

## **GOOD CORPORATE GOVERNANCE IN ENSURING SOUND PUBLIC FINANCIAL MANAGEMENT**

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Corporate governance is the international term associated with the trend towards greater corporate responsibility and the conduct of business within acceptable ethical standards. 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.

The object of good corporate governance is attained when institutions demonstrate their public accountability and conduct their business within acceptable ethical standards. This demonstration will take the form of effective financial reporting, both internally and externally, and the unqualified encouragement of public debate in respect of such financial reports.

Effective corporate governance in the public sector means that public officials must demonstrate compliance with the following six characteristics:

- They are composed of people with the knowledge, ability and commitment to fulfill their responsibilities;
- They understand their purpose and whose interests they represent;
- They understand the objectives and strategies of the departments;
- They understand what constitutes reasonable information for good government and do everything possible to obtain it;

- Once appropriately informed, they are prepared to ensure that the department's objectives are met and that operational performance is never less than satisfactory; and
- They fulfill their accountability obligations to those whose interests they represent by regularly and adequately reporting on their department's activities and effectiveness.

Financial reporting obligations support good corporate governance through outwards and internal reporting.

- Outwards reporting is to Parliament and all external stakeholders which include:
  - Ministers
  - Government officials
  - Electorate
  - Taxpayers
  - General public
- Effective management and decision-making requires adequate internal financial reporting systems, that consists of, timely and regular submission of comprehensive and candid reports on every significant matter of financial administration in a public sector institution to all levels of decision-makers.

### **CORPORATE GOVERNANCE PROMOTES**

Good corporate governance seeks to promote the following:

- Efficient, effective and sustainable entities that contribute to the welfare of society by creating wealth, employment and solutions to emerging challenges;
- Responsive and accountable institutions
- Recognition and protection of stakeholder rights;
- An inclusive approach based on democratic ideals, legitimate representational and participation.

### **NORMATIVE MEASURERS FOR FINANCIAL MANAGEMENT**

The focus of financial management within national and provincial departments is the successful implementation of the PFMA and its related Treasury Regulations.

### **THE NEED FOR PROPER STANDARDS OF FINANCIAL MANAGEMENT**

The absence of the profit measure in the public sector makes analysis and evaluation of management performance more difficult than in profit orientated firms.

In the public sector the following are used to measure performance:

- Economy is to be measured by the relationship between quantity and quality of resources inputs and its related cost.
- Efficiency is to be measured by the relationship between resource inputs and outputs.
- Effectiveness is to be measured by the extent that outputs accomplish set outcomes.
- Appropriateness is to be measured by the extent that outcomes of a programme are the priority of Government and addresses the real needs of the community.

### **FINANCIAL MANAGEMENT AND AN APPROACH TO MANAGING FOR RESULTS**

Several elements of private sector financial management provide a sound basis for practices in the public sector. The PFMA aims to introduce an approach of management for results instead of managing for compliance.

Some characteristics of this approach include the following:

- Accounting officers (departmental heads) enter into employment contracts with executive authorities supported by performance agreements that include performance standards;
- Clearly defined responsibility of the accounting officer and other role players for resources committed and outputs produced;
- Greater alignment of planning and budgeting processes;
- Strategic planning

- Central regulations are reduced to the minimum and replaced with guidelines;
- Accounting officers are allowed flexibility in the use of resources;
- Management accounting and reporting;
- Appropriate internal control and risk management principles are followed; and
- Accounting practices similar to that employed in the private sector are being followed (i.e. accrual accounting, capitalisation of fixed assets and depreciation).

## **THE AIM AND GOALS OF FINANCIAL MANAGEMENT IN PUBLIC SECTOR**

Financial management in the public sector is 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.”*

The aim of financial management in the public sector is the following:

*“To manage limited financial resources with the purpose to ensure economy and efficiency in the delivery of outputs required to achieve desired outcomes (effectiveness), that will serve the needs of the community (appropriateness)”*

Financial management ranges from daily cash management through to the formulation of long-term financial objectives, policies and strategies in support of the strategic and operational plans of the department. It includes the planning and control of capital expenditure, working capital management, interaction with the relevant Treasury, funding and performance decisions. It supervises the supporting financial and management accounting functions, which are predominately concerned with the collection, processing and provision of financial information and the planning, operation and control of the supporting financial information systems.

## **PERFORMANCE REQUIREMENTS FOR FINANCIAL MANAGEMENT IN THE PUBLIC SECTOR**

National Treasury's Normative Measures for Financial Management sets out the following performance requirements:

- Financial resources must be optimally planned and allocated between required outputs.
- The optimal investment in total assets required to support specified departmental outputs must be quantified and economically funded.
- The use of financial resources to achieve specified outputs must be monitored and controlled against the strategic and operational plans of the department by means of quantitative and qualitative data.
- Internal controls must be designed, implemented and maintained to ensure that:
  - Transactions are executed in accordance with management's general or specific authorisation:
  - All transactions are promptly recorded at the correct amount, in the appropriate account, in the correct accounting period to which it relates and in accordance with the departments' accounting policies;
  - Access to assets is permitted only in accordance with management's authorisation;
  - Recorded assets are compared with existing assets and vice versa at reasonable intervals and appropriate action is taken with regard to any variances.
  - Accountability must be established for performance associated with the freedom to consume scarce financial resources in the delivery of specified outputs.