), the Executive Committee (EXCO), various management workshops and financial communication updates. This information is illustrated in Figure 4.11.
Twelve (12) respondents commended the OTP on the internal reporting structures currently in place within the department, wherein financial information and more specifically, financial internal controls that promote accountability are deliberated upon. The following relevant remarks by the respondents relate to internal reporting structures that exist within management meetings:

*We have got the various forums, like the MANCO and the EXCO, which assesses the risk factor, analyse and rate risks and formulate appropriate internal controls. So those concerns do get addressed at those various levels. We are very robust about challenging some of the things that seem to be control problems.*

*Over the past year, the ADG went through a lot of pains to structure and restructure that agenda to create that understanding of financial controls and accountability on the part of managers.*

*Having financial matters as a standard agenda at MANCO helps entrench and heighten communication on financial matters.*

Four (4) respondents expressed their appreciation of the manner in which financial information had been disseminated at the management meetings. The following comment is apposite in this regard:

*In our MANCOS, we are alerted to budget issues as to whether we are spending our monies correctly. Finances is being communicated in a user friendly language, because in the past financial people were like elitists. Now, all of us, even if we are not financial people but we now understand finances.*
The respondents further alluded to the recent introduction of MANCO Workshops and Branch sessions, as per the EXCO meeting held in March 2016 (OTP-KZN, 2016c:6):

*We cannot function alone that is why we are busy training line managers so that they understand that the other rule is managing people also through the MANCO workshops and through visiting the very branches.*

Over and above management meetings and workshops, six (6) respondents emphasised the regular financial communication updates which were circulated to the entire department:

*The CFOs office issues regular circulars on financial issues to all role players...this certainly helps disseminate information to all levels, also copies of financial reports and the AG’s reports are also circulated to the PM, SPM and RM.*

*I always appreciate circulars that are sent to us, alerting us of the due dates. Circulars are sent and it is up to the people whether they read the circulars and understand it. People are now into this compliance mode...people are on their toes.*

As outlined in chapter three above, the OTP has developed and implemented financial policies and procedures which have been circulated to all financial role players (OTP-KZN, 2015c:4). The finance chief directorate has also conducted one-on-one training sessions in order to highlight the salient features of the expenditure policies put in place (OTP-KZN, 2015c:4). The following sentiment was shared by one of the respondents:

*I must complement our finance unit, because of the assistance as they do recognise that there is a difference between a non-financial manager and a finance manager.*

The existence of strong internal reporting structures was echoed by Cohort #2 and #3, wherein, all fifteen (15) respondents concurred that the OTP has setup adequate reporting structures at the management level on financial internal controls that promote accountability. The following significant comments by the research respondents were offered:

*Organisational structures such as the EXCO, MANCO, and Branch MANCO's meetings are in place for cascading financial management policies and procedures and audit reports. Through these structures, there is a greater awareness of financial management prescripts and compliance....Regular financial reports to the EXCO, MANCO...where financial management challenges are discussed.*
The Website and e-mails which facilitate for easy communication of the Strategic Plan, APP and budget and financial management policies and procedures….Financial Management policies are posted to the department Website and circulated through e-mails.

Information session and awareness campaigns are conducted….Budget is communicated and circulated to all Units.

The abovementioned comments are an apt illustration of the work undertaken by Finance in terms of new initiatives such as DOCTRAX and EMAPP, both of which were implemented to enhance financial reporting and training (OTP-KZN, 2016b:38). The external reporting structure was also a prominent feature that emanated from the data.

Theme B4.2. External reporting structures

All of the respondents in Cohort #1 reported that there was regular monthly reporting to the Cluster Risk and Audit Committee (CARC), the provincial legislature and the PT in respect of financial internal controls that promote accountability. This is illustrated in Figure 4.12.

![Diagram of external reporting structures](image)

**Figure 4.12.**

External reporting structures

These findings are in support of the legal and financial accountability referred to by Ababio, (2007:6); Kakuma and Fourie, (2007:654) and Chapman (cited in Ijeoma and Sambumbu 2013:287). These external bodies provide an essential independent oversight role in the affairs of the OTP, where evaluation is based on a close analysis of the financial
and performance data. The following respondent comments address the success that the OTP has achieved in respect to external reporting structures:

*When we go to CARC, then you actually see the financial information, the performance information, then the risk and the internal controls working together. In my position in those kinds of committees we can see the linkages.*

*Now we have got more of a culture going on, where we are monitoring and reporting on internal control to CARC, provincial treasury and portfolio committees …finance information links up with performance information. I have been more exposed to it now because we see ourselves working together to improve controls and close gaps.*

Beyond reporting, accountability is ensured in terms of the strategic plan as noted by the following respondent:

*We also have systems in terms of our strategic plan, our annual performance plan and budgets…taking it through to the legislature to premier's and finance portfolio committee…then there is normal reporting during the year to CARC which then also brings in the aspect of internal control…as a result, you get that level of accountability.*

With regard to regular reporting to external oversight structures, four (4) respondents in Cohort #2 were in agreement with members of Cohort #1 concerning the achievements of the OTP. This was confirmed by one respondent who remarked:

*If you want to see what happens on the other side of the hill, so you are more inclined to manage your risks…If this system goes wrong, it all goes wrong. I take the comments that we had from CARC, if we want to look at an external assessment of what it is that we do, then I do see value in the input that we do get from CARC….I do not necessarily always agree with everything that they say, but I think one has got to listen to what they say and if we take into consideration their comments on how there has been a positive progression in how we are going, I was sort of pleased and comforted by that.*

The respondents further elaborated on the quality of the reports, stating that the OTP conscientiously provides regular reports with information that is accurate and which promotes transparency. The following respondent comment captures this sentiment well:

*I have always insisted and taken pride in integrity…during our prep meetings, I always made sure that when you do give reports to people outside, that it is accurate and that it is as far as possible correct.*
The same respondent however cautions that while acknowledging the success in external reporting, there was still room for improvement in the OTP as interaction with the PT is reactive, occurring mostly prior to CARC meetings:

*We have come a long way but we are still far from being ideal, in terms of where we want to be. Currently, we meet with internal audit for preparatory meetings just before a CARC meeting...we only focus on the internal controls on an ad hoc basis.*

The issue of communication with IA, was also noted as an area of improvement, under Theme B2. Nevertheless, the respondents in Cohort #3 were of the opinion that in comparison to prior negative internal and external audit reports, the OTP should not minimise the success that has been achieved, specifically with the role played by the Risk Management unit in elevating internal controls. The following respondent comments provide evidence of this assertion:

*Mechanisms is firmly in place to ensure representation and communication with various structures outside of the department, for example CARC; treasury and portfolio committees at the KZN Legislature...thorough rigorous discussion of internal controls and accountability issues, the OTP has focused resources in improving audit queries raised by the IA and AG...we should be so proud that we are now achieving consistent audit results.*

*If I look at the first time I went to CARC and I how the initial reports were at that time...now look at the things that have been achieved over the years...from that you could say, it is the ease and improvement on some areas.*

Having examined the key successes in Theme B4: Information and Communication to arrive at a comprehensive overview of the extent to which the OTP is communicating and disseminating information on internal controls that promote accountability, the next section will examine the challenges encountered by the department.

**Theme B4.3. Communication and information within the Office of the Premier, KwaZulu-Natal**

One of the major sub-themes that emerged in the research data in terms of gaps was that of downward communication within the OTP. It was evident from the successes, noted above, that the OTP had strengthened both its internal and external reporting structures. However, as ten (10) respondents were to report, information and communication
primarily occurred only at a management level. The overall opinion was that staff below the level of management were not involved at all stages. This was despite them being crucial role players responsible for the implementation of the financial internal controls that promote accountability (KPMG, 2013:4). The following respondent comments discuss this in depth:

At management level, people are aware of what is going on…the controls in place but perhaps the information is not cascaded enough.

Our management structures are not used effectively to get this message down and that has also been a response from staff, in open staff meetings. Managers do not always communicate effectively decisions that are taken at management meetings.

Beyond senior management, middle management were also identified within the communication chain. This was noted by the following respondent:

With middle managers, going down unfortunately, there is a culture that has developed in public service where things have become very closed in terms of communicating.

