

**AN IRREGULAR EXPENDITURE GOVERNANCE STRATEGY FOR SOUTH  
AFRICAN STATE-OWNED ENTITIES**

by

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## Declaration

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**AN IRREGULAR EXPENDITURE GOVERNANCE STRATEGY FOR SOUTH AFRICAN STATE-OWNED ENTITIES**

I declare that this thesis is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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SIGNATURE

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DATE

## Dedication

I dedicate this study to my loving wife, Maphela Sehlapelo, as a homage to your motivation and steadfast support, and for accommodating the time I inevitably spent away from you and our children. Your endurance indeed presented a life-saving buoy, throughout my studies. I further dedicate this study to my lively daughter, Thapelo Mbalenhle Dlulane, my ever-joyful son, Bantubonke Moagi Tukela Dlulane, and my inquisitive nephew, Lathitha Dlulane, who inspired me during the course of my studies. In addition, I dedicate this work to my grandfather, Vuyisile Allan Tyson Dlulane, whose enthusiasm, encouragement and conviction of my ability, prompted me to pursue this degree. Lastly, as a nostalgic remembrance of three friends who were like brothers to me and who passed away in 2021, 2015 and 2012, respectively, I honour the memory of Tiisetso (TC) Moila, Tsepho (Themba) Valoyi and Siyanda Qaba, with this dedication—rest easy, for you are dearly missed, and will forever remain in my heart.

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## **Abstract**

National government's efforts to prevent irregular state expenditure have mainly focussed on the municipal environment, although there has been an increase in irregular expenditure by stated-owned entities (SOEs). This growing trend is driven by inept SOE-employees, careless procurement practices, and failure to comply with legislation—specifically regulations relating to supply chain management policies and procedures. The aim of this study was to investigate the disconnect in a governance framework, struggling to prevent irregular expenditure by SOEs, and to suggest a governance strategy that is proactive, rather than reactive.

From the departure point, the study paradigm and design followed a post-positivist and constructivist approach, where a sequential mixed-methods design was employed to conduct a content analysis, IQA focus groups, and interviews. The literature review revealed that irregular expenditure principally related to contract adjudication—highlighting that most of the irregular expenditure types are assigned to the act of assessing bidding requirements, to award contracts to suppliers. This finding informed the proposed governance strategy.

The proposed governance strategy is anticipated to improve the governance framework regulating irregular state expenditure and improve the financial governance of SOEs in South Africa.

### **KEY TERMS:**

Content Analysis; Governance Strategy; Irregular Expenditure; Interactive Qualitative Analysis; State Owned Entities.

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## **List of Acronyms**

|                     |  |
|---------------------|--|
| <b>AFS</b>          | Annual Financial Statements                        |
| <b>AGSA</b>         | Auditor-General of South Africa                    |
| <b>ANC</b>          | African National Congress                          |
| <b>ART</b>          | Affinity Relationship Table                        |
| <b>BAS</b>          | Basic Accounting System                            |
| <b>BBBEE</b>        | Broad-Based Black Economic Empowerment Act         |
| <b>CADM</b>         | Comprehensive Action Determination Model           |
| <b>CEO</b>          | Chief Executive Officer                            |
| <b>CFO</b>          | Chief Financial Officer                            |
| <b>CIPC</b>         | Companies and Intellectual Property Commission     |
| <b>Constitution</b> | Constitution of the Republic of South Africa, 1996 |
| <b>DART</b>         | Detailed Affinities Relationship Table             |
| <b>DPSA</b>         | Department of Public Service and Administration    |
| <b>FM</b>           | Financial Manager                                  |
| <b>GCC</b>          | General Conditions of Contract                     |
| <b>GRAP</b>         | Generally Recognised Accounting Practices          |
| <b>ICAC</b>         | Independent Commission Against Corruption          |
| <b>IFMS</b>         | Integrated Financial Management System             |
| <b>IoDSA</b>        | Institute of Directors Southern Africa             |
| <b>IQA</b>          | Interactive Qualitative Analysis                   |
| <b>IRD</b>          | Interrelationship Diagram                          |
| <b>IWS</b>          | Intelligent Water Solutions                        |
| <b>KICAC</b>        | Korean Independent Commission Against Corruption   |
| <b>KPI</b>          | Key Performance Indicator                          |

|                    |   |
|--------------------|---|
| <b>LOGIS</b>       | Logistical Information System                           |
| <b>MFMA</b>        | Municipal Finance Management Act                        |
| <b>NAM</b>         | Norm activation model                                   |
| <b>NDP</b>         | National Development Plan                               |
| <b>Nedlac</b>      | National Economic Development and Labour Council        |
| <b>NPA</b>         | National Prosecuting Authority                          |
| <b>NPM</b>         | New Public Management                                   |
| <b>PCAOB</b>       | Public Company Accounting Oversight Board               |
| <b>PERSAL</b>      | Personnel and Salary System                             |
| <b>PFMA</b>        | Public Finance Management Act 1 of 1999                 |
| <b>PPM</b>         | Procurement Procedures Manual                           |
| <b>PPPFA</b>       | Preferential Procurement Policy Framework Act 5 of 2000 |
| <b>PPPR</b>        | Preferential Procurement Policy Regulation              |
| <b>PSM</b>         | Public Sector Management                                |
| <b>Regulations</b> | Municipal SCM Regulations, 2005                         |
| <b>RSA</b>         | Republic of South Africa                                |
| <b>SARS</b>        | The South African Revenue Service                       |
| <b>SCM</b>         | Supply Chain Management                                 |
| <b>SCA</b>         | Supreme Court of Appeal                                 |
| <b>SID</b>         | Systems Influence Diagram                               |
| <b>SITA</b>        | State Information Technology Agency                     |
| <b>SIU</b>         | Special Investigating Unit                              |
| <b>SOE</b>         | State Owned Enterprise                                  |
| <b>SOP</b>         | Standard Operating Procedure                            |
| <b>SONA</b>        | State of the Nation Address                             |



|              |                                |
|--------------|--------------------------------|
| <b>TCTA</b>  | Trans-Caledon Tunnel Authority |
| <b>TPA</b>   | Three-Pronged Attack           |
| <b>TPB</b>   | Theory of Planned Behaviour    |
| <b>TRA</b>   | Theory of Reasoned Action      |
| <b>UNISA</b> | University of South Africa     |
| <b>USA</b>   | United States of America       |

## Chapter 1: Introduction

### 1.1 Background

Public sector institutions and SOEs, in particular, are important contributors to national development. Many countries in Southern African have positioned SOEs at the center of their national development plans, with an increasing tendency to depend on SOEs to solve market failures and remove direct impediments to development (RSA 2014a:4). Therefore, SOEs require appropriate and effective management, especially as a substantial number of South African SOEs are being financed by the fiscus. If these SOEs fail to deliver vital public services, it results in adverse social—and economic effects on the communities of the country (Moyo 2016:24). This sentiment is evidenced by the status quo, as major SOEs do not contribute to the fiscus but are having difficulties in fulfilling its mandates and are a huge drain on the economy.

The South African Parliament promulgated the Public Finance Management Act 1 of 1999 ([PFMA] RSA 1999), as basis for embracing the "new public management" (NPM) theory, with the central tenet to adopt corporate best practice in the public sector (Keita 2014:3). The NPM theory was intended to enhance the fiscal management, governance, and performance of the public sector. The PFMA advocates sound internal controls, that are purposed to ensure that public sector "entities" (hereinafter, "institutions") achieve operational effectiveness, efficiency, and reliable financial reporting (RSA 2014a:4). The PFMA also intended to secure accountability and sound management of revenue, expenditure, assets, and liabilities of the institutions it applies to (Singh 2014a:143). The PFMA applies to government departments, constitutional institutions, legislatures, and public institutions, listed in

schedules 2 and 3 of the Act (RSA 1999). This study focusses on SOEs, that are listed as public institutions by the PFMA (RSA 1999).

SOEs are directly controlled and held accountable by corporate governance processes and systems, as well as requirements based on SOE enabling legislation i.e., the governance oversight role over SOEs (RSA 2005), the Companies Act 71 of 2008 (RSA 2008), the PFMA (RSA 1999) and the King IV report on corporate governance (Institute of Directors Southern Africa [IoDSA] 2016). Overall, the financial administration of SOEs in South Africa is pitiable, as SOEs frequently incur serious financial offences and continue to indiscriminately incur irregular expenditure (Dzomira 2017:206), that often leads to poor audit outcomes (Auditor-General of South Africa [AGSA] 2021:4). The PFMA defines “irregular expenditure” as expenditure, other than unauthorised expenditure (expenditure outside the budget), in contravention of applicable legislation and procurement procedures (RSA 1999:8). SOEs and national departments, such as of health, education, housing, and public works, have the most significant impact on the lives of citizens, as they provide key service delivery. Therefore, irregular expenditure by SOEs and the key service delivery departments signify that citizens are denied critical services that are supposed to help sustain and improve their lives, as well as contribute to the government’s overall financial health (AGSA 2021:1).

## **1.2 The Research Problem**

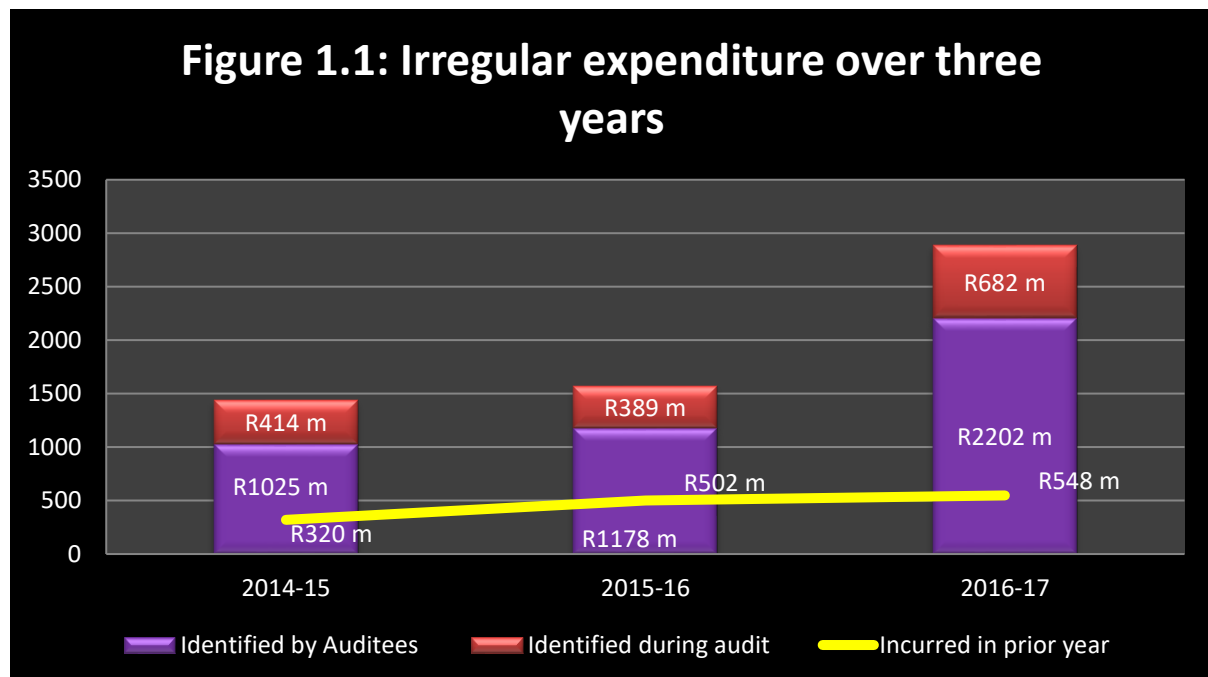
South African SOEs act in contravention of the PFMA (RSA 1999), that was promulgated to enhance the governance and performance of public institutions in South Africa. Whereas the prevention of irregular expenditure has mainly been focussed on the municipal environment, there has been a growing trend in irregular

expenditure by SOEs. This rise in irregular expenditure has been driven by several factors, such as SOE-employees' careless purchases and failure to ensure compliance with legislation, specifically with the PFMA and supply chain management (SCM) policies and -procedures, combined with a lack of consequence management or absence of accountability (Organisation Undoing Tax Abuse 2021:1). Despite the corporate governance processes and initiatives that have been implemented by South African SOEs in reaction to wrongdoing, the application of these initiatives has not yielded the desired results (Mohale 2018), and irregular expenditure remains prevalent and tenacious. It is on this premise that a governance strategy is necessary to mitigate irregular expenditure risk.

Reports have been drafted and studies conducted, identifying non-compliance to applicable regulations (AGSA 2018:96; Moloto 2016:94; De Lange 2013), weaknesses in internal controls, as well as lack of knowledge and human error (John 2016:264; Mofolo 2015; Ambe & Badenhorst-Weiss 2012:257), as the principal contributors to irregular expenditure. Studies have suggested procedures on how to deal with irregular expenditure, such as ensuring effective internal control measures (Moloto 2016:99), as well as consequence management (Dlomo 2017:93; Van Der Walt 2012:103)—all measures being reactive in nature. This study, being proactive, endeavoured to investigate the lack of regulatory—and policy compliance that lead to SOEs incurring irregular expenditure, with the objective of ascertaining a greater comprehension of the human aspect that is associated with the willingness to circumvent rules and regulations. A gap in the research regarding the forces that contribute to the general behaviour of people in the workplace—that causes irregular expenditure transgressions—was identified, and required further exploration. The

study explores whether a governance strategy may deter those that are inclined to disregard policies, procedures, and regulations.

Figure 1.1 indicates a three-year escalation in irregular expenditure, based on figures released in the financial statements of SOEs.



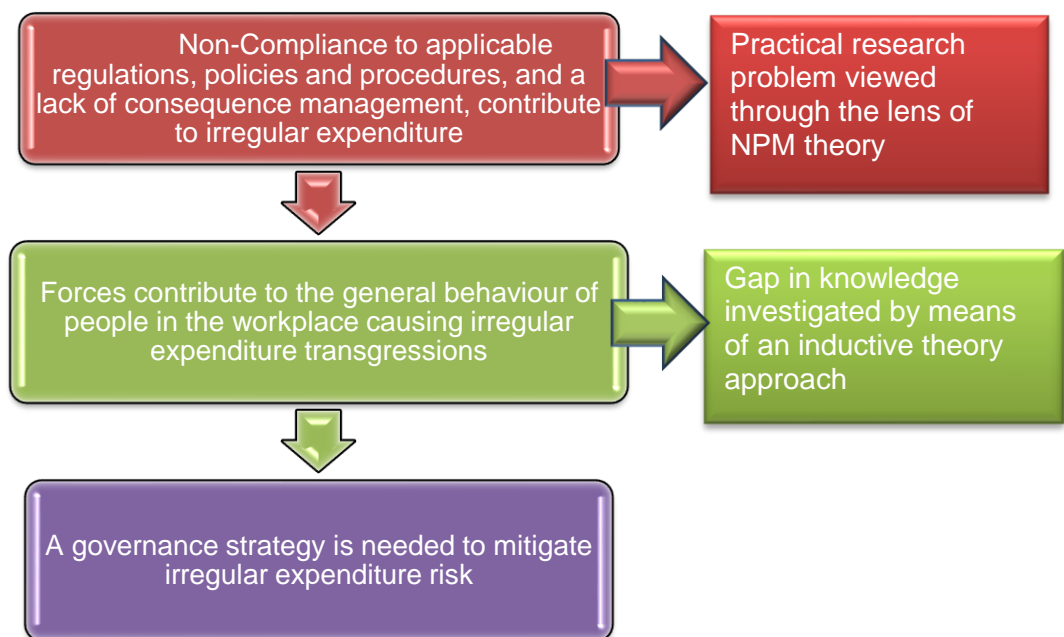
**Figure 1.1: Extract from the PFMA 2016-17 consolidated general report (AGSA 2017)**

Figure 1.1 illustrates the irregular expenditure identified by the SOEs, contrasted with that identified by the audit process, as well as the proportion of irregular expenditure incurred in preceding years and only identified in the current year (yellow line). The number of SOEs with irregular expenditure decreased slightly, but the value increased significantly. The numbers clearly indicate a serious contravention of the PFMA (RSA 1999)—one of the fundamental pieces of legislation that governs and regulates the

use of state resources and other matters of governance. The research problem of this study is formulated as follows:

*South African SOEs increasingly incur irregular expenditure. Irregular expenditure reflects on poor governance, owing to the increasing propensity of officials to circumvent or ignore rules and regulations.*

The research problem is conceptualised by figure 1.2, below.



**Figure 1.2: Conceptualisation of the research problem**

(Source: Own compilation)

### **1.3 The Study Objectives**

#### **Primary objective.**

The study aimed to investigate the disconnect in a governance framework struggling to prevent irregular expenditure by SOEs, and suggest a governance strategy that is proactive, rather than reactive.

#### **Secondary objectives.**

Towards achievement of the primary objective, the researcher conducted:

- A literature review of irregular expenditure, commencing with the international perspectives and research, and concluding with South African legislation and the National Treasury framework;
- A content analysis of the SOEs' audited annual financial statements (AFS), in order to determine the types of irregular expenditure and its prominence;
- Interactive qualitative analysis (IQA) focus group discussions, comprised of SOE-stakeholders involved with irregular expenditure, such as chief financial officers (CFOs), procurement personnel, internal auditors and the AGSA. The focus groups determined participant-perception as to the factors motivating individual employees to contravene legislation or regulations, resulting in the incurrance of irregular contract adjudication; and
- Interviews with prominent stakeholders in order to enhance the proposed strategy mitigating irregular expenditure risk.

### **1.4 Thesis Statement**

The National Treasury Irregular Expenditure Framework (RSA 2019a) and other guidelines, focus mostly on the process of managing the occurrence of irregular expenditure, and not on ways to prevent it. A strategy that accommodates the human

traits leading to irregular expenditure, may be more effective in mitigating irregular expenditure risk.

## **1.5 The Research Methodology**

“Research methodology” reflects the way research is conducted and the way in which ethical standards are upheld (Tshabalala 2015:32). Research methodology is a methodical approach to addressing research problems by selecting appropriate techniques (Kothari 2004). The methodology comprises the research design, research strategy, and data collection—and analysis techniques (Malungana 2015:31). Qualitative and quantitative methods represent the two types of research approaches generally available. For this study, the research design followed a phenomenological post-positivist—and constructivist paradigm, employing a sequential mixed-methods approach, where a selection of SOEs and stakeholders were targeted to participate.

### **1.5.1 The research design**

A sequential mixed-methods approach was adopted and applied. Firstly, the researcher conducted a quantitative content analysis of AGSA reports, utilising the software application, ATLAS.ti (Smit 2002), in order to establish the types of irregular expenditure that were incurred, as well as the prominence thereof. A content analysis is a detailed and systematic evaluation of a particular body of material to render inferences concerning patterns, themes, or biases (Leedy & Ormrod 2013:148).

Secondly, focus group discussions were conducted, applying IQA methodology. IQA is a systems approach to qualitative research, that endeavours to augment the phenomenology and grounded theory (Northcutt & McCoy 2004:1). IQA is grounded in the constructivist and interpretivist paradigm that is proposed to present the importance of a phenomenon, concerning the elements and the relationship amongst



it (De Tommaso, Rodrigues & Pinsky 2021:277; Ananth & Maistry 2020). Focus groups were employed to determine perceptions regarding the factors persuading individual employees to contravene legislation or regulations, resulting in the incurrence of irregular contract adjudication (human behaviour). The focus group participants included SOE-stakeholders involved with irregular expenditure, such as CFOs, procurement personnel, internal auditors, and the AGSA. Lastly, the study enhanced the draft governance strategy by incorporating feedback obtained from key stakeholders via interviews.

### **1.5.2 Data collection methods**

Data was collected via the following methods:

#### **Literature review.**

A literature review was performed of irregular expenditure by SOEs, by examining academic articles, academic textbooks, theses, and dissertations obtained by accessing academic databases. The literature review included existing irregular expenditure frameworks and the theories that support the relevant research, commencing with an international perspective, and concluding with South African legislation and the National Treasury framework.

#### **Content analysis.**

The study analysed the AGSA reports, utilising ATLAS.ti, to establish the types of irregular expenditure that are being incurred and its prominence. Content analysis included the reportable PFMA (RSA 1999) items of the 21 major SOEs, in order to determine whether these institutions had limited its items, or allowed its reportable items to increase from previous fiscal years.

#### **IQA focus groups (purposive sampling).**

The primary data collection included focus group discussions (purposive sampling), employed to solicit the perceptions of stakeholders regarding the causes of irregular expenditure and reasons for its escalation in recent years.

### **Interviews.**

Interviews with prominent SOE-stakeholders, such as chief executive officers (CEOs), CFOs, procurement personnel, internal auditors and the AGSA, were conducted, in order to validate and enhance the proposed governance strategy mitigating irregular expenditure risk.

Measures to ensure trustworthiness and authenticity, that comprise credibility, dependability, conformability, transferability, and authenticity, are fundamental to a qualitative approach, as these methodological considerations confirm that the study's findings are important and credible, being both dependable and transferable.

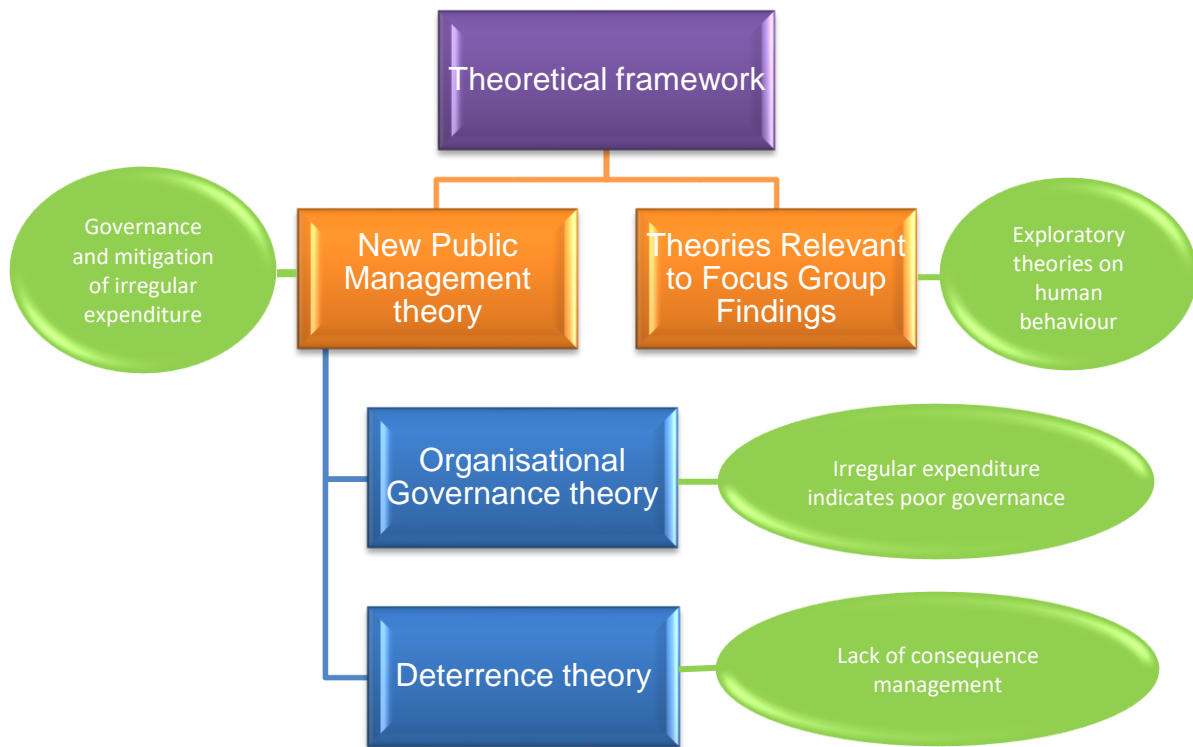
Credibility was demonstrated by effecting focus group discussions and interviews with prominent figures, largely possessed of formal and/or professional qualifications, as well as experience exceeding 15 years on average. Dependability was achieved by conducting a content analysis of AGSA reports, utilising ATLAS.ti (Smit 2002) for coding and to establish the types of irregular expenditure incurred and its prominence, and to ensure that emerging findings were coherent between the AGSA-reports on irregular expenditure and the prominent stakeholders' perceptions (obtained via the interview process) as to the causes of transgression, related to each type of irregular expenditure. Dependability was further amplified by the supervisor of the study, who possesses extensive experience and research knowledge, and who independently monitored and supervised the study.

The researcher ensured conformability by keeping an audit trail of documents, such as data from the interviews and observations made during the process, establishing

data sincerity. The focus group discussions—and process were conducted with the assistance of an educational psychologist—experienced in application of the IQA method—who ensured that researcher bias was avoided. The findings of the study may be transferable to other institutions with similar settings. The researcher outlined the context and methodology of the study. The study's participants were selected purposively on the premise that data saturation can occur. The research context and methodology in which the study was prepared, as well as the audit trail of the study, were presented and densely described, to inform others in drawing conclusions and deciding how transferable the findings are to their own settings. Authenticity was enhanced by retaining the participants' immediate statements in the analysis and findings of the study.

## **1.6 The Theoretical Framework**

Figure 1.3 depicts the theoretical framework observed by this study, discussed in detail in chapter 2.



**Figure 1.3: The theoretical framework**

(Source: Own compilation)

The NPM theory informs the PFMA-requirements (RSA 1999) concerning the governance and the mitigation of irregular expenditure, as overarching theory for the practical perspective, with organisational governance theory and deterrence theory invoked as practice level theories. The exploratory theories in respect of human behaviour followed an inductive approach to the findings from the focus groups, underpinning several aspects.

### **1.7 Significance of the Study**

The study contributes to the maintenance of proper processes designed towards the prevention of irregular expenditure by SOEs, considering the influence of human behaviour underpinned by relevant theories. The study should evoke forethought by

SOE-executives with regard to the draft of policies and regulations, taking into account the human aspect that is associated with the will to disregard internal controls, policies and regulations. The study will purposively contribute to the existing knowledge by proposing a governance strategy that mitigates irregular expenditure risk.

### **1.8 The Rationale and Scope of the Study**

Non-compliance, motivated by little consequence when regulations are contravened—such as SOEs not following supply chain laws and regulations when making decisions—have led to an increase in irregular expenditure and, ultimately, to regressed SOE-audit outcomes, including the deteriorating financial health of SOEs. The aforementioned has also resulted in an increased financial burden on government, via bailouts and guarantees required. These concerns directly impact the ability of SOEs to fulfil its mandates, agonising the South African economy and, consequently, the lived experiences of South African citizens (AGSA 2021:4). In considering these disquietudes, the study intended to investigate the disconnect in a governance framework struggling to prevent irregular SOE-expenditure and suggest a governance strategy that is proactive, rather than reactive. To this end, the study comprised an comprehensive review of the available literature as well as legislation in respect of procurement.

### **1.9 Limitations of the Study**

The following limitations are acknowledged:

- Interviewees were stakeholders that, themselves, could be beneficiaries of ill-conceived practices in the procurement environment, possibly resulting in biased responses; and

- Research concerned with the financial governance of an institution is delicate and subject to potential limitations. It may cause participants to believe that they are being investigated, resulting in a calculated, restricted divulgence of imperative information, that could affect the integrity of the findings and recommendations (Masekoameng 2016:13).

### **1.10 Ethical Considerations**

Ethical considerations affect and relate to the research process and assist researchers in deciding whether a specific study would be ethically acceptable. The conclusions arrived at—from such considerations—will determine whether the research receives moral support and approval from professionals, the scientific community and society (Behi & Nolan 2014:712). This study comprised IQA focus group discussions and interviews with employees of SOEs, as participants. The individuals identified to participate in the study remained anonymous and identities were not divulged to any other party, apart from the researcher. Moreover, the study applied for ethical clearance from the case institution's ethics committee as well as the University of South Africa's (UNISA) College Research Ethics Review Committee (refer to annexure A). Ethical considerations regarding the content analysis, focus groups discussions and interviews are covered in detail in the research methodology chapter.

### **1.11 Chapter Outline**

#### **Chapter 1: Introduction.**

The first chapter states the research problem, the objectives of the study, scope of the research and the importance of the study.

## **Chapter 2: Literature review – Irregular expenditure frameworks and mitigation strategies.**

The second chapter reviews the published theories and literature concerned with existing irregular expenditure frameworks, commencing with the international perspectives and research, and concluding with South African legislation, the National Treasury framework and South African research.

## **Chapter 3: Research methodology.**

The third chapter explores the study's research design and -methodology, and the reasons for the selection of the research methodologies applied to the study.

## **Chapter 4: Content analysis.**

The fourth chapter reports the content analysis of AGSA reports, utilising ATLAS.ti, in order to establish the types of irregular expenditure being incurred and its prominence.

## **Chapter 5: IQA focus group analysis and interpretation.**

The fifth chapter describes and illustrates data that was collected via focus group discussions. The IQA focus groups consisted of SOE-stakeholders involved with issues of irregular expenditure, such as CFOs, procurement personnel, internal auditors and the AGSA, to determine their perceptions regarding the reasons for transgressions related to each type of irregular expenditure, and the reasons for the escalation in irregular expenditure.

## **Chapter 6: Governance strategy.**

The sixth chapter discusses the findings of the literature review, content analysis and IQA focus groups, underpinned by relevant theories, and concludes the chapter with the draft strategy.

## **Chapter 7: Interviews to validate and enhance the strategy.**

The seventh chapter reports the process of the analysis and interpretation of the findings from the interviews, in order to enhance the proposed strategy.

### **Chapter 8: Conclusion and recommendations.**

The final chapter provides the study's summary and conclusion. It also comprises suggestions for future research.

### **1.12 Chapter Summary**

This chapter presented the background and introduction to the study. The research problem initiating the study was identified and the objectives were provided and linked to the research problem. The research methodology and design employed by the study were briefly explained, together with the data collection methods. The structure of the chapters was presented, and, on this premise, the thesis proceeds to the next chapter. Chapter 2 presents a review of the relevant literature.



## **Chapter 2: Literature Review – Irregular Expenditure Frameworks and Mitigation Strategies**

### **2.1 Introduction**

The first chapter discussed the background as well as the objectives of the study. In the second chapter, the literature on irregular expenditure frameworks and mitigation strategies is reviewed and explained in relation to theoretical framework. The research problem emanates from the proliferation of irregular expenditure, resulting from SOE-officials circumventing or ignoring rules and regulations. The problem persists despite the corporate governance processes and the implementation of initiatives by South African SOEs, in reaction to wrongdoing. Chapter 2 will explain a root cause analysis approach that supports a preventative mechanism in mitigating irregular expenditure risk, that will be central to the study in addressing the research problem. Chapter 2 will also review grey literature, and studies on existing irregular expenditure frameworks and its supporting theories, commencing with international perspectives and research, and concluding with South African legislation and the National Treasury framework. A literature review is a continuous process that can reveal methods of dealing with difficulties presented by a research problem, as well as assist in interpreting and making sense of research findings and assist the researcher in linking research results to that of other scholarly work (Leedy & Ormrod 2013).

### **2.2 Irregular Expenditure**

“SOEs” are defined as legal institutions that undertake commercial activities on behalf of the state, its owner. The legal status of these SOEs varies from being a part of a government department to being stock companies—with the state as a regular

stockholder. SOEs are described as critical mechanisms purposed to assist government to achieve economic growth and service delivery, as well as to reduce a country's tax burden (Fourie 2014:31). All South African SOEs are required to manifest sound financial management (RSA 1999), comprising a combination of practices and processes. Sound financial management may allow SOEs to ensure that limited resources, such as public funds and human resources, are managed appropriately, to attain value for money and to achieve objectives as set out by government. It is important for government to establish legislation, policies and prescripts that will manage scarce resources and prevent irregular expenditure (Ecorys 2013:19).

The term "irregular expenditure" is attached to the assumption – widely propagated by the media – that it always represents expenditure from which no value was derived, and the presence of criminality (Van Schalkwyk 2015:14). On the contrary, "irregular expenditure" does not always imply wasted money or fraudulent activity. It is a mere measure of an institution's ability to comply with appropriate legislation regarding expenditure and procurement management (De Lange 2014:20). A public sector that can demonstrate adherence to the laws and regulations of the country, will instil confidence in the ability of government to deliver services and manage public finances in accordance with the expectations of the citizens.

The AGSA, in an article published on 8 October 2018 (Khumalo 2018), indicated that irregular expenditure has reached an all-time-high in the public sector, lamenting poor financial controls. It has also been clear for a while that there is a conspicuous lack of consequence for all transgressions (Dzomira 2017). There appears to be no enforced consequences for non-compliance with legislation, creating the impression that transgressions are tolerated, as evidenced by limited investigations into allegations, resulting in no action against perpetrators (Mathebula 2016).

The South African government needs to sufficiently address the challenges that face its public sector, in order to negate impediments to economic growth and development. In 2019 the National Treasury (RSA 2019b) claimed that funding for distressed SOEs experiencing going concern issues, accounted for 82% of the R162 billion government assistance needed, in the preceding 12 years. The figures suggest that the South African government is not addressing a myriad of perpetuating financial management challenges experienced by SOEs (Fourie & Poggenpoel 2017:169). Fourie and Poggenpoel (2017:170) argued that studies have been conducted with the sole purpose of addressing public sector challenges (reactive approach), overly emphasising the symptoms rather than the underlying root causes. Essentially, every challenge has a root cause (Doggett 2005:34). When symptoms are focused on—rather than the root causes—problems persist, and remedial actions become pointless (Fourie & Poggenpoel 2017:172). Addressing the root causes averts the recurrence of problems (Wepener 2020; Bhattacharya 2014:12), which informed the preventative approach that is the focus of this study, in addressing the research problem.

One of the requirements of the Irregular Expenditure Framework of the National Treasury (RSA 2019a:11), is to establish the root cause of the irregular expenditure when investigating whether an expenditure is irregular. Slogrove (2019:22) is of the opinion that, most often, this requirement is only complied with for reporting purposes, without proper- or in-depth analysis. Management then pursues remedial action, without assessing whether the incident is an indicator or a root cause. Remedial action normally involves reinforcing internal controls or adding supplementary controls, resulting in additional expenses and additional steps in an already cumbersome procurement procedural environment.

Slogrove (2019:22) defined “root cause analysis” as a process that is utilised to establish the chief source of the problem, by identifying the root cause common to most or all the problems. Resources can then be applied where it will be most effective. One of the tools for root cause analysis is the “current reality tree” from Goldratt’s theory of constraints (Goldratt 1990). The current reality tree was designed by Eliyahu Goldratt as an instrument to analyse and address a structure, condition, or reality that is untenable to the “theory of constraints”-practitioner. Goldratt applied it to define an existing condition as a reality. The principle of the current reality tree, as described by Slogrove (2019:22), demonstrates the current reality utilising a sequence of cause-and-effect relationships. Without fully diagramming the as-is situation, the current reality tree emphasises problems that people experience, are agonised by, or must manage within the system. These are often the indicators of a chief, profound problem. The consequence of this thinking process is to excavate the root cause of the undesired effects on the system. Goldratt’s theory of constraints is an approach to recognising the most essential constriction to a system that is positioned in a manner of attaining an objective. It then trails thinking progressions to systematically enhance the restraints, until it is no longer the restrictive aspect. Slogrove (2019:23) conducted a study to address the causes of irregular expenditure. In that, they presented a step-by-step situation (described below) where an institution is experiencing high levels of irregular expenditure and have determined the established root causes for each of the transactions. It does not possess the means to respond to all the root causes, however, it endeavours to apply its limited resources where it will have the most significant effect. The root cause analysis is remarkably similar to the IQA method, in that the IQA method—with its exploratory identification of factors and relationships—shares many features with the root cause analysis. The IQA focus groups will be

discussed in detail in the methodology chapter. The following root cause analysis—steps are presented:

**Step 1: Determine the scope of the analysis.**

This analysis concentrates on the irregular expenditure and other issues encountered in the SCM process.

**Step 2: Identify undesirable effects.**

During interviews and discussions in Slogrove's (2019) study, an institution acknowledged the following list of undesired effects affecting the SCM process:

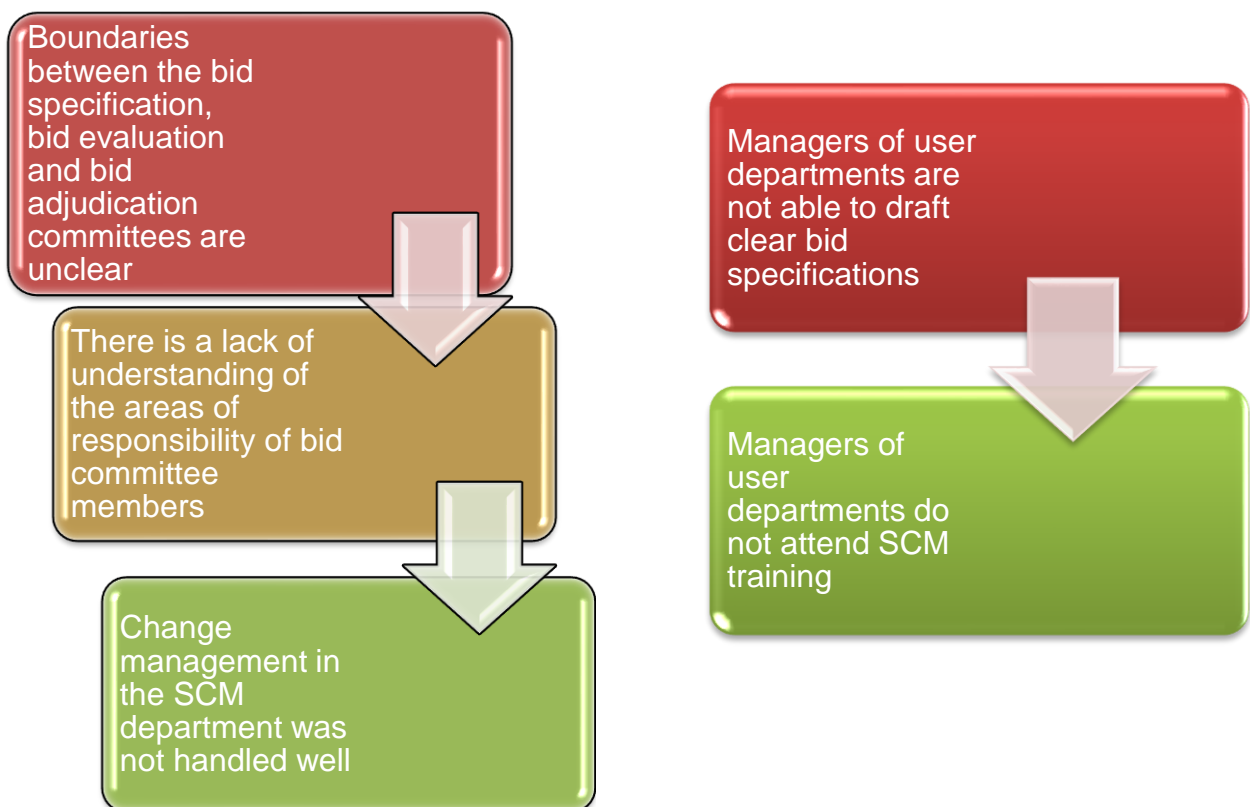
1. Meetings for bid committees are regularly postponed;
2. Lack of comprehension of the committee members' areas of responsibility;
3. Boundaries between the bid specification committee and the bid adjudication committee, are unclear;
4. Evaluation criteria do not assist employees in assessing whether bidders have the capacity and capability to deliver;
5. Managers of user departments are not capable of drafting clear bid specifications;
6. Pre-qualification criteria disqualify possible valid bidders;
7. Comments from the probity auditors are not addressed promptly;
8. The SCM department is firefighting to deal with requests that need to be addressed immediately;
9. Change management in the SCM department is not managed effectively;
10. The SCM department accepts no liability; and
11. Managers of user departments do not attend SCM training.

**Step 3: Find cause-and-effect relationships between at least two of the undesirable effects.**

This step represents the commencement point of the analysis. It is not required to prioritise the undesired effects. Any two of the undesired effects can be utilised, should the cause-and-effect relationship be present amongst them. Links between statements are assembled using “if...then”-statements and testing for sufficient cause.

**Step 4: Start constructing the current reality tree.**

The tree is assembled utilising the sufficient cause process via cause-and-effect logic. The tree is designed top-down, with indicators at the top, leading to causes, and ending with root causes at the bottom, illustrated by figure 2.1, below.



**Figure 2.1: Current reality tree**

(Slogrove 2019:23)

At this stage, several of the undesired effects are not linked to the tree. If there is no adequate cause, more statements can be connected, i.e., if A and B occur, then it is adequate to cause C. The representation for an “and”-connector is an ellipse. The usual sequence for adequate cause is presuming concerning causes of effects and presumptions concerning the effects of causes.

**Step 5: Add intermediary links if necessary.**

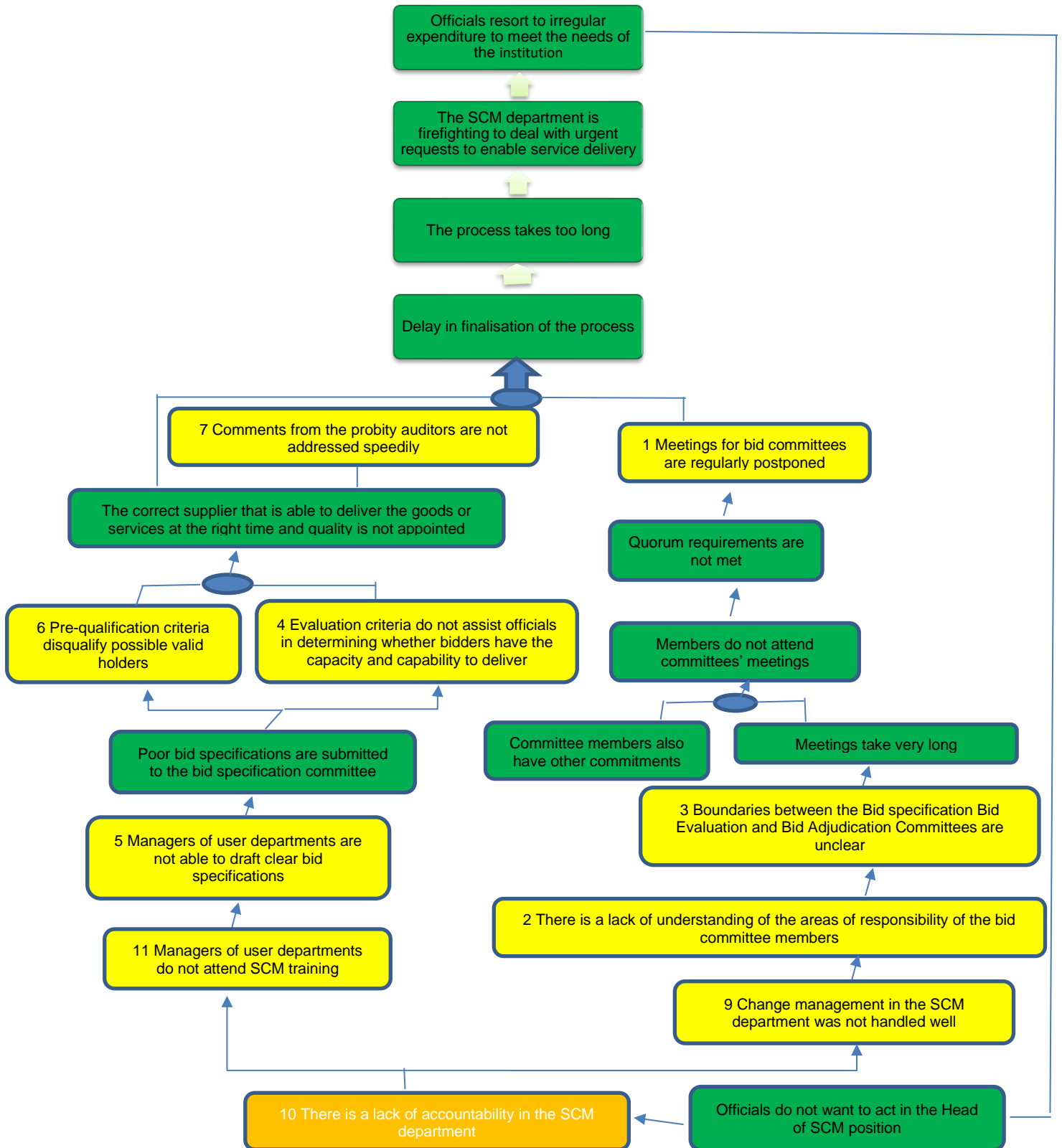
Every undesired effect does not necessarily link to another effect. Intermediary links are added to follow the cause-and-effect logic. In the diagram below, the original undesired effects are numbered, coloured in yellow, and intermediary links are coloured in green.

**Step 6: Review and revise for clarity and completeness.**

The current reality tree is reread and is revised, if necessary, to ensure that all the effects and intermediary links are added, in order to complete the cause-and-effect logic. Most frequently, an undesired effect of connection at a higher level in the system aggravates undesired effects at a lower level. This is known as the feedback loop or vicious circle. Note the feedback loop in the diagram below: (1) If employees resort to irregular expenditure to meet the needs of the institution, then the employees do not wish to act in the position of head of SCM; and (2) If employees do not wish to act in the position of head of SCM when the position is vacant, then there is a lack of accountability in the SCM department.

**Step 7: Identify the root cause.**

In the diagram below, the root cause is identified as a lack of accountability by personnel in the SCM department, as indicated by the orange undesired effect. The root cause should be at the base of the diagram. If the root cause is addressed, it will solve multiple problems that arise in the system.



**Figure 2.2: Current reality tree identifying connections between undesired effects (Slogrove 2019)**



Slogrove (2019:23) stated that the advantage of accurately constructing the current reality tree is that it recognises the linkages amongst the undesired effects, visually. Management can then concentrate its resources to address the root causes, that will result in the multiple undesired effects departing from the system. The presentation of Slogrove's current reality tree in figure 2.2 emphasises the importance of root cause analysis, whose primary function is to determine the main source of a problem. Without fully mapping the "as-is"-situation, the current reality tree addresses issues that people perceive, suffer from, or must cope with, in the system. These are often symptoms of a much deeper problem. The result of this thought process is to uncover the root cause of the undesired effects of the system. For example, an institution is experiencing high levels of irregular expenditure, has identified what it determined to be the root causes for each of the transactions and do not possess the resources to address all the root causes, however, it wishes to apply the resources where it will have the biggest effect. The consideration of the current reality tree presented, was applicable in establishing the types of irregular expenditure that are being incurred, as well as their prominence. Therefore, providing a guide to the study by identifying the prominence of irregular expenditure incurrence to be prioritised and addressed, causing the undesirable effects of irregular expenditure to be mitigated.

The absence of public financial management skills could be one of the reasons that contribute to irregular expenditure (John 2016:224). Lack of knowledge and human error contribute to non-compliance with regulations and policies. Non-compliance appears to be a constant issue, that is motivated by few consequences when regulations are contravened. If the challenges of SOEs are not addressed at its root causes, non-compliance may soon become the norm in the public sector environment and, possibly, become a part of its culture (Fourie & Poggenpoel 2017:174). Non-

compliance with regulations and policies was noted by the AGSA, that necessitated the call for stricter regulation seeking to afford the AGSA the mandate to deal more harshly with transgressors who fail to implement remedial action. The stricter regulation was made possible by the Public Audit Amendment Act 5 of 2018 (RSA 2018a), effective from 1 April 2019. The amendment encourages investigations, consequences, and accountability in the public sector, by providing the AGSA with the power to refer material irregularities (irregularity that leads to financial loss) for investigation, and issue certificates of debt to accounting officers who fail to take remedial action (RSA 2018b). However, these remedial actions that have been recommended with regard to irregular expenditure, are reactive in nature. Tandia (2016) suggested that relying solely on oversight interventions and affording disproportionate attention to enforcement actions and regulatory frameworks, will prove to be a misplaced priority in mitigating irregular expenditure risk.

## **2.3 Theoretical Framework**

The first chapter introduced the NPM theory, that forms the basis of the requirements of the PFMA (RSA 1999) regarding governance and the mitigation of irregular expenditure, as overarching theory for the practical perspective (governance and deterrence). The exploratory theories will follow an inductive approach from the findings of the focus groups, underpinning different aspects of human behaviour.

### **2.3.1 The new public management (NPM) theory**

The NPM theory originated in Hood's (1991) seminal paper titled "A public management for all seasons". The paper focused on the growth of a managerial approach, as opposed to an administrative approach, to public services delivery (Osborne, Radnor & Nasi 2013:137). NPM theory was considered a technique for

reinstating the effectiveness of government institutions (Kokko, Auvinen, Sajasalo & Takala 2018:5). The NPM theory, similar to public sector management (PSM) theory, is considered a strategic management approach intended at rationalising the public sector and its processes (Kokko et al 2018:7). Lane (2000) and Hood (1995) both argued that the NPM theory disassociated itself from historical administrative practices, unlike the PSM theory, that has carried some of its past administrative traditions into the 21<sup>st</sup> century.

Hood's (1991) paper successively headed essential discussions regarding the pertinence of the managerial approach, as opposed to the administrative approach to public service offerings, as well as concerning its effect upon its offerings. Osborne et al. (2013:137) declared the birth of the NPM theory a reaction to the three lines of critique of the traditional public administration premise of the "politics-administration dichotomy" (Svara 2008). The first of these questioned the presentation of the contradiction in practice (Pressman 1975; Vroom & Yetton 1973). The second offered a critique of public officials as predominantly selfish elite that prioritised their own needs over those of the citizens (Cole & Caputo 1984), and the third critique presented public administration as an inefficient and ineffective means by which to allocate public resources (Osborne & Gaebler 1993). In the United States of America (USA), an early endeavour in responding to such critiques was contained within the new public administration-movement (Frederickson 1976; La Porte 1971). The movement itself was critiqued to have been an unnecessary federal intrusion in local public services (Cupps 1977) and for failing to result in a significant increase in citizen engagement with the public policy process (Walters, Aydelotte & Miller 2000; Weber 1998). Subsequently, the new public administration-movement advocated for a more managerial- and market-focused framework for public service delivery, and for one

that did not modestly change the role of citizens and public administrators, but that sought to reorganise it completely.

The development of the NPM theory has arguably changed the operations of many SOEs, in an endeavour to improve efficiency and effectiveness. SOEs are now required to act in a transparent manner in its financial management, to ensure that all revenues, expenditures, assets, and liabilities are managed efficiently and effectively, and are required to offer assurance that public officials—who have been entrusted with financial management and matters associated with public resources—are accountable. Unfortunately, this transparency and accountability are not enforced sufficiently to ensure that undesirable expenditure, such as irregular expenditure, is limited, and such failure has, thus, necessitated this study, to investigate a governance strategy that will mitigate irregular expenditure risk.

### **2.3.2 Organisational governance theory**

“Irregular expenditure” has been defined, earlier, as expenditure that is in contravention of applicable legislation and that reflects on poor governance, owing to an increasing propensity by government officials to circumvent or ignore rules and regulations (disregard of any codes on governance). Despite the corporate governance processes and implementation initiatives by South African SOEs, that have been applied in reaction to wrongdoing, the application of these initiatives has not yielded the desired results (Mohale 2018). It is on this premise that this study invokes the “organisational governance theory” and establishes its weaknesses in current practice, in order to propose a strategy mitigating irregular expenditure risk.

Organisational governance theory refers to a process that assists institutions to achieve certain desirable goals. One outcome is that all institutions should enthusiastically embrace the principles (accountability, transparency, fairness and

responsibility) of organisational governance theory and recommended practices, in order to achieve these goals (Natesan & du Plessis 2019), emanating from influences of the main theories of governance, such as “agency theory”, as well as other theories, i.e., “stewardship theory”, “stakeholder theory”, “resource dependency theory” and “transaction cost economics theory” (Abid, Khan, Rafiq & Ahmed 2014:166).

Carver (2007:1030) opined that several global corporate governance codes, including the USA’s Sarbanes-Oxley Act, must be present to intensify transparency and reduce conflict of interest. However, nearly all codes, including the Sarbanes-Oxley Act, do nothing to address the nature of governance itself—neglecting to enhance governance, as it rather proposes to safeguard investors from poor governance.

Applying the organisational governance theory must commence with the stakeholders of the institution, as this theory is merely a meticulously structured leeway from the insinuations of agency theory (Borlea & Achim 2013:117). The commanding point of departure is the shareholders or general public in a public sector context. Customary practices have concealed the plainness of the chain of command at this rarefied stage of institution (Carver 2007:1032). A strong culture of command is necessitated to enable the desired effective governance of the future. It can be attained without interference and a clear voice of the shareholders or public, as political interference impacts the effectiveness of institutions and its control environment. The need for this culture and the development of a general theory of organisational governance in conjunction with the legal system (common law or civil law) along with consideration of other actors, will offer new perspectives on organisational governance (Abid et al 2014:166).

The challenge with the organisational governance theory is its effectiveness, as SOEs’ financial governance in South Africa is pitiable, with public officials perpetrating acts

of financial transgressions as they continue to incur irregular expenditures. The incurrence of irregular expenditure is perhaps attributed to the notion that corporate governance codes around the world fail to address the nature of governance itself. These codes do not enhance governance, as they safeguard investors from governance. The consideration of the organisational governance theory in this study highlights the disconnect that exists between current practice and what government has established, for SOEs to deal with transgressors. The highlighted disconnect necessitates a public finance management reform in the manner of proposing a governance strategy that will mitigate irregular expenditure risk, that will assist in the financial management within the public sector.

### **2.3.3 Deterrence theory**

The first chapter (refer to section 1.8) revealed that the AGSA expressed its concern regarding the financial future of SOEs in South Africa, maintaining that inadequate consequence management impacted poorly on its audit outcomes (AGSA 2018). Perhaps the inadequacy of consequence management by South African SOEs exists owing to the lack of deterrence principles instituted by the SOEs, and it is on this premise that the study proceeds to consider the “deterrence theory” and its components, towards proposing a governance strategy that will mitigate irregular expenditure risk.

Deterrence theory originated from the discipline of criminology in the early works of classical philosophers, such as Thomas Hobbes (Williams 2003), Cesare Beccaria (Beccaria 1764) and Jeremy Bentham (Bentham 1948). Collectively, these theorists opposed the legal policies that had controlled European thought for more than a thousand years, against the spiritualistic elucidations of crime on which it was founded (Bosworth 2005:234).

The deterrence theory proposes that the proponents of deterrence should make rational decisions regarding committing any criminal activities, based on trade-offs between inherent- and apparent costs. As such, when the gains are considered greater than the costs, individuals may choose to pursue crime. The deterrence theory asserts that individuals' transgressions can be dissuaded through the imposition, with a measure of surety, of severe and definite legal enforcements. It is the hypothesis that the more severe an act of punishment, the greater the likelihood of a rational individual choosing not to transgress. If a punishment is severe, transgressors will most likely evaluate the given situation and consider the benefits and losses, prior to participating in wrongdoing. Therefore, it may be presumed that rational individuals will be deterred from illegal acts, should the loss outweigh the benefits (Kuo, Talley, Hung & Chen 2017:2; Hobbes 2011:233).

Lee (2017:2) added that deterrence theory embraces the notion that criminal punishment is warranted, as punishment condenses or deters crime. As the fear of punishment is considered a major incentive in deterring crime, deterrence theories are often connected with the notion of severe, disproportionate punishment. This common appreciation of deterrence theory is subject to several criticisms, of which a significant critique proposes that hope of escape renders even the severest punishment incompetent. If this is true, then deterrence theories are inept and irrelevant. Lee's argument emphasises that the deterrence theories (deep deterrence theory) should rather appeal to a person's sense of honour and/or self-respect, as the sanction emanates from within, ensuring that a person may not commit a crime, even when they are certain that no external sanction will ensue. Contrasting to Lee's notion that the shallow (traditional) deterrence theory appeals to external sanctions only.

Farmer (2017:132) suggested that the ideal deterrence approach should be attributed to the Canadian justice system. The traditional system of Canadian criminal justice is state centred and purposed to punish, deter and/or rehabilitate, therefore, proactive to a greater extent than most other countries' justice systems, that tend to concentrate exceedingly on making amends after offending – in a bid to break the cycle of crime, that appears to be increasingly reactive. Farmer concurred with Lee, in that he also believed that there needs to be accountability to dissuade individuals or corporations from transgressing, in the first place.

Deterrence would be effective in a setting such as South Africa, with a high incidence of irregular expenditure transgressions. Monetary penalties aimed towards recouping the affected amounts would prove to be extremely effective in curbing the number of irregular expenditure transgressions, accompanied by the elements in Hong Kong's three-pronged attack on corruption (refer to section 2.4.1), i.e., investigation, prevention, and education (Hsieh 2017:5). Investigation, especially applied in conjunction with the deterrence theory, would be beneficial to any strategy aiming to curb irregular expenditure, particularly when attempting to understand the behaviour of individuals who transgress, in terms of what causes such transgression.

#### **2.3.4 Theories applicable to the study of human behaviour**

The first chapter (refer to section 1.2) indicated that this study adopted a proactive approach, in terms of achieving a greater comprehension of the human aspect that is associated with the will to circumvent rules and regulations, by reviewing applicable theories. This element is not contained within the South African Irregular Expenditure Management Framework. A gap in the discussion of the forces that contribute to the general behaviour of people in the workplace, in order to cause irregular expenditure transgressions, has been identified and may require further exploration. By



considering human behaviour, the study wishes to explore details within a relevant theory to consider when drafting a proposed governance strategy to mitigate irregular expenditure risk. The focus group findings—reported in chapter 5—determined which theories could be considered. Hence, the study first departed to explore the international perspectives and initiatives that were effective to curb corruption, and apply them in the context of the study, to evaluate mitigation of irregular expenditure risk.

#### **2.4 Lessons Learned from Anti-Corruption Initiatives**

A government is responsible for managing the state's resources, with a material effect on the quality of lives of its citizens. It is, therefore, useful to consider why some governments are more effective than others (Batzilis 2019:13). Perhaps the systems and mechanisms governments implement to manage expenditure, determine how effective such governments are. Public amenities and goods offer essential contributions to communities. Presently, governments fund these contributions through taxes, collected from communities. When this process is subjected to bureaucratic corruption, the efficiency of public expenditure declines (Del Monte & Papagni 2001:1). The state should develop monitoring-mechanisms of transactions and punish guilty officials with monetary penalties or recoup the amounts where malfeasance is found. Control mechanisms and systems that will deter corrupt individuals and attempt to maximise the efficiency of local public institutions in an endeavour to grow economies, should also be developed (Del Monte & Papagni 2001:1). Deterrence theory was introduced in section 2.3.3, as the study endeavours to incorporate various perspectives, in proposing a governance strategy that will mitigate irregular expenditure risk.

The international context focuses more on corruption, rather than irregular expenditure as a transgression. For the purpose of this study, methods to deter corruption will equate to methods to deter irregular expenditure. “Corruption” ascends when officials are given solitary supremacy to render consequential decisions without adequate oversight or accountability. When officials do not prioritise accountability for transgressions, irregular expenditure and corruption will continue. An environment possessed of poor consequence management is inclined to corruption and the country cannot consent to money—envisioned to serve the people—to be lost (AGSA 2018:119). The AGSA, in an article published on the 23 October 2019, indicated that irregular expenditure is a fertile ground for state resources to be diverted from what they had been intended or budgeted for (Mokone 2019). This diversion of resources is suggestive of corruption, i.e., public money spent without following prescribed legal processes, that often results in gross financial mismanagement and corruption. Educational training to address corruption and corrupt activities may be beneficial to facilitate solutions in dealing with irregular expenditure transgressions. The following sections concentrate on endeavours to combat corruption, that could be useful to this study.

#### **2.4.1 The Hong Kong Independent Commission against Corruption (ICAC)**

In the 1960s, Hong Kong was considered a culturally corrupt state. This corruption pervaded from routine low-level moral corruption amongst communities, to large-scale bribery at institutional level. Citizens of Hong Kong accepted the status quo, believing that corrupt police officials were a normal situation and that being incorruptible was an impossibility. In 1974, Hong Kong established the Independent Commission against Corruption (ICAC), committed to ethical governance, that began to restore the image of a corruption-free society (Hsieh 2017:5).

Presently, Hong Kong is considered the 15<sup>th</sup> “cleanest” state, out of 176 countries. Hong Kong’s success in upholding a corruption-free society is attributed to, inter alia, a series of measures, such as free press, a developed sense of public duty, the use of informants, and a higher compensation for civil servants. ICAC implemented an integrated three-pronged attack (TPA) on corruption, grounded in the strategic components of investigation, prevention, and education. These three anti-corruption offensives are replicated in the structure, that comprises three functional departments, namely the operations department, the corruption prevention department, and the community relations department. The operations department collects reports and investigates complaints, while the community relations department is charged with the responsibility of education, publicity, and the moral leadership roles of the Commission. The corruption prevention department is responsible for the prevention of corruption within institutions, by probing its internal processes and suggesting corruption-resistant management- and administration structures. This method has proved to be effective, as it has been implemented by the public sector and has provided an example of the principle, “prevention is better than cure” (Chan 2010:367). The ICAC, in support of the deterrence theory, depicts both mechanisms to be more proactive, as opposed to the NPM—and governance theories, that are rather reactive. Deterrence—being proactive—holds a strong premise of prevention and reduction of transgressions, offering perpetrators the option of considering the benefits and losses, prior to participating in wrongdoing. The NPM theory—being reactive—is more concerned with reinstating the effectiveness of government institutions when it is rendered ineffective. The organisational governance theory—also reactive—was instituted to address the crisis of uncontrolled financial management. The utilisation of

these ideologies would be more effective, were it to be employed with a more proactive approach in addressing the crisis of financial mismanagement in the public sector.

Manion (2004) argued that without the basic and independent design of the ICAC model, agencies might be less effective in its anti-corruption activities. South Korea, as an example, mirrored the TPA of the ICAC and established the Korean Independent Commission against Corruption (KICAC), situated in the national prosecutor's offices, that focused on receiving and probing public corruption cases. The KICAC were impeded by an over-complicated institutional structure, that produced poor performance outcomes. Choi (2009) practicalised equation modelling to test the institutional structural variances amongst the two countries and established that the structure of the KICAC did not possess the simplicity of the ICAC.

Hong Kong's model was critiqued in that it posed a high risk of upsetting the equilibrium and separation of government authorities, owing to its single-agency model (United States Agency for International Development 2006). The model does move all anti-corruption roles into a single agency, but positions several key capabilities, responsibilities and resources centrally, therefore, producing an authoritative centralised bureau, capable of leading a far-reaching effort against corruption via coordination and information sharing (Pope & Vogl 2000).

#### **2.4.2 South Africa's Anti-Corruption Institutions**

Corruption is considered an international phenomenon comprising different levels of deviance and greed, resulting in a wide variety of anti-corruption legislative measures and agencies, that have proven to be insufficient as mechanisms to decrease or stop this social- and economic malaise. As one of the greatest challenges faced by people throughout the world, corruption has detrimental effects on the relentless efforts

towards democratic stability, societal sustainability, and economic growth and development (Chetty & Pillay 2017:106).

