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In the public eye

The three biggest losers of poor financial management in the Public Sector

Fixing the problem starts with skills development. The financial management of South Africa's government departments and local municipal departments while showing slight improvement is still simply not good enough.

The release in November last year of the Auditor General's PFMA report for the 2013 / 2014 financial year indicated marginal improvements by the public sector, further underlining the urgent need to improve technical competencies and skills within its departments.

As many as 119 (25%) of the 469 auditees attained clean audits in the 2013/14 financial year. This number was 22% in 2012/13 financial year, reflecting a marginal improvement year-on-year. Alarmingly, of the government's R1.035-trillion budget, only 15% was properly audited, according to the AG report.

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Biggest loser #1: Business

The negative effects of financial mismanagement by municipalities are severe in South Africa especially for businesses trying to work with the public sector. Small businesses are often the first to be affected in the event of non-payment. Many BEE companies are reliant on providing services for the government simply cannot survive if they are not paid in time.

Bigger businesses are also been threatened by a lack of reliability from state departments. The likes of Sanyati, a civil engineering company, closed last year due to non-payment from government. Non-payment has distinct impact on business sustainability.

Biggest loser #2: The economy

The private sector has indicated its frustration with poor service. Data from Grant Thornton International Business Report indicates that as many as 62% of businesses in South Africa are negatively impacted by government service delivery. The provision of utilities, road and billing issues were singled out as the biggest areas of concern.

Unreliable supply pushes up costs and affects productivity putting pressure on sustainability, employment; job creation and black economic empowerment among others.

Biggest loser #3: Vulnerable communities

Poor financial management also impacts negatively on service delivery to already marginalised previously disadvantaged communities already entrenched in the grip of poverty. The result has been the rising levels of community frustration leading to service delivery protests of which more than 280 were recorded in 2013, according to data from the University of Johannesburg. Many of these turn violent leading to the loss of life and to significant additional costs to the public purse.

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The fix

It is no secret that the biggest problem that needs to be addressed is the lack of skills in the public sector.

General Kimi Makwetu highlights six risk areas which if addressed, would lead to improvements in audits. These risk areas include the quality of submitted financial statements; the quality of submitted performance reports; supply chain management; financial health; information technology controls; and the human resource management breakdown in controls at some auditees. Each one of these risk areas will be alleviated with the aid of skilled and technically competent individuals.

The lack of skilled financial managers is especially evident in rural areas and smaller provinces. Local government requires assistance from the private sector in order to enhance training initiatives and alleviate bottlenecks. The shortages are believed to be in the tens of thousands.

Minister of Cooperative Governance and Traditional Affairs (CoGTA) Pravin Gordhan publically admits that the shortage of skills is undermining public sector financial stability.

Minister Gordhan says the skills shortage is severe in financial positions at state departments' even at the basic level financial positions. Both the AG and Minister Gordhan point out that too many accounting officers and their teams fail to focus on basic disciplines of financial and performance management.

It is also clear that there is a need to deploy appropriately experienced skilled workers to provinces which repeatedly performed poorly such as the Limpopo and North West. Gauteng and the Western Cape remain highly lucrative for audit professionals to the detriment of the other provinces.

The AG and his team themselves face the same problem of finding sufficient skilled people to work for long periods of time in provinces away from their families and for lower salaries. A lack of people in key positions is the root cause of as much as 33% of the auditees with poor audits.

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