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BY CASHMORE MUCHAONYERWA, DIRECTOR: PUBLIC SECTOR ADVISORY, GRANT THORNTON JOHANNESBURG – JULY 2013

In the public eye

The four pillars of effective expenditure management

Expenditure management is the foundation of good financial governance and management

The Municipal Finance Management Act Section 62 prescribes that an accounting officer, a municipal manager in the case of a municipality, should take steps to ensure that resources are effectively, efficiently and economically utilised. Failure to manage these resources can have dire consequences on service delivery.

Government spending needs to be channelled towards the highest impact areas and should be monitored closely to ensure delivery is achieved in the most efficient and effective manner. This is particularly critical in South Africa where we have experienced more than 3000 service delivery protests over the past five years.

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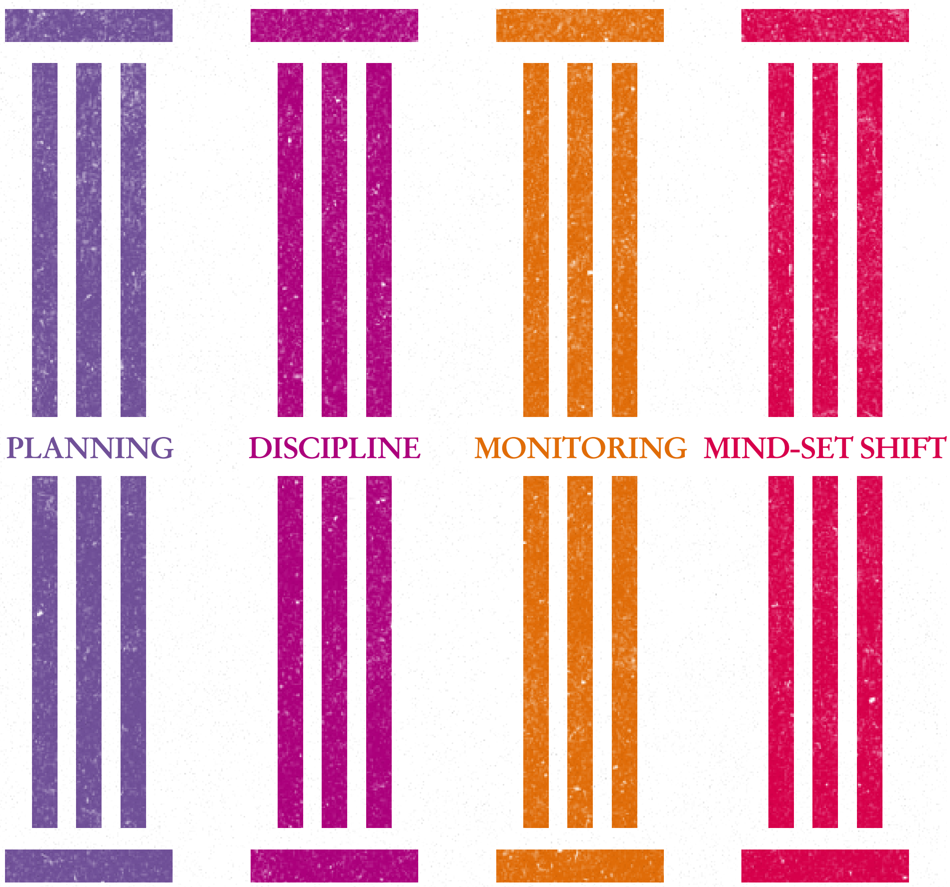

Need for better processes

As the former Minister of Finance, Pravin Gordhan emphasised in the 2014 budget speech there is a need to moderate expenditure to get better value for money in public expenditure. Sustainable public finance management requires that institutions must move away from a consumption mind set to an investment mind set.

Effective expenditure management starts with planning. Expenditure planning (budgeting) is crucial in ensuring fiscal discipline if adhered to. All too often government institutions devote a lot of time on planning but then fail to adhere to the set priorities once implementation starts. By adhering to the expenditure priorities of their long term goals, institutions will avoid unnecessary costs and more especially those costs that do not align with the established service delivery objectives.

Monitoring is key

Secondly, there is need to institute better monitoring mechanisms and improve internal controls and systems to ensure that we have effective capability to track delivery. If there are no or poor monitoring systems in place there can be no effective control over expenditure. Coupled to monitoring is the need for better contract management and risk assessment.

All too often service providers are contracted in without a Service Level Agreement or the agreement is not robust enough to ensure that value is obtained. In many instances supply chain management processes stop at the appointment of a service provider and there is not follow through on the outcomes. The Auditor General South Africa's PFMA 2012/2013 reported more than R2billion in fruitless and wasteful expenditure (a 43% increase from previous year).

Closer scrutiny and monitoring of SLAs is therefore required and payment should be used as a tool to hold service providers to account and to ensure quality and predetermined standards are met.

There is the need for stronger accountability mechanisms. Accounting officers must take responsibility for what they have spent money on, including outcomes of such expenditure.

The National Treasury states that municipal officials must be mindful of financial mismanagement which it defines as funds that are used inefficiently, carelessly and recklessly and often not enough is done to safe guard the available resources.

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In summary

In summary the four pillars of effective expenditure management are:

- **Planning**
  There needs to be expenditure planning in line with the long term goals of the institution. Section 69 of MFMA states that the accounting officer has to take step that all spending line with the priorities set by the municipality.

- **Discipline**
  Implementation of expenditure must be in line with the budget. Institutions must exercise the discipline to stay within these priorities of their long-term objectives.

- **Monitoring**
  Expenditure monitoring and reporting should take place on a monthly basis to ensure that spending yields the appropriate return on investment in line with the objectives for the project or service. Particular note must be taken so that spending is in line with revenue collection target, and the expenditure and budgets must be adjusted accordingly when a fall in revenue is less than projected.

- **Mind-set shift**
  The right financial culture in the institutions. Government institutions would do well to copy commerciality aspects from private institutions with the emphasis on getting the right return on their investment. While government institutions would not have the profit motive of corporate entities there is a need for rationality in the way that expenditure decisions are made and monitored to ensure value for money is realised.

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