Countries have reacted to corruption by founding anti-corruption institutions. South Africa has followed suit by establishing initiatives to combat corruption. Government's anti-corruption initiatives are coordinated by the Department of Public Service and Administration, and include agencies such as the Hawks, that were established to target organised crime, economic crime, and corruption (Clark 2012). The Prevention and Combating of Corrupt Activities Act 12 of 2004, was promulgated as one of government's initiatives to demonstrate the commitment of the country to combat corruption (Kututwa 2005:4). The Prevention and Combating of Corruption Act criminalises corruption in public and private sectors and collates specific offences, rendering it effortless for courts to use the legislation. Albeit the act denounces bribery, extortion, abuse of power and money laundering, and forces public officials to report corruption transgressions, it is still poorly implemented (Van Vuuren 2013). The challenge with the South African anti-corruption system, is that the institutions that were entrusted to combat corruption have been rendered ineffective, owing to capture and political factional appointments. Enforcement mechanisms remain weak for a number of these preventative measures, permitting corruption to rise (Naidoo 2013). Initiatives by the government also include the Public Protector, that plays a pivotal role in fighting corruption – as evidenced by the inquiry into the allegations of state capture in South Africa. The State of Capture report (Public Protector South Africa 2016), authored by the former Public Protector of South Africa, Thuli Madonsela, is a report that contains allegations of corruption, irregularities and personal enhancement, amongst members of an influential family and state officials. The report accounts the participation of the Gupta family in the employment and removal of ministers and

executives of SOEs, subsequent to the inappropriate and unethical award of state contracts and -benefits to the Gupta family's businesses. Current and former cabinet officials and other individuals testified that the Gupta family presented enticements and or positions, as trade-offs for certain enrichments. The former President, Jacob Zuma, and his family, were either present at or conducted the meetings (Wolf 2017:2). Zuma was eventually forced to resign as State President, owing to the investigations by the Public Protector's office, whose responsibilities include investigations of improper acts in respect of public monies. The Judicial Commission of Inquiry into State Capture, chaired by Chief Justice Raymond Zondo, made recommendations regarding the appointment of directors of SOEs, against political interference (RSA 2022). It was recommended that a statutory body be established, to vet prospective candidates for suitable qualifications and integrity. This statutory body must comprise a retired judge, the minister of finance or their nominee, a senior legal practitioner appointed by the Legal Practice Council, a senior representative of the business community and of the trade union community—both appointed by the National Economic Development and Labour Council (Nedlac), a registered auditor appointed by the chairperson of the Independent Regulatory Board for Auditors, and an industry expert appointed by the SOE Council, as well as a senior representative of an anti-corruption, non-profit institution. The Judicial Commission of Inquiry emphasised its recommendation that a Standing Appointment and Oversight Committee be established to ensure, via public hearings, that anyone nominated for a board position as CEO, CFO, or chief procurement officer of a SOE, meets the professional-, reputational- and eligibility requirements for such a position (RSA 2022). Another important recommendation by the Judicial Commission of Inquiry (RSA 2022) was the establishment, through legislation, of an independent agency against corruption in

public procurement, to initiate measures to safeguard procurement systems from corruption. The agency will issue guidelines for enhancing procurement practices, proscribe any practice that facilitate corruption, fraud or undue influence with regard to public procurement, and safeguard and incentivise whistle-blowers (Ensor 2022).

South African anti-corruption institutions are challenged with striking a balance between maintaining its independence and political interference. All of which hinders the effectiveness of these anti-corruption institutions. This is evidenced by the replacement of the previous Public Protector, Thuli Madonsela (whose term ended), with Busisiwe Mkhwebane, who is suspected of acting as a proxy for a faction of the governing African National Congress (ANC) party, that is aligned with former president Jacob Zuma (Winning 2019). The lesson to be learnt is that these institutions and public official appointments need to be kept independent, to render these institutions effective, otherwise they undermine legislative frameworks that have been instituted to provide reasonable assurance that state monies are safeguarded. Ensuring the independence of anti-corruption institutions would be essential in restoring the image of a corruption free society, such as in the case of Hong Kong's ICAC.

Mphendu and Holtzhausen (2016:235) suggested that there is a need to pause, reflect on and recommend sustainable solutions, when the consequences of corruption are threatening the developmental goals of South Africa. The departure point should be to take lessons from other low-income and middle-income countries, that have successfully managed to control its levels of corruption. Learning from such other countries also eliminates the criticism that equating South Africa to high-income countries does not afford a sensible comparison, as high-income countries are rich and politically stable with homogenous societies. Considering the ethics and anti-corruption best practice of other low-income and middle-income countries is crucial to

ensure that South Africa appropriately employ initiatives, to realise its vision of being an innovative, responsive and vibrant nerve centre facilitating people-centred governance. This notion resonates with the principles on which the NPM was founded, reinstating the effectiveness of government institutions that should not be subject to external forces, as proposed by the organisational governance theory. This will further assist to position South Africa as the leading economy on the continent, that is underpinned by sustainable economic development.

In contrast to the argument by Mphendu and Holtzhausen (2016), it is imperative that systems of low-income countries that have proven to be a success, such as the case of China's Hong Kong ICAC, should not be ignored. Hong Kong restored its image of a corruption free society by committing itself to ethical governance. It would be imperative and beneficial for South Africa to yield and take lessons from the preventative measures of the Hong Kong method.

In addition to Hong Kong's system, Mantzaris (2016:59) argued that in any attempt to reduce corruption, it would be imperative to consider the innovative leadership that would guide public institutions in shaping and adjusting strategies and tactics against corruption, at all operational levels. Innovative leadership's connection to creativity is directly associated, in multiple ways, to institutional encouragement that permits strategic tactical and institutional renewal, based on skilfully conceived plans that pervade the entire spectrum of the institution.

Gumede (2017) asserted that innovative leadership would be effective in an environment where corruption in business is taken seriously by leaders in business. The type of leaders – for a country that is battling to combat corruption – should be positioned in leadership roles via merit-based appointments, especially in the public sector, where politics can be impactful to reduce the patronage system of “jobs for



friends”, that nurtures corruption. Corrupt individuals in office and corrupt politicians should be prohibited from the employ of the public sector. Corrupt businesses and—individuals should be barred from conducting business with the public sector. Unpunished corruption of state leadership individuals results in self-replicating behaviour by ordinary citizens. Dominance of countries by corrupt leaders further nurtures the acceptance of corruption as tolerable and results in ineffective policies, as such leaders do not take policymaking seriously. Unfortunately, enforcement and compliance by the South African public sector have often been low, thereby rendering the system vulnerable to corruption. The recommendations by Chief Justice Raymond Zondo’s Judicial Commission of Inquiry into State Capture (RSA 2022) hope to establish a truly independent and transparent process, free from political manipulations, resulting in credible appointments by ministers—based on merit. The following section comprises a detailed discussion of irregular expenditure in the context of South Africa.

## **2.5 Combatting Irregular Expenditure in South Africa**

Irregular expenditure in South Africa was reported to have reached an all-time high in the public sector (Khumalo 2018). In addressing the rise of irregular expenditure, it is particularly important to implement enhanced corporate governance, control frameworks and financial management, as it positions the duty of the audit committees to act as an accountability instrument for government institutions. It is, therefore, imperative that accountable officials, National Treasury, and policy creators acknowledge the significance of effective audit committees as accountability mechanisms, and that its duties should be concentrated on strengthening these committees in monitoring its own effectiveness. Effective audit committees will, in turn,

add value towards enhancing accountability by the public sector (Van der Nest, Thornhill & De Jager 2008:545, 556-557).

The purpose of including the National Development Plan (NDP), discussed in section 2.5.1, is to determine whether there is a strong alignment in government's plan to reduce the rise of irregular expenditure. The inclusion of the State of the Nation Address (SONA), in section 2.5.2, is to determine whether government acknowledges its role in fighting the rise of irregular expenditure, in alignment to the objectives of the NDP. The inclusion of the AGSA report, in section 2.5.3, is to determine how much has been done to reduce the rise of irregular expenditure.

### **2.5.1 National Development Plan (NDP) 2030**

The NDP is founded on extensive research, consultation, and engagement. The plan is neither seamless nor concluded—it outlines well-founded suggestions to address the country's challenges, and to expand the engagement of South Africans in all occupations towards constructing the country's future. The purpose of the plan is to develop the capabilities of individuals and of the country, producing opportunities for all. Essentially, the NDP emphasises the imperative prerequisite to effect increasingly rapid progress in respect of numerous facades, to sustainably diminish poverty and inequality (Scott, Schaay, Schneider & Sanders 2017:82; RSA 2012:51).

To achieve the outcomes set out by the NDP, the oversight role of Parliament needs to be enhanced, political administrative interference stabilised, the public service professionalised, skills upgraded, and coordination improved. A more logical and proactive method to managing the intergovernmental mechanism, to guarantee an improved fit between responsibility and capacity, is required (RSA 2012:44). Achieving these outcomes will require decisive action, to ensure that effective governance is institutionalised by the public sector. Stringent measures need to be implemented, to

obliterate the rise of irregular expenditure, especially in the public sector, and could be achieved by proposing a governance strategy that will guide and improve the current irregular expenditure framework (AGSA 2019:10). The NDP identifies several weaknesses in accountability related to an inherent culture of not ensuring responsibility (RSA 2012:45). Owing to the prevalence of the weaknesses identified in accountability, the AGSA noted irregular expenditure of R82 million in the 2017/18 financial year-end for the Department of Social Development, in relation to non-compliance with SCM legislation in administering the social relief for distress grant (RSA 2020).

Society's ability to function fairly and efficiently, as well as the state's ability to deliver on its mandate, can be hindered by high levels of corruption. The high levels of malfeasance by government officials at executive levels, contribute to rendering the fight against corruption challenging. Corruption is sometimes perceived to be contributed to by the structure of the economy, that can be considered unjust—owing to historical inequalities and new forms of empowerment that have only benefited politically connected individuals. The NDP suggests that these underlying phenomena must be dealt with, in combating corruption. This includes an offensive on three fronts: deterrence, prevention, and education. Deterrence is informing individuals in understanding that they might get caught and punished (deterrence theory). Prevention is system based, including information and audits, to render it difficult to act corruptly (RSA 2012:46). Education focusses on changing human behaviour through information on the subject (theories on human behaviour). The offensive of investigation, prevention and education (with the exception of replacing deterrence with investigation), likened to the three-pronged attack on corruption by the Hong Kong's ICAC, has been shown to be successful in upholding a corruption-free society

and as such, has become central in aiding the direction this study wished to follow, in investigating the lack of regulatory and policy compliance that resulted in SOEs incurring irregular expenditure, and in order to propose a governance strategy that mitigates irregular expenditure risk.

## **2.5.2 State of the Nation Address (SONA)**

The SONA (RSA 2019c) is an event that is hosted during a joint sitting of both houses, by the speaker of the National Assembly and the Chairperson of the National Council of Provinces. The three spheres of Parliament, namely the Legislature, the Executive and the Judiciary, attend this function. The SONA is crucial to all residents of South Africa, as it highlights government's programmes and plans for the upcoming year (RSA 2019c).

Emphasising the government programmes for 2019, President Cyril Ramaphosa, in their 2019-SONA, acknowledged that insufficient progress had been made in achieving the NDP targets. He stated that the vision for 2030 would not be realistic, unless drastic measures were executed. The President suggested the following agenda for the current administration in aligning to the NDP: (1) That SOEs should be enhanced to safeguard the state's ability to successfully qualify economic and social development (RSA 2019c:17); (2) Government needs to create alignment between all SOEs through the presidential council, in order to ensure that its respective mandates are clearly defined; (3) Government needs to commit its efforts to solidify an ethical State in which there is no corruption, patronage, rent-seeking and plundering of money; (4) The government wants a force of highly skilled professional public officials possessing high moral standards and dedicated to improving the public sector; and (5) Government has taken definite measures to fight corruption and end state capture – these measures include strengthening the National Prosecuting Authority (NPA), the

Special Investigating Unit (SIU), the South African Revenue Service (SARS) and State Security, in ensuring that they are achieving important results.

The President noted that the high level of work that needed to be done included: (1) Increasing the mandate of the NPA to ensure effective asset forfeiture; (2) Ensuring that purloined public monies are repaid and applied to provide services and basic infrastructure to the poorest communities; and (3) The new SIU Special Tribunal, that was to commence its added responsibility by fast-tracking civil claims emanating from SIU investigations—at the time, projected to be around R14.7 billion.

The NDP sets the agenda according to which important measures need to be considered and acted upon, to ensure alignment of endeavours to render South Africa an incorruptible and safe environment for international investors to participate in. It is the responsibility of government to continuously oversee the NDP, to ensure that progression is maintained. The President's agenda is to be commended, especially where he wishes to commit government's efforts to solidify an ethical state devoid of corruption, patronage, rent-seeking and plundering of money, as well as aspiring to ensure that highly skilled professional public officials possessing high moral standards and dedicated to improving the public sector, are the sort of leaders that should be present in state institutions—which is also central to Gumede's aforementioned argument regarding innovative leaders. The two agenda points, highlighted above, are also beneficial in informing the governance strategy that the study wishes to propose, that mitigates irregular expenditure risk considering the aspect (refer to section 2.3.4) of attempting to understand the behaviour of individuals particularly linked to the study's aim of investigating the lack of regulatory—and policy compliance that result in SOEs incurring irregular expenditure.

### **2.5.3 The Auditor-General's reports on irregular expenditure**

The Auditor-General, the late Kimi Makwetu, released the 2017-18 AGSA reports and reported a regressing trend in the audit outcomes of government departments and its institutions. Identifying those charged with governance who have been sluggish to action or completely discounting audit recommendations made by the AGSA, qualified the report on irregular expenditure. The AGSA's office, for years, has presented the root causes for audit findings, and recommendations to cure those underlying causes (AGSA 2018). More so, the AGSA has regularly highlighted a lack of decisiveness by leadership to address the deficit in accountability, by promoting consequences against those who ignore basic processes that hinder effective governance. Because of this deficiency, there has been restricted progress in accountability for government expenditure, and the risks that the AGSA has been lamenting for several years has started to materialise.

Although the AGSA has indicated that the financial status of SOEs has improved marginally, most of the SOEs, whose audits were not finalised, are facing going concern challenges and the financial position is poor. Some of the key findings of the AGSA's report revealed that irregular expenditure continuously regressed, from the 2014-15 financial years (AGSA 2018:4), attributed to weaknesses in the performance reporting processes and an increase in non-compliance by 16 SOEs audited by the AGSA, of which 88% had material findings. Irregular expenditure continued to remain a high figure and increased from R51 billion in the 2017/18 financial year to R62.60 billion in the 2018/19 financial year.

Table 2.1 presents SOEs that are independent institutions, partly or completely owned by the state, established to attain the socio-economic objectives of government,

anticipated to accomplish a dual profitability- and developmental mandate and to be accountable in achieving those mandates.

**Table 2.1: SOEs audited by the AGSA for the 2017/18 financial year**

| <b>SOEs Audited by the AGSA</b> |   |
|---------------------------------|---|
| <b>1</b>                        | Airports Company of South Africa  |
| <b>2</b>                        | Independent Development Trust (IDT)   |
| <b>3</b>                        | South African Post Office and its Subsidiary Courier and Freight Group  |
| <b>4</b>                        | Land and Agricultural Development Bank of South Africa and its subsidiaries Land Bank Life Insurance and Land Bank Insurance  |
| <b>5</b>                        | Armaments Corporation of South Africa   |
| <b>6</b>                        | South African Broadcasting Corporation (SABC)   |
| <b>7</b>                        | Central Energy Fund and its Subsidiaries Petroleum Oil and Gas Corporation, PetroSA Ghana, SA Agency for Promotion of Petroleum Exploration and Exploitation, and Strategic Fuel Fund Association |
| <b>8</b>                        | South African Nuclear Energy Corporation and its subsidiaries Gammatec NDT Supplies, NTP Radioisotopes and Pelchem  |
| <b>9</b>                        | South African Express   |
| <b>10</b>                       | South African Forestry Company (SAFC) and its subsidiary Komatiland Forests (KF)  |
| <b>11</b>                       | South African Airways and its subsidiaries Air Chefs, Mango Airlines and SAA Technical  |
| <b>12</b>                       | Denel and its subsidiaries  |
| <b>13</b>                       | Development Bank of Southern Africa   |
| <b>14</b>                       | Industrial Development Corporation of South Africa  |
| <b>15</b>                       | Air Traffic and Navigation Service  |
| <b>Significant risk SOEs</b>    |   |
| <b>16</b>                       | Transnet and its subsidiaries   |
| <b>17</b>                       | Eskom and its subsidiaries  |
| <b>18</b>                       | Trans-Caledon Tunnel Authority  |
| <b>19</b>                       | Alexkor   |
| <b>20</b>                       | Broadband Infraco   |

(AGSA 2018:106)

The accountability for government expenditure by SOEs received a substantial amount of attention from the executive, oversight structures and the public, during the period of investigating state capture allegations, and the well-publicised financial and governance failures of several SOEs—resulting in government funds and guarantees being utilised to sustain it. In response, the AGSA increased the number of SOEs audited, and deepened its understanding and insights of the challenges that SOEs are experiencing and its impact. The significant risk-SOEs are audited by private audit firms, in accordance with the directives of the AGSA. The boards of the SOEs appoint

the audit firms, who also continue to maintain close relationships with the AGSA. The categorisation of the significant risk-SOEs is based on its significance to the economy and the level of governance- and financial management risks recognised at these SOEs. The Trans-Caledon Tunnel Authority (TCTA), Alexkor, Broadband Infracore, Eskom and Transnet, had material findings in respect of compliance with legislation. The most common areas of non-compliance were the prevention of irregular expenditure and the management of procurement. Table 2.2 depicts the qualification areas on audited financial statements of the IDT, SABC, SAFC and its subsidiary, Komatiland Forests.

**Table 2.2: Qualification areas in audited financial statements (AFS)**

| Auditee | Irregular Expenditure | Other Current Assets | Other Liabilities | Accounting policies, changes in estimates and errors | Contingent Liabilities and Commitments | Other disclosures | Property, infrastructure, and plant, and equipment | Cash flow statement | Financial instruments | Going concern | Revenue and receivables | Capital and reserves | Taxes and Vat |
|---------|-----------------------|----------------------|-------------------|--|--|-------------------|--|---------------------|-----------------------|---------------|-------------------------|----------------------|---------------|
| IDT     |                       |                      |                   |  |  |                   |  |                     |                       |               |                         |                      |               |
| SABC    |                       |                      |                   |  |  |                   |  |                     |                       |               |                         |                      |               |
| SAFC    |                       |                      |                   |  |  |                   |  |                     |                       |               |                         |                      |               |
| KF      |                       |                      |                   |  |  |                   |  |                     |                       |               |                         |                      |               |

(AGSA 2018:106)

The IDT received a disclaimed opinion for four consecutive financial years. The unfortunate state of the accounting records and the non-submission of information, ensued in the AGSA inability to confirm whether the amounts revealed in respect of the programme reserves, assets and liabilities, were accurate. The SABC received an adverse audit opinion in 2016-17, and a disclaimed opinion in 2017-18. The AGSA could not confirm whether various financial statement items (including assets and irregular expenditure) were disclosed at the precise value, as most of the problems



identified in the 2016-17 year were not adjusted, or the AGSA could not obtain adequate and suitable evidence to support the adjustments alleged. The financial statements of the SAFC and its subsidiary, Komatiland Forests, were materially misstated in several areas, in the 2016-17 year—it was only the irregular expenditure disclosures that were incomplete. These three auditees were qualified on the completeness of the irregular expenditure disclosed. The inadequate disclosure of irregular expenditure is a contravention of the prescripts of the PFMA (RSA 1999), founded on the principles of NPM theory, where it requires the fair presentation of annual financial reports to disclose any irregular expenditure that occurred during the financial year. The incompleteness of irregular expenditure, furthermore, undermines the core elements of the organisational governance theory, such as transparency and accountability.

The AGSA concluded that the restricted progress concerning audit outcomes and governance in general, over the years, indicates that accountability mechanisms are not working as it should. This has resulted in the call for more action to be taken by the AGSA, to possess more authority to ensure accountability of state funds. The amendment of the Public Audit Act, that has been passed through the support of the parliamentary oversight committee, permits the AGSA to become involved in cases where those who are charged with responsibilities are not fulfilling their responsibilities, despite the AGSA alerting the leadership to material irregularities that need to be investigated and dealt with.

## **2.6 National Treasury Frameworks**

The National Treasury is the custodian, directing macroeconomic policy and endorsing the national fiscal policy framework. Its position is described by the Constitution of the Republic of South Africa, 1996 (hereinafter referred to as “the Constitution” [RSA 1996]) and in the PFMA (RSA 1999). The National Treasury organises intergovernmental financial relations, manages the vote preparation process, and maintains responsibility for the enactment of the annual vote—comprising any adjustment votes. The National Treasury also implements duties allocated to it by other legislation (RSA 2017b:1).

The Exchequer and Audit Act 66 of 1975 (RSA 1975) was the regulatory tool employed by the government, prior to 1994. It was a prescription of guidelines, and structures of expenditure and approval, that were centrally based (Dlomo 2017:34). The purpose of this Act (RSA 1975) was to provide for the control of the collection, receipt, custody and issue of state monies, and the receipt, custody, and control of other state property. It also regulated the raising and repayment of loans by the state, the granting of certain loans by the State Revenue Fund, and the terms and conditions concerning the repayment of such loans. The Act prescribed the duties and powers of the Treasury, as well as the granting of guarantees to the South African Reserve Bank (RSA 1975). A more contemporary financial management tool for the public sector was introduced in 1996, as a drastic departure from the previous political dispensation and laws that propagated injustices—the Constitution (RSA 1996). The Constitution places the responsibility of improving the lives of the ordinary citizens of South Africa on the government of the day and its policies, and charges all the spheres of government with the responsibility of promoting transparency, accountability, and effective and efficient management of state monies (RSA 1996). It was in this context and that of

the principles of the NPM theory, that the PFMA (RSA 1999) was enacted, to prescribe control mechanisms, Generally Recognised Accounting Practices (GRAP), homogeneous categorisation, and norms and standards for managers at all government levels to be able to comprehend how to utilise resources optimally and efficiently (Dlomo 2017:34).

### **2.6.1 The Public Finance Management Act 1 of 1999 (PFMA)**

The PFMA (RSA 1999) was a necessary statute that emanated from a rule-oriented financial administration, where processes were directed by set guidelines, that permitted little scope for managerial discretion. It was necessitated by the premise that accounting officers (heads of government departments) were passive and did not practice sound financial management. The pre-PFMA focus was input-based, rather than output-based. To modernise and address the developmental challenges, post-1994 the public sector was required to adjust its approach to service delivery and improve value-for-money, to maximise service delivery and to satisfy constitutional obligations to prevent maladministration, financial mismanagement, corruption and fraud, that compromise service delivery at the expense of transparency and accountability (Serfontein & De Waal 2015).

The PFMA (RSA 1999) was designed with good intentions, to regulate the way in which state institutions should conduct its operations. The PFMA (RSA 1999) does not directly address mechanisms in dealing with irregular expenditure, instead containing broad statements concerning the internal controls that state institutions should adopt in its operation of businesses. Regardless of this stance, state institutions should adhere to and maintain the financial management regulations (RSA 2001) issued in terms of the PFMA (RSA 1999). It is not necessarily fair to blame the institutions for wrongdoing, as there are always individuals who are willing to circumvent rules and

transgress. Hence, the study's purpose is deemed necessary, focussing on investigating the lack of regulatory- and policy compliance that leads to SOEs incurring irregular expenditure, and proposing a governance strategy that mitigates irregular expenditure risk.

### **2.6.2 King IV Report on corporate governance for South Africa**

“Corporate governance”, as defined by the King IV report (IoDSA 2016), refers to the exercise of ethical and effective leadership by the governing body, towards the achievement of ethical culture, good performance, ethical control and legitimacy, as governance outcomes. The term “corporate”, in corporate governance, is utilised to differentiate from other forms of governance, for example, national- or political governance. “Corporate” denotes institutions that are integrated to form legitimate institutions, distinct from its initiators and, therefore, is applicable to all forms of integration – whether as company, voluntary association, retirement fund, trust, enacted institution, or others (IoDSA 2016:11).

King IV (IoDSA 2016:22) describes its objectives as (1) the enhancement of corporate governance as a key aspect to operating an institution and achieving governance output, such as an ethical culture, good performance, effective control and legitimacy; (2) expanding the acceptance of the King IV, by ensuring that it is accessible and fit for execution across a variety of sectors and institutional types; (3) reinforcing corporate governance as a holistic and interrelated set of arrangements to be understood and implemented in an integrated manner; (4) promoting clear and meaningful reporting to stakeholders; and (5) presenting corporate governance as concerned with not only structure and process, but also with an ethical consciousness and conduct.

Institutions are compelled to contain governing bodies within its structures. The governing body's primary governance role and responsibilities should contain the following directives in its business cycles:

- **Steers and sets strategic direction** concerning (1) the institution's strategy and (2) the way governance areas are to be approached, addressed, and conducted;
- **Approves policy and planning** that give effect to the strategy and the set direction;
- **Ensures accountability** for institutional performance by means of, amongst others, reporting and disclosure;
- **Oversees and monitors** implementation and execution by management.

The governing body's principal governance position and duties, as pronounced above, are replicated and incorporated as the structural premise for the recommended practices under each of the governance areas (for example, ethics, risk, compliance, remuneration and stakeholder relationships) covered by the code. Thus, the practices are organised in accordance with the following series of responsibilities: The governing body assumes responsibility for providing the direction in respect of how each governance area should be approached, addressed, and conducted; this is followed by the formulation of policy in the form of frameworks, standards and plans by management, to be approved by the governing body; the governing body oversees and monitors implementation and execution by management; and, finally, ensures that there is responsibility for the performance in respect of each of these governance areas via reporting and disclosure (IoDSA 2016:21).

By organising the recommended practices in accordance with the governance and responsibilities as explained above, King IV provides governing bodies with a model for the way in which any area that is subject to its governance should be approached.

Although King IV does not represent a significant departure from the philosophical underpinning of King III, concepts have developed and been refined in attempting to combat the uncontrolled financial mismanagement of SOEs, particularly towards mitigating undesirable expenditure, such as irregular expenditure.

### **2.6.3 Irregular Expenditure Management Framework**

The National Treasury Instruction No.1 of 2018/2019 (RSA 2019a) introduced principles of irregular expenditure for utilisation by government institutions such as departments, trading institutions, constitutional institutions and public institutions listed in schedules 2 and 3 to the PFMA (RSA 1999). It also provides legal weight to the Irregular Expenditure Framework that provides for the application, interpretation and implementation of principles associated with irregular expenditure (RSA 2019a). The Treasury Instruction came into effect on 1 December 2018, purposed to provide procedures to be considered by accounting officers and accounting authorities when dealing with irregular expenditure, via the Irregular Expenditure Framework.

The first chapter of the Irregular Expenditure Framework offers the definitions applied by the framework. Chapter 2 provides the purpose of the framework and identifies the institutions it applies to. Chapter 3 offers the comprehensive definition of irregular expenditure and how irregular expenditure should be classified, whereby the contravention of any applicable legislation must relate to the incurrence of a financial transaction by any of the institutions that it applies to. Chapter 4 addresses compliance with the provisions of any applicable legislation, assessing legislative frameworks to determine irregularities in transactions processed. Chapter 5 suggests processes for the recovery, condonation, or removal of irregular expenditure. Chapter 6 presents processes to be followed when irregular expenditure is discovered and how it should be reported. Chapter 7 indicates the way to record irregular expenditure in the

checklist and lead schedule. Chapter 8 depicts the process flow to be followed when dealing with irregular expenditure. Chapter 9 revokes the National Treasury Practice Note No.4 of 2008/2009, dated 24 April 2008.

There are weaknesses identified in the Irregular Expenditure Framework and previous guidelines, as stated in the first chapter of this study. The Irregular Expenditure Framework and previous guidelines focus on the processes of managing irregular expenditure, and not on how to prevent it. There are no measures or strategies provided to prevent irregular expenditure. A disconnect exists between current practice and what government has put in place (consequence management) to deal with transgressors. National Treasury should invest its efforts in conducting studies to discern why officials are transgressing, disregarding, or circumventing legislation, to develop a framework that will be inclusive of prevention strategies, to enhance accountability of and efficiency in the public sector. Perhaps the National Treasury should also draw inference from the preventative measures of the Hong Kong method, whose success was attributed to its TPA on corruption, grounded in the strategic components of investigation, prevention, and education. This objective has proved to be effective, as it has been implemented within the public arena.

Accountability and efficiency, therefore, depend on strengthening managerial and administrative capacity in government (Black, Calitz & Steenkamp 2003:315). Government needs to avoid irregular expenditure, as it hinders service delivery (John 2016:184). This can be achieved by strengthening and continuously monitoring the existing appraisal systems, such as the Irregular Expenditure Framework, the Preferential Procurement Policy Framework Act 5 of 2000 ([PPPFA] RSA 2000) and the Broad-Based Black Economic Empowerment Act (BBBEE), to avoid irregular expenditure patterns in government institutions (John 2016:223).

## **2.7 The Gaps Identified in the Legislative Frameworks**

### **2.7.1 Economic growth and development**

According to the World Bank (2018:24), South Africa is one of the most unequal countries in the world. Evaluated by income or consumption, the Gini coefficient—measuring the distance to perfect equality, ranging from zero (all citizens enjoying the same level of resources) to 100 (all resources held by one individual)—is higher in South Africa than in all other countries for which similar data exists, and by a noteworthy margin.

A high level of inequality replicates the weak ability of many South Africans to contribute to skill-intensive economic development. Inequalities stem from contestation and policy uncertainty, discouraging the investments and financial resources required to transform and expand productive capacities, and to address historical injustice through targeted public interventions. Inequalities remain extremely high, however, its nature is shifting. Inequalities are expanding between the poor and small developing middle class, whilst lessening between the middle class and rich households. The World Bank (2018:26) is of the view that, in recent times, inequalities are driven by education and labour status—conditions that may be improved by policies and public interventions. Development in decreasing inequalities since the 2000s, notably in access to education, is gradually leading to more skilled workers emerging from the poorest of circumstances. This tendency needs to be cultivated and amplified, benefiting from renewed confidence in South Africa as governance issues are addressed and contributing to a strengthened global outlook.

The exploration by the World Bank proposes that discerning, prevalent attempts to intensify domestic opposition and advance the poor's access to tertiary education,



would assist South Africa to eradicate extreme poverty and greatly decrease inequalities, by 2030. In turn, this would reinforce the social contract amongst the country's people, that would improve investor confidence in South Africa's future. Addressing inequalities implies that SOEs could appoint properly qualified officials who would have had access to an education system. This removes societal influences (the expectations of family and/or important people, regarding the behaviour) and the will to circumvent rules and regulations that contribute to risk behaviour that prompts individuals to participate in wrongdoing (refer to section 6.2.2).

### **2.7.2 Circumventing rules to facilitate a required result**

Occasionally, compliance is simply disregarded on the premise that delivering of milestones might be essential, thus, circumventing rules to facilitate the required result. Strict legislation concerning procurement may impede the response-time, as many rules must be followed. Such legislation may also stifle initiative and innovative ideas, preventing development—that may require the provision of urgent procurement—and immediately misaligning budget plans, possibly causing irregular expenditure.

Mrs Monama, group manager at Strategic Procurement Services, declared—during a personal interview on 27 September 2019—that government institutions should be granted certain exceptions and exemptions with regard to issues concerning procurement, and this may indicate the gap between current practice and the reason institutions are not complying with prescriptions.

### **2.7.3 The human aspect associated with the will to circumvent rules and regulations**

Luby (2005) declared that there is a definite correlation between responsibility, authority, and influence. Without a clear comprehension of this correlation, functional

management with clear lines of reporting and communication becomes ineffective and a distinct improbability.

### **Responsibility and influence.**

#### ***Responsibility.***

Kaplan Financial Limited (2019:102), Lambert (2017) and Luby (2005), suggested that “responsibility” encompasses the requirement of a person—who holds a specific title in the institution—to execute certain responsibilities and tasks or render certain decisions. Responsibility generally denotes the right to hold subordinates liable for personal performance and attainment of the goals suggested by the institution’s plans. It is required to utilise power to enforce duties. It is imperative that the scope of responsibility should correspond to the scope of the authority given. All managers should possess equal responsibility and the authority appropriate to their role. If these are not in equilibrium, it can cause serious difficulties. Responsibility can be characterised as follows:

*Responsibility without authority.* This may transpire when a manager responsible for, for instance, punctuality, does not possess the required authority to discipline subordinates who regularly arrive late. The manager is irritated and discouraged, as they lack the power and authority required to meet the targets, they are responsible for (Kaplan Financial Limited 2019:102).

*Authority without responsibility.* This may transpire, for instance, where a Human Resources department is possessed of the authority to recruit new staff members, but are not held responsible for the quality of the employees that they have recruited. Managers who are not made accountable for their

decisions and actions may act recklessly, as they do not presume to undergo any negative consequences (Kaplan Financial Limited 2019:102).

### ***Influence.***

Kaplan Financial Limited (2019:274) described “influence” as the ability to change an individual’s attitudes, opinions, or behaviours. Influence can be administered directly or indirectly. Cialdini’s writings on influence, “The psychology of persuasion”, offered six principles of influence that can be utilised whenever the requirement arises to influence others (Cialdini 1984). Amongst the six principles, one is fundamental to this study, and that is “reciprocation”. Cialdini (1984) suggested that the rule of reciprocation considers that human nature can cause individuals to feel obligated to return favours, therefore, individuals might be influenced towards non-ethical conduct in the sense that, if someone has done something for you, they might require the repayment of that favour. A broadly pooled and intensely held sensation of prospect compulsion made a vast difference in human social evolution, as it suggested that an individual could offer something (for example, money) to another individual, confident that it would be recouped and referring to a variety of resources, without giving it away. The consequence was the sinking of the natural reticence, contrary to transactions that must be commenced by an individual offering personal resource to another. Refined and synchronized processes of aid, gift giving, defence and trade, became probable, conveying enormous value to the cultures that controlled it, as there was a common revulsion for those who took and made no effort to give in return. The power of reciprocity can be associated to the procurement industry, as well.

### **Individual accountability.**

One of the most crucial elements that allow transgressions by South African SOEs, is the lack of individual accountability. This is the absence of bringing forward and

bringing to account individuals who have transgressed against what is institutionalised as ethics or norms, within institutions.

Laal, Geranpaye and Daemi (2013:286) suggested that individual responsibility, as a fundamental component in association with society, is critical to avert and lessen the prospect of free riders or social loafing. Individual responsibility transpires when the presentation of everyone is evaluated, and the results are reported back to the group and the individual, to identify those who require additional support and support learning.

Lenk (2022:22) defined “individual responsibility” as implied or obvious anticipation that one may be required to justify one’s belief, feelings, and actions, to others. According to the definition, an appraisal need not transpire by the presence of an appraisal system, but the possibility of an appraisal to transpire must be existent. Therefore, this method of expressing individual responsibility imitates the psychological state relating to the way persons appreciate responsibility requirements and the environment in the macro-micro accountability framework (Han & Demircioglu 2016:2). Responsibility in the public domain through public agencies enhances the sustainability of public funds through direct or indirect cooperation for good economic governance (Bostan, Tudose, Clipa, Chersan & Clipa 2021:1). The public agencies should determine various responsibility instruments, to react to expectations by legal institutions, citizens, top executives or institutional members. Therefore, diverse formal instruments to render public agencies responsible, for example, performance evaluation or a performance-informed budgeting system, could be appreciated as one of the diverse responsibilities (Han & Demircioglu 2016:2).

#### **2.7.4 Lack of consequence management**

The AGSA has lamented the lack of consequence management that has been identified as one of the under-emphasised causes of irregular expenditure. There are lessons to be learned from the judgement handed down by the Western Cape High Court, that held a former municipal manager criminally liable for offences relating to irregular expenditure (*Pietersen v S* (A309/2017) [2019] ZAWCHC 93). The Western Cape Division of the High Court executed a judgement of two years' incarceration on a former municipal manager of the Oudtshoorn municipality. The case raised concerns regarding the sternness of the consequence that municipal managers—acting in good faith and in what they understood to be the best interest of the municipality—may face, for failing to avert irregular expenditure.

The relevant aspects of the case can be summarised as follows:

- At the time of the transgression, several municipal officials were suspended owing to misconduct, revealed by investigations. Considering the circumstances, the municipal manager at the time, Martin Noel Pietersen, acted upon instruction by the speaker, the mayor, and several senior council members, to halt the ongoing investigation and hire a consultant—who would continue the investigations independently, devoid of any political motivations.
- Mr Pietersen, as instructed by the speaker and the mayor—who were political office bearers—then appointed a service provider as the consultant. This appointment was executed by the municipal manager in contravention of regulation 36 of the Municipal SCM Regulations, 2005 (Regulations) and s36 of the Municipality's SCM policy. The reason provided for the appointment—by way of circumventing, as opposed to the aforementioned procurement procedure—was that the specialised services of the service provider were urgently needed to

resolve the dysfunction of council and to bring political and administrative stability to the municipality prior to the next election. The instance of Mr Pietersen's ethical conduct being challenged when faced with an instruction by superiors, concurs with what the proponents of the deterrence theory advocate, in that transgressors make rational decisions towards committing criminal activities based on trade-offs between inherent and apparent costs. The events evidence the inefficiency of the deterrence theory, where prevention strategy should rather be orientated to appeal to a person's sense of honour and/or self-respect, as the sanction then emanates from within, disallowing their commission of a crime, even when they are convinced that no external sanction will ensue. It is to accommodate scenarios such as this that human behaviour principles should be considered, especially to facilitate the appointment of individuals who are ethically sound.

Mr Pietersen was found guilty by the High Court, of two of the five counts levelled against them, namely of purposefully contravening the requirements of s 62(1)(f), read with s 173(1)(a)(i) of the Municipal Finance Management Act 56 of 2003 ([MFMA] RSA 2003a)—that inter alia require a municipality to implement a SCM policy—and of deliberately failing to take all reasonable steps to prevent irregular expenditure, in terms of s 173(1)(a)(iii) of the MFMA (RSA 2003a). The High Court found that the contravention was executed in order to accommodate the political office-bearers who required Mr Pietersen to hire the service provider, to support them in fulfilling their political goals for the Oudtshoorn municipality.

Mr Pietersen was culpable, as they neglected their responsibility to always abide by the law, even though the Court noted Mr Pietersen's proclamation that they acted to bring about stability and functionality at the municipality. Accordingly, the Court acknowledged that Mr Pietersen's actions were not motivated by greed, they did not

gain any financial benefit from hiring the service provider and they were genuinely attempting to improve the operations of the Oudtshoorn municipality. The Court, nevertheless, maintained that public officials should not be amenable to undermining the law for any personal benefit, however well-purposed. The judgment conveyed a strong message that is necessary and needs to be communicated, in that public officials will be severely punished, should they subvert the law. It is pitiable that individuals such as Mr Pietersen, who can be considered as “small fish”, are the ones that are brought to book, whereas the real perpetrators—“the big guns” that genuinely steal billions—are not held to account, owing to the influence they exert. It certainly casts a shadow of injustice on the system, where certain individuals are apparently above the law.

## **2.8 Chapter Summary**

Financial management control measures have been at the forefront in the development agenda of universal institutions, as well as of low-income, lower-middle-income, upper-middle-income, and high-income economies, particularly in addressing irregular expenditure in the public procurement arena. Irregular expenditure is a fertile ground for state resources to be diverted from what they had been intended or budgeted for. This diversion of resources is suggestive of corruption, representing government money spent without following prescribed legal processes, that often results in gross financial mismanagement and corruption.

These measures are of no value, should SOEs lack decisive leadership to redress the absence of accountability, by ensuring consequences against those who flouted basic processes and hampered effective governance. Another crucial element in hindering these measures being effective, as pointed out by the AGSA, is the slow

implementation, or total disregard, of audit recommendations made by the AGSA, such as non-compliance to applicable legislation, and the slow implementation of comprehensive policies and procedures relating to project management and implementing agents. It is therefore important for the government to establish legislation, policies, and prescripts, and at the same time, to ensure compliance in managing scarce resources and to prevent irregular expenditure.

Addressing the pestilence of non-compliance and individuals' transgression of policies, procedures, and regulations, necessitates the focus on appreciation of the unconscious processes of the mind, that are an element of life, both as phenomenon and as explanatory notion. The answer as to the cause of individuals in the workplace's irregular expenditure transgressions might lie in the forces that influence an individual's way of thinking and how they perceive right from wrong. It was necessary to discuss human behaviour in an endeavour to understand whether the influence of forces, as suggested by relevant theories, constitutes the act of people transgressing against policies, procedures, and regulations. Hence, a gap in the discussion of the forces that contribute to the general behaviour of people in the workplace, to cause irregular expenditure transgressions, was identified in the previous chapter, that require further exploration.



## **Chapter 3: Research Methodology**

### **3.1 Introduction**

The preceding chapter phrased the literature review concerned with irregular expenditure frameworks and mitigation strategies. It referred to the current irregular expenditure framework argued against the theories underpinning this study, as well as introducing the need to explore relevant theories that consider the forces that might influence individual behaviour.

The current chapter concentrates on identifying and explaining an applicable research design and methodology, to effectively aid the study in resolving the research problem formulated in the first chapter. This chapter comprises an introduction, the research design, the research methodology, data source triangulation and the ethical considerations. The subsequent and final sections deal with the data collection instruments employed by the study, the content analysis, the IQA focus groups, interviews, and aspects addressed to ensure trustworthiness, that include credibility, dependability, conformability, transferability, and authenticity.

### **3.2 Research Design**

Wilson (2014:115) and Leedy and Ormrod (2013:74), suggested that a “research design” is a general approach to explaining a research problem. Research design offers an overall arrangement for the procedures that guide the researcher, the data the researcher gathers, and the data analyses the researcher conducts, to achieve a research objective. According to Creswell and Creswell (2018:60) the researcher does not only consider the research methodologies such as qualitative, quantitative, or mixed methods to conduct the study, the researcher must also decide on a type of

study within these varieties. Research designs are styles of inquiry within qualitative, quantitative, and mixed methods approaches, that offer specific direction for procedures in a research study.

The study aims to investigate the lack of regulatory– and policy compliance that lead to SOEs incurring irregular expenditure and propose a governance strategy that mitigates irregular expenditure risk. A mixed-methods approach was adopted for the study.

The study conducted a quantitative content analysis of AGSA reports, utilising ATLAS.ti, to establish the types of irregular expenditure that are being incurred, as well as the prominence thereof. The results informed focus group discussions, applying the IQA method to determine perceptions in respect of the causes of the most prominent types of irregular expenditure that are being incurred, including the motivational factors that may lead to the underpinning theories driving these actions. The focus groups comprised of SOE- stakeholders with knowledge concerning the prevention, identification, investigation, recording, and reporting of irregular expenditure, such as CFOs, procurement personnel, internal auditors and the AGSA. The AGSA was included as a participant in one of the focus groups. The study also validated and enhanced a draft strategy, by conducting interviews with credible stakeholders. To establish feasibility, the researcher decided to conduct two focus group sessions, comprised of participants from more than one institution. Several researchers have employed IQA focus groups for their studies and the number of constituencies varied quite conspicuously. Robertson (2015:96–97) justified the use of only two IQA focus groups as different constituencies have different views on a phenomenon. This study followed the same approach.

The literature review afforded an improved understanding of the research problem and an appreciation of the available mitigating strategies related to irregular expenditure, as well as the causes of the gaps that render the current legislative framework ineffective. A gap in the discussion of the forces that contribute to the general behaviour of people in the workplace, causing irregular expenditure transgressions, was identified (refer to chapter 2), that requires further exploration. The reasons for the gap are anticipated to be addressed in detail in chapter 5 (IQA focus group analysis and interpretation). The research design achieved the aim of the study to propose a governance strategy that mitigates irregular expenditure risk.

### **3.3 Research Methodology**

“Research methodology” can be termed as a set of systematic techniques for collecting, analysing, and interpreting information or data, to increase an individual’s comprehension of a phenomenon (Creswell & Creswell 2018:50; Igwenagu 2016:6; Leedy & Ormrod 2013:2). Research methods contribute to a research approach, that can likely be quantitative, qualitative, or mixed (Creswell & Creswell 2018:66). Ramadass and Aruni (2009:25) stated that qualitative and quantitative research classifies all research studies into one of six categories. Qualitative research classifies historical- and qualitative types of research into qualitative research methods. Quantitative research classifies descriptive, correlational, casual-comparative, and experimental types of research into quantitative research methods. Schoonenboom, Johnson and Froehlich (2018:271) considered the mixed methods research to generally comprise of more than one combining purpose. In mixed methods, the researcher may wish to increase the scope, power, and quality of the study, by following at least two research threads. For the purposes of this study, the research

design will follow a post-positivist and constructivist paradigm, employing a mixed-methods approach.

### **Mixed methods research.**

Creswell (2012) defines a “mixed methods research design” as a process for gathering, analysing, and attenuating both quantitative- and qualitative research and approaches, in a single study, to resolve a research problem. The utilisation of this approach requires understanding both the quantitative and qualitative research methods. Wium and Louw (2018:12) suggested that mixed methods research provides an exhilarating platform for discovering multidimensional and multifaceted questions in many disciplines. Creswell and Plano Clark (2011) described mixed methods research as an approach or methodology concentrating on:

- Research questions that necessitate actual contextual, thoughtful, multilevel perceptions and cultural stimuli;
- Selecting rigorous quantitative research measuring the degree and occurrence of concepts, and rigorous qualitative research discovering the definition and comprehension of concepts;
- The application of manifold methods (e.g., intervention trials and in-depth interviews); and
- Deliberately incorporating or combining these methods to entice discovery on the strengths of each; and framing the investigation within philosophical and theoretical positions.

When considering adoption of the mixed methods approach, one is normally required to pay attention to the purpose of mixing methods and consider the features that compose mixed methods research, such as the purposed results, the research components involved, and the steps the researcher has decided on to create the

research components. This researcher has considered and applied the following seven characteristics, in design of the study's mixed methods approach:

- Characteristic 1: A researcher can take decisions to express several objectives of mixing methods, several times prior to and during the conduct of an inquiry;
- Characteristic 2: A data set can function in respect of more than one objective of mixing methods;
- Characteristic 3: An objective of mixing methods defines a purposed result, that a researcher desires to attain;
- Characteristic 4: In the end, the goal of an objective of mixing methods is to improve either a scientific decision or a research component;
- Characteristic 5: Objectives of mixing methods can be categorised into three wider objectives, namely follow-up, comparison and development;
- Characteristic 6: Research method results are either acquired parallelly and/or independently, or how one acquires one research method result rests on the other research method; and
- Characteristic 7: The objective of mixing methods offers data concerning the incorporation of the two research methods.

The objective of mixing research methods, such as quantification, normally embroils two research methods, one qualitative research method, and the other a quantitative research method. The objective of mixing subgroup analysis usually includes mixing within one research method. It blends and equates quantitative research outcomes for numerous demographic groups, and is, therefore, a form of intra-method mixing.

### **3.4 Data Collection Instruments Employed by the Study**

#### **3.4.1 Content analysis**

The study analysed the AGSA reports, as well as the case institutions' reportable PFMA (RSA 1999) items, to determine whether these institutions have limited or allowed these reportable items to increase from previous financial years. Firstly, a process was conducted that entailed the researcher analysing 126 financial reports of the 21 major SOEs, over the 6-year period of audited AFS, discerning the types of irregular expenditure that were incurred. Whatever was listed as irregular expenditure and reasons for the irregular expenditure, the researcher recorded as irregular expenditure incurred and thereafter coded it as a type of irregular expenditure. The 21 major SOEs listed in the PFMA (RSA 1999) were selected, as it should indicate most of the types of irregular expenditure incurred. These 21 major SOEs constitute only a small percentage of the number of SOEs, but account for the largest share (80%) of the irregular expenditure by SOEs in South Africa. An appreciable amount of these types of irregular expenditure incurred should represent 80% of phenomena, of the total number of SOEs in South Africa. This assumption is borrowed from the supposition of the Pareto principle (Sanders 1987) that 20% of the causes relates to 80% of the effects.

#### **3.4.2 Interactive qualitative analysis (IQA)**

IQA, as developed by Northcutt and McCoy (2004), is a systematic, rigorous, and accountable framework, purposed to analyse qualitative data. IQA is an appropriate plan to aid researchers when they desire to inspect how phenomena are socially fabricated and should they desire to establish a theory that demonstrates a systemic comprehension of the phenomenon.

IQA is unique from the traditional types of qualitative inquiry, in that the research design directly tests the notion that the researcher is the expert who should interpret the participants' data. IQA is also distinct from other types of qualitative inquiry in that participants are trusted with the theoretical analysis and interpretation of their data (Tabane 2009:51).

#### **3.4.2.1 Ontological perspective**

The ontology presumes, that the IQA structure, directly tackles the dependence of knowledge and authority positions between the researcher and the participants (Northcutt & McCoy 2004). The participants are selected on the basis that they hold authority and knowledge of the phenomenon being studied, via their membership of a particular group (Bargate 2014:12). For the purposes of this study, participants were selected based on the positions they hold at their respective institutions, and who possess sufficient knowledge and experience concerning governance issues.

IQA further attests that the observer and the observed are dependent or interdependent, and thus challenges the putative practice in the qualitative inquiry of isolating data collection and analysis, presuming that only the researcher is qualified to interpret the data (Northcutt & McCoy 2004). Thus, IQA constituents generate, theorise, and interpret their own data, whilst the researcher facilitates the process.

The purpose of research in IQA is visible actuality in cognisance (Northcutt & McCoy 2004:16). Participants are those closest to the phenomenon, and in this study, SOE-stakeholders with a close connection to irregular expenditure. Data collection is effected by focus groups, hence, members of the group socially construct actuality.

#### **3.4.2.2 Epistemological perspective**

The epistemological perspective is social constructivist, as it acknowledges that people know their environment through the social construction of meaning. IQA

maintains that both deduction and induction are essential to the investigation of meaning (Northcutt & McCoy 2004:16) and, therefore, constituents are requested to derive meaning and then to describe, refine and finally, to inspect deductively the relationship of influence amongst the categories.

IQA is conspicuous and advantageous to theory through the perspective of persuading theory and challenging it (Northcutt & McCoy 2004:17). Bargate (2014:13) asserted that the outcome of IQA is a mind map of a group's or an individual's intellectual model of a precise phenomenon. The association between constructs can be theorised. The voices of those closest to the phenomenon, SOE-stakeholders with close ties to irregular expenditure, are privileged, over that of the researcher.

### **3.4.2.3 The interactive qualitative analysis (IQA) process**

#### **Identifying participants.**

The focus groups of this study consisted of participants from SOEs and stakeholders involved with matters of irregular expenditure, such as CFOs, procurement specialists and the AGSA, to determine their perceptions on why people are transgressing, leading to irregular expenditure and the reasons for the escalation in irregular expenditure. From a point of departure, the researcher selected institutions that were listed as the 21 major SOEs in South Africa, as subjects for the content analysis. The researcher sent emails to the 21 SOEs, for the purpose of the focus group participation, to which none responded. The researcher then had no alternative but to shift the focus group participation to lesser SOEs, who could still render a valid opinion as to the incurrence of irregular expenditure. These institutions are subject to the same procedures, procurement directives and treasury regulations, as the major SOEs. The participants were affiliated to the AGSA (as external auditor), the Chartered Institute of Government, Finance, Auditing and Risk Officers (as a professional body



stakeholder), the Council for Scientific and Industrial Research (reports to a government structure), the Department of Public Enterprises (stakeholder), the Eastern Cape Provincial Treasury (stakeholder), the National Treasury (stakeholder), the Industrial Development Corporation (reports to a government structure), the Technology Innovation Agency (reports to a government structure), as well as the Central Energy Fund (reports to a government structure). It must be emphasised, once again, that SOEs in the context of this study is referred to as all institutions with an affiliation and the requirement to report to a government structure in respect of irregular expenditure, and is subject to the requirements of the PFMA (RSA 1999).

A letter of invitation was sent via email to prominent stakeholders and SOEs. The letter included the rationale for the study, the purpose of the focus group, the date, time, and duration of the focus group session (refer to annexure B). The focus group sessions were conducted using an online platform, Zoom (Zoom Video Communications Inc. 2022), considering that South Africa was, at the time, subject to adjusted level 2 COVID-19 lockdown regulations during the first session, and adjusted level 3 during the second session. Of the 40 prospective participants, 20 confirmed their participation in the focus groups. De Tommaso et al. (2021:276) suggested that the IQA method requires a focus group to comprise of eight to 12 members.

Robertson (2015:96–97) justified the use of only having two focus groups, whilst du Preez (2015:16) advocated the use of one focus group. Northcutt and McCoy (2004:46) suggested the selection to comprise of more than one focus group, as different focus groups have different perceptions in respect of a phenomenon. Kitzinger (1995:300) specified that the decision concerning the number of focus groups is principally reliant on the objectives of the study and, importantly, the resources accessible. Limitations in resources, such as time and funds, justify the

selection of fewer groups (Krueger & Casey 2009:24). Saunders, Lewis, and Thornhill (2016:419), and Krueger and Casey (2009:21), declared that the number may also vary depending on the point of saturation (when the researcher is no longer receiving new information concerning the topic).

Towards establishing feasibility, the researcher decided to conduct two focus group sessions. The cited studies have deemed two focus group sessions adequate. This study has added a nuance to the findings, by including a mix of participants from more than one SOE, specifically to limit a selective perception by a specific audience.

### **Focus group sessions.**

The focus group discussion process was facilitated by an educational psychologist and IQA expert, who ensured that impartiality was maintained and that every member “has a voice”. The focus groups participants were organised to provide answers to a single question—*Why do individual employees contravene legislation, regulations, policies and procedures that regulate contract adjudication?* (Informed by content analysis)

The IQA process flow followed by the study is explained in detail in chapter 5. This chapter will present the required process supported by literature. At the commencement of an IQA focus group session an issue statement must be provided, whereafter participants reflected silently on their experiences and are then requested to document such on notes that are posted on a wall.

### **Inductive coding.**

A brainstorming session follows where participants arrange the notes into groups with common meaning, producing a collective perspective.

### **Axial coding.**

In accordance with the direction provided by Northcutt and McCoy (2004), the next step is axial coding, where participants refine the grouping and provide each grouping with a title, referred to as an “affinity”. Allen (2017) describes “axial coding” as a qualitative research technique that encompasses connecting data together, to reveal codes, categories, and subcategories, grounded within participants’ voices, within one’s collected data. It signifies that coding can be employed to construct connections between data.

Theron (2015:5) adds that the purpose of axial coding is the strategic reassembling of data, that will be split during initial coding. In the process of deducing synonyms and redundant codes, the dominant codes will become apparent. The axis of the axial coding is a category. During axial coding, categories are related to subcategories and the properties and dimensions of a category are specified.

### **Theoretical coding.**

The purpose of theoretical coding is to appreciate the perception of the participants in respect of the way the affinities influence each other (Legodi, Erasmus & Coetzee 2019:377). Northcutt and McCoy (2004) noted that “theoretical coding” refers to determining the supposed cause and effect relationships (influences) amongst all the affinities in a system. In the focus group setting, this is achieved by enabling a systematic process of constructing suppositions and connecting each possible pair of affinities. The cause-and-effect relationship amongst the affinities is determined by participants individually, completing a detailed affinity relationship table (DART) using ‘if/then’ hypotheses to indicate the direction of the relationship (‘if 1 influence 2’ [1→2]) and explaining it by means of an example based on the participant’s understanding of the phenomenon (‘then’). The goal is to produce the smallest number of affinities, with

the greatest amount of detail. All possible direct connections between the affinities are investigated by emerging suppositions grounded in the data. IQA provides constituents with an official protocol to establish whether there is a direct effect between every possible pair of affinities in the system. If so, the participants then determine the directionality of influence. The purpose is to identify the underlying (and generally hidden) structure of the group mind map, which is summarised in a systems influence diagram (SID).

### **The Pareto principle.**

Legodi et al. (2019:377) summarised the “Pareto principle” as a theory proclaiming that, for many events, approximately 80% of the effects are derived from 20% of the causes. Northcutt and McCoy (2004) suggested that selecting a protocol for representing the consensus or the “preponderance” of the group’s analysis of relationships, is similarly independent from the level of detail or group organisation. Irrespective of the split containing a 20/80- or 70/30- or some other ratio, this is influenced by the nature of the system, however, the crucial utility of the Pareto principle is this: a minority of the relationships in any system will account for most of the variation within the system. Premised upon the variation of theoretical coding applied, it is probable that there will be some disagreement amongst individuals or subgroups concerning the nature of a given relationship. IQA uses the Pareto rule of thumb operationally, to ascertain consensus and analytically produce a statistical group composite. The Pareto protocol technique was applied to score all the relationships from the DARTs and compute the frequency of each relationship (Northcutt & McCoy 2004). Cumulative percentages are then calculated for each relationship, which is to say, a Pareto protocol is constructed. Relationships included in the interrelationship diagram (IRD) are selected to a cut-off margin—where the

power is anticipated to reach a maximum. The IRD rationalises the system by determining whether each affinity in a pair is perceived as a cause or an effect, or if there is no relationship between the affinity in the pair—reflecting the power of each affinity and resulting in primary drivers (affinities only influencing), secondary drivers (affinities mostly influencing but also being influenced), neutral affinities (affinities equally influencing and being influenced), secondary outcomes (affinities mostly being influenced) and primary outcomes (affinities only being influenced). The influences on irregular expenditure related to contract management identified by the focus group findings and interrogated by means of a literature review, informed a draft governance strategy to be validated and enhanced through interviews.

### **3.4.3 Interviews**

“Interviews” can be termed as a qualitative research technique that includes performing rigorous individual verbal or visual exchanges with several people, to discover their opinions concerning specific notions or circumstances (Boyce & Neale 2006). Collis and Hussey (2014:133) suggested that interviews are a paradigm for gathering data, in which questions are posed to certain partakers to determine what they do, think, or feel, and requiring verbal or visual prompts. Interviews are concerned with exploring data in respect of understandings, opinions, what people remember doing, attitudes, feelings and the like, that people have in common, and will be structured, semi-structured or unstructured. In structured or semi-structured interviews, questions are prepared beforehand. In an unstructured interview, none of the questions are prepared in advance but emerge during the interview, where the researcher asks questions seeking open-ended answers that entail a lengthier and developed response. It is essential to supply a verbatim account of the interview, to

enable interpretation of the data from the interviews. A researcher conducting interviews by recording participant-responses on a digital recorder, to ensure that the interviews are transcribed as recorded, will demonstrate credibility. The researcher needs to ensure that the rights of participants are protected (Ryan, Coughlan & Cronin 2009:312).

Leedy and Ormrod (2013:154) believed that the process of conducting interviews is not as simple as may be perceived, and offer guidelines in conducting a productive interview: (1) Ascertain some questions in advance; (2) Deliberate how participants' cultural circumstances might impact their responses; (3) Make certain that your interviewees are representative of the group; (4) Seek an appropriate location; (5) Institute and preserve rapport; (6) Concentrate on the definite as opposed to the abstract or hypothetical; (7) Do not say what is not intended; (8) Record responses verbatim; (9) The researcher should manage their own reactions; (10) It should be noted that all the facts will not be obtained from interviewees.

The questions posed to the interviewees were identified and prepared in advance. Interviews were conducted on online platforms. The data obtained in the interviews was not modified in any way, so as not to presume or assume anything not stated directly by the participants. The notes were depicted in a clear and unambiguous manner. The researcher applied for ethical clearance with regard to the interviews with prominent stakeholders, such as CEOs, CFOs and Financial Managers (FM) of SOEs. The researcher assured participants that confidentiality would be maintained, as all information obtained during this study is strictly confidential.

For the purposes of the interviews, the researcher applied purposive sampling. Purposive sampling is a general sampling technique, employed to select specific participants that have knowledge and experience relating to the research objective.

According to O'Reilly and Parker (2012), the sample size in purposive sampling is based on thematic data saturation, usually indicative that data should be gathered to a point where no new data are emerging from the data. It was noted that, by the 14th interview, no new information was forthcoming, indicating that a saturation point had been reached.

### **3.5 Data Source Triangulation**

This section elucidates how the research methods employed in the study led to achieving the research objective. It is imperative, particularly considering chapter 7, to understand the process flow of the study, in achieving the research objective. Chapter 7 presents a review and analysis of a draft governance strategy by means of interviews, that ensued as part of conducting a completeness- and validation test to add credibility to the proposed governance strategy – stemming from the introductory chapter, where a process flow of the study was provided. The process flow was suggestive of a source data triangulation between the content analysis, focus group discussions, literature review and interviews. Data triangulation in the study was employed for the purpose of completeness, to increase an in-depth comprehension of the particular phenomenon under investigation by merging the aforesaid methods and theories in literature. Furthermore, data triangulation was utilised for confirmatory purposes, where an unblemished point of departure was presented in the introduction of the study, right through to the interview phase.

A content analysis of audited AFS was conducted, to establish the types of irregular expenditure incurred over a 6-year period as well as the prominence thereof. In an endeavour to determine the reasons why people transgress in respect of the most prominent type of irregular expenditure, a single question was posed to the focus

group participants via the process of discussion. The affinities developed were key concepts, influencing the incurrence of the prominent type of irregular expenditure and led to the review and discussion of the underlying human behaviour and relevant human behavioural- and management theories.

At this point, triangulation was used to create an enhanced comprehension of the data and to ensure its completeness by verifying the themes developed from the IQA focus groups through the literature review. The themes regarding the motivation for individual employees' contravention of legislation or regulations, resulting in the incurrence of contract adjudication, presented responses that were categorised as key affinities. Three themes naturally emerged from the process of reconciling the affinities. The knowledge provided by the focus groups was enriching and enticed the researcher to associate the findings with a theory that could elucidate the phenomenon. The themes were interrogated by conducting a literature review, where it was discussed critically to incorporate the principles of relevant theories, and the worth of these theories was considered in developing the draft governance strategy. The researcher approached the study with a social constructivist lens. The study did not attempt to explain the behaviour of individuals that transgress, but merely associated the transgressions to a particular behaviour, and then devised a strategy by offering a countermeasure.

The IQA focus group analysis and subsequent literature review informed a draft governance strategy to mitigate irregular expenditure risk. The draft strategy, at that point, was presented to interviewees during the interview phase, to strengthen the strategy's propositions by obtaining a detailed review and analysis by prominent figures at SOEs. The proposed strategy was rigorously critiqued by way of verifying the practicality of the strategy, with the objective of suggesting a viable strategy that



could be adopted by the National Treasury for implementation. Thus, the triangulation sequence was imperative to indicate the sequential flow of the study, in endeavouring to propose a governance strategy that seeks to mitigate irregular expenditure risk.