There is a lack of a mechanism to obtain and publicise information to lower levels employees. This information may be critical in improving working conditions and improve controls within the department…currently, only management is privy to information.

The respondents emphasised that the EXCO had taken a decision whereby each branch was to convene meetings in order to communicate and disseminate information emanating from top management meetings with the Premier, the EXCO and the MANCO management meetings. It was discovered that this directive had however not been implemented fully by all branches, as illustrated by the following respondent remarks:

I think they have started in some branches, but feedback seems to indicate otherwise. When we send stuff out to Branches that was discussed at EXCO…and then you get no response…you start following up and they say “but nobody told us that this is required”….so the evidence suggest that it is not happening effectively.

Not all branches seem to have financial control matters as standard on their meetings as is the case at the MANCO…the focus is mainly on the line function issues.

Communication enables personnel to understand internal control responsibilities and their importance to the overall achievement of objectives (KPMG, 1999:21; INTOSAI,
2004:36-39). The lack of downward communication, as cited by the respondents, had had a negative impact on the implementation of effective, efficient and economical internal controls. Shafii and Salleh (2010:33) emphasise the importance of communication taking place at all levels in a department, as staff must be able to articulate their respective roles in the internal control system as well the interaction with other staff members, in order to be accountable for their actions. If junior staff are not informed, internal controls are compromised and accountability undermined in the process. This was eloquently captured by one of the respondents in Cohort #2:

The people who actually have to implement and actually have to abide by these do not seem to understand the value of that… Managers are not disseminating financial information and staff at lower levels are been crippled and set up for failure… how can they apply internal controls effectively if they are not in the loop. The impact is not just felt on the financial side, it is felt right throughout all aspects of management.

A common concern expressed by all respondents in Cohort #2 and #3 were the number of units within the OTP who work independently and in isolation to one other. This was despite the commonalities they share in meeting strategic objectives. To achieve such goals ultimately involves the co-operation and integration of all respective role players.

The success or failure of the four themes discussed above, namely: (1) control environment; (2) risk assessments; (3) control activities; (4) information and communication, is to a large extent dependent on whether the OTP conducts regular reviews of its policies and procedures. Such reviews should include a thorough evaluation component so as to ascertain whether the financial internal controls that are in place promote accountability as per their design (INTOSAI, 2004:40-42). This involves constant monitoring and evaluation of internal controls, which is the subject of Theme B5: Monitoring and Evaluation.

4.3.3.5. Theme B5: Monitoring and evaluation towards promoting accountability

The regular Monitoring and Evaluation (M&E) of internal controls is essential in order to ascertain if controls are functioning as designed and to address any gaps that are found which compromise accountability (NT, 2014:117). Emanating from the research
interviews, two relevant sub-themes emerged, namely: regular monitoring of business processes and an *ad hoc* evaluation of financial internal controls.

**Theme B5.1. Monitoring Office of the Premier internal controls**

Breyfogle, Cupello & Meadows (2001:93), contend that there are three key objectives for monitoring financial and non-financial performance in an organisation. These consist of: (1) Planning; (2) Screening; (3) Control.

The monitoring of essential business processes by the OTP can be viewed as an enabling mechanism that allows the AO to track progress against what has been planned versus what is actually achieved in the form of service delivery outputs. Monitoring and Evaluation (M&E) can also provide the necessary internal control interventions in terms of the challenges identified. The importance of Theme B5 was emphasised by one of the respondents in Cohort #2:

*Monitoring and evaluation is very critical to detect that there are weaknesses in the control environment and if certain controls are no longer relevant…so it is very critical that we continuously measure internal controls that we put in place and that accountability is ensured.*

In terms of the M&E of internal controls that promote accountability, the research respondents acknowledged that the Office of the CFO, Risk Management and the M&E unit, had each embarked on various action plans to regularly assess and evaluate the functioning of the current financial internal controls that promote accountability in the OTP. The following respondent comments support this statement:

*The monitoring and evaluation of financial internal controls is regularly done and reported on to the EXCO and MANCO.*

*I think financial monitoring aspect appears to be done to a large extent because through the monthly MANCO reports you are able to see the trend in terms of financial expenditure. So the monitoring is there.*

The recent appointment of the Risk Manager in 2015, has strengthened the OTP’s monitoring and evaluation arm, as reflected by the following respondent statement:

*Recently, we have seen a resurgence in terms of monitoring and evaluation with the appointment of the risk manager. The unit is doing that quite well*
these days…that is why we are having less adverse comments from the AGs office recently.

Cognizance must also be taken of the fact that the M&E unit in the OTP provides a government-wide M&E service, with a vision to provide a single, comprehensive information view of public service delivery and performance across the province of KwaZulu-Natal. It does so by creating a Provincial Nerve Centre that stores and presents reliable, timely, and accurate information on the state of the province and the performance of government services to the province (OTP-KZN, 2016a:11). In line with its mandate, the M&E unit instituted in 2016 an electronic system of quarterly reporting (OTP-KZN, 2016b:35). These quarterly reports are compiled by the managers and submitted to the M&E unit on a quarterly basis for review. Upon vetting the information, the M&E unit submits the information to the ADG and for discussion at the EXCO/MANCO meetings.

One of the research respondents made the following comment relating to quarterly reporting by senior management:

In terms of the quarterly performance reports, we are measuring what we are supposed to be measuring, some managers are getting 100 % and it is encouraging.

Monitoring and evaluation involves an analysis of the internal and external audit recommendations with a view to determine if the auditing findings have been adequately addressed and whether further internal controls need to be implemented (KPMG, 1999:21; INTOSAI, 2004:36-39). In this regard, the research respondents observed that over and above the normal monitoring, the RM had developed audit action plans as a result of the negative audits from the AG audit. As per the 2015/16 Annual Report, it was encouraging that the OTP had implemented a plan to prevent the recurrence of prior audit queries and move towards a clean audit (OTP-KZN, 2016a:76-79). The following respondent comment reflects on the improvements that the action plan had achieved:

We now have got an audit improvement plan, aimed at actually improving short comings identified during the audit. We have made progress when compared to the risk register where a number of actions are outstanding. The majority of action plans are on track for implementation and is being monitored by the EXCO, MANCO and CARC.
Cohort #3 reinforces the view of Cohort #1 and #2 in their support for the progress made by the OTP in the monitoring and evaluation of internal controls that promote accountability. This was reflected in the following respondent statement:

*The Audit Plan is in place and regular independent reviews of financial controls by the Internal Audit Unit and CARC….Effective implementation of the audit improvement plan is independently reviewed by the Internal Audit. Expenditure versus budget reports are presented to PT, Finance and Premier’s Portfolio committee for reviews and analyses.*

**Theme B5.2. Evaluating Office of the Premier internal controls**

As Changchit *et al.*, (2001:437) point out, despite the importance of M&E, it remains a neglected area in the public service environment. This view was supported by the majority of respondents in the research study. Ten (10) research respondents cited the earlier issue of staff capacity discussed under Theme 1, as a deterrent to successfully monitor and evaluate the department's internal controls:

*I do not have the capacity….I am totally reliant on the information supplied by the PM/SPM and RM and just report on what has been given to me…I am unable to verify the data and confirm that the gap in internal control has been addressed.*

*[There is] limited capacity of Internal Control unit to monitor and evaluate internal controls. There is a lack of management surprise and periodic reviews of internal controls.*

Despite the OTP's actions to implement the evaluation of internal controls, the process had been compromised mainly due to capacity constraints. Respondents in Cohort #2, expressed the view that while the chief focus had been on MPAT and budget, expenditure and revenue control, the actual evaluation had been neglected. The following respondent comment reflected this dilemma:

*I do not think we are doing particularly well in that area at this stage. One of the reasons is that other than through budget reviews and MPAT that requires us to report on certain issues that are happening in that internal control environment, it is actually not an area that has performance indicators that are on the monitoring and evaluation radar. How do we implement and evaluate controls arising from audit improvement plan? Actually nothing else that measures and picks that up.*

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This view was supported by Cohort #3. From an external perspective, the problem had been accentuated because of a failure in oversight by the OTP. As a consequence, the lack of monitoring financial controls had resulted in severe gaps being identified by both the AG and PT. This was confirmed by on the research respondents:

> What has not been happening vigorously in government is the evaluation part. We have got monitoring and evaluation components in most of the departments, but I do not know whether it is the budget that does not allow or the will, but we have not been evaluating because that evaluation is supposed to inform the planning guys in the following year, that these are the things we got wrong, this is what the AG found, this is what we did not do good in, then it informs the planning side of the following year then we get better and better.

