“Governance and fraud risk management in the public sector in South Africa”

AUTHORS	Shewangu Dzomira
ARTICLE INFO	Shewangu Dzomira (2015). Governance and fraud risk management in the public sector in South Africa. *Public and Municipal Finance*, *4*(3), 25-36
RELEASED ON	Friday, 25 December 2015
JOURNAL	"Public and Municipal Finance"
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”

NUMBER OF REFERENCES **0**

NUMBER OF FIGURES **0**

NUMBER OF TABLES **0**

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Shewangu Dzomira (South Africa)

Governance and fraud risk management in the public sector in South Africa

Abstract

This paper seeks to analyze governance and fraud risk management in the public sector in South Africa. Corporate governance and service delivery have become the universal aphorism associated with the trend towards grander public sector obligation and the conduct of business within tolerable virtuous standards. The paper is premised on stakeholder theory which has turn out to be the pivotal point of numerous debates. It frequently serves as a point of allusion in agents' discourses, in their acts and in a host of "public sector administration" studies. The study was based on qualitative approach using descriptive research design. General reports on The Provincial Audit Outcomes for the periods (2011-12; 2012-13 & 2013-14) of all the 9 provinces in South Africa were used as primary documents for data analysis. The findings suggested that there seems to be no good corporate governance practices and effective fraud risk management in the public sector in South Africa. There is lack of effective leadership based on a culture of honesty, professionalism, effective HR management, and ethical business, protecting and enhancing the best interests of the sector. Exercise of oversight responsibility regarding financial and performance reporting, compliance with applicable laws and regulations and related internal controls is inadequate. It is concluded that governance and fraud risk management are positively related. Hence operational governance is a driver of audit outcomes, coupled with audit committees and internal audit divisions being strategic rudiments of governance. The correct leadership tone is required to build this culture and to ensure that available skills in the public sector are effectively utilized for effective and efficient service delivery.

Keywords: governance, fraud risk management, public sector, South Africa, service delivery.
JEL Classification: E61, H20.

Introduction

Alexandre-Maurice Blanc de Lanautte, Comte d'Hauterive (1754-1830), an economist and diplomat, who, in a work published in 1817, disapproved the weakness of replication about public management in French thought. He contributed to the conceptualization of the doctrine of public finances, which he termed a science of "administrations", (Legay, 2009). Numerous challenges are apparent in the public sector as far as implementation of ethical and anti-corruption measures is concerned; paramount among them is non-compliance with legislation and lack of enforcement. Supply chain management ordinances are not adhered to which results in tender related malpractices, fraud and corruption as a product of indecorously awarded tenders, goods and services provided at exceptionally magnified prices, officials benefiting from government contracts, needless purchases and payments for services not rendered. South Africa, being transmuted from a minority government to a majority and democratic government, has experienced foremost change in fiscal policy and financial accountability. Bigger emphasis need to be placed on financial management and the accountability of government departments and compliance with relevant legislation (Bekker, 2009).

South Africa's history of service delivery is characterized by paucities such as stagnant delivery, unsatisfactory distribution and corruption, which lead to dissatisfaction among citizens (Kakaza & Ntonzima, 2012). The aforesaid state indicates that efforts to ensure effective provision of goods and services in the public sector are made through citizen participation in governance. Hence, service-delivery protests, which tend to manifest themselves through protest actions, are common (Masango & Mfene, 2012). Maladministration, corruption improper political and administrative interface to weak institutional arrangements and poor supervision accountability mechanisms are key symptoms that have been contributory factors to the negative performance of the administrations and councils (Republic of South Africa, 2009). Despite the provincial Departments responsible for Local Government and the Offices of the Premier being the oversight, support and lead governance entities in provinces they have been found to be poorly structured and capacitated, and often lacking a core focus on their oversight and governance mandates. The assessment process has revealed that the financial environment in municipalities and other public sector agencies is a highly problematic area – at worst it is fraught with both a poor skills base and is open to abuse and fraudulent activity (Republic of South Africa, 2009). The National Treasury indicated in the "Inter-governmental Fiscal Review 2003", that even though there was an incredible improvement in public financial manage-

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Shewangu Dzomira, Post-Doctoral Research Fellow, Department of Finance, Risk Management & Banking, CEMS, UNISA, South Africa.

ment, there remained a challenge to bring the whole public sector to the same standard of budgeting, financial management and reporting and therefore to improve the quality of budgeting and financial management (Bekker, 2009).

The Constitution of South Africa recognized national, provincial and local spheres of government, which are idiosyncratic, symbiotic and interconnected, and are required to work together in the spirit of complaisant governance. The contest for the democratic dispensation was to transform the culture of the public sector so that it entrenched the democratic principles indicated in the Constitution of the Republic of South Africa (1996) and infused principles of professionalism (integrity, accountability, transparency and accessibility and prudence) in public (civil) servants in their duty of serving all South Africans (Bekker, 2009). Although support programs have aided in particular ways, it remains clear that a number of dogged service delivery and governance hitches have been identified in the public sector for a number of years. Mammoth service delivery and backlog problems, corruption and fraud, poor financial management (adverse audit opinions), lack of controls and accountability systems and intra- and inter-political party issues negatively affecting governance and service delivery have remained consistently at the forefront of government's developmental challenges (Republic of South Africa, 2009).