### **3.6 Ethical Considerations**

The first chapter stipulated that the researcher applied for ethical clearance from the case institution's ethics committee as well as UNISA's College Research Ethics Committee. The ethical approval by UNISA was executed via the supervisor of the study, and the ethical approval from the targeted institutions via their CFOs. Prior to the focus groups discussion and interview proceedings, each participant was requested to read and sign a consent form. Although complete anonymity cannot be guaranteed in a focus group discussion because of the participation of other identified members who may know about each other's involvement. Focus group participants were encouraged not to disclose other members' identity outside the focus group discussions. Focus group participants were alerted about this risk. Responses provided by participants are kept in confidence and anonymised, to ensure minimal risk accrues to the participants.

Compliance to all the ethical guidelines serves as standards of integrity and trustworthiness of the data gathered and the accompanying data analysis. To ensure that the study is trustworthy, the following principles were applied namely credibility, transferability, conformability and dependability relating to the qualitative paradigm (focus groups and interviews) as described in section 1.5.2. The quantitative paradigm (content analysis) applied the validity and reliability principles with regard to the data collection and analysis. Validity and reliability enhance accuracy, transparency, and minimises opportunities to include researcher bias (Singh 2014b). Validity and

reliability of the data and results were achieved by conducting a content analysis of “audited” AFS and utilising a recognised analysis software, ATLAS.ti (Smit 2002) for coding.

### **3.7 Chapter Summary**

This chapter supplied a comprehensive description of the research design and methods pursued in reaching the study’s objectives, outlined in the first chapter. The research approach adopted was to justify the selection of various methods and techniques. Mixed methods research is where the qualitative and quantitative methods complement each other—especially in respect of its shortcomings—and mixed methods offer data concerning the integration of the two research methods. The researcher selected the mixed methods research approach for integration, whereby the study comprised a content analysis, focus group discussions applying the IQA methodology, as well as interviews. This chapter expounded the research methodology, followed by the data collection instruments. With regard to content analysis, the benefits and limitations were deliberated, the researcher identified limitations that are valid for the study and indicated how these limitations were addressed. The researcher, furthermore, discussed issues or concerns in conducting interviews and how these concerns were addressed. Ethical considerations expounded the course pursued as well as the confidentiality employed and maintained by the researcher. It was essential to present and appreciate the contents of this chapter, in support of the next chapter that presents the content analysis of audited AFS of SOEs.

## **Chapter 4: Detailed Exposition of Content Analysis of the audited AFS of SOEs**

### **4.1 Introduction**

The previous chapter presented the research methods selected for application in the study. It was stated in the first chapter that the study conducted a content analysis comprising of 126 audited AFS of SOEs, utilising ATLAS.ti™ Version 9, to establish the types of irregular expenditure incurred, as well as the prominence thereof, over a 6-year period.

The data from the SOEs' AFS, populated a table in ATLAS.ti, that was exported to Microsoft Excel to depict a chart representation of the results. This chapter, therefore, commences with the introduction, followed by an explanation of the point of departure for document review to enable content analysis. This is followed by the content analysis of the SOE-AFS, the themes that emerged during the content analysis of the AFS and concluding with the chapter summary.

### **4.2 Point of Departure for Document Review to Enable Content Analysis**

“Document review” or documentary research refers to the exploration of documents that comprises information regarding a particular phenomenon under study (Bailey 1994). The documentary research method is utilised in probing and categorising physical sources, such as written documents, whether in the private or public domain (Payne & Payne 2004).

The content analysis comprised the detailed examination of the reports on the 21 SOEs—classified as major SOEs by the PFMA—over a period of six years, and the review of its respective irregular expenditure registers, enabling the researcher to inductively (Given 2008:844) and deductively (Kim, Sefcik & Bradway 2017) seek out

the types of irregular expenditure in the contents of the reports. The list of the types of irregular expenditure identified during the review, is included as annexure C to the study. The researcher applied the Guideline on Irregular Expenditure (RSA 2014b), that provides the types of irregular expenditure, to identify the legislation, treasury regulations or directive that were contravened.

### 4.3 The Content Analysis of Annual Financial Statements of SOEs Listed in Schedule 2 of the PFMA (RSA 1999)

Table 4.1 presents the 21 Major SOEs, listed in schedule 2 of the PFMA (RSA 1999), on 24 May 2019.

**Table 4.1: Major SOEs**

| Major SOEs                                      |  |
|---|--|
| Air Traffic and Navigation Services Company     | Industrial Development Corporation of South Africa Limited |
| Airports Company                                | Land and Agricultural Bank of South Africa                 |
| Alexkor Limited                                 | SA Broadcasting Corporation Limited (SABC)                 |
| Armaments Corporation of South Africa (ARMSCOR) | SA Forestry Company Limited                                |
| Broadband Infrastructure Company (Pty) Ltd      | SA Nuclear Energy Corporation                              |
| CEF Pty (Ltd)                                   | SA Post Office Limited                                     |
| DENEL   | South African Airways Limited                              |
| Development Bank of Southern Africa             | South African Express (Pty) Limited                        |
| ESKOM   | Telkom SA Limited  |
| Independent Development Trust (IDT)             | Trans-Caledon Tunnel Authority (TCTA)                      |
|   | Transnet Limited   |

(Source: Own compilation, from the PFMA list, RSA 1999)

These SOEs have been classified in schedule 2 owing to its nature and degree of self-sufficiency. Schedule 2-SOEs deliver outputs that are traded in the marketplace. These institutions are supposed to be self-funded by the proceeds they produce from

the trade of goods and services, and their outputs contribute to the attainment of policy objectives of specific government departments (Dawood 2014:5).

The sections that were interrogated were the notes to the AFS, and the notes related to the register of irregular expenditure. The periods under review were from the financial years 2013-14 to 2018-19. The coding conducted in ATLAS.ti identified 16 types of irregular expenditure that emerged from the process and have been presented in table 4.2 below. The 16 types emerged owing to the contravention of the Treasury Regulations supporting the PFMA (RSA 1999) and the National Treasury practice notes.

**Table 4.2: AFS analysis over a 6-year period**

| Irregular Expenditure Types   | Legislation Contravened   | Financial year 2019 Irregular Expenditure (R) | Percentage of Total Irregular Expenditure for 2019 | Number of instances by SOEs disclosing this type of irregular expenditure in 2019 | Financial year 2018 Irregular Expenditure(R) | Percentage of Total Irregular Expenditure for 2018 | Number of instances by SOEs disclosing this type of irregular expenditure in 2018 | Financial year 2017 Irregular expenditure (R) | Percentage of Total Irregular Expenditure for 2017 | Number of instances by SOEs disclosing this type of irregular expenditure |
|---|---|---|--|---|--|--|---|---|--|---|
| Contract management processes not followed  | Contravention of Treasury Regulation 16A6.1) and (e)                      | 496 000 000.00                                | 2%   | 1   | 79 038 578.00                                | 0%   | 2   |   | 0%   | -   |
| Contracts awarded where bidding requirements are not met  | Contravention of Treasury Regulation 16A9.1                               | 3 401 908 699.00                              | 15%  | 7   | 3 270 429 000.00                             | 19%  | 4   | 133 963 882.00                                | 17%  | 5   |
| Credit card payments not used for permitted purposes  | Contravention of Treasury Regulation 31.2.7.                              | 4 060 655.00                                  | 0%   | 1   | 1 377 362.00                                 | 0%   | 1   | 2 683 293.00                                  | 0%   | 1   |
| Incorrect classification as emergency procurement   | National Treasury SCM Instruction Note 3 of 2016/17                       | 434 568 000.00                                | 2%   | 4   | 369 000 000.00                               | 2%   | 2   | 98 000 000.00                                 | 12%  | 1   |
| Incurred expenditure without obtaining the prior written approval of the relevant treasury  | Treasury Regulation 16.4.2  | 8 671 845 984.00                              | 39%  | 11  | 6 926 472 824.00                             | 40%  | 18  | 1 263 380.00                                  | 0%   | 2   |
| Institutions procuring goods or services by means other than through competitive bids and where reasons for deviating from inviting competitive bids to have not been recorded and approved by the accounting officer or accounting authority | Contravention of Treasury Regulation 16A6.4                               | 1 583 482 216.00                              | 7%   | 13  | 1 136 453 000.00                             | 7%   | 7   | 270 014 856.00                                | 34%  | 8   |
| Insufficient number of quotations obtained  | Contravention of Treasury Regulation TR16A9.1(d)PPPR 14                   | 36 576 546.00                                 | 0%   | 8   | 27 462 086.00                                | 0%   | 3   | 71 517 527.00                                 | 9%   | 2   |
| Invalid contract extensions   | S 38 of the PFMA (internal controls) and Para 1.2 and 2.3 of PN 1 of 2003 | 27 742 417.00                                 | 0%   | 4   | 50 007 907.00                                | 0%   | 2   | 7 124 018.00                                  | 1%   | 2   |

| Irregular Expenditure Types                                     | Legislation Contravened  | Financial year 2019 Irregular Expenditure (R) | Percentage of Total Irregular Expenditure for 2019 | Number of instances by SOEs disclosing this type of irregular expenditure in 2019 | Financial year 2018 Irregular Expenditure(R) | Percentage of Total Irregular Expenditure for 2018 | Number of instances by SOEs disclosing this type of irregular expenditure in 2018 | Financial year 2017 Irregular expenditure (R) | Percentage of Total Irregular Expenditure for 2017 | Number of instances by SOEs disclosing this type of irregular expenditure |
|---|--|---|--|---|--|--|---|---|--|---|
| Payments made exceed contract value                             | Contravention of Treasury Regulation 8.2   | 3 650 308.00                                  | 0%   | 1   | 405 013.00                                   | 0%   | 1   | 45 000 000.00                                 | 6%   | 1   |
| Payments on expired contracts                                   | Contravention of Treasury Regulation 8.2 Instruction Note 31 dated 31 May 2012   | 32 531 000.00                                 | 0%   | 6   | 323 439 557.00                               | 2%   | 2   | 125 900 000.00                                | 16%  | 1   |
| Purchase order raised after receipt of the invoice              | Contravention of Treasury Regulation 8.2.1   |   | 0%   | -   | 6 804 687.00                                 | 0%   | 1   | 1 292 395.00                                  | 0%   | 1   |
| Quotations awarded in excess of procurement threshold           | Contravention of Treasury Regulation 16A6.1)   | 12 945 257.00                                 | 0%   | 3   | 208 268.00                                   | 0%   | 4   | 3 643 113.00                                  | 0%   | 1   |
| Splitting of quotations   | Contravention of Treasury Regulation 16A6.1 as defined P N 8 OF 2007/2008 Supply Chain Management: Threshold Values for The Procurement of Goods, Works and Services by Means of Petty Cash, Verbal / Written Price Quotations or Competitive Bids | 700 780.00                                    | 0%   | 1   | 108 567 000.00                               | 1%   | 1   | 700 780.00                                    | 0%   | 1   |
| Supplier appointed without following normal procurement process | Contravention of Treasury Regulation 16A6.4  | 132 586 413.00                                | 1%   | 7   |  | 0%   | -   |   | 0%   | -   |
| Suppliers paid without a contract in place                      | Contravention of Treasury Regulation 8.2.1   | 62 799 316.00                                 | 0%   | 3   |  | 0%   | 2   |   | 0%   | -   |
| Use of single source to procure goods and services              | Contravention of Treasury Regulation 16A6.4(as defined PN 6 of 2007/08)  | 7 183 842 000.00                              | 33%  | 4   | 14 696 339.00                                | 29%  | 11  | 27 000 000.00                                 | 3%   | 1   |
| <b>Grand Total</b>  |  | <b>22 085 239 591.00</b>                      | <b>100%</b>  | <b>74</b>   | <b>17 283 963 835.00</b>                     | <b>100%</b>  | <b>61.00</b>  | <b>788 103 244.00</b>                         | <b>100%</b>  | <b>27</b>   |

| Irregular Expenditure Types   | Legislation Contravened                                | Financial year 2016 Irregular Expenditure (R) | Percentage of Total Irregular Expenditure for 2016 | Number of instances by SOEs disclosing this type of irregular expenditure in 2016 | Financial year 2015 Irregular Expenditure (R) | Percentage 2015 | Number of instances by SOEs disclosing this type of irregular expenditure in 2015 | Financial year 2014 Irregular Expenditure (R) | Percentage of Total Irregular Expenditure for 2014 | Number of instances by SOEs disclosing this type of irregular expenditure |
|---|--|---|--|---|---|-----------------|---|---|--|---|
| Contract management processes not followed  | Contravention of Treasury Regulation 16A6.3(a) and (e) | 7 100 000.00                                  | 1%   | 1   | --  | 0%              | -   | -   | 0%   | -   |
| Contracts awarded where bidding requirements are not met  | Contravention of Treasury Regulation 16A9.1            | 172 580 566.00                                | 29%  | 4   | 309 910 000.00                                | 38%             | 2   | 2 838 000.00                                  | 1%   | 1   |
| Credit card payments not used for permitted purposes  | Contravention of Treasury Regulation 31.2.7.           |   | 0%   | -   | -   | 0%              | -   | -   | 0%   | -   |
| Incorrect classification as emergency procurement   | National Treasury SCM Instruction Note 3 of 2016/17    | 40 000 000.00                                 | 7%   | 2   | -   | 0%              | --  |   | 0%   | -   |
| Incurred expenditure without obtaining the prior written approval of the relevant treasury regulation   | Treasury Regulation 16.4.2                             | 7 362 299.00                                  | 1%   | 2   | 108 000 000.00                                | 13%             | 1   |   | 0%   | -   |
| Institutions procuring goods or services by means other than through competitive bids and where reasons for deviating from inviting competitive bids to have not been recorded and approved by the accounting officer | Contravention of Treasury Regulation 16A6.4            | 43 000 000.00                                 | 7%   | 2   | 287 000 000.00                                | 35%             | 1   | 83 000 000.00                                 | 37%  | 1   |



| Irregular Expenditure Types                           | Legislation Contravened  | Financial year 2016 Irregular Expenditure (R) | Percentage of Total Irregular Expenditure for 2016 | Number of instances by SOEs disclosing this type of irregular expenditure in 2016 | Financial year 2015 Irregular Expenditure (R) | Percentage 2015 | Number of instances by SOEs disclosing this type of irregular expenditure in 2015 | Financial year 2014 Irregular Expenditure (R) | Percentage of Total Irregular Expenditure for 2014 | Number of instances by SOEs disclosing this type of irregular expenditure |
|---|--|---|--|---|---|-----------------|---|---|--|---|
| or accounting authority                               |  |   |  |   |   |                 |   |   |  |   |
| Insufficient number of quotations obtained            | Contravention of Treasury Regulation TR16A9.1(d)PPPR 14  | 724 757.00                                    | 0%   | 3   | 4 656 497.00                                  | 1%              | 4   |   | 0%   | -   |
| Invalid contract extensions                           | Sec 38 of the PFMA (internal controls) and Para 1.2 and 2.3 of PN 1 of 2003  | 3 692 554.00                                  | 1%   | 3   | 68 500 000.00                                 | 8%              | 1   |   | 0%   | -   |
| Payments made exceed contract value                   | Contravention of Treasury Regulation 8.2   | 8 287 694.00                                  | 1%   | 2   | 10 800 000.00                                 | 1%              | 1   | 40 000 000.00                                 | 18%  | 1   |
| Payments on expired contracts                         | Contravention of Treasury Regulation 8.2 Instruction Note 31 dated 31 May 2012   | 20 362 464.00                                 | 3%   | 3   | 14 500 000.00                                 | 2%              | 1   |   | 0%   | -   |
| Purchase order raised after receipt of the invoice    | Contravention of Treasury Regulation 8.2.1   |   | 0%   | -   |   | 0%              | -   | 82 095 000.00                                 | 37%  | 1   |
| Quotations awarded in excess of procurement threshold | Contravention of Treasury Regulation 16A6.1)   |   | 0%   | -   |   | 0%              | -   |   | 0%   | -   |
| Splitting of quotations                               | Contravention of Treasury Regulation 16A6.1 as defined P N 8 OF 2007/2008 Supply Chain Management: Threshold Values for The Procurement of Goods, Works and Services by Means of Petty Cash, Verbal / Written Price Quotations or Competitive Bids | 225 980 000.00                                | 39%  | 1   |   | 0%              | -   |   | 0%   | -   |

| Irregular Expenditure Types                                     | Legislation Contravened   | Financial year 2016 Irregular Expenditure (R) | Percentage of Total Irregular Expenditure for 2016 | Number of instances by SOEs disclosing this type of irregular expenditure in 2016 | Financial year 2015 Irregular Expenditure (R) | Percentage 2015 | Number of instances by SOEs disclosing this type of irregular expenditure in 2015 | Financial year 2014 Irregular Expenditure (R) | Percentage of Total Irregular Expenditure for 2014 | Number of instances by SOEs disclosing this type of irregular expenditure |
|---|---|---|--|---|---|-----------------|---|---|--|---|
| Supplier appointed without following normal procurement process | Contravention of Treasury Regulation 16A6.4                             | 881 848.00                                    | 0%   | 2   |   | 0%              | -   |   | 0%   | -   |
| Suppliers paid without a contract in place                      | Contravention of Treasury Regulation 8.2.1                              | 55 866 000.00                                 | 10%  | 2   | 13 344 000.00                                 | 2%              | 1   | 14 981 000.00                                 | 7%   | 1   |
| Use of single source to procure goods and services              | Contravention of Treasury Regulation 16A6.4(as defined PN 6 of 2007/08) |   | 0%   | -   |   | 0%              | -   |   | 0%   | -   |
| <b>Grand Total</b>  |   | <b>585 838 182.00</b>                         | <b>100%</b>  | <b>27.00</b>  | <b>816 710 497.00</b>                         | <b>100%</b>     | <b>12.00</b>  | <b>222 914 000.00</b>                         | <b>100%</b>  | <b>5.00</b>   |

(Source: Own compilation)

Table 4.2 illustrates the trend of issues identified in the AFS of the SOEs under review. The types of irregular expenditure incurred were categorised on a singular instance-based type of counting. The notes to the audited AFS, in some cases, presented more than one instance of each type of contravention that occurred at the same SOE., i.e., the irregular expenditure notes of several SOEs distinguished between incidences for the particular year under review. The guideline on the Irregular Expenditure Framework (RSA 2019a:9) provides, in its annexure C, further examples that the researcher adopted as code. However, the types of irregular expenditure provided in the guideline are not exhaustive and many other types of irregular expenditure may exist, that did not feature in the reports that were analysed. However, for the purpose of this study, these are deemed insignificant, as it did not occur frequently. The limited types of irregular expenditure offered by the guideline compelled the researcher to scrutinise the reports of the 21 major SOEs, that narrated the types of irregular expenditure incurred and prominence thereof (inductively populated the irregular expenditure landscape with evidence from the reports). The study therefore conducted a “directed content analysis” (Hsieh & Shannon 2005:1281). Whatever was listed as irregular expenditure and reasons for the irregular expenditure, were coded as a type of irregular expenditure incurred (refer to chapter 3).

The reason for the inclusion of the AFS reports over a 6-year period was to establish common patterns. The qualitative data, by showing the enumeration of the counts and what it implies in relation to the incurrance of irregular expenditure, is strengthening the existing pattern of the type of irregular expenditure. Based on the literature review conducted, irregular expenditure is exemplified in the following ways:

### 4.3.1 Contract management processes not followed

The General Conditions of Contract (GCC), as prescribed by the National Treasury Regulations 16A6.3(a) and (e), instructs that contracts must include the conditions specified by the GCC. During analysis four instances were counted, where prescriptions were not followed during the period under review, as indicated by table 4.3.

**Table 4.3: Contract management processes not followed**

| Irregular Expenditure Types<br>(INDUCTIVE)    | Legislation<br>Contravened                                   | Number of instances by SOEs disclosing this<br>type of irregular expenditure per financial year |      |      |      |      |      |      |
|---|--|---|------|------|------|------|------|------|
|   |  | 2020  | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Contract management<br>processes not followed | Contravention of<br>Treasury Regulation<br>16A6.3(a) and (e) | 0   | 1    | 2    | 0    | 1    | 0    | 0    |

(Source: Own compilation)

One count of irregular expenditure was identified in the financial year 2018-19, where Eskom incurred R496 million irregular expenditure, owing to contracts awarded without regard to guidelines of the National Treasury. Two counts were identified in the 2017-18 financial year, of which one was attributed to Transnet Ltd, that incurred R79 million irregular expenditure resulting from failure to follow contract management processes. The other count was ascribed to the TCTA that incurred expenditure amounting to R38 000 in respect of a request to edit the Corporate Plan prior to submission to its Board. In this instance, a discussion was held with the SCM unit, to undertake the work under the contract for the language- and technical editing of the annual report, as rendering the service in respect of the Corporate Plan and the Annual Report are remarkably similar. Following completion of the work, it was decided that, as the editing of the corporate plan was not specifically included in the contract, a

deviation from the scope of work would be required. In the 2015-16 financial year, a single count of this type of irregular expenditure was identified. The South African Forestry Company Limited incurred irregular expenditure of R7.1 million, resulting from the breach of procurement procedures where a contract was not formalised.

#### 4.3.2 Credit card payments not used for permitted purposes

Table 4.4 notes credit card payments that were not used for permitted purposes, in contravention of Treasury Regulation 31.2.7.

**Table 4.4: Credit card payments not used for permitted purposes**

| Irregular Expenditure Types<br>(INDUCTIVE)           | Legislation<br>Contravened                   | Number of instances by SOEs disclosing this type of irregular expenditure per financial year |      |      |      |      |      |
|--|--|--|------|------|------|------|------|
|  |  | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Credit card payments not used for permitted purposes | Contravention of Treasury Regulation 31.2.7. | 1  | 1    | 1    | 0    | 0    | 0    |

(Source: Own compilation)

Three instances were counted in the period under review. All three counts identified were incurred by the Air Traffic and Navigation Services Company. In the 2018-19 financial year, the Air Traffic and Navigation Services Company incurred irregular expenditure of this type to a total figure of R4 million. During the 2017-18 financial year, the irregular expenditure was less, at R1.3 million.

#### 4.3.3 Incorrect classification as emergency procurement

Table 4.5 depicts incorrect classification as emergency procurement, in contravention of the National Treasury SCM Instruction Note 3 of 2016/17.

**Table 4.5: Incorrect classification as emergency procurement**

| Irregular Expenditure Types<br>(INDUCTIVE)           | Legislation<br>Contravened                                | Number of instances by SOEs disclosing this<br>type of irregular expenditure per financial<br>year |      |      |      |      |      |
|--|---|--|------|------|------|------|------|
|  |   | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Incorrect classification as emergency<br>procurement | National Treasury SCM<br>Instruction Note 3 of<br>2016/17 | 4  | 2    | 1    | 2    | 0    | 0    |

(Source: Own compilation)

During study analysis nine instances of such irregular expenditure was counted in the period under review. Four counts were identified in the financial year 2018-19, where Eskom incurred R323 million, Transnet Ltd incurred R110 million, and the IDT incurred R1.5 million and a further R38 000 in irregular expenditure. In the 2017-18 financial year, Eskom incurred R347 million and Transnet Ltd incurred R22 million irregular expenditure. In the AFS for 2016-17, a single count emanated from Eskom, to the value of R98 million.

During the review of the AFS for the 2015-16 financial year, two counts emerged, both counts ascribed to Eskom, to the value of R36 million, owing to a professional services contract that had not followed internal processes. A contract was granted for the procurement of professional engineering services to render support to the assessment of solutions towards the recovery of unit 3 at the Duvha power station, following its inability to function effectively since 30 March 2014. This contract was granted by way of the emergency procurement process, whereafter it was established that the normal, standard processes should have been followed. During the same year Eskom had incurred R4 million expenditure resulting from procurement or services that it classified incorrectly as an emergency within the procurement process, namely where laboratory services were procured for certification of coal quality.

#### 4.3.4 Incurred expenditure without obtaining the prior written approval of the relevant treasury

Table 4.6 summarises the counts of irregular expenditure identified as incurred expenditure without obtaining the prior written approval of the relevant treasury.

**Table 4.6: Incurred expenditure without obtaining the prior written approval of the relevant treasury**

| <u>Irregular Expenditure Types</u><br>(INDUCTIVE)  | <u>Legislation</u><br><u>Contravened</u> | Number of instances by SOEs disclosing this type of irregular expenditure per financial year |      |      |      |      |      |
|--|--|--|------|------|------|------|------|
|  |  | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Incurred expenditure without obtaining the prior written approval of the relevant treasury | Treasury Regulation 16.4.2               | 11   | 18   | 2    | 2    | 1    | 0    |

(Source: Own compilation)

Expenditure that was incurred without obtaining prior written approval of the relevant treasury, is in contravention of Treasury Regulation 16.4.2. The study analysis recorded 34 instances, during the period under review. The study counted 29 counts in the financial year 2018-19. Eskom incurred irregular expenditure amounting to R8.5 billion due to contract modifications conducted in breach of PFMA's requirements (RSA 1999). In addition, irregular expenditure was not always recorded at the correct amount. The group did not initially comply with the National Treasury instruction requiring that contracts where the value of the modification is more than 20% or R20 million for construction-related goods, works or services, and 15% or R15 million for all other goods or services, must be approved by National Treasury. Denel incurred R38 million irregular expenditure resulting from inadequately approved deviations from the procurement process. The South African Nuclear Energy Corporation incurred R50.7 million owing to expenditure incurred for legal services, in contravention of the

SCM process or having neglected to obtain approval. The transaction, conditions or events have not resulted in the corporation suffering any loss, as value for money was derived from the use of the goods procured or services rendered. The SABC incurred R28.2 million owing to goods and services that were procured via the Schedule All system. These transactions are deemed irregular expenditure as a consequence of the impracticality of following SCM processes. The SABC further incurred R14 million resulting from an unsanctioned variation order in excess of 15%, in breach of the prescription by National Treasury.

The SABC added an additional R11.7 million to this type of irregular expenditure. The TCTA incurred R4 million, R2.4 million, R1.3 million and a further R629 000, of this type of irregular expenditure. The IDT contributed R110 000 to this type of irregular expenditure.

In its AFS for 2017-18, Eskom recorded a single count of this category of irregular expenditure, to the value of R6.5 billion, owing to contract modifications exceeding allowed amounts. The TCTA disclosed a total of eight counts, for a total value of R36.19 million. The South African Forestry Company Limited incurred R222.7 million irregular expenditure of this type, resulting from deviations from the normal procurement processes not approved by an appropriately delegated official, and appropriately approved deviations that were not justifiable. The SABC revealed three counts, that totalled R138.8 million. The IDT noted a single count, to the total value of R5.7 million. The Land and Agricultural Bank of Southern Africa recorded two counts, totalling R1.6 million. ARMSCOR disclosed a single count totalling R1.1 million. The Broadband Infrastructure Company (Pty) Ltd also recorded a single count totalling R202 000.



The TCTA divulged two such counts in 2016-17. The one count amounted to R749 000 and was related to irregular appointment of the auditing firm Ernest & Young, to conduct a forensic investigation of the appointment of the three executives and a photocopier tender. When the investigation commenced, it was not foreseen that the cost would exceed R500 000—thereby requiring National Treasury approval. Furthermore, the appointment was urgent, on account of the then-CEO's employment contract approaching its expiry date. A request for the appointment approval was sought from National Treasury, but was rejected. The other count amounted to R513 000 resulting from irregular expenditure requiring approval by the Minister of Water and Sanitation in respect of all international travel, as per a directive issued by the Minister, dated 10 July 2016. As part of the implementation of cost containment measures prescribed by the National Treasury Circular 4 of 2016/2017 and the National Treasury Travel Framework, the Minister instructed TCTA that they should be consulted regarding and approve all official international travel. During this financial year, there were seven international trips by TCTA officials for business purposes.

In 2015-16, Eskom recorded a single count amounting to R7 million, for breach of provisions of the National Environmental Management Act when Eskom commenced with construction activities for a 132 kV power line in the Eastern Cape Province, along a route that was not authorised by the Department of Environmental Affairs. The South African Express (Pty) Limited also detailed a single count to the value of R362 000, resulting from irregular expenditure not condoned and not recoverable in that financial year. During that year, several expenses were identified where the procurement process was not followed in its entirety. No motivations or deviation requests were received for these items, and it could therefore not be condoned by the appropriate authority.

In the 2014-15 financial year, Eskom revealed a single count amounting to R108 million, owing to a purchase of land without investment committee approval. During that year, land was purchased at a market-related value of R108 million by following the procurement process, but without first obtaining the necessary capital expenditure approval.

#### **4.3.5 Institutions procuring goods or services by means other than through competitive bids and where reasons for deviating from inviting competitive bids have not been recorded and approved by the accounting officer or accounting authority**

Table 4.7 summarises the type of irregular expenditure classified as “institutions procuring goods or services by means other than through competitive bids and where reasons for deviating from inviting competitive bids have not been recorded and approved by the accounting officer or accounting authority”.

**Table 4.7: Institutions procuring goods or services by means other than through competitive bids and where reasons for deviating from inviting competitive bids have not been recorded and approved by the accounting officer or accounting authority**

| <b>Irregular Expenditure Types<br/>(INDUCTIVE)</b>  | <b>Legislation<br/>Contravened</b>          | <b>Number of instances by SOEs disclosing this type of irregular expenditure per financial year</b> |             |             |             |             |             |
|---|---|---|-------------|-------------|-------------|-------------|-------------|
|   |   | <b>2019</b>   | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> |
| Institutions procuring goods or services by means other than through competitive bids and where reasons for deviating from inviting competitive bids to have not been recorded and approved by the accounting officer or accounting authority | Contravention of Treasury Regulation 16A6.4 | 13  | 7           | 8           | 2           | 1           | 1           |

(Source: Own compilation)

Treasury Regulation 16A6.4 requires the accounting officer or accounting authority of an SOE to prevent the procuring of goods or services by means other than through competitive bids, and where reasons for deviating from inviting competitive bids have not been recorded and approved by the accounting officer or accounting authority. The number of contraventions of this Treasury Regulation amounted to a total count of 33, for the period under review.

During the analysis of the AFS for the 2018-19 financial year, 13 counts emerged. Transnet Ltd incurred R1.3 billion, resulting from failure to adhere to bid processes and not ensuring sufficient delegation of authority. The South African Post Office Ltd contributed to this type of irregular expenditure by adding a figure of R182.7 million, owing to non-compliance with a Treasury Regulation that required cognisance to be taken of a National Treasury determination. The SABC added R85.3 million, subsequent to bids advertised for less than the minimum number of days required. The SABC contributed a further R53.2 million, owing to an evaluation criterion that was applied to score bids. Denel added its contribution to this type of irregular expenditure incurred at R52 million, as a consequence of not conducting adequately competitive bid processes. R22 million was incurred by Denel in respect of bids not adequately approved during its tender processes. The Broadband Infrastructure Company (Pty) Ltd incurred R9.8 million, as it awarded a contract to a service provider based on a tender document that was not advertised for the prescribed 21 working days. The SABC added R6 million owing to its procurement of goods and services via the quotation process, whereas the SCM policy requires goods and services above R2 million to follow the competitive bid process. The IDT recorded two counts—one was for R1.7 million in respect of the appointment of a service provider to provide legal services, without following a competitive process. The second count for R851 000

resulted from the appointment of a recruitment agency without following a competitive bidding process. The TCTA disclosed two counts, where it divided bids—the one count was for R1.1 million and the second amounted to R61 900.

During the review of the AFS for the 2017-18 financial year, seven counts emerged for this type of irregular expenditure. Transnet Limited reported R1 billion owing to breach of Procurement Procedures Manual (PPM) tender/bid processes and insufficient delegation of authority. Denel reported R53 million, resulting from inadequate deviation processes followed. The expenditure had been incurred in respect of bids where deviations from the procurement process were undertaken, that were not adequate in terms of the requirements of the National Treasury SCM Instruction No. 3 of 2016/17 and the National Treasury SCM Instruction No. 1 of 2015/16. ARMSCOR disclosed a single count for R11.2 million, in respect of a procurement that occurred in disregard of the competitive bidding process. The SABC noted three counts. The first for R8.7 million in respect of the application of incorrect evaluation criteria to bids. The second count was for R8.6 million, concerning bids that had been advertised for less than the prescribed number of days. The third count was for R7.4 million, as the corporation procured goods and services via the quotation process, whereas the SCM policy requires that goods and services above R2 million should follow the competitive bid process.

During the review of the AFS for the 2016-17 financial year, eight counts had emerged for this type of irregular expenditure. Denel contributed three counts to this type of expenditure. The first count, of R106 million, was the result of inadequately approved deviations from procurement processes. The expenditure had been incurred in respect of bids where deviations were undertaken from the procurement process, that were not adequately approved in terms of the SCM policy. The second count, of R8 million,

was in respect of bids not adequately approved, where the expenditure had been incurred with regard to bids that were not adequately approved in terms of the delegation. The third count, of R4 million, was due to the evaluation criteria not adequately specified—evaluation criteria in respect of the bids were not adequately specified in line with the requirements of the Preferential Procurement Regulations (RSA 2017a). ARMSCOR recorded a single count for R7.8 million, in respect of a procurement that occurred without following the competitive bidding process. The SABC incurred R52.9 million, owing to bids advertised for less than the prescribed number of days. The corporation incurred a further R33.7 million for incorrect evaluation criteria applied to bids. The TCTA noted a single count for R40.4 million, resulting from failure to procure goods, works or service via a procurement process that is fair, equitable, transparent and competitive, as required by s 51(1)(a)(iii) of the PFMA (RSA 1999). Transnet Limited incurred R17 million in respect of PPM tender/bid processes breached.

During the analysis of the AFS for the 2015-16 financial year, two counts had emerged for this type of irregular expenditure. Eskom revealed a single count for R41 million, owing to breach of the PPPFA (RSA 2000). Eskom paid contracts and applied monetary thresholds that were inconsistent with and contrary to the requirements of the PPPFA (RSA 2000). The amounts applied in determining the appropriate bidding process applicable to specific transactions, were exclusive of Value Added Tax (VAT), whereas the requirement is that it should be determined using amounts inclusive of VAT. The second count was ascribed to Denel, that reported R2 million in respect of inadequately approved deviations from the procurement process, where expenditure had been incurred in respect of bids comprising deviations from the procurement process that were not adequately approved in terms of the SCM policy.

During the analysis of the AFS for the 2014-15 financial year, a single count emerged for this type of irregular expenditure. Eskom reported irregular expenditure amounting to R287 million, resulting from Eskom's payment of contracts that were inconsistent with the requirements of the PPPFA (RSA 2000). Eskom applied monetary thresholds contrary to the requirements of the PPPFA (RSA 2000). The amounts applied in determining the appropriate bidding process applicable to specific transactions, were exclusive of VAT, whereas the requirement is that it should be determined using amounts inclusive of VAT.

During analysis of the AFS for the 2013-14 financial year, one count emerged for this type of irregular expenditure incurred. Eskom reported the same type of expenditure for the previous year, totalling R83 million. Eskom paid contracts and applied monetary thresholds that were inconsistent with and contrary to the requirements of the PPPFA (RSA 2000). The amounts applied in determining the appropriate bidding process applicable to specific transactions, were exclusive of VAT, whereas the requirement is that it should be determined using amounts inclusive of VAT. The figure accumulated to R287 million in the following year.

#### **4.3.6 Contracts awarded where bidding requirements were not met**

Table 4.8 conveys the number of counts per financial year of the type of irregular expenditure incurred when contracts were awarded where bidding requirements were not met.

**Table 4.8: Contracts awarded where bidding requirements were not met**

| Irregular Expenditure Types<br>(INDUCTIVE)                | Legislation<br>Contravened                  | Number of instances by SOEs disclosing this<br>type of irregular expenditure per financial<br>year |      |      |      |      |      |
|---|---|--|------|------|------|------|------|
|   |   | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Contracts awarded where bidding requirements were not met | Contravention of Treasury Regulation 16A9.1 | 7  | 4    | 5    | 4    | 2    | 1    |

(Source: Own compilation)

Treasury Regulation 16A9.1(d) and Preferential Procurement Policy Regulation (PPPR) 14 provide that a bid must be rejected should the bidder's tax matters be found to be out of order. The bidder's tax clearance should be declared by the South African Revenue Services (SARS). This includes awards that are made to a supplier who did not have a valid tax clearance certificate from SARS, nor had the supplier made arrangements with SARS to meet its tax obligations. During the period under review 19 counts emerged for this type of irregular expenditure.

Analysis of the AFS for the 2018-19 financial year revealed four counts that were attributed to Eskom's report of R3.3 billion, in respect of failure to obtain tax clearances for foreign suppliers. The SABC disclosed a single count and incurred R2.8 million, owing to awards made to suppliers without obtaining valid tax clearance certificates. The IDT reported four counts that amounted to R1.2 million, resulting from the appointment of a service provider with an invalid BBBEE certificate. The TCTA noted a single count and had incurred such expenditure amounting to R850 000.

During the review of the 2017-18 financial year, Eskom reported a single count to the value of R3.2 billion. The SABC reported two counts, amounting to R61.4 million. Denel noted a single count to the value of R5 million, resulting from failure to obtain

tax clearance certificates and inadequate evaluation of valid tax clearance certificates, as required.

During analysis of the 2016-17 financial year, five counts emerged, that included the SABC's single count, amounting to R92 million. Eskom disclosed a single count amounting to R 36 million. Denel declared one of R5 million, owing to failure to obtain tax clearances and bids issued to suppliers without the institution adequately evaluating valid tax clearance certificates, as is required by the group supply chain policy and the PPPR (RSA 2017a).

Alexkor recorded a single count to the value of R501 000 and the Land and Agricultural Bank of Southern Africa incurred R456 000 in respect of its single count. Denel noted one count and incurred R5 million owing to failure to inspect valid tax clearance prior to the issue of bids. Alexkor also noted a single count incurred, of R2.1 million.

Review of the 2015-16 financial year revealed four counts of this type of irregular expenditure. The SABC recorded a single count and incurred R142 million, owing to no original tax clearance certificate at the date of the award. The Land and Agricultural Bank of Southern Africa divulged a single count of R23 million incurred, resulting from instances mainly relating to goods and services procured from service providers where original tax clearance certificates were not obtained.

During the review of the 2014-15 financial year, two counts emerged, that were attributed to the SABC's count of R308 million, owing to the absence of the original tax clearance certificate at the date of award, and the South African Nuclear Energy Corporation's single count of R993 000, resulting from disregarded tax clearance certificate collection.



In the 2013-14 financial year, the South African Nuclear Energy Corporation declared a single count as well, incurring R2.8 million, subsequent to the procurement of goods and services where no tax clearance certificates were available.

#### 4.3.7 Insufficient number of quotations obtained

Table 4.9 summarises the number of counts per financial year that have emerged for this irregular expenditure incurred, as an insufficient number of quotations obtained contravenes the legal provisions of Treasury Regulation 16A9.1(d) PPPR 14.

**Table 4.9: Insufficient number of quotations obtained**

| Irregular Expenditure Types<br>(INDUCTIVE) | Legislation<br>Contravened                             | Number of instances by SOEs disclosing this type of irregular expenditure per financial year |      |      |      |      |      |
|--|--|--|------|------|------|------|------|
|  |  | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Insufficient number of quotations obtained | Contravention of Treasury Regulation TR16A9.1(d)PPP 14 | 8  | 3    | 2    | 3    | 4    | 0    |

(Source: Own compilation)

The National Treasury Practice Note No. 8 of 2007/2008 requires that the minimum number of quotations should be at least three (3) verbal or written quotations by, where applicable, a list of prospective suppliers.

During the period under the review 20 counts emerged owing to this type of irregular expenditure incurred. In the 2018-19 financial year eight counts of this type of irregular expenditure were identified. The SABC reported R26 million, The South African Forestry Company Limited reported a single count of R6.7 million, The Air Traffic and Navigation Services Company disclosed two counts totalling R1.4 million, The IDT declared three counts that totalled R1.2 million, and Denel noted a single count of R1 million.

In the 2017-18 financial year, three counts emerged. The SABC reported R27.3 million, the TCTA noted a single count of R55 000, and the Air Traffic and Navigation Services Company also noted one count of R51 000.

In the 2016-17 financial year, two counts emerged, ascribed to the SABC incurring R71.39 million and the Air Traffic and Navigation Services Company incurring R126 000. In the 2015-16 financial year, three counts emerged, attributed to the TCTA incurring R509 000, the South African Forestry Company Ltd incurring R200 000, and Alexkor incurring R15 000.

During the analysis of AFS for the 2014-15 financial year, four counts emerged, that were ascribed to the South African Nuclear Energy Corporation, who incurred R3.7 million, as no evidence could be obtained that a request for a quotation was sent to potential suppliers and other requests for quotations were unclear and vague; and the TCTA reported three counts that amounted to R942 000, as this irregular expenditure was discovered when the audit revealed that the TCTA followed procedures in conflict with the delegation of authority, that states “obtain a minimum of three quotes” whereas the procedures state “three quotes required”, the latter being the intent of the organisation.

#### **4.3.8 Invalid contract extensions**

Table 4.10 summarises the number of counts per financial year that had emerged in respect of the irregular expenditure incurred concerning invalid contract extensions. Section 38 of the PFMA (internal controls) (RSA 1999) and paragraphs 1.2 and 2.3 of Practice Note 1 of 2003, prescribe that an institution's internal control system must ensure that it is able to detect when payments are being made to service providers in advance of concluding a valid contract. Payments may only be effected to service

providers following the conclusion of a valid contract, except in cases of emergency procurement in terms of Treasury Regulation 16A6.4.

**Table 4.10: Invalid contract extensions**

| <u>Irregular Expenditure Types</u><br><b>(INDUCTIVE)</b> | <u>Legislation</u><br><u>Contravened</u>                                   | Number of instances by SOEs disclosing this type of irregular expenditure per financial year |      |      |      |      |      |
|--|--|--|------|------|------|------|------|
|  |  | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Invalid contract extensions                              | S 38 of the PFMA (internal controls) and Para. 1.2 and 2.3 of PN 1 of 2003 | 4  | 2    | 2    | 3    | 1    | 0    |

(Source: Own compilation)

During the period under review, 12 counts were identified that was classified as this type of irregular expenditure. In the 2018-19 financial year, Denel disclosed a single count of R17 million, due to contract extensions that were approved inappropriately. The Broadband Infrastructure Company (Pty) Ltd reported a single count of R9.9 million, as the institution continued to utilise the services of a contract that automatically renewed every year, which is in contravention of the provisions of the Contract Management Framework. The TCTA incurred R431 000 in respect of expanding a contract while failing to follow due process. The Development Bank of Southern Africa also noted a single count of R388 000 attributed to the extension of a lease agreement for two years, without prior approval from National Treasury—as a contract that varied or expanded by more than 15%.

According to the analysis of the 2017-18 financial year, the TCTA incurred R 49.8 million, owing to an Acid Mine Drainage-Appointment of Intelligent Water Solutions (IWS) to operate in the AMD Central Basin. From 1 April 2016 to 30 July 2016 the Central Basin was appropriated by IWS via an interim contract, awarded by

the Accounting Authority. On the 1st of August 2016, IWS was awarded a 30-month operations contract by the former Supply Chain manager. This contract was cancelled in December 2016, based on the irregular appointment. A settlement was agreed upon between the TCTA and IWS, with revised costs to operate the plant from the 1st of January 2017 until 30 June 2017, to allow for an operator to be appointed through an open tender process. On 29 June 2017, the Board approved a three month-extension of IWS's contract, from 1 July 2017 to September 2017. The declared expenditure is for the period 1 April 2017 to 30 September 2017. The TCTA further added to this type of irregular expenditure by incurring R184 000 in respect of an extension of Banqobi Consulting's contract for the placement of a senior manager company secretary for a period of six months.

During the analysis of the 2015-16 financial year, it was revealed that Alexkor incurred R3.3 million, ascribed to contracts that were not renewed in terms of procurement processes and policies. The TCTA incurred R 310 000, resulting from, inter alia, an extension of the Disaster Recovery Contract beyond two terms of contracting, in contravention with the TCTA policy/procedures. Furthermore, two employees undertook an all-expenses-paid international trip to the USA in May 2015, to attend a one-month long training programme on cybercrime. Although a third party fully funded the trip, TCTA paid a daily allowance. The trip was authorised by the erstwhile executive manager of Enterprise-Wide Support Services, in contravention of the Travel Policy that requires all international trips to be authorised by the CEO. The external auditors made an audit finding indicating that the spirit of the Delegation of Authority is that, irrespective of the number of requests issued, no award can be made unless three written quotations have been obtained. The SCM team had interpreted the word "obtained" to have the same meaning as the word "request".

The analysis of the 2014-15 financial year revealed that the South African Airways Ltd incurred R68.5 million, attributed to this type of irregular expenditure, as contracts were not renewed timeously.

#### 4.3.9 Payments made exceed contract value

Table 4.11 summarises the number of counts per financial year that emerged for the irregular expenditure incurred in respect of payments that exceeded approved amounts or contract values, in contravention of Treasury Regulation 8.2.1.

**Table 4.11: Payments made exceed contract value**

| Irregular Expenditure Types<br>(INDUCTIVE) | Legislation<br>Contravened                  | Number of instances by SOEs disclosing this<br>type of irregular expenditure per financial<br>year |      |      |      |      |      |
|--|---|--|------|------|------|------|------|
|  |   | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Payments made exceed contract value        | Contravention of<br>Treasury Regulation 8.2 | 1  | 1    | 1    | 2    | 1    | 1    |

(Source: Own compilation)

During the period under the review, seven counts emerged, ascribed to this type of irregular expenditure. The analysis of the 2018-19 financial year revealed that the Air Traffic and Navigation Services Company recorded a single count to the value of R3.6 million. The Air Traffic and Navigation Services Company noted another count in the 2017-18 financial year, to a lower value of R405 000. In the 2016-17 financial year, Transnet Limited disclosed a single count of R45 million. Alexkor added a single count in the 2015-16 financial year, in respect of payments to suppliers that were greater than the contractually agreed amount, to the value of R787 000. Transnet Ltd added a single count as well, in the 2015-16 financial year, to the value of R10.8 million. In the 2013-14 financial year, Transnet Ltd added a single count in respect of contract costs that were exceeded, to the value of R40 million.

### 4.3.10 Payments on expired contracts

Table 4.12 conveys the number of counts per financial year that emerged in respect of irregular expenditure incurred with regard to payments that have been made on contracts that have expired, in contravention of Treasury Regulation 8.2, Instruction Note 31, dated 31 May 2012.

**Table 4.12: Payments on expired contracts**

| <u>Irregular Expenditure Types</u><br><b>(INDUCTIVE)</b> | <u>Legislation</u><br><u>Contravened</u>                                       | Number of instances by SOEs disclosing this type of irregular expenditure per financial year |      |      |      |      |      |
|--|--|--|------|------|------|------|------|
|  |  | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Payments on expired contracts                            | Contravention of Treasury Regulation 8.2 Instruction Note 31 dated 31 May 2012 | 6  | 2    | 1    | 3    | 1    | 0    |

(Source: Own compilation)

During the period under review, 13 counts emerged that were attributed to this type of irregular expenditure incurred. During analysis of the 2018-19 financial year, six counts were identified. The IDT reported four counts at a total value of R22.5 million, owing to payments on contracts that continued, subsequent to the expiry date. Transnet Ltd noted a single count of R10 million. The Broadband Infrastructure Company (Pty) Ltd incurred R 31 thousand in respect of a single count, as a consequence of the institution utilising services following expiry of a contract.

In the 2017-18 financial year, two counts were identified. One was ascribed to Eskom, that incurred R323 million. The other was attributed to the TCTA, that incurred R439 000, resulting from the procurement of goods and services with a value less than R30 000, followed by expiry of the contract with two travel agencies, whilst the tender process was being finalised. However, most travel agencies did not respond on time

to requests for quotations. This resulted in these travel agencies being awarded contracts in excess of the R30 000 limit.

In respect of the 2016-17 financial year, only a single count was identified and reported by the South Africa Airways Ltd, that incurred R125.9 million owing to payments on expired contracts or non-existing contracts. During the review of the 2015-16 financial year, three counts of this type of irregular expenditure were incurred. Eskom reported a single count of R7.9 million. The South African Express (Pty) Ltd reported a single count of R7 million, attributed to expired contracts resulting from ineffective contract management, and declaring that the deficiencies were being addressed, to prevent further irregular expenditure. In the 2014-15 financial year, Eskom reported a single count of R14.5 million.

#### **4.3.11 Purchase order raised after receipt of the invoice**

Table 4.13 reports the number of counts per financial year that emerged for this irregular expenditure incurred. Treasury Regulation 8.2.1 in respect of the approval of expenditure management (Ss 38(1)(f) and 76(4)(b) of the PFMA [RSA 1999]) prescribes that an official of an institution may not incur expenditure or commit public monies except with the approval (either in writing or by duly authorised electronic means) of a properly delegated or authorised officer. Purchase orders raised after the receipting of an invoice resort under this legal provision.

**Table 4.13: Purchase order raised after receipt of the invoice**

| Irregular Expenditure Types<br>(INDUCTIVE)            | Legislation<br>Contravened                       | Number of instances by SOEs disclosing this<br>type of irregular expenditure per financial<br>year |      |      |      |      |      |
|---|--|--|------|------|------|------|------|
|   |  | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Purchase order raised after receipt of<br>the invoice | Contravention of<br>Treasury<br>Regulation 8.2.1 | 0  | 1    | 1    | 0    | 0    | 1    |

(Source: Own compilation)

During the period under review, only three counts emerged in respect of this type of irregular expenditure. The analysis of the AFS for the 2017-18 financial year revealed that the Air Traffic and Navigation Services Company disclosed a single count of R6.8 million, resulting from purchase orders that were raised following the receipt of invoices. In the 2016-17 financial year, the Air Traffic and Navigation Services Company also had one count, of R1.2 million, owing to the same type of expenditure incurred. In the 2013-14 financial year, the Airports Company of South Africa reported a single count of R82 million under this type of expenditure, in respect of goods and services where invoices were dated prior to the purchase order dates.

#### 4.3.12 Quotations awarded in excess of procurement threshold

Table 4.14 summarises the number of counts per financial year that emerged for this irregular expenditure incurred. Treasury Regulation 16A6.1 and Practice Note 8 of 2007/2008 prescribe that an institution must ensure that the procurement thresholds, as prescribed in paragraph 3.3 of Practice Note 8 of 2007/2008, are strictly adhered to. Quotations awarded in excess of the procurement threshold are in contravention of this legal provision.



**Table 4.14: Quotations awarded in excess of procurement threshold**

| Irregular Expenditure Types<br>(INDUCTIVE)               | Legislation<br>Contravened                         | Number of instances by SOEs disclosing this<br>type of irregular expenditure per financial<br>year |      |      |      |      |      |
|--|--|--|------|------|------|------|------|
|  |  | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Quotations awarded in excess of<br>procurement threshold | Contravention of<br>Treasury Regulation<br>16A6.1) | 3  | 4    | 1    | 0    | 0    | 0    |

(Source: Own compilation)

During the period under review, this type of irregular expenditure amounted to eight counts. Three of these emerged during the analysis of the 2018-19 financial year. One count was from the Air Traffic and Navigation Services Company that reported a value of R5.9 million for quotations that were awarded in excess of procurement threshold. Denel disclosed two counts—the first count of R4 million for a R500 000 or R1 million open tender threshold not adhered to, and the second count of R3 million for quotation processes not initiated from the National Treasury Central Supplier Database.

During the review of the AFS in the 2017-18 financial year, four counts were identified in respect of this type of irregular expenditure. The Air Traffic and Navigation Services Company noted a single count of R172 thousand. The TCTA reported three counts, of small values, the first for a laptop purchase exceeding the R30 000 annual threshold; the second owing to the appointment of a service provider to repair the faulty Data Centre cooling, in excess of the R30 000 annual threshold; and the third in respect of the appointment of a service provider, in excess of the R30 000 annual threshold, to provide catering services for the Board meeting of 24 January 2018.

During the review of the 2016-17 financial year, only a single count was identified, attributed to the Air Traffic and Navigation Services Company for R3.6 million, in respect of quotations exceeding the procurement threshold.

### 4.3.13 Splitting of quotations

Table 4.15 summarises the number of counts per financial year that emerged for irregular expenditure incurred in respect of splitting of quotations. National Treasury Practice Note No. 8 of 2007/2008 instructs that goods, works or services may not purposefully be divided into portions or items of lesser value, purely for the sake of procuring the goods, works or services, otherwise than via the recommended procurement process. When establishing the transaction prices, it is a prerequisite that goods, works or services comprising of different portions or items must, as far as possible, be treated and dealt with as a single transaction (RSA 2008:1).

**Table 4.15: Splitting of quotations**

| <u>Irregular Expenditure Types</u><br><b>(INDUCTIVE)</b> | <u>Legislation Contravened</u>  | Number of instances by SOEs disclosing this type of irregular expenditure per financial year |      |      |      |      |      |
|--|---|--|------|------|------|------|------|
|  |   | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Splitting of quotations                                  | Contravention of Treasury Regulation 16A6.1 as defined in PN 8 of 2007/2008, Supply Chain Management: Threshold Values for The Procurement of Goods, Works and Services by Means of Petty Cash, Verbal / Written Price Quotations or Competitive Bids | 1  | 1    | 1    | 1    | 0    | 0    |

(Source: Own compilation)

Four counts were identified in respect of this type of irregular expenditure, for the period under review. In the 2018-19 financial year, the Air Traffic and Navigation Services Company disclosed a single count to the value of R700 000. The South African Post Office Ltd reported a single count and contravened National Treasury's instruction note, by splitting orders and breaching procurement processes by deviating on account of poor planning.

The total value reported by the South African Post Office Limited in the 2017-18 financial year was R108.5 million. The SABC noted one count of R225.9 million in the 2015-16 financial year, owing to the inadequate monitoring of contracts that resulted in split orders.

#### 4.3.14 Supplier appointed without following normal procurement process

Table 4.16 conveys the number of counts per financial year that emerged for irregular expenditure incurred, concerning the process of appointing suppliers without following the normal procurement process, in contravention of Treasury Regulation 16A6.4.

**Table 4.16: Supplier appointed without following normal procurement process**

| Irregular Expenditure Types<br>(INDUCTIVE)                      | Legislation<br>Contravened                  | Number of instances by SOEs disclosing this type of irregular expenditure per financial year |      |      |      |      |      |
|---|---|--|------|------|------|------|------|
|   |   | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Supplier appointed without following normal procurement process | Contravention of Treasury Regulation 16A6.4 | 7  | 0    | 0    | 2    | 0    | 0    |

(Source: Own compilation)

During the period under the review, nine counts were identified in respect of this type of irregular expenditure incurred. Analysis of the 2018-19 financial year revealed seven counts. The Air Traffic and Navigation Services Company incurred R72.3 million, the IDT reported three counts totalling R36.9 million, and the TCTA disclosed a single count of R14.8 million.

Analysis of the 2015-16 financial year identified two counts of this type of irregular expenditure. These counts were ascribed to Alexkor that incurred R703 000 and TCTA, that incurred R177 000.

### 4.3.15 Suppliers paid without a contract in place

Table 4.17 summarises the number of counts per financial year that emerged for irregular expenditure incurred in respect of payments to suppliers without contracts in place, in contravention of Treasury Regulation 8.2.1.

**Table 4.17: Suppliers paid without a contract in place**

| Irregular Expenditure Types<br>(INDUCTIVE) | Legislation<br>Contravened                       | Number of instances by SOEs disclosing this<br>type of irregular expenditure per financial<br>year |      |      |      |      |      |
|--|--|--|------|------|------|------|------|
|  |  | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Suppliers paid without a contract in place | Contravention of<br>Treasury Regulation<br>8.2.1 | 3  | 2    | 0    | 2    | 1    | 1    |

(Source: Own compilation)

During the period under the review, nine counts emerged in respect of this type of irregular expenditure incurred. Three counts were identified from the analysis of 2018-2019 financial year. The Air Traffic and Navigation Services Company disclosed a single count with a total value of R30 million. The Broadband Infrastructure Company (Pty) Ltd reported two counts with a total value of R32.7 million, resulting from continued utilisation of the services of a supplier after the contract negotiations with the supplier had failed. The Central Energy Fund Group of Companies noted a single count of R7.3 million, owing to salary and rental costs paid without an agreement in place—a secondment contract comprising the salary and rental costs had not been concluded with the third party, albeit a secondment contract had been drafted and submitted for signature.

The review of the 2015-16 financial year revealed that the SABC reported two counts of this type of irregular expenditure, totalling R55.8 million. In the 2014-15 financial

year, the SABC disclosed a single count, totalling R13.3 million. The SABC noted a single count, totalling R14.9 million, in the 2013-14 financial year.

#### 4.3.16 Use of single source to procure goods and services

Table 4.18 denotes the number of counts per financial year that emerged for irregular expenditure incurred in respect of the use of a single source to procure goods and services, prohibited by Treasury Regulation 16A6.4 (as defined by Practice Note 6 of 2007/08). Sole source procurement is only allowed when there is evidence that only one supplier possesses the unique and singularly available capacity to meet the requirements of the institution.

**Table 4.18: Use of single source to procure goods and services**

| Irregular Expenditure Types<br>(INDUCTIVE)            | Legislation<br>Contravened   | Number of instances by SOEs disclosing this<br>type of irregular expenditure per financial<br>year |      |      |      |      |      |
|---|--|--|------|------|------|------|------|
|   |  | 2019   | 2018 | 2017 | 2016 | 2015 | 2014 |
| Use of single source to procure goods<br>and services | Contravention of<br>Treasury Regulation<br>16A6.4 (as defined by<br>PN 6 of 2007/08) | 4  | 11   | 1    | 0    | 0    | 0    |

(Source: Own compilation)

During the period under review, 16 counts of this type of irregular expenditure were identified. In the analysis of the 2018-19 financial year, four counts were identified. Eskom noted a single count of R7.1 billion owing to the use of a sole source to procure goods and services, in a manner not regarded as fair, equitable, transparent, competitive, and cost-effective. Expenditure was incurred in respect of awards in breach of proper tender processes, where awards were incorrectly allocated to predetermined suppliers. The IDT declared two counts—one ascribed to invalid reasoning in support of single sourcing, to the value of R5.9 million, and the second owing to the appointment of a single source to implement a 10-year review project,

that was found to be irregular, to the value of R3.9 million. Denel disclosed one count resulting from failure to obtain approval and to report a single source appointment, to the value of R3 million.

During analysis of the AFS for the 2017-18 financial year, it was revealed that Eskom incurred R4.9 billion owing to the same reason that was reported in the 2018-19 financial year, contributing a single count in respect of the year under review. The TCTA reported nine counts, that amounted to R51.2 million. The incurrence resulted from single source appointment of various suppliers, in respect of operations and maintenance. Alexkor reported a single count of R9.3 million, on account of non-adherence to delegation of authority. Alexkor misinterpreted the National Treasury Instruction Note 3, that only allows deviations in instances of sole source appointment and emergencies to be approved by the accounting authority and applied the institution's internal Delegation of Authority to condone and approve the deviations. In the analysis of the 2016-17 financial year, Eskom reported a single count of this type of irregular expenditure, to the amount of R27 million. The incurrence was attributed to the same reason as the latter years, however, with a significantly lower value during the 2016-17 financial year.

#### **4.4 The Themes that Emerged during the Content Analysis of the Annual Financial Statements (AFS) of SOEs**

Three themes emerged from the content analysis of the AFS of SOEs under review, presented in table 4.19.

**Table 4.19: Irregular expenditure themes**

| No Type | Irregular Expenditure Type   | Theme                                  |
|---------|--|--|
| 1       | Contract management processes not followed   | Theme 1: Contract management           |
| 2       | Contracts awarded where bidding requirements were not met  | Theme 2: Contract adjudication         |
| 3       | Credit card not used for permitted purposes.   | Theme 3: Internal control deficiencies |
| 4       | Incorrect classification as emergency procurement  | Theme 3: Internal control deficiencies |
| 5       | Incurred expenditure without obtaining the prior written approval of the relevant treasury regulation  | Theme 3: Internal control deficiencies |
| 6       | Institutions procuring goods or services by means other than through competitive bids and where reasons for deviating from inviting competitive bids have not been recorded and approved by the accounting officer or accounting authority | Theme 2: Contract adjudication         |
| 7       | Insufficient number of quotations obtained   | Theme 2: Contract adjudication         |
| 8       | Invalid contract extensions  | Theme 1: Contract management           |
| 9       | Payments made exceed contract value  | Theme 3: Internal control deficiencies |
| 10      | Payments on expired contracts  | Theme 1: Contract management           |
| 11      | Purchase order raised after receipt of the invoice.  | Theme 3: Internal control deficiencies |
| 12      | Quotations awarded in excess of procurement threshold.   | Theme 2: Contract adjudication         |
| 13      | Splitting of quotations  | Theme 2: Contract adjudication         |
| 14      | Supplier appointed without following normal procurement process  | Theme 2: Contract adjudication         |
| 15      | Suppliers paid without a contract in place   | Theme 1: Contract management           |
| 16      | Use of single source to procure goods and services   | Theme 2: Contract adjudication         |

(Source: Own compilation)

The most prominent theme was theme 2: Contract adjudication, highlighting that most of the irregular expenditure types can be classified as acts of assessing bidding requirements in order to award contracts to suppliers. Theme 3: Internal control deficiencies, emerged as the second most prominent theme. Theme 3 emphasises the inadequacy of internal controls and the monitoring of compliance with relevant

legislation that should be key and control activities daily, to avert irregular expenditure. Theme 1: Contract management, was the third theme in sequence of prominence. Theme 1 emphasises the ineffective contract management and the deficiencies concerning contract management that must be addressed, to prevent further irregular expenditure.

#### **4.5 Chapter Summary**

This chapter presented a content analysis of the audited AFS, to establish the types of irregular expenditure that are being incurred over a 6-year period, as well as the prominence thereof. Contract adjudication was found to be the dominant theme in irregular expenditure transgressions. The process of inviting competitive bids, evaluating the bids received and awarding the contracts, is well documented in legislation and by the guidance dispensed by the National Treasury. SOEs generally possess established SCM policies and procedures, and are possessed of the mandatory delegation frameworks, -structures and -committees, to warrant a controlled process. However, weaknesses ascend when the standard procurement process—incorporated by the themes that emerged from the content analysis—is deviated from. The incurrence of dominant types of irregular expenditure led the researcher to include an exploratory qualitative phase to consider the reasons for these contraventions. The IQA focus group analysis and findings are presented in the next chapter.



## Chapter 5: IQA Focus Group Analysis and Interpretation

### 5.1 Introduction

The previous chapter presented a content analysis of the AFS of the 21 major SOEs. The notes to the AFS and the notes related to the register of irregular expenditure were interrogated to establish the types of irregular expenditure that are being incurred over a 6-year period, as well as whether the 21 major SOEs limited or allowed its reportable items to increase from previous financial years. The most prominent theme identified was concerned with the process of contract adjudication that will be explored further in this chapter by means of focus groups. The primary theme from the content analysis initiated a single question, posed to the IQA focus groups:

*Why do individual employees contravene legislation, regulations, policies, and procedures that regulate contract adjudication?*

The IQA focus group sessions were facilitated by an independent educational psychologist and IQA expert. The focus groups consisted of SOE-stakeholders that deal with irregular expenditure, such as CFOs, procurement personnel, and the AGSA, to determine their perceptions of the single question. The chapter comprises the IQA process flow, followed by the focus groups' affinity descriptions and theoretical coding, a conflation of the findings from the two focus groups, observations by the researcher, and finally, the chapter summary. Demographic information on the focus group participants is provided in the discussion of each focus group, respectively.