Monitoring is still in its infancy stage at the OTP. In terms of a report by the PSC (2015:23), monitoring arrangements need to be well-defined to prevent fruitless expenditure on redundant control arrangements and to act proactively to counter new risks. Arising from the findings of assessments by the Department of Monitoring and Evaluation (2015:3), more needs to be done by departments to improve the quality of their management practices. In terms of the abovementioned narratives, OTP financial role players have not been conducting regular reviews of internal controls. This has resulted in unknown deficiencies and no action being taken to enhance financial internal controls that promote accountability (KPMG, 1999:8).

### 4.4. CHAPTER SUMMARY

The focus in this chapter has been on the presentation and analysis of the empirical findings of the research study. The chapter commenced with a detailed discussion of the research methodology, research design and empirical methods utilised in the study. Thereafter, the chapter concentrated on the thematic analysis. Arising from the analysis, five themes and subthemes were discussed in detail. The research data revealed that the OTP had made substantial progress in terms of successes, whereby internal controls had been strengthened to address prior audit queries; however in order to promote and improve accountability, there was still room for improvement. In the next and final chapter, following an overview of the five chapters of this research study, a series of recommendations will be made, based on an analysis and interpretation of the research data. To close, future areas of research will be identified and a brief final summary offered.
Chapter Five

Summary and recommendations

5.1. INTRODUCTION

In the previous chapter, the research approach was motivated and the empirical findings thematically discussed. The primary objective of this chapter will be to present a summary of the research, delineating the contents of each of the five chapters as it aligns and synergises with the research objectives of the overall study. Thereafter, based on the empirical results, relevant conclusions and appropriate recommendations are provided. Finally, future areas of research will be identified and a brief final summary of the work offered.

5.2. SUMMARY AND ACHIEVEMENTS OF THE RESEARCH OBJECTIVES

A qualitative research approach was adopted by this study to analyse the extent to which the current financial controls within the OTP, KZN are effective, efficient and economical with regard to financial accountability. The key research objectives (ROs) were as follows:

**RO 1:** To investigate theories, principles on accountability and effective, efficient and economical financial internal controls in the OTP, KZN.

**RO 2:** To describe the statutory and regulatory requirements relating to effective, efficient and economical financial internal controls and accountability in the South African Public Sector.

**RO 3:** To investigate the effectiveness, efficiency and economy of the current financial internal controls with regard to financial accountability, inclusive of successes and challenges in the OTP KZN.

**RO 4:** To propose corrective measures as recommendations, based on theory that may strengthen effective, efficient and economical financial internal controls and optimise accountability, in order to address negative audit findings as well as enhance service delivery in the OTP, KZN.
These research objectives were addressed according to the problem statement and were articulated in each of the five chapters. A brief summary of the chapters will be presented in the sub-sections which follow.

**5.2.1. Chapter One**

This chapter provided an extensive background and context of the study and introduced the problem statement by way of a case study in the OTP, KZN. The chapter went on to outline the objectives, research questions and leading theoretical statements. In addition, a succinct overview of the research methodology adopted, ethical considerations, significance of the study and its limitations were discussed.

**5.2.2. Chapter Two**

The purpose of this chapter was to address RO1. This was achieved by a comprehensive literature review of public financial management theory, inclusive of accountability and internal control measures. The chapter commenced with an overview on public finance as it informs public administration, which formed the epicentre of this study. Afterwards, theories that underpin public financial management in the South African government were discussed. The core constructs of accountability and internal control as they relate to the public service was also examined. Finally, the chapter outlined the effective, efficient and economical functioning of internal controls and accountability in the OTP, KZN. Thereafter, these were then investigated in accordance with the first research objective of the study.

**5.2.3. Chapter Three**

The central focus of this chapter was on procedural structures in terms of "good and proper" financial management, which related to RO2. In sum, the legislative and regulatory framework, as it impacts on the effective, efficient and economical functioning of financial internal controls and accountability was explored so as to afford a comprehensive understanding of the financial reforms in South Africa. Thereafter, analyses of the various pertinent financial policies were presented. The chapter concluded with an examination of the numerous roles and responsibilities of the various...
external financial functionaries and internal financial role players in the OTP, KZN that were relevant to this research study.

5.2.4. Chapter Four

This chapter provided a detailed answer to RO3. The primary objective of this chapter was the presentation of the empirical findings of the research study. The chapter first explored the research methodology and went on to describe and discuss the research design and empirical methods utilised. The chapter also clarified the empirical data collection instruments, the sampling method applied, as well as the data analysis techniques. Thereafter, a presentation of the research findings and analysis was given. The theoretical framework informed the development of five themes and subthemes on the successes and challenges experienced by the OTP, KZN in the implementation of financial internal controls.

5.2.5. Chapter Five

This chapter provided a detailed answer to RO4. Based on the empirical findings from chapter four, a concise summary, detailed conclusions and set of recommendations were offered in this chapter. The chapter's main emphasis was on the identification of those factors which can strengthen the implementation of efficient, effective and economical financial control measures and which can address the negative audit findings of past years and promote accountability within the OTP, KZN.

The related summary of findings arising from the empirical research will now be presented.

5.3. DISCUSSION OF FINDINGS

The findings from the empirical research are presented below according to the five key themes presented in chapter four of this dissertation.
5.3.1. Theme B1: Control environment

In relation to the control environment, the OTP leadership has displayed a firm commitment to internal control and accountability. This was evidenced by the commitment of senior management to the values, ethics, and conduct required in terms of the Batho Pele principles, coherence to the PGDS, managerial alignment to the vision and mission of the OTP, KZN, and finally, implementation of a code of conduct and promotion of integrity workshops and campaigns. In compliance with the generic structure of the DPSA, the organisational structure was reconfigured in 2011 so as to ensure appropriate structures were put in place. Mandates were revisited, roles and responsibilities were redefined and applied, as well as clear reporting lines established in the department. As part of the reviewing of the organisational structure, two new components—which are specifically relevant to this study—were created. These were: (1) Integrity Management; (2) Internal Control and Risk Management. The Integrity Management Unit, which focuses its attention on issues of integrity and reinforcing ethical conduct in the OTP, made an important contribution to upgrading internal controls and accountability. While success has been achieved in elevating the status of risk management since its inception in 2015, internal control has not witnessed the same development. This was primarily attributed to capacity constraints, since only one staff member constitutes the entire directorate. While Internal Audit has become an important support mechanism to the OTP especially in the area of risk management, the issue of suitable communication levels was cited as a challenge by Cohort #2 and #3. A further critical challenge identified in the control environment was that of inadequate staff capacity. Accordingly, operational and productivity setbacks have dogged the unit, as well glitches in administrative function.

Another prominent sub-theme was that of financial competence. The research respondents indicated that the lapse in internal control was due to units not having appropriately qualified and competent staff. This not only resulted in operational problems, but also impacted negatively on accountability. A concomitant factor, conceded by Cohort #2, was that financial training did not bear the desired results in all cases as anticipated.
In terms of Theme B1, the research respondents reported that despite the existence of organisational structures designed to promote accountability, little materialised by way of identifiable results. The goal of accountability is to promote efficiency to ensure that organisational imperatives are maintained. This result was supported by the AG in the management report for the 2015/16 financial year, where a lack of consequence management was raised as an issue due to marked deficiencies in internal control and a concomitant lack of disciplinary actions being implemented by the OTP (AG, 2016:21). This accountability gap demonstrates inherent systemic challenges that hold the management accountable. In this critical area, the accountability chain had been critically weakened.

