

UNIVERSITY OF KWAZULU-NATAL

**Understanding how financial management can be improved within the
Operations division at South African Revenue Services**

by

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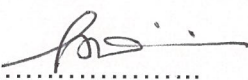
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Abstract

The study investigated how financial management can be improved in South African Revenue Services (SARS) Operations division. It underpins the need for SARS to continuously review procedures and actions in order to establish in which ways its Operation division can improve. In this case the focus is on financial management in order to improve effectiveness and efficiency in South African Revenue Service. The identified problem statement is **“what mechanisms are required to facilitate continuous improvement in financial management to keep SARS on the cutting edge of efficiency?”** The financial management practice of Operations is discussed, taking into account relevant literature; certain issues that concerned the researcher are validated by participants while other issues were found not to be an issue. The study concludes with recommendations in order to improve the practice.

The research maintained objectivity by allowing participants to reflect and comment on SARS Operations financial management as they see or experience it. The researcher used a qualitative approach with empirical data being constructed from interviews.

Data collection was done through reviewing past literature including documents regarding policies, standard operating procedure and relevant documents for SARS. Semi-structured one-on-one interviews were used to engage in dialogue with employees in order to ascertain their views and attitudes.

The study highlighted that SARS Operation’s financial management faced many challenges and establish what mechanisms are required to facilitate continuous improvement in financial management to keep SARS on the cutting edge of efficiency.

Operations division need to commission a benchmark exercise (both externally and internally) to establish the most appropriate operating model, financial management, reporting and analysis in order to facilitate effective financial management.

Table of contents

Title Page.....	i
Declaration.....	ii
Acknowledgements.....	iii
Abstract.....	iv
Table of Contents.....	v
List of Figures.....	ix

1.	Chapter 1: Introduction	1
1.1	Background.....	1
1.2	Problem Statement /Problematic Situation	3
1.3	Objectives	5
1.4	Need for the Study	6
1.5	Research Design.....	7
1.5.1	Research Approaches and Paradigms.....	8
1.5.2	Research Methodology Selected	9
1.5.3	Methods of Data Collection.....	10
1.6	Limitations of Study.....	10
1.7	Analysis and Interpretation	11
1.8.	Sequence of chapters.....	12
2.	Chapter 2: Problem Analysis and Theoretical Considerations.....	14
2.1.	Introduction	14
2.2	Background of SARS	14
2.3	Analysis of Operations Division.....	16
2.4	Analysis of Operations Finance	18
2.5	Analysis of Financial Management.....	23
2.5.1	Finance Policies and Responsibilities within Financial Management	25
2.5.2	Fleet Management.....	26
2.5.3	Asset Management.....	27
2.5.4	Travel Management.....	28
2.5.5	Supply Chain Management and Procurement	29
2.5.6	Budgeting Process.....	31
2.5.7	Expenditure Management.....	33
2.5.8	Internal Controls.....	35
2.5.9	Reporting	35
2.6	Conclusion	35
3.	Chapter 3: Literature Review	37
3.1	Introduction	37
3.2	The Role of Financial Management.....	38
3.3	Importance of Financial Management	42

3.3.1.	Financial Planning	42
3.3.2.	Proper Use of Funds	43
3.3.3.	Financial Decision.....	43
3.3.4.	Promoting Savings.....	43
3.4	Responsibilities within Financial Management	44
3.5	Budgeting and Expenditure Management.....	45
3.6	Supply Chain Management	47
3.7	Asset Management	50
3.8.	Internal Controls and Reporting	52
3.8.1	Internal Controls.....	52
3.8.2	Internal Finance Reporting.....	53
3.9.	Conclusion	54
4.	Chapter 4: Research Design and Methodology	55
4.1.	Introduction	55
4.2.	Research Design.....	55
4.3.	Research Approach.....	56
4.4.	Population and Sample.....	60
4.5.	Research Instruments.....	63
4.6.	Semi-structured Individual Interviews.....	63
4.7.	Data Analysis.....	64
4.8.	Ethical Considerations	66
4.9.	Conclusion	66
5.	Chapter 5: Findings and Discussion.....	67
5.1.	Introduction	67
5.2.	General Understanding of Financial Management.....	70
5.3.	Assessment of SARS Operations Financial Management	70
5.4.	Challenges within SARS Operations Financial Management	73
5.5	The Ways of Improving Financial Management.....	75
5.6	Finance Policies and Responsibilities within Financial Management.....	76
5.7	Budgeting and Expenditure Management.....	79
5.8	Supply Chain Management (procurement).....	82
5.9	Asset Management	84
5.10	Travel Management.....	85
5.11	Fleet Management	86