### 5.2 IQA Process Flow

Participants accessed an online platform, Zoom (Zoom Video Communications Inc. 2022), where the IQA focus group session ensued. The researcher commenced the session by first thanking the participants for agreeing to participate in the study.

Thereafter the researcher introduced the study and offered a background concerning the origin of the study. The purpose of the study was explained, as well as the process regarding the content analysis, to establish the types and prominence of irregular expenditure that were incurred. The researcher then indicated that the participants would assist in determining the reasons why individual employees contravene legislation, regulations, policies, and procedures that regulate contract adjudication. The researcher proceeded to introduce the independent facilitator of the IQA focus group session, and his assistant.

The independent facilitator explained to the participants how the online IQA focus group session would ensue, that the participants should not introduce themselves, and that they would be required to draft their thoughts on the topic on the individual whiteboard flash cards, offered by Zoom (Zoom Video Communications Inc. 2022). The independent facilitator then initiated the focus group activity with relaxation exercises, offering participants the opportunity for quiet reflection. During this quiet time, the independent facilitator posed the focus group question. Continuing to the next phase of the session, participants were requested to write down their thoughts on their own flash cards. Each participant's flash card reflected perceptions of what they believed to be the cause of individual employees contravening legislation, regulations, policies, and procedures that regulate contract adjudication. The perceptions were expressed phrases. Examples of the phrases included "lack of knowledge on procurement legislation" or "lack of visibility of consequent management".

The flash cards were made visible on the whiteboard, for all participants to see. The participants conducted this phase in total silence. Subsequently, the participants were invited to arrange the flash cards into sets containing concepts that they perceived to be interrelated or similar. They could utilise any criteria for the arrangement, as long

as they ultimately reached consensus that these sets embodied the group's thoughts. Lastly, discussion followed, with the independent facilitator requesting clarification on each of the sets (affinities that the participants had constructed—axial coding). Each set was offered with a heading or title (inductive coding), for example, "Lack of knowledge and training" or "Consequence management". This phase concluded the focus group activity.

Following the focus group activity, the researcher attentively listened to the digital recording of the focus group activity, consulting the recording whenever clarification was needed. The researcher used the sets to construct a definition for each of the affinities identified, such as Consequence Management (affinity 1): There need to be visible consequences for transgressions.

The independent facilitator's assistant supported the researcher by listing the affinities in alphabetical order and the participants' description of each affinity, as constructed during the focus group activity. The participants then received a table, listing all the affinities against one another in pairs, via a return Zoom session (Zoom Video Communications Inc. 2022). Participants were then requested to indicate whether a relationship exists between each two affinities and, if so, also to indicate the direction of the relationship by considering whether one affinity influences the other affinity or whether one affinity holds power over another. Lexman and Baral (2022:91), and Karataş and Okan (2021:1658), declared this exercise to be a simple affinity relationship table (ART) for each participant. The participants were tasked to decide, each by themselves, which affinity, of every two, was the most influential.

To construct a more detailed ART (detailed affinity relationship table [DART]), via individual theoretical coding, the participants were also tasked to include an overview of the relationship, derived from their own experiences and perceptions. These are

referred to as “if/then” statements, such as “IF appropriate and effective control measures are in place, THEN there will be less consequence management implemented”. Prior to the conclusion of the focus group session, participants were requested to complete the tables on their own and forward such to the researcher, once completed. The researcher applied the data to construct a combined DART for the focus group (Northcutt & McCoy 2004). The combined DART (refer to section 5.4) was conceptualised to replicate the focus group’s unanimous perception of the phenomenon, i.e., the reasons why individual employees contravene legislation, regulations, policies, and procedures that regulate contract adjudication.

### **5.3 Affinity Descriptions - Focus Group 1**

The IQA focus groups comprised of participants from more than one institution, for the purpose to share their perceptions, based on their respective backgrounds. A summary of the participants from the first group is presented below, in table 5.1.

**Table 5.1: Summary of the first IQA focus group participants**

| Participant | Designation                             | Years of Experience | Highest Qualification                     | Professional Qualification                         | Background |                      |           |               |            |                          |                         |   |
|-------------|---|---------------------|---|--|------------|----------------------|-----------|---------------|------------|--------------------------|-------------------------|---|
|             |   |                     |   |  | Auditing   | Financial Management | Regulator | Human Capital | Operations | Legal, Risk & Compliance | Supply Chain Management |   |
| 1           | Management Accountant                   | 15                  | Bachelor of Accounting Sciences           | None   |            | X                    |           |               |            |                          |                         |   |
| 2           | Management Accountant                   | 18                  | Bachelor of Accounting Sciences           | None   |            | X                    |           |               |            |                          |                         |   |
| 3           | CFO                                     | 15                  | CA(SA)                                    | Chartered Accountant (registered with SAICA)       |            | X                    |           |               |            |                          |                         |   |
| 4           | GM Legal, Risk and Compliance           | 23                  | B. Proc, Law (LLB)                        | Cert. in. Co. Law II                               |            |                      |           |               |            |                          |                         |   |
| 5           | Manager: Risk and Compliance            | 15                  | B.com (Accounting)                        | CISA, CISM, CRISC and CGEIT                        |            |                      |           |               |            | X                        |                         |   |
| 6           | Financial Manager Statutory Compliance  | 15                  | Bachelor of Accounting Sciences (honours) |  |            | X                    |           |               |            |                          |                         |   |
| 7           | Project Officer                         | 15                  | MBA                                       | MBA  |            |                      |           |               | X          |                          |                         |   |
| 8           | Acting Manager: Supply Chain Management | 9                   | Technology Management (Honours)           | Chartered Institute of Procurement & Supply (CIPS) |            |                      |           |               |            |                          |                         | X |

(Source: Own compilation)

Table 5.1 present the demographics of the participants in the first focus group. The summary includes the participants' field of expertise, such as financial management, project office, legal and compliance, as well as SCM. It can be observed that most of the participants had experience exceeding 15 years, suggesting that the participants were knowledgeable in respect of the topic.

### 5.3.1 List of affinities

Eight participants took part in the IQA focus group discussion and generation of the affinities. This group produced 36 note cards (sub-affinities), that they grouped into sets containing concepts that they perceived to be related or similar. The discussion ensued with the independent facilitator requesting clarification of each of the concepts that the participants had constructed (axial coding). Each set was provided with a heading (inductive coding), to create eight affinities, listed in table 5.2.

**Table 5.2: List of affinities - Focus group 1**

| <b>Affinities</b>                   |
|-------------------------------------|
| <b>1. Consequence management</b>    |
| <b>2. Control environment</b>       |
| <b>3. Fraud and corruption</b>      |
| <b>4. Human resources</b>           |
| <b>5. Experience in procurement</b> |
| <b>6. Knowledge and training</b>    |
| <b>7. Procurement planning</b>      |
| <b>8. Procurement pressure</b>      |

(Source: Own compilation)

### **Consequence management (affinity 1).**

*Visible consequence management must be present and consistent.*

The focus group described the importance of visible consequence management in dealing with irregular expenditure. They opined that inadequate consequence management and, hence, no accountability, leads to the incurrence of irregular expenditure. The group also observed that lessons were not shared in making examples out of people.

### **Control environment (affinity 2).**

*Strengthen the internal control environment.*

The focus group agreed that not applying regulations properly, possessing poor internal procurement controls, and incorrect procurement processes not suitable to the procurement of goods or services, led to an ineffective control environment.

### **Fraud and corruption (affinity 3).**

*Strengthen internal controls to combat fraud and corruption.*

The focus group associated this affinity with greed, undue influence, conflict of interest, fraudulent activities concerning procurement, the intentional abuse of a poorly controlled environment, intentional abuse of the procurement system, supplier bias, and inadequate procurement processes unsuitable to the procurement of goods or services. They reiterated that strengthening internal controls and control management, prevents manipulation of procurement processes.

### **Human resources (affinity 4).**

*Human resources in procurement must be structured to the needs of the organisation.*

The focus group associated the human resources affinity with ignorance and incompetence, together with employing unsuitable people in the procurement

department, and the lack of training and awareness. They also stressed that human resources in procurement should be built and structured to comprise of properly trained employees, as part of a control management system.

**Experience in procurement (affinity 5).**

*Application of procurement policy and procedure.*

The focus group opined that procurement employees who hold inadequate or lack of experience are likely to misinterpret legislation and it is therefore important to ensure that formal qualification as well as practical experience are adequate for the required appointment.

**Knowledge and training (affinity 6).**

*Implement organisational awareness on procurement processes.*

The focus group associated this affinity with the lack of knowledge on procurement legislation, lack of training in respect of the latest amendments, changes in legislation, and lack of understanding of relevant laws and regulations and SCM rules and - regulations. Furthermore, they highlighted that training procurement officials and creating awareness of procurement processes avert mistakes.

**Procurement planning (affinity 7).**

*Emphasise proper procurement planning.*

The focus group conceded that increased service delivery demand will place pressure on procurement and, therefore, lead to transgressions of rules and regulations.

**Procurement pressure (affinity 8).**

*Eliminate procurement pressure in completing work assignments.*

The focus group agreed that ensuring timely management reduces the risk of procurement pressure to meet deadlines or embarking on emergency procurement that may lead to the transgression of rules and regulations.



### 5.3.2 Theoretical coding

#### The detailed affinity relationship table (DART).

The DART was created and sent to the participants with the request to return it, once completed. Seven of the eight participants in Focus Group 1 completed the DART and returned it to the researcher. One participant declared that she was not able to do so. The returned documents represented the focus group participants' perception in indicating the direction of influence over the affinities. The Pareto protocol was applied to select the fewest number of relationships that represents the greatest number of variations in the system. Table 5.3 presents the Pareto analysis.

**Table 5.3: Pareto analysis – Focus group 1**

| No | Affinity Pair Relationship | Frequency Sorted (Descending) | Cumulative Frequency | Cumulative Percent (Relation) | Cumulative Percent (Frequency) | Power |
|----|----------------------------|-------------------------------|----------------------|-------------------------------|--------------------------------|-------|
| 1  | 1 < 2                      | 6                             | 6                    | 1.8                           | 3.9                            | 2.1   |
| 2  | 1 < 4                      | 6                             | 12                   | 3.6                           | 7.8                            | 4.3   |
| 3  | 2 > 3                      | 6                             | 18                   | 5.4                           | 11.8                           | 6.4   |
| 4  | 4 > 5                      | 6                             | 24                   | 7.1                           | 15.7                           | 8.5   |
| 5  | 4 > 6                      | 6                             | 30                   | 8.9                           | 19.6                           | 10.7  |
| 6  | 1 < 5                      | 5                             | 35                   | 10.7                          | 22.9                           | 12.2  |
| 7  | 1 < 6                      | 5                             | 40                   | 12.5                          | 26.1                           | 13.6  |
| 8  | 2 < 4                      | 5                             | 45                   | 14.3                          | 29.4                           | 15.1  |
| 9  | 2 < 5                      | 5                             | 50                   | 16.1                          | 32.7                           | 16.6  |
| 10 | 2 < 6                      | 5                             | 55                   | 17.9                          | 35.9                           | 18.1  |
| 11 | 3 < 6                      | 5                             | 60                   | 19.6                          | 39.2                           | 19.6  |
| 12 | 3 < 8                      | 5                             | 65                   | 21.4                          | 42.5                           | 21.1  |
| 13 | 7 > 8                      | 5                             | 70                   | 23.2                          | 45.8                           | 22.5  |
| 14 | 1 < 7                      | 4                             | 74                   | 25.0                          | 48.4                           | 23.4  |
| 15 | 1 < 8                      | 4                             | 78                   | 26.8                          | 51.0                           | 24.2  |
| 16 | 2 < 8                      | 4                             | 82                   | 28.6                          | 53.6                           | 25.0  |
| 17 | 3 < 4                      | 4                             | 86                   | 30.4                          | 56.2                           | 25.9  |
| 18 | 3 < 5                      | 4                             | 90                   | 32.1                          | 58.8                           | 26.7  |
| 19 | 4 > 7                      | 4                             | 94                   | 33.9                          | 61.4                           | 27.5  |
| 20 | 5 > 7                      | 4                             | 98                   | 35.7                          | 64.1                           | 28.3  |
| 21 | 6 > 7                      | 4                             | 102                  | 37.5                          | 66.7                           | 29.2  |
| 22 | 1 > 3                      | 3                             | 105                  | 39.3                          | 68.6                           | 29.3  |
| 23 | 1 < 3                      | 3                             | 108                  | 41.1                          | 70.6                           | 29.5  |
| 24 | 1 > 7                      | 3                             | 111                  | 42.9                          | 72.5                           | 29.7  |
| 25 | 2 > 7                      | 3                             | 114                  | 44.6                          | 74.5                           | 29.9  |
| 26 | 5 > 8                      | 3                             | 117                  | 46.4                          | 76.5                           | 30.0  |
| 27 | 6 > 8                      | 3                             | 120                  | 48.2                          | 78.4                           | 30.2  |
| 28 | 1 > 8                      | 2                             | 122                  | 50.0                          | 79.7                           | 29.7  |
| 29 | 2 < 7                      | 2                             | 124                  | 51.8                          | 81.0                           | 29.3  |
| 30 | 2 > 8                      | 2                             | 126                  | 53.6                          | 82.4                           | 28.8  |

| No | Affinity Pair Relationship | Frequency Sorted (Descending) | Cumulative Frequency  | Cumulative Percent (Relation) | Cumulative Percent (Frequency) | Power       |
|----|----------------------------|-------------------------------|-----------------------|-------------------------------|--------------------------------|-------------|
| 31 | 3 > 4                      | 2                             | 128                   | 55.4                          | 83.7                           | 28.3        |
| 32 | 3 > 5                      | 2                             | 130                   | 57.1                          | 85.0                           | 27.8        |
| 33 | 3 < 7                      | 2                             | 132                   | 58.9                          | 86.3                           | 27.3        |
| 34 | 3 > 8                      | 2                             | 134                   | 60.7                          | 87.6                           | 26.9        |
| 35 | 5 < 6                      | 2                             | 136                   | 62.5                          | 88.9                           | 26.4        |
| 36 | 6 < 7                      | 2                             | 138                   | 64.3                          | 90.2                           | 25.9        |
| 37 | 1 > 2                      | 1                             | 139                   | 66.1                          | 90.8                           | 24.8        |
| 38 | 1 > 6                      | 1                             | 140                   | 67.9                          | 91.5                           | 23.6        |
| 39 | 2 < 3                      | 1                             | 141                   | 69.6                          | 92.2                           | 22.5        |
| 40 | 2 > 4                      | 1                             | 142                   | 71.4                          | 92.8                           | 21.4        |
| 41 | 2 > 5                      | 1                             | 143                   | 73.2                          | 93.5                           | 20.2        |
| 42 | 2 > 6                      | 1                             | 144                   | 75.0                          | 94.1                           | 19.1        |
| 43 | 3 > 6                      | 1                             | 145                   | 76.8                          | 94.8                           | 18.0        |
| 44 | 3 > 7                      | 1                             | 146                   | 78.6                          | 95.4                           | 16.9        |
| 45 | 4 < 5                      | 1                             | 147                   | 80.4                          | 96.1                           | 15.7        |
| 46 | 4 < 6                      | 1                             | 148                   | 82.1                          | 96.7                           | 14.6        |
| 47 | 4 > 8                      | 1                             | 149                   | 83.9                          | 97.4                           | 13.5        |
| 48 | 4 < 8                      | 1                             | 150                   | 85.7                          | 98.0                           | 12.3        |
| 49 | 5 < 7                      | 1                             | 151                   | 87.5                          | 98.7                           | 11.2        |
| 50 | 6 < 8                      | 1                             | 152                   | 89.3                          | 99.3                           | 10.1        |
| 51 | 7 < 8                      | 1                             | 153                   | 91.1                          | 100.0                          | 8.9         |
| 52 | 1 > 4                      | 0                             | 153                   | 92.9                          | 100.0                          | 7.1         |
| 53 | 1 > 5                      | 0                             | 153                   | 94.6                          | 100.0                          | 5.4         |
| 54 | 4 < 7                      | 0                             | 153                   | 96.4                          | 100.0                          | 3.6         |
| 55 | 5 > 6                      | 0                             | 153                   | 98.2                          | 100.0                          | 1.8         |
| 56 | 5 < 8                      | 0                             | 153                   | 100.0                         | 100.0                          | 0.0         |
|    | <b>Total Frequency</b>     | <b>153</b>                    | Equal Total Frequency | Equals 100%                   | Equals 100%                    | Power = E-D |

(Source: Own compilation)

It is accepted that in any group there will be some disagreements concerning possible relationships. The IQA process applies the Pareto rule of thumb to reach consensus within the group and to indicate which of the affinity pairs should be included in the IRD.

The first phase in the Pareto analysis is to establish the frequency of each affinity pair relationship, as added from the individual DARTs, and to note the frequency on a spreadsheet. The relationships should then be organised in the descending order of the frequencies (De Tommaso et al 2021:285). The next phase is to determine the following (Northcutt & McCoy 2004:160):

- The cumulative frequency: This is the accumulation of the frequency column, where each consecutive number of votes is tallied to the accumulated previous number in the frequency column. For example, the third frequency: 6 (the accumulated previous number) plus 12 (the current number of votes) equals 18.
- The cumulative percentage (relation): Calculated as the cumulative percentage, based on the total number of possible relationships in this study, which is 56. Each relationship represents for example,  $1/56$ , as a percentage (rounded) of the total number of relationships, which is 1.8%. The column displays the percentage as an accumulation of all the previous percentages.
- The cumulative percentage (frequency): Calculated as the cumulative percentage based on the total number of votes cast. For example, the third frequency: 18 (cumulative frequency) divided by 153 (total number of votes) multiplied by 100, equals 11.8% (rounded).
- Power: Embodies the degree of optimisation of the system. It is calculated as the variance between the cumulative percentage (frequency) and the cumulative percentage (relation). For example, the third frequency: 11.8 less 5.4 equals 6.4.

The cumulative percentage (frequency) and power are essential in defining the optimal number of relationships to include in the group IRD. The focus group participants voted for 153 relationships between affinities. In certain instances, the cohort did not indicate a relationship as participants did not deem certain affinities to possess a relationship. Relationship number 27 (shaded in grey) is, therefore, the cut-off point. This suggests that the first 27 of the total of 56 relationships in the current system, represent 78.4% of the variance in the system.

## The interrelationship diagram (IRD).

The 25 relationships (refer to table 5.4) were used to categorise each affinity as the cause (relative drivers) or effect (relative outcomes) of a relationship, employing the IRD. These perceived relationships were then summarised in an IRD, using arrows.

**Table 5.4: Interrelationship diagram (IRD) – Focus group 1**

| Tabular IRD |   |   |   |   |   |   |   |   |     |    |    |
|-------------|---|---|---|---|---|---|---|---|-----|----|----|
|             | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | OUT | IN | Δ  |
| 1           |   | ← | ↑ | ← | ← | ← | ← | ← | 1   | 6  | -5 |
| 2           | ↑ |   | ↑ | ← | ← | ← | ↑ | ← | 3   | 4  | -1 |
| 3           | ← | ← |   | ← | ← | ← |   | ← | 0   | 6  | -6 |
| 4           | ↑ | ↑ | ↑ |   | ↑ | ↑ | ↑ |   | 6   | 0  | 6  |
| 5           | ↑ | ↑ | ↑ | ← |   |   | ↑ | ↑ | 5   | 1  | 4  |
| 6           | ↑ | ↑ | ↑ | ← |   |   | ↑ | ↑ | 5   | 1  | 4  |
| 7           | ↑ | ← |   | ← | ← | ← |   | ↑ | 2   | 4  | -2 |
| 8           | ↑ | ↑ | ↑ |   | ← | ← | ← |   | 3   | 3  | 0  |

**Affinities:** 1-Consequence management, 2-Control environment, 3-Fraud and corruption, 4-Human resources, 5-Experience in procurement, 6-Knowledge and training, 7-Procurement planning, 8-Procurement pressure

(Source: Own compilation)

The system has eight affinities and 25 relationships. The IRD is then sorted in the descending order of the delta ( $\Delta$ ), in table 5.4.

**Table 5.5: Interrelationship diagram (IRD) in descending order of delta ( $\Delta$ ) - Focus group 1**

| Tabular IRD – Sorted in Descending Order of $\Delta$ |   |   |   |   |   |   |   |   |     |    |          |
|--|---|---|---|---|---|---|---|---|-----|----|----------|
|  | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | OUT | IN | $\Delta$ |
| 4  | ↑ | ↑ | ↑ |   | ↑ | ↑ | ↑ |   | 6   | 0  | 6        |
| 5  | ↑ | ↑ | ↑ | ← |   |   | ↑ | ↑ | 5   | 1  | 4        |
| 6  | ↑ | ↑ | ↑ | ← |   |   | ↑ | ↑ | 5   | 1  | 4        |
| 8  | ↑ | ↑ | ↑ |   | ← | ← | ← |   | 3   | 3  | 0        |
| 2  | ↑ |   | ↑ | ← | ← | ← | ↑ | ← | 3   | 4  | -1       |
| 7  | ↑ | ← |   | ← | ← | ← |   | ↑ | 2   | 4  | -2       |
| 1  |   | ← | ↑ | ← | ← | ← | ← | ← | 1   | 6  | -5       |
| 3  | ← | ← |   | ← | ← | ← |   | ← | 0   | 6  | -6       |

**Affinities:** 1-Consequence management, 2-Control environment, 3-Fraud and corruption, 4-Human resources, 5-Experience in procurement, 6-Knowledge and training, 7-Procurement planning, 8-Procurement pressure

(Source: Own compilation)

According to the IRD, the system presents three positive deltas, that are drivers in the system, namely affinities 4, 5 and 6. There are four negative deltas, which are outcomes, namely affinities 2,7,1 and 3. Affinity 8 holds a zero-delta. The results are visually presented in the tentative SID assignments (Northcutt & McCoy 2004:174), explained in the next section.

### **The systems influence diagram (SID)**

The tentative SID assignments depict primary and secondary drivers, as well as primary and secondary outcomes. Primary drivers refer to aspects that can be

perceived as fundamental causes of influence on affinities in a system. Secondary drivers are relative sources that are influenced by the primary drivers. Primary outcomes are imperative effects initiated by several affinities. Secondary outcomes exhibit only relative effects. Drivers are recognised as positive deltas ( $\Delta$ ), whereas adverse deltas are outcomes. When a driver has no “In” count (refer to table 5.4), it is categorised as a primary driver. The same scenario can be applied to outcomes with no “Out” count, that are categorised as primary outcomes. A driver or outcome with “In” and “Out” counts are categorised as secondary. Tentative SIDs characterise the identification of drivers and outcomes. The tentative SID assignments were utilised to produce the cluttered SIDs. Table 5.6 presents the affinities categorised as primary and secondary drivers, as well as primary and secondary outcomes, including the pivot/neutral affinity.

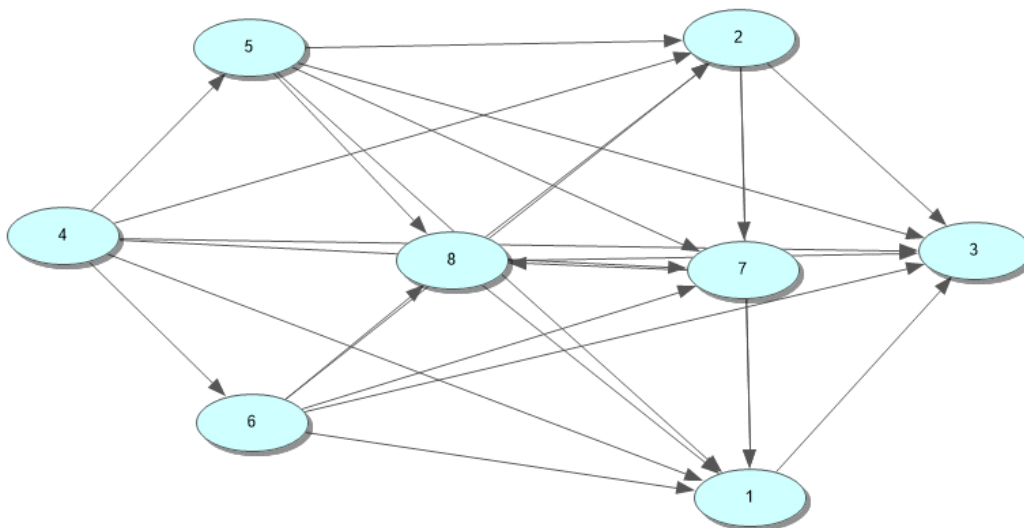
**Table 5.6: Tentative SID assignments - Focus group 1**

| Affinities |                           | Tentative SID Assignments |
|------------|---------------------------|---------------------------|
| 4          | Human resources           | Primary Driver            |
| 5          | Experience in procurement | Secondary Driver          |
| 6          | Knowledge and training    | Secondary driver          |
| 8          | Procurement pressure      | Pivot/ Neutral            |
| 2          | Control environment       | Secondary outcome         |
| 7          | Procurement planning      | Secondary outcome         |
| 1          | Consequence management    | Secondary outcome         |
| 3          | Fraud and corruption      | Primary Outcome           |

(Source: Own compilation)

Affinity 4, “Human resources”, is categorised as the primary driver. It influences other affinities, but it is not being influenced. Affinity 5, “Experience in procurement”, and affinity 6, “Knowledge and training”, are the secondary drivers. These influence other affinities whilst being influenced by a lesser number of affinities. Affinity 3, “Fraud and

corruption”, is the primary outcome. It is influenced by all affinities but does not influence other affinities. Conversely, affinity 2, “Control management”, affinity 7, “Procurement planning”, and affinity 1, “Consequence management”, are the secondary outcomes. These affinities are influenced by other affinities and only influence a lesser number of affinities. Affinity 8, “Procurement pressure”, has an equal number of affinity relationships that influences and are also influenced. It is, thus, a neutral affinity. Figure 5.1 represents the cluttered SID for the first focus group, that embodies all the relationships that were designated by means of the Pareto analysis and were included in the IRD.



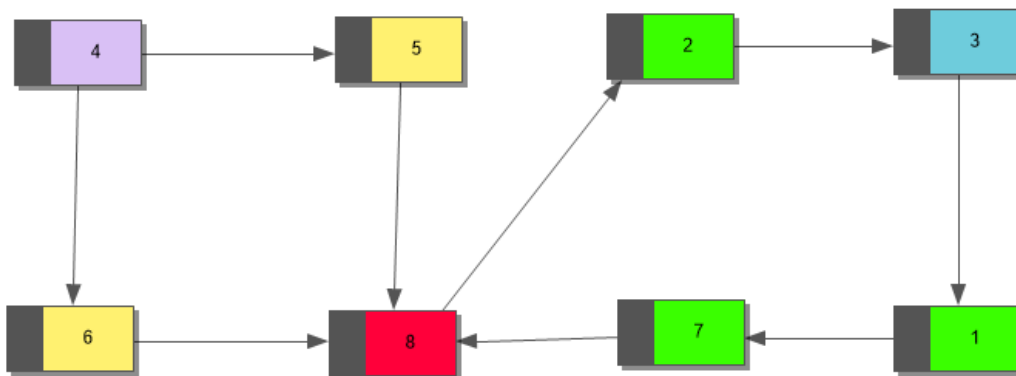
**Affinities:** 1-Consequence management, 2-Control environment, 3-Fraud and corruption, 4-Human resources, 5-Experience in procurement, 6-Knowledge and training, 7-Procurement planning, 8-Procurement pressure

**Figure 5.1: Cluttered SID - Focus group 1**

(Source: Own compilation)

Affinity 4, “Human resources”, is situated on the left of the diagram, in conjunction with the secondary drivers. The primary outcome, affinity 3, “Fraud and corruption”, is positioned on the right of the diagram, juxtaposed with the secondary outcomes. The

neutral affinity, affinity 8, “Procurement pressure”, is positioned in the centre of the diagram. The arrows show the direction of the relationship of the affinities, as displayed in the IRD. For each relationship amid two affinities, only a single pathway should be present. Owing to the many relationships present within the system, it is perplexing to elucidate the cluttered SID, therefore, necessitating the production of the uncluttered SID that eliminates the redundant links. Figure 5.2 represents a mind map of affinity relationships identified by the first focus group with regard to the reasons why individual employees contravene legislation or regulations, that lead to the incurrence of contract adjudication.



\*Affinities: 1-Consequence management, 2-Control environment, 3-Fraud and corruption, 4-Human resources, 5-Experience in procurement, 6-Knowledge and training, 7-Procurement planning, 8-Procurement pressure

**Figure 5.2: Uncluttered SID including resolved conflicts - Focus group 1**

(Source: Own compilation)

The affinities relationships within the system are visually presented in the uncluttered SID. The SID commences with the primary driver, affinity 4, “Human resources”, which influences two secondary drivers, affinity 6, “Knowledge and training”, and affinity 5, “Experience in procurement”—the secondary driver leading to the feedback loop.



The reasons for “Human resources” as the main driver to influence “Knowledge and training” as well as “Experience in procurement”, may be employees who do not possess the necessarily SCM (procurement) qualifications, and employees not being appropriately trained to perform and execute the procurement function. Employees who do not possess the correct procurement qualifications were reported to be likely to misinterpret legislation and, therefore, might not be able to appropriately discern which actions are needed. Furthermore, a lack of knowledge in respect of procurement legislation might lead to employees being unfamiliar with the latest changes and amendments on procurement legislation, leading to poor understanding of relevant laws and regulations, that will, ultimately, result in misinterpretation and misguidance related to procurement matters. The SID presented one feedback loop.

#### **Feedback loop discussions – Focus group 1.**

The feedback loop is contained and moves in a circular, clockwise motion from affinity 2, “Control management”, to affinity 3, “Fraud and corruption”, then to affinity 1, “Consequence management”, then to affinity 7, “Procurement planning”, and then to affinity 8, “Procurement pressure”, then continuously. The “Control management”-affinity displays a strong hold and the ability to influence the aforesaid affinities.

#### ***Feedback Loop 1: Affinity 2→Affinity 3→Affinity 7→Affinity 8→Continuous.***

The feedback loop reveals that an effective control environment is a good deterrence that has a positive impact to avert fraud and corruption, as well as to mitigate procurement pressures—as consequence management becomes inherently effective and procurement planning is an integral part of the system that can be built into the control environment system.

## **5.4 Affinity Descriptions - Focus Group 2**

The second IQA focus group assumed the same diverse composition as the first IQA focus group. A summary of the participant-demographics with regard to the second IQA focus group, are presented below, in table 5.7.

**Table 5.7: Summary of the second IQA focus group participants**

| Participant | Designation                       | Years of Experience | Highest Qualification                           | Professional Qualification   | Background |                      |           |               |            |                          |                         |   |
|-------------|-----------------------------------|---------------------|---|--|------------|----------------------|-----------|---------------|------------|--------------------------|-------------------------|---|
|             |                                   |                     |   |  | Auditing   | Financial Management | Regulator | Human Capital | Operations | Legal, Risk & Compliance | Supply Chain Management |   |
| 1           | Assistant Senior Manager Audit    | 4                   | CA(SA)  | CA(SA)   |            |                      | X         |               |            |                          |                         |   |
| 2           | CFO                               | 40                  | Bachelor of Accounting Sciences                 | Individual Professional Certificate in Public Financial Management             |            | X                    |           |               |            |                          |                         |   |
| 3           | Risk & Assurance Specialist       | 12                  | BCom  | none   |            |                      |           |               |            | X                        |                         |   |
| 4           | Finance Manager: Treasury         | 30                  | B degree  | none   |            | X                    |           |               |            |                          |                         |   |
| 5           | Head: Supply Chain Management     | 10                  | BCom Accounting                                 | none   |            |                      |           |               |            |                          |                         | X |
| 6           | Divisional: Human Capital Manager | 20                  | Postgraduate Diploma in Business Administration | Human Capital  |            |                      |           | X             |            |                          |                         |   |
| 7           | CFO                               | 35                  | Master's in Business Administration             | MBA & CIGFARO Board Member   |            | X                    |           |               |            |                          |                         |   |
| 8           | SPU Strategic Sourcing            | 10                  | Post Graduate Diploma in Management             | none   |            |                      |           |               |            |                          |                         | X |
| 9           | Operations Manager                | 23                  | PHD   | BSc (Chemistry)  |            |                      |           |               | X          |                          |                         |   |
| 10          | Group Manager: Internal Auditor   | 23                  | MPhil Internal Auditing                         | Certified Internal Auditor (CIA); Certified Information Systems Auditor (CISA) | X          |                      |           |               |            |                          |                         |   |
| 11          | Management Accountant             | 15                  | B Com Financial Management                      | none   |            | X                    |           |               |            |                          |                         |   |

| Participant | Designation                     | Years of Experience | Highest Qualification                 | Professional Qualification | Background |                      |           |               |            |                          |                         |  |
|-------------|---------------------------------|---------------------|---------------------------------------|----------------------------|------------|----------------------|-----------|---------------|------------|--------------------------|-------------------------|--|
|             |                                 |                     |                                       |                            | Auditing   | Financial Management | Regulator | Human Capital | Operations | Legal, Risk & Compliance | Supply Chain Management |  |
| 12          | Lecturer: Public Sector Finance | 40                  | Mtech: Cost and Management Accounting | CIGFARO                    |            | x                    |           |               |            |                          |                         |  |

(Source: Own compilation)

The participants were drawn from diverse backgrounds that include auditing, financial management, human capital, project office, legal and compliance, as well as SCM. Similar to the first group, most of the participants' experience exceeded 15 years, suggesting that the participants were well versed on the topic.

#### 5.4.1 List of affinities

Twelve participants participated in the second IQA focus group discussion and generation of the affinities. This group followed the same process as the first group and produced 52 note cards, which they grouped into sets containing concepts that they perceived to be related or similar. The discussion ensued with the independent facilitator requesting clarification of each of the concepts that the participants had constructed (axial coding). Each set was provided with a heading (inductive coding), to create the nine affinities described below, in table 5.8.

**Table 5.8: List of affinities - Focus group 2**

| Affinities                               |
|--|
| 1. Capacity building                     |
| 2 Control environment                    |
| 3. Understanding and technical knowledge |
| 4. Leadership and governance             |
| 5. Political pressures                   |
| 6. Consequence management                |
| 7. Planning                              |
| 8. Regulatory challenges                 |
| 9. Unethical behaviour                   |

(Source: Own compilation)

#### **Capacity building (affinity 1).**

*Build capacity to prevent irregular expenditure.*

The focus group suggested that issues concerning capacity building were qualified based on ignorance of the regulatory framework, no knowledge of applicable legislation, capacity, skills, and when there are many employee vacancies or a high turnover of staff.

**Control environment (affinity 2).**

*Control environment is overly regulated.*

The focus group described the control environment to be dysfunctional, as it contained excessive red tape. They stressed that the over-regulation renders it difficult to follow the procurement processes and can lead to incurrence of expenditure outside approval rights.

**Understanding and technical knowledge (affinity 3).**

*Provide training on procurement processes.*

The focus group lamented that officials in the supply chain environment possess no technical skills and knowledge of the environment in which they are operating. If a lack of knowledge exists, then the employees may lack the necessary skills to ensure compliance with the procurement policies and procedures. Lack of knowledge can lead to poor oversight by leadership. It is therefore important to provide training in respect of new regulations.

**Leadership and governance (affinity 4).**

*Leadership should set the culture for governance and oversight.*

The focus group agreed that leadership extends beyond governance. Therefore, they stressed that poor oversight, a leadership vacuum, and poor organisational culture, all play a part in contributing to the incurrence of irregular expenditure.

**Political pressures (affinity 5).**

*Mitigate pressures in the procurement environment.*

The focus group described this affinity to be two-fold. Firstly, it consists of political pressure in delivering on projects that are outside the scope of a particular financial year, thus including procurement for items that are not in compliance with the regulatory framework, and secondly, political pressure that contributes to fear of victimisation, especially dismissal.

#### **Consequence management (affinity 6).**

*Exercise consequence management.*

The focus group agreed that poor consequence management was a result of failure to charge employees with misconduct, to sanction them or to follow the disciplinary processes. They, furthermore, opined that the condonement of certain irregular expenditure items increase the scope of non-compliance.

#### **Planning (affinity 7).**

*Plan for procuring appropriately.*

The focus group suggested that poor planning creates pressure on service delivery versus compliance, to deliver on organisational targets and -objectives and projects. They also highlighted that poor planning permits poor performance.

#### **Regulatory challenges (affinity 8).**

*Regulations are not practical to implement.*

The focus group agreed that regulations are too strict, excessive, and impractical to implement. They noted that in some instances, there is delayed awareness of National Treasury updates.

#### **Unethical behaviour (affinity 9).**

*Expect the entire organisation to operate within an ethical environment.*

The focus group suggested that unethical behaviour, such as the commission of fraud, and corruption, is driven by greed, lack of ethics, lack of integrity, prospective

incentives, intentional and malicious intent to defraud the system, as well as self-serving interests.

#### 5.4.2 Theoretical coding

##### The detailed affinity relationship table (DART)

The same DART process that was followed by the first focus group, was executed by the second focus group. However, all participants were able to complete the DART and return it to the researcher. The returned documents represented the focus group participants' perception, indicating the direction of influence over the affinities. The same Pareto protocol applied to the first cohort was employed to count all the relationships from the DARTs and determine the frequency of each relationship. A Pareto analysis was performed in respect of the condensed data, recorded in table 5.9.

**Table 5.9: Pareto analysis – Focus group 2**

| No Frequency | Affinity Pair Relationship | Frequency Sorted (Descending) | Cumulative Frequency | Cumulative Percent (Relation) | Cumulative Percent (Frequency) | Power |
|--------------|----------------------------|-------------------------------|----------------------|-------------------------------|--------------------------------|-------|
| 1            | 2 < 3                      | 10                            | 10                   | 1.4                           | 3.1                            | 1.7   |
| 2            | 2 < 4                      | 10                            | 20                   | 2.8                           | 6.2                            | 3.4   |
| 3            | 1 > 7                      | 9                             | 29                   | 4.2                           | 9.0                            | 4.8   |
| 4            | 4 > 6                      | 9                             | 38                   | 5.6                           | 11.8                           | 6.2   |
| 5            | 5 > 9                      | 9                             | 47                   | 6.9                           | 14.6                           | 7.6   |
| 6            | 6 > 9                      | 9                             | 56                   | 8.3                           | 17.3                           | 9.0   |
| 7            | 1 > 2                      | 8                             | 64                   | 9.7                           | 19.8                           | 10.1  |
| 8            | 1 > 3                      | 8                             | 72                   | 11.1                          | 22.3                           | 11.2  |
| 9            | 2 < 8                      | 8                             | 80                   | 12.5                          | 24.8                           | 12.3  |
| 10           | 4 > 7                      | 8                             | 88                   | 13.9                          | 27.2                           | 13.4  |
| 11           | 4 > 8                      | 8                             | 96                   | 15.3                          | 29.7                           | 14.4  |
| 12           | 4 > 9                      | 8                             | 104                  | 16.7                          | 32.2                           | 15.5  |
| 13           | 1 < 4                      | 7                             | 111                  | 18.1                          | 34.4                           | 16.3  |
| 14           | 1 < 5                      | 7                             | 118                  | 19.4                          | 36.5                           | 17.1  |
| 15           | 2 < 5                      | 7                             | 125                  | 20.8                          | 38.7                           | 17.9  |
| 16           | 2 < 7                      | 7                             | 132                  | 22.2                          | 40.9                           | 18.6  |
| 17           | 2 > 9                      | 7                             | 139                  | 23.6                          | 43.0                           | 19.4  |
| 18           | 3 > 7                      | 7                             | 146                  | 25.0                          | 45.2                           | 20.2  |
| 19           | 4 < 5                      | 7                             | 153                  | 26.4                          | 47.4                           | 21.0  |
| 20           | 5 > 6                      | 7                             | 160                  | 27.8                          | 49.5                           | 21.8  |
| 21           | 6 > 8                      | 7                             | 167                  | 29.2                          | 51.7                           | 22.5  |
| 22           | 7 > 8                      | 7                             | 174                  | 30.6                          | 53.9                           | 23.3  |
| 23           | 8 > 9                      | 7                             | 181                  | 31.9                          | 56.0                           | 24.1  |



| No Frequency | Affinity Pair Relationship | Frequency Sorted (Descending) | Cumulative Frequency  | Cumulative Percent (Relation) | Cumulative Percent (Frequency) | Power       |
|--------------|----------------------------|-------------------------------|-----------------------|-------------------------------|--------------------------------|-------------|
| 24           | 1 > 6                      | 6                             | 187                   | 33.3                          | 57.9                           | 24.6        |
| 25           | 3 > 9                      | 6                             | 193                   | 34.7                          | 59.8                           | 25.0        |
| 26           | 5 > 7                      | 6                             | 199                   | 36.1                          | 61.6                           | 25.5        |
| 27           | 5 > 8                      | 6                             | 205                   | 37.5                          | 63.5                           | 26.0        |
| 28           | 7 > 9                      | 6                             | 211                   | 38.9                          | 65.3                           | 26.4        |
| 29           | 1 > 8                      | 5                             | 216                   | 40.3                          | 66.9                           | 26.6        |
| 30           | 1 > 9                      | 5                             | 221                   | 41.7                          | 68.4                           | 26.8        |
| 31           | 3 > 4                      | 5                             | 226                   | 43.1                          | 70.0                           | 26.9        |
| 32           | 3 > 6                      | 5                             | 231                   | 44.4                          | 71.5                           | 27.1        |
| 33           | 3 > 8                      | 5                             | 236                   | 45.8                          | 73.1                           | 27.2        |
| 34           | 3 < 8                      | 5                             | 241                   | 47.2                          | 74.6                           | 27.4        |
| 35           | 1 > 4                      | 4                             | 245                   | 48.6                          | 75.9                           | 27.2        |
| 36           | 1 < 8                      | 4                             | 249                   | 50.0                          | 77.1                           | 27.1        |
| 37           | 2 > 6                      | 4                             | 253                   | 51.4                          | 78.3                           | 26.9        |
| 38           | 2 < 6                      | 4                             | 257                   | 52.8                          | 79.6                           | 26.8        |
| 39           | 6 > 7                      | 4                             | 261                   | 54.2                          | 80.8                           | 26.6        |
| 40           | 6 < 7                      | 4                             | 265                   | 55.6                          | 82.0                           | 26.5        |
| 41           | 1 < 3                      | 3                             | 268                   | 56.9                          | 83.0                           | 26.0        |
| 42           | 1 < 9                      | 3                             | 271                   | 58.3                          | 83.9                           | 25.6        |
| 43           | 2 > 5                      | 3                             | 274                   | 59.7                          | 84.8                           | 25.1        |
| 44           | 2 > 7                      | 3                             | 277                   | 61.1                          | 85.8                           | 24.6        |
| 45           | 2 < 9                      | 3                             | 280                   | 62.5                          | 86.7                           | 24.2        |
| 46           | 3 < 5                      | 3                             | 283                   | 63.9                          | 87.6                           | 23.7        |
| 47           | 4 > 5                      | 3                             | 286                   | 65.3                          | 88.5                           | 23.3        |
| 48           | 7 < 9                      | 3                             | 289                   | 66.7                          | 89.5                           | 22.8        |
| 49           | 1 < 2                      | 2                             | 291                   | 68.1                          | 90.1                           | 22.0        |
| 50           | 2 > 8                      | 2                             | 293                   | 69.4                          | 90.7                           | 21.3        |
| 51           | 3 < 4                      | 2                             | 295                   | 70.8                          | 91.3                           | 20.5        |
| 52           | 3 > 5                      | 2                             | 297                   | 72.2                          | 92.0                           | 19.7        |
| 53           | 3 < 7                      | 2                             | 299                   | 73.6                          | 92.6                           | 19.0        |
| 54           | 3 < 9                      | 2                             | 301                   | 75.0                          | 93.2                           | 18.2        |
| 55           | 4 < 8                      | 2                             | 303                   | 76.4                          | 93.8                           | 17.4        |
| 56           | 5 < 6                      | 2                             | 305                   | 77.8                          | 94.4                           | 16.6        |
| 57           | 5 < 7                      | 2                             | 307                   | 79.2                          | 95.0                           | 15.9        |
| 58           | 5 < 8                      | 2                             | 309                   | 80.6                          | 95.7                           | 15.1        |
| 59           | 6 < 9                      | 2                             | 311                   | 81.9                          | 96.3                           | 14.3        |
| 60           | 7 < 8                      | 2                             | 313                   | 83.3                          | 96.9                           | 13.6        |
| 61           | 8 < 9                      | 2                             | 315                   | 84.7                          | 97.5                           | 12.8        |
| 62           | 1 < 6                      | 1                             | 316                   | 86.1                          | 97.8                           | 11.7        |
| 63           | 1 < 7                      | 1                             | 317                   | 87.5                          | 98.1                           | 10.6        |
| 64           | 2 > 3                      | 1                             | 318                   | 88.9                          | 98.5                           | 9.6         |
| 65           | 2 > 4                      | 1                             | 319                   | 90.3                          | 98.8                           | 8.5         |
| 66           | 3 < 6                      | 1                             | 320                   | 91.7                          | 99.1                           | 7.4         |
| 67           | 4 < 6                      | 1                             | 321                   | 93.1                          | 99.4                           | 6.3         |
| 68           | 4 < 7                      | 1                             | 322                   | 94.4                          | 99.7                           | 5.2         |
| 69           | 4 < 9                      | 1                             | 323                   | 95.8                          | 100.0                          | 4.2         |
| 70           | 1 > 5                      | 0                             | 323                   | 97.2                          | 100.0                          | 2.8         |
| 71           | 5 < 9                      | 0                             | 323                   | 98.6                          | 100.0                          | 1.4         |
| 72           | 6 < 8                      | 0                             | 323                   | 100.0                         | 100.0                          | 0.0         |
|              | <b>Total Frequency</b>     | <b>323</b>                    | Equal Total Frequency | Equals 100%                   | Equals 100%                    | Power = E-D |

(Source: Own compilation)

Table 5.9 depicts the total number of votes cast as 323 (the total of the second column) in respect of a total number of 72 possible relationships (the total of the first column). Several relationships did not receive any votes. The next step was to sort the relationships in descending order of frequency, to calculate cumulative frequencies and percentages in terms of both the number of votes (323) and relationship (72). Northcutt and McCoy (2004:157, 160) noted that in performing the Pareto analysis, it is imperative that the frequency of each affinity pair relationship is added from the individual DARTs and noted on a spreadsheet. The relationships should then be organised in descending order of the frequencies. Thereafter, the same process is followed as in respect of the first IQA focus group (refer to section 5.4.1).

#### **The interrelationship diagram (IRD)**

The 33 relationships were used to categorise each affinity as the cause (relative drivers) or effect (relative outcomes) of a relationship, employing the IRD. These perceived relationships were then summarised in an IRD, utilising arrows, illustrated in table 5.10.

**Table 5.10: Interrelationship diagram (IRD) – Focus group 2**

| Tabular IRD |   |   |   |   |   |   |   |   |   |     |    |    |
|-------------|---|---|---|---|---|---|---|---|---|-----|----|----|
|             | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | OUT | IN | Δ  |
| 1           |   | ↑ | ↑ | ← | ← | ↑ | ↑ | ↑ | ↑ | 6   | 2  | 4  |
| 2           | ← |   | ← | ← | ← |   | ← | ← | ↑ | 1   | 6  | -5 |
| 3           | ← | ↑ |   | ↑ |   | ↑ | ↑ | ↑ | ↑ | 6   | 1  | 5  |
| 4           | ↑ | ↑ | ← |   | ← | ↑ | ↑ | ↑ | ↑ | 6   | 2  | 4  |
| 5           | ↑ | ↑ |   | ↑ |   | ↑ | ↑ | ↑ | ↑ | 7   | 0  | 7  |
| 6           | ← |   | ← | ← | ← |   |   | ↑ | ↑ | 2   | 4  | -2 |
| 7           | ← | ↑ | ← | ← | ← |   |   | ↑ | ↑ | 3   | 4  | -1 |
| 8           | ← | ↑ | ← | ← | ← | ← | ← |   | ↑ | 2   | 6  | -4 |
| 9           | ← | ← | ← | ← | ← | ← | ← | ← |   | 0   | 8  | -8 |

\*Affinities: 1-Capacity building, 2-Control environment, 3-Understanding and technical knowledge, 4-Leadership and governance, 5-Political pressures, 6-Consequence management, 7-Planning, 8-Regulatory challenges, 9-Unethical behaviour

(Source: Own compilation)

The system has nine affinities and 33 relationships. The IRD is then sorted in the descending order of the delta ( $\Delta$ ), in table 5.11.

**Table 5.11: Interrelationship diagram (IRD) in descending order of delta ( $\Delta$ ) - Focus group 2**

| Tabular IRD – Sorted in Descending Order of $\Delta$ |   |   |   |   |   |   |   |   |   |     |    |          |
|--|---|---|---|---|---|---|---|---|---|-----|----|----------|
|  | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | OUT | IN | $\Delta$ |
| 5  | ↑ | ↑ |   | ↑ |   | ↑ | ↑ | ↑ | ↑ | 7   | 0  | 7        |
| 3  | ← | ↑ |   | ↑ |   | ↑ | ↑ | ↑ | ↑ | 6   | 1  | 5        |
| 1  |   | ↑ | ↑ | ← | ← | ↑ | ↑ | ↑ | ↑ | 6   | 2  | 4        |
| 4  | ↑ | ↑ | ← |   | ← | ↑ | ↑ | ↑ | ↑ | 6   | 2  | 4        |
| 7  | ← | ↑ | ← | ← | ← |   |   | ↑ | ↑ | 3   | 4  | -1       |
| 6  | ← |   | ← | ← | ← |   |   | ↑ | ↑ | 2   | 4  | -2       |
| 8  | ← | ↑ | ← | ← | ← | ← | ← |   | ↑ | 2   | 6  | -4       |
| 2  | ← |   | ← | ← | ← |   | ← | ← | ↑ | 1   | 6  | -5       |
| 9  | ← | ← | ← | ← | ← | ← | ← | ← |   | 0   | 8  | -8       |

\*Affinities: 1-Capacity building, 2-Control environment, 3-Understanding and technical knowledge, 4-Leadership and governance, 5-Political pressures, 6-Consequence management, 7-Planning, 8-Regulatory challenges, 9-Unethical behaviour

(Source: Own compilation)

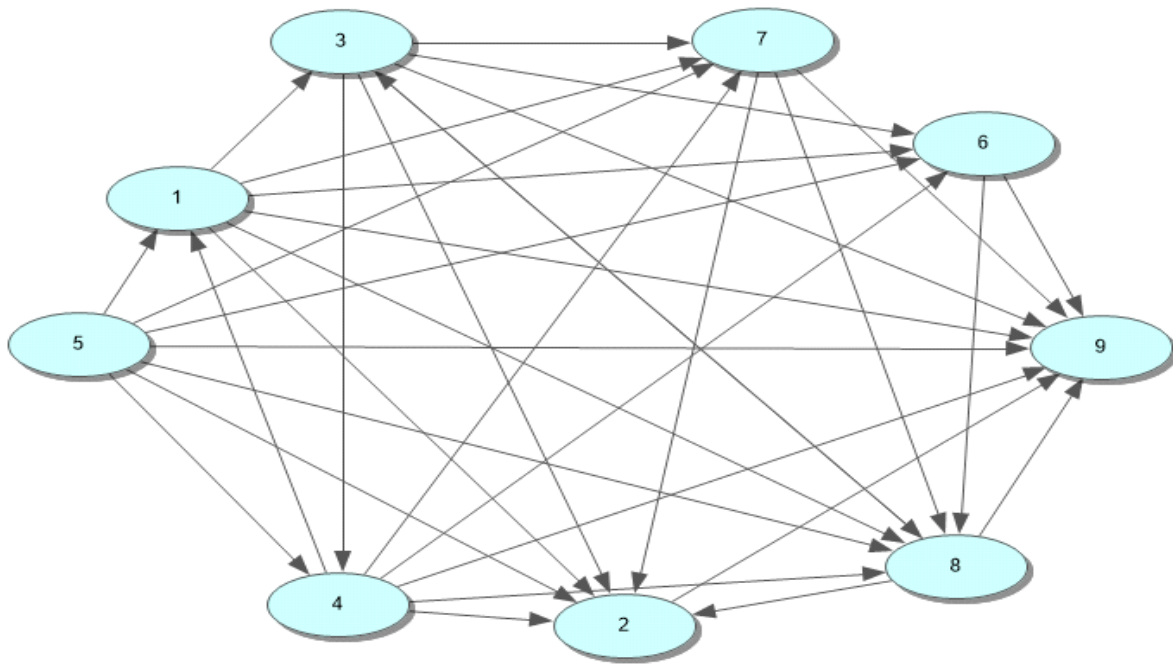
The analysis of the above IRD, illustrates that the system contains four positive deltas, which are drivers in the system, namely affinities 5, 3, 1 and 4. There are five negative deltas, which are outcomes, i.e., affinities 7, 6, 8, 2 and 9. The results are visually presented in the tentative SID Assignments (Northcutt & McCoy 2004:174).

**Table 5.12: Tentative SID assignments - Focus group 2**

| Affinities |                                       | Tentative SID Assignments |
|------------|---------------------------------------|---------------------------|
| 5          | Political pressures                   | Primary Driver            |
| 3          | Understanding and technical knowledge | Secondary Driver          |
| 1          | Capacity building                     | Secondary Driver          |
| 4          | Leadership and governance             | Secondary Driver          |
| 7          | Planning                              | Secondary Outcome         |
| 6          | Consequence management                | Secondary Outcome         |
| 8          | Regulatory challenges                 | Secondary Outcome         |
| 2          | Control environment                   | Secondary Outcome         |
| 9          | Unethical behaviour                   | Primary Outcome           |

(Source: Own compilation)

Table 5.12 presents the affinities categorised as primary and secondary drivers, as well as primary and secondary outcomes. Affinity 5, “Political pressures”, is categorised as the primary driver. It influences other affinities, but that is not reciprocal. Affinities 3, “Understanding and technical knowledge”, 1, “Capacity building”, and 4, “Leadership and governance”, are the secondary drivers. These influence other affinities whilst being reciprocally influenced by a lesser number of affinities. Affinity 9, “Unethical behaviour”, is the primary outcome. It is influenced by several affinities but does not influence other affinities. Conversely, Affinities 7, “Planning”, 6, “Consequence management”, 8, “Regulatory challenges”, and 2, “Control environment”, are the secondary outcomes. These affinities are influenced by other affinities whilst only influencing a lesser number of affinities. The affinities are presented graphically below in a cluttered SID, depicted in figure 5.3.



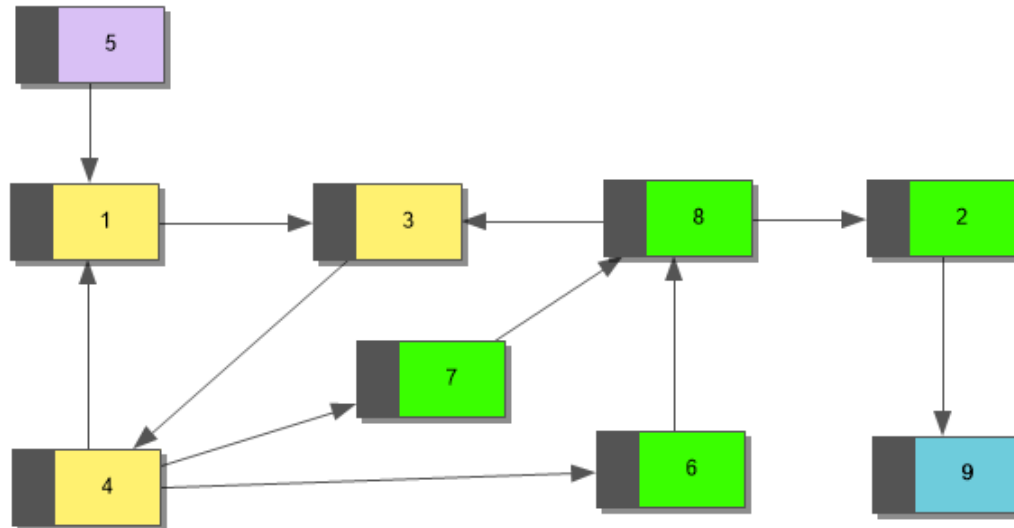
\*Affinities: 1-Capacity building, 2-Control environment, 3-Understanding and technical knowledge, 4-Leadership and governance, 5-Political pressures, 6-Consequence management, 7-Planning, 8-Regulatory challenges, 9-Unethical behaviour

**Figure 5.3: Cluttered SID - Focus group 2**

(Source: Own compilation)

Figure 5.3 is the cluttered SID for the second focus group, that embodies all the relationships that were designated by means of the Pareto analysis and were included in the IRD. In this instance, affinity 5, “Political pressures”, is situated on the left of the diagram, in conjunction with the secondary drivers. The primary outcome, affinity 9, “Unethical behaviour”, is positioned on the right of the diagram. The arrows show the direction of the relationship of the affinities, as displayed in the IRD. For each relationship amid two affinities, only a single pathway should be present. Owing to the number of relations that are present within the system, it is perplexing to elucidate the cluttered SID, and therefore necessitates the production of the uncluttered SID that eliminates the redundant links.

Figure 5.4 represents a mind map of the affinity- relationship generated from the second focus group session, with regards to the reasons why individual employees contravene legislation or regulations, that lead to the incurrence of contract adjudication.



\* **Affinities:** 1-Capacity building, 2-Control environment, 3-Understanding and technical knowledge, 4-Leadership and governance, 5-Political pressures, 6-Consequence management, 7-Planning, 8-Regulatory challenges, 9- Unethical behaviour

**Figure 5.4: Uncluttered SID including resolved conflicts - Focus group 2**

(Source: Own compilation)

The affinities relationships within the system are visually presented in the uncluttered SID. The SID commences with the primary driver, affinity 5, “Political pressures”, with affinity 1, “Capacity building”, the secondary driver, leading to the first feedback loop. The reasons for “Political pressures” identified as the chief driver to influence “Unethical behaviour”, may be the result of working pressures to deliver upon projects, to meet challenging deadlines, as well as pressures associated with—the—fear of being victimised—especially relating to being dismissed from service. “Political pressures” were identified, in addition, to be contributing to unbudgeted procurement (unfunded

mandates). The SID presented two feedback loops that display how the affinities interact with each other, in the system.

### **Feedback loop discussions.**

The uncluttered SID (refer to figure 5.4) presented two feedback loops. The feedback loops move in a circular motion of affinities within the system, where it is continuous.

The two loops are:

***Feedback Loop 1: Affinity 4→Affinity 1→Affinity 3→Affinity 4→Continuous.***

***Feedback Loop 2: Affinity 4→Affinity 6→Affinity 8→Affinity 3→Affinity 4→Continuous.***

Feedback Loop 1 describes the importance of leadership and governance, and how it can have a direct impact on capacity building, as well as influence the understanding and technical knowledge on procurement matters. It can be suggested that when leadership does not provide proper oversight over the capacity and skills gap in the organisation, then the organisation will continue to experience issues of non-compliance as well as high staff turnover. Leadership performs an integral function within an organisation, as it sets the tone. It is imperative that, inter alia, it ensures that policies are in place and provide oversight in respect of the implementation thereof. Training and awareness are key, to ensure that employees understand and implement policies approved by the board. Therefore, in the absence of policies and procedures or training on the implementation of the policies, provided by leadership, then the understanding thereof may be compromised, resulting in non-compliance.

Feedback Loop 2 also describes the importance of the leadership and governance function. Amid the existence of a competent and effective leadership and governance structure, leadership needs to exercise consequence management in respect of transgressors of the regulatory framework, as this will ensure stability in the reduction



of irregular expenditure by the organisation. If leadership does not enforce consequence management, then the practice of incurring irregular expenditure may continue. Effective leadership and governance therefore result in creating an environment where there is awareness of any regulatory changes that are introduced that might affect operations and, therefore, may create an enabling environment that faces less regulatory challenges in dealing with procurement matters. Leadership, ultimately, needs to be proactive and exercise its oversight function and institute training and awareness in respect of procurement, to ensure that employees are equipped with training and technical knowledge concerning procurement.

### **5.5 Comparison of the Systems of the Two Focus Groups**

The preceding sections discussed the affinities produced by the two focus groups, as well as the overall setting of the affinities within the SIDs described. These discussions endeavoured to elucidate the relationship existing between affinities, in the context of the participants contribution to the individual DART documents.

The purpose of this section is to compare the affinities of the two focus groups, to derive central themes that imbue the qualitative data with depth. Northcutt and McCoy (2004:343) suggested that in contrasting and comparing the results at a system level, the interpretation should be conducted in a structural manner. This assists the SIDs of the groups to be compared in terms of its systemic properties. Northcutt and McCoy (2004:346–366) further asserted that the affinities comprising the SIDs can be compared and the SIDs (composite systems) it selves can be compared.

The two groups presented altogether 17 affinities. There are some similarities that emerged across the affinities. The similarities that emerged are not surprising, as it sought to comprehend the reasons motivating the same phenomenon. It was, thus,

not unreasonable to expect that some of the affinities would contain similar definitions. Northcutt and McCoy (2004:212-213) claimed that, in several instances, focus groups do provide different names to essentially the same affinity, as was the case in this instance, for example, “Human resources”, identified by the first group, while the second group defined it as “Capacity building”. Northcutt and McCoy (2004: 212–215) further advised that it is sensible to reconcile affinities. The process of reconciling these affinities is generally performed in IQA’s and assisted the study to arrive at a single reconciled view, that subsequently facilitated establishment of the themes utilised to devise the governance strategy (refer to chapter 6).

Table 5.13 lists the reconciled affinities of the two focus groups. The names of the initial 17 affinities produced across the two focus groups are summarised in this table.