5.3.2. Theme B2: Risk management

Value for money for the citizens of KwaZulu-Natal lies at the heart of appropriate risk assessment for the OTP. Three key sub-themes are applicable in this respect: (1) identification and assessment of risks; (2) assessment of potential for fraud; (3) an ad hoc implementation of actions plans to mitigate identified risks that emerged from the empirical data.

In the area of identification and assessment of risks, the OTP has achieved success in conducting risk workshops, which resulted in the compilation of a departmental risk register. This risk register represents a vital internal control as it identifies significant risks that could impact negatively upon the OTP achieving its strategic goals and objectives. As revealed in the empirical data however, participation in these workshops was limited to senior management in the OTP.

In respect of fraud and corruption, the research data revealed that the OTP had addressed prior audit queries and implemented an anti-fraud and corruption plan in 2014. This is a clear example of the OTP's commitment to managing fraud and corruption. The dominant challenge that emerged in Theme B2, related to an ad hoc implementation of action plans to mitigate identified risks within the OTP. This has had a negative implication for internal control and accountability, as it was not possible to determine if the risk has been addressed or whether supplementary controls still needed to be
developed. The abovementioned challenges are inextricably linked to consequence management as discussed in Theme B1. These gaps in internal controls can have a potentially debilitating effect on accountability within the OTP, KZN.

5.3.3. Theme B3: Control activities

Two pertinent sub-themes were identified in Theme B3: (1) deployment of controls in essential business processes; (2) lapses in internal control activities. The research respondents affirmed the effort of the OTP to address negative internal and external audit findings and the introduction of internal controls to ensure accountability. The implementation of effective, efficient and economical financial internal controls are reflective of the OTP’s determination to create effective financial monitoring systems and financial executive reports which are truly reflective of planned budget, expenditure, revenue and procurement goals. However, despite respondents reporting their concerns about the issuing of the financial delegations on the part of the AO and CFO, OTP expenditure management policy requires that authority must still be sought from the CFO and AO, even for minor expenditure. While Cohort #1 expressed their frustration at the financial control measures implemented by the OTP, respondents in Cohort #2 understood that such cautionary processes were necessary. In addition, the majority of respondents in Cohort #2 were of the opinion that delegations were a major financial responsibility that should be executed sensitively. This would ensure that such controls were not be compromised, but continue to serve as important monitoring mechanisms.

Despite the accomplishments achieved by the OTP in addressing prior audit issues and introducing various internal control measures, the empirical data highlighted the fact that there were still serious lapses in internal financial control taking place. In particular, the respondents cited their unease with respect to the irregular expenditure arising out of SCM deviations. According to the research data, irregular expenditure was suggestive of poor planning and non-standardised procedures in the department, which inevitably led to essential internal financial controls being bypassed. It is evident that the OTP occasionally encounters such impediments in financial accountability.
5.3.4. Theme B4: Communication and information

Communication is an integral element within the OTP that supports its system of internal control. The feedback from its communication network can assist senior management in their evaluation of the operation of the various internal control measures in place. The three relatable sub-themes: (1) internal reporting structures; (2) external reporting structures; (3) downward communication, each had a measurable impact on internal control measures. All three cohorts readily acknowledged the significance of the various internal reporting structures in place within the OTP in their promotion of accountability. As reported by all fifteen respondents, the internal reporting structures take the form of management structures such as the MANCO, the EXCO, management workshops and financial communication updates, As cited by the respondents, reporting took place on a regular monthly basis to oversight bodies in the form of CARC, the provincial legislature and the PT.

One of the major sub-themes that emerged in terms of identifiable gaps in Theme B4 was that of downward communication. According to the research data, staff below the level of senior management were not included, despite being responsible for the implementation of financial internal controls that promote accountability.

5.3.5. Theme B5: Monitoring and evaluation

Emanating from the research interviews, two main sub-themes emerged: (1) the regular monitoring of business processes; (2) an ad hoc evaluation of financial internal controls. In terms of the monitoring and evaluation of internal controls that promote accountability, the research respondents acknowledged that the Office of the CFO, Risk Management and the M&E unit, had all embarked on various action plans in order to regularly assess and evaluate the functioning of the current financial internal controls that promote accountability. The recent appointment of a Risk Manager in 2015 demonstrated an important step in a positive direction within the OTP, KZN, whereby monitoring and evaluation operations were strengthened and internal audit action plans improved. However, due to staff capacity issues as cited under Theme B1, an ad hoc evaluation of internal controls had had a negative impact on internal controls and accountability.
5.4. RECOMMENDATIONS

Based on the empirical data as it relates to theoretical, regulatory and policy perspectives in financial internal controls, the following seven recommendations are advanced:

5.4.1. Recommendation #1: Staff accountability for internal control

Staff not being held accountable for internal control responsibilities was a prominent sub-theme emanating from the empirical data. The following recommendations are proposed to address this critical gap:

i. **Financial disclosure extended to all staff levels:** Senior management in the OTP, KZN completed financial disclosures timeously by April 2016 and achieved 100% compliance with Public Service Regulations, 2001. Although this is commendable, it is recommended that the current policy to complete financial disclosures annually, be extended to cover staff at levels 1-12. Coordinated by the ADG’s office, a register will ensure that all employees comply within the stipulated deadline. In order to strengthen internal control, the Integrity Unit should initiate verification and monitoring processes to determine the accuracy of all financial disclosures for the OTP. Furthermore, disciplinary action against any staff member who fails to disclose an interest or wilfully provide incorrect or misleading information in their financial disclosure forms should be considered. A workshop to communicate with all levels of staff will offer a space to explain the policy and its implications prior to the disclosure date. The ADG should present a review of all financial disclosure forms and implement corrective action where necessary. Evidence of such review and approval should take the form of a signature and date on the financial disclosure forms by the Premier. The strengthening of this internal control is indispensable as it is essential for all staff within the OTP to be vigilant in their commitment to the policy framework, code of conduct, transparency and accountability. This will further entrench the Public Service Code of Conduct (SA, 1999b) that is currently in existence at the OTP.

ii. **Inclusion in performance agreements:** The lack of consequence management was noted as a conspicuous challenge. To facilitate the deliberate engagement of senior management, it is recommended that their internal control responsibilities
be included as part of their formal performance agreements, in terms of the performance management development system (OTP, 2016) currently in place in the OTP. Moreover, in order to ensure compliance, Integrity Management should conduct random audits.

iii. **Devolution of delegations**: This is systemic as the central control is still vested with the ADG and CFO. To avoid time-consuming administrative processes, as per the expenditure management policy document 08/2015 (OTP-KZN, 2015c:2), it is recommended that once the necessary capacity constraints have been addressed, consideration be given to devolving responsibility to the respective Branch Managers to authorise the requisition process for the branch. This will streamline financial administrative processes, resulting in the effective, efficient and economical implementation of internal controls in the OTP, while simultaneous promoting transparency. This proposal will provide the Branch Managers with an opportunity to manage the process and be held accountable for their decisions and actions accordingly.

### 5.4.2. Recommendation #2: Risk assessment strategy

The process of learning how to effectively manage risk with respect to the achievement of OTP strategic goals and objectives, provides senior financial role players with a methodical approach to make responsible, informed decisions. It will further enable them to determine appropriate control measures to mitigate identified risks. In order to address the deficiencies in current risk assessment, it is recommended that it be extended as follows:

i. **OTP Risk management strategy**: Upon capacitation, the Risk Management and Internal Control should develop and implement a risk management strategy for the OTP. This should incorporate a plan of action to improve risk management maturity, risk management architecture and reporting lines. Such alignment will ensure that a risk management policy is developed which will enhance the OTP's commitment to transparent and accountable risk management.
ii. **Risk workshops**: Risk workshops should encompass a strategy cognisant of emerging potential risks. Such workshops should be inclusive of lower level staff, who are ultimately responsible for the daily execution of internal controls.

**Dedicated Risk Management Committee**: The EXCO should be extended to include specialist risk management experts, thereby forming a new dedicated Risk Management Committee. This committee will be responsible for ensuring that risk management and internal control are effectively implemented in the OTP in compliance with its risk management strategy.

iii. **Evidence-based reporting as per Risk Action Plans**: In order to address the non-implementation of action plans, Risk Management and Internal Control should lead the process in evidence-based reporting on a quarterly basis and review all actions, holding senior managers accountable for all reported deviations.