Observance to the two strategic pieces of legislation that administer public financial management (the Public Finance Management Act for national and provincial government and the Municipal Finance Management Act for local government) remains a challenge. The PFMA was introduced to revolutionize the financial management situation in South Africa and it promotes the goals and objectives of good financial management in the public sector so as to maximize service delivery through the effective, efficient and economic use of imperfect resources (Majam, 2012). The media is soaked with stories of government corruption and failure to follow set procedures leading to unsatisfactory audit coverage and the key contributing factor for this objectionable state of affairs is the legislative framework (Zinyama, 2013). According to Bekker (2009) the Auditor General recurrently reports on financial irregularities, lack of keeping proper records and filing, wrong allocation of funding and fiscal or budget dumping at the end of the financial year.

Therefore against this background the study aims to achieve the following objectives:

- To analyze the factors that affect good corporate governance in South Africa's public sector.
- To explore the major fraud risk related variables in South Africa's public sector.
- To examine the relationship between corporate governance and fraud risk management.

The following sections cover contribution of the study, literature review, theoretical background, methodology, findings and discussions, and ultimately conclusions and recommendations.

1. Contribution of the study

The study adds to the body of knowledge in two imperative directions. Mainly, this study is directed in the South African context. Albeit studies using data across different countries may provide more influential insights, a study in the context of one solitary economy is still vital since one specific economy has its exceptional national physiognomies. Subsequently, probing studies on corporate governance and fraud risk management in the public sector in South Africa, grounded on information provided by Provincial Audit Outcomes are comparatively rare in the literature.

2. Literature review

In South Africa, the requirements of the Public Finance Management Act (PFMA), MFMA (pertinent to municipalities), National Treasury Regulations, Protocol on Corporate Governance in the Public Sector and New Companies Act, as well as recommendations of King III (King Report on Governance for South Africa and Governance Principles – 2009) are just some of the foremost concerns that need to be taken into consideration by public sector organizations when determined to attain good governance canons and best practice. The leadership in public sector has superseding duty to stakeholders and the general public to guarantee that a spirit of good governance is indoctrinated in all levels of management. As the public sector character and qualities linger to advance universally the philosophies of accountability, sustainability, transparency and corporate citizenship are branded as the hinge around which public management and good governance spin.

Corporate governance is the universal aphorism associated with the trend towards grander corporate obligation and the conduct of business within tolerable virtuous standards. Corporate governance mainly involves the establishment of structures and processes, with appropriate checks and balances that enable directors to discharge their legal responsibilities (King Report 3, 2009). Transparency, accountability and openness in reporting and disclosure of information, both operational and financial, are internationally accepted to be vital to the practice of

good corporate governance (Bekker, 2009). Governance is essentially about effective leadership based on an ethical foundation and compliance which should take place within the context of leadership and sound governance principles (King Report 3, 2009; PWC, 2012). Leaders need to define strategy, provide direction and establish the ethics and values that will influence and guide practices and behavior with regard to sustainability performance (King Report 3, 2009). More so, corporate governance is responsible for the provision of efficient risk management (including revised fraud prevention plan) and an efficient process for the development, review and implementation of organizational policies, and a sound legal advisory service (Statistics South Africa, 2013).A risk-based approach is more effective as it permits internal audit to find out whether controls are passable for the risks which arise from the strategic direction that an organisation, through its board, has decided to adopt (King Report 3, 2009). South Africa's sectoral legal and policy frameworks place a high priority on citizen-user-participation in public administration and service provision— a view enshrined in the Constitution, nevertheless participation is often missing in delivery (World Bank, 2011).

Many countries have traditionally adopted rigorous statutory controls on the management and expenditure of public finances, in an effort to control public expenditure and to curtail corruption, waste and inefficiency (Whitton, 2001). The Auditor General acts as an independent overseer of most measures, and is customarily an officer of the Parliament, rather than a civil service office. As numerous reports by the Auditor General have shown, a great deal of progress is desirable before achievement of sound management of public finances across national, provincial and local government (Republic of South Africa: National Treasury, 2012). However, Zinyama (2013) posits that Auditor General could only identify the irregularities, misappropriation of public funds and the abuse of public property but it could not take any action.

While the attitudes and motivation of staff are important factors in shaping the public service ethos and culture, these are heavily inclined to the work environment, together with the effectiveness of management and operations systems. Corruption is somewhat a warning sign of feeble management and operations systems, which craft the interplanetary for corruption to flourish which in turn impedes service delivery and undermines public confidence in the state. According to Wescott (2009) the World Bank's (1997) World Development Report focusing on governance, and a growing international awareness highlighted that weaknesses in public institutions and governance were holding back economic development and poverty. To the credit of some African countries, there has been an augmente despousal of reforms, but in general there is still a lack of strong, stable local governments. Evidence of poor service; citizen discontent and dissatisfaction; incompetency; poor leadership; and adverse audit reports all point to the necessity for grander capacity to be able to fulfill effective and innovative local government sector (Ajayi, 2011). In an effort to attain the afore-mentioned Community Law Centre (2010) posits that at continental level, events point to the imperative of enhancing the local government faculty with the launch of the United Cities and Local Government of Africa (UCLGA) in 2005 as an eloquent testimony to this commitment. In addition to that the SADC Local Government Ministers Forum was launched, with the objectives of promoting regional cooperation and information sharing, encouraging the adoption of constitutional frameworks that promote effective local governance, infrastructure investment and sustainable service delivery, and the incorporation of local government as a sector into SADC's formal structures (Community Law Centre, 2010).

PFM underlies all government activity and it covers the mobilization of revenue; the allocation of these funds to various activities; expenditure; and accounting for spent funds (Simson, Sharma & Aziz, 2011). Public financial management concerns itself with governments' fiscal imbalances and stabilizing fiscal positions and it is all about the laws, organizations, systems and procedures open to governments wanting to secure and use resources effectively, efficiently and transparently (McAllister, 2013). Good financial management is a prerequisite for an efficient and effective public service. A PFM system that performs well can aid South Africa to improve governance, combat corruption, enhance the quality of service delivery and get greater value for money in public spending (Republic of South Africa: National Treasury, 2012).