**Table 5.13: Affinities produced across the two focus groups**

| <b>IQA Focus Group 1</b>                                 | <b>IQA Focus Group 2</b>   | <b>Themes</b>                  |
|--|--|--------------------------------|
| 4. Human resources ( <b>Primary Driver</b> )             | 5. Political pressures ( <b>Primary Driver</b> )                     | <b>Competence</b>              |
| 5. Experience in procurement ( <b>Secondary Driver</b> ) | 3. Understanding and technical knowledge ( <b>Secondary Driver</b> ) | <b>Competence</b>              |
| 6. Knowledge and training ( <b>Secondary Driver</b> )    | 1. Capacity building ( <b>Secondary Driver</b> )                     | <b>Competence</b>              |
| 8. Procurement pressure ( <b>Pivot/ Neutral</b> )        | 4. Leadership and governance ( <b>Secondary Driver</b> )             | <b>Competence</b>              |
|  |  |                                |
| 2. Control environment ( <b>Secondary outcome</b> )      | 2. Control environment ( <b>Secondary Outcome</b> )                  | <b>Procurement environment</b> |
| 7. Procurement planning ( <b>Secondary outcome</b> )     | 7. Poor planning ( <b>Secondary Outcome</b> )                        | <b>Procurement environment</b> |
|  | 8. Regulatory challenges ( <b>Secondary Outcome</b> )                | <b>Procurement environment</b> |
|  |  |                                |
| 1. Consequence management ( <b>Secondary outcome</b> )   | 6. Consequence management ( <b>Secondary Outcome</b> )               | <b>Accountability</b>          |
| 3. Fraud and corruption ( <b>Primary outcome</b> )       | 9. Unethical behaviour ( <b>Primary outcome</b> )                    | <b>Accountability</b>          |

(Source: Own compilation)

The affinities identified by the two focus groups were listed from primary drivers to primary outcomes, to determine if themes emerged. Three themes naturally emerged from the process of reconciling the affinities provided in table 5.13. Theme 1, “Competence”, is represented by primary drivers and secondary drivers from both IQA

focus groups. These affinities can be listed as human resources, experience in procurement, knowledge and training, procurement pressure, political pressures, understanding and technical knowledge, capacity building, and leadership and governance. Theme 1 suggests that the most suitable candidates are not being employed. Individuals who do not possess the necessary experience and training, and who do not acquire the necessary knowledge with regard to procurement legislation, are being appointed to functions they should not be occupying. Adding to the aforesaid, is procurement pressure, that suggests that these individuals are pressurised into procurement procedures and acquisitions amidst their possible ignorance of regulations, standard operating procedure, or approved budget.

Theme 2, “Procurement environment”, is represented by a few of the secondary outcomes from the IQA focus groups. These affinities are control environment, poor planning, procurement planning, and regulatory challenges. Breaches or weaknesses of the affinities representing this theme, is an outcome of weaknesses in theme 1 being the influencing drivers of irregular expenditure. Addressing incompetence may lead to a functional procurement environment. If officials in the procurement environment are properly capacitated to resist any deviation from official procedure, it will lessen the need for consequence management—necessitated owing to irregular expenditure. This brings us to the third theme, “Accountability”.

Theme 3, “Accountability”, was represented by one secondary outcome from the first IQA focus group and the primary outcomes from both IQA focus groups. These affinities are consequence management, fraud and corruption, and unethical behaviour. Proper accountability will prevent fraud and corruption.

In developing the governance strategy, the study focussed on the primary drivers and secondary drivers that presented theme 1, “Competence”. When incompetence is

eradicated, thus, when the human resources of SOEs are properly trained, experienced, and do what is required—in the first place—with regard to procurement, then the human resources should be able to implement the relevant control environment and adhere to regulated procedure, that may influence the need for consequence management. A better control environment coupled with adequate consequence management may, ultimately, reduce the occurrence of unethical behaviour, including fraud and corruption. Therefore, if theme 1 is corrected, it should positively influence the outcomes offered as theme 2 and theme 3, and this will be central to development of the strategy explored in chapter 6.

## **5.6 Observations by the Researcher**

The researcher observed the following during the IQA focus group processes:

- At the commencement of the sessions, the participants reflected quite profoundly in pondering the reasons why individual employees contravene legislation or regulations that lead to the incurrence of contract adjudication.
- The participants were intrigued by the topic of the discussion and eagerly participated. As a result, their participation was continually active, where they were able to contribute quite significantly regarding their perceptions concerning the reasons why individual employees contravene legislation or regulations that lead to the incurrence of contract adjudication. The participants dissected each affinity in terms of considering the contributory factors.
- Out of the affinities that had emerged, purposeful intent to circumvent rules or regulations was not mentioned by the first group, and only emerged as “Unethical behaviour”. One can therefore debunk the public’s perception, enforced by the media, that irregular expenditure is always the result of malfeasance.

## **5.7 Chapter Summary**

This chapter presented the responses as well as the analyses of the IQA focus group sessions. One question was posed during the IQA focus group, informed by the content analysis and supporting the primary objective of the study. The protection of the identity of the participants was maintained. The participants were able to express their perceptions freely concerning the reasons why individual employees contravene legislation or regulations that lead to the incurrence of contract adjudication. The participants proffered reasons, such as lack of knowledge and training, issues relating to the control environment, issues relating to human resources, and the lack of visibility in consequent management, as well as political pressures. The participants were able to draw relationships amongst the affinities that were identified. Chapter 6 discusses the themes formed from the findings of chapter 5 by means of a literature review and develops a draft irregular expenditure governance strategy for South African SOEs.

## **Chapter 6: Themes Discussion and Irregular Expenditure Governance Strategy**

### **6.1 Introduction**

The premise of the proposed governance strategy stems from the initial chapters that, based on the proliferation of irregular expenditure, the Irregular Expenditure Framework of South Africa, is perceived as being ineffective. The second chapter revealed that the Irregular Expenditure Framework primarily exhibits a reactive focus on occurrence, rather than a proactive focus on prevention. Supporting the notion that the Irregular Expenditure Framework needs to be revisited, irregular expenditure reached an all-time high in the public sector, accompanied by a conspicuous lack of consequence for transgressions. Thus, a disconnect was identified between current practice and what government has introduced (consequence management) to deal with transgressors (refer to section 2.5.2).

The preceding chapter identified perceptions in respect of the reasons why officials are transgressing, disregarding, or circumventing legislation, from which themes could be formulated. This chapter commences with the introduction, followed by a discussion of the themes, underpinned by relevant theories. Then the draft governance strategy follows, and the chapter concludes with the chapter summary.

### **6.2 Discussion of the Themes**

Three themes emerged from the IQA focus group discussions with SOE-stakeholders (refer to section 5.7). The theme discussion critically incorporates the principles of relevant theories, towards developing the draft strategy.

This section deals specifically with theories related to individuals facing a great deal of pressure (both consciously and unconsciously) in their daily lives, whilst executing

their official duties. The knowledge provided by the focus groups was enriching and enticed the researcher to associate the findings with a theory that could elucidate the phenomenon. The researcher approached the study with a social constructivist lens. “Social constructivism” is a sociological theory of knowledge, according to which human development is socially situated and knowledge is constructed via interaction with others. Like social constructionism, social constructivism postulates that people work together to construct artefacts (McKinley 2015). It must be emphasised that this study does not explain the behaviour of individuals that transgress, but merely associate transgression with a particular behaviour, and then devise a strategy by offering a countermeasure. The rationale for including management and behavioural theories in the theoretical framework of the study, was to understand possible reasons for the behaviour of individuals (unethical behaviour) in the work environment. To delimit the study, the themes and theories are discussed in the following sections.

### **6.2.1 Theme 1: Competence**

Competence is comprised of formal competence and competence in use. “Formal competence” refers to an individual possessing certification, such as diplomas, whereas “use competence” refers to an individual’s actual capacity and attributes to perform specific work-related tasks (Martin, Elg, Gremyr & Wallo 2019). Rahman (2021:10) associates an individual’s actual capacity and attributes to perform specific work-related tasks with the measurement of three aspects, namely (1) managerial competence that is related to knowledge, skills and attitudes or behaviours that are observed, gauged, established to lead, and direct institutional units; (2) technical competence that is related to the technical field of the position; (3) cultural social competence related to the experience of interacting with a pluralistic society regarding religion, ethnicity and culture, behaviour, insight, nationality, ethics, values, morals,

and principles, that must be fulfilled by each position holder to obtain work results via roles, functions and positions.

### ***Competence of human resources and associated theories***

Institutions must be able to place its human resources in the correct positions, specifically employing them in positions that are aligned with the individual's qualifications, skills, and achievements. The success of an institution is determined by individuals who display competence. These competencies can be viewed from four areas, namely knowledge, skills, experience, and attitudes of work mastery. Competent employees facilitate the attainment of institutional visions and missions, founded on the capability of human resources to execute simple tasks and functions to inhabit an appropriate position premised on the promotion. Competence has a direct effect on job promotion, when knowledge, skills, experience, and attitudes become a prerequisite in defining an individual's ability to perform work skills and establish authority and work responsibilities, as well as abundant commitment, and their work performance (Yamin & Guntur 2018:1047).

The IQA focus groups perceived human resources as the author of incompetence, as they do not possess the necessary experience, knowledge and training in procurement, and are subject to procurement pressure as well as political pressures. The National Treasury acknowledged the weaknesses described by the IQA focus groups as challenges in finding a greater balance between the two major objectives of procurement. Firstly, s 217(2) of the Constitution (RSA 1996) and the provisions of the PPPFA (RSA 2000) aim to utilise public procurement as a means of development and transformation. Second to this objective is an effective procurement system, that ensures that goods and services are available at the best price, in the right qualities, at the right time and in the right place (RSA 2015:5). Incompetence weakens this



convenience position in pursuing value-for-money spending and equity goals. Therefore, incompetent individuals in the procurement environment subjects the SCM system to manipulation and abuse.

Over the years, researchers have introduced possible reasons for incompetent individuals occupying positions at institutions. Peter and Hull (1969) established the management ideology of the “Peter principle”, postulating that competence and incompetence may be strongly aligned. The principle is premised on natural occurrence and maintains that an employee on the career ladder is likely to be promoted to a position for which they will no longer be competent (“final placement” or “Peter’s plateau”), where they will stagnate, as they do not demonstrate any further competence to be acknowledged for additional promotion. By natural occurrence, individuals are promoted to positions where levels of formal competence, competence in use, managerial competence, technical competence, and social cultural competence, are no longer adequate for the position they occupy. For example, an employee who excels in enforcing adherence to company policies and regulatory legislation may be promoted into the position of drafting such policies, even though being able to enforce compliance does not signify that the individual is well-suited to draft policies. Enforcing policies may indicate managerial competency and even social cultural competency, however, the drafting of policies may require technical competence—in which the individual may not excel. The final placement is inevitable, given enough time and enough positions in the hierarchy to which competent employees may be promoted, to a position that renders them incompetent (Peter & Hull 1969).

In an endeavour to test the Peter principle, Benson, Li, and Shue (2018) conducted a study that sought to analyse workers’ sales performance and promotion practices at

214 companies. Supporting the Peter principle, their study found that companies do promote employees to managerial positions premised on their performance in their previous positions, instead of being premised on their managerial potential.

The Dilbert principle can be compared to the Peter principle. The “Dilbert principle” is a management notion developed by Scott Adams (Adams 1996), that considers institutions to systematically promote incompetent employees to management positions, to detach them from the actual operational workflow. The Dilbert principle is premised on the notion that, in many cases, the least competent are promoted. The doctrine suggests that institutions promote employees that do not wish to be a functionary but would excel at dispensing instructions and reprimanding subordinates for uncompleted work assignments. The drawback is that the managers would not be able to provide adequate supervision of controls, as they themselves are technically incompetent, which becomes detrimental to the institution.

Supporting both the Peter principle and the Dilbert principle, Ghinea, Ghinea and Cantaragiu (2016:4) considered incompetence to result from percussive sublimation. “Percussive sublimation” is a pseudo-promotion technique, used to hide the defects in the institution’s promotion policy. Percussive sublimation is promoting an employee to a more advanced level than what they are competent for, to quietly detach the employee from a productive workforce without dismissing them, as opposed to rewarding them for meritorious service. Percussive sublimation is believed to create the base for staff morale and maintains the hierarchy. By distinction, the Dilbert principle advocates that hierarchy aids in eliminating the incompetent to advanced positions where they will be unable to effect impairment of the workflow. If the upper tiers of an institution have diminutive relevance to its actual production, most of the real, productive work of an institution is completed by employees lower on the power

ladder (Adams 1996). Adversely, dismissing the incompetent person—according to the Peter principle—might result in that individual obtaining alternative employment with the direct competitor of the institution, despite that individual's incompetence, and that knowledge could be dangerous. Institutions would rather adhere to labour practices by reassigning incompetent employees to alternative job functions where they would be able to function optimally, instead of dismissing such employees. The pseudo-promotion is a lateral positioning (lateral transfer), that refers to offering the incompetent employee the idea of a promotion through a more remarkable title and then moving his office outside the principal working area, without an actual increase in rank or in pay. The lateral transfer improves staff morale, as other employees believe that they too can be promoted again. Ultimately, the promotions of incompetent employees as suggested by the Peter principle are illusory exceptions, considered to be effective in enhancing staff morale, as a promotion is granted in one way or another. Next, Ghinea et al. (2016:1) added a few more reasons why institutions permit the appointment of incompetent individuals, namely hierarchical exfoliation, paternal in-step and the political nature of institutions. "Hierarchical exfoliation" describes how institutions rid themselves of both the least and the most competent employees. Peter and Hull (1969) opined that, in most hierarchies where hierarchical exfoliation is present, competence is more objectionable than incompetence. Those that are in management positions and who have reached their "final placement", perceive those that are competent as a threat to management and their status quo. Employees that are competent disrupt and violate the preservation of the hierarchy. Contrarily, incompetence is no cause for dismissal, but simply a bar to promotion. "Paternal in-step" refers to the instance where a person of authority decides on promoting a family member several steps above their level of competence.

This study considered the aforesaid to be detrimental promotion practices that may result in poorly managed SOEs, if applicable, that manifest it selves via incompetence, corruption and generally poor delivery of public services (refer to section 2.2). This notion was supported by the IQA focus group sentiments that institutional structures that are not capacitated at the correct levels, result in institutional leadership and governance oversight that may not be able to prevent unwarranted expenditure. Moreover, the political nature of institutions usually interferes with the reward- and promotion institutional practices, where real competence is neglected to achieve pay-back promotions (Beeman 1981)—referred to as a “patronage consideration” (Franks 2014:50), and nepotism (Gjinovci 2016:421; Shneikat, Abubakar & Ilkan 2016:39; Chrisman, Chua, Pearson & Barnett 2012). Concurring with the views of the IQA focus groups that political pressures within SOEs coerce officials to violate policies and procedures to remain in favour of their superiors, political interference impacts the effectiveness of institutions and its control environment.

The unorthodox concept of the Peter principle’s supposition of natural occurrence, i.e., that individual employees are promoted based on their level of competence in their current roles, possesses negative consequences. The individual may be well competent in their current role and therefore may be promoted to a managerial position, irrespective of those employees possessing the necessary competencies sought for the new position. The employment of incompetent managers is undesirable as it negatively affects staff morale, productivity and innovation, and results in institutional mismanagement and inefficiency, that may have the potential to lead to unethical behaviour, in the case where the incompetent individual’s ignorance renders them susceptible to manipulation by transgressors. Demoting the individual—once promoted—is not possible, as the demotion is hindered by labour laws.

The Dilbert principle asserts that an institution's least effective employees are ultimately promoted directly to management without ever passing through— what Peter and Hull (1969) describe as—the temporary competence stages of the institution's hierarchy. Faria and Mixon (2020:116) considered the Dilbert principle to be a sub-optimal version of the Peter principle. In an endeavour to avert the Dilbert principle, it is crucial for institutions to continually maintain a level of evaluation of employees. Employees should also strive to self-improve through continuous development, to avert stagnation and incompetence.

The National Treasury issued a directive that the accounting officer or accounting authority, of an institution in respect of which procurement regulations are applicable, must ensure that officials executing the institution's procurement systems are trained and deployed in accordance with the requirements of the Framework for Minimum Training and Deployment (RSA 2003b). The training initiatives suggested by National Treasury include (a) introduction to SCM; (b) intermediate training with the focus on intensive training in all elements of SCM; (c) advanced training that includes specialist skills concerning each element of SCM, such as strategic sourcing (RSA 2004).

Regarding patronage that may include nepotism, and the reasons held by Ghinea et al. (2016:1), such as hierarchical exfoliation and paternal in-step, a strong dynamic may exist between the appointment of incompetent people by SOEs and the reason for it. The reason put forth by Khasoane (2019:155), is the challenge for competent individuals appointed through patronage to act both competently and ethically, as patronage demands may eventually require unethical conduct or deviation from work processes. Other motivating factors suggested by Moleketi (2006:6), for the appointment of incompetent employees in the wider South African public sector, are recruitment via political processes, and affirmative action congealed around the

concept of cadre deployment, that comprise selection of loyal party members in senior administrative positions. Incompetent managers contribute to the appointment of incompetent employees, by appointing less competent subordinates to protect their own positions and political interests (Franks 2014:49), complementing the sentiments of hierarchical exfoliation.

The culture of cadre deployment maintains a strong presence in the South African public sector and has resulted in the emergence of the State Capture Commission. Capturing the state via cadre deployment was strongly evident when the ANC became the governing party as the concept of cadre deployment is premised on when a political party comes to power. Following its victory, it cannot appoint just anyone to a strategic position—it must select the people who have worked for the party and read from the same script (Dlamini 2022). Through cadre deployment, the ANC had expectations that it would influence board appointments via the ANC Deployment Committee. Cadre deployment inculcates incompetence and a lack of accountability (consequence management), though this issue may be primarily responsible for the proliferation of irregular expenditure and the demise of SOEs (RSA 2022:761). Schoburgh and Ryan (2017), and Viljoen (2017), considered the basis of the aforesaid as an exclusive characteristic, whereby political leaders are tasked with the administrative functions of governance and management, finding themselves recruiting unqualified officials to positions that they are not competent for and, thus, causing commotion, ambiguity, and low morale amongst employees in the public service. The culture of cadre deployment has obstructed human resource management in the wider South African public sector, as recruitment processes are often marred by inconsistencies that affect the performance of handpicked cadres (Shava & Chamisa 2018:12).

Scholars claim that public sector employment is a favourable instrument for patronage, in comparison to other forms of redistributing public resources towards supporters, as public sector positions are easily targeted, the level of redistribution can be obscured (Levy, Hirsch, Naidoo & Nxele 2021:29; Colonnelli, Teso & Prem 2018; Lizzeri & Persico 2001; Persson & Tabellini 1999) and such appointments can aid overcoming political commitment issues, as well (Robinson & Verdier 2013).

This study did not endeavour to dissect the patronage system phenomenon. However, it is imperative to comprehend that political discretion over the autonomy of SOEs leads to extensive patronage, the appointment of lower quality employees and interference in the operational administration of SOEs. A crucial element that needs to be considered in counter measuring both the Peter principle and the Dilbert principle, as well as patronage consideration and nepotism, is how SOEs can be separated from undue political interference.

The Labour Relations Act 66 of 1995 (RSA 1995) offers employers the prerogative to conduct procedures towards acquiring suitable candidates, whether for an appointment or promotion. Unless gross unfairness or *mala fide* conduct on the part of the employer can be proved by the employee, the employer holds the prerogative to appoint and promote employees as it sees fit.

### ***Initiatives to counter measure the appointment of incompetent individuals by SOEs***

This study proposes the following initiatives in counter measuring the appointment of incompetent individuals by SOEs:

(1) As counter measure to the debilitating practices of the Peter- and Dilbert principles, as well as percussive sublimation and paternal in-step, oversight bodies should issue directives to be strictly adhered to when sourcing individuals in the procurement

environment. The individuals are to possess the competencies listed (cross references provided) in the draft strategy at the end of the chapter, as the competencies described by National Treasury are not explicit in terms of the requirements that need to be adhered to and the procurement knowledge individuals should possess. The competencies should include formal competence (qualifications), competence in use (experience), managerial competence (personal characteristic plus training), technical competence (education/training), and social cultural competence (emotional intelligence/training). Institutions do not appropriately attend to understanding the risk associated with appointing an incompetent individual and how that risk should be managed. Procurement personnel should be assessed for competence by testing whether that individual can perform the necessary duties. The assessments can assist institutions to identify certain traits and tendencies that can increase individuals' likelihood to demonstrate risk behaviour. Risks must be identified, and mitigating factors must be instituted, premised on the risk to manage and development of individuals. When interviewed via Microsoft Teams (Microsoft 2022) on 7 December 2021, Mr. Magwaza—a senior specialist of Institutional Effectiveness and Human Capital Management—confirmed that South Africa currently holds a great number of law school graduates that are unemployed. This pool of relevant knowledge can be considered to improve the quality of appointment in the procurement environment. To curb the debilitating practices of the Peter- and Dilbert principles, as well as percussive sublimation and paternal in-step, it should be compulsory to include an internal auditor as part of the recruitment process, as a member of the interview panel. The internal auditor must be granted an observer status, to provide reasonable assurance that the results are not manipulated. Currently, no directive is available in respect of the composition of an interview panel for a procurement position.



(2) An approved training plan for existing and new lower-level employees should be implemented, in respect of the performance of duties expected for their positions (technical competence). Following their gaining of experience, the individual should be able to transfer skills to others. The training initiatives suggested by National Treasury do not set out the technical details of a set of intended actions through which one becomes competent at a procurement function, and the measure of competence lies in the ability to be able to perform specific work-related tasks and transfer those skills to others.

(3) Employees will need continuous development towards competence and, when suitable, they can then be recommended for promotion (at this stage the employee would have acquired competence in use and managerial competence), should they display the potential to acquire the competence requirements of the next level. Possessing the necessary skills required for a specific job responsibility allows the individual to be competent at their work and affords the individual opportunities for promotion to a position that requires different skills.

### **6.2.2 Theme 2: Procurement environment**

An effective procurement environment positions SOEs to source products and services it needs in a timely and cost-effective manner, in adherence to policies, procedures and legislative requirements. The IQA focus groups associated the “Procurement environment”-theme with weaknesses in the control environment, general planning, procurement planning and other regulatory challenges, contributed to by incompetent employees. The IQA focus groups regarded the procurement environment to be dysfunctional and weak. It was stressed that the lack of policies and procedures by SOEs allow employees to ignore procurement processes and incur expenditure outside approval rights. The ineffective control environment is owing to

the incorrect application of regulations and inadequate procurement experience in a procurement environment. When the control environment is not intact, it may be subject to purposeful manipulation.

***Theories that endeavour to explain why the procurement environment is dysfunctional***

The theory of reasoned action (TRA) endeavours to elucidate the reasons why employees would not want to implement controls or circumvent existing controls. The TRA aligned the supposition to an individual's intent to discharge a behaviour, determined by a combination of that individual's attitude towards the behaviour, together with their beliefs regarding what others—whose opinions are valued—think, as well as beliefs concerning whether prominent figures accept or refute their behaviour, i.e. subjective norm (Swartz, de la Rey, Duncan & Townsend 2011:403; Becker & Gibson 1998).

Ajzen (1985) in their theory of planned behaviour (TPB) added (to the TRA) an aspect of perceived behavioural control, that considers influences by the community as well as society. "Perceived behavioural control" is the extent to which individuals believe that they have control over their behaviour. The TRA appreciates societal influences but emphasises the individual's subjective evaluation of these influences. An example is the official who may be inclined to follow procurement processes, however, they also believe that society expects them to assist in awarding contracts to acquaintances. As with attitudes and subjective norms (the expectations of family and/or important people regarding the behaviour), perceived behavioural control is understood to sway intentions in executing a particular behaviour. The cognitive perspectives are too idiosyncratic and presumptuous for individuals to create sensible decisions. Albeit most juveniles, and some adults, do not confront risk taking (in

engaging in a transgressive behaviour) from a reasonable perspective. Emotional- and interpersonal issues, as well as economic- and power relations in society, often subsidise an imperative role in establishing risk behaviour. Societal expectation in a South African context holds a strong presence, given that Jacob Zuma, being the country's President at the time, may have influenced the appointment of his 25-year-old daughter as chief-of-staff of the Department of Telecommunications and Postal Services, in 2014 (Smith 2014). There is a broader context that leads to such a conclusion being accepted by society, premised on the notion that the ANC, the ruling party since 1994, is—according to Smith (2014)—a party of insiders and outsiders. Smith asserted that individuals in the inner circles continue to benefit and advance themselves, while those on the outside continue to languish in poverty and inequality. The TRA is applicable to both instances. In the first instance, real competence has been neglected and nepotism was applied (refer to section 6.2.1). In the second instance, those responsible for the appointment have interfered with the reward and promotion of institutional practices. This is done in the hope that the people they have appointed will be able to fulfil their own interests, as they may exert pressure on these appointments to achieve pay-back promotions by creating a sub-network (loyalists) of people who are indebted to their appointers. The IoDSA (2019) claimed that there are flaws in the appointment processes of leaders in the public sector, where leadership competencies are not sufficiently considered. Therefore, in trying to address the issues of leadership appointments in the public sector, it is imperative to consider individuals to be subjected to competency tests, prior to their elevation to positions of high responsibility (IoDSA 2019), which is in accordance with this study's proposed counter measures to the appointment of incompetent employees.

In addition to the TRA, Immanuel Kant (Kant & Wood 1996) presented the Deontology theory that is concerned with the ethical behaviour of an action and asserts that it should be premised on whether that action by the individual is, right or wrong, according to a sequence of rules, as opposed to the consequences of the action (Alexander & Moore 2015). The Deontology theory can occasionally be classified as duty-, obligation-, or rule-based ethics (Waller 2005; Flew 1979). Deontological ethics are frequently distinguished to consequentialism, virtue ethics and pragmatic ethics (Beauchamp 1991). Considering this terminology, the action is more imperative than the consequences. Contingent on the system of the Deontological ethics under deliberation, a moral responsibility may arise from an external or internal source, such as a set of rules inherent to the universe (ethical naturalism), religious law, or a set of personal or cultural values—any of which may conflict with personal desires (Flew 1979).

The comprehension and explanation of human behaviour, and changing human demeanour, as a primary point in psychology, is further elucidated in Klöckner and Blöbaum's (2010:574) proposal of a complex comprehensive action determination model (CADM). The CADM was established by integrating the TPB, the norm activation model (NAM), and other variables, such as habits and situational influence, into a behavioural decision model, with the purpose to offer a profound explanation of pro-environmental behaviours (Fang, Huang, Cheng, Chiu, Chiang, Hsu & Ng 2021:2). Klöckner and Blöbaum (2010:576) suggested that the first imperative supposition is that an individual's behaviour is directly determined by influences from three conceivable sources: intentional, situational, and habitual. The concept is undoubtedly endorsed by other scholars (Tanner, Kaiser & Wöfling Kast 2004; Klöckner, Matthies & Hunecke 2003; Bamberg & Schmidt 1998; Verplanken, Aarts, van Knippenberg &

van Knippenberg 1994). In comparison to the NAM (Schwartz & Howard 1981; Schwartz 1977) that accepts personal norms as a direct predictor of behaviour, the impact of social or personal norms in the CADM is not direct—instead it is facilitated by intentional—and habitual processes. Together with attitudes and perceived behavioural control, personal and social norms are an inference utilised to produce intentions in a decision-making situation. Whilst attitudes reflect cognitive and affective beliefs regarding the behaviour in question, and perceived behavioural control indicates beliefs concerning the level of determination, personal norms provide the moral “colouring” of the decision-making process. The integrating stage, however, is the intention, that is generated immediately prior to a behavioural decision being made.

When a situation activates a personal norm by producing an awareness of a necessity, an awareness of consequences, and the necessary perceived behavioural control in the first place, that then impact personal norms, personal norms can become relevant in generating an intention to act in line with the personal norm. The possibility still exists to refute responsibility and deactivate a personal norm, that would influence its effect on intentions, but usually not the personal norm itself. Thus, personal norms themselves are regarded as rather stable, what may vary between situations is their impact on intentions. Ajzen and Fishbein (2005), and Verplanken et al. (1994), considered habitual and situational processes to disrupt intentional processes and abate the impact of intentions on behaviour. Perceived behavioural control is necessary to activate normative- and intentional processes. Therefore, situational influences affect normative- and intentional processes (Harland, Staats & Wilke 2007; Ajzen 1991). It can be expected that personal norms adjust to situational conditions

over the long term, as norms to behave in a subjectively or objectively impossible way, will change or be deactivated in the long run.

Another design utilised in the comprehensive model, the NAM (Schwartz & Howard 1981; Schwartz 1977), assumes that the driving force of behaviour is a feeling of moral obligation or personal norm. The personal norm is not constantly functioning but must be activated during a preceding process of norm-activation. By way of explanation, the process only commences when a person observes someone or something in need (awareness of need). A person only acts if they see a causal association between their actions and the problematic outcome (awareness of consequences). Finally, the acting person must experience some amount of perceived behavioural control, to activate the personal norm. The NAM pronounces that personal norms are probably the most imperative predictor of norm-oriented behaviour, but not the sole one. Social norms (as in the TPB) are also supposed to impact behaviour, both directly and mediated by personal norms.

The NAM emphasises personal norms, then underestimates the duty of habits, intentions, attitudes, and the situations its selves. The theoretical notion of habits expresses the collaboration of intentions and habits, but neglects to appropriately resolve non-automatic situational facilitation and constraints of behaviour, as well as normative processes. Lastly, the ipsative theory of behaviour effectively defines the objective and subjective features of situations as predictors of behaviour, but entirely disregards intentional-, habitual-, or normative processes, regardless of initial bids to blend selected models, such as the TPB and NAM (Bamberg, Hunecke & Blöbaum 2007).

In establishing why people do what they do, especially trying to align the will to transgress to a particular behavioural theory, it is suggested that the TRA should be

viewed comparatively with the Deontology theory, CADM and NAM, as its theoretical tenets complement each other. The TRA suggests that, in changing the behaviour of people and possessing the right calibre of employees who are competent and possess the appropriate competencies in the procurement environment, one may change the culture in and attitude with which these employees operate. The Deontology theory and the NAM concentrates on duties or moral obligations by employees. The CADM posits that an individual's behaviour is directly determined by influences from the environment around them. The TRA is premised on societal perceptions and—expectations, that this researcher considers to directly create the lack of reprimand or decisive action where incompetence or malfeasance is at hand—a root cause of the pestilence that drives unethical behaviour. An imperative question arises when dealing with societal norms and -standards: How do you change unethical expectations by society? In addition, how can cultural- and work expectations be reconciled, to render a more effective procurement environment?

### ***Initiatives to counteract a dysfunctional procurement environment***

In answering the questions above, this study proposed the following initiatives:

(1) Changing unethical behaviour and expectations by society is an intransigent task that might need to be resolved via the education system of the country. This involves both basic- and higher education, as scholars from both education systems are members of societies as well as future employees of SOEs and will then be subjected to societal expectations. Society norms and -expectations need to be managed via rules of morality, to change expectations that individuals who have “made it in life” are compelled to give back to their people and look after them. Rules of morality through government policies applied to both basic- and higher education systems, therefore, need to emphasise a strong culture of ethical behaviour and consider the impact of

those self-engaging in unethical behaviour, particularly behaviour resulting in irregular expenditure, and the impact thereof on communities. Erasmus and Fourie (2018), in their study, endeavoured to change the attitude of students to be more positive towards their studies. Their study associated the improvement of the attitude-behaviour relationship with the TRA. They asserted that Madden, Ellen, and Ajzen (1992) considered the TRA, to suggest that attitudes and subjective social norm influences affect the foundation of behavioural objectives, that lead to a set behaviour and, ultimately, a specific outcome (Erasmus & Fourie 2018:499). Schwitzgebel, Cokelet and Singer (2020:7) conducted a study to determine whether ethics classes at university can influence students' real-world moral choices. Schwitzgebel et al. (2020:7) used direct observational data rather than self-report, by means of a philosophy article, a fifty-minute philosophy discussion section, and an optional online video concerning ethics. Their results showed that university-based ethics classes do have the potential to reduce unethical behaviour among students.

(2) Institutions must reconcile ethical culture and work expectations by recruiting and selecting candidates who will be inclined and aligned to follow ethical behaviour, who will share the institution's beliefs and strive towards that culture. It must develop orientation-, training- and performance management programs that provide the framework and reinforcement of the institution's core values, ensuring that employees who truly exemplify the values are appropriately rewarded and recognised. In appointing suitable employees who possess the necessary, desired competencies, SOEs should follow up on references provided and conduct thorough background checks. Contacting previous employers can validate the applicant's reasons for leaving, as well as provide more knowledge concerning overall performance and capabilities. Occasionally, an employee turns out to be incompetent in doing their



work, even though they possess the necessary qualifications and experience. SOEs should therefore enforce the probation clauses in the employment contract. Prior to enforcing the probation clauses where incompetence is at hand, institutions should first apply rigour in their appointing activities—once individuals have been identified to be appointed, institutions need to ensure that those individuals receive adequate training to master certain skills required, to allow them to improve their level of skill and operate effectively in their roles during the probation period. Auzoult and Mazilescu (2021:1) suggested that exercising ethical and responsible management is a major contest for a great number of institutions. Several studies (Kozáková, Urbánová & Savov 2021; Islam & Alharthi 2020; Lee & Ha-Brookshire 2017; Arjoon 2000) have found that institutions that implement strategies centred on ethics, gain material and symbolic benefits in terms of profit and reputation. Auzoult and Mazilescu (2021:7) further suggested that emphasising the pertinence of rules of conduct and social expectations (by supervisors, the institution, and beneficiaries of services) can potentially lead to reducing unethical behaviour and enhance ethical behaviour.

### **6.2.3 Theme 3: Accountability**

“Accountability” has been defined as an implied or obvious anticipation that may be required to justify belief, feelings, and actions, to others (refer to section 2.7.3). The IQA focus groups associated the Accountability theme with inadequate consequence management, that leads to unethical behaviour, such as fraud and corruption.

SOEs present easy targets to those who wish to commit transgressions, who believe that SOEs’ systems are weak, and that its detection methods are inadequate and can be manipulated. If there are no adverse consequences for transgressors and those mismanaging public funds, transgressors will not desist from such behaviour. Therefore, the absence of solid individual accountability, as well as effective

deterrence mechanisms, constitute inadequate consequence management by South African SOEs. The control systems of the procurement environment are often manipulated by corrupt individuals (Moeti 2014). The manipulation of controls ensues because of weaknesses in the SOE-controls creating fertile ground for malfeasance, as there is no authoritative individual or mechanisms to hold the transgressors accountable for their actions (Pillay 2016). Ingrams (2017), Hoffman (2016) and Pillay (2016), attribute this criticism to cadre deployment, as SOE- employees will be obliged to service the political wishes of their masters.

### ***Theories that can be linked to accountability***

The theory of accountability by Lerner and Tetlock (1999) endeavour to elucidate how the alleged desire to defend one's demeanour to another party, causes one to take into consideration and feel accountable for the process by which decisions and judgments have been rendered. The perceived desire to account for a decision-making process and the outcome, enhances the probability that one will consider one's procedural demeanour, methodically. Roberts and Scapens (1985:447) described accountability as the giving and demanding of reasons for conduct.

Lerner and Tetlock (1999:255) suggested that the theory proposes several mechanisms that enhance accountability perception. Vance, Lowry and Eggett (2015) list these as: (1) identifiability; (2) expectation of evaluation; (3) awareness of monitoring; and (4) social presence. "Identifiability" refers to an individual's comprehension that their actions could be associated with them and thus reveal their identity (Williams, Harkins & Latané 1981:309). "Expectation of evaluation" is the anticipation that an individual's performance will be measured by another party in accordance with some prescriptive framework and with some implicit consequences (Lerner & Tetlock 1999:255). "Awareness of monitoring" relates to an individual's state

of dynamic reasoning that their system-related work is monitored (Vance, Lowry & Eggett 2015). “Social presence” relates to the awareness of other users in the system (Vance, Lowry & Eggett 2015).

Bovens (1998:26) identified accountability as an aspect of responsibility classified it as “passive responsibility as accountability” and “active responsibility as virtue”. Van de Poel (2011) distinguished between passive responsibility and virtue. Accountability reverts to the question: “Why did you do it”? Passive responsibility is retrospective, only relevant after something undesirable has occurred, and takes three specific forms, namely accountability (being held to account), blameworthiness (being a proper target of blame for one’s actions), and liability (related to the obligation to pay a fine or repair or repay damages). Virtue is prospective and is directly concerned with the question: “What is to be done?”. Jing and Doorn (2020:236) posited that passive responsibility needs to consider several conditions to be able to hold an individual responsible. Bivins (2006:21) described these conditions as: (1) the individual must be functionally and/or morally responsible for an action; (2) the action has resulted in a material loss; (3) the individual does not possess a legitimate excuse for the conduct. Bovens (1998) listed the following features of active responsibility: (1) adequate perception of threatened violations of norms; (2) consideration of the consequences; (3) autonomy and the ability to make one’s own independent moral decisions; (4) displaying conduct that is based on a verifiable and consistent code; and (5) taking role obligations seriously.

Schedler (1999) presented the two aspects of accountability to emphasise the power to demand answers and to apply sanctions, where appropriate. Rules, as well as law, governmental roles, and authoritative direction, offer clear reasons for action. Accountability and responsibility are therefore commonly conceived in terms of the

dutiful performance of authoritatively established role requirements, i.e., a responsible person is one who is disposed to take their duties seriously (Hart 1968:213). The relationship between role responsibility, autonomy, and accountability, thus, increasingly appears rather paradoxical. On the one hand, it appears that one who breaches duties authoritatively imposed on them by their role, seem—almost by definition—to be behaving irresponsibly and unaccountably. On the other hand, there is an understanding that there can be no real personal responsibility or accountability in the absence of autonomy—a responsible person listens to the advice and commands of others, but acts, and eventually decides, of his own accord, and not the premise of his own views and norms (Bovens 1998:35).

There are challenges with ensuring accountability. The first challenge holds that there needs to be an observable punishment that can deter individual employees from transgressing. Secondly, responsibility normally exists without authority and in certain instances authority exists without responsibility, and there may be lack of autonomy, that may be the result of undue influence when an individual is charged with making certain decisions. The second chapter of this thesis proposed a definite alignment between responsibility, authority, and influence, in attempting to bring individuals to account for wrongdoing against what is institutionalised as ethics or norms.

The researcher was convinced by the preceding work that the draft strategy should be underpinned by accountability theories. SOEs should ensure that responsibility is accompanied by the appropriate authority to ensure that superiors at institutions possess the required authority to sanction subordinates who transgress. Responsibility, coupled with the appropriate authority, prevents individual employees—who are not made accountable for their decisions and actions—from acting recklessly, as they would have done, had they presumed no negative

consequences. Autonomy should be established in respect of independent roles and decisions. Undue influence must be separated from the framework in which an individual is charged with taking decisions. Shava and Chamisa (2018:13) claimed that responsibility with appropriate authority is impeded by overt politicisation, nepotism, and the appointment of unqualified labour. Although it may be difficult to separate politics from administrative routines, it is crucial to revise the cadre deployment policies of the ruling political party, that has caused the conundrum of responsibility existing without appropriate authority. It is quite imperative, as well, to ensure that politicians, accounting officers and procurement officials yield to being accountable and consistently maintain the culture of being accountable. Accountability is an integral part of ethics and is the rational way an individual should conduct themselves to appreciate their obligation to taxpayers with regard to the state resources entrusted to them.

The second chapter (refer to section 2.3.3) introduced the deterrence theory, that asserts that individuals' transgressions can be dissuaded through the imposition—with some degree of surety—of severe and definite legal enforcements. Imperative to the deterrence theory, was Lee's argument that emphasised the deep deterrence theory, that sought to rather appeal to a person's sense of honour and/or self-respect, causing the sanction to emanate from within, so that a person may not commit a crime even when they are sure that no external sanction will ensue. This study considered the effectiveness of Lee's concept to be premised on the alignment of the initiatives proposed in section 6.2.2, where a strong culture of ethical behaviour needs to be achieved via the education system; institutions need to reconcile cultural- and work expectations by recruiting and selecting candidates who will be inclined and aligned to follow ethical behaviour, share the institution's beliefs and thrive in that culture; and

institutions need to ensure that employees who truly exemplify its values are appropriately rewarded and recognised. Conversely, the shallow (traditional) deterrence theory appeals to external sanctions only, whereas the deep theory appeals to an internal sanction, namely one's respect for others and their own sense of self-respect. Doig and Riley (1998:57) proposed a more effective element in deterrence by weighing restitution and retribution to determine the purpose of the public integrity, in addressing financial mismanagement by public SOEs. "Retribution" is the observable punishment of perpetrators, that relies on effective internal criminal justice systems or "restitution", that is safeguarding state assets and pursuing to return to the state those assets and associated unethical payments acquired illegally—not only depending on effective systems, but agencies charged with asset tracing, confiscation, and forfeiture.

### ***Initiatives to enhance accountability***

Retribution is one of the most effective remedial actions that can be taken to reduce the surge of irregular expenditure. Kinasih (2019), in their study, suggested that retribution can increase transparency, accountability and community participation, to minimise financial misdemeanours. Shah (2007) stated that the manifestation of financial misdemeanours in the public sector is highly dependent on several factors, namely (1) the quality of public sector management; (2) the nature and condition of the relationship of accountability between government and society; (3) the legal framework; and (4) the level of the process of the public sector complemented by transparency and dissemination of information. Although retribution will certainly deter individuals where material irregularity is concerned and associated with malfeasance, it will not necessarily change the principle of how people perceive transgressions. Lee's concept of the deep deterrence theory is rather crucial in changing the perception of individuals to apply rules and follow processes or instil disciplinary

action. In alignment with a strong culture of ethical behaviour being emphasised via the education system, as proposed in the preceding section, the deep deterrence theory might be imperative to change individual behaviour towards transgressing.

In addition to retribution, restitution can potentially present another effective remedial action to enhance consequence management. Should transgressors be made aware of the retribution possibilities when they are involved in irregular expenditure transgressions, then the SOE should recover the value of the irregular expenditure via either fines or forfeitures of individual (perpetrator's) assets. Institutions should enforce the acknowledgement of debt, in cases where transgressors have been found guilty of financial misconduct. The acknowledgement of debt becomes a liquid document where the transgressor concedes liability, and it can be used to obtain a judgement to instruct a sheriff to attach the transgressor's assets. The aforesaid must be enforced via a directive that ensures the application of this procedure. The directive can be monitored through a register that must be reviewed by the AGSA, to ensure that the procedure ensued. The existing framework endeavours to curb malfeasance, however, political will and -interests hinder the effectiveness of the framework in enabling SOEs to fulfil its obligations to society.

It was necessary to comprehend the unconscious- and purposeful intent proposed by the theories, to explain the themes, to obtain a profound view in support of the development of the draft governance strategy that seeks to mitigate irregular expenditure risk associated with contract adjudication. The next section proposes countermeasures to the shortcomings identified in the current section.

## **6.3 The Proposed Governance Strategy**

### **6.3.1 Guiding principles**

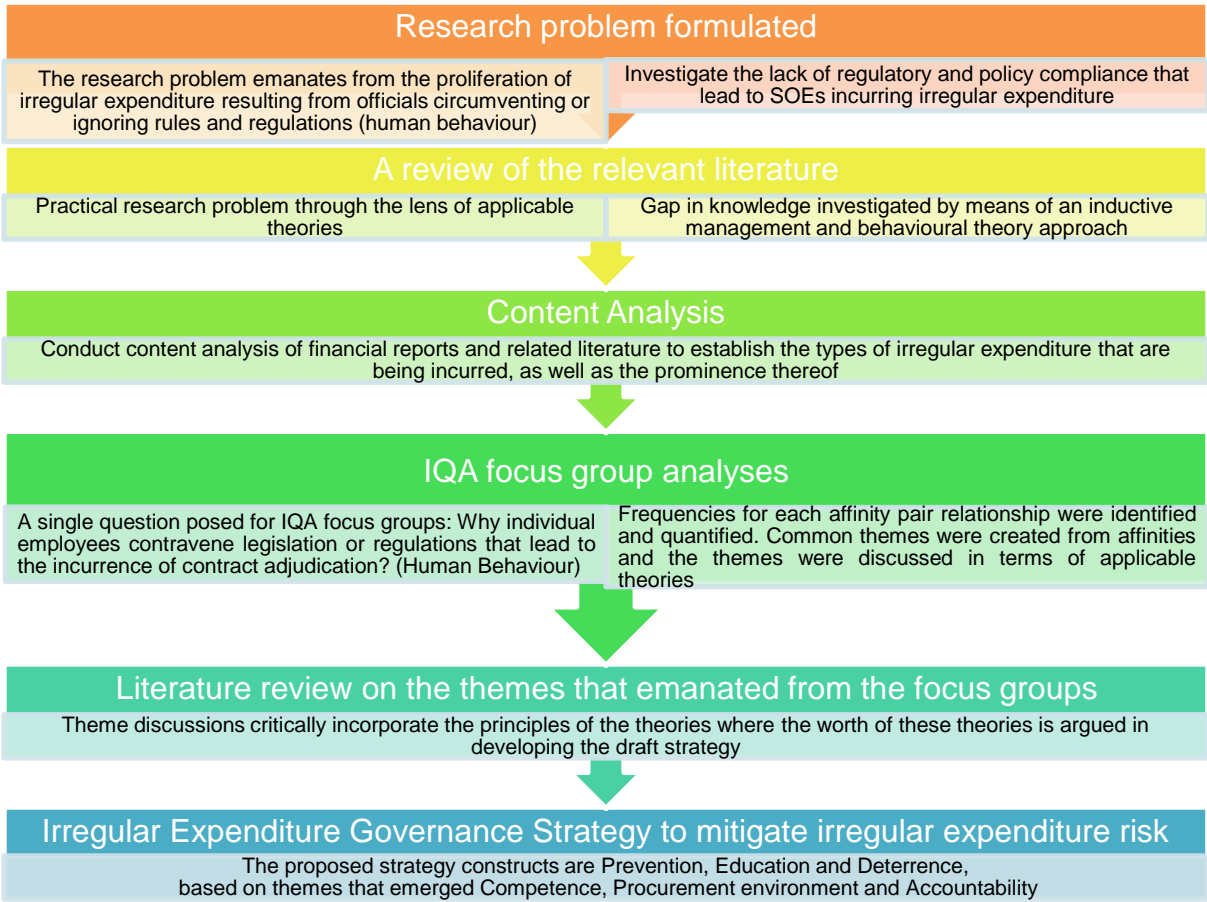
The proposed strategy for proactive treatment of irregular expenditure ensued from the logical approach of figure 6.1 and was encouraged by the Peter principle, the Dilbert principle, the TRA, the Deontology Theory, the Theory of Accountability, as well as the Deterrence Theory, that could all be associated with the findings of the study. The draft governance strategy is underpinned by the weaknesses identified in the current Irregular Expenditure Management Framework, where disciplinary actions are seemingly not enforced. The draft strategy is also informed by the National Development Plan (NDP), that suggested ensuring a clean state, and the Irregular Expenditure Management Framework (RSA 2019a) that needs to be improved on three fronts: Prevention, Education and Deterrence (refer to section 2.5.1). In the second chapter, Prevention was described to be system based, including information and audits, to encumber corrupt behaviour (RSA 2012:46), in accordance with the NPM theory / Organisational governance theory. Education was described to focus on changing human demeanour through information on the subject, i.e., Behavioural theories. Deterrence was described to be assisting individuals to understand that they might get caught and punished, in accordance with the Deterrence theory.

Crucially, the draft strategy is guided as well by the outcomes established in the preceding chapter, that revealed that SOEs are not employing the most suitable individuals that possess the necessary experience, training and knowledge required, to correctly interpret legislation and regulation in respect of the procurement function. The themes from the focus group findings discussed in this chapter were Competence, Procurement environment and Accountability, that integrates with the strategy constructs of Prevention, Education and Deterrence. The Competence theme



emerged because of employees who do not hold the necessary capacity and are subject to procurement pressure, as well as political pressures. As a countermeasure to the obstacles to competence, the offensive approach, Prevention, is offered. Prevention is also suggested as remedy to the theme Procurement environment, as it was regarded to be dysfunctional and weak. The theme Accountability emerged owing to inadequate consequence management, that leads to unethical behaviour. Both Deterrence and Education are offered as countermeasures to the theme.

Prevention, Education and Deterrence are premised on Hong Kong's ICAC model, celebrated for its success in upholding a corruption-free society (refer to section 2.4.1). Hong Kong's ICAC model comprised a three-pronged approach that included Investigation, Prevention and Education. The model's agenda and focus were determined, from the onset, to afford an immediate, generic building block for good government, where other administrative reforms have proven to be problematic. It is on this premise that the study borrows the approach in combating corruption and applies it in proposing a governance strategy that mitigates irregular expenditure risk, except for replacing "investigation" with "deterrence", as investigation had already been included in the National Treasury's current Irregular Expenditure Framework. The conceptual framework in formulating the study's strategy, is presented below, in figure 6.1.



**Figure 6.1: The conceptual framework in formulating the proposed strategy**  
 (Source: Own compilation)

### 6.3.2 The draft strategy

The draft strategy is presented in the section below and table 6.1, proposing countermeasures in addressing the negative implications of the themes and theories identified, to correct the human resource element within the procurement function, specifically with regard to contract adjudication.

**Table 6.1: The draft strategy**

| Approaches | Features  | Actions   |
|------------|---|---|
| Prevention | Sourcing competent individuals in the procurement environment | <p><b>Appointing individuals:</b></p> <ul style="list-style-type: none"> <li>• SOEs should follow acceptable vetting processes by following up on references provided and conducting thorough background checks, such as contacting previous employers to validate the applicant’s reason for leaving (refer to section 6.2.1).</li> <li>• Potential and existing employees must be profiled to assess whether they have any business interests with the State. If they do, they must be afforded the opportunity to relinquish those interests to avert compromising internal controls and the procurement environment (refer to section 6.2.1).</li> <li>• To curb the Peter- and Dilbert principles, as well as percussive sublimation and paternal in-step, an internal auditor must be one of the interview panellists during recruitment, to act as observer and to, ultimately, verify the score results to ensure that the results are not manipulated (refer to section 6.2.1).</li> <li>• Competence must be determined with technical and psychometric assessments, designed specifically for the new position, to determine beforehand whether individuals can perform the necessary duties (refer to section 6.2.1).</li> <li>• An approved training plan for existing and new lower-level employees must be implemented to train them to perform their duties (technical competence) (refer to section 6.2.1).</li> </ul> |

| Approaches | Features | Actions   |
|------------|----------|---|
|            |          | <ul style="list-style-type: none"> <li>Experienced individuals, who qualify for promotion, should transfer their skills to others. The required knowledge and skills, realistic training objectives and—outcomes, and ways to practise these while executing duties, should be identified. The trained individual should ultimately be able to independently execute the new skills transferred. The programme must be monitored, evaluated, and reported (refer to section 6.2.1).</li> <li>The competence of employees should continuously be developed and, once they qualify for the next level, they may be recommended for promotion. The development plan objectives should be incorporated in the current job description of the individual for monitoring purposes. The individual should present a portfolio of evidence of their development. At the performance review of the individual, it can then be assessed (by the individual’s manager and an objective HR personnel member) whether the key performance indicators (KPIs) as set out in the development plan for the new position, have been attained. Possessing the necessary skills required for a specific job, affords the individual opportunities for promotion to a position in respect of which they possess the competency. Employees should also strive to self-improve through continuous development, to avert stagnation and incompetence (refer to section 6.2.1).</li> <li>SOEs should apply rigour in the appointment process, train individuals adequately for their probation period, and enforce the probation clauses in employment contracts when incompetence or malfeasance is evident (refer to section 6.2.2).</li> <li>Oversight bodies should issue strict directives for sourcing individuals in the procurement environment. Applicants must possess the competencies listed below (refer to section 6.2.1).</li> </ul> <p><b>Competencies required:</b></p> <ul style="list-style-type: none"> <li>Accountability and responsibility (refer to section 6.2.3).</li> </ul> |

| Approaches | Features  | Actions   |
|------------|---|---|
|            |   | <ul style="list-style-type: none"> <li>• Adequate experience in the procurement environment (refer to section 5.4.3).</li> <li>• Analytical thinking and problem-solving skills (refer to section 6.2.1).</li> <li>• Assertiveness (refer to section 6.2.1).</li> <li>• Attention to detail (refer to section 6.2.1).</li> <li>• Autonomy (refer to section 6.2.3).</li> <li>• Ethics, integrity, honesty, transparency and living the values (refer to section 5.3.1 and 5.5.1).</li> <li>• Flexibility to accept change, and adaptability to new ideas and the changing requirements that the work environment may pose (refer to section 5.4.3).</li> <li>• Knowledge of government regulations (refer to section 5.4.3).</li> <li>• Planning and organising skills (refer to section 5.3.1 and 5.5.1).</li> <li>• Project management skills (refer to section 5.6.2).</li> </ul> <p><b>Employees should regularly be trained in respect of the following:</b></p> <ul style="list-style-type: none"> <li>• Control management systems (refer to section 6.2.3).</li> <li>• Dealing with political directives, to ensure that employees know how to deal with instructions to avoid irregular activities, such as not requesting a written instruction (refer to section 6.2.1).</li> <li>• Regular training of the entire institution in respect of procurement processes and the applicable legislation (refer to section 5.3.1).</li> </ul> |
|            | <p><b>Ensuring an effective procurement environment in SOEs</b></p> | <ul style="list-style-type: none"> <li>• Rather than having its own procurement systems, all SOEs must adopt a similar system to the government procurement system, i.e., the Logistical Information System (LOGIS), that must be standardised by the National Treasury. Preventative controls and approval processes in the procurement system must be automated (section 6.2.3) and include detection mechanisms to identify transactions that may potentially be irregular. For instance, an online check list prior to engaging in a transaction, could determine</li> </ul>  |

| Approaches       | Features   | Actions   |
|------------------|--|---|
|                  |  | <p>irregular expenditure. Upon detection of potential irregular expenditure, the system should provide corrective suggestions. It may, for example, reject a transaction and prompt an individual to upload all three quotations required for a transaction above a particular threshold.</p> <ul style="list-style-type: none"> <li>• A dedicated official within the governance- and compliance department of the institution should remain abreast of current legislation and ensure compliance of the institution. The official must be directly responsible for compliance and know when the legislation changes, monitor regulatory activities, build relationships with regulators on behalf of the institution, join industry associations, and attend regulatory conferences. The official must conduct workshops with the entire institution to provide training and ensure awareness of the latest changes in legislation (refer to section 5.4.1).</li> <li>• Investigation/research must be conducted annually to determine whether the control environment is effective and whether there is any potential manipulation of the internal controls (refer to section 5.3.2 and 5.4.1).</li> </ul> |
| <b>Education</b> | <b>Ensuring institutional awareness concerning procurement processes and institutional culture</b> | <ul style="list-style-type: none"> <li>• Unethical behaviour should be changed via the basic- and higher education systems of the country (especially in elementary education, where values are instilled), as they will provide the future employees of SOEs. Government’s education policies should emphasise a strong culture of ethical behaviour and point out the impact of unethical behaviour and irregular expenditure, on communities (refer to section 2.3.3).</li> <li>• Institutions must reconcile an ethical culture and work expectations by recruiting and selecting competent candidates, with strong value systems and ethics. Orientation, training, and performance management programmes must provide the framework for the reinforcement of the institution’s core values. Employees who truly exemplify the values should be appropriately rewarded and recognised (refer to section 2.3.3 and 6.2.2).</li> </ul>   |

| Approaches        | Features  | Actions  |
|-------------------|---|--|
|                   |   | <ul style="list-style-type: none"> <li>Awareness must be created that the function of procurement in a SOE should only be conducted by properly qualified and experienced procurement personnel, and that no-one else should assume this function (refer to section 5.3.1 and 5.4.2).</li> </ul>   |
| <b>Deterrence</b> | <b>Instituting visible consequence management by SOEs</b> | <ul style="list-style-type: none"> <li>All institutions must hold a disciplinary code by which employees need to abide. The Human Resources section needs to institute disciplinary proceedings in all instances where an investigation revealed a breach of the code. Financial misconduct, as defined by the PFMA, should be a standard breach. Once it has been established that there was criminal conduct by an individual—resulting in the loss of money—the case must be handed over to law enforcement agencies to decide regarding prosecution. However, the SOE should not wait for the outcome of the law enforcement agencies to have criminal conduct established but should finalise the labour matter (employment) at the SOE as per its disciplinary code (refer to section 6.2.3).</li> </ul> |

(Source: Own compilation)

## 6.4 Chapter Summary

This chapter provided the rationale for developing a governance strategy that proposes to mitigate irregular expenditure risk. The study sought to provide a proactive approach to mitigating this risk, considering the human behaviour of individual employees in circumventing rules and incurring irregular expenditure related to contract adjudication. The key in endeavouring to root out incompetence implies that SOEs must successfully attract, engage, and retain individuals, by creating a work environment that values people and fosters continuous training and personal- and career development, and instils an ethical culture. The strategy, being ambitious, specifically aimed to address the weaknesses identified by the IQA focus groups in

the preceding chapter, to propose this strategy, for adoption by the National Treasury. The draft strategy will be validated by the interviews with prominent stakeholders, reported in the following chapter, and propose a final strategy, in the concluding chapter.



## **Chapter 7: Validation and Enhancement of the Proposed Governance Strategy using Interviews**

### **7.1 Introduction**

The current chapter reports on the interview responses, to support the proposed governance strategy for mitigating irregular expenditure risk. The aim of conducting the interviews was to obtain expert opinions regarding the draft governance strategy that emanated from the preceding research methods—content analysis, focus groups and literature review. The chapter is structured to commence with the introduction, followed by the responses to the interview question, then the final strategy, and lastly, the chapter summary.

### **7.2 Responses to the Interview Question**

Interviews were conducted with 14 prominent employees of SOEs, who were purposively selected based on their position and expertise, and who voluntarily availed themselves for the interviews. Thematic data saturation determined the number of interviews. “Data saturation” signifies that data should be gathered to a point where no new information emerges (O’Reilly & Parker 2012). According to Guest, Bunce and Johnson (2006) data saturation can occur within the first 12 interviews. With regard to this study, it was noted that, by the 14th interview, no new information was forthcoming, indicating that a saturation point had been reached. For the purposes of protecting the identity of the interviewees, the researcher will not reveal their names. A unique alpha-numerical code was allocated to each interview participant (refer to table 7.2). The demographic information of the interviewees is presented below in

table 7.1. The allocated number representing an interviewee in table 7.1, does not correspond with the alpha-numerical number used to present and analyse responses.

**Table 7.1: Demographic information of interview participants**

| Participant | Designation                             | Years of Experience | Highest Qualification                  | Professional Qualification  | Background           |               |       |     |   |
|-------------|---|---------------------|--|---|----------------------|---------------|-------|-----|---|
|             |   |                     |  |   | Finance & Regulation | Human Capital | Legal | SCM |   |
| 1           | CFO                                     | 35                  | Master's in business administration    | MBA & CIGFARO Board Member  | x                    |               |       |     |   |
| 2           | CFO                                     | 15                  | CA(SA)                                 | Chartered Accountant (registered with SAICA)  | x                    |               |       |     |   |
| 3           | Head SCM                                | 10                  | Bcom Accounting                        | none  |                      |               |       |     | x |
| 4           | Supply Chain Manager                    | 17                  | Advanced Programme in Sourcing and SCM | Chartered Institute of Procurement and Supply (CIPS)  |                      |               |       |     | x |
| 5           | Group Manager: Internal Audit           | 23                  | Mphil Internal Auditing                | Certified Internal Auditor (CIA); Certified Information Systems Auditor (CISA)  | x                    |               |       |     |   |
| 6           | Assistant Senior Manager: Audit         | 5                   | Post Grad Acc Sci                      | CA (SA)   |                      | x             |       |     |   |
| 7           | CFO                                     | 40                  | Bachelor of Accounting Sciences        | Individual Professional Certificate in Public Financial Management at the University of London                        | x                    |               |       |     |   |
| 8           | Group Executive: Human Capital          | 20 years+           | Bachelor of Social Science (Honours)   |   |                      |               | x     |     |   |
| 9           | Forensic Audit Manager (Ethics Officer) | 15                  | B. Com Accounting (Honours)            | Forensic Accountant   | x                    |               |       |     |   |
| 10          | Senior Internal Audit Manager           | 12                  | B.com Honours                          | CA (SA)   | x                    |               |       |     |   |
| 11          | Internal Audit Manager                  | 20+                 | MBA                                    | CIA (Certified Internal Auditor), CRMA (Certification in Risk Management Assurance), Certified Accountant SA (SAIPA), | x                    |               |       |     |   |

| Participant | Designation                                  | Years of Experience | Highest Qualification   | Professional Qualification          | Background           |               |       |     |  |
|-------------|--|---------------------|---|-------------------------------------|----------------------|---------------|-------|-----|--|
|             |  |                     |   |                                     | Finance & Regulation | Human Capital | Legal | SCM |  |
| 12          | Acting Chief Director                        | 16                  | Bachelor's Degree in Public Finance                             | Registered Government Auditor       |                      | x             |       |     |  |
| 13          | CEO  | 40                  | Master's in Business Leadership                                 |                                     | x                    |               |       |     |  |
| 14          | Group Manager: Legal & Compliance Department | 24 years            | B. Degree in Law (B Proc); Post-Graduate Management Certificate | Admitted Attorney of the High Court |                      |               |       | x   |  |

(Source: Own compilation)

The 14 participants were drawn from diverse backgrounds, such as finance and governance, regulatory state institutions, human capital, legal and SCM. The finance and governance background featured in respect of most of the participants. The population comprised of prominent figures at SOEs, the majority possessing experience exceeding 15 years. In addition to that, qualifications and professional designations consisting of four master's degrees, three chartered accountants, two certified internal auditors, and a certified procurement specialist, added to the credibility of the interview data. Amongst the 14 participants were three CFOs, one CEO, one HR executive, and two SCM personnel—where one was the head of SCM and the other a senior manager. Six participants hailed from internal auditing, comprising one group manager of internal auditing, one forensic audit manager, one assistant audit manager from the regulator, one internal audit manager, and one senior internal audit manager. There was also one acting chief director from the regulator, that participated. These prominent figures were engaged to assist with reinforcing the propositions of the proposed governance strategy. The following question was posed:

Question 1: Do you confirm or refute that the proposed governance strategy will work? If you refute the strategy, please provide your inputs on how to strengthen the propositions of the draft strategy.

The responses to and input derived from the interview question, are presented in table 7.2 below. The participant-responses are presented as written, quoted exactly as it was received originally, with no correction of odd- or erroneous grammar or professional jargon.