### 5.4.3. Recommendation #3: Strengthening communication

In order to address the current gaps in communication, the following recommendations are proffered:

i. **Strengthening communication channels with Internal Audit**: Despite the notably good working relationship with the IA, respondents highlighted concerns of communication between the OTP and the IA. In order to effect efficient and economical internal controls, meetings should be scheduled on a bi-monthly basis in order to discuss issues pertaining to internal controls, status of audits conducted, and the reports to be presented to CARC. By placing internal audit matters pertaining to internal controls as a permanent agenda item, the OTP will be in a position to comprehensively and proactively address any reported challenges, thereby promoting transparency and accountability.

ii. **Strengthening internal channels of communication**: As confirmed by Cohort #1 and #2, inter-directorate communication primarily occurred at senior management level within the OTP. It is therefore proposed that the existing OTP website be populated and updated by the webmaster in communication services, based on the provision of all financial prescripts and polices by the Office of the
CFO, Henceforward, when staff access the intranet, via the OTP website, they will be able to interact more intimately with the pertinent financial policies.

iii. **Mandatory branch meetings:** Branch meetings serve as a vital conduit for disseminating information and communication. It is therefore proposed that the ADG announce that attendance at branch meetings is mandatory. By managing communication in a well-planned and coordinated manner, this will help staff maintain a commitment to effective and timely communication. Interactions with other employees allows for feedback from the existing EXCO and MANCO meetings and provides opportunities to address deficiencies in internal controls and promote transparency and accountability.

5.4.4. Recommendation #4: Addressing inadequate staff capacity

All the sampled respondents cited the high vacancy rate as a prominent internal control challenge and alluded to inadequate staff capacity. This negatively impacted the value chain whereby certain units were confronted by the necessity of having to conflate roles and responsibilities, which often resulted in a conflict of interests. The net impact was a serious compromise in existing internal controls and added to the psychological stress on the part of employees. In order to address this, the following recommendation is proposed:

i. **Recruitment and selection:** Despite the implementation of costing-cutting measures and a moratorium on the filling of vacant posts, it is proposed that the OTP identify priority-critical vacant posts and secure authority from the Premier and Minister of Finance, to address deficiencies in internal controls and accountability. The OTP should embark on a comprehensive talent management strategy in order to identify, attract, develop, deploy and retain talented and high potential employees. This could be achieved through the effective management of intellectual capital, including mentoring, coaching and succession planning, together with a monitoring and evaluation element. Such a strategy would not only address internal control deficiencies, but also develop and retain high potential employees. This could provide the OTP with a valuable source of managerial talent.
as well as supply a competitive human resource advantage that would positively impact organisational performance (DPSA, 2010:2).

5.4.5. Recommendation #5: Financial competency

Another prominent sub-theme was that of financial competence. The research respondents indicated that the lapse in internal control was due to the organisation not having appropriately qualified and competent staff to execute their duties; this in turn had a negative impact on accountability. The following recommendations are thus proposed:

i. **Incorporating financial core competency into the OTP recruitment strategy:**
   As an integral part of OTP recruitment strategy, it is imperative to ensure that new candidates qualify in terms of the requisite skills and competencies for the position offered. Beyond attracting the normal technical skills required for the position, all OTP advertised posts should include financial management competency in line with the DPSA (viz., core competency) in the advertisement.

ii. **Skills audit:** A skills audit should be conducted on all OTP staff in order to establish the current skill base. The outcomes of this skills audit can be utilised to address the mismatch of skills and competencies and thereby ensure a realignment of staff placement. This would go a long way in addressing internal control mechanisms that promote accountability.

iii. **Training and development:** Compulsory financial training has not provided the anticipated results. It is therefore proposed that training workshops address individual personal development. The OTP should define the level of competence required to perform financial management duties. In addition, staff training should be implemented in order to address the competency gaps that currently exist. Financial competency training given to senior financial role players, should concentrate on financial management duties. Such training ought to incorporate functional and practical components involved in the execution of their internal control responsibilities and its subsequent impact on accountability. Current OTP training policy should be extended to include a formal financial induction programme that will provide a comprehensive understanding of public financial management. In view of the considerable time pressures on senior managers, it is
assumed that they are unlikely to be able to attend long-term programmes. Accordingly, alternatives should be explored, such as the development of modular 'short courses' and on-the-job training (Fourie, 2002b:123). In addition, ongoing training for senior financial role players in terms of compliance to PFMA, TR and practice notes needs to be instigated. Such training and development will contribute positively to the up-skilling that currently exists in the organisation. According to the Institute for Public Finance and Auditing (2009:3) and NT (2012:6), government departments often spend significant amounts of money on training for finance officials, which ultimately does not lead to value for money.

iv. **Validation by Provincial Training Academy:** To overcome the existing training concerns, it is proposed that the Provincial Training Academy be tasked with ensuring a validation mechanism is put in place to ensure quality financial training, with resources focused on prioritised needs. Ideally, training ought to demonstrably realise improved compliance to internal controls and accountability in the workplace. Accordingly, it is proposed that training be supplemented with formative and summative workplace assessments by the individuals, based on the practical implementation of the skills learned in the training programmes.

v. **Employees Wellness Workshops:** It is important to address worker stress and burnout by extending the existing employee wellness programmes. In order to effectively attend to this problem, the Employee Wellness unit should conduct ongoing workshops on stress management and work life balance.

vi. **Introduction of standard operation procedures:** It is critical that the OTP embark upon standardising all procedures and the creation of one document detailing standard operating procedures, including internal controls for each procedure. These procedures and internal controls are to be reviewed every quarter by senior financial role players. The SOP will be critical to ensure that all procedures are to be followed by public officials. Furthermore, the implementation of standard operating procedures for all financial procedures, including internal control measures to ensure the correct classification and recording of expenditure and revenue. Finally, compliance audits need to be undertaken by the Integrity Unit.
vii. **Dedicated Finance Management Committee:** A Finance Management Committee, chaired by the CFO, needs to be established. Its mandate will involve a review and analysis of all financial matters prior to signing-off by the AO.

5.4.6. **Recommendation #6: Addressing lapses in internal control**

To address the lapses in internal control which are impacting negatively on accountability, the following recommendations are advanced:

i. **Irregular expenditure:** It is proposed that a task team be appointed to identify and assess all possible causes of irregular expenditure, based on the internal and external audit reports. The task team would ensure the following corrective actions:
   a. To promote proper planning, the procurement plan must be aligned to the budgets and all procurement orders for goods and services must be submitted to the SCM one month prior to the event/service being rendered;
   b. A detailed register of all irregular expenditure per financial year should be compiled and kept up-to-date for tracking and internal/external audit purposes;
   c. Accounting Officers to undertake effective and appropriate disciplinary steps against officials responsible for irregular expenditure.

ii. **Enforcement of current Supply Chain Management control measures:** It is recommended that the OTP enforce the current SCM internal control measures relating to supply chain management, thereby facilitating its compliance and sustainability. The Risk Management and Internal Control can also conduct audits to monitor enforcement on the part of SCM. Role-players involved in compliance including PM, SPM and RM, with subsequent verification by SCM, with ultimate oversight vested in the CFO and ADG. All financial documentation should be reviewed in order to ensure that all legislation and policies are complied with and no internal controls have been compromised. Senior financial role players need to establish a control sheet where reasons for the non-attainment of three quotes are noted. This measure will ensure a good paper audit trail for the auditors and the managers that approve the order and payment forms. A master deviation register is also to be maintained by Supply Chain Management.
iii. **Reviews by Internal Control and Risk Management:** Internal Control and Risk Management should implement a scheduled review programme of procurement orders made by departmental officials. The unit can play an oversight role by checking orders against payment forms as well as ensure that all legislated and policy requirements have been adhered to. Consideration could be given to the placement of a dedicated Risk and Internal Control official in the SCM unit, whose duties would include ensuring compliance with internal controls and accountability.