5.12	Internal Controls and Reporting	87
5.13	Conclusion	90
6.	Chapter 6: Conclusion and Recommendations.....	91
6.1.	Introduction	91
6.2.	Conclusion of the Study.....	93
6.3.	Recommendations	95
6.3.1	Recommendations Based on an Assessment of SARS Operations' Financial Management.....	95
6.3.2	Challenges within SARS Operations' Financial Management	96
6.3.2.1	It is recommended that SARS Academy includes financial	97
6.3.3	Finance Policies and Responsibilities within Financial Management	97
6.3.4	Budgeting and Expenditure Management	100
6.3.5	Supply Chain Management (procurement).....	102
6.3.6	Asset, Travel and Fleet Management	103
6.3.7	Internal Controls and Reporting.....	107
6.3.8	Conclusion.....	109
7.	References	111
	Appendices.....	122

List of Figures

2.1	SARS Top management structure.....	15
2.2	SARS Operations management structure.....	16
2.3	SARS finance senior management structure.....	19
2.4	SARS Operations finance functional and regional structure.....	20
2.5	Expenditure trend for business unit 1.....	33
2.6	Expenditure trend for business unit 2.....	33
2.7	Expenditure trend for business unit 3.....	34
3.1	Different kinds of finance.....	39
5.1	Sampled locations and business units.....	68

1. Chapter 1: Introduction

1.1 Background

In this chapter the researcher introduces the subject of financial management looking at global and domestic financial management. The chapter further discusses the challenges faced by the South African government, with the organisation of focus being the South African Revenue Services (SARS), which is a public entity. The chapter also outlines research design, methodologies, methods of data collection and other processes that will be followed by the study.

Financial Management has become one of the critical functions in organisations in the modern world; the failure or success of any organisation can be influenced by it. The key goal of managing finances is to maximise the value of the owner's financial resources. The government can be a shareholder or an owner.

South African public finances have been affected by the global financial crisis. Lower commodity and asset prices as well as automatic stabilizers have caused fiscal revenues to decline. During the second half of 2012 South Africa experienced economic instability, which caused a R16.3 billion revenue shortfall. This necessitated that government reviewed its spending budget in order to maintain a healthy fiscal balance. This balance can be achieved through strengthening financial management, which includes introducing additional controls in reducing growing expenditure to about 2.3 percent in the medium term, which is three years (Gordhan, 2013).

State resources are unable to keep up with the increasing demand by citizens for government services due to financial challenges facing the public sector. The inability to keep up with increasing demand of citizens tends to create a gap between citizens' expectations and services received from the state. This therefore calls for state officials to show greater accountability of funds they manage and for better operational efficiency (Montondon, 1995 cited by Aikins, 2011).

It becomes critical that public sector managers come up with ways to strengthen financial management within the constraints of limited resources without compromising the required quality of services to relevant stakeholders. This can be

achieved through introducing measures to improve efficiencies in finance and quality of organisational policies. Finance departments should have staff who possess sufficient skills to assess effective deployment of financial resources eliminating waste and unauthorised expenditure. The finance team should have a capacity to make recommendations that improve performance of finance and enhance operational efficiency (Aikins, 2011).