**Table 7.2: Responses obtained to underpin the propositions of the proposed governance strategy**

| Participant | Response                 | Prevention  | Education  | Deterrence  |
|-------------|--------------------------|---|--|---|
| P1          | Confirm with suggestions | <ol style="list-style-type: none"> <li>1. There is currently not a strong emphasises on policy development in your strategy.</li> <li>2. The strategy can be improved by ensuring that policy development for the state and its government departments is drafted in accordance with applicable legislation.</li> <li>3. There is currently not a strong emphasises on Standard Operating procedures.</li> <li>4. In so far as the strategy places strong emphasises on capacitating individuals joining the institutions. Do not forget about the oversight structures such as the risk and audit committees. As it is no better to have competent individuals within institutions, but oversight structures are incompetent.</li> </ol> |  |   |
| P2          | Confirm with suggestions | <ol style="list-style-type: none"> <li>1. There should be a dotted line reporting where issues can be escalated.</li> <li>2. Competencies. What stands out for me is that there is no qualification requirement. If someone had to apply and they have a BCom in Supply Chain. HR would have deemed the qualification appropriate but that qualification with the absence of having worked in a public sector environment does not bear much fruit.</li> </ol>  | <ol style="list-style-type: none"> <li>3. Changing perception. How do we bring in private sector along with the initiatives of government as stated in the last SONA of the President?</li> <li>4. Education needs to be spread to the private sector in terms of what is irregular expenditure.</li> <li>5. The one thing that is lacking is the education to broader stakeholders.</li> </ol>  | <ol style="list-style-type: none"> <li>6. The one thing that needs to be noted within irregular expenditure itself is that one needs to determine whether if it is a recurrence of irregular expenditure or of it is a first-off expenditure, especially within disciplinary approaches. Your strategy under deterrence should not suggest a blanket approach.</li> </ol> |
| P3          | Confirm with suggestions | <ol style="list-style-type: none"> <li>1. It is your assumption that the inadequacy of the people employed in the SCM environment that are causing most of the irregular expenditure. My experience suggests that it is not the case. The main cause of irregular expenditure usually is political interference as opposed to incompetence.</li> <li>2. Political interference could be a person that is not qualified, could politically be put in a SCM position so that they could be used.</li> </ol>   | <ol style="list-style-type: none"> <li>9. There should be a broader distinction between unauthorised expenditure, and irregular expenditure. What is missing is unprocedural expenditure where for instance process was not properly followed because there is a lot of sensationalism to create a negative perception in the public and internationally about the ability of the nation to run its own finances. There is a lot of expenditure that is reported as</li> </ol> |   |

| Participant | Response | Prevention   | Education  | Deterrence |
|-------------|----------|--|--|------------|
|             |          | <p>Yes, I do agree that people in SCM must be qualified and must be competent, However, let us not be oblivious that the main cause of irregularities and ones related to fraud are due to political appointments.</p> <ol style="list-style-type: none"> <li>3. If the tone at the at the top is not right, people in SCM will not have a place to run to. If my boss is corrupt, I have nowhere to run to, even if he gives me an instruction in writing or verbal. It puts me in an awkward position. People in SCM are not protected.</li> <li>4. Therefore, work in the strategy somewhere a protection mechanism for SCM employees. They can be competent but if there is no protection for them, then what is going to happen is that a person is going to be forced to do something that is unethical. They will refuse and they will have no recourse, they will be fired.</li> <li>5. The protection mechanism could be having a direct line to the chairperson of the audit committee. There should be a way of escalating whatever is unbecoming.</li> <li>6. Detection Systems: Ideally what would be practical would be to prescribe the minimum requirements that a system would need to meet. Instead of prescribing a system, prescribe the minimum features that it needs to have. Whatever system an entity might decide to go with, it must meet those requirements. Even if it means that National Treasury must be the one to approve the procurement of that system since it meets those minimum requirements.</li> <li>7. LOGIS is an old system that government is trying to get rid of. LOGIS and BAS should be phased out.</li> </ol> | <p>irregular expenditure when it was not fraudulent and the true meaning is that it was unprocedural, they did not follow process, but it was necessary.</p> |            |

| Participant | Response                 | Prevention  | Education | Deterrence  |
|-------------|--------------------------|---|-----------|---|
|             |                          | <p>8. A dedicated governance official: Various institutions will have various constraints. Government is trying to move away from spending a lot on personnel but more on service delivery. I conceptually agree with what you have worded. However, it does not necessarily need to suggest a person, but a function. Perhaps it could be under internal audit and under an existing function. If institutions have a budget, they could do this.</p>  |           |   |
| P4          | Confirm with suggestions | <p>1. The strategy refers to both the Peter- and Dilbert Principles, when I read this, it is running away from what is happening in South Africa around fraud and what is happening to people who are guilty of it. Currently, what is happening around people that are whistleblowing. For the strategy to suggest that it is because of incompetence. To say that people should know what to do when encountering political pressure, that they should not be moved. I think it is not a fair statement. I disagree with what has been written here. Being competent is not part and parcel of the problem. What needs to happen is the protection of the whistleblower so that others may see that if they see that something is wrong and they say something about it, they are still protected. How do we protect subordinates who are used as scape goats? This is what is frustrating in being in an SCM environment.</p> <p>2. I think it is a dangerous statement to suggest LOGIS without proper research. It is quite careless to suggest that it should be the system. I think the right approach should be to do proper research to see if standardising a system would work in each</p> |           | <p>3. Certain things do not necessarily mean that they are fraud related. It just means that a process was not followed, or certain documents were missing because of the nature of the whole transaction that it might have been an emergency.</p> |



| Participant | Response                 | Prevention   | Education | Deterrence |
|-------------|--------------------------|--|-----------|------------|
|             |                          | environment. One should have a system that shows who is approving what at each stage of the approval process. I agree with the initiative, but I disagree with prescribing a system. This will also help with audit trail if it is on the system.  |           |            |
| P5          | Confirm with suggestions | <p>Generally, I am happy with the strategy but consider the following:</p> <ol style="list-style-type: none"> <li>1. There is an absence of governance in the strategy. The tone at the top must be established. Therefore, include a governance element in the strategy.</li> <li>2. The establishment of a framework developed by National Treasury that institutions need to comply with, must be in place in all institutions.</li> <li>3. Currently the strategy does not speak to accountability in monitoring irregular expenditure, as well accountability in the governance structures. There should be some responsibility and accountability assigned to governance structures. For example, executive committees and boards of directors who are supposed to monitor irregular expenditure in the institution, and whenever boards of directors meet, irregular expenditure should be part of their meeting agenda items.</li> <li>4. Training initiatives do not include the establishment of standard operating procedures. People will not necessarily comply because of a lack thereof. Therefore, prior to the training initiative, establish policies and procures expecting employees to comply with, and then suggest the training around the</li> </ol> |           |            |

| Participant | Response                 | Prevention  | Education  | Deterrence |
|-------------|--------------------------|---|--|------------|
|             |                          | implementation of the procedures to ensure that it is monitored.  |  |            |
| P6          | Confirm with suggestions | <p>The strategy should work. However, the following can be identified for improvement in the strategy:</p> <ol style="list-style-type: none"> <li>1. Include under references and background checks the incorporation of peer views.</li> <li>2. With regards to the training initiative, is there a specific body that will approve specific training plans? The training programmes should be monitored, evaluated, and reported upon to National Treasury.</li> <li>3. Training plans need to be more inclusive, such as including understanding institutional objectives.</li> <li>4. The procurement function needs to be more regulated in terms of an establishment of a professional body such as the South African Institute of Chartered Accountants which will improve the consequence management element.</li> <li>5. The idea of standardising a procurement system sounds great especially the element concerned with prompting corrective suggestions by the system. This could be one of the greatest suggestions brought forward. However, it seems to be impractical to implement considering resource constraints of SOEs. A possible alternative would be for National Treasury to liaise with the state Information Technology Agency (SITA) in the creation of a live system that can have integration embedded within specific programmes of SITA as they are the major influencer in technology innovation for the state. SITA</li> </ol> | <p>6. Unethical behaviour should not only be changed through the basic and higher education systems of the country, but we must encourage teachings within communities, as not everyone has the privilege to go to school. As the African proverb states that “it takes a village to raise a child”.</p> |            |

| Participant | Response                 | Prevention   | Education   | Deterrence   |
|-------------|--------------------------|--|---|--|
|             |                          | should rather be encouraged to come up with the system that can be adopted by all SOEs. The system will enable efficient audit trails and will enforce consequence management.   |   |  |
| P7          | Confirm with suggestions | <ol style="list-style-type: none"> <li>1. The major challenge with sourcing competent individuals in the procurement environment, as much as candidates provide references. You will find that they talk to people have advised what to say about them. Some of them do not even provide reference checks of the relevant person that can talk about their skills and competencies and behavioural issues.</li> <li>2. What needs to be added under references checks is the incorporation of peer views or someone from a peer division of SCM who can be contacted to find out if the person can truly do the work required.</li> <li>3. The qualification requirement for SCM needs to be standardised because SCM is the major component of the budget of the current as 75% of the budget goes towards goods and services as well as infrastructure which goes through SCM.</li> <li>4. SCM courses should be incorporated in the budget plans for SOEs.</li> <li>5. The Standardisation of procurement systems is a very good idea in the sense that much as the regulatory frameworks around procurement. Treasury allows that each institution must oversee their own procurement. However, National Treasury does not have a system where they could have oversight over with regards to correct processes followed.</li> <li>6. The supply [chain] database has its own teething problems where it ends where the</li> </ol> | <ol style="list-style-type: none"> <li>9. Reducing unethical behaviour should be mitigated through a skills and cost of living audits in the in institutions.</li> <li>10.</li> </ol> | <ol style="list-style-type: none"> <li>11. Action must be taken against those that have transgressed.</li> </ol> |

| Participant | Response                 | Prevention   | Education  | Deterrence                  |
|-------------|--------------------------|--|--|-----------------------------|
|             |                          | <p>supply is engaged upon only. In the absence of a standardised system, manage SCM at a central point like national supply [chain] database. Or upgrade the supply database.</p> <p>7. Alongside profiling candidates to assess whether they have any business interests with the state. Inscribe the disclosure of interest. What is common is that you find individuals that were unemployed, after doing the necessary security checks you find that individuals still possess active directorships. Make it a point that those individuals you appoint relinquish their directorships and the relinquishment is covered in the disclosure of interest to avoid conflict of interest. A potential challenge identified is that you may have positions such as Heads of Department who might be appointed on a five-year contract. A question that arises is that do you expect a people to resign their directorships when There is no guarantee that the contracts will be extended for another five years. A crucial point that should be inscribed is the disclosure of those interests by all SCM individuals of the institution.</p> <p>8. The compliance officer should be abreast with procurement legislation. This person should not be limited but should also consider past challenges relating to procurement and undertake research on why there were difficulties in the adjudication processes. The compliance officer should be well vested in SCM and well vested in a research capacity.</p> |  |                             |
| P8          | Confirm with suggestions | <p>1. There should be a step before the sourcing of procurement personnel. The step can be in two ways. The first step can be to get</p>   | <p>3. Education should go first in your strategy. Then have the elements of instilling</p> | <p>4. Totally Supported</p> |

| Participant | Response | Prevention  | Education  | Deterrence |
|-------------|----------|---|--|------------|
|             |          | <p>people who know that they want to be in the profession of procurement. Thereafter, this should be followed by the individual joining an association which will be able to hold them accountability in terms of ethics. Ethics should serve as the basis.</p> <p>2. It may be difficult to deal with the issue of relinquishing business interests in the sense that people may be employed on fixed term contracts. There is also the sense of political interference. You find there is a lot of individuals that were dismissed who were in fixed term contracts because they did not know where to draw the line. What do you in a situation where you have relinquished your business interest should you not be able to secure your employment position after the termination of your fixed term contract? It is the greed of people that puts them in these positions of conflict of interest who end giving contracts to their family and friends. An alternative solution to relinquishing business interests is that people should declare their business interest and should not be allowed to participate in the government space. Because you may work for one SOE and do business with another SOE, the problem there is that you may be able to influence your position elsewhere. Therefore, it is important that you do not participate in the government space as whole during your employment period. Another alternative to this is looking at employment conditions that government should afford permanent employment opportunities and allow you to retire at 65. So, by doing you are then able to relinquish your business interest.</p> | <p>values and ethics. Then professionalise the doctrine of this field.</p> |            |

| Participant | Response                 | Prevention   | Education | Deterrence  |
|-------------|--------------------------|--|-----------|---|
| P9          | Confirm with suggestions | <ol style="list-style-type: none"> <li>1. With regards to relinquishing business interest. What normally happens with procurement processes, you never know which service provider will tender, there are processes of declaration before the actual process. If a procurement individual is supposed to participate in the procurement process, if they identify that they have some conflict they are supposed to recuse themselves from such a transaction.</li> <li>2. With regards to the internal auditor being a panel member. What happens with internal audit is that they do audits in various processes that take place in the business and then at times it is difficult to participate in certain processes because after that process they need to come and audit that process. If the internal auditor sits in a panel of a process, then they will still come back and audit the same process again.</li> <li>3. The challenge with systems is that different SOEs procure different systems not only in procurement. There have systems in other processes and when they procure other systems including procurement they must see if that system is integrated with their financial systems and other systems in the business. Maybe a prescription of one system might at times pose a challenge because that system might not be able integrate or interface with the other systems in the business. Something that could be considered is the control to ensure that the system that is being procured is aligned with the requirements to achieve the objectives.</li> <li>4. I agree with on having a compliance officer. A question that we need to ask is, are all</li> </ol> |           | <ol style="list-style-type: none"> <li>5. In terms of the article of the Ethics Institution policies are in place in most SOEs and they should have disciplinary codes. Even though we have most of these policies there seem to be a continuation of incurring these irregular expenditures. There should be a question to what is it that makes this conduct continue despite having all those policies and procedures in place.</li> <li>6. The main issue we should be looking at is consequence management and consistency and the application of consequence management.</li> </ol> |

| Participant | Response                 | Prevention   | Education | Deterrence  |
|-------------|--------------------------|--|-----------|---|
|             |                          | SOEs complying with this and compliance that deals with regulatory activities.   |           |   |
| P10         | Confirm with suggestions | <ol style="list-style-type: none"> <li>1. With regards to the relinquishing of business interest, there are different layers of the legislation that are covered in the SOEs and that are covered in the national departments. From the national department side there is a requirement that they should not hold an interest within the state which is not the case for SOEs. Bringing this requirement that resides to the national departments to apply in the SOEs is well supported. However, I am thinking of the practicality of it. I might be working for the SOE in Gauteng and might have a business interest to tender or even by means of a consulting service with the state in a different province like Limpopo. By being prohibited there could be unintended consequences and the risk of the that if someone thinks of coming to work for an SOE, they may have to think of relinquishing their business interests. An alternative suggestion could be the declaration of business interest and given an opportunity to recuse themselves on tenders that could have a potential of conflict of interest. This I could fully support.</li> <li>2. With regards to the internal auditor sitting as an observer. The relationship between internal audit and management is that of a partnership to tighten the control and governance. It will be hard to sit in the panel as an observer, say for arguments sake, something is not happening correctly and if sit and not say anything. Later when you come back and look at the process, it</li> </ol> |           | <ol style="list-style-type: none"> <li>9. What comes important is the tone that is set at the top being the CEO. This normally drives the culture going down. If the tone from the top within the institution is set that there is non-tolerance of breach of policies or procedures within institutions. Majority of the employees in the SOEs become deterred. The second layer of this what happens to someone that has breached? The application of what the disciplinary code says is quite important. If the application is such that there is no mercy if you breached whatever the court says is what you are going to bear the brant of it. Then people will come to realise that you do not go to that area because there is no mercy in there. Consistently apply this code in the institution.</li> </ol> |

| Participant | Response | Prevention  | Education | Deterrence |
|-------------|----------|---|-----------|------------|
|             |          | <p>might reveal that you part of the panel and you did not say anything, and management may come in and say I thought we were partners, and you are supposed to point out incorrect processes. It may seem that you were also involved in the incorrect process and your independence may be questioned as an internal auditor. The best way around this is that internal audit must look at the process on how interviews get conducted and tighten the gaps within that environment as opposed to just sitting on the interview panels as an observer.</p> <p>3. The first bullet talks about the vetting processes, will it not be better to have first the short-listing process? Because the first critical point should be the short-listing process. With short-listing you are pretty much measuring the individuals against the requirements that would have been compiled properly.</p> <p>4. With regards to sourcing of individuals. How would one assess someone's ethical standing and honesty from a recruitment perspective because this is something that you observe over a period based on how people conduct themselves? But in an interview from a practicality point of view. To a bigger extent it would help prior concluding the interview processes to have candidates assessed through psychometric assessments to test their ethics as a base. However, the bigger which has been addressed much later in strategy is the tone that gets set by the institution that is crucial where there is zero tolerance for any unethical conduct which must be used to deter people.</p> |           |            |



| Participant | Response | Prevention   | Education | Deterrence |
|-------------|----------|--|-----------|------------|
|             |          | <ol style="list-style-type: none"> <li data-bbox="562 256 1048 549">5. Dealing political directives. This session needs to be broadened. In auditing we have investigated quite a few. Some directives have happened within institutions. It is not necessarily a political head outside of the institution but activities internally. There could be instances where a head of procurement could know someone from outside and can send directives from the people below.</li> <li data-bbox="562 555 1048 1283">6. A prescription of one system might at times pose a challenge because that system might not be able integrate or interface with the other systems in the business. SOEs operate in different environments based on where they operate their systems maybe best suited for those environments. The system therefore needs to be compatible with other existing systems. Otherwise, you will have to replace your whole infrastructure which might be quite expensive. This might be a challenge from a practical point of view. However, the automation of processes is a different story. The second part of the of this is that systems help with operations that are routine and do not help with decision making. What the system can facilitate is the administrative part of the procurement process, but the decision making should be made by the people involved in the process. Something that could be considered is the control to ensure that the system that is being procured is aligned with the requirements to achieve the objectives.</li> <li data-bbox="562 1289 1048 1342">7. The initiative on having a dedicated official within the governance and compliance</li> </ol> |           |            |

| Participant | Response                 | Prevention   | Education   | Deterrence  |
|-------------|--------------------------|--|---|---|
|             |                          | <p>department of the institution is spot on for me and is quite critical.</p> <p>8. Internal audit is best positioned to assess the effectiveness of the environment and the controls throughout the year to provide inputs and areas of improvement earlier on to management.</p>   |   |   |
| P11         | Confirm with suggestions | <p><b>Sourcing competent individuals in the procurement environment</b></p> <ol style="list-style-type: none"> <li>1. The “acceptable vetting process” would require qualification. Does it mean the same vetting process for every region/location/industry? Or process could be altered?—these questions if not explained might lead to misinterpretation. Background checks are good.</li> <li>2. It is good idea, but would it be practical for anyone to declare and give up their assets officially just to keep a position in a day-pay job in procurement environment?</li> <li>3. Perhaps, it would be not possible to achieve and, consequently, potential procurement specialist might misrepresent and hide their assets or involvement with a company who potentially could be a supplier either of goods or services. They must be profiled but maybe a stricter rule would add more value—for example—no to be employed in a certain industry if a potential procurement speciality owns a company in this industry, or a company within value chain as a feeder for this industry.</li> <li>4. Internal audit is a function that in principle do not participate in a decision-making operations activities, including employments interviews. Because of this principle, internal audit keeps its independence and integrity in its unbiased</li> </ol> | <p><b>Ensuring institutional awareness about procurement processes and institutional culture</b></p> <ol style="list-style-type: none"> <li>16. Unethical behaviour only can be changed by actions, and usually an unethical behaviour exists where there is opportunity and strong desire/demand. To put it otherwise, behaviour could be influenced by regular, training, quarterly awareness workshops, formal declarations, stricter controls, better processes that would not allow for fraud, awareness of consequences of unethical behaviour at the individual and corporate level, introduction Ethics courses in early education, etc.</li> <li>17. Good</li> <li>18. It should be prescribed and written in System and procedures of SOEs, and not compliance with it should be considered as a diversion from the proper processes, should be considered as inappropriate and should be investigated</li> </ol> | <p><b>Instituting visible consequence management within SOEs</b></p> <ol style="list-style-type: none"> <li>19. All good—basically it says make an individual more aware and accountable</li> </ol> |

| Participant | Response | Prevention   | Education | Deterrence |
|-------------|----------|--|-----------|------------|
|             |          | <p>conclusions and recommendations. Would be incorrect to employ a person just because Internal audit recommended him/her. Internal auditor could check that results of interviews were not manipulated, but presence of an internal auditor during interviews would be intimidating for the panel and counterproductive. This – partially good.</p> <ol style="list-style-type: none"> <li>5. If technical assessment is possible – it is good.</li> <li>6. Training in any forms and at any level—is good, would add value</li> <li>7. “should “transfer” their skills to others” – this statement sounds as an order and a forceful action and might provoke overall retaliation. Maybe aspect on the matter should be positioned as – achieve continuity in the process, design succession plans, etc.</li> <li>8. Good point about competence</li> <li>9. If this inclusion in the employment contract would say that there is no promotion if no competent – is good. But on another hand an employee would expect a guaranteed promotion if he were competent and passed this or another milestone in process training. This clause could build expectation that everyone must be promoted upon passing tests (even if here flat institution structure and no more position to promote anyone up)</li> <li>10. Recommendation from oversight bodies – welcome</li> <li>11. Not sure on how some of <b>Competencies required</b> could be measured.? If not measured it just a good wording to have, for example “Accountability and responsibility” – it is not competence, or “Ethics, integrity,</li> </ol> |           |            |

| Participant | Response | Prevention   | Education | Deterrence |
|-------------|----------|--|-----------|------------|
|             |          | <p>honesty, transparency and living the values”<br/> – these are no competence – these are traits and qualities of the individual character, corporate behaviour, corporate and individual professional culture</p> <p>12. Employees should regularly be trained on the following – training is good.</p> <p><b>Ensuring an effective procurement environment within SOEs</b></p> <p>13. The basic standard procurement system’s principles (as 3 quotations required) should stay as a minimum, but on top of that, nothing wrong for SOEs to do some configurations and alteration and some changes in policies, aiming to design the system to be more flexible, and more efficient and better suitable for the industry. Because SOEs must deliver either goods or services, and they should be oriented primarily on results not on the process. The government procurement system could be rigid and cumbersome and causing delay and impairs efficiency in workflows that require on time—fast and correct decision making. Governing systems and SOEs are different in the institutional and financial principal composition of an entity. Governing systems receive finance (at the beginning of each year—budget) and must carefully use this finance and report at the end of reporting year on how well they used finance. SOEs make finance by themselves by rendering goods/services and they are therefore commercially independent and therefore they report on profit made, which as a component of reporting includes a report of cost incurred.</p> |           |            |

| Participant | Response                 | Prevention   | Education                               | Deterrence  |
|-------------|--------------------------|--|---|---|
|             |                          | <p>These two systems are completely different in outcomes required; thus, they should not use the same procurement system (as not one layout good for all), they should use different procurement systems.</p> <p>14. Having a Compliance officials is good</p> <p>15. Annual audit would be good enough. Investigation conducted on top of an audit—on fraudulent people, fraudulent acts, or fraudulent companies (or per tip-offs).</p>   |   |   |
| P12         | Confirm with suggestions | <p>1. The first important point is the university educational qualification of SCM officials. What do universities provide in terms of SCM? Whatever they provide is it SCM in the space of a government institution listed in the PFMA or is a broader SCM educational qualification for private sector. Why I mentioned this is because we did a survey to see competencies in the educational space of the SCM officials. This was done at national and provincial departments and not SOEs. The results that came out of that indicated that majority of those individuals were not capacitated fully with their educational backgrounds in the SCM space. Universities do not offer a package of all these SCM elements around disposal, logistics, marketing, and strategies in the SCM environment. National Treasury has also issued competency frameworks in the financial management space.</p> <p>2. The actions that you have noted, I do not have a problem with them, and I like the part about the internal auditors that they need to form part of the interview process just as observes and to ensure that the processes are done correctly and that there</p> | <p>5. I agree with this initiative.</p> | <p>6. When it comes to the issue of consequence management it has to flow all the way from the person that initiated the transaction to all the people that have approved. When we look at the condonations that are sent to Treasury where they say there has not been a lost within the procurement space and there is no criminal act. Then that they have done a consequence management you find the name of only one person, and you ask yourself that there is so many approval process that takes place, how come the CFO's name is not there, how come the board is not there. One of the biggest things around non-compliance with SCM they must operate in terms of their delegations of authority. These delegations must be in writing there must be conditions. If a particular transaction is considered as a high risk, the board will not necessarily want to delegate that responsibility to the CEO then it would have to go to the board for approval. Sometimes you find that it has certain threshold. You sometimes find that the CEO does not want to take this information to the board. If the board is not aware of legislative frameworks and the nature of the business then you find that the non-compliance also happens from the part of the board in terms of not knowing what is</p> |

| Participant | Response | Prevention   | Education | Deterrence   |
|-------------|----------|--|-----------|--|
|             |          | <p>are no favouritism or unfair behaviour towards certain candidates that have applied for the same job. I do agree with this as well as all the other actions noted I agree with. The only problem that I foresee is that sometimes when there is a political interference and they put people in these positions, even if you are in internal audit, there is not much that you can do. But in terms of the standard that they must comply with such behaviours have to be reported to the board so that the board is made aware of such things. The intervention of the board is quite crucial that there is no corruption or unethical behaviour when it comes to the appointment of SCM officials.</p> <p>3. The National Treasury is currently busy with the development of the Integrated Financial Management System (IFMS). Although this is taking time, the aim of this system was to ensure that there is a holistic IT system that is used by government. We are trying to move towards a more centralised IT system you will note this initiative through the National Treasury Supplier Database, where institutions can check certain suppliers whether they are blacklisted or tax compliant etc. LOGIS will not work. However, IFMS will ensure that everything that is done by government will go through one system. You find that Non-compliance and corrupt activities happen around institutions saying that they will develop their own IT system. Therefore, standardisation is important because the business of some of these institutions is not the same. For example, Public Works</p> |           | <p>required in terms of the legislations, they just approve seeing that the CEO also approved where its them that should have given that approval. Ultimately the consequence management must cover every authority to a particular transaction.</p> |

| Participant | Response                 | Prevention   | Education | Deterrence  |
|-------------|--------------------------|--|-----------|---|
|             |                          | <p>procure quite a lot while you might not find that in another department.</p> <p>4. The National Treasury Draft Regulations that were issued for comment in 2012. We introduced the compliance officer specifically around financial management. I know the compliance officer will touch on everything in the institution, but we realised that there needs to be a specific unit that will look at every transaction before it reaches the approval process to check if it is aligned with the legislation, to check what are the dos and don'ts. We were basically suggesting either compliance officer or internal control officer. The internal audit said no because their work is based on standards and we do a risk-based approach to our audits. We can't do audits and be involved in the daily operations of the institution. This would have to be done by a separate unit. We thereafter realised that there is a need for the compliance officer.</p> |           |   |
| P13         | Confirm with suggestions | <p>1. Possibility of introducing risk analysis and independent assurance reports where bids exceed a certain threshold to assist bid committees</p>  |           |   |
| P14         | Confirm with suggestions | <p>1. Totally agree with you prevention approach.</p> <p>2. In relinquishing business interests' individuals need to choose whether they want to be self-employed or in the employ of the state. Conflict of interest is bound to happen now and then. You cannot run a business successfully while you are sitting in a government office performing government duties as diligently as you should as these two aspects operate within the same space within the same period. If</p>  |           | <p>9. I agree with you a 100 percent. Justice must not only be done but it must be seen to be done.</p> |

| Participant | Response | Prevention  | Education | Deterrence |
|-------------|----------|---|-----------|------------|
|             |          | <p>you are too focused on the one the other will suffer.</p> <p>3. The initiative to including an internal auditor in the recruitment process is a good suggestion but, in its application, may need to be nuanced in a different manner. Because internal auditors might find themselves being a player and a referee in the sense that internal audit than investigating matters upon request. Internal audit in the normal performance of their duties can request certain files for a specified period and one of those files might be a file containing a process of which they participated in. This may be perceived a potential conflict of interest in their role at that interview stage. This will need to be defined clearly but exclude any active participation of them. Your initiative is asking for internal audit to play a more proactive role rather than a reactive role. Perhaps the interview process needs to be reported upon where the internal audit can exercise their duties diligently in reviewing that processes and procedures were followed in the recruitment processes.</p> <p>4. The training should happen regularly whether it happens quarterly or monthly. This should go beyond training the strategic procurement unit (SPU). Everyone should be trained who is expected to be involved in a procurement transaction. I have noticed that the bulk of the transgressions are due to people not knowing that they are breaking the rules. Our scientists generally do not follow rules and times are ignorant as they want certain parts to be sourced from a specific supplier as the supplier</p> |           |            |



| Participant | Response | Prevention   | Education | Deterrence |
|-------------|----------|--|-----------|------------|
|             |          | <p>according to them supplies the best parts. That be expenditure above the R30 000 threshold, and they are required to get three quotations, to them that is irrelevant. Even if they are forced to get three quotes, to them they already know which quote they will go anyway. They look at this from a technical point of view.</p> <p>5. With competencies especially ethics, integrity, honesty, transparency and living the values. I do believe that procurement staff above their employment should sign some charter where they commit themselves. Other things may apply to them directly or indirectly, but they are far from, but they are bound by virtue of them having entered an employment contract. But over and above there should be a charter on ethics that they must sign as a direct commitment to ethical conduct.</p> <p>6. The standardised procurement system could be one of the suggestions on how to eliminate procurement corruption in government. That may seem well and good. But if that is to be a viable solution, it will also require the type of procurement to be clearly defined to also speak to the small differences within institution. Some of SOEs are profit generating and others are to break even. The procurement of those two cannot be the same because the one generating a profit also understands that by cutting costs of procurement and negotiating better prices of the goods and services, they are opening wider margin gap that influences their profits. But for a break-even SOE their view of procurement might be different. While we need a common</p> |           |            |

| Participant | Response | Prevention  | Education | Deterrence |
|-------------|----------|---|-----------|------------|
|             |          | <p>system, such a procurement system needs to address the differences of SOEs<br/>Otherwise it will become a problem.</p> <p>7. I agree with you quite fully with the compliance function.</p> <p>8. I agree with the initiative to investigate or research however I disagree with the frequency. My disagreement is assuming that the institution has enough resources to do this at least twice a year or as how far resources allow. How often one needs to investigate, or audit must be informed by a risk assessment or analysis of the entire institution and then identify areas within that institution that are prone to irregular expenditure than others. Not because it is their fault but the nature of what their business. Then have a frequency of investigations for each depending on how high in the risk metrics or how low they are.</p> |           |            |

(Source: Own compilation)

The responses by the participants are succinctly provided in table 7.3, where eight themes naturally emerged from the factors that appeared from interview responses.

**Table 7.3: Themes that emerged from interview responses**

| Participant Response          | Factor   | Theme                         |
|-------------------------------|--|-------------------------------|
| <b>Prevention Proposition</b> |  |                               |
| P1-3                          | Standard operating procedures on training initiative   | Standard Operating Procedures |
| P1-4                          | Capacitate governance structures   | Competence                    |
| P2-1                          | Clear lines of reporting to oversight structures   | Accountability                |
| P2-2                          | Include qualification requirement  | Vetting processes             |
| P3-1 & 2                      | Political appointments   | Competence                    |
| P3-3 to 5                     | Protection of whistle-blowers  | Protecting whistle-blowers    |
| P3-6                          | Prescribe minimum requirements for a procurement system  | Procurement system & controls |
| P4-1                          | Protection of whistle-blowers  | Protecting whistle-blowers    |
| P4-2                          | Procurement system must include approvals  | Procurement system & controls |
| P5-3                          | Absence of accountability of governance structures   | Accountability                |
| P5-2                          | Policy development   | Standard Operating Procedures |
| P5-4                          | Standard operating procedures on training initiative   | Standard Operating Procedures |
| P6-1                          | Incorporate peer reviews in conducting background checks   | Vetting processes             |
| P6-2                          | Monitor and report on training initiatives   | Accountability                |
| P6-4                          | SCM officials should be regulated  | Competence                    |
| P6-5                          | Live and interactive procurement system  | Procurement system & controls |
| P7-1 & 2                      | Incorporate peer reviews in conducting background checks   | Vetting processes             |
| P7-3                          | Include qualification requirement  | Vetting processes             |
| P7-4                          | Training plans must be incorporated in budget  | Accountability                |
| P7-5 & 6                      | National Treasury must have oversight of the procurement system  | Procurement system & controls |
| P7-7                          | Disclose business interests  | Vetting processes             |
| P8-1                          | SCM officials must belong to a professional body   | Competence                    |
| P8-2                          | Disclose business interests  | Vetting processes             |
| P9-1                          | Disclose business interests and recusal from implicating transactions                                    | Vetting processes             |
| P9-2                          | Internal auditors should not participate in certain processes because they must audit the same processes | Internal Audit Function       |
| P9-3                          | Prescribe the minimum requirements for a system  | Procurement system & controls |
| P9-4                          | Ensure that SOEs comply to having a compliance officer   | Accountability                |
| P10-1                         | Disclose business interests  | Vetting processes             |
| P10-2                         | Internal audit function must look to improve the interview process and sit as a panel member             | Internal Audit Function       |
| P10-3                         | Include shortlisting of SCM officials before the vetting process   | Vetting processes             |
| P10-4                         | Governance structures should set the tone of zero tolerance of unethical conduct                         | Accountability                |
| P10-5                         | Political appointments   | Competence                    |
| P10-6                         | Prescribe minimum requirements for a procurement system  | Procurement system & controls |
| P10-8                         | The internal audit function is posed to improve the effectiveness of an environment                      | Internal Audit Function       |
| P11-1                         | Vetting process requires broader qualification   | Vetting processes             |
| P11-2&3                       | Profile individuals that enter the procurement environment to assess conflict of interest                | Business interest             |
| P11-4                         | Internal audit should only review the results of interviews  | Internal Audit Function       |
| P11-5-7                       | Training initiatives should ensure continuity in the process of transferring skills                      | Competence                    |

| Participant Response          | Factor   | Theme                                     |
|-------------------------------|--|---|
| P11-13                        | SOEs should be allowed to configurate the procurement system to be more flexible   | Procurement system & controls             |
| P12-1                         | Include qualification requirement  | Vetting processes                         |
| P12-2                         | Political appointments   | Competence                                |
| P12-3                         | Standardise the procurement system   | Procurement system & controls             |
| P12-4                         | There is a need for a compliance officer   | Accountability                            |
| P13-1                         | National Treasury must prescribe the inclusion of risk analysis and assurance reports to assist bid committees   | Accountability                            |
| P14-2                         | Relinquish business interests  | Vetting processes                         |
| P14-3                         | Internal Audit Function can review interview processes and ensure that procedures were followed  | Internal Audit Function                   |
| P14-4                         | Provide continuous training for institutions   |   |
| P14-5                         | SCM officials must sign a charter committing themselves to ethical conduct   | Accountability                            |
| P14-6                         | The procurement system should consider the nuances of the different SOEs   | Procurement system & controls             |
| P14-8                         | Conduct risk analysis and assessments of the entire institution to identify areas within that institution that are more prone to irregular expenditure than others | Accountability                            |
| <b>Education Proposition</b>  |  |   |
| P2-3-5                        | Educate the private sector on irregular expenditure  | Stakeholder awareness                     |
| P3-9                          | Broader distinction between unauthorised and irregular expenditure   | Stakeholder awareness                     |
| P6-6                          | Encourage teachings of what irregular expenditure is, to the communities   | Stakeholder awareness                     |
| P7-9                          | Reduce irregular expenditure through conducting skills and lifestyle audits  | Skills and lifestyle audits               |
| P11-16                        | Provide ethics courses in early education  | Stakeholder awareness                     |
| <b>Deterrence Proposition</b> |  |   |
| P2-6                          | Determine whether the irregular expenditure is a re-occurrence or first-off expenditure in disciplinary approaches   | Stakeholder awareness                     |
| P4-3                          | Certain instances of irregular expenditure are not fraud related   | Stakeholder awareness                     |
| P9-5&6                        | Consistently apply consequence management  | Consistently apply consequence management |
| P10-9                         | Consistently apply the code of consequence management  | Consistently apply consequence management |
| P12-6                         | Process flow of consequence management from the person who initiated the irregular expenditure transaction to the approver of that transaction                     | Consistently apply consequence management |

(Source: Own compilation)

The question posed for the interviews was essential to the study, to underpin the propositions of the draft governance strategy. The participants were requested to confirm or refute the strategy. The participants were further requested to furnish comments, documenting their perceptions. Prior to obtaining responses from the participants, the researcher presented the background to the study and explained why

it was important for the participants to critically review the proposed strategy. The researcher addressed the expectations from the participants in the interview proceedings and that the strategy would be presented and shared on the Microsoft Teams platform (Microsoft 2022), for comment and discussion. Microsoft Teams was the preferred platform utilised to conduct the interview proceedings. The strategy was shared with the participants, a week in advance.

The participants provided comprehensive inputs to enhance the proposed strategy. The discussion is provided below and is grouped according to the themes that emerged.

***Theme 1: Standard Operating Procedures (SOPs) in respect of Propositions of the Strategy.***

The interview participants offered an important suggestion for consideration, for inclusion in the strategy. The setting of Standard Operating Procedures (SOPs) in respect of the propositions of the strategy and specifically in respect of training initiatives, would outline how the procedures should be conducted and monitored. In considering the SOPs, employees would be more likely to adhere to the recommendations, as they would have tangible steps that they can follow.

Singh (2019:1) defined an “SOP” to be a set of written guidelines that detail a routine or monotonous activity that must be implemented at the institution. The utilisation of SOPs is integral to ensure the success of a desired outcome, as it provides individuals with information on how to perform a task accurately and facilitates consistency regarding the quality of a result. In drafting SOPs, it is important to consider aspects such as explaining steps thoroughly but concisely, and avoiding the use of long sentences or paragraphs. The aspects considered, such as providing thorough steps, are presented in the initiatives of the proposed strategy.

## ***Theme 2: Competence.***

The competence theme was extensively addressed in the preceding chapter (refer to section 6.2.1). For the purposes of avoiding repetition, this theme and its associated literature will not be discussed again, except to highlight factors for consideration that emerged from the interview process, as improvements were suggested to enhance the proposed strategy.

P1-4 (participant 1, comment 4) recommended that oversight structures be properly capacitated, as it will not be productive to only focus on employees. “Oversight structures” are those that have been charged with special authority and powers to oversee effective, economic, and efficient utilisation of public funds, and to warrant that corruption can be deterred, to offer greater accountability to the institution’s stakeholders (Mukherim, Ganapati & Manandhar 2021:1; Kraai 2018:92). The Auditor-General’s 2012/2013 Consolidated Report on the Audit Outcomes of Local Government (AGSA 2012:28-29) reported—as a major cause of poor audit outcomes in local government—the general lack of enhancing oversight capacity, reporting mechanisms and accountability, as a hinderance in effectively fulfilling the oversight functions. Kraai (2018:132) suggested that, for an oversight committee to perform its mandate effectively, it is critical that it portrays passion, objectivity, and dedication as some of its greatest attributes, accompanied by the necessary capacity, to enable the effective execution of its oversight function without difficulties.

In accordance with international best practice, enhancing the capability of oversight structures comprises adequate sustenance of institutions, to enable it to perform its mandates, such as training, that should be aligned with the institutional policies and its relevant practices. The training should be divided in terms of the oversight mandates, enhancing institutional policies and practices, and members of the

oversight structures should be established internally, in accordance with the individual member's interests. Other areas of training must include formal academic programmes, as well as informal training programmes, such as short courses, seminars, workshops, and conferences. Members' training should incorporate the following core competencies (RSA 2009:40) that have been adopted into the proposed strategy:

- Affirming the understanding of all statutes and laws;
- Areas of specialisation;
- Budget analysis;
- Commitment to work ethic and obligations;
- Communication skills;
- Conforming to ethical standards expected from stakeholders;
- Knowledge on how to receive and deal with information from whistle-blowers and how to protect the whistle-blowers;
- Policy development, analysis and engagement;
- Procedural training;
- Public speaking and debating skills;
- Reporting and minute-taking skills;
- Speech writing;
- Standard operating procedures; and
- Use and application of the Oversight and Accountability model.

Also emerging from the interview responses, were sentiments expressed by P3-1, who noted, from their experience, that most of the irregular expenditure incurred were indirectly or directly related to political appointments. The previously mentioned sentiments were confirmed by the responses of both P10-5 and P12-2. The

countermeasures in managing the political nature of institutions, were presented in the preceding chapter (refer to section 6.2.1) and have been adopted into the proposed strategy.

Another suggestion that emanated from the interview responses, is the proposal of regulating the procurement function, by ensuring that appointed officials are affiliated with the Chartered Institute of Procurement and Supply (CIPS). The recommendation was suggested by P6-4 and P8-1, who believed that it would reinforce the accountability of officials and enhance consequence management. A “professional body”, as defined by the South African Qualifications Authority (SAQA), is a body of expert practitioners in an occupational field and comprises an occupational body and statutory council (SAQA 2018). A professional body does not only exist to monitor and regulate the practice of its members (Nutritionist Resource n.d.), but provides sustainable services to its anticipatory members through standardisation, whilst also attempting to meet demands by stakeholders in regulatory autonomies and public circles (Rajcoomar 2017:229). The Australian Council of Professionals (2003) attaches a profound meaning to a professional body, declaring that it is a professional institution governed by codes of ethics, and that professes a commitment to competence and ethics, that binds officials to being accountable to those they serve and to the professional body.

Meintjes and Niemann-Struweg (2009:9) conducted a study establishing the need to professionalise the public relations industry. The majority of the respondents (97%) expressed the need for a professionalised body, and noted that if the worth and value of the profession were more secure, the confidence of the public would be guaranteed, and the profession would be considered as essential to the welfare, efficiency, vivacity and reputation of all major institutions. A large percentage (87%) of respondents



expressed that both standardisation and regulation of officials are essential, to guarantee consistency in the quality of service rendered by professionals.

Belonging to a professional body prompts and binds officials to appropriate professional behaviour, and safeguards institutions against the unethical conduct of officials. It is a great benefit, that individuals with a desire to pursue a career in procurement and SCM, can complete the formal courses that will align them with the CIPS, as there are currently no formal entry requirements for enrolling as a student member to commence the qualification. The qualification will benefit individuals by equipping them with knowledge in respect of global procedures, and processes relevant to the profession. Therefore, this study adopted the professional qualification proposition into its strategy, and advises National Treasury to prescribe the CIPS qualification as a requirement, for adherence by SOEs, in respect of both incoming candidates and existing state officials in the procurement environment.

### ***Theme 3: Accountability.***

As with the competence theme, the accountability theme was comprehensively dealt with in the preceding chapter (refer to section 6.2.3). Therefore, to avoid repetition, the accountability theme will only discuss recommendations that emerged from the interview process.

The factors that emerged comprised the setting of clear lines of reporting for escalation of issues relating to oversight structures (P2-1), as there is currently an absence of accountability in governance structures (P-3). The capacity of governance structures was previously addressed with reference to the study's theme 3, Competence:

All institutions must hold a disciplinary code to which employees are required to abide. The Human Resource section must institute disciplinary proceedings when an investigation reveals a breach of the code. Financial misconduct, as defined by

the PFMA (RSA 1999), should be a standard breach. Once it has been established that there was criminal conduct by an individual, resulting in the loss of money, the case must be transferred to law enforcement agencies to decide regarding prosecution. However, the SOE should not wait for the outcome of the law enforcement agencies and for criminal conduct to be established but should finalise the labour matter (employment) at the SOE, as per its disciplinary code.

The abovementioned initiative was well supported. P12-6 expressed that consequence management must flow all the way from the person that initiated the transaction, to all the people that approved it. It is very seldom that members of the Board are disciplined for breaches of controls, whereas the PFMA demands that the Accounting Authority implement systems of control, towards the prevention of irregular expenditure (RSA 1999). The study adopts the crucial sentiment, in its strategy, that senior managers should also be brought to account—where they approved the transactions that their subordinates initiated in committing malfeasance—as it is the manager’s duty to ensure that the necessary controls are enforced. The consequence management must reach each authority to a particular transaction. Crucially—to echo Lord Chief Justice Hewart’s remark in 1924—justice must not only be done, it must also unmistakably and assuredly be seen to be done (Kiereini 2020).

***Theme 4: Vetting processes.***

This theme had been described as follows: “Potential and existing employees must be profiled to assess whether they have any business interests with the state. If they do, they must be afforded the opportunity to relinquish those interests to avert compromising internal controls and the procurement environment”.

“Business interest”, for the purposes of the study, is referred to as the active participation of any individual or that individual’s family members in any trade or

profession, alongside with any direct interest they may have in any business institution, providing goods or services to the state. The definition, in the context of the study, is further elaborated as having a business interest that consumes an individual's time as a public official, and where the official utilises state resources (telephone, computer, internet, office, stationary) to run their business activities.

During the interview proceedings, there was a general assortment of views pertaining to relinquishing business interests, as well as the prescription of a standardised procurement system. Responses should be viewed with cognisance of the possibility that interviewees themselves may hold such business interests, resulting in conflicting interests. P6-5 expressed that it was an innovative idea, however, the practicality of it could pose a challenge, considering that the strategy demands that individuals declare and relinquish their interest to retain their permanent positions in a procurement function—a peculiar sentiment, considering that normal employment practice would require the declaration of business interests that demand one's time, to one's fulltime employer, for approval. P11-3 stated that fears concerning job security may entice procurement personnel to misrepresent themselves and to hide their business interests or involvement with a company who potentially could supply goods or services to the institution. P10-1 expressed the view that prohibiting business interests with the state, could create unintended consequences and risks that some individuals might have to consider prior to accepting employment at SOEs. The risk referred to is that they may refuse to relinquish their business interests, with the consequence being the potential loss of quality individuals to work for the state. P-1 and P10-1 offered an alternative suggestion considering the declaration of business interests, namely that individuals should be afforded the opportunity to recuse themselves from adjudicating tenders that could pose a conflict of interest, as such conflict of interest is bound to

occur now and then. The researcher found these statements to be disingenuous, as the question should be why a person with lucrative business interests would want to apply for permanent employment elsewhere? Moreover, considering that South Africa's unemployment rate increased to 35.3% in the fourth quarter of 2021 (Stoddard 2022:1), with many well-qualified people unemployed, it begs belief that the state would suffer the loss of quality employees. A crucial point that the participants overlooked regarding the full-time employment condition upon acceptance of a job offer, is that employees need to offer their full-time attention to the work of their employer. The responses provided regarding the strategy initiative indicate a perverse mindset and poor governance practices that require improvement, to negate the notion that SOE-employees can be "full-time" employees whilst pursuing time-consuming business interests with the state and elsewhere.

It is particularly important that individuals should choose whether they want to be self-employed or in the employ of the state, as it is greed that puts them in these positions of conflict of interests, where they end up awarding contracts to their family and friends. An employee of an SOE cannot run a business successfully while occupying a government office and performing government duties as diligently as they should, as these two priorities operate within the same space and at the same time. If one is too focused on one's business interest, then their work will suffer, and vice-versa. Therefore, it is important that individuals do not participate in any business activities or in any capacity be involved with a business, during their employment period with the state. Outside business interests hinder the operational efficiency of an institution. The exclusion from active participation in business activities needs to be enforced by ensuring that those that are appointed and who holds such business interests must

relinquish those business interests and that surrender of all such involvement must be disclosed, to avert conflict of interest and ensure dedication to their occupation.

Furthermore, the Public Service Regulations 2016, regulation 13(c), determine that an employee shall not conduct business (possess business interests) with any organ of state or be a director of a public- or private company conducting business with an organ of state, unless such an employee was—in an official capacity—a director of a company listed in schedules 2 and 3 of the Public Finance Management Act (RSA 2016). Section 8 of the Public Administration Management Act 11 of 2014 affirms that an employee may not conduct business with the state or be a director of a public- or private company conducting business with the state (RSA 2014c). A contravention of any one of these provisions is an offence, and any employee found guilty of the offence is liable to a fine or imprisonment for a period not exceeding five years, or both such fine and imprisonment, and constitutes serious misconduct which may result in the termination of employment by the employer (RSA 2020:6).

As of April 2020, the Department of Public Service and Administration (DPSA) had found that there were up to 1 539 public service employees who were regarded as conducting business with the state (RSA 2020:2). A crucial question emanates from this, namely how officials doing business with the state were appointed in the first place? Additionally, how many state officials had been found guilty and convicted for illegally doing business with the state? In response to the pestilence of working for the state while having business interests, the DPSA introduced mechanisms, in collaboration with the National Treasury, to monitor all new registrations of public service employees on the online central supplier database (CSD) system, by matching prospective suppliers against the Personnel and Salary System (PERSAL), using an identification number. When a match is affirmed, the person is then labelled and

obligated to furnish evidence that they are not in the employ of the state prior the completion of the registration process. The database comprised the names of all individuals and institutions bidding to obtain government contracts. The Department continuously identifies employees conducting business with the state and communicates it to the relevant departments to take the necessary steps (RSA 2020:8).

The actions taken by the DPSA included the handing over of the list of employees conducting business with the state, on 24 June 2019, to the South African Police Service (SAPS) and the National Prosecuting Authority (NPA). In September, a progress report had been presented to Cabinet. National Treasury currently has “real-time” access to the Companies and Intellectual Property Commission’s (CIPC) records to authenticate the existence of institutions. The scope, however, is restricted to the authentication of the institution, and does not include the authentication of directors and whether they may be a public servant. Consequently, there has been a rise in *ad hoc* requests to assist, reactively, in investigating or gaining information in respect of a specific individual, even though departments and public institutions has web-based access to CIPC data (RSA 2020:10).

To enhance the process of recognising state employees that conduct business with the state, the CIPC-system should be integrated with SARS’ system, as SARS’ data base contains income tax numbers and identity numbers of all salaried employees, which will be able to identify whether an individual is employed by the state. PERSAL is allocated to national- and provincial governments, and excludes employees of SOEs. Should SARS’ system find a positive match against the identification number of employees of the state, it should flag the application for investigation. Upon investigation and when a positive match is confirmed, then SARS and the CIPC must

notify the National Treasury and the DPSA, to transfer the information regarding these employees to law enforcement agencies, for prosecution. With regard to existing registered companies, the CIPC should conduct annual audits in an attempt to trace positive matches of employees who are both business owners/directors and employees of SOEs. Upon detection of potential matches, the CIPC must request cross-referencing of the information with SARS' system. A positive match of employees who are employed by the state and are doing business with the state, must be directed to the National Treasury and the DPSA, and handed over to law enforcement.

The employer must, on an annual basis, solicit the disclosure by employees of any active participation or interest in a business. Employers must provide awareness to its institution regarding this contravention. If there are any active participation in or business interests, the employer must inform the employee that the information will be submitted to the DPSA for sanctioning and prosecution, as such active participation is in contravention of the Public Service Regulations 2016, Regulation 13(c). The declaration of the business interest should be presented to the employee prior to signing their employment contracts, affording them the opportunity to relinquish their business interests, should they be active participants. These recommendations were included in the propositions of the study's outcome-strategy, despite the different opinions derived from the interview data.

***Theme 5: Protection of whistle-blowers.***

A strong sentiment was shared by P3-3, who expressed that employees in the procurement environment are not protected. There are many officials who are competent, however, the problem emanates owing to the absence of protection offered to them. For example, a person in authority will issue an instruction that will

force the official to do something that is unethical. The official will refuse, and they will have no recourse, and will be dismissed. P4-1 suggested that the proposed strategy needs to add a proposition that will ensure the protection of the whistle-blower. Such a proposition will encourage a great number of officials to report wrongdoing, as they would be protected.

“Whistle-blowing” can be termed as the disclosure by officials in an institution (former and current) of the illicit, immoral and hazardous activities under the direction of their employers, to officials, structures or institutions that may be able to effect action (Vatanchi 2019:2; Transparency International 2013). In disclosing the material breach, whistle-blowers often take an incredible risk that can cause adverse consequences to their lives. It is imperative that institutions introduce mechanisms to ensure the protection of whistle-blowers in reporting material breaches (Gzirichvili 2014). Solid protection mechanisms enhance psychological perspectives, such as transparency, integrity and accountability, as well as managerial perspectives, in providing a favourable environment for whistleblowing, thus guaranteeing citizens that state assets are safeguarded (Gogidze 2020:170; Chordiya, Sabharwal, Relly & Berman 2019:528).

Regrettably, there are several instances where adverse consequences have occurred where employees who held knowledge concerning institutional transgressors did not disclose material breaches, for fear of reprisal. In other cases, their disclosures were simply disregarded, or employees faced retaliation for effecting such disclosures (Chordiya et al 2019:528). Given the legal- and practical challenges, whistle-blowers resort to media outlets that tend to fall afoul of whistle-blowing protections, unless the individual has been frustrated by endeavours to seek recourse in disclosing transgressions within institutional confines. Edward Snowden, who is a well-known



whistle-blower and an American computer specialist who held a senior position in the USA's National Security Agency, made a special contribution to raising public awareness regarding whistleblowing. Snowden, with the assistance of the Guardian newspaper, published confidential materials in June 2013, that confirmed the facts of illegal surveillance of the telephone- and internet communications of American- and foreign citizens and political leaders, by the American authorities (Gzirichvili 2014). Lepore (2019) noted that, for exposing data containing state secrets, Snowden was condemned as a traitor, with the demand for a longer prison sentence. Snowden, nevertheless, is regarded as a patriot and a hero, owing to his courage in publishing human rights abuses by the government of the USA. Although Snowden's disclosure had brought about changes in whistleblowing internationally, he was still a victim of intimidation and harassment.

It is imperative to guarantee the protection of whistle-blowers by the state and its institutions, as protection will foster a culture for whistle-blowers to report material breaches immediately, in a manner that will follow acceptable procedures regarding the report of issues. Thus, an important recommendation to be added to this study's outcome-strategy, is that all SOEs should develop policies in respect of whistleblowing. The development of such policies will facilitate the clear formulation and consolidation of all important regulatory norms regarding whistleblowing and how the information must be disclosed and forwarded to law enforcement, for investigation and prosecution. The definition of whistleblowing must be clear and comprehensive and also define the transgressor, who can be anyone—ranging from the person who initiated a transaction to the person that approved the transaction. SOEs must establish an independent body to investigate whistle-blowers' complaints. The body should be afforded the authority to investigate the facts of the disclosure made by the

whistle-blower, and to issue mandatory instructions to relevant persons. The mandate of such an independent body must also include monitoring the enforcement of the whistle-blower policy and implementing awareness measures at the implicated SOEs, in respect of the issues reported. This study borrows and proposes the following for consideration, in suggesting procedures addressing whistleblowing and ensuring the protection of whistle-blowers (Adam 2021:2):

- The SOE must create a platform to enable employees or related stakeholders to raise any concerns or report unethical behaviour, in a responsible and effective manner, prior to seeking resolution externally from the SOE;
- The SOE must provide a transparent and confidential process in managing the disclosures reported;
- The SOE must create an independent structure that will manage the disclosures. The independent structure must possess the capacity to deal with the disclosure and must maintain objectivity, sensitivity and confidentiality, in order to guarantee protection of the identity of the whistle-blower.
- SOEs must define “whistle-blowing” clearly in its SOPs, and what the expectation is with regard to the reporting of issues;
- Upon investigation of the material breach or unethical conduct by the alleged transgressor and finding that there was indeed a material breach or unethical conduct, the independent structure must inform the law enforcement agencies and hand over details of the material breach or unethical conduct , for prosecution;
- SOEs should encourage employees and its stakeholders to make a *bona fide* or genuine disclosure, as soon as they have a reasonable suspicion of any concern or improper conduct that had occurred, is occurring or will occur in the immediate future;

- SOEs should permit disclosures to be submitted orally or via a formal document, determined by the SOE. The form should request standard information, such as the names of the whistle-blower and the accused individual(s) or institution; precise information, such as the date and time of the incident; and accommodate reference to relevant documentation or policies and other relevant facts. The whistle-blower should provide documentary evidence, if available or necessary, and the whistle-blower should affix their signature and date to the form;
- Board members should be accountable to ensure that all issues reported are dealt with. There should be a register that should form part of the annual audit plans for the SOE in addressing the procedures for whistleblowing;
- The whistle-blower should not be expected to furnish substantial evidence of proof beyond a reasonable doubt, when making a disclosure. When the whistle-blower knows in fact that there are serious risks of a transgressor transgressing, such genuine concerns should be raised and dealt with immediately when the whistle-blower is able to articulate the reasons for concern;
- The whistle-blower must, however, have first-hand knowledge of the information or facts of the concern or unethical behaviour, and the information of concern cannot be obtained from a third party or based on hearsay evidence. However, the whistle-blower should still be encouraged to make the disclosure, even if they are unsure whether there is sufficient evidence to support the allegation;
- To enhance the protection of whistle-blowers, SOEs should provide for adequate compensation for whistle-blowers that have been victims of intimidation and harassment via dismissal, pay cuts, defamation, harassment or other means of reprisal, relating to the disclosure of breaches or unethical behaviour;

- To further emphasise the protection of whistle-blowers, SOEs should institute disciplinary proceedings against those that attempt to hinder whistle-blowers from reporting issues;
- In cases where the lives of whistle-blowers are in immediate peril, the state should provide and direct that its institutions must involve the state security, where necessary, and adequate steps must be taken (such as relocating the informants to safety houses), including whatever steps are deemed necessary within the confines of the law, to protect that whistle-blower and to ensure that they are adequately protected; and
- All documents and evidence should be preserved for a period of seven to 10 years, or until investigations and court proceedings have been finalised – where transgressors have been found guilty.

***Theme 6: Procurement system and controls.***

The proposition emanating from this theme, was described as follows:

Rather than employing its own procurement systems, all SOEs must adopt the Logistical Information System (LOGIS), utilised by the central government. The system should be standardised by the National Treasury. Preventative controls and approval processes of the procurement system must be automated (refer to section 6.2.3) and include detection mechanisms to identify transactions that may potentially be irregular. For example, an online check list, prior to engaging in a transaction, could determine irregular expenditure. Upon detection of potential irregular expenditure, the system should provide corrective suggestions. It may, for example, reject a transaction and prompt an individual to upload all three quotations required for a transaction above a particular threshold.

P4-2 opined that it would be perilous to suggest the LOGIS, without proper research. The challenge with systems is that different SOEs employ different systems and not only in respect of procurement. It is important to consider the systems in other processes and how those systems are integrated with the SOE's financial- and other systems related to business operations. Otherwise, the SOE will have to replace its entire information technology infrastructure, which might be quite expensive. P11-13 cautioned against standardising the system, as such a system could be rigid and cumbersome, with the likelihood of causing delay and impair efficiency in workflow that requires timeous, fast and correct decision-making. An alternative, suggested by P3-6 and P9-3, is that National Treasury should prescribe the minimum requirements, such as the controls required to be present in the procurement system of each SOE. Such a system should direct the approval delegation at each stage of the approval process. The other half of the participants (P6-5, P7-5, P12-3 and P14-6) supported the notion of standardising a procurement system, as one of the most valuable propositions of the study. However, in respect of the strategy, the researcher had to consider the practicality of it. A practical alternative suggested, was that National Treasury should consult with the State Information Technology Agency (SITA) towards the creation of a live system, that can hold integration embedded within specific programs of SITA, as it is the major influencer in technology innovation for the State. The system needs to ensure that National Treasury has oversight of the processes followed by SOEs. In support of the proposed strategy, it was stated that the National Treasury is currently attending to the development of the Integrated Financial Management System (IFMS). According to the National Treasury (RSA 2021:138), the implementation of the IFMS had been delayed by reviews and procurement systems. However, the purpose of its development was to implement a holistic information

technology system, to be employed by government and its institutions. Therefore, standardisation of the system is important, as it will endeavour to eliminate procurement corruption by government. Hence, the strategy-proposition remained as drafted, but also adopted and recommended the crucial views expressed in that the procurement system must consider the nuances of the different business activities of SOEs.

***Theme 7: Internal audit function.***

The following proposition emanated from the Internal audit function theme:

To curb the Peter- and Dilbert principles, as well as percussive sublimation and paternal in-step, it is suggested that an internal auditor should be present during recruitment interviews. The internal auditor should function as observer and to verify the score results, in order to ensure that the results are not manipulated.

This proposition was declared partially good to good, by P14-3. P14-3 further expressed that its application may be a challenge and that this initiative may need to be nuanced differently, as internal auditors might find themselves being a player and a referee, at the same time. P14-3 reasoned that the internal auditor might be a player, in the sense that participating in the interview process signify that they will be part of the enablers when correct recruitment processes were not adhered to, and they might be a referee—in the sense that participating in the interview process signify that they will be responsible for ensuring that interview processes are adhered to. Furthermore, internal auditors investigate matters upon request. Internal auditing is a function that, in principle, does not participate in decision-making operations, including employment interviews. On account of this principle, internal auditing maintains its independence and the integrity of its unbiased conclusions and recommendations. The relationship between internal auditing and management is that of a partnership, aiming to reinforce

control and governance. It will be challenging to be a panelist as an observer, and not comment when discrepancies are identified during the interview proceedings. The reasoning expressed by P14-3 is flawed. Should the internal auditor's independence arise from being an observer, then the same should apply for any other audit. Also, if the internal audit function only investigates matters upon request, then to be an observer on interview panels and provide assurance on the process, can be executed in compliance with a request. Acting as an observer means that they should not participate to score or contribute to the decision in respect of the appointment. P14-3 added that a preempted challenge is that when there is political interference to place people in procurement positions, even internal auditors are limited in what they can do. This sentiment does not ring true, as the internal auditors report directly to the audit committee and there is, thus, an avenue for reporting to a supposedly independent body, should any discrepancies be observed. The intervention of the Board is crucial, in ensuring that there is no corruption or unethical behaviour when it comes to the appointment of SCM officials. This study-initiative is requesting that the internal audit function lead, rather than playing a reactive role. The best way around this is that internal auditing must consider the interview process and narrow the gaps within that environment, as opposed to just sitting in on the interviews as an observer. There might have been some misunderstanding of the proposition regarding the internal auditors being panel members. P14's understanding of the internal auditor participant was that panel members can pose questions during the interview proceedings. However, the proposition was clear in suggesting that an internal auditor should be present during recruitment interviews and should function as an observer without active participation, and to verify the score results to ensure that the results

are not manipulated (providing reasonable assurance that the interview process was conducted correctly).

According to the Public Company Accounting Oversight Board (2020:22) Standard 16, “observation” consists of considering a process or procedure being performed by others. An example could be the auditor’s observation of inventory counting by the institution’s personnel or the performance of control activities. Observation can provide audit evidence concerning the performance of a process or procedure, however, the evidence is limited to the point in time at which the observation takes place, and is limited by the fact that the act of being observed may affect how the process or procedure is performed. Despite the disagreement by the internal audit interview respondents, the provisions by the PCAOB affirm the leeway that the internal auditors can sit in on an interview and observe the interview proceedings, in an effort to curb a number of the weaknesses in recruitment activities identified in reviewing the Peter- and Dilbert principles, as well as percussive sublimation and paternal in-step. Thus, the strategy remained unchanged in respect of this proposition.

### ***Theme 8: Stakeholder awareness***

The private sector tends to operate its business activities differently from the way the public sector operates (Elsig & Amalric 2008). Government often needs to overtly obligate its conduct, as regulation of the private sector is not designed with the same public scrutiny in mind (Taylor 2021:902). Such perceptions prompt unethical conduct by the private sector, that exerts the expectation of the same type of behaviour by officials of the state.

Towards ensuring that the public sector conducts its business activities in accordance with government regulations, it was expressed by P2-6 during the interview proceedings that the private sector needs to be educated with regard to irregular



expenditure. The education in respect of irregular expenditure needs to be extended to communities as well, in accordance with the adage “it takes a village to raise a child”. Communities are key stakeholders of government institutions. Its status should be considered when considering the impact of government actions and how government’s adverse actions hinder service delivery (Castelnovo 2013:99). Therefore, it is crucial that in the tendering documentation, the definition of irregular expenditure is included, along with examples. Furthermore, National Treasury needs to initiate “did you know?”-campaigns relating to irregular expenditure and the impact thereof, via media platforms, including the traditional platforms, to allow for inclusion of radio- and television audiences. Therefore, the study adopted the propositions as important recommendations for inclusion in the strategy.

### 7.3 The Final Proposed Governance Strategy

This chapter considered the suggestions put forward by SOEs in respect of the final proposed governance strategy, presented in table 7.4, below.