**5.4.7. Recommendation #7: Evaluation of internal controls**

Despite the OTP’s actions in implementing the monitoring of internal controls, the research data revealed the existence of constraints in staff capacity and related compromises in the evaluation of internal controls. The findings of the assessments conducted by the Department of Monitoring and Evaluation (2015:3), indicate that more needs to be done by departments to improve the quality of their management practices. The evaluation of internal controls is vital and can be viewed as an enabling mechanism for the OTP to track its progress in terms of expected outcomes. This presents an opportunity to identify challenges and conduct interventions. It is therefore proposed that the Risk Management and Internal Control unit call for monthly reporting from the respective branches, in respect of the implementation of internal controls. A portfolio of evidence should be maintained by senior financial role players and updated quarterly. The PM will be responsible for information validation and conducting an objective assessment of performance to promote transparency and accountability in the reporting processes. Risk Management and Internal Control should be responsible for the analysis and vetting of internal control progress, by conducting verification audits to ensure accuracy and defensible results. Furthermore, the unit will compile quarterly progress reports in order to report the status of monitoring and evaluation of internal controls to the ADG. These quarterly reports will serve as an early warning indicator and provide a critical management tool to assist the ADG in strengthening internal control and accountability by implementing intervention strategies timeously. The ADG should convene a management review session to develop remedial strategies in terms of implementing new corrective internal controls. In this evaluative space, the OTP will be able to continuously perform an assessment on internal controls, appraise monitoring results and current
operational activities and thereby develop rectification plans to address potential areas of weakness. This will ultimately sustain transparency and maintain accountability.

5.5. FUTURE RESEARCH

Similar case studies could be conducted at premier's offices in other provinces across South Africa. By replicating this research study to other provinces, the outcomes and recommendations would serve to strengthen financial governance structures across the country. Furthermore it is proposed to expand the research study to other sectors within the OTP, thereby including the views and opinions of other role players involved in the implementation of internal control measures for non-financial functions within the OTP. With respect to the identified issue of capacity constraints and lack of financial competency, a further study could be conducted to examine the influence of staff capacity and competency on internal controls within all units of the OTP. In addition, an evaluative study on improved internal financial controls could be conducted in the next two to three years to determine whether such improvement measures have made at the OTP, KZN. Similar studies augur well for positive outcomes and improvements in accountability and the strengthening of internal controls.

5.6. SUMMARY AND FINAL CONCLUSIONS

This study focused on analysing the financial internal controls that promote accountability in the Office of the Premier, KwaZulu-Natal. It was evident from the research data that notable accomplishments were made in overcoming and strengthening prior internal financial control deficiencies. This was borne out by the success achieved in the following key areas:

i. A positive commitment by senior management to accountability and the establishment of effective, efficient and economical financial internal controls;
ii. The realignment of organisational structures to establish good governance and service delivery;
iii. The identification and assessment of risks and potential fraud;
iv. The deployment of internal controls in essential business processes;
v. Establishing strong internal and external reporting structures;
vi. Implementing the regular monitoring of all business processes.

Analysis of the empirical data revealed the existence of gaps in internal controls which compromise accountability. These included:

i. Issues relating to staff capacity and levels of financial competency;
ii. The lack of accountability for assigned internal controls;
iii. The impromptu implementation of action plans to mitigate identified risks;
iv. The presence of irregular expenditure;
v. Downward communication in the flow of essential information from a higher level inside the organisation to a lower one;
vi. An extemporised evaluation of internal controls.

In order to address these challenges, the study made a number of recommendations and proposals. These included:

i. Ensuring staff accountability for internal control;
ii. The extension of existing risk assessment strategies;
iii. The strengthening of internal communication and internal audit;
iv. The implementation of a talent management strategy to address inadequate staff capacity and financial competency;
v. The enforcement of supply chain management controls;
vi. The regular evaluation of internal controls.

In conclusion, it is recommended that the Office of the Premier, KwaZulu-Natal respectfully consider adopting the proposed recommendations in order to narrow the existing gaps, promote the continuous development of effective, efficient and economical financial internal controls, and strengthen accountability.
Reference list


Larkis, V., & Giriunas, L. 2012. The concept of internal control system: theoretical aspect. Ekonomika, 91(2):142-152


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Appendix A

Authority to conduct a research study

ACTING DIRECTOR-GENERAL
OFFICE OF THE PREMIER

ATTENTION: MR F.R. BROOKS

REQUEST FOR PERMISSION TO CONDUCT RESEARCH IN OFFICE OF THE PREMIER

As part of the Executive Development Programme, I am currently a registered Master’s student, at the Potchefstroom Campus of the North-West University and my supervisor is Dr Melvin Diedericks.

The proposed topic of my research is entitled: Analysing the financial internal controls that promote accountability in KwaZulu-Natal Office of the Premier. The key objectives of the study are as follows:-

- To investigate theories, principles on accountability and effective, efficient and economical financial internal controls within a government department.
- To describe the statutory and regulatory requirements relating to effective, efficient and economical financial internal controls and accountability in the South African Public Sector.
- To investigate the effectiveness, efficiency and economy of the current financial internal controls with regard to financial accountability, inclusive of successes and challenges in the Office of the Premier (KZN).
- To propose corrective measures as recommendations, based on theory that may strengthen effective, efficient and economical financial internal controls and optimise accountability, in order to address negative audit findings as well as enhance service delivery in the Office of the Premier (KZN).

I am hereby seeking your consent to conduct research in the Office of the Premier, in order to complete my mini-dissertation. The research will be conducted in an honest and unbiased manner. Upon completion of the study, the research report will be available to all relevant stakeholders.

Should you require any further information, please do not hesitate to contact my supervisor. His contact details is as follows: Dr Melvin Diedericks, North-West University, 018 -2991629 / melvin.diedericks@nwu.ac.za.
RECOMMENDATION

Approval be granted for Ms S Sewrathan to conduct research in Office of the Premier in respect of the research study, namely: Analysing the financial internal controls that promote accountability in KwaZulu-Natal Office of the Premier.

Submitted for your attention and consideration.

MS S SEWRATHAN
SENIOR MANAGER: MANAGEMENT ACCOUNTING
DATE: 9 February 2016

SUPPORTED / NOT SUPPORTED

MR Z M CIBANE
CHIEF FINANCIAL OFFICER
DATE: 17/02/2016

RECOMMENDED / NOT RECOMMENDED

MS PD KHUMALO
SENIOR GENERAL MANAGER: CORPORATE MANAGEMENT
DATE: 13/03/2016

APPROVED / NOT APPROVED

MR FR BROOKS
ACTING DIRECTOR-GENERAL
DATE: 11/03/2016
ACTING DIRECTOR-GENERAL
OFFICE OF THE PREMIER: KWAZULU-NATAL

Dear Mr. FR Brooks

RE: Request to use Office of the Premier in the KwaZulu-Natal Province as a unit of analysis in Master's Degree Research

The above matter refers. As part of the Executive Development Programme, Mrs. Seema Sewrathan is pursuing research towards a Master of Public Administration (MPA), (Curriculum L831P) at the Potchefstroom Campus of the North-West University, and therefore requires permission to interview Senior Managers in the Office of the Premier.