Financial management is a key function in government, which can help to stimulate economic growth and fiscal balance. It is for this reason that Ethiopia is one of the best examples where it has made strides in transforming its public financial management to a global standard; it has earned its place as one of the best managed economies in the African continent (Peterson, 2011).

South African public financial management comes with its own challenges e.g. poor management of financial records and financial administration systems. Once these key aspects of financial management are not in place, the public institution is placed at risk of under spending, overspending, or theft of allocated funds. Therefore the relevant institution may not meet its strategic objective, which is improving service delivery as the resources are not effectively utilised.

The objective of the Public Finance Management Act of 1999 was to promote sound financial management thus ensuring the effective utilisation of scarce financial resources. There have been various initiatives by the South African government to improve financial management.

This is an indication that there is much work that still needs to be done in improving financial management in the public sector. However the Minister of Finance, during his 2012 Medium Term Expenditure Budget speech reiterated his commitment to implanting measures that will facilitate value for money, implementation of effective controls on expenditure, elimination of waste and increase savings (Gordhan, 2012).

SARS is a public entity whose role is the collection of revenue and administration of tax laws. The organisation has the potential of having the best financial management practice in the whole of government; however it may not have effective financial management due to de-prioritisation of this function and lack of continuous review

and improvement. The problem is introduced in this chapter, then discussed and analysed in the next chapter.

1.2 Problem Statement /Problematic Situation

In the background the researcher discussed the importance of financial management. Financial management is a journey and no organisation can comfortably say it has reached the highest level of financial management. There is a need to review and link the management of finance with a bigger picture of organisational objectives in order to achieve internal efficiencies on a continuous basis.

SARS's strength is the efficiency in the way things are done, which has brought benefits not only to government but also to taxpayers through modernisation of its processes that improve service. Improvements in financial management are not being implemented at the same pace as tax processes. One of the key contributors to effective financial management is attracting and retaining skilled talent; employees that can take the organisation to greater heights through cost savings, elimination of wasteful expenditure and creating value for money (Auditor General, 2012).

SARS needs to keep abreast with regard to financial information, reviewing its process on a continuous basis in order to attain even better financial management and also stay competitive. If this is not achieved the organisation runs a risk of suffering financial losses as some of the processes and systems might not mitigate the financial risk the organisation might be exposed to.

Hoe (2009) argues that best practices and benchmarks assist in assessing whether the organisation has the best possible way of administering a particular function; therefore it becomes a good performance metric. The identified problem is "what mechanisms are required to facilitate continuous improvement in financial management to keep SARS on the cutting edge of efficiency?"

According to the Auditor General there are still many weaknesses in the overall management of South African public entities despite regulations and guidelines issued by Public Service and Administration, with National Treasury and certain state

institutions spending approximately R102 billion on consultants over a period of three years (Auditor General, 2012).

Poor financial management in Limpopo government led to departments running out of funds and at a time they could not pay salaries. Similar cases were reported at Gauteng Health Department and the Eastern Cape Education Department where budget overruns were the order of the day with serious consequences for service delivery. This suggests a growing need for government to change the way they do things. These inefficiencies and poor financial management place huge pressure on the fiscus (Auditor General, 2012).

The International Federation of Accountants (IFAC) requires public sector organisations to ensure that there are measures in place that assist in efficient and effective financial management and budgeting, and to have governing bodies that will establish relevant procedures that assist public entities to report on how effectively and efficiently they have used their resources (IFAC, 2001).

IFAC states that the objective of the public sector financial management system is to guide government leaders in effective use of limited resources to ensure excellent delivery of relevant goods and services to achieve government goals in fulfilment of community's needs (IFAC, 2000).

Management of finances has become an essential function of most organisations as it assists the organisation to effectively utilise limited resources in order to maximise its value. There is a need to prioritise financial management as a function in the public sector as is done in the private sector. The scope of financial management in the private sector extends to capital structures (alternative source of funding), investment decisions, working capital management etc. Some private companies go to the extent of developing financial management strategies and establishing finance committees to give necessary attention to issues of financial management. Whilst the South African government may have a good framework, which provides a good environment for effective financial management, now it is becoming critical to review the issues of implementation if we are to achieve world class financial management.