**Table 7.4: The final proposed strategy**

| Approaches    | Features  | Actions   |
|---------------|---|---|
| 1. Prevention | Sourcing competent individuals in the procurement environment | <p><b>Re. appointing individuals:</b></p> <ul style="list-style-type: none"> <li>• SOEs should follow acceptable vetting processes by contacting references provided and conducting thorough background checks, such as contacting previous employers to validate the applicant’s reason(s) for leaving.</li> <li>• SOEs must source procurement candidates affiliated with the CIPS. Existing state officials in the procurement environment must pursue the CIPS qualification on a probation basis, agreed upon by the SOE and the official concerned.</li> <li>• Potential and existing employees must be profiled, in order to assess whether they hold any business interests with the state. The limitation of active participation in business activities needs to be enforced by ensuring that those with business interests – that are appointed by SOEs – relinquish those business interests and disclose that surrender, in order to avert conflict of interest (P7 response 7).</li> <li>• The employer must, on an annual basis, solicit the disclosure by employees of any active participation in external work. Employers must create awareness in its institution, regarding the requirement to obtain approval in respect of external work involvement. When there is any active participation in business interests, the employer should inform the employee that the information will be submitted to the DPSA for sanctioning and prosecution, as such active participation is in contravention of the Public Service Regulations 2016, Regulation 13(c). The declaration of business interest(s) should be presented to the employee prior to signing their employment contract, allowing them the opportunity to relinquish</li> </ul> |

| Approaches | Features | Actions  |
|------------|----------|--|
|            |          | <p>their business interest(s), should any active participation exist. Regarding extant employees, employers should solicit the disclosure annually and follow the same process as alluded to hereinabove.</p> <ul style="list-style-type: none"> <li>• Oversight structures (the board) of SOEs bears overall responsibility in respect of risk, financial soundness and regulatory compliance, across the entire institution. Enhancing the capability of oversight structures comprises adequate sustenance by institutions to enable it to perform its mandates, including a resolute secretary and researcher, in addition to that which is generally offered to the oversight structures. Therefore, the board members should be fit and proper to be appointed at the oversight level of an institution, and should be subject to the same vetting process and profiling as prospective employees prior to appointment to the oversight structures of SOEs. In this regard, the governance operating model for the SOE should guide the process by articulating the skills, knowledge and qualifications it requires to effectively execute its oversight responsibilities, and to assess its composition against those needs. Prior to being appointed as a board member, candidates should be subject to psychometric assessments in order to evaluate the ethical soundness of each candidate.</li> <li>• Board oversight activities and responsibilities relating to mitigating irregular expenditure risk should: <ul style="list-style-type: none"> <li>a) Include committee charters that define the committee's responsibilities and ethical behaviour to which the board members are bound, and failure to execute their duties and responsibilities should render them liable for prosecution;</li> <li>b) Maintain a governance structure that is understandable to internal employees, and external stakeholders that will encourage an open line of communication where issues can be escalated to the chairperson of the board via a hot-line or email that will be continuously monitored and accessed by the chairperson and their personal assistant;</li> <li>c) Define a process of overseeing the spectrum of risks across all regions and businesses of the SOE,</li> </ul> </li> </ul> |

| Approaches | Features | Actions  |
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|            |          | <p>including risk analysis and assurance reports in order to assist bid committees in the award of contracts to suppliers and, when applicable, thresholds or amounts;</p> <p>d) Instruct the conduct of risk analysis and assessments of the entire institution in order to identify areas within that institution that are prone to irregular expenditure, by the enterprise risk management portfolio of the institution;</p> <p>e) The board should hold clearly defined methods of escalating and reporting significant matters to the chairperson of the board.</p> <ul style="list-style-type: none"> <li>• An internal auditor should be present, without any active participation, to observe that fairness is applied in the interview proceedings and, in the end, to verify/audit the results of the interview (P14 )</li> <li>• The internal audit function must investigate the processes in respect of the way interviews are conducted, to identify potential weaknesses and then to eliminate such weaknesses in the recruitment processes (P10 Response 2).</li> <li>• Competence must be determined by technical- and psychometric assessments designed specifically for the new position, to determine, beforehand, whether individuals can perform the necessary duties.</li> <li>• An approved training plan for existing and new lower-level employees must be implemented, to train them to perform their duties (technical competence).</li> <li>• Experienced individuals who qualify for promotion should transfer their skills to others. The required knowledge and skills, realistic training objectives and outcomes, and ways to practise these while executing duties, should be identified. The trained individual should be able to independently execute the new skills transferred to them. The programme must be monitored, evaluated and reported on.</li> <li>• The competence of employees should continuously be developed and, once they qualify for the next level, they may be recommended for promotion. The development plan objectives should be incorporated</li> </ul> |

| Approaches | Features | Actions  |
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|            |          | <p>in the job description of the individual, for monitoring purposes. The individual should present a portfolio of evidence in respect of their development. At the performance review of the individual, the individual’s manager and an objective HR personnel member can then assess whether the key performance indicators (KPIs) as set out in the development plan for the new position, have been attained. Possessing the necessary skills required with regard to a specific job, affords the individual opportunities for promotion to a position for which they possess the competency. Employees should also strive to self-improve via continuous development, in order to avert stagnation and incompetence.</p> <ul style="list-style-type: none"> <li>• SOEs should apply rigour in the appointment process, train individuals for their probation period and enforce the probation clauses in employment contracts where incompetence or malfeasance is evident.</li> <li>• Oversight bodies should issue strict directives for sourcing individuals in the procurement environment. Applicants must possess the competencies listed below.</li> </ul> <p><b>Competencies required:</b></p> <ol style="list-style-type: none"> <li>a) Accountability and responsibility (refer to section 6.2.3);</li> <li>b) Adequate experience in the procurement environment (refer to section 5.4.3);</li> <li>c) Analytical thinking and critical thinking skills (refer to section 6.2.1);</li> <li>d) Assertiveness (refer to section 6.2.1);</li> <li>e) Diligence (refer to section 6.2.1);</li> <li>f) Autonomy (refer to section 6.2.3);</li> <li>g) Ethics, integrity, honesty, transparency and living the values (refer to sections 5.3.1 and 5.5.1);</li> <li>h) Flexibility to accept change, and adaptability to innovative ideas and the changing requirements that the work environment may pose (refer to section 5.4.3);</li> <li>i) Knowledge of government regulations (refer to section 5.4.3);</li> <li>j) Planning and organising skills (refer to sections 5.3.1 and 5.5.1);</li> <li>k) Project management skills (refer to section 5.6.2).</li> </ol> |

| Approaches | Features | Actions   |
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|            |          | <ul style="list-style-type: none"> <li>• <b>Employees should regularly receive training:</b> <ul style="list-style-type: none"> <li>a) In respect of control management systems (refer to section 6.2.3);</li> <li>b) Through conducting workshops for employees in respect of the latest legislative controls in a procurement environment, its purpose and how non-compliance to controls adversely affects the institution, and the implication of transgressors' prosecution;</li> <li>c) On a quarterly or monthly basis, subject to availability of resources. Employers must provide training to all employees expected to be involved in a procurement transaction in respect of the applicable legislation (refer to section 5.3.1), as the bulk of transgressions are the result of employees' ignorance of the rules (P14 Response 4). Training is required concerning operation of the procurement systems and the way that legislative requirements and internal controls are applied to each transaction activity in the procurement system;</li> <li>d) As part of the audit plan by the external auditors of the institution. By being part of the audit plan, the previously mentioned initiative will ensure that the training programs are monitored, evaluated and reported upon to National Treasury (P6 Response 6);</li> <li>e) To deal with political directives: <ul style="list-style-type: none"> <li>i. Employees should be trained that in dealing with a political directive they should, in all instances, request a written instruction (refer to section 6.2.1) of the unbecoming requests, or document the activities of political interference in their administration of duties, for escalation.</li> <li>ii. In training employees to deal with political directives SOEs must encourage the escalation of unbecoming requests to governance structures that will ensure the employee's protection. The governance structure must, immediately, investigate independently and objectively such a matter, and upon determination of unbecoming requests and interference it must sanction the perpetrator by reporting to law enforcement and - agencies such activities (P4 Response 1). The sanction of the perpetrators should always be visible at the institution, as a mechanism to encourage other employees to speak out against political directives and unethical conduct.</li> </ul> </li> </ul> </li> </ul> |

| Approaches | Features  | Actions  |
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|            |   | <ul style="list-style-type: none"> <li>• Oversight structure-training must encompass formal academic programmes, as well as training programmes, such as short courses, seminars, workshops and conferences. Members' training should incorporate the following core competencies:               <ul style="list-style-type: none"> <li>a) Affirming the understanding of all statutes and laws;</li> <li>b) Areas of specialisation;</li> <li>c) Budget analysis;</li> <li>d) Commitment to work ethic and -obligations;</li> <li>e) Communication skills;</li> <li>f) Conforming to the ethical standards expected from stakeholders;</li> <li>g) Knowledge related to the way to receive and deal with information from whistle-blowers and how to protect the whistle-blowers;</li> <li>h) Policy development, analysis and engagement;</li> <li>i) Procedural training;</li> <li>j) Public speaking and debating skills;</li> <li>k) Reporting and minute-taking skills;</li> <li>l) Speech writing;</li> <li>m) Standard operating procedures;</li> <li>n) Use and application of the Oversight and Accountability model.</li> </ul> </li> </ul> |
|            | <p><b>Ensuring an effective procurement environment in SOEs</b></p> | <ul style="list-style-type: none"> <li>• Effective governance structures should be determined by SOEs, in order to enhance the responsibility and accountability assigned to such governance structures. For example, irregular expenditure should be part of the meeting agenda items of executive committees, including risk committees, audit committees and boards of directors who are tasked to monitor irregular expenditure by the institution (P5 Response 3). The effective governance structures must be tasked with the responsibility to receive information regarding and deal with financial misdemeanours (P2 Response 1). In line with that, the governance structures must ascertain the protection of whistle-blowers, ensuring that when they report wrongdoing, they are still protected (P4 Response 1). SOEs must, periodically, introduce risk analyses and independent assurance reports to governance structures, where bids that exceed a certain threshold can be called out in order</li> </ul>   |

| Approaches | Features | Actions  |
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|            |          | <p>to assist bid committees in its assessments and governance structures in reinforcing the control environment.</p> <ul style="list-style-type: none"> <li>• SOEs should consider the following procedures in dealing with whistleblowing and ensuring the protection of whistle-blowers:               <ol style="list-style-type: none"> <li>a) The SOE must create a platform to enable employees or related stakeholders to raise any concerns regarding unethical behaviour in a responsible and effective manner, prior to seeking resolution externally;</li> <li>b) The SOE must provide a transparent and confidential process for managing the disclosures reported;</li> <li>c) The SOE must create an independent structure that will manage the disclosures. The independent structure must possess the capacity to deal with the disclosure and must maintain objectivity, sensitivity and confidentiality, and be able to guarantee the protection of the identity of the whistle-blower;</li> <li>d) SOEs must define “whistle-blowing” clearly in its SOPs and elucidate the expectation related to the reporting of issues;</li> <li>e) Upon investigation of the material breach or unethical conduct of the alleged transgressor, and finding that a material breach or unethical conduct had indeed been committed, the independent structure must inform the law enforcement agencies and hand over details of the material breach or unethical conduct, for prosecution;</li> <li>f) The SOE should encourage its employees and stakeholders to execute a <i>bona fide</i> or genuine disclosure as soon as they have a reasonable suspicion of any concern, or that improper conduct had occurred, is occurring, or will occur in the immediate future;</li> <li>g) The SOE should permit disclosures to be submitted orally or via a formal document, determined by the SOE. The form should request standard required information, such as the names of the whistle-blower and the accused individual(s) or institution, and precise</li> </ol> </li> </ul> |



| Approaches | Features | Actions  |
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|            |          | <p>information, such as the date and time of the incident, as well as reference to relevant documentation or policies and any other relevant facts. The whistle-blower should provide documentary evidence, if available or necessary, and the whistle-blower should affix their signature and the date to the form;</p> <p>h) Board members should be accountable to ensure that all issues reported are dealt with. There should be a register as part of the SOE's annual audit plans, addressing the procedures for whistleblowing;</p> <p>i) The whistle-blower should not be expected to furnish substantial evidence of proof beyond reasonable doubt, when making a disclosure. If the whistle-blower knows, in fact, that there are serious risks that a transgressor is transgressing, such genuine concerns should be raised and dealt with immediately, when the whistle-blower is able to show the reasons for concern;</p> <p>j) The whistle-blower must, however, have first-hand knowledge of the information or facts related to the concern or unethical behaviour, and the information of the concern must not be obtained from a third party or based on hearsay. However, the whistle-blower should still be encouraged to make the disclosure, even if they are unsure whether there is sufficient evidence to support the allegation;</p> <p>k) To enhance the protection of whistle-blowers, SOEs should provide for the adequate compensation of whistle-blowers that have been victims of intimidation and harassment via dismissal, pay cuts, defamation, harassment or other means of reprisal, related to the disclosure of breaches and unethical behaviour;</p> <p>l) To emphasise the protection of whistle-blowers, SOEs should institute disciplinary proceedings against those that attempt to hinder whistle-blowers from reporting issues;</p> <p>m) In cases where the lives of the whistle-blowers are in immediate peril, the state should provide and direct that its institutions involve the state security, where necessary, and adequate steps must be taken (such as relocating the informants</p> |

| Approaches | Features | Actions   |
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|            |          | <p>to safety houses), including—any steps deemed necessary—within the confines of the law - to ensure that the whistle-blowers are adequately protected;</p> <p>n) All documents and evidence should be preserved for a period of seven to 10 years, or until investigations and court proceedings have been finalised, where transgressors have been found guilty;</p> <p>o) The SOP must be reviewed every two years to evaluate its effectiveness.</p> <ul style="list-style-type: none"> <li>• Rather than each SOE employing its own procurement system, National Treasury needs to create and prescribe a live and interactive procurement system for all SOEs, and all other state institutions. The system should allow for modification, to consider the different nuances of the business activities of the state institutions (P14 Response 6). Preventative controls and approval processes in the procurement system must be apparent, automated (refer to section 6.2.3), and include detection mechanisms, to identify transactions that may potentially be irregular. For example, an online checklist, prior to engaging in a transaction, could determine irregular expenditure. Upon detection of potential irregular expenditure, the system should provide corrective suggestions. It may, for example, reject a transaction and prompt an individual to upload all three quotations required for a transaction above a particular threshold. Such a system should indicate approval delegation at each stage of the approval process. The standardisation of the system is important, as it will endeavour to eliminate procurement corruption in government.</li> <li>• A resolute official in the governance- and compliance department of the institution should remain abreast of current legislation and ensure the institution’s compliance. The official must be personally responsible for compliance, be cognisant of legislative amendments, monitor regulatory activities, build relationships with regulators on behalf of the institution, join industry associations and attend regulatory conferences. The official must conduct workshops with the entire institution to</li> </ul> |

| Approaches | Features  | Actions  |
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|            |   | <p>provide training and ensure awareness of the latest changes to legislation.</p> <ul style="list-style-type: none"> <li>An investigation/research must be conducted annually, to determine whether the control environment is effective and whether any potential manipulation of the internal controls exist.</li> </ul>  |
| Education  | <p><b>Ensuring institutional awareness concerning procurement processes and institutional culture</b></p> | <ul style="list-style-type: none"> <li>Unethical behaviour should be changed through the basic- and higher education systems of the country (and especially in elementary education, where values are instilled), as these systems will provide the future employees of SOEs. Government’s education policies should emphasise a strong culture of ethical behaviour and point out the impact of unethical behaviour and irregular expenditure on communities. Government must also encourage the previously mentioned teachings within communities, as not everyone is privileged to attend school and in accordance with the African adage that “it takes a village to raise a child” (P6 Response 6).</li> <li>Awareness and education relating to the definition of irregular expenditure should be expanded to the private sector (P2 Response 4). It is crucial that in the tendering documentation, the definition of irregular expenditure is included, along with examples. Furthermore, National Treasury should initiate “Did you know?”-campaigns, relating to irregular expenditure and its impact on media platforms, including the traditional platforms – to include radio and television audiences.</li> <li>Institutions must reconcile an ethical culture and work expectations by recruiting and selecting competent candidates, with strong value systems and ethics. Orientation, training and performance management programmes must provide the framework for the reinforcement of the institution’s core values. Employees who truly exemplify the values should be appropriately rewarded and recognised.</li> <li>Awareness must be created that the function of procurement in the SOE should only be conducted by properly qualified and experienced procurement</li> </ul> |

| Approaches        | Features  | Actions   |
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|                   |   | <p>personnel and that no-one else should assume this function.</p> <ul style="list-style-type: none"> <li>• Towards reducing unethical behaviour, National Treasury should mitigate the risk through skills- and cost of living audits of the SOEs (P7 Response 8).</li> </ul>  |
| <b>Deterrence</b> | <b>Instituting visible consequence management at SOEs</b> | <ul style="list-style-type: none"> <li>• All institutions must hold a disciplinary code by which employees need to abide. HR should institute disciplinary proceedings in all instances where an investigation revealed a breach of the code. Financial misconduct, as defined by the PFMA, should be a standard breach. Once it has been established that there was criminal conduct by an individual, resulting in the loss of money, the case must be handed over to law enforcement agencies to decide regarding prosecution. However, the SOE should not wait for the outcome of the law enforcement agencies and for criminal conduct to be established, but should finalise the labour matter (employment) at the SOE, as per its disciplinary code. The initiative must be inclusive, to cover every authority to a particular transaction (P12 Response 6).</li> </ul> |

(Source: Own compilation)

## 7.4 Chapter Summary

This chapter presented the responses, as well as the analyses of the interview question posed to underpin the proposed governance strategy. The review of the draft strategy by prominent SOE-figures was extensive and enriching in terms of contributing to knowledge. The proposed strategy was rigorously critiqued by the officials at SOEs who bear the task of managing its operations within the prescriptions of National Treasury regulations and -directives. Criticism is necessary as it affords an individual the opportunity for improvement and, in this instance, such was afforded the proposed governance strategy. An imperative suggestion that emanated from the IQA focus groups was that, in suggesting a proposed strategy, there should be caution not

to overly regulate the procurement environment. However, the procurement environment should be improved to be conducive and aligned to the work environment as well as the ethics of an institution. Therefore, the following and final chapter concludes the study, by confirming the achievement of the research objectives and discussing aspects requiring possible further research.

## Chapter 8: Conclusion and Recommendation

### 8.1 Introduction

The confines of inherent internal controls draw inference to restrictive considerations of the way internal control systems are operated or implemented (Marais & Ostwalt 2016:16; Aldridge & Colbert 1994:23). These considerations comprise subjectivity and human behaviour, as internal controls are implemented by human beings who cannot entirely exorcise the human element when operating the systems. Marks (2010:1) attributed the root cause of internal control issues to people, and that internal control issues are owing to judgement, experience, training, underperformance, ineffective management, inadequate supervision and lack of communication, resulting from individuals' presence. It is, therefore, important to consider human behaviour when managing risk, as human error, collusion, abuse of authority and lack of knowledge of the implemented controls can affect the way controls are applied (International Organisation of Supreme Audit Institutions 2004:8; Botha 2003:53). This element and its consideration are not included in the South African Irregular Expenditure Management Framework. Thus, the study has identified a disconnect that exists between current practice and what government has put in place to address risk management.

Weaknesses have been prevalent in irregular expenditure management and has led to the Supreme Court of Appeal (SCA), on the 16<sup>th</sup> of February 2022, to uphold the judgement of the Constitutional Court, and the Preferential Procurement Regulations published under the PPPFA (RSA 2000) were set aside (*Minister of Finance v Afribusiness NPC* [2022] ZACC 4). Owing to what the SCA termed "the interrelation of the regulations", the entirety of the procurement regulations was proclaimed invalid, in

terms of s 5 of the PPPFA (RSA 2000) and s 217 of the Constitution (RSA 1996), finding that the Minister of Finance acted beyond the scope of his powers when he promulgated the procurement regulations in 2017. The regulations, amongst other things, instituted pre-qualification conditions to tender eligibility. In terms of the regulations, should an organ of state be nominated to employ the pre-qualification conditions, any tender that does not meet the requirements of the conditions is deemed an “unacceptable tender”. These qualifying conditions advance select, designated groups and create a platform for preferred tenderers to respond (Genga 2022).

It is the premise of the status quo of the South African public procurement environment that has enticed the researcher to propose an irregular expenditure governance strategy for South African SOEs—a strategy that accommodates the human traits leading to irregular expenditure being incurred. The strategy was rigorously reviewed and validated by suggestions, to be more effective in mitigating irregular expenditure risk.

The chapter commences with the introduction, followed by the confirmation that the study’s objectives had been achieved, and lastly, the researcher concludes the study by offering suggestions for future research. The current chapter will not offer the recommendations of the study, as the recommendations are presented in the format of the final strategy (refer to section 7.3) in the previous chapter.

## **8.2 Confirmation of the Achievement of the Research Objectives**

Hofstee (2006:155) stated that the conclusion chapter summarises that which the researcher commenced in the introductory chapter, by way of confirmation that the study has ascertained its intended objectives. This chapter assists the reader to

understand the researcher's discoveries, concluding the problem that the researcher stated in the introduction to the study.

The study, firstly, conducted a process that entailed the researcher perusing the audited AFS of the 21 major SOEs over the 6-year period under review, and identifying the types of irregular expenditure that were incurred. Whatever was listed as irregular expenditure and reasons for such, the researcher recorded as irregular expenditure incurred, thereafter coding it as a type of irregular expenditure (refer to chapter 4). Based on the literature review conducted, irregular expenditure is exemplified in these different ways. However, there are many more types of irregular expenditure that can be defined as expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. Secondly, the researcher executed counts, based on textual references that were counted to offer indicative trends and, in this instance, indicative numbers. The indicative numbers presented the lists of the types of irregular expenditure incurred per financial year, for the period under review. The exercise allowed the researcher to determine the most prominent grouping of irregular expenditure being incurred, which informed the IQA focus group question.

Chapter 5 presented the focus group findings on the reasons why individual employees contravene legislation or regulations that lead to the incurrence of contract adjudication. The reasons behind the incurrence of these types of irregular expenditure led to examination of the underlying human behaviour and relevant management- and behavioural theories that were identified, and thus resulted in the outcome of the study, in addressing these matters as a preventative measure.

The study went further in the sixth chapter, to consider the themes that emanated from the IQA focus group findings. The scope of the study being ambitious, the researcher



specifically sought to address the weaknesses in human behaviour identified by the IQA focus groups, to propose a strategy for consideration by the National Treasury. The themes that emerged were those related to Competence, Procurement Environment and Accountability. Competence, referring to functional areas and competency in respect of behavioural aspects, was perceived by the IQA focus groups as human resources who do not have the necessary experience, knowledge and training in procurement, and are subject to procurement pressure as well as political pressures. These attributes were said to be strongly associated to features of the Peter principle, the Dilbert principle, patronage considerations including nepotism, as well as hierarchical exfoliation and paternal in-step. The IQA focus groups associated the procurement environment theme with weaknesses in the control environment, general planning, procurement planning and other regulatory challenges, contributed to by incompetent employees. The procurement environment theme—in establishing why people do what they do—was associated with the TRA, TPB, and the Deontology theory, as its theoretical content complement each other. The IQA focus groups associated the accountability theme with inadequate consequence management, that leads to unethical behaviour, such as fraud and corruption. The theme of accountability was associated with the theory of accountability and the deterrence theory. The knowledge gained through the IQA focus groups was enriching and enticed the study to associate the findings with a theory that could elucidate the phenomenon. However, the study did not attempt to explain the behaviour of individuals that transgress, but merely associated the transgression with a particular behaviour, and then devised a strategy by offering a countermeasure. Chapter 6 proposed a strategy for validation and enhancement by prominent SOE- stakeholders, on the premise that the proposed strategy assumes an offensive approach on three

fronts. The three fronts are Prevention, Education and Deterrence, premised on the Hong Kong ICAC model. This study, however, replaced investigation with deterrence, as investigation has already been inscribed in the current Irregular Expenditure Framework of National Treasury.

Chapter 7 reported on the interview responses obtained in conducting interviews with prominent figures at SOEs, to underpin the proposed governance strategy for mitigation of irregular expenditure risk. The draft governance strategy emanated from the preceding research methods—content analysis, focus groups and literature review. The chapter analysed and interpreted the interview findings. There were mixed views in respect of the initiatives proposed. The chapter proposed a final governance strategy that considered the inputs by the prominent SOE-figures, towards reinforcing the strategy. Next, the impact of irregular expenditure eradication is considered.

### **8.3 The Impact of Irregular Expenditure Eradication**

The proposed governance strategy emanates from the disconnect in the governance framework that struggles to prevent irregular expenditure by SOEs. The inclusion of the organisational governance theory in the study, highlighted the disconnect that exists between current practice and what government has established for SOEs to deal with irregular expenditure. The disconnect exemplifies that the proposed governance strategy is a contribution, as a public finance management reform that will assist in mitigating irregular expenditure risk in the financial management of the public sector. The eradication of irregular expenditure risk may have a profound impact on citizens' lives and on government's financial health. Government may be able to improve the financial- and performance management of key SOEs, to ensure that vital service provision and infrastructure programmes succeed. It signifies that society

should be able to function fairly and efficiently, without being hindered by malfeasance in the public sector. Next, suggestions for possible future research are discussed.

#### **8.4 Suggestions for Future Research**

The study provides suggestions for future research, below:

- To determine how political will and undue influence can be eliminated from the operations of SOEs, which would not only serve to enhance the SOEs' independence but will enhance its positioning, revisiting the policy of cadre deployment and enabling government institutions to fulfil its obligations to society without political interference. Even though it may be difficult to separate politics from administrative operations, a firm position on the proposed action is necessary.
- To determine whether, by introducing to the schooling systems and particularly Pre-School, the culture of integrity and honesty, a care for state resources and the impact of wrongdoing by state officials on service delivery, ethical values can be instilled as a way of life. This will determine whether future leaders of SOEs can be groomed from early ages to possess integrity and honesty.
- To determine whether budgeting correctly, and proper planning of projects, can prevent poor performance and, ultimately, eliminate irregular expenditure risk.
- To determine the relevance and appropriateness of a centralised procurement system for SOEs.

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## Annexure A: Ethics Approval



### UNISA COLLEGE OF ACCOUNTING SCIENCES RESEARCH ETHICS REVIEW COMMITTEE

Date: 13 May 2021

Dear Mr B Dlulane,

ERC Reference # :  
2021\_CAS\_022  
Name : B Dlulane  
Student no: 53836928

**Decision: Ethics Approval from  
13 May 2021 to 12 May 2024**

Researcher(s): Mr Babalo Dlulane ([babalodlulane@yahoo.com](mailto:babalodlulane@yahoo.com) )  
Supervisor(s): Prof Lourens Erasmus ([erasmlj1@unisa.ac.za](mailto:erasmlj1@unisa.ac.za) )

**Working title of research:  
AN IRREGULAR EXPENDITURE GOVERNANCE STRATEGY FOR SOUTH AFRICAN  
STATE-OWNED ENTITIES**

Qualification: PhD and Non-degree

Thank you for the application for research ethics clearance by the Unisa College of Accounting Sciences Research Ethics Review Committee for the above mentioned research. **Ethics approval is granted for data collection through focus groups and interviews.** The certificate is valid for the period **13 May 2021 to 12 May 2024.**

*The low risk application was approved by the CAS RERC on 11 May 2021 in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment.*

The proposed research may now commence with the provisions that:

1. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.
2. Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study should be communicated in writing to the CAS RERC.
3. The researcher(s) will conduct the study according to the methods and procedures set out in the approved application.



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4. Any changes that can affect the study-related risks for the research participants, particularly in terms of assurances made with regards to the protection of participants' privacy and the confidentiality of the data, should be reported to the Committee in writing, accompanied by a progress report.
5. The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study. Adherence to the following South African legislation is important, if applicable: Protection of Personal Information Act, no 4 of 2013; Children's act no 38 of 2005 and the National Health Act, no 61 of 2003.
6. Only de-identified research data may be used for secondary research purposes in future on condition that the research objectives are similar to those of the original research. Secondary use of identifiable human research data require additional ethics clearance.
7. No fieldwork activities may continue after the expiry date (**12 May 2024**). Submission of a completed research ethics progress report will constitute an application for renewal of Ethics Research Committee approval.

*Note:*

*The reference number 2021\_CAS\_022 should be clearly indicated on all forms of communication with the intended research participants, as well as with the Committee.*

Yours sincerely,

Signature : **Prof Lourens Erasmus**



Chair of CAS RERC

E-mail: [erasml1@unisa.ac.za](mailto:erasml1@unisa.ac.za)

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Signature : **Dr Chisinga Chikutuma**

Acting head: Office for Graduate Studies  
and Research

By delegation from the Executive Dean:  
College of Accounting Sciences

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UNISA COLLEGE OF ACCOUNTING SCIENCES ETHICS REVIEW COMMITTEE

Date 2020-11-14

Dear Mr B Dlulane,

**Decision: Ethics Approval from  
2020-11-10 to 2023-11-09**

ERC reference :  
2020\_CAS\_006\_Amendment

Name: B Dlulane  
Student:53836928

**Researchers:** Mr Babalo Dlulane  
bdlulane@csir.co.za

Supervisor: Prof LJ Erasmus  
Prof E Sadler

**Working title of research:**

**An irregular expenditure governance strategy for South African state-owned entities**

**Qualification:** PhD

**Phase 1 of data collection – content analysis**

Thank you for the application for research ethics clearance by the Unisa College of Accounting Sciences Research Ethics Review Committee. Ethics approval is granted for the period indicated above for **the content analysis of AGSA reports, SOE annual reports as well additional information obtained from the SOEs.**

*The amendment to the original application was reviewed by the College of Accounting Sciences Research Ethics Review Committee on 10 November 2020 in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment, and approved.*

The proposed research may now commence with the provisions that:

1. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.



2. Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study should be communicated in writing to the College of Accounting Sciences Research Ethics Review Committee.
3. The researcher(s) will conduct the study according to the methods and procedures set out in the approved application.
4. Any changes that can affect the study-related risks for the research participants, particularly in terms of assurances made with regards to the protection of participants' privacy and the confidentiality of the data, should be reported to the Committee in writing, accompanied by a progress report.
5. The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study. Adherence to the following South African legislation is important, if applicable: Protection of Personal Information Act, no 4 of 2013; Children's act no 38 of 2005 and the National Health Act, no 61 of 2003.
6. Only de-identified research data may be used for secondary research purposes in future on condition that the research objectives are similar to those of the original research. Secondary use of identifiable human research data require additional ethics clearance.
7. No field work activities may continue after the expiry date of this certificate.

**Note:**

*The reference number of this certificate should be clearly indicated on all forms of communication with the intended research participants, as well as with the Committee.*

Yours sincerely,



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Prof L J Erasmus  
Chair of CAS RERC  
E-mail: [erasmlj1@unisa.ac.za](mailto:erasmlj1@unisa.ac.za)  
Tel: 012 429 8844

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Prof L Ntsalaze  
Executive Dean CAS



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## Annexure B: Application Letter for Use of Irregular Expenditure Register of Institutions

634 KALA CLOSE STREET  
HEUWELSIG ESTATES  
CENTURION  
0157  
01 DECEMBER 2020

Dear Potential Participant,

**RE: APPLICATION FOR ACCESS TO THE INSTITUTION'S IRREGULAR EXPENDITURE REGISTER**

My name is Babalo Dlulane. I am a PhD Candidate in the College of Accounting Sciences, Department of Financial Governance at the University of South Africa (UNISA). The programme that I am enrolled for is a full time research programme that requires the submission of a research thesis. The title of my research study is "An Irregular Expenditure Governance Strategy for South African State-Owned Entities". The first phase of the study is to determine the type and prominence of irregular expenditure transgressions. I, thus, need to request access to the irregular expenditure register of the targeted institutions to conduct a content analysis.

My study proposal and the first phase of data collection, has been subjected to research ethics scrutiny by the College of Accounting Science's Research Ethics Review Committee. I was granted ethical clearance (see certificate in support). The second phase of the study involves focus groups with stakeholders relevant to the phenomenon under investigation, such as the CEOs, CFO, FMs and the Head of Procurement. I will apply for permission to conduct the focus group discussion after I have received research ethics clearance for this phase of the study. I am pursuing my study under the supervision of my supervisors, Prof Lourens Erasmus (primary supervisor and Chair of the College of Accounting Sciences Research Ethics Review Committee) and Prof Elmarie Sadler (co-supervisor) from the Department of Financial Governance at UNISA. All information obtained during the course of this study is strictly confidential. The use of the institution's documents will only be for the purposes of the research and the researcher will at all times ensure that the information is handled in such a manner that no risk accrues to the institution.

My supervisor, Prof Lourens Erasmus, can be contacted during office hours at Tel (012) 429 8844 or [erasmlj1@unisa.ac.za](mailto:erasmlj1@unisa.ac.za).

Yours Sincerely,



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Mr Babalo Dlulane



A handwritten signature consisting of the letters 'L' and 'E' in a cursive style, enclosed within a thin black rectangular border.

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Prof Lourens Erasmus

## Annexure C: Categories of Irregular Expenditure

| Fin Year | SOE   | Non-compliance with SCM prescripts/legislation   | Value            | Code                      |
|----------|---|--|------------------|---------------------------|
| 2020     | Air Traffic and Navigation Services Company   | Insufficient number of quotations  | 1 449 546.00     | lack of internal controls |
| 2020     | Air Traffic and Navigation Services Company   | Quotations awarded in excess of procurement threshold  | 5 945 257.00     | lack of internal controls |
| 2020     | Air Traffic and Navigation Services Company   | Splitting of quotations  | 700 780.00       | lack of internal controls |
| 2020     | Air Traffic and Navigation Services Company   | Payments exceeds contract value  | 3 650 308.00     | lack of internal controls |
| 2020     | Air Traffic and Navigation Services Company   | Credit card expenses-Credit cards were not used for permitted purposes, as set out in treasury regulation 31.2.7.  | 4 060 655.00     | lack of internal controls |
| 2020     | Air Traffic and Navigation Services Company   | Suppliers paid without contract  | 34 166 446.00    | lack of internal controls |
| 2020     | Air Traffic and Navigation Services Company   | Incorrect procurement process  | 1 267 524.00     | poor admin processes      |
| 2020     | Air Traffic and Navigation Services Company   | Supplier appointed without following normal procurement process  | 70 367 902.00    | poor admin processes      |
| 2020     | Airports Company of South Africa              | Non-compliance with PPPFA Act  | 536 753 000.00   | lack of internal controls |
| 2020     | Airports Company of South Africa              | Non-compliance with PFMA   | 11 204 000.00    | lack of internal controls |
| 2020     | Airports Company of South Africa              | Limitation of scope-Retrieval of outstanding documents such as CIDB certificates, B-BBEE and tax clearance certificates, proof of approval of contracts at delegated authority levels and awards advertised on the e-Tender portal which proved that no noncompliance existed at the time of award and hence no scope limitation         | 12 414 000.00    | poor oversight            |
| 2020     | Alexkor                                       | Not available  |                  |                           |
| 2020     | ARMSCOR                                       | Not available  |                  |                           |
| 2020     | Broadband Infrastructure Company (Pty) Ltd    | Not available  |                  |                           |
| 2020     | Central Energy Fund Group of Companies        | Not available  |                  |                           |
| 2020     | Denel   | Not available  |                  |                           |
| 2020     | Development Bank of Southern Africa           | Contract increased in expenditure due to increase in scope   | 282 000.00       | Poor admin processes      |
| 2020     | Development Bank of Southern Africa           | Contracts continued post expiry date   | 2 462 000.00     | Poor admin processes      |
| 2020     | Eskom   | Use of sole source- to procure goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective. Expenditure was incurred on awards which did not follow proper tender processes where awards were incorrectly allocated to predetermined suppliers.  | 2 572 000 000.00 | lack of internal controls |
| 2020     | Eskom   | Incorrect classification as emergency procurement  | 36 000 000.00    | poor admin processes      |
| 2020     | Eskom   | Tender processes not adhered to and insufficient delegation of authority (DOA)   | 278 000 000.00   | incapacity                |
| 2020     | Eskom   | Modifications exceeding allowed amounts- The group did not initially comply with the National Treasury instruction where the value of the modification is more than 20% or R20 million for construction-related goods, works or services and 15% or R15 million for all other goods or services has to be approved by National Treasury. | 1 418 000 000.00 | lack of internal controls |
| 2020     | Eskom   | Incorrect tender process applied   | 24 000 000.00    | poor admin processes      |
| 2020     | Eskom   | Tax clearance certificates   | 171 000 000.00   | poor admin processes      |
| 2020     | Eskom   | Designated sectors-Where local production and content is of critical importance in the award of tenders in designated  | 16 000 000.00    | poor oversight            |
| 2020     | Eskom   | Contracts awarded without following CIDB requirements  | 155 000 000.00   | poor oversight            |
| 2020     | Eskom   | Other  | 10 000 000.00    |                           |
| 2020     | Independent Development Trust                 | Not available  |                  |                           |
| 2020     | Industrial Development Corporation            | Travel   | 22 170.00        | poor oversight            |
| 2020     | Industrial Development Corporation            | Development of a Financial and Sustainability Model  | 109 909.00       | poor oversight            |
| 2020     | Industrial Development Corporation            | PFMA Exemption not received iro procurement at Grinding Media SA and Cast Products SA  | 2 666 098 640.00 | poor oversight            |
| 2020     | Industrial Development Corporation            | Properties supplier payment  | 7 419 334.00     | lack of internal controls |
| 2020     | Industrial Development Corporation            | Contract extensions  | 1 297 561.00     | poor oversight            |
| 2020     | Land and Agricultural Bank of Southern Africa | Not available  |                  |                           |
| 2020     | SA Nuclear Energy Corporation                 | Not available  |                  |                           |

|      |   |   |                                  |                           |
|------|---|---|----------------------------------|---------------------------|
| 2020 | SA Post Office Limited                      | not available   |                                  |                           |
| 2020 | South African Airways Limited               | Not available   |                                  |                           |
| 2020 | SA Broadcasting Corporation                 | Not available   |                                  |                           |
| 2020 | South African Express (Pty) Limited         | Not available   |                                  |                           |
| 2020 | South African Forestry Company Limited      | No irregular expenditure reported   |                                  |                           |
| 2020 | Telkom SA Limited                           | No irregular expenditure reported   |                                  |                           |
| 2020 | Trans-Caledon Tunnel Authority              | Acid Mine Drainage Operations and Maintenance-The contract with Operations and maintenance service provider Western Basin was varied by more than 20% without obtaining prior approval from National Treasury. This is in contravention to SCM Instruction Note 3 of 2016/17. | 42 965 131.00                    | poor oversight            |
| 2020 | Trans-Caledon Tunnel Authority              | Variation Orders-The contract with Contractor for Olifants was varied by more than 20% without obtaining prior approval from National Treasury. This is in contravention to SCM Instruction Note 3 of 2016/17.  | 4 658 340.00                     | poor oversight            |
| 2020 | Trans-Caledon Tunnel Authority              | CONTRACT EXPANDED WITH OUT DUE PROCESS BEING FOLLOWED-Evergreen contract – Service provider for off-site documents storage (Jul – Sep 2019)   | 157 257.00                       | poor oversight            |
| 2020 | Trans-Caledon Tunnel Authority              | DUE PROCESS NOT FOLLOWED IN APPOINTMENT OF SERVICE PROVIDER-irregular appointment of a attorneys firm on a matter between TCTA and former COO (Continuation of the matter of Bill Taxation)   | 13 547.00                        | poor oversight            |
| 2020 | Trans-Caledon Tunnel Authority              | Service provider for the professional services for establishing financial sustainability of TCTA Business Model None. Utilisation of a contract after contract expiry. Misunderstanding with respect to the contract expiry date.   | 1 334 597.00                     | poor admin processes      |
| 2020 | Trans-Caledon Tunnel Authority              | TCTA did not follow a competitive bidding process in the appointment of a sub-contractor - Service provider for the repair and maintenance of the LHWP delivery tunnel North during shutdown  | 10 792 809.00                    | poor admin processes      |
| 2020 | Trans-Caledon Tunnel Authority              | Contractor for MMTS-2 - Prior year irregular understated  | 510 937.00                       | poor oversight            |
| 2020 | Trans-Caledon Tunnel Authority              | Attorney representing TCTA on a land claim for MMTS-2   | 626 692.00                       | lack of internal controls |
| 2020 | Trans-Caledon Tunnel Authority              | Attorney representing TCTA at CCMA and Labour Court on a dispute with former Supply Chain Manager - Payments in excess of Approved amounts  | 455 948.00                       | lack of internal controls |
| 2020 | Transnet Limited                            | No irregular expenditure reported   |                                  |                           |
| Year | SOE   | Non-compliance with SCM prescripts/legislation  | Total value for 2018/19 Fin year | Coding                    |
| 2019 | Air Traffic and Navigation Services Company | Insufficient number of quotations   | 1 176 866.00                     | lack of internal controls |
| 2019 | Air Traffic and Navigation Services Company | Insufficient number of quotations for emergencies -no proper procurement process followed   | 272 680.00                       | lack of internal controls |
| 2019 | Air Traffic and Navigation Services Company | Quotations awarded in excess of procurement threshold   | 5 945 257.00                     | lack of internal controls |
| 2019 | Air Traffic and Navigation Services Company | Splitting of quotations   | 700 780.00                       | lack of internal controls |
| 2019 | Air Traffic and Navigation Services Company | Payments exceeds contract value   | 3 650 308.00                     | lack of internal controls |
| 2019 | Air Traffic and Navigation Services Company | Credit card expenses -Credit cards were not used for permitted purposes, as set out in treasury regulation 31.2.7.  | 4 060 655.00                     | lack of internal controls |
| 2019 | Air Traffic and Navigation Services Company | Suppliers paid without contract   | 30 077 316.00                    | lack of internal controls |

|      |   |   |                  |                           |
|------|---|---|------------------|---------------------------|
| 2019 | Air Traffic and Navigation Services Company | Incorrect procurement process   | 633 762.00       | poor admin processes      |
| 2019 | Air Traffic and Navigation Services Company | Supplier appointed without following normal procurement process   | 72 348 441.00    | poor admin processes      |
| 2019 | Airports Company of South Africa            | Non-Compliance with CIDB requirements   | 37 489 000.00    | lack of internal controls |
| 2019 | Airports Company of South Africa            | Non-Compliance with PPPFA Act   | 216 478 000.00   | lack of internal controls |
| 2019 | Airports Company of South Africa            | Non-Compliance with National Treasury requirements  | 10 039 000.00    | lack of internal controls |
| 2019 | Alexkor                                     | No irregular expenditure was identified in the current financial year   |                  |                           |
| 2019 | ARMSCOR                                     | Procurement that occurred without following the competitive bidding process   | 3 374 000        | poor admin processes      |
| 2019 | Broadband Infrastructure Company (Pty) Ltd  | The Company continued to utilise the services after the contract negotiations with the supplier failed.   | 16 095 000.00    | poor oversight            |
| 2019 | Broadband Infrastructure Company (Pty) Ltd  | The Company continued to utilise the services after the contract negotiations with the supplier failed.   | 16 627 000.00    | poor oversight            |
| 2019 | Broadband Infrastructure Company (Pty) Ltd  | The Company continued to utilise the services after the contract expired.   | 31 000.00        | poor oversight            |
| 2019 | Broadband Infrastructure Company (Pty) Ltd  | The Company awarded a contract to a service provider based on a tender document that was not advertised for the prescribed 21 working days.   | 9 858 000.00     | poor oversight            |
| 2019 | Broadband Infrastructure Company (Pty) Ltd  | The Company continued to utilise the services of a contract that renewed automatically every year, which is against the Contract Management Framework.  | 9 923 000.00     | poor oversight            |
| 2019 | Central Energy Fund Group of Companies      | Contravention of company policy- The supplier charged the entity R 2 000 more than the quotation amount due to double charging VAT. Subsequent to year end the funds have been recovered from the supplier  | 2 000.00         | lack of internal controls |
| 2019 | Central Energy Fund Group of Companies      | Contravention of procurement regulations  | 20 323 000.00    | lack of internal controls |
| 2019 | Denel                                       | Bids not adequately approved  | 22 000 000.00    | poor oversight            |
| 2019 | Denel                                       | Contract extension not adequately approved  | 17 000 000.00    | poor oversight            |
| 2019 | Denel                                       | Deviations from the procurement process not adequately approved   | 38 000 000.00    | poor oversight            |
| 2019 | Denel                                       | Evaluation criteria not adequately specified or applied   | 3 000 000.00     | poor oversight            |
| 2019 | Denel                                       | Insufficient quotes acquired  | 1 000 000.00     | lack of internal controls |
| 2019 | Denel                                       | Local content and designated products not catered for   | 19 000 000.00    | poor admin processes      |
| 2019 | Denel                                       | No competitive bid process  | 52 000 000.00    | poor admin processes      |
| 2019 | Denel                                       | Procurement done without following a prescribed/ compliant legislation  | 46 000 000.00    | lack of internal controls |
| 2019 | Denel                                       | Procurement done without following a prescribed/ compliant process  | 6 000 000.00     | lack of internal controls |
| 2019 | Denel                                       | Quotations process not initiated from the National Treasury Central Supplier Database   | 3 000 000.00     | lack of internal controls |
| 2019 | Denel                                       | R500k or R1m open tender threshold not adhered to   | 4 000 000.00     | lack of internal controls |
| 2019 | Denel                                       | SBD4- Declaration of interest needs to be confirmed for transactions above R1m per financial year   | 3 000 000.00     | incapacity                |
| 2019 | Denel                                       | Single source/sole approval process not followed  | 3 000 000.00     | lack of internal controls |
| 2019 | Development Bank of Southern Africa         | Extension of the lease agreement for two years without prior approval from National Treasury, where a contract is varied or expanded by more than 15%   | 388 000.00       | poor oversight            |
| 2019 | Development Bank of Southern Africa         | Appointment of a supplier for a three year lease without following a competitive procurement process  | 6 000.00         | poor oversight            |
| 2019 | Eskom                                       | Use of sole source- to procure goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective. Expenditure was incurred on awards which did not follow proper tender processes where awards were incorrectly allocated to predetermined suppliers. | 7 171 000 000.00 | poor oversight            |
| 2019 | Eskom                                       | Tender processes not adhered to   | 649 000 000.00   | lack of internal controls |
| 2019 | Eskom                                       | Incorrect classification as emergency procurement   | 323 000 000.00   | poor admin processes      |
| 2019 | Eskom                                       | Tender processes not adhered to and insufficient delegation of authority (DOA)  | 2 070 000 000.00 | incapacity                |

|      |   |  |                  |                           |
|------|---|--|------------------|---------------------------|
| 2019 | Eskom   | Modifications exceeding allowed amounts- The group did not initially comply with the National Treasury instruction where the value of the modification is more than 20% or R20 million for construction-related goods, works or services and 15% or R15 million for all other goods or services has to be approved by National Treasury. | 8 520 000 000.00 | lack of internal controls |
| 2019 | Eskom   | Incorrect tender process applied-PPFFA requires that the preferential points calculation is determined inclusive of VAT. Certain procurement was incorrectly done where the preferential points calculation, which is based on the applicable quotation or contract value, was determined exclusive of VAT.                              | 790 000 000.00   | poor admin processes      |
| 2019 | Eskom   | Tax clearance certificates- The group did not always received tax clearance for foreign suppliers  | 3 397 000 000.00 | poor admin processes      |
| 2019 | Eskom   | Contracts awarded without following CIDB requirements  | 1 371 000 000.00 | lack of internal controls |
| 2019 | Eskom   | Contracts not in accordance with National Treasury guidelines  | 496 000 000.00   | lack of internal controls |
| 2019 | Eskom   | Internal processes not adhered to- Irregular expenditure was incurred as a result of non-adherence to internal procurement processes and employees contravening the Eskom Delegation of Authority.   | 808 000 000.00   | incapacity                |
| 2019 | Eskom   | Breach of more than one commercial requirement   | 64 000 000.00    | lack of internal controls |
| 2019 | Independent Development Trust                 | Appointment of a service provider for transformation initiative on a closed tender process was found to be irregular   | 36 708 000.00    | poor oversight            |
| 2019 | Independent Development Trust                 | Appointment of service provider to implement 10 year review project on a single source basis found to be irregular   | 3 927 000.00     |                           |
| 2019 | Independent Development Trust                 | Appointment of a service provider to conduct a workshop found to be irregular  | 125 000.00       |                           |
| 2019 | Independent Development Trust                 | Appointment of a recruitment agency without following a competitive bidding process  | 851 000.00       | Poor oversight            |
| 2019 | Independent Development Trust                 | Secondment appointment of a senior official done irregularly   | 167 000.00       |                           |
| 2019 | Independent Development Trust                 | Invalid reason for single sourcing   | 5 915 000.00     |                           |
| 2019 | Independent Development Trust                 | Appointment of a service provider to provide legal services without following a competitive process  | 1 720 000.00     | Poor oversight            |
| 2019 | Independent Development Trust                 | Appointment of a service provider with invalid tax certificate   | 1 046 000.00     | poor oversight            |
| 2019 | Independent Development Trust                 | Appointment of a service provider with invalid BBBEE certificate   | 122 000.00       | poor oversight            |
| 2019 | Independent Development Trust                 | Appointment of a service provider with invalid tax clearance certificate   | 47 000.00        | poor oversight            |
| 2019 | Independent Development Trust                 | Invalid emergency procurement  | 38 000.00        | poor admin processes      |
| 2019 | Independent Development Trust                 | Appointment of service provider with invalid BBBEE Certificate   | 33 000.00        | poor oversight            |
| 2019 | Independent Development Trust                 | Contract continued after expiry date   | 89 000.00        | poor oversight            |
| 2019 | Independent Development Trust                 | Contract continued after expiry date   | 22 132 000.00    | poor oversight            |
| 2019 | Independent Development Trust                 | Invalid emergency procurement  | 1 530 000.00     | poor admin processes      |
| 2019 | Independent Development Trust                 | Phase two expenditure not approved by MBAC   | 1 500 000.00     | lack of internal controls |
| 2019 | Independent Development Trust                 | Quotation not send to all panel members  | 1 053 000.00     | poor admin processes      |
| 2019 | Independent Development Trust                 | Contract continued after expiry date   | 266 000.00       | poor oversight            |
| 2019 | Independent Development Trust                 | Contract continued after expiry date   | 13 000.00        | poor oversight            |
| 2019 | Independent Development Trust                 | Deviation not approved by National Treasury  | 110 000.00       | poor oversight            |
| 2019 | Independent Development Trust                 | Only two quotations received   | 110 000.00       | poor oversight            |
| 2019 | Independent Development Trust                 | Only two quotations received   | 94 000.00        | poor oversight            |
| 2019 | Independent Development Trust                 | Irregular appointment of service provider  | 108 000.00       | poor oversight            |
| 2019 |   |  | 87 000.00        |                           |
| 2019 | Industrial Development Corporation            | Appointment of business support experts not in line with PFMA  | 5 491 237.00     | lack of internal controls |
| 2019 | Industrial Development Corporation            | Sponsorship  | 200 000.00       | poor oversight            |
| 2019 | Land and Agricultural Bank of Southern Africa | Expenditure incurred for legal services without following the SCM process or obtaining approval.   | 140 000.00       | lack of internal controls |
| 2019 | SA Nuclear Energy Corporation                 | Expenditure incurred for legal services without following the SCM process or obtaining approval. The transaction, conditions or events have not resulted in the Bank suffering any loss, value for money was derived from the use of the goods procured or services rendered.  | 50 752 000.00    | lack of internal controls |

|      |  |   |                |                           |
|------|--|---|----------------|---------------------------|
| 2019 | SA Post Office Limited                 | Irregular expenditure incurred as a result of noncompliance with a Treasury Regulation which required cognisance to be taken of a National Treasury determination. For example, a department, trading entity, constitutional institution or public entity procured goods or services by means of price quotations where the value of the purchase exceeded the threshold values determined by the National Treasury for price quotations. |                | lack of internal controls |
| 2019 | SA Post Office Limited                 | Irregular expenditure incurred as a result of institutions procuring goods or services by means other than through competitive bids and where reasons for deviating from inviting competitive bids have not been recorded and approved by the accounting officer or accounting authority.   |                | poor admin processes      |
|      |  | Irregular expenditure incurred as a result of non-compliance with a requirement of the institution's delegation of authority framework issued in terms of the PFMA.   | 182 761 000.00 | incapacity                |
| 2019 | South African Airways Limited          | Not available   |                |                           |
| 2019 | SA Broadcasting Corporation            | Minimum number of quotations not obtained   | 26 147 000.00  | poor admin processes      |
| 2019 | SA Broadcasting Corporation            | Bids advertised for less than minimum number of days  | 85 378 000.00  | poor admin processes      |
| 2019 | SA Broadcasting Corporation            | Incorrect evaluation criteria applied to bids   | 53 267 000.00  | poor admin processes      |
| 2019 | SA Broadcasting Corporation            | Irregular awards due to lack of planning- Poor planning that leads to deviating from normal SCM process   | 11 756 000.00  | incapacity                |
|      |  | Procurement through quotation process versus competitive- The Corporation procured goods and services through the quotation process whereas the SCM policy requires goods and services above R2 mil should follow the competitive bid process   |                |                           |
| 2019 | SA Broadcasting Corporation            | Variation order in excess of 15% as prescribed by National Treasury   | 6 087 000.00   | poor admin processes      |
| 2019 | SA Broadcasting Corporation            | Procurement through operational advance- The Corporation procured goods and services through petty cash instead of  | 14 493 000.00  | poor oversight            |
| 2019 | SA Broadcasting Corporation            | Awards made to suppliers without obtaining valid Tax Clearance Certificates   | 17 000.00      | poor oversight            |
| 2019 | SA Broadcasting Corporation            | Unfair Procurement Process- The bid evaluation and/or adjudication processes did not follow the pre-approved evaluation   | 2 810 000.00   | poor admin processes      |
| 2019 | SA Broadcasting Corporation            | Schedule All-Goods and services relating to TVOB are procured through Schedule All system. These transactions are deemed irregular expenditure due to the impracticality of following SCM processes.  | 61 000.00      | lack of internal controls |
| 2019 | SA Broadcasting Corporation            |   | 28 215 000.00  | incapacity                |
| 2019 | South African Express (Pty) Limited    | Not available   |                |                           |
| 2019 | South African Forestry Company Limited | Due to other service providers being unfairly disqualified (non compliance with SCM policies)   | 93 133 000.00  | lack of internal controls |
| 2019 | South African Forestry Company Limited | Minimum quotes not obtained (non compliance with SCM policies)  | 6 723 000.00   | lack of internal controls |
| 2019 | South African Forestry Company Limited | Other non-compliance with supply chain policy (non compliance with SCM policies)  | 29 517 000.00  | lack of internal controls |
| 2019 | Telkom SA Limited                      | No irregular expenditure reported   |                |                           |
| 2019 | Trans-Caledon Tunnel Authority         | Acid Mine Drainage O&M  | -              | other                     |
|      |  | Claims-By definition a claim relates to expenditure that has already been incurred and is subject to an independent adjudication process by professionals to quantify the amount due to in terms of the contract. It is therefore not practically possible to obtain the prior approval of National Treasury in terms of SCM Instruction Note 3 of 2016/17 effective 1 May 2016.  |                |                           |
| 2019 | Trans-Caledon Tunnel Authority         | Variation Orders-Contravention of PFMA National Treasury Instruction Note 3 of 2016/2017 in respect of Sections 9.1 and 9.2. (a)These payments were put forward for National Treasury approval which was not obtained as it was ex post facto. Declared value is the remainder of what was declared in prior years. (b) The Variation Order is for the  | 2 449 350.00   | incapacity                |
|      |  | installation of for the corrosion protection of the steel pipes at the Gowrie Break Pressure Tank   |                |                           |
| 2019 | Trans-Caledon Tunnel Authority         | Other- CONTRACT EXPANDED WITH OUT DUE PROCESS BEING FOLLOWED  | 629 547.00     | poor oversight            |
| 2019 | Trans-Caledon Tunnel Authority         | Other-DUE PROCESS NOT FOLLOWED IN APPOINTMENT OF SERVICE PROVIDER   | 431 417.00     | poor oversight            |
| 2019 | Trans-Caledon Tunnel Authority         | Other Due process not followed in the appointment of 3 Executive Manager, Sponsorship of DWS to host Water Infrastructure Investment Summit in contravention of the provisions of the PFMA, The process to form a legal panel   | 2 925 797.00   | poor oversight            |

|                 |   |   |  |                           |
|-----------------|---|---|--|---------------------------|
| 2019            | Trans-Caledon Tunnel Authority              | Other Due process not followed in the appointment of a executive manager, sponsorship of UWS to host water Infrastructure Investment Summit in contravention of the provisions of the PFMA, The process to form a legal panel excluded other respondents unfairly due to a technical error, rendering the entire procurement process unfair and irregular.  | 14 879 938.00                          | poor oversight            |
| 2019            | Trans-Caledon Tunnel Authority              | Other- BID SPLITTING- REPAIR OF BIOMATRIX   | 61 916.00                              | poor admin processes      |
| 2019            | Trans-Caledon Tunnel Authority              | Other-BID SPLITTING- ORACLE SUPPORT   | 1 192 300.00                           | poor admin processes      |
| 2019            | Trans-Caledon Tunnel Authority              | Other-TAX NON-COMPLIANCE  | 850 699.00                             | poor admin processes      |
| 2019            | Trans-Caledon Tunnel Authority              | Other- CORPORATE: EXCEPTIONS WERE APPROVED BY THE RELEVANT AUTHORITY AND AUDITOR-GENERAL IS OF THE OPINION THAT REASONS FOR EXCEPTION ARE UNJUSTIFIABLE Ultimate Recruitment: Advertisement for the appointment of the new Board of Directors   | 4 123 679.00                           | incapacity                |
| 2019            | Trans-Caledon Tunnel Authority              | Other-Evergreen Contract (1)TCTA has commenced the condonation process in line with the requirements of PFMA Framework on Irregular Expenditure issued in May 2019. Determination tests and assessments were completed and submitted to the Board for consideration. A submission to National Treasury to request condonation has been drafted and is awaiting a report on consequence management actions taken against responsible employees. (2) Condonation process to be initiated in line with the requirements of PFMA Framework on Irregular Expenditure issued in May 2019. | 1 317 408.00                           | incapacity                |
| 2019            | Transnet Limited                            | PPM tender/bid process not followed and insufficient delegation of authority (DOA)  | 1 351 000 000.00                       | incapacity                |
| 2019            | Transnet Limited                            | PPM contract management process not followed  | 137 000 000.00                         | lack of internal controls |
| 2019            | Transnet Limited                            | Incorrect classification as emergency procurement   | 110 000 000.00                         | poor admin processes      |
| 2019            | Transnet Limited                            | Expired contracts   | 10 000 000.00                          | poor admin processes      |
| 2019            | Transnet Limited                            | Non-compliance to PPPFA   | 4 000 000.00                           | poor admin processes      |
| 2019            | Transnet Limited                            | Non-compliance to National Treasury requirements  | 2 000 000.00                           | lack of internal controls |
| 2019            | Transnet Limited                            | Non-Compliance to CIDB requirements   | -                                      | lack of internal controls |
| 2019            | Transnet Limited                            | Other   | 4 000 000.00                           | Other                     |
| <b>FIN YEAR</b> | <b>SOE</b>                                  | <b>Non-compliance with SCM prescripts/legislation</b>   | <b>Total value for2017/18 Fin year</b> | <b>Coding</b>             |
| 2018            | Air Traffic and Navigation Services Company | Insufficient number of quotations   | 51 335.00                              | lack of internal controls |
| 2018            | Air Traffic and Navigation Services Company | Quotations awarded in excess of procurement threshold   | 172 680.00                             | lack of internal controls |
| 2018            | Air Traffic and Navigation Services Company | Payments exceeds contract value   | 405 013.00                             | lack of internal controls |
| 2018            | Air Traffic and Navigation Services Company | Purchase order raised after receipt of the invoice  | 6 804 687.00                           | lack of internal controls |
| 2018            | Air Traffic and Navigation Services Company | Credit card expenses-Credit cards were not used for permitted purposes, as set out in treasury regulation 31.2.7.   | 1 377 362.00                           | lack of internal controls |
| 2018            | Air Traffic and Navigation Services Company | Suppliers paid without contract   | 7 396 339.00                           | lack of internal controls |
| 2018            | Airports Company of South Africa            | Non-Compliance with CIDB requirements   | 4 169 000.00                           | lack of internal controls |
| 2018            | Airports Company of South Africa            | Non-Compliance with PPPFA Act   | 395 992 000.00                         | lack of internal controls |

|      |  |  |                  |                           |
|------|--|--|------------------|---------------------------|
| 2018 | Alexkor                                    | Non-compliance to national treasury requirements   | 1 462 732.00     | lack of internal controls |
|      |  |  | 9 349 642.00     |                           |
| 2018 | Alexkor                                    | Non-adherence to DOA- Alexkor applied the Company's internal Delegation of Authority to approve and condone the deviations. The National Treasury Instruction Note 3 only allows deviations in instances of sole source and emergencies to be approved by the accounting authority ( Misinterpreted)                                     |                  | incapacity                |
| 2018 | Alexkor                                    | Non-compliance with Supply Chain Policy  | 3 205 532.00     | lack of internal controls |
| 2018 | ARMSCOR                                    | Tender selection criterion was deemed to be in conflict with the PPPFA   | 1 100 000.00     | Poor oversight            |
| 2018 | ARMSCOR                                    | Procurement that occurred without following the competitive bidding process  | 11 200 000.00    | poor admin processes      |
|      | Broadband Infrastructure Company (Pty) Ltd | Non-compliance to cost containment instructions issued by National Treasury- staff appreciation function was held and branded T-Shirts were bought for staff as a token of appreciation.   | 202 000.00       | lack of internal controls |
| 2018 | Broadband Infrastructure Company (Pty) Ltd | Non-compliance to a provision of legislation   | 1 401 000.00     | lack of internal controls |
| 2018 | Central Energy Fund Group of Companies     | Contravention of company policy  | 7 299 000.00     |                           |
| 2018 | Central Energy Fund Group of Companies     | Contravention of procurement regulations   | 2 513 000.00     | lack of internal controls |
|      |  | Salary and rental costs without an agreement- salary and rental costs carried as no secondment contract was concluded with the third party. A secondment contract has been drafted and submitted for signature   | 7 300 000.00     |                           |
| 2018 | Central Energy Fund Group of Companies     |  |                  | lack of internal controls |
| 2018 | Denel                                      | Tax clearance certificates not obtained-were issued to suppliers without the entity adequately evaluating valid tax clearance certificates as is required  | 5 000 000.00     | poor admin processes      |
| 2018 | Denel                                      | National Treasury Central Supplier Database- suppliers were not selected from the National Treasury Central Supplier Database as is required in terms of the National Treasury SCM Instruction No. 4A of 2016/17.  | 4 000 000.00     | lack of internal controls |
|      |  | Inadequate deviation process followed-expenditure has been incurred on bids in which deviations were undertaken from the procurement process which were not adequate in terms of the requirements of the National Treasury SCM Instruction No. 3 of 2016/17 and the National Treasury SCM Instruction No. 1 of 2015/16                   | 53 000 000.00    |                           |
| 2018 | Denel                                      |  |                  | poor oversight            |
| 2018 | Development Bank of Southern Africa        | There were no incidents of irregular expenditure during the year under review  |                  |                           |
|      | Eskom                                      | Use of sole source- to procure goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective. Expenditure was incurred on awards which did not follow proper tender processes where awards were incorrectly allocated to predetermined suppliers.  | 4 909 000 000.00 |                           |
| 2018 | Eskom                                      | Tender processes not adhered to  | 456 000 000.00   | lack of internal control  |
| 2018 | Eskom                                      | Incorrect classification as emergency procurement  | 347 000 000.00   | poor admin processes      |
| 2018 | Eskom                                      | Tender processes not adhered to and insufficient delegation of authority (DOA)   | 2 070 000 000.00 | incapacity                |
|      |  | Modifications exceeding allowed amounts- The group did not initially comply with the National Treasury instruction where the value of the modification is more than 20% or R20 million for construction-related goods, works or services and 15% or R15 million for all other goods or services has to be approved by National Treasury. | 6 520 000 000.00 |                           |
| 2018 | Eskom                                      | Incorrect tender process applied-PPPFA requires that the preferential points calculation is determined inclusive of VAT. Certain procurement was incorrectly done where the preferential points calculation, which is based on the applicable quotation or contract value, was determined exclusive of VAT.                              | 901 000 000.00   | lack of internal control  |
| 2018 | Eskom                                      | Tax clearance certificates- The group did not always received tax clearance for foreign suppliers  | 3 204 000 000.00 | poor oversight            |
| 2018 | Eskom                                      | Contracts awarded without following CIDB requirements  | 1 398 000 000.00 | poor admin processes      |
| 2018 | Eskom                                      | Contracts not in accordance with National Treasury guidelines  | 145 000 000.00   | lack of internal control  |
|      |  | Commitments made before approval- Irregular expenditure was incurred as a result of non-adherence to internal procurement processes and employees contravening the Eskom Delegation of Authority   | 161 000 000.00   |                           |
| 2018 | Eskom                                      | Breach of more than one commercial requirement -Investigations identified transgressions of more than one legislative requirement and Eskom procurement policy and procedure   | 64 000 000.00    | lack of internal control  |
| 2018 | Eskom                                      | Other  | 8 000 000.00     | other                     |