The topic of Mrs Sewrathan’s research is “Analysing the financial internal controls that promote accountability in KwaZulu-Natal Office of the Premier”. The research objectives of the study *inter alia* include:

- To investigate theories, principles on accountability and effective, efficient and economical financial internal controls within a government department;
- To describe the statutory and regulatory requirements relating to effective, efficient and economical financial internal controls and accountability in the South African Public Sector;
- To investigate the effectiveness, efficiency and economy of the current financial internal controls with regard to financial accountability, inclusive of successes and challenges in the Office of the Premier (KZN); and
- To propose corrective measures as recommendations, based on theory that may strengthen effective, efficient and economical financial internal controls and optimise accountability, in order to address negative audit findings as well as enhance service delivery in the Office of the Premier (KZN).
Mrs. Sewrathan's research proposal was officially approved by the faculty of Arts' management committee on 22 September 2015. In order for the proposal to be approved an ethics form was submitted together with the proposal (enclosed a copy of the ethics form). According to question 6 of the attached research ethics form it was acknowledged that the approval of a gatekeeper should be sought in order to gain access to individuals that the study aim to involve. “Government students” who are enrolled for the MPA have received umbrella clearance from the ethics committee of the North-West University in order to conduct their research (attached a copy of the certificate). Considering the aforementioned, a qualitative research design including utilising non-probability quota sampling to select senior financial role-players in OTP based on the extent of their roles and responsibilities in terms of implementation of financial internal controls, will be used. The sample will thus be comprised as follows:-

<table>
<thead>
<tr>
<th>Financial Role-player(s)</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme 1: Administration</td>
<td>5</td>
</tr>
<tr>
<td>Programme 2: Institutional Development</td>
<td>5</td>
</tr>
<tr>
<td>Programme 3: Policy &amp; Governance</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total Sample</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>

Permission is hereby requested that a total of 15 Senior Managers be involved as respondents for this particular research. Semi-structured interviews will be held not exceeding 20 minutes. The semi-structured interviews will thus be as brief as possible and anonymity of participatory results and confidentiality are guaranteed. At this point in time it is premature to indicate the type of questions that will be asked to respondents. A questionnaire can only be compiled after completion of the theoretical chapters 2 & 3 by the candidate. The questionnaire, however, would be in line with the research objectives of the study as outlined above.

Also note that the intention of this study is not to be a fault-finding mission but to propose recommendations to strengthen financial internal controls in OTP, thereby promoting and encouraging full compliance of all financial prescripts, if necessary. In the course of intensive engagement and interaction with financial role-players in OTP, it is envisaged that the study is likely to contribute to best practices in the upholding of public accountability in KZN. On completion of the study, Mrs Sewrathan's mini-dissertation will remain an unpublished document unless published in an academic journal as an academic article. Editors in this regard are also quite thoughtful not to publish any sensitive information.

If there are any further enquiries, please contact myself, as supervisor, at the above-mentioned contact details, or the researcher at the following numbers 062 8873701 or e-mail: seema.sewrathan@kznpremier.gov.za.

Kind Regards

Dr. M Diedericks
Study Supervisor

Mrs S Sewrathan
Master's Researcher
I, F.R. Brooks (Acting Director-General) hereby grant/does not grant permission to Mrs. S. Sewrathan to conduct her research involving certain senior managers in the Office of the Premier as respondents for her Master's Degree study.

Mr. F.R. Brooks
Acting Director-General

Date: 2016/03/15
ETHICS APPROVAL CERTIFICATE OF PROJECT

Based on approval by Research Ethics Committee of the Faculty of Arts, the North-West University Institutional Research Ethics Regulatory Committee (NWU-IRERC) hereby approves your project as indicated below. This implies that the NWU-IRERC grants its permission that, provided the special conditions specified below are met and pending any other authorisation that may be necessary, the project may be initiated, using the ethics number below.

<table>
<thead>
<tr>
<th>Project title: Magister in Openbare Bestuur en Regering en Publieke Administratie (LB76P/LB83P).</th>
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<tr>
<td>Project Leader: Prof Gerda van Dijk</td>
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<tr>
<td>Ethics number: NWU-0617-17-17-A7</td>
</tr>
<tr>
<td>Approval date: 2013-08-16 Expire date: 2018-08-16 Category N/A</td>
</tr>
</tbody>
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Special conditions of the approval (if any): None

General conditions:
While this ethics approval is subject to all declarations, undertakings and agreements incorporated and signed in the application form, please note the following:

- The project leader (principle investigator) must report in the prescribed format to the NWU-IRERC:
  - annually (or as otherwise requested) on the progress of the project,
  - without any delay in case of any adverse event (or any matter that interrupts sound ethical principles) during the course of the project.
- The approval applies strictly to the protocol as stipulated in the application form. Would any changes to the protocol be deemed necessary during the course of the project, the project leader must apply for approval of such changes at the NWU-IRERC. Would there be deviations from the project protocol without the necessary approval of such changes, the ethics approval is immediately and automatically forfeited.
- The date of approval indicates the first date that the project may be started. Would the project have to continue after the expiry date, a new application must be made to the NWU-IRERC and new approval received before or on the expiry date.
- In the interest of ethical responsibility the NWU-IRERC retains the right to:
  - request access to any information or data at any time during the course or after completion of the project;
  - withdraw or postpone approval if:
    - any unethical principles or practices of the project are revealed or suspected,
    - it becomes apparent that any relevant information was withheld from the NWU-IRERC or that information has been false or misrepresented,
    - the required annual report and reporting of adverse events was not done timely and accurately,
    - new institutional rules, national legislation or international conventions deem it necessary.

The IRERC would like to remain at your service as scientist and researcher, and wishes you well with your project. Please do not hesitate to contact the IRERC for any further enquiries or requests for assistance.

Yours sincerely

Linda du Plessis
Chair NWU Institutional Research Ethics Regulatory Committee (IRERC)
Declaration form on research ethics

This form deals with research ethics for a mini-dissertation, dissertation, thesis or a research project. The student or researcher concerned needs to fill in this form as an appendix to the research proposal.

Indicate with a cross (X) in the box the type of research for which you fill in this form:

- Undergraduate project
- Honours mini-dissertation
- M mini-dissertation
- M dissertation
- PhD thesis
- Research project

Mark each of the 10 questions below by drawing a cross (X) over the Yes or No inside the particular box as it is applicable to your research.

Questions on the handling of participants:

1. Does the research involve vulnerable/affected participants who are coerced into participating but are unable to give informed consent? (E.g. underage children, people with learning or other psychological or physical disabilities, prisoners, people that are economically or educationally disadvantaged, or other affected respondents that have to answer the questions.)

2. Will the research compromise/expose participants to the discussion of intimate and/or sensitive topics? (E.g. sexual behaviour, sexual orientation, drug abuse, drinking habits, harassment, victimisation or abuse.)

3. Will the research induce physical, psychological or social stress or anxiety; or could it have negative consequences beyond the risks encountered in normal life? (E.g. invasion of privacy, loss of confidentiality, psychological trauma, indirect physical damage, embarrassment, labelling, stigmatisation, group stereotyping, questioning of values.)

4. Will the research expose the participants to drastic, intrusive or potentially harmful procedures of any nature or to any form of physical or psychological intervention? (E.g. due to experimental research designs entailing far-reaching interventions.)

5. Does the research involve participants without their knowledge and consent? (E.g. observing people without them being aware of this.)

Questions concerning the research process:

6. Will the research require the co-operation of a gate keeper (such as a school principal, head of an institution, head of a department, manager, traditional leader, community leader) to gain the initial access to the groups or individuals that you aim to involve?

7. Will the research record participants' personal details (name and contact information) so as to be available for follow-up? (E.g. when the follow-up interviews form part of the research plan.)

8. Will the researcher offer the participants financial instruments (other than the acceptable expenditures and compensation for their time) or any means of coercion?

Questions concerning the impact on the NWU and the institutions concerned:

9. Does the research involve any students or staff of the NWU?

10. Is there any danger of the research having a detrimental effect on or tarnishing the image of the NWU, the relevant academic entity, your employer, or any other institution that is involved or is taking part in the research?
If you have answered No to all questions, sign the declaration below and submit the completed and signed form as an appendix to your research proposal.

If you answered Yes to any of these questions, also sign the declaration below. Thereafter submit the completed and signed form as an appendix to your research proposal. Because your research deals with ethical aspects, you will also need to describe more fully how you plan to address the ethical aspects raised by your proposal. You will need to explain these ethical aspects on the Research Ethics application form, which you can obtain from the following website of the university:

The research ethics committee concerned will then consider your explanation. If the committee approves your proposal with the accompanying explanation, you can continue your research. Otherwise your research proposal will be referred back for you to rectify this issue. Your proposal can also be rejected.

Please note that it remains your responsibility to follow the NWU’s guidelines for ethical research which are explained in the Manual for Postgraduate Studies. This also applies to any academic or professional guidelines that could concern your research. It implies, for example, providing respondents with the appropriate documentation to gather information and completing letters of consent, where applicable. This also requires ensuring that complete confidentiality or protection will be maintained when you store the data.