Good governance principles of Public Financial Management (PFM) are of central significance in any country, as it ensures sustainable budget and financial systems, as well as economic growth and to warrant that, PFM has to apply certain technical, analytical and managerial instruments that have been borrowed from the private sector (Majam, 2012) for effective and efficient service delivery. Also, vibrant public sector system establishes the bedrock for sound public administration and the promotion of bottom-up socio-economic development and enhances government responsiveness to local communities (Zhou & Chilunjika, 2013).

Public Financial Management focuses on the effective and efficient allocation and distribution of financial resources as well as on the mechanisms and systems that are used to ensure that these financial resources are used and controlled in an effective, efficient and economic manner (du Plessis, 2012). Majam (2012) identified the following principles of good governance in PFM as fiscal transparency; stability and long-term sustainability of budgets; an integrated budget and budget process; medium-term financial planning; and effective financial control, reporting and monitoring. The prescribed legislation pertaining to PFM, includes the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA), the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA), the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) (MSA), the Municipal Budget and Reporting Regulations (Notice 393 of 2009) (MBRR) and the Constitution of the Republic of South Africa, 1996 (Majam, 2012). The Constitutional objectives for local government are set out in Section 152 of the Constitution as to; provide democratic and accountable government of local communities; ensure the provision of services to communities in a sustainable manner; promote social and economic development; promote a safe and healthy environment, and encourage the involvement of communities and community organization in the matters of local government (Republic of South Africa, 2009).

The Public Finance Management Act (PFMA) is an exemplary guideline for effective financial control and it is being extoled by financial experts, with by far the majority of its clauses being noted as practical and of great value for improved public finance administration (Bekker, 2009). The Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA) paved the way to modernize the system of financial management within the South African public sector. The information relating to the performance against predetermined objectives is subject to audit by the Auditor General in terms of Section 20(2)(c) of the Public Audit Act, 2004 (Act No. 25 of 2004) (KPMG, 2009). According to Bekker (2009) the acceptance and introduction of the Public Finance Management Act (PFMA) Act 1 of 1999, was a key positive growth in promoting fiscal discipline in South Africa. This moved the South African public sector from a basic cash recording system, to an accrual system, as prescribed by the general accepted accounting principles (GAAP) which is in harmony with the international standard. The Public Finance Management Act (PFMA) read together with the treasury regulations, delivers a vibrant guidance for effective financial control, with certain sanctions for non-adherence to the Act and the regulations.

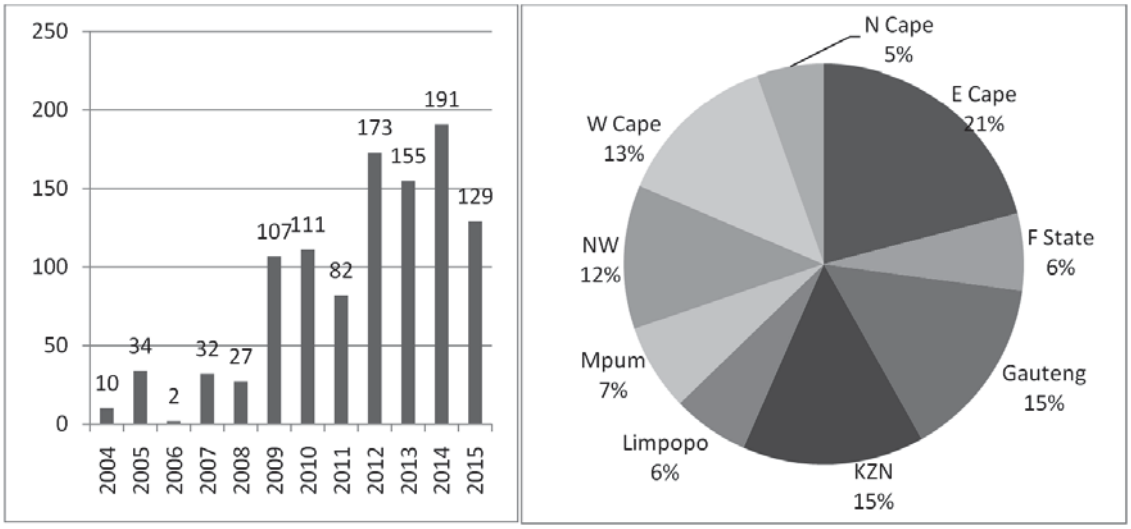
Financial Management and Administration offers financial and procurement support services to the organization. This occurs within the requirements of the Public Finance Management Act (PFMA) and related legislation (Statistics South Africa, 2013). Scholars have long pointed out that in governance by contract within the hollow state public procurement; in particular contract management will play a significant role (Roman, 2013). Procurement is a mutual source of corruption[1] and therefore procurement systems tend to embrace controls aimed to detect and deter corruption (Simson, Sharma & Aziz, 2011). Certain conflicts of interest[2] are so fundamental that these should be avoided. Other conflicts (whether real or perceived) should be disclosed timeously and in full detail to the board (King Report 3, 2009). Internal (or management) control systems are the policies and procedures put in place by the management of a government agency in order to ensure the agency achieves its objectives and complies with external laws and regulations. Such policies and procedures tend to cover financial accounting and reporting, performance monitoring, asset management and procurement (Simson, Sharma & Aziz, 2011). Internal audit plays an important role in providing assurance to the management and the board regarding the effectiveness of internal controls (King Report 3, 2009). Internal Audit assists with the controls subject to evaluation such as the information systems environment, the reliability and integrity of financial and operational information, the effectiveness of operations, safeguarding of assets and compliance with laws, regulations and controls (KPMG, 2009).