Since SARS is considered to be the leading government institution in efficiency and it keeps on building on the foundation created through improving taxpayer service and cost effectiveness, there is a great need to ensure that its financial management practice is on a par with its improved tax processes.

There is a need for SARS to continuously review procedures and actions in order to establish in which ways the division can holistically improve. In this case the focus is on financial management in order to improve effectiveness and efficiency in the revenue service. The organisation can also serve as an example of how to run an effective financial management function in a public institution.

One of the key considerations in SARS's financial management and governance framework is the delegation of authority. The impact of delegation of authority cannot be overlooked as it determines who can approve what expenditure at which level, which is key to financial decisions taking, therefore striving for effective financial management practice will have a long-term impact on the culture and the quality of decisions taken by the organisation.

It is anticipated that this research can add to the body of knowledge on how an Operations division of a tax revenue authority can improve financial management, governance and compliance. The research will contribute knowledge on how to deal with challenges embedded in financial management functions of public entities, which can assist them to better utilise their financial resources and improve their audit outcomes.

1.3 Objectives

The purpose of the research was to investigate how financial management can be improved in SARS Operations. The study sought to investigate whether there is a need to improve financial management and how it can be improved within the Operations division of the South African Revenue Services, considering the strategic importance of the organisation in government and society at large. It also sought to:

- assess the level of financial management within the operations division;
- evaluate how these affect managers in achieving their objectives;

- establish if SARS operations' financial management requires improvement, depending on the findings propose recommendations that can improve financial magement.

This study underpins the need for all government departments to continuously review procedures and actions in order to establish in which ways the division can improve. In this case the focus is on financial management in order to improve effectiveness and efficiency in the revenue service.

1.4 Need for the Study

There are a number of government challenges such as a lack of structures and facilities to facilitate effective service delivery, unspent monies on capital infrastructure and wasteful expenditure that create a need to develop sound financial management.

The researcher felt that based on his experience and observation of SARS Operations; there might be a need to improve financial management. Once it has been established that there is a need, the researcher will investigate how it can be improved. The interviews were intended to give the researcher a better understanding with regard to certain issues within financial management, which will be discussed in chapter 2. He will establish whether other employees, particularly line and finance managers view these issues as problematic, how they affect them or the organisation and what they think should be done to address them. It was anticipated that findings from the interviews would strengthen his concerns or indicate otherwise. Reviewing SARS Operations financial management would assist SARS to come up with ways of improving financial management. Upon successful implementation of the recommendations, National Treasury would be an example of effective financial management within the public sector.

The study is necessary because as far as the researcher is concerned there is no one who has done academic research into financial management of a tax revenue authority; therefore the study will be helpful not only to other public entities but also to tax revenue authorities in developing countries including African countries. The study can assist in uncovering some of the financial management challenges

experienced by public entities, in particular tax revenue authorities. It can provide recommendations which could be solutions to these challenges.

The study can assist SARS to establish ways in which financial management can be improved. The recommendations can be implemented with success as they are based on the inputs received from various employees of the organisation. These employees can easily support ideas that they have proposed.

The researcher could add to the existing body of knowledge on how sound financial management can assist organisation to achieve its objectives. While the recommendations would be beneficial to SARS they could be applied to any public institution that seeks to improve its financial management practice.

This study aims to answer the following questions:

- What kinds of problems that influence effectiveness and efficiency are experienced by line and finance managers in financial management?
- How do particular problems influence efficiency and effectiveness?
- What are the causes of these problems?
- How can financial management be improved within the Operations division?
- How can governance and compliance be improved in the Operations division?