|      |   |  |                |                           |
|------|---|--|----------------|---------------------------|
| 2018 | Independent Development Trust                 | Deviation from procurement processes during the year   | 5 766 000.00   | Poor oversight            |
| 2018 | Industrial Development Corporation            | Condoned   |                |                           |
| 2018 | Land and Agricultural Bank of Southern Africa | Expenditure incurred for services rendered where prior approval was not obtained before commencement of work related to the validation of collateral held by intermediaries of the Bank  | 82 000.00      | lack of internal control  |
| 2018 | Land and Agricultural Bank of Southern Africa | Expenditure incurred for services rendered in relation to the development of a credit and pricing model for the Structured Investments' transactions that the Bank offered from FY2018, where prior approval and contract was not in place before commencement of work.                  | 1 558 000.00   | lack of internal control  |
| 2018 | Land and Agricultural Bank of Southern Africa | Expenditure incurred in respect of a tender that was only advertised for 12 days, instead of for a minimum of 14 days as required by the procurement policy.   | 440 000.00     | lack of internal control  |
| 2018 | SA Nuclear Energy Corporation                 | The entity did not include irregular expenditure in the notes to the financial statements, as required by section 40(3)(i)/ 55(2)(b)(i) of the PFMA. This was due to payments made in contravention of the supply chain management requirements, which resulted in irregular expenditure | 28 364 000.00  | lack of internal control  |
| 2018 | SA Post Office Limited                        | The majority of the irregular expenditure was caused by splitting of orders and not following procurement processes by deviating as a result of poor planning.   | 108 567 000.00 | lack of internal control  |
| 2018 | South African Airways Limited                 | Not available  |                |                           |
| 2018 | SA Broadcasting Corporation                   | Minimum number of quotations not obtained  | 27 355 000.00  | poor admin processes      |
| 2018 | SA Broadcasting Corporation                   | Bids advertised for less than minimum number of days   | 8 649 000.00   | poor admin processes      |
| 2018 | SA Broadcasting Corporation                   | Incorrect evaluation criteria applied to bids  | 8 759 000.00   | poor admin processes      |
| 2018 | SA Broadcasting Corporation                   | Irregular awards due to lack of planning- Poor planning that leads to deviating from normal SCM process  | 101 372 000.00 | incapacity                |
| 2018 | SA Broadcasting Corporation                   | Procurement through quotation process versus competitive- The Corporation procured goods and services through the quotation process whereas the SCM policy requires goods and services above R2 mil should follow the competitive bid process  | 7 405 000.00   | poor admin processes      |
| 2018 | SA Broadcasting Corporation                   | Variation order in excess of 15% as prescribed by National Treasury  | 1 526 000.00   | poor oversight            |
| 2018 | SA Broadcasting Corporation                   | Irregular Expenditure Under Investigation  | 25 364 000.00  | Under investigation       |
| 2018 | SA Broadcasting Corporation                   | Delegation of Authority Framework contravened  | 135 545 000.00 | incapacity                |
| 2018 | SA Broadcasting Corporation                   | Awards made to suppliers without obtaining valid Tax Clearance Certificates  | 5 531 000.00   | poor admin processes      |
| 2018 | SA Broadcasting Corporation                   | Schedule All-Goods and services relating to TVOB are procured through Schedule All system. These transactions are deemed irregular expenditure due to the impracticality of following SCM processes.   | 35 968 000.00  | incapacity                |
| 2018 | SA Broadcasting Corporation                   | Insufficient Documentation   | 55 898 000.00  | poor admin processes      |
| 2018 | SA Broadcasting Corporation                   | Non Compliance to CIDB-The Corporation awarded contracts without following Construction Industry Development Board   | 1 831 000.00   | lack of internal controls |
| 2018 | South African Express (Pty) Limited           | Not available  |                |                           |
| 2018 | South African Forestry Company Limited        | The majority of the irregular expenditure disclosed in the financial statements was caused by deviations from the normal procurement processes which were not approved by appropriately delegated official and appropriately approved deviations which were not justifiable              | 222 703 000.00 | Poor oversight            |

| 2018 Telkom SA Limited |                                | No irregular expenditure reported   |               |                          |
|------------------------|--------------------------------|---|---------------|--------------------------|
|                        | Trans-Caledon Tunnel Authority | Acid Mine Drainage-Appointment of IWS to operate the AMD Central Basin. From 1 April 2016 to 30 July 2016 the Central Basin was being operated by Intelligent Water Solutions (IWS) through an interim contract awarded by the Accounting Authority.<br>On the 1st August 2016 IWS was awarded a 30 month operations contract by the former Supply Chain Manager. This contract was cancelled in December 2016 on the basis of their irregular appointment. A settlement was agreed between TCTA and IWS with revised costs to operate the plant from the 1st January 2017 until 30 June 2017 to allow for an operator to be appointed through an open tender process. On the 29 June 2017, Board approved a three months extension for Intelligent Water Solutions (IWS) O&M contract f+B71 from July to September 2017. The declared expenditure is for the period 1 April 2017 to 30 September 2017. | 49 823 227.00 |                          |
| 2018                   | Trans-Caledon Tunnel Authority | Acid Mine Drainage-Single sourcing appointment of various suppliers for the operations and maintenance of both the Eastern and Central basin Acid Mine Drainage plants.   | 22 499 489.00 | Incapacity               |
| 2018                   | Trans-Caledon Tunnel Authority | Acid Mine Drainage-Single sourcing appointment of Tecrover for the operations of the AMD Central Basin operations and maintenance.  | 14 433 840.00 | lack of internal control |
| 2018                   | Trans-Caledon Tunnel Authority | Acid Mine Drainage-Single sourcing appointment of Proxa for the operations and maintenance of the AMD Central Basin.  | 12 549 173.00 | lack of internal control |
| 2018                   | Trans-Caledon Tunnel Authority | Claims- In accordance with the FIDIC conditions of contract a contractor's claim normally arises where the contractor believes he is entitled to additional compensation under the contract and notifies the PSP of his intention to submit a claim. FIDIC provides a claims resolution process that requires the PSP to issue a determination following consultations with both the client and the contractor on the claim as submitted by the contractor. Should any party not be satisfied it may refer the claim to the Dispute Adjudication Board (DAB). The DAB will make a decision based on further submissions by the client and contractor.   | 96 257 051.00 |                          |
| 2018                   | Trans-Caledon Tunnel Authority | Variation Orders-Extensions in the form of VOs was initiated to cover various close out items, this work falls within prescripts of National Treasury IN#3 of 16/17. These payments was withheld pending National Treasury approval which was not obtained as it was post facto.  | 12 956 427.00 | other                    |
| 2018                   | Trans-Caledon Tunnel Authority | Variation Orders-Approval of all variation orders within the approved contingencies are duly approved by the Executive Manager PMID. Due to practical realities on site, instructions by the PSP to the Contractor happens on a daily basis which gives rise to variation orders. In terms of the Contract the PSP may issue instructions up to a defined amount (normally R500 000) without obtaining TCTA prior approval.   | 9 112 754.00  | poor oversight           |
| 2018                   | Trans-Caledon Tunnel Authority | Variation Orders- In January 2017, excessive rain caused extensive erosion damage within some sections of the pipeline servitude. Work required to repair and prevent further damage was undertaken. This work falls within prescripts of National Treasury Instruction Note. 3 of 16/17. Subsequently National Treasury rejected an application for approval on the basis that the request has become ex post facto and has stated that TCTA must make payment to Aveng (Africa) Ltd/Umbutho Civil & Electrical JV and then follow the condonation process.  | 5 682 360.00  | poor oversight           |
| 2018                   | Trans-Caledon Tunnel Authority | Variation Orders- Extensions in the form of Variation Orders was initiated to cover various close out items, this work falls within prescripts of National Treasury Instruction Note 3 of 16/17. These payments were withheld pending National Treasury approval which was not obtained as it was ex post facto.  | 4 533 309.00  | poor oversight           |
| 2018                   | Trans-Caledon Tunnel Authority | Variation Orders- NEMAI Consulting, for services of the Environmental Control Officer, required by Ministerial Directive, on ORWRDP2 was contracted from July 2012 to April 2015. National Treasury approved extensions until 31 July 2017. A further extension was required to April 2018 due to delays by the contractor. Multiple requests have been sent to National Treasury for approval but they all have been rejected on the basis that the request has become ex post facto.  | 2 323 912.00  | poor oversight           |
| 2018                   | Trans-Caledon Tunnel Authority | Variation orders- Extensions in the form of VO10 was initiated to cover the close out of the project. This work falls within prescripts of National Treasury IN#3 of 16/17. These payments was withheld pending National Treasury approval which was not obtained as it was ex post facto.  | 878 036.00    | poor oversight           |
| 2018                   | Trans-Caledon Tunnel Authority | Other-TCTA needed to procure an additional butterfly valve to replace one of the existing valves in the tunnel installed in the early 1990's. a single sourcing strategy was initially proposed. National Treasury supported a deviation on condition   | 685 251.00    | poor oversight           |

|     |                                |  |            |                           |
|-----|--------------------------------|--|------------|---------------------------|
|     |                                | that 3 quotes were obtained. Due to the size of the valves, which required specialised manufacturing equipment and capacity and DTI localisation requirements. list of 20 qualifying suppliers was supplied and all were requested to quote. Four entities responded, one stating its inability to supply. Two of the other three quotes received were from different operating entities within the Premier Valve Group. However, it was subsequently deemed that the process did not comply with Section 51 of the PFMA and NT Instruction Note 3of 16/17 and that the expenditure is irregular |            |                           |
| 018 | Trans-Caledon Tunnel Authority | Other-Reappointment of the Chief Operations Officer, following a settlement agreement, the subject of a legal challenge by TCTA.   | 679 298.00 | poor oversight            |
| 018 | Trans-Caledon Tunnel Authority | Other-Appointment of Selomo Attorneys through single sourcing to represent and advise TCTA in labour disputes and disciplinary actions. Request for deviation was rejected by National Treasury.   | 531 198.00 | poor oversight            |
| 018 | Trans-Caledon Tunnel Authority | Other-Procurement for goods and services with a value under R30 000 was followed after expiry of the contract with two travel agencies, whilst the tender process was being finalised. However, majority of travel agencies did not respond on time to requests for quotations. This resulted in the following travel agencies being awarded work in excess of the R30 000 limit.  | 439 557.00 | lack of internal controls |
| 018 |                                |  |            | poor oversight            |
| 018 | Trans-Caledon Tunnel Authority | Other-Appointment of Ellen of Overy law firm on a single source to represent TCTA on a dispute with Tecroever  | 411 582.00 | lack of internal controls |
| 018 | Trans-Caledon Tunnel Authority | Other-Appointment of Fluxman's attorneys on a single source to represent TCTA on a legal matter.   | 387 481.00 | lack of internal controls |
| 018 | Trans-Caledon Tunnel Authority | Other -Costs related to disciplinary hearing which only ended after 16 sittings. The hearing was originally planned for 5 sittings only. (Tokiso – Chairperson fees)   | 222 631.00 | poor oversight            |
| 018 | Trans-Caledon Tunnel Authority | other-Appointment of Corporate Executive Board on a single source.   | 222 620.00 | lack of internal controls |
| 018 | Trans-Caledon Tunnel Authority | other- Appointment of VUMA Reputation Management on a single source to manage an urgent media matter.  | 189 810.00 | lack of internal controls |
| 018 | Trans-Caledon Tunnel Authority | other-Extension of Banqobi Consulting for the placement of a Senior Manager Company Secretary for a period of six months.  | 184 680.00 | poor oversight            |
| 018 | Trans-Caledon Tunnel Authority | Other-Appointment of M2TD to provide Adobe license. Three (3) quotations not obtained.   | 55 751.00  | poor admin processes      |
| 018 | Trans-Caledon Tunnel Authority | Other-The request was made to edit the Corporate Plan before submission to Board. A discussion was held with SCM to undertake the work under the contract for the Annual Report as editing of the Corporate Plan and Annual Report are very similar. After the work was undertaken it was decided that because the editing of the Corporate Plan was not specifically included in the contract a deviation of the Scope of Work would be required.   | 38 578.00  |                           |
| 018 | Trans-Caledon Tunnel Authority | Other-Appointment of Werksmans on a single source basis to advise TCTA Board on a labour matter.   | 27 379.00  | poor oversight            |
| 018 | Trans-Caledon Tunnel Authority | Other-International travel to Lesotho by Executive PMID, without ministerial approval, to attend Commission meetings on three occasions.   | 23 775.00  | lack of internal controls |
| 018 | Trans-Caledon Tunnel Authority | Other-The purchase of a laptop for a new employee in Project Finance exceeded the R30k annual threshold  | 20 909.00  | lack of internal controls |
| 018 | Trans-Caledon Tunnel Authority | Other-Appointment of a service provider, in excess of the R30 000 annual threshold, to repair the faulty Data Centre Cooling System (DCCS) and restore the Domain Controller after it crashed. Both incidents, which occurred on different days, where the server room was flooding with water due to DCCS failure and the network was down due to the Domain Controller crash.  | 9 444.00   |                           |
| 018 | Trans-Caledon Tunnel Authority | Other-An employee attended training without following proper internal processes,<br><ul style="list-style-type: none"> <li>• A training form was signed off only after the employee attended the training.</li> <li>• There was no signed off PDP.</li> <li>• The employee secured service of another service provider whilst there was a service provider already appointed and SLA to provide similar training.</li> <li>• Employee failed to attend full two days of training</li> <li>• The line manager was suspended before the condonation was finalised.</li> </ul>                      | 8 208.00   | poor oversight            |
| 018 |                                |  |            | lack of internal controls |

|     |                  |  |                  |                           |
|-----|------------------|--|------------------|---------------------------|
| 018 | Transnet Limited | PPM tender/bid process not followed and insufficient delegation of authority (DOA) | 1 047 000 000.00 | incapacity                |
| 018 | Transnet Limited | PPM contract management process not followed                                       | 79 000 000.00    | lack of internal controls |
| 018 | Transnet Limited | Incorrect classification as emergency procurement                                  | 22 000 000.00    | poor admin processes      |
| 018 | Transnet Limited | Expired contracts  | 323 000 000.00   | poor admin processes      |
| 018 | Transnet Limited | Non-compliance to PPPFA  | 1 073 000 000.00 | poor admin processes      |
| 018 | Transnet Limited | Non-compliance to National Treasury requirements                                   | 798 000 000.00   | lack of internal controls |
| 018 | Transnet Limited | Non-Compliance to CIDB requirements  | 76 000 000.00    | lack of internal controls |
| 018 | Transnet Limited | Other  | 9 000 000.00     | Other                     |

| FIN YEAR | SOE   | Non-compliance with SCM prescripts/legislation  | Total value for 2016/17 Fin year | Coding                    |
|----------|---|---|----------------------------------|---------------------------|
| 2017     | Air Traffic and Navigation Services Company | Insufficient number of quotations   | 126 527.00                       | lack of internal controls |
| 2017     | Air Traffic and Navigation Services Company | Quotations awarded in excess of procurement threshold   | 3 643 113.00                     | lack of internal controls |
| 2017     | Air Traffic and Navigation Services Company | Splitting of the procurement of goods into parts  | 700 780.00                       | lack of internal controls |
| 2017     | Air Traffic and Navigation Services Company | Purchase order raised after receipt of the invoice  | 1 292 395.00                     | lack of internal controls |
| 2017     | Air Traffic and Navigation Services Company | Consulting fees   | 826 713.00                       | lack of internal controls |
| 2017     | Air Traffic and Navigation Services Company | Purchases made with credit and or procurement cards-Credit cards were not used for permitted purposes, as set out in treasury regulation 31.2.7.  | 2 683 293.00                     | lack of internal controls |
| 2017     | Airports Company of South Africa            | contravention of the Supply Chain Management policy and the Preferential Procurement Policy Framework Act (PPPFA) and Regulations.  | 914 916 000.00                   | lack of internal controls |
| 2017     | Alexkor                                     | Contracts not renewed in terms of procurement processes and policies  | 124 018.00                       | Poor oversight            |
| 2017     | Alexkor                                     | Expenditure incurred not complying with procurement processes and policies  | 6 870 014.00                     | lack of internal controls |
| 2017     | Alexkor                                     | Tax clearance certificate and B-BBEE not obtained in terms of procurement processes and policies  | 501 882.00                       | poor admin processes      |
| 2017     | ARMSCOR                                     | Tender selection criterion was deemed to be in conflict with the PPPFA  | 1 900 000.00                     | Poor oversight            |
| 2017     | ARMSCOR                                     | Procurement that occurred without following the competitive bidding process   | 7 800 000.00                     | poor admin processes      |
| 2017     | Broadband Infrastructure Company (Pty) Ltd  | removed from register   |                                  |                           |
| 2017     | Central Energy Fund Group of Companies      | Contravention of company policy   | 14 434 000.00                    |                           |
| 2017     | Central Energy Fund Group of Companies      | Contravention of procurement regulations  | 5 080 000.00                     | lack of internal controls |
| 2017     | Central Energy Fund Group of Companies      | Irregular bursary payments- Irregular bursary payments were effected to bursary recipients (still under investigation)  | 1 300 000.00                     | Poor oversight            |
| 2017     | Denel                                       | Contravention of PPPFA-Suppliers not registered on the central supplier database  | 8 000 000.00                     | lack of internal controls |
| 2017     | Denel                                       | Evaluation criteria not adequately specified-evaluation criteria in the bids were not adequately specified in line with the requirements of the Preferential Procurement Regulations  | 4 000 000.00                     | poor admin processes      |
| 2017     | Denel                                       | Tax clearance certificates not obtained-bids were issued to suppliers without the entity adequately evaluating valid tax clearance certificates as is required in the group supply chain policy and the Preferential Procurement Regulations.             | 5 000 000.00                     | poor admin processes      |
| 2017     | Denel                                       | Bids not adequately approved-expenditure has been incurred on bids which were not adequately approved in terms of the delegation  | 8 000 000.00                     | lack of internal controls |
| 2017     | Denel                                       | Deviations from the procurement process not adequately approved-expenditure has been incurred on bids in which deviations were undertaken from the procurement process which were not adequately approved in terms of the supply chain management policy. | 106 000 000.00                   |                           |
| 2017     | Denel                                       | Poor Contract Management-expenditure has been incurred on a contract which was extended without following an adequate procurement process or obtaining adequate authorisation as is required in terms of the delegation of                                | 7 000 000.00                     | Poor oversight            |

|      |   |   |                  |                           |
|------|---|---|------------------|---------------------------|
| 2017 | Denel   | authority.  |                  | poor admin processes      |
| 2017 | Development Bank of Southern Africa           | Supply chain management variation orders  | 929 000.00       | poor oversight            |
|      | Eskom   | Use of sole source- to procure goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective. Expenditure was incurred on awards which did not follow proper tender processes where awards were incorrectly allocated to predetermined suppliers.   | 27 000 000.00    |                           |
| 2017 | Eskom   | Tender processes not adhered to   | 207 000 000.00   | lack of internal controls |
| 2017 | Eskom   | Incorrect classification as emergency procurement   | 98 000 000.00    | poor admin processes      |
| 2017 | Eskom   | Tender processes not adhered to and insufficient delegation of authority (DOA)  | 2 070 000 000.00 | incapacity                |
|      | Eskom   | Incorrect tender process applied-PPPFA requires that the preferential points calculation is determined inclusive of VAT. Certain procurement was incorrectly done where the preferential points calculation, which is based on the applicable quotation or contract value, was determined exclusive of VAT.                           | 72 000 000.00    |                           |
| 2017 | Eskom   | Tax clearance certificates- The group did not always received tax clearance for foreign suppliers   | 36 000 000.00    | lack of internal controls |
| 2017 | Eskom   | Contracts awarded without following CIDB requirements   | 91 000 000.00    | poor oversight            |
| 2017 | Eskom   | Commitments made before approval- Irregular expenditure was incurred as a result of non-adherence to internal procurement processes and employees contravening the Eskom Delegation of Authority  | 448 000 000.00   | lack of internal controls |
| 2017 | Independent Development Trust                 | Deviation from procurement processes during the year  | 4 944 000.00     | Poor oversight            |
| 2017 | Industrial Development Corporation            | No irregular expenditure  |                  |                           |
| 2017 | Land and Agricultural Bank of Southern Africa | The incident relates to the overpayment of salary, where an incorrect rate of increase was used and an additional bonus payment.  | 767 000.00       | Lack of internal controls |
|      | Land and Agricultural Bank of Southern Africa | The expenditure deemed as irregular relates mainly to instances where goods and services were procured from the service providers where the tax status of the supplier was not confirmed when quotes were obtained from the service provider. The tax status was however confirmed when payments were made to these service providers | 456 000.00       |                           |
| 2017 | Land and Agricultural Bank of Southern Africa |   | 1 074 000.00     | poor admin processes      |
| 2017 | Land and Agricultural Bank of Southern Africa | Expenditure incurred for goods procured as a result of the Bank's interpretation of the application of section 9(1) of the Preferential Procurement Regulations for local content.  |                  | incapacity                |
| 2017 | SA Nuclear Energy Corporation                 | No irregular expenditure  |                  |                           |
| 2017 | SA Post Office Limited                        | Expenditure incurred as a result of non-compliance with a Treasury regulation   | 308 940 000.00   | Lack of internal controls |
| 2017 | SA Post Office Limited                        | Expenditure incurred as a result of procuring goods or services by means other than through competitive bids  |                  | poor admin processes      |
| 2017 | SA Post Office Limited                        | Expenditure incurred as a result of non-compliance with a requirement of the institution's delegation of authority frame  |                  | Lack of internal controls |
| 2017 | South African Airways Limited                 | The majority of the irregular spend incurred to date was due to expired contracts or no contracts in place  | 125 900 000.00   | Poor oversight            |
| 2017 | SA Broadcasting Corporation                   | Minimum number of quotations not obtained   | 71 391 000.00    | poor admin processes      |
| 2017 | SA Broadcasting Corporation                   | Bids advertised for less than minimum number of days  | 52 957 000.00    | poor admin processes      |
| 2017 | SA Broadcasting Corporation                   | Incorrect evaluation criteria applied to bids   | 33 783 000.00    | poor admin processes      |
| 2017 | SA Broadcasting Corporation                   | Irregular awards due to lack of planning- Poor planning that leads to deviating from normal SCM process   | 356 818 000.00   | incapacity                |
|      | SA Broadcasting Corporation                   | Delegation of Authority Framework contravened-Quotations were not awarded at appropriate management level as per DAF requirements due to weaknesses in the implementation of the SCM policy   | 79 968 000.00    |                           |
| 2017 | SA Broadcasting Corporation                   |   |                  | incapacity                |
| 2017 | SA Broadcasting Corporation                   | Awards made to suppliers without obtaining valid Tax Clearance Certificates   | 92 006 000.00    | poor admin processes      |

|                 |   |   |   |                           |
|-----------------|---|---|---|---------------------------|
| 2017            | South African Express (Pty) Limited         | Not available   |   |                           |
| 2017            | South African Forestry Company Limited      | The reportable expenditure primarily relates to non-compliance with the Group Supply Chain Policy   | 324 308 000.00                          | Lack of internal controls |
| 2017            | Telkom SA Limited                           | No irregular expenditure reported   |   | 0                         |
| 2017            | Trans-Caledon Tunnel Authority              | Goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA   | 40 474 856.00                           | Lack of internal controls |
| 2017            | Trans-Caledon Tunnel Authority              | Provision of Disaster Recovery services by Continuity SA after its contract has expired.  | 58 965.00                               | Poor oversight            |
| 2017            | Trans-Caledon Tunnel Authority              | Irregular appointment of EY to conduct forensic investigation on the appointment of the three executives and photocopier tender. When the investigation commenced it was not foreseen that it would exceed R500 000, thereby requiring National Treasury approval. Furthermore the appointment was urgent due to the then CEO's employment contract approaching expiry. A request for the appointment approval was sought at National Treasury and was rejected by National Treasury  | 749 721.00                              | Poor oversight            |
| 2017            | Trans-Caledon Tunnel Authority              | Irregular appointment of the EWSS, HR & OD and Strategy executives.   | 6 637 570.00                            | poor admin processes      |
| 2017            | Trans-Caledon Tunnel Authority              | Irregular changing of the evaluation criteria for the photocopier tender.   | 1 033 065.00                            | poor admin processes      |
| 2017            | Trans-Caledon Tunnel Authority              | Irregular expenditure requiring approval by the Minister of Water and Sanitation on all international travel as per the Directive issued by the Minister dated 10 July 2016. As part of implementation of the cost containment measures contained in the National Treasury Circular 4 of 2016/2017 and the National Treasury Travel Framework, the Minister instructed TCTA that all official international travel must be consulted with and should be approved by the Minister. During this financial year, there were seven international trips by TCTA officials for business purposes. | 513 659.00                              | Poor oversight            |
| 2017            | Transnet Limited                            | Contract value exceeded   | 45 000 000.00                           | Lack of internal controls |
| 2017            | Transnet Limited                            | PPM tender/bid process not followed   | 17 000 000.00                           | Incapacity                |
| 2017            | Transnet Limited                            | Non-compliance with legislative requirement   | 60 100 000.00                           | Lack of internal controls |
| 2017            | Transnet Limited                            | PPM confinement process not followed  | 18 300 000.00                           | Lack of internal controls |
| 2017            | Transnet Limited                            | Procurement and capital expenditure procedures not adhered to   | 1 900 000.00                            | Lack of internal controls |
| 2017            | Transnet Limited                            | Non-compliance with DQA   | 100 000.00                              | Incapacity                |
| <b>FIN YEAR</b> | <b>SOE</b>                                  | <b>Non-compliance with SCM prescripts/legislation</b>   | <b>Total value for 2015/16 Fin year</b> | <b>Coding</b>             |
| 2016            | Air Traffic and Navigation Services Company | there was no irregular expenditure  |   |                           |
| 2016            | Airports Company of South Africa            | contravention of the Supply Chain Management policy and the Preferential Procurement Policy Framework Act (PPPFA) and Regulations.  | 134 138 000.00                          | lack of internal controls |
| 2016            | Alexkor                                     | Contracts not renewed in terms of procurement processes and policies  | 3 315 278.00                            | lack of internal controls |
| 2016            | Alexkor                                     | Three quotes not obtained in terms of commercial procurement  | 15 639.00                               | poor admin processes      |
| 2016            | Alexkor                                     | Payment to supplier greater than contractually agreed amount  | 787 694.00                              | lack of internal controls |
| 2016            | Alexkor                                     | Appointment not in terms of procurement processes and policies  | 703 973.00                              | lack of internal controls |
| 2016            | Alexkor                                     | Tax clearance and BEE certificate not obtained in terms of procurement processes and policies   | 2 117 566.00                            | poor admin processes      |
| 2016            | ARMSCOR                                     | Tender selection criterion was deemed to be in conflict with the PPPFA  | 13 200 000.00                           | Poor oversight            |
| 2016            | Broadband Infrastructure Company (Pty) Ltd  | removed from register   |   |                           |
| 2016            | Central Energy Fund Group of Companies      | Contravention of company policy-(PPPFA) not followed for diesel purchased for export sale   | 1 724 000.00                            | lack of internal controls |
| 2016            | Central Energy Fund Group of Companies      | Contravention of procurement regulations  | 80 933 000.00                           | lack of internal controls |

|      |   |   |                |                           |
|------|---|---|----------------|---------------------------|
| 2016 | Denel   | Valid tax clearance not inspected before the issue of bids  | 5 000 000.00   | poor oversight            |
|      |   | Deviations from the procurement process not adequately approved-expenditure has been incurred on bids in which deviations were undertaken from the procurement process which were not adequately approved in terms of the supply chain management policy  | 2 000 000.00   |                           |
| 2016 | Denel   |   |                | poor oversight            |
| 2016 | Development Bank of Southern Africa           |   |                |                           |
|      |   | Breach of PPPFA- Eskom paid contracts that were inconsistent with the requirements of the PPPFA. Eskom applied monetary thresholds contrary to the requirements of the PPPFA. The amounts used in determining the appropriate bidding process applicable to specific transactions were exclusive of VAT whereas the requirement is that it should be determined using amounts inclusive of VAT  | 41 000 000.00  |                           |
| 2016 | Eskom   |   |                | poor oversight            |
|      |   | Breach of the National Environmental Management Act- Eskom commenced with construction activities for a 132 kV power line in the Eastern Cape Province along a route that was not authorised by the Department of Environmental Affairs   | 7 000 000.00   |                           |
| 2016 | Eskom   |   |                | poor oversight            |
|      |   | Use of labour broker- Eskom processes were not followed for the procurement of certain goods and services through a labour broker   | 10 000 000.00  |                           |
| 2016 | Eskom   |   |                | lack of internal controls |
|      |   | Professional services contract-internal processes not followed- A contract was awarded for the procurement of professional engineering services to assist in assessing options for the recovery of unit 3 of Duvha power station following its failure on 30 March 2014. This contract was awarded by way of the emergency procurement process, but it was subsequently determined that the standard process should have been followed. | 36 000 000.00  |                           |
| 2016 | Eskom   |   |                | lack of internal controls |
|      |   | Commitments made before approval- An analysis of condonation records identified purchase orders totalling R3 million that were placed before tender committee approval was received.  | 3 000 000.00   |                           |
| 2016 | Eskom   |   |                | poor oversight            |
|      |   | Procurement or services-incorrect classification as an emergency -Laboratory services procured for certification of coal quality were incorrectly classified as an emergency within the procurement process   | 4 000 000.00   |                           |
| 2016 | Eskom   |   |                | poor admin processes      |
| 2016 | Eskom   | Various other instances   | 5 000 000.00   | other                     |
| 2016 | Independent Development Trust                 | Deviation from procurement processes during the year  | 6 075 000.00   | poor oversight            |
| 2016 | Industrial Development Corporation            | No irregular expenditure reported   |                |                           |
| 2016 | Land and Agricultural Bank of Southern Africa | Business class tickets were booked for flights from Port Elizabeth to Johannesburg for members of Executive Management for the purpose of attending Organisational Structure meetings scheduled with AFC's  | 11 000.00      | Lack of internal controls |
|      |   | The Bank held a farewell function for long-serving executives that have left the Bank during the current financial year   | 17 000.00      | poor oversight            |
| 2016 | Land and Agricultural Bank of Southern Africa |   |                |                           |
|      |   | The expenditure deemed as irregular relates mainly to instances where goods and services were procured from the service providers where original tax clearance certificates were not obtained. The Bank obtained copies of tax clearance certificates in most instances. These  | 23 147 000.00  |                           |
| 2016 | Land and Agricultural Bank of Southern Africa |   |                | poor admin processes      |
| 2016 | SA Nuclear Energy Corporation                 | Functionality criteria specified in Request for tender "not clear and specific" However all suppliers were treated consistently using the same template   | 30 345 000.00  | incapacity                |
| 2016 | SA Nuclear Energy Corporation                 | Commitment prior to procurement process completed   | 2 989 000.00   | poor oversight            |
| 2016 | SA Post Office Limited                        | Expenditure incurred as a result of non-compliance with a Treasury regulation   | 151 428 000.00 | Lack of internal controls |
| 2016 | SA Post Office Limited                        | Expenditure incurred as a result of procuring goods or services by means other than through competitive bids  |                | poor admin processes      |
| 2016 | SA Post Office Limited                        | Expenditure incurred as a result of non-compliance with a requirement of the institution's delegation of authority framework  |                | Lack of internal controls |
| 2016 | South African Airways Limited                 | The majority of the irregular spend incurred to date was due to expired contracts or no contracts in place  | 5 400 000.00   | Poor oversight            |

|      |  |  |                |                           |
|------|--|--|----------------|---------------------------|
| 2016 | SA Broadcasting Corporation            | Payments without contracts   | 40 932 000.00  | Lack of internal controls |
| 2016 | SA Broadcasting Corporation            | Broadcast without Contract   | 14 934 000.00  | Lack of internal controls |
| 2016 | SA Broadcasting Corporation            | Procurement process not followed   | 16 226 000.00  | Lack of internal controls |
| 2016 | SA Broadcasting Corporation            | Delegation of authority contravened  | 718 000.00     | incapacity                |
| 2016 | SA Broadcasting Corporation            | No original tax clearance certificate at date of award   | 142 316 000.00 | Poor oversight            |
| 2016 | SA Broadcasting Corporation            | Inadequate monitoring of contracts / Split Orders  | 225 980 000.00 | Lack of internal controls |
| 2016 | SA Broadcasting Corporation            | Other  | 117 000.00     | Other                     |
|      |  |  | 7 062 464.00   |                           |
| 2016 | South African Express (Pty) Limited    | Expired contracts due to ineffective contract management and the deficiencies are being dealt with to prevent further irregular expenditure.   |                | poor admin processes      |
|      |  |  | 8 871 040.00   |                           |
| 2016 | South African Express (Pty) Limited    | Procurement process not followed as it was not possible to follow procurement processes due to the timing constraints involved.  |                | incapacity                |
|      |  |  | 2 791 895.00   |                           |
| 2016 | South African Express (Pty) Limited    | Deficiencies in procurement processes the procurement process was not followed in its entirety.  |                | incapacity                |
|      |  |  | 362 299.00     |                           |
| 2016 | South African Express (Pty) Limited    | Details of irregular expenditure not condoned and not recoverable - current year -During the year a number of expenses were identified where the procurement process was not followed in its entirety. No motivations or deviation requests were received for these items and could therefore not be condoned by the appropriate authority.  |                | incapacity                |
|      |  |  | 16 598 439.00  |                           |
| 2016 | South African Express (Pty) Limited    | Details of irregular expenditure still under investigation- During the year a number of expenses were identified where the procurement process was not followed in its entirety. Investigations are underway to identify the reasons for this irregular expenditure before it can be condoned by the appropriate authority   |                | under investigation       |
| 2016 | South African Forestry Company Limited | Procurement procedures not adhered to (comparative quotations)   | 200 000.00     | Lack of internal controls |
| 2016 | South African Forestry Company Limited | Procurement procedures not adhered to (contract not formalised)  | 7 100 000.00   | Lack of internal controls |
| 2016 | Telkom SA Limited                      | No irregular expenditure reported  |                |                           |
|      |  |  | 310 345.00     |                           |
| 2016 | Trans-Caledon Tunnel Authority         | The extension of the Disaster Recovery Contract beyond two terms of contracting in contravention with the TCTA policy/ procedures.<br>Two employees undertook an all-expenses-paid international trip to the United States of America (USA) in May 2015 to attend a one-month long training programme on cybercrime. Although the trip was fully funded by a third party, TCTA paid a daily allowance. The trip was authorised by the erstwhile Executive Manager: Enterprise-Wide Support Services in contravention of the Travel Policy which states that all international trips must be authorised by the CEO.<br>The external auditors made an audit finding indicating that the spirit of the Delegation of Authority is that irrespective of the number of requests issued, no award can be made unless three written quotations have been obtained. The SCM team had interpreted the word "obtained" to mean the same as "request".<br>Contract irregularities<br>Appointment of a service provider without full compliance with the Delegation of Authority to organize the annual report launch, Ideahub Group |                | poor oversight            |
| 2016 | Trans-Caledon Tunnel Authority         | The extension of the Disaster Recovery Contract beyond two terms of contracting in contravention with the TCTA policy/ procedures.   | 66 931.00      | poor oversight            |
| 2016 | Trans-Caledon Tunnel Authority         | Two employees undertook an all-expenses-paid international trip to the United States of America (USA) in May 2015 to attend a one-month long training programme on cybercrime. Although the trip was fully funded by a third party, TCTA paid a daily allowance. The trip was authorised by the erstwhile Executive Manager: Enterprise-Wide Support Services in contravention of the Travel Policy which states that all international trips must be authorised by the CEO.   |                | poor oversight            |



|               |   |  |   |                           |
|---------------|---|--|---|---------------------------|
|               |   | Contract irregularities- During the audit of the 2014/15 financial year by external auditors, a discrepancy between the Delegation of Authority Matrix and the procedures on the procurement of items with a value of less than R200 000 was discovered. The Delegation of Authority Matrix then indicated that "Three written quotations must be obtained". The practice was to issue requests for quotations to at least three potential suppliers. However, if less than three quotations were received, SCM would proceed with valuation and award. The external auditors made an audit finding indicating that the spirit of the Delegation of Authority is that irrespective of the number of requests issued, no award can be made unless three written quotations have been obtained. Contract irregularities-The SCM team had interpreted the word "obtained" to mean the same as "request". Since the finding by the external auditors on this matter, the procedure has been changed to accommodate the recommendation of the external auditors. The current procedure is that if a request for quotation is issued and less than three (3) quotations are received, the process is cancelled. The request for quotation is then reissued with more service providers. Should again less than three (3) quotations be received, then a request for an exception is sent to the CEO for approval before an award can be made. The deviation of the other three items was therefore as a result of an incorrect interpretation of the Delegation of Authority requirements and neither as a result of negligence nor deliberate disregard of the delegation | 509 118.00                              |                           |
| 2016          | Trans-Caledon Tunnel Authority              | Appointment of a service provider without full compliance with the Delegation of Authority to organize the annual report launch, Ideahub Group   | 177 875.00                              | poor oversight            |
| 2016          | Transnet Limited                            | Contract costs exceeded  | 7 500 000.00                            | Lack of internal controls |
| 2016          | Transnet Limited                            | Contracts expired  | 7 900 000.00                            | poor admin processes      |
| 2016          | Transnet Limited                            | Procurement and capital expenditure procedures not adhered to  | 9 700 000.00                            | Lack of internal controls |
| <b>N YEAR</b> | <b>SOE</b>                                  | <b>Non-compliance with SCM prescripts/legislation</b>  | <b>Total value for 2015/16 Fin year</b> | <b>Coding</b>             |
| 2015          | Air Traffic and Navigation Services Company | there was no irregular expenditure contravention of the Supply Chain Management policy and the Preferential Procurement Policy Framework Act (PPPPA) and Regulations.  | 171 220 000.00                          | 0                         |
| 2015          | Airports Company of South Africa            |  |   | lack of internal controls |
| 2015          | Alexkor                                     | No irregular expenditure reported  |   |                           |
| 2015          | ARMSCOR                                     | Tender selection criterion was deemed to be in conflict with the PPPFA   | 34 500 000.00                           | Poor oversight            |
| 2015          | Broadband Infrastructure Company (Pty) Ltd  | Expenditure incurred in transgression of commercial processes and policies   | 118 000.00                              | lack of internal controls |
| 2015          | Central Energy Fund Group of Companies      | Contravention of company policy  | 19 432 000.00                           | lack of internal controls |
| 2015          | Central Energy Fund Group of Companies      | Contravention of PPPFA   | 2 426 000.00                            | lack of internal controls |
| 2015          | Denel                                       |  |   |                           |
| 2015          | Development Bank of Southern Africa         |  |   |                           |
| 2015          | Eskom                                       | Back 2 Basics programme engineering tools The Back 2 Basics Programme (B2B) is an overarching strategic initiative to simplify, optimise and standardise business operations in order to achieve excellence and become a high-performance organisation. The board supported the extension of the engineering tools project subject to approval by the shareholder. Subsequent to the board decision, approximately R310 million was spent by extending commitments beyond the initial design phase. Eskom disclosed the unauthorised expenditure in its application for approval to the shareholder. The shareholder noted the importance of the project; but requested a new application that includes, inter alia, updated information and explanations concerning the broader B2B programme. Eskom is in the process of finalising the revised PFMA application. Disciplinary action has not as yet been instituted. Purchase of land without investment committee approval- During the year land was purchased at a market-related value of R108 million by following the procurement process, but without first obtaining the necessary capital   | 310 000 000.00                          | incapacity                |
|               |   |  | 108 000 000.00                          |                           |

|      |   |  |                |                                    |
|------|---|--|----------------|------------------------------------|
| 2015 | Eskom   | expenditure approval<br>Breach of PPPFA- Eskom paid contracts that were inconsistent with the requirements of the PPPFA. Eskom applied monetary thresholds contrary to the requirements of the PPPFA. The amounts used in determining the appropriate bidding process applicable to specific transactions were exclusive of VAT whereas the requirement is that it should be determined using amounts inclusive of VAT | 287 000 000.00 | poor oversight                     |
| 2015 | Eskom   | Various other instances  | 7 000 000.00   | lack of internal controls<br>other |
| 2015 | Independent Development Trust                 | Deviation from procurement processes during the year   | 14 981 000.00  | poor oversight                     |
| 2015 | Industrial Development Corporation            | No irregular expenditure reported  |                |                                    |
| 2015 | Land and Agricultural Bank of Southern Africa | Usage of service provider without following proper supply chain management procedures  | 40 000.00      | lack of internal controls          |
| 2015 | SA Nuclear Energy Corporation                 | Functionality criteria specified in Request for tender "not clear and specific" However all suppliers were treated consistently using the same template  | 124 522 000.00 | incapacity                         |
| 2015 | SA Nuclear Energy Corporation                 | No evidence could be obtained that a request for a quotation was sent to potential suppliers and request for quotations sent were not clear and specific   | 3 714 000.00   | poor admin processes               |
| 2015 | SA Nuclear Energy Corporation                 | No tax clearance certificate obtained  | 993 000.00     | poor admin processes               |
| 2015 | SA Post Office Limited                        | Expenditure incurred as a result of non-compliance with a Treasury regulation  | 197 441 000.00 | Lack of internal controls          |
| 2015 | SA Post Office Limited                        | Expenditure incurred as a result of procuring goods or services by means other than through competitive bids   |                | poor admin processes               |
| 2015 | SA Post Office Limited                        | Expenditure incurred as a result of non-compliance with a requirement of the institution's delegation of authority frame   |                | Lack of internal controls          |
| 2015 | South African Airways Limited                 | The irregular spend increase during the year under review is due to contracts not being renewed timeously.   | 68 500 000.00  | poor admin processes               |
| 2015 | SA Broadcasting Corporation                   | Payments without contracts   | 13 344 000.00  | Lack of internal controls          |
| 2015 | SA Broadcasting Corporation                   | Procurement process not followed   | 62 914 000.00  | Lack of internal controls          |
| 2015 | SA Broadcasting Corporation                   | Delegation of authority contravened  | 3 286 000.00   | incapacity                         |
| 2015 | SA Broadcasting Corporation                   | No original tax clearance certificate at date of award   | 308 917 000.00 | Poor oversight                     |
| 2015 | SA Broadcasting Corporation                   | Inadequate monitoring of contracts / Split Orders  | 822 000.00     | Lack of internal controls          |
| 2015 | South African Express (Pty) Limited           | Procurement process not followed   | 1 625 417.00   | Lack of internal controls          |
| 2015 | South African Express (Pty) Limited           | Contract exceeded  | 1 558 880.00   | Lack of internal controls          |
| 2015 | South African Express (Pty) Limited           | No procurement process followed  | 3 407 717.00   | poor oversight                     |
| 2015 | South African Forestry Company Limited        | irregular expenditure relates to non-compliance with the PFMA and the Group's procurement policy and manual.   | 72 183 000.00  | Lack of internal controls          |
| 2015 | Telkom SA Limited                             | No irregular expenditure reported  |                |                                    |
| 2015 | Trans-Caledon Tunnel Authority                | The CEO travelled abroad and the roaming was activated for him to conduct necessary business activities whilst away from office. However, due to the size of certain documents and emails the monthly limit was exceeded.  | 177 875.00     |                                    |
| 2015 | Trans-Caledon Tunnel Authority                | This irregular expenditure was discovered during the audit, which revealed that TCTA followed its procedures which are in conflict with the DOA, which states "obtain a minimum of three quotes" whereas the procedures state "three quotes required", the latter being the intent of the organisation.  | 888 849.00     | poor oversight                     |
| 2015 | Trans-Caledon Tunnel Authority                | This irregular expenditure was discovered during the audit, which revealed that TCTA followed its procedures which are in conflict with the DOA, which states "obtain a minimum of three quotes" whereas the procedures state "three quotes required", the latter being the intent of the organisation.  | 3 950.00       | poor oversight                     |
| 2015 | Trans-Caledon Tunnel Authority                | This irregular expenditure was discovered during the audit, which revealed that TCTA followed its procedures which are in conflict with the DOA, which states "obtain a minimum of three quotes" whereas the procedures state "three quotes required", the latter being the intent of the organisation.  |                | poor oversight                     |

|          |   |  |                                  |                           |   |
|----------|---|--|----------------------------------|---------------------------|---|
| 2015     | Transnet Limited                              | Contract costs exceeded  | 10 800 000.00                    | Lack of internal controls |   |
| 2015     | Transnet Limited                              | Contracts expired  | 14 500 000.00                    | poor admin processes      |   |
| 2015     | Transnet Limited                              | Procurement procedures not adhered to  | 3 700 000.00                     | Lack of internal controls |   |
| 2015     | Transnet Limited                              | Delegation of authority contravened  | 3 200 000.00                     | incapacity                |   |
| FIN YEAR | SOE   | Non-compliance with SCM prescripts/legislation   | Total value for 2013/14 Fin year | Coding                    |   |
| 2014     | Air Traffic and Navigation Services Company   | there was no irregular expenditure   |                                  |                           | 0 |
| 2014     | Airports Company of South Africa              | Goods and services whereby invoices were dated prior to the purchase order dates   | 82 095 000.00                    | Poor oversight            |   |
| 2014     | Alexkor                                       | No irregular expenditure reported  |                                  |                           | 0 |
| 2014     | ARMSCOR                                       | Tender selection criterion was deemed to be in conflict with the PPPFA   | 68 500 000.00                    | Poor oversight            |   |
| 2014     | Broadband Infrastructure Company (Pty) Ltd    | Expenditure incurred in transgression of commercial processes and policies   | 6 535 000.00                     | lack of internal controls |   |
| 2014     | Central Energy Fund Group of Companies        |  |                                  |                           |   |
| 2014     | Denel   |  |                                  |                           |   |
| 2014     | Development Bank of Southern Africa           |  |                                  |                           |   |
| 2014     | Eskom   | Breach of PPPFA- Eskom paid contracts that were inconsistent with the requirements of the PPPFA. Eskom applied monetary thresholds contrary to the requirements of the PPPFA. The amounts used in determining the appropriate bidding process applicable to specific transactions were exclusive of VAT whereas the requirement is that it should be determined using amounts inclusive of VAT | 83 000 000.00                    | lack of internal controls |   |
| 2014     | Independent Development Trust                 | Incorrect calculation on score card  | 135 000.00                       | poor admin processes      |   |
| 2014     | Independent Development Trust                 | Preference point system not used   | 468 000.00                       | poor admin processes      |   |
| 2014     | Independent Development Trust                 | Deviation from procurement processes   | 4 186 000.00                     | Poor oversight            |   |
| 2014     | Industrial Development Corporation            | No irregular expenditure reported  |                                  |                           | 0 |
| 2014     | Land and Agricultural Bank of Southern Africa | Not indicated  |                                  |                           |   |
| 2014     | SA Nuclear Energy Corporation                 | Procurement of goods and services where no tax clearance certificate were available  | 2 838 000.00                     | poor admin processes      |   |
| 2014     | SA Post Office Limited                        | Expenditure incurred as a result of non-compliance with a Treasury regulation  | 96 274 000.00                    | Lack of internal controls |   |
| 2014     | SA Post Office Limited                        | Expenditure incurred as a result of procuring goods or services by means other than through competitive bids   |                                  | poor admin processes      |   |
| 2014     | SA Post Office Limited                        | Expenditure incurred as a result of non-compliance with a requirement of the institution's delegation of authority frame   |                                  | Lack of internal controls |   |

|      |  |                                       |                |                           |
|------|--|---------------------------------------|----------------|---------------------------|
| 2014 | South African Airways Limited          | PFMA non-compliance within SAA        | 28 400 000.00  | Lack of internal controls |
| 2014 | SA Broadcasting Corporation            | Payments without contracts            | 14 981 000.00  | Lack of internal controls |
| 2014 | SA Broadcasting Corporation            | Procurement process not followed      | 975 803 000.00 | Lack of internal controls |
| 2014 | South African Express (Pty) Limited    | No procurement process followed       | 3 407 717.00   | poor oversight            |
| 2014 | South African Forestry Company Limited | Not available                         |                |                           |
| 2014 | Telkom SA Limited                      | No irregular expenditure reported     |                | 0                         |
| 2014 | Trans-Caledon Tunnel Authority         | Condoned or written off               |                |                           |
| 2014 | Transnet Limited                       | Contract costs exceeded               | 40 000 000.00  | Lack of internal controls |
| 2014 | Transnet Limited                       | Procurement procedures not adhered to | 1 000 000.00   | Lack of internal controls |
| 2014 | Transnet Limited                       | Delegation of authority contravened   | 8 600 000.00   | incapacity                |

## Annexure D: Editorial Certificate

### *Editorial Certificate*

| <b>AUTHOR</b> | <b>DOCUMENT TITLE</b>  | <b>DATE ISSUED</b> |
|---------------|--|--------------------|
| Dlulane, B.   | <b>AN IRREGULAR EXPENDITURE GOVERNANCE STRATEGY FOR SOUTH AFRICAN STATE-OWNED ENTITIES</b> | 15 August 2022     |

**This document certifies that the above thesis was proofread and copy-edited by e-BES Editing Services.**

It is hereby certified that the above thesis was proofread and copy-edited by e-BES Editing Services. The paper was edited for proper English language in accordance with the relevant academic institution's submission requirements, grammar, punctuation, spelling, overall style and technical conformity of references, by Erika Bodenstein. The editor endeavoured to ensure that the author's intended meaning was not altered during the review. All amendments were tracked with the Microsoft Word "Track Changes" feature. Therefore, the author had the option to reject or accept each change individually.

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Erika Bodenstein (B.Proc SA)

## Annexure E: Ethics Approval for Focus Group Interviews



### UNISA COLLEGE OF ACCOUNTING SCIENCES RESEARCH ETHICS REVIEW COMMITTEE

Date: 13 May 2021

Dear Mr B Dlulane,

ERC Reference # :  
2021\_CAS\_022  
Name : B Dlulane  
Student no: 53836928

**Decision: Ethics Approval from  
13 May 2021 to 12 May 2024**

**Researcher(s):** Mr Babalo Dlulane ([babalodlulane@yahoo.com](mailto:babalodlulane@yahoo.com))  
**Supervisor(s):** Prof Lourens Erasmus ([erasmlj1@unisa.ac.za](mailto:erasmlj1@unisa.ac.za))

**Working title of research:  
AN IRREGULAR EXPENDITURE GOVERNANCE STRATEGY FOR SOUTH AFRICAN  
STATE-OWNED ENTITIES**

**Qualification:** PhD and Non-degree

Thank you for the application for research ethics clearance by the Unisa College of Accounting Sciences Research Ethics Review Committee for the above mentioned research. **Ethics approval is granted for data collection through focus groups and interviews.** The certificate is valid for the period **13 May 2021 to 12 May 2024.**

*The low risk application was approved by the CAS RERC on 11 May 2021 in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment.*

The proposed research may now commence with the provisions that:

1. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.
2. Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study should be communicated in writing to the CAS RERC.
3. The researcher(s) will conduct the study according to the methods and procedures set out in the approved application.



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4. Any changes that can affect the study-related risks for the research participants, particularly in terms of assurances made with regards to the protection of participants' privacy and the confidentiality of the data, should be reported to the Committee in writing, accompanied by a progress report.
5. The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study. Adherence to the following South African legislation is important, if applicable: Protection of Personal Information Act, no 4 of 2013; Children's act no 38 of 2005 and the National Health Act, no 61 of 2003.
6. Only de-identified research data may be used for secondary research purposes in future on condition that the research objectives are similar to those of the original research. Secondary use of identifiable human research data require additional ethics clearance.
7. No fieldwork activities may continue after the expiry date (**12 May 2024**). Submission of a completed research ethics progress report will constitute an application for renewal of Ethics Research Committee approval.

**Note:**

*The reference number 2021\_CAS\_022 should be clearly indicated on all forms of communication with the intended research participants, as well as with the Committee.*

Yours sincerely,

Signature : **Prof Lourens Erasmus**



Chair of CAS RERC

E-mail: [erasmlj1@unisa.ac.za](mailto:erasmlj1@unisa.ac.za)

Tel: (012) 429-8844

Signature : **Dr Chisinga Chikutuma**



Digitally signed by Dr CN Chikutuma, PhD  
DN: cn=Dr CN Chikutuma, PhD,  
o=CAS: Unisa, ou=Acting Head:  
Office for Graduate Studies,  
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College of Accounting Sciences

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## Annexure F: Information Leaflet for Focus Group Interviews



### **TEMPLATE DOCUMENTS**

#### **PARTICIPANT INFORMATION SHEET**

*(CHANGE AS REQUIRED & PRINT ON UNISA LETTERHEAD)*

Ethics clearance reference number: 2021\_CAS\_022

Research permission reference number:

18 May 2021

Title: **AN IRREGULAR EXPENDITURE GOVERNANCE STRATEGY FOR SOUTH AFRICAN STATE-OWNED ENTITIES**

**Dear Prospective Participant**

My name is Babalo Dlulane, and I am doing research with my supervisor Prof Lourens Erasmus from the Department of Financial Governance at UNISA, towards a PhD in Accounting Sciences. We are inviting you to participate in a study titled "An Irregular Expenditure Governance Strategy for South African State-Owned Entities (SOEs)".

#### **WHAT IS THE PURPOSE OF THE STUDY?**

The study aims to investigate the lack of regulatory and policy compliance that lead to SOEs incurring irregular expenditure and propose a governance strategy that mitigates irregular expenditure risk.

#### **WHY BEING AM I INVITED TO PARTICIPATE?**

The study wishes to conduct focus group sessions comprising of prominent SOE stakeholders. The exploratory focus groups participants will be organised to provide answers to questions on irregular expenditure that would have been meticulously prepared. The process will enable the researcher to determine the participants' perceptions on why individual employees contravene



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legislation or regulations that lead to the incurrence of Contract adjudication (Human Behaviour)?

The focus group participants will include SOE stakeholders with close ties to working with irregular expenditure. The researcher has obtained approval from the institutions' ethical clearance committees to conduct the focus group session. The focus group interview will comprise of 10 to 15 participants.

#### **WHAT IS THE NATURE OF MY PARTICIPATION IN THIS STUDY?**

The focus group interview will enable the researcher to determine the participants' perceptions on why people are transgressing on each type of irregular expenditure and will serve as an exploratory phase for the study. Unstructured Interviews with stakeholders will be conducted, in a latter phase, to validate the proposed strategy that mitigates irregular expenditure risk.

The sessions involve *audio recording of focus groups discussions*. The interview question will be "Why do individual employees contravene legislation or regulations that lead to the incurrence of each prominent theme of irregular expenditure? The question is posed in an endeavour to propose a strategy that mitigates irregular expenditure risk. The time that will be allocated for the focus groups is anticipated to take **roughly about 2 hours per session**.

#### **CAN I WITHDRAW FROM THIS STUDY EVEN AFTER HAVING AGREED TO PARTICIPATE?**

Participating in this study is voluntary and you are under no obligation to consent to participation. If you do decide to take part, you will be given this information sheet to keep and be asked to sign a written consent form. You are free to withdraw at any time and without giving a reason.

#### **WHAT ARE THE POTENTIAL BENEFITS OF TAKING PART IN THIS STUDY?**

The benefit of voluntarily participating in this process will be of a good cause in aiding the proposal of a strategy that mitigates irregular expenditure risk. The confidentiality of the participants will be always maintained.

#### **ARE THEIR ANY NEGATIVE CONSEQUENCES FOR ME IF I PARTICIPATE IN THE RESEARCH PROJECT?**



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No risk will accrue in participating in the study.

#### **WILL THE INFORMATION THAT I CONVEY TO THE RESEARCHER AND MY IDENTITY BE KEPT CONFIDENTIAL?**

Yes, confidentiality of information will be maintained. You have the right to insist that your name will not be recorded anywhere and that no one, apart from the researcher and identified members of the research team, will know about your involvement in this research OR your name will not be recorded anywhere, and no one will be able to connect you to the answers you give. Your answers will be given a code number, or a pseudonym and you will be referred to in this way in the data, any publications, or other research reporting methods such as conference proceedings.

The only individual who will have access to the data will be the researcher and the researcher is bound to maintain such confidentiality. Your answers may be reviewed by people responsible for making sure that research is done properly, including the transcriber, external coder, and members of the Research Ethics Review Committee. Otherwise, records that identify you will be available only to people working on the study, unless you give permission for other people to see the records.

The research may be used for other purposes, such as a research report, journal articles and/or conference proceedings. However, the privacy will be protected in any publication of the information. Please keep in mind that it is sometimes impossible to make an absolute guarantee of confidentiality or anonymity such as in the case focus groups as a data collection method.

A focus group is a small, but demographically diverse group of people and whose reactions are studied especially in market research or political analysis in guided or open discussions about a new product or something else to determine the reactions that can be expected from a larger population. *While every effort will be made by the researcher to ensure that you will not be connected to the information that you share during the focus group, I cannot guarantee that other participants in the focus group will treat information confidentially. I shall, however, encourage all participants to do so. For this reason, I advise you not to disclose personally sensitive information in the focus group.*

#### **HOW WILL THE RESEARCHER(S) PROTECT THE SECURITY OF DATA?**



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Hard copies of your answers will be stored by the researcher for a period of five years in a locked cupboard/filing cabinet *[in the researcher's office]* for future research or academic purposes; electronic information will be stored on a password protected computer. Future use of the stored data will be subject to further Research Ethics Review and approval if applicable. Information will be discarded by a method of shredding the hard copies.

No Payment or incentives will be offered for participating in the study. Participation is entirely voluntarily.

#### **HAS THE STUDY RECEIVED ETHICS APPROVAL**

This study has received written approval from the Research Ethics Review Committee of UNISA. A copy of the approval letter can be obtained from the researcher if you so wish.

#### **HOW WILL I BE INFORMED OF THE FINDINGS/RESULTS OF THE RESEARCH?**

If you would like to be informed of the final research findings, please contact Babalo Dlulane on 066 298 9166 or [babalodlulane@yahoo.com](mailto:babalodlulane@yahoo.com). The findings are accessible for after the study has been concluded. Should you require any further information or want to contact the researcher about any aspect of this study, please contact Babalo Dlulane on 066 298 9166.

Should you have concerns about the way in which the research has been conducted, you may contact Prof LJ Erasmus, [supervisor](#) and Chair of the College of Accounting Sciences Research Ethics Review Committee at 012 429 8844 or [erasmlj1@unisa.ac.za](mailto:erasmlj1@unisa.ac.za).

Thank you for taking time to read this information sheet and for participating in this study.

Thank you.

Bdlulane

<  >



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### ASSENT TO PARTICIPATE IN THIS STUDY

I, \_\_\_\_\_ (participant name), confirm that the person asking my consent to take part in this research has told me about the nature, procedure, potential benefits, and anticipated inconvenience of participation.

I have read (or had explained to me) and understood the study as explained in the information sheet.

I have had sufficient opportunity to ask questions and am prepared to participate in the study.

I understand that my participation is voluntary and that I am free to withdraw at any time without penalty (if applicable).

I am aware that the findings of this study will be processed into a research report, journal publications and/or conference proceedings, but that my participation will be kept confidential unless otherwise specified.

I agree to the recording of the <insert specific data collection method>.

I have received a signed copy of the informed consent agreement.

Participant Name & Surname..... (please print)

Participant Signature.....Date.....

Researcher's Name & Surname.....(please print)

Researcher's signature.....Date.....



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## PERMISSION LETTER

Request for permission to conduct research at <CSIR>

AN IRREGULAR EXPENDITURE GOVERNANCE STRATEGY FOR SOUTH AFRICAN STATE-OWNED ENTITIES\*

18 May 2021

<insert contact person's name>

<insert contact person's building no. or room no.>

<insert contact person's Department>

<insert contact person's telephone number and email address>

Dear <insert contact person's title and name>.

I, Babalo Dlulane am doing research with Prof LJ Erasmus, a professor in the Department of Financial Governance, towards a PHD Accounting Sciences: Financial Governance at the University of South Africa. We are inviting you to participate in a study entitled An Irregular Expenditure Governance Strategy for South African State-Owned Entities

The aim of the study is to investigate the lack of regulatory and policy compliance that led to SOEs incurring irregular expenditure and propose a governance strategy that mitigates irregular expenditure risk.

Your company has been selected as a case institution to assist in ascertaining responses to questions on irregular expenditure to determine different perceptions on why irregular expenditure such as (a) procurement and contract management; (b) human resource management; (c) transfers and conditional grants; (d) other PFMA and Treasury Regulation Provisions, are escalating.

The study will entail conducting focus group interviews, comprising of prominent SOE stakeholders, such as Chief Executive Officers (CEOs), Chief Financial Officers (CFOs), Financial Managers (FMs).

The benefits of this study are that participants will partake to validate the proposed strategy that mitigates irregular expenditure risk.

There are no potential risks identified for the study that will accrue to the participants.

Yours sincerely



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**Babalo Dlulane**

**Financial Accounting Officer**



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