Financial management reform should be considered as a series of genuine step changes ('platforms') defined in terms of what they allow by way of resource planning, deployment, control and accountability (de Renzio, 2006). The South African public expenditure management system has undergone considerable transformation since the mid-1990s with emphasis of the reform program on efficient resource allocation and effective service delivery (Fölscher and Cole, 2006). In addition the Republic of South Africa (2009) argued that local government in South Africa has contributed to the achievement of a number of significant social and economic development advances, since the ushering in of the new democratic municipal dispensation in December 2000. The majority of the people have increased access to a wide range of basic services and more opportunities have been created for their participation

[1]"corruption" means any offence in terms of the Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004).

[2]"conflict of interest" means a conflict between the public duties and private interests of a public servant, in which the public servant has private interests which could improperly influence the performance of his/her official duties and responsibilities.

in the economy. However, this is against municipal IQ, a specialized local government data and intelligence organization which remains concerned about the ongoing prevalence of service delivery protests (Municipal IQ, 2015) as shown in Figure 1 below.



Source: Municipal IQ Municipal Data and intelligence, 2015.

Fig. 1. Major Service delivery protests, by year (2004 – 30th September 2015) & Service delivery protests by province (January – September) 2015

Nevertheless, in the West most Civil Service regimes still equate "Public Sector Ethics" with anti-corruption efforts, and limit their engagement with professional practice issues to a minimalist written Code of Conduct[3] or Code of Ethics[4], which is usually concerned with prohibiting conflict of interests and self-dealing, and encouraging political and other practices of impartiality, and (increasingly) service to the community (Whitton, 2001). Ethics, the legislation and upholding of good conduct by public officials is a sine qua non for sustenance of good governance and service delivery (Vyas-Doorgapersad & Ababio, 2010). In 2002, recognizing the service delivery challenge in South Africa, the government launched *Batho Pele—Sesotho* for "people first", an initiative that aimed to improve access to public services through increased transparency, accountability, and citizen involvement in public service planning and operations (World Bank, 2011). According to King Report 3 (2009) the ethics of governance requires that all decisions and actions of the board and executive management be based on the following four basic ethical values that underpin good corporate governance: responsibility, accountability, fairness and transparency. Attention needs to be put on systemic threats that could dwindle adherence to core public sector ethics values, and commitment to good governance, and to preparing the necessary political and management responses (Whitton, 2001). Since greater accountability by public sector and the limitation of irregular and wasteful expenditure would benefit every taxpayer, non-tax payers, as well as those individuals who are benefiting from the social structure of the country (Bekker, 2009)

Whitton (2001) noted that maladministration[5] may be no more than simple incompetence but however, shade into "Abuse of Office" by public officers. The public should know how national, provincial, and local government institutions operate, how well they use resources, and who is in charge. It is expected that the public will take advantage of this principle by suggesting perfections to service delivery mechanisms and to hold government employees accountable and responsible (World Bank, 2011). More over more investigations and greater oversight of public finances by government departments will assist Government and Provincial Departments to bring greater awareness to civil servants of their fiduciary duties (Bekker, 2009).

According to King Report 3 (2009) risk management is the practice of identifying and analyzing the risks allied with the business and, where appropriate, taking sufficient steps to manage these risks and may imply the elimination or mitigation of particu-

[3]Codes of Conduct usually set out specific standards of conduct expected in a range of realistic circumstances, representing a particular agency's preferred or needed interpretation of the core values or principles which are seen as significant to its work (Whitton, 2001).

[4]Code of Ethics is best regarded as a general statement of 'core values' which define the professional role of the civil service.

[5]'Maladministration' refers to the making of an official decision in a manner which is contrary to law, arbitrary, unreasonable, without proper justification, lacking in procedural fairness, or made without due consideration of the merits of the matter, or made corruptly (Whitton, 2001)

lar risks. The management is accountable to the board for designing, implementing and monitoring the procedures of risk management and integrating it into the daily activities of an organization. Risk management remains the primary responsibility of line management, which should be regarded as the first line of defense. The audit committee should review provisions made by an organization to enable employees and outside whistleblowers (including customers and suppliers) to report in confidence concerns about possible improprieties in matters of financial reporting, or compliance with laws and regulations, that may have a direct or indirect effect on financial reporting. In addition to instituting anti-corruption agencies, under laws which protect the public for reporting corruption many countries have also established, and enforced, a higher duty on civil servants and public officials for mandatory reporting of all instances of suspected corruption and official misconduct, including significant breaches of the body's code of ethics (Whitton, 2001). Public sector may be more disposed to corruption because interactions between private individuals and officials ensue at greater levels of intimacy and with more frequency at more decentralized levels (Vyas-Doorgapersad & Ababio, 2010). Practices of corruption pertaining to money like bribery, extortion, embezzlement, and graft are found in public sector systems.

3. Theoretical framework

Stakeholder theory has turn out to be the pivotal point of numerous debates. It frequently serves as a point of allusion in agents' discourses, in their acts and in a host of "public sector administration" studies. The theory's contemporary propensity is to enact itself as a theme of reference by emulating corporatesocial responsibility dogmas, to the magnitude of taking on the fascinations of a central dialogue.The primary goal line of this inquest will be to make the case for bringing together two very extensive debates within stakeholder theory, on the one hand, and within public management, on the other – that have hitherto been carried on in mutual isolation (Heath & Norman, 2004). Corporate governance concerns highlight any and all associations that may exist between a firm and its partners. In other words, they have backed greatly to the development of stakeholder theory's practical aspects (Damak-Ayadi & Pesqueux, 2005). The reason that the states are involved in these public sector followed predominantly from the thought that, while privately owned firms pursue firmly private interests (such as profitability), public ownership would be able to warrant that these enterprises served the wider public interest. Thus managers in these public sector are instructed to pursue other ''social'' objectives (Heath & Norman, 2004). For instance the American construct of "community" is often stated as one of the stakeholders in respect to which firms are supposed to behave responsibly (Damak-Ayadi & Pesqueux, 2005).