Any significant change in the research question, design or conduct over the course of the research must be notified to the supervisor. Keep in mind that such a change could make it necessary to fill in a new form.

Declaration by the applicant:

I have read the NWU’s Manual for Postgraduate Studies and have acquainted myself with the guidelines for research ethics contained in it. In light of this I declare that I will conduct my research according to ethically acceptable norms. I give the undertaking that, when I present any research under my own name, this research will be my own research. I will also insert proper references in the research (in the text as well as the bibliography) for each quotation and contribution obtained from other sources.

Applicant: MRS SHEMA BERMATHAN
Name: 
Signature: 
Date: 11/08/2015

Study leader/Promoter/Head of research:
Name: 
Signature: 
Date: 06-10-2015

Chairperson of the research committee concerned
Name: 
Signature: 
Date: 

Faculty of Arts: Declaration form on research ethics
Appendix B

Consent for participation in a research study

Name: Mrs. S Sewrathan
Contact: 082 8873701
Email: seema.sewrathan@kznpremier.gov.za
26 May 2016

Dear Prospective Respondent

INVITATION TO PARTICIPATE IN MASTERS DEGREE RESEARCH STUDY
TITLE: Analyzing the financial internal controls that promote accountability in KwaZulu-Natal Office of the Premier

I am Mrs Seema Sewrathan, a Masters student at the School of Social and Government Studies at Potchefstroom Campus of the North-West University. My study seeks to investigate the extent to which the current financial internal controls are effective, efficient and economical and the consequent influence of it on financial accountability in the Office of the Premier (KZN).

Permission has been sought and successfully granted for you to participate in the study by the Acting Director-General, Mr FR Brooks, dated 15 March 2016. The necessary approval has been attached for ease of reference. You are kindly requested to participate in my study. Should you agree to participate, a date and time convenient for you will be duly negotiated. All responses provided by you during the interview will be treated confidentially and your anonymity is guaranteed. The proceedings of the interview will also be recorded with your written consent in order to accurately assimilate the information. It is anticipated that the duration of each semi-structured interviews is expected to be approximately 45 minutes. All interviews will be transcribed and a copy for verification will be subsequently discussed with you. All audio-recordings, transcriptions and interview notes will be stored safely as stipulated by the Higher Degrees Research Committee of North West University. The data emanating from the study will be utilized for the intended research purpose only which would be the fulfillment towards a Master's degree.

If there are any further enquiries, the contact details for my supervisor are as follows:
Dr Melvin Diedericks, School of Social and Government Studies
Tel: (018) 299 1629; E-mail: Melvin.Diedericks@nwu.ac.za

Your assistance in this matter is greatly appreciated.

Kind Regards

Mrs S Sewrathan (Masters Student)
24808704
CONSENT FOR PARTICIPATION in Masters Degree RESEARCH STUDY:

TITLE: Analyzing the financial internal controls that promote accountability in KwaZulu-Natal Office of the Premier

CONSENT

I ___________________________ (full name of participant), hereby confirm that I understand the contents of this document and the nature of the research project, and that I voluntarily consent to participate in the research study. Furthermore, I am aware that the information collected during the interview is anonymous and that I will not be identified by name.

I have also been informed that my participation is totally voluntary and that I am at liberty to withdraw from the project at any time, should I so desire. I also consent to the interview being audio-recorded for the purposes of the study.

______________________________
Signature of participant

Date ________
Appendix C

Research study interview guide

**DRAFT GUIDED INTERVIEW SCHEDULE**

Research title: Analysing the financial internal controls that promote accountability in KwaZulu-Natal Office of the Premier

Please indicate your preference by marking the appropriate box with a cross (X)

### SECTION A: BIOGRAPHICAL DATA

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<th>How many years have you been in a financial management role/s, namely Programme Manager/Sub-Programme Manager / Responsibility Manager?</th>
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<tr>
<td></td>
<td>3-5 years</td>
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<td>5-10 years</td>
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<td>15-20 years</td>
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<td>20+ years</td>
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<tr>
<th>A6</th>
<th>Have you undergone any further departmental or work-related training in Public Financial Management?</th>
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<td>YES</td>
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If yes kindly specify
### SECTION B: SEMI-STRUCTURED QUESTIONS

**INTERNAL CONTROL COMPONENTS TOWARDS ACCOUNTABILITY**

#### Theme B 1: Control Environment toward promoting accountability:

| B 1.1: Commitment to Internal Control and Integrity |
| B 1.2: Appropriate structures and Reporting Lines |
| B 1.3: Relationship with Internal Audit |
| B 1.4: Staffing Capacity and Competence |
| B 1.5: Staff Accountability for Internal Control Responsibilities |

In terms of the management philosophy, how has the effective, efficient and economical implementation of financial internal controls been maintained?

What are the inherent challenges relating the financial control environment?

**Probe: Audit Queries:** 20% vacancy rate as per 2015 audit; SCM Award of bids to officials in service of other departments; OTP not developing consequent management mechanisms to deal with default employees.

What suggestions would you recommend to address these identified challenges?

**B 1.1 DG/CFO:** To what extent are all senior financial role players aware of the code of conduct and adhere to it?

**B 1.3: DG/CFO:** What is your opinion regarding the level of service rendered by Internal Audit unit in Provincial Treasury in terms of providing oversight relating to financial internal controls that promote accountability?

#### Theme B2: Risk Assessment Process towards promoting Accountability:

| B 2.1: Identification and Assessment of Risks |
| B 2.2: Assessment of Potential for Fraud |
| B 2.3: Implementation of Actions Plans to Mitigate Identified Risks |

What successes has OTP achieved relating to the identification of potential risks, evaluation and development of strategies and financial control measures to manage or minimize risks?

What are the inherent challenges relating the risk assessment process in implementing the necessary financial internal controls?

**Probe: Audit Queries:** Occurrence of irregular expenditure despite being identified as a risk in register; Lack of proper planning and monitoring.

What suggestions would you propose to address these identified challenges?

**DG/CFO:** How are financial internal controls targeted to eliminate preventable risks cost effectively?

#### Theme B3: Control Activities towards promoting Accountability:

| B 3.1: Deployment of Controls in Essential Business Processes |
| B 3.2: Lapses in Internal Control Activities |

What successes has OTP achieved in their financial control activities?

What are the inherent challenges relating the control activities in implementing the necessary financial internal controls?
What recommendations would you propose to address these identified challenges?

**DG/CFO:** Despite the existence of various financial policies and procedures, what factors could be attributed to the finding by the AG and Internal Audit relating to the recurrent lapse in financial internal controls?

**Theme:** B4: Communication and Information towards promoting accountability

- **B4.1 Internal Reporting Structures**
- **B4.2 External Reporting Structures**
- **B4.3 Communication and Information within OTP**

What successes has OTP achieved in communication and information relating to the effective, efficient and economical implementation of financial internal controls?

What are the inherent challenges relating the communication and information in implementing the necessary financial internal controls?

What recommendations would you propose to address these identified challenges?

**Theme:** B5: Monitoring and Evaluation towards promoting accountability

- **B5.1 Monitoring of OTP Internal Controls**
- **B5.2 Evaluation of OTP Internal Controls**

What achievements has OTP made in respect of monitoring and evaluation of financial internal controls?

What are the inherent challenges relating the monitoring and evaluation of financial internal controls in OTP?

**Probe:** Audit Queries: Non-adherence to timetables; Non-adequacy in implementing audit improvement plan; Non-adherence to timetables as per audit improvement plan

What recommendations would you propose to address these identified challenges?

**DG/CFO:** In your opinion, what is the attitude of the senior financial role players towards the implementation of Audit Action Plans in addressing identified internal control deficiencies?

---

**SECTION C: GENERAL COMMENTS**

Do you have any further comments, suggestions or recommendations?
Certification

We, the undersigned, declare that this dissertation was professionally edited for proper English language, grammar, punctuation, spelling, and overall academic style. We also declare that earlier electronic forms of the dissertation have been retained should they be required.

GARY STUART DAVID LEONARD  
Higher Degrees Certified Language Editor  
Commissioner of Oaths V3358  
11 November 2016

SEEMA SEWRATHAN  
11 November 2016