According to Key (1999) Freeman in his 1984 work, Strategic Management, a Stakeholder Approach has done the most complete job of laying the groundwork for the development of stakeholder theory as a theory. The phenomenon that Freeman endeavors to elucidate is the relationship of the firm to its outside milieu, and its behavior within this environment hence the relationship between the public sector organizations or setups and the civil society. Stakeholder theory is a theory of organizational management and ethics. It renders attention to the interests and well-being of those who can assist or encumber the achievement of the organization's objectives and is the central admonition of the theory (Phillips, Freeman, and Wicks, 2003). Public managers and administrators have moral and ethical responsibilities to all stakeholders (residents), including government (Sundaram and Inkpen, 2004). This is based on the supposition that organizations as well as individuals, possess moral status and therefore should act in a moral responsible manner.

However, for scholars of business and society it represented a concrete alternative to the nebulous and seemingly indefinable concept of corporate social performance and corporate social responsibility and stakeholder theory appears to provide clarity as to whom the corporation is responsible (Key, 1999). The dominant idea is that an organization's success is reliant on on how well it manages the relationships with key groups such as customers, employees, suppliers, communities, financiers, and others that can affect the realization of its purpose (Freeman and Phillips, 2002). Stake is broken down into three parts: those stakeholders who have ownership in the organization; those stakeholders who are economically dependent on the organization; and, those stakeholders who are not connected directly to an organization, but who are interested in seeing the organization act socially responsible (Rawlins, 2006). The manager's job is to retain the support of all of these groups, balancing their interests, while making the organization a place where stakeholder interests can be maximized over time (Freeman and Phillips, 2002). In public sector administration stakeholder's interest comes through service delivery. The stakeholder's thought can be understood as referring to a communitarian perspective, with the stakeholder thereby assisting to define the delineations of a group to which actors can belong on a non-exclusionary basis (Damak-Ayadi & Pesqueux, 2005). Social issues deserve moral con-

templation of their own and should lead managers to consider the social impacts of corporate activities in decision making. Knowing if public sector entity or department should undertake certain activities or desist from doing so because they are beneficial or harmful to society is a principal question (Branco & Rodrigues, 2007).

4. Methodology

The study was based on qualitative approach using descriptive research design (du-Pooley-Cilliers, Davi, & Bezuidenhout, 2014) which aims to provide information about corporate governance and fraud risk management in South Africa's public sector. In the study the sample frame and sample size was made up of total population of 9 South Africa's Provinces. The sample size was considered to be a representative sample as it represents total population (du-Pooley-Cilliers et al, 2014).General Reports on The Provincial Audit Outcomes for the periods (2011-12; 2012-13 & 2013-14) were used as primary documents for data analysis.

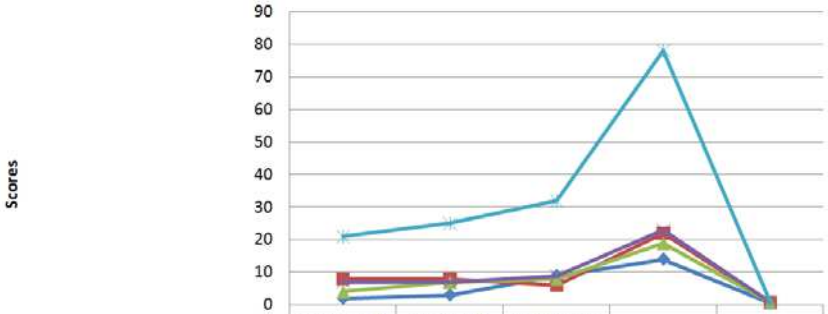
The Auditor General is established in terms of the Constitution to audit and report on the accounts, financial statements and financial management of all national and provincial departments, municipalities, or any other institutions mandatory by national legislation to be audited by them. As the Superlative Audit Institution of South Africa, it qualifies oversight, accountability and good governance in the public sector. The Auditor General can also conduct investigations or special audits whenever it considers it to be in the public interest or on receipt of a complaint or request (Madonsela, 2010). According to de Renzio (2006) supreme audit institutions have the role of checking government accounts through audits in order to ensure: the proper and effective use of public funds; the proper execution of administrative activities; the development of sound financial management; and communication of information to public authorities and the general public through the publication of objective reports (DFID, 2005). The information involving the public sector performance against predetermined objectives is subject to audit by the Auditor General in terms of Section 20(2)(c) of the Public Audit Act, 2004 (Act No. 25 of 2004). Section 13 of the Public Audit Act requires the Auditor General to control the standards to be applied in performing such audits. According to the Treasury Regulations, the Internal Audit Function must help the accounting officer/authority in upholding effective controls by evaluating those controls to determine their effectiveness and efficiency, and by developing recommendations for augmentation or perfection (KPMG, 2009).

Data analysis and scoring of the findings for each province was conducted through a content analysis using Atlas-ti qualitative research data analysis software. Scoring of the items was basically dichotomous, where an item scores 1 if the findings by Auditor General were adverse and 0 if it is favorable, without any consequence for each unidentified item (Darmadi, 2011).

5. Findings & discussions

The findings presented were gathered through the analysis of the data in four classes which affect good corporate governance and fraud risk management (human resources, internal controls, supply chain management) and finally an overall presentation of the scores. The study first presents the results from the analysis of the four classes and ultimately the overall score analysis.

The Figure 2 below depicts adverse findings scores on human resources management items by all the 9 provinces.

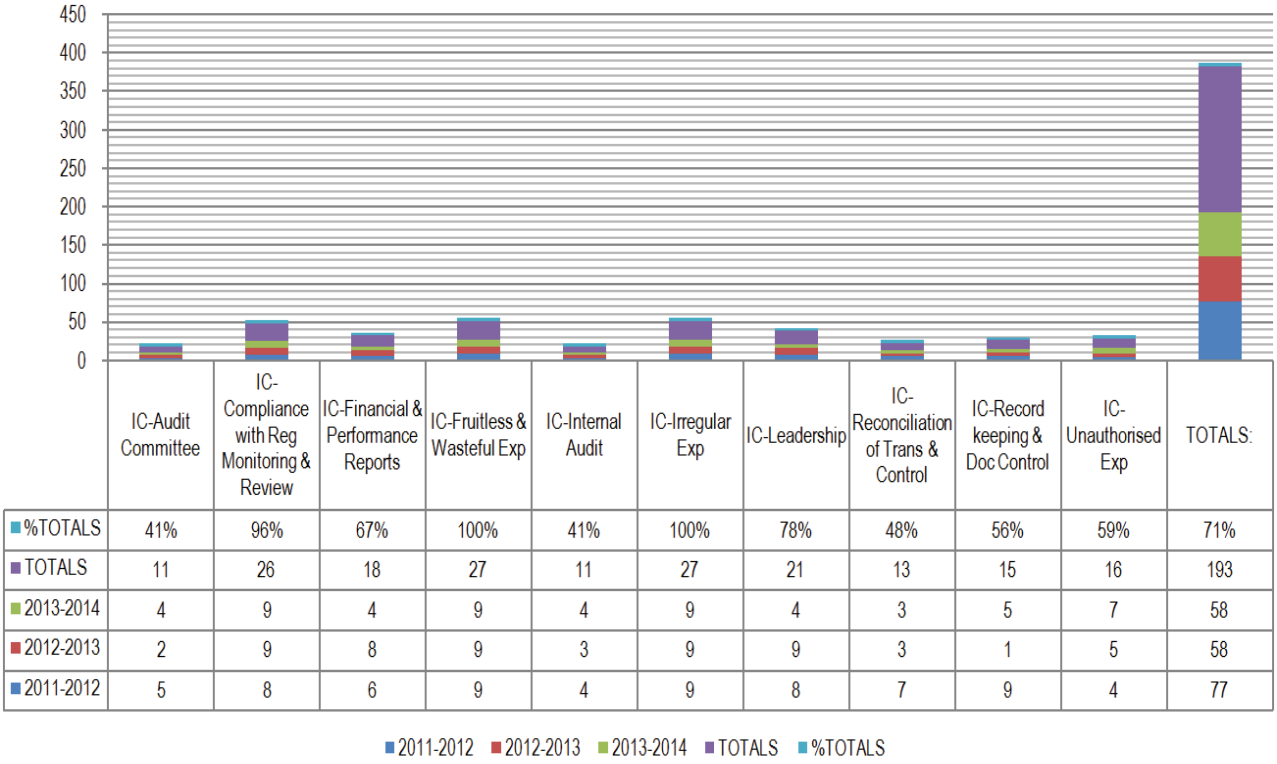


	2011 - 2012	2012-2013	2013-2014		
HR-Competencies Key Officials	2	3	9	14	52%
HR-Mngt of Lv, Ovtime & Supns	8	8	6	22	81%
HR-Performance Mngt	4	7	8	19	70%
HR-Vacancies Mngt	7	7	9	23	85%
TOTALS:	21	25	32	78	72%

Fig. 2. Human resources management (HRM)

The total percentage of HRM findings (72%) on competencies of key officials, management of leave, overtime and acting positions, performance management and vacancies management is attributed to lack of oversight and monitoring of day-to-day HR management processes, an unwillingness to enforce existing HR policies, and the leadership not monitoring compliance. Senior management and critical finance section posts were vacant for more than 12 months. Senior managers did not sign performance agreements for the year under review. Written authorization was not granted prior to overtime being worked and employees were paid more overtime than the maximum allowed in terms of the applicable legislation. In addition, more leave was granted than what employees were entitled to.

Fig. 3 below depicts adverse findings scores on internal controls items by all the 9 provinces.



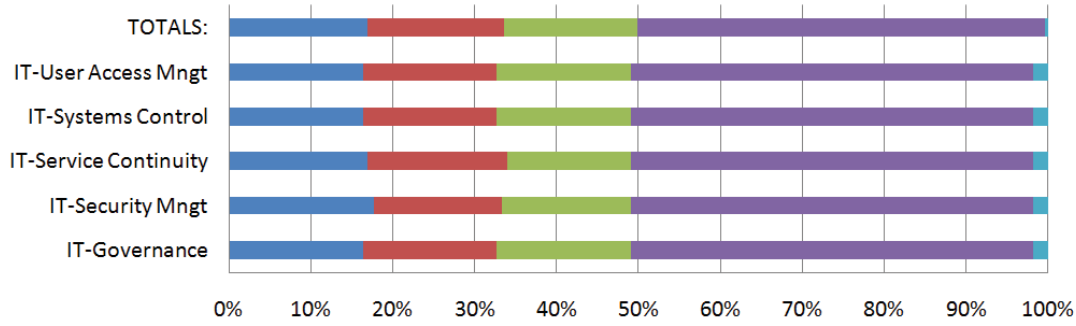
	IC-Audit Committee	IC-Compliance with Reg Monitoring & Review	IC-Financial & Performance Reports	IC-Fruitless & Wasteful Exp	IC-Internal Audit	IC-Irregular Exp	IC-Leadership	IC-Reconciliation of Trans & Control	IC-Record keeping & Doc Control	IC-Unauthorised Exp	TOTALS:
%TOTALS	41%	96%	67%	100%	41%	100%	78%	48%	56%	59%	71%
TOTALS	11	26	18	27	11	27	21	13	15	16	193
2013-2014	4	9	4	9	4	9	4	3	5	7	58
2012-2013	2	9	8	9	3	9	9	3	1	5	58
2011-2012	5	8	6	9	4	9	8	7	9	4	77

Fig. 3. Internal controls

The total score on internal controls is 71% which shows that the internal controls in all the provinces are not sufficient and effective to reinforce good corporate governance. Legislation requires accounting officers to take reasonable steps to ensure that unauthorized, irregular as well as fruitless and wasteful expenditure is prevented. The extent of this expenditure and the non-compliance by accounting officers is indicative of an environment where unauthorized and irregular expenditure has become the norm and not the exception. Poor record keeping, inadequate processing and reconciling of information, inadequate or poorly written policies and procedures and inadequate in-year reporting contributed to the non-compliance findings. This also amplified the material amendments that had to be made to the financial statements during the audit process.

Legislation requires accounting officers to take reasonable steps to ensure that unauthorized, irregular as well as fruitless and wasteful expenditure is prevented. Although there is an expectation that no such expenditure should be incurred, it is not always possible for an accounting officer to prevent the occurrence thereof, even if all reasonable steps had been taken. In those exceptional circumstances where it does occur, legislation makes it compulsory for auditees to disclose such expenditure in their financial statements and a detailed accountability process is prescribed, which could result in disciplinary processes and the recovery of money from liable officials.

Figure 4 below presents adverse findings scores on information technology items by all the 9 provinces.

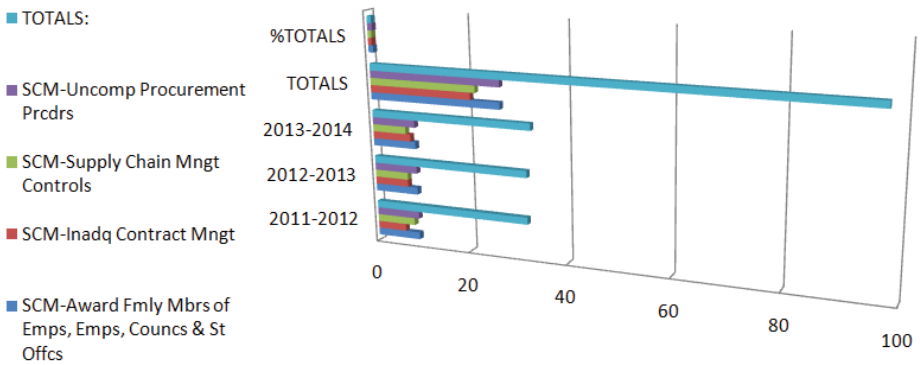


	IT-Governance	IT-Security Mngt	IT-Service Continuity	IT-Systems Control	IT-User Access Mngt	TOTALS:
2011-2012	9	9	9	9	9	45
2012-2013	9	8	9	9	9	44
2013-2014	9	8	8	9	9	43
TOTALS	27	25	26	27	27	132
%TOTALS	100%	93%	96%	100%	100%	98%

Fig. 4. Information technology

The total percentage of 98% shows that there is lack of an IT governance framework implementation and good IT governance practices which have led to IT systems and processes not being aligned to business requirements. Furthermore, IT risks are not identified and managed proactively, while value may not be derived from existing IT investments. Although the provinces adopted the Control Objectives for Information and Related Technologies (COBIT4.1) framework, they have not refined the framework for their environment and it has thus not been implemented. As a result, IT governance practices and structures are inadequately designed. IT security policies and procedures governing access to systems are not developed and implemented in almost all provinces to ensure the confidentiality, integrity and availability of information. User access management policies and procedures inadequately designed and implemented (100%).IT service continuity controls, such as business continuity, backups and disaster recovery plans (DRPs), are not designed (96%).

Figure 5 below illustrates adverse findings scores on supply chain management items by all the 9 provinces.



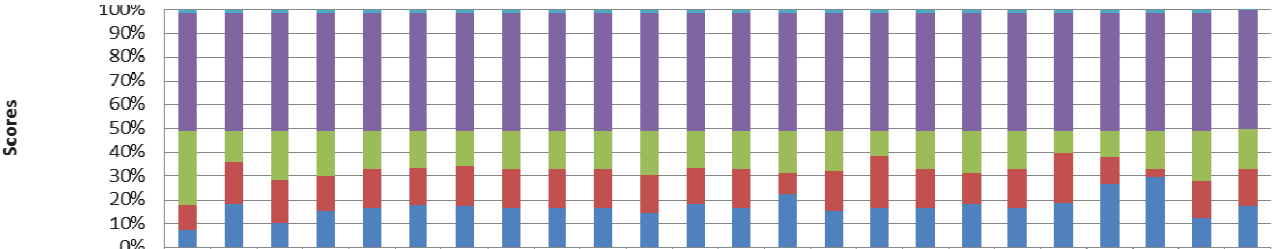
	2011-2012	2012-2013	2013-2014	TOTALS	%TOTALS
TOTALS:	32	32	33	97	90%
SCM-Uncomp Procurement Prcdrs	9	9	9	27	100%
SCM-Supply Chain Mngt Controls	8	7	7	22	81%
SCM-Inadq Contract Mngt	6	7	8	21	78%
SCM-Award Fmly Mbrs of Emps, Emps, Councs & St Offcs	9	9	9	27	100%

Fig. 5. Supply chain management

The findings (total 90%) reveal that procurement processes followed were unfair and uncompetitive as they did not provide all suppliers equal opportunity to compete for public sector contracts and that the process did not unfairly favor some suppliers above others. The most prevalent findings on inade-

quate contract management are: measures applied in monitoring the performance of contractors were not sufficient to ensure that contractors delivered in accordance with the contract as total payments under quotation exceeded the original quoted amount. Contracts are extended or renewed to circumvent competitive bidding processes. Legislation did not prohibit such awards but policies and legislation exist to ensure that conflicts of interest do not result in the unfair awarding of contracts or the acceptance of unfavorable price quotations. Legislation also requires employees to obtain approval for performing remunerative work outside their employment.

All in all, Fig. 6 unveils the overall scores on adverse findings pertaining to governance and fraud risk management.



	HR-Competencies Key Officials	HR-Mngt of Lv, Ovtime & Sups	HR-Performance Mngt	HR-Vacancies Mngt	IT Governance	IT-Security Mngt	IT-Service Continuity	IT-Systems Control	IT-User Access Mngt	SCM-Award Fmly Mbrs of Emps, Emps, Counc...	SCM-Inadq Contract Mngt	SCM-Supply Chain Mngt Controls	SCM-Uncomp Procurement Prcdrs	IC-Audit Committee	IC-Compliance with Reg Monitoring & Review	IC-Financial & Performance Reports	IC-Fruitless & Wasteful Exp	IC-Internal Audit	IC Irregular Exp	IC Leadership	IC-Reconciliation of Trans & Control	IC-Record keeping & Doc Control	IC-Unauthorised Exp	TOTALS
%TOTALS	52%	81%	70%	85%	100%	93%	96%	100%	100%	100%	78%	81%	100%	41%	96%	67%	100%	41%	100%	78%	48%	56%	59%	79%
TOTAL SCORES	14	22	19	23	27	25	26	27	27	27	21	22	27	11	26	18	27	11	27	21	13	15	16	492
2013-2014	9	6	8	9	9	8	8	9	9	9	8	7	9	4	9	4	9	4	9	4	3	5	7	166
2012-2013	3	8	7	7	9	8	9	9	9	9	7	7	9	2	9	8	9	3	9	9	3	1	5	159
2011 - 2012	2	8	4	7	9	9	9	9	9	9	6	8	9	5	8	6	9	4	9	8	7	9	4	167

Fig. 6. Overall scores

The overall adverse findings score on rating corporate governance and fraud risk management in the public sector using Auditor General Outcome reports is 79%. This shows that there is no good corporate governance practices and effective fraud risk management in the public sector in South Africa.

Conclusions & recommendations

It is concluded that governance and fraud risk management are positively related. Hence operational governance is a driver of audit outcomes, coupled with audit committees and internal audit divisions being strategic rudiments of governance. In relation to legislation, an audit committee and internal audit division must be recognized by all auditees. Audit committees must function as an autonomous governance configuration whose purpose is to perform an oversight partvis-à-vis the systems of internal control, compliance with legislation, fraud risk management and governance. Through enhanced shared oversight and precisely training and education, financial public liability will be heightened and predominantly the expenditure patterns of Local Government and Government Departments. There is need for collective effort from the Private Sector, Public Sector and the Treasury Department to advance public accountability and answerability so as to recover the status of the South African financial governance. Better-quality accountability to citizens will entail a grander focus on day-to-day culpability at the point of delivery, as well as warranting that hands-on mechanisms sanction for evocative citizen (stakeholders theory) engagement.

There is lack of effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the sector. Exercise of oversight responsibility regarding financial and performance reporting, compliance and related internal controls are inadequate. There is poor review and monitoring of compliance with applicable laws and regulations. The provincial leadership lacks culture of professionalism and effective HR management that can improve audit outcomes that are sustainable. The correct leadership tone is required to build this culture and to ensure that available skills in the public sector are effectively utilized.

It is concluded that the provincial leadership must ensure that procurement systems deliver value for money and strengthening of operational management. This encompasses calibration and incessant-perfection of work processes, setting, assessing and observing efficiency levels, and progresses in information technology governance. There is need for management styles which embolden all public sector officials and civil servants to deal absolutely with corruption and unethical practices and at the same time being protected by 'whistleblower' protection law that protect appropriate "public interest disclosures" of wrongdoing by officials. Also it is proposed to ensure training and development in the content and underlying principle of Ethics Codes, the solicitation of ethical management principles, the appropriate use of official power, and the necessities of professional responsibility.

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Appendix

List of adverse findings score items:

Internal controls deficiencies:

- preparation of regular, accurate and complete financial and performance reports compliance with legislation review and monitoring;
- proper record keeping and document control controls over daily and monthly processing and reconciliation of transactions;
- fruitless and wasteful expenditure;
- irregular expenditure;
- unauthorized expenditure.

Supply chain management:

- awards to close family members of employees, councilors and state officials;
- uncompetitive or unfair procurement processes;
- inadequate contract management;
- inadequate controls to ensure interest was declared.

Information technology controls:

- information technology governance;
- security management;
- user access management;
- information technology service continuity;
- formal control over information technology systems.

Human resource management:

- management of vacancies and acting positions;
- competencies of key officials;
- performance management.