1.5 Research Design

Research design refers to research procedures and plans that expand high level decisions to conduct comprehensive analysis based on sophisticated data collection methods. The key decision includes the design that needs to be employed to research a particular topic. This decision is informed by the use of data collection methods; inquiry procedures, interpretation and analyses. The nature of the research problem, study audience and personal experiences of the researcher can influence the selection of the research design (Creswell, 2009).

The research selection depends on the questions that need to be answered, which may include the audiences for the study and to a certain extent the personal experiences of the researcher or the nature of the research problem that needs to be addressed (Creswell, 2009). The researcher has chosen to use his own organisation

as a case study in what is known as “backyard” research (Glesne and Peshkin, 1992) which involves studying the researchers own organisation, or friends, or immediate work setting.

The researcher maintained objectivity by allowing participants to reflect and comment on SARS Operations financial management as they see or experience it. The researcher avoided using leading questions however encouraged participants to be honest as possible as they can. This enabled the participants to indicate things that the researcher was not mindful of. The nature of the study is that the researcher suspends his views and uses the views of the participants to determine the outcome of the study.

Owing to the nature of the study, which is problem-based research, the researcher chose a qualitative design. The means of understanding and exploring a phenomenon about groups or individuals related to a human or social problem is called qualitative research. The design was chosen with a view to answering the underlying question, “Understanding how financial management can be improved within the Operations division at South African Revenue Services?” However, a key challenge for the researcher was to get managers to comply (Bono, 2011).

The problem statement chosen provides an essential context in answering the question of “why” (Tracy, 2007). The problem statement was examined by placing into practice the foundations of theory. The important and the most difficult part of the entire process of research is to identify the research problem (Kerlinger and Lee, 2000).

1.5.1 Research Approaches and Paradigms

The decision on the research design was informed by the chosen topic and assumptions of the worldview brought by the researcher to the study; data collection, interpretation and analysis methods as well as inquiry procedures (also known as strategies).

Research design has three methods; namely quantitative, qualitative and mixed methods. It must be noted that even though these methods appear to be discrete they are not. The difference between research which is quantitative and research

that is qualitative is that quantitative research mainly uses numbers or closed-ended questions particularly in an interview while qualitative research uses words or open-ended questions. The mixed methods take into consideration components of both approaches.

The two critical elements in every definition of each approach are that each approach includes distinct procedures and philosophical assumptions. Hence it is critical that philosophical worldview assumptions, which are brought by the researcher to the study, and research procedures that will be used in practice, are thought through properly.

1.5.2 Research Methodology Selected

The research methods chosen are influenced by the problem situation and objective of the research. Quantitative and qualitative methods ought not to be regarded as dichotomies or opposites. However, they signify dissimilar approaches in a field (Newman & Benz, 1998). Qualitative research follows a different method to academic investigation than quantitative research. Different inquiry strategies, interpretation, data collection methods, analysis and philosophical assumptions are employed by qualitative inquiry. While processes of both methods could be similar, qualitative procedures place reliance on having unique data when analysing data, images and text data as well as drawing on diverse inquiry strategies.

The researcher used a qualitative approach with empirical data being constructed from interviews. Moreover, organisational documents were reviewed in order to obtain further information. The methodology was predominantly phenomenological, which Creswell (2009) explains as an inquiry strategy where the one who conducts the research seeks to understand the core of people's experience regarding a particular subject as the participants explain it. Moustakas, (1994 as cited by Creswell, 2009) indicates that a researcher seeks to understand real experiences through relevant engagement with people involved. The researcher chooses to suspend his judgments drawn from his experiences in order to understand and capture the perceptions of the people participating in his study (Nieswiadomy, 2008).

1.5.3 Methods of Data Collection

Data collection was done in three ways:

- a) **Past literature review:** This included review of documents regarding policies, standard operating procedure and relevant documents for SARS.
- b) **Observation:** including using past experience to evaluate financial management practice.
- c) **Interviews:** Semi-structured One-on-one interviews were used to engage in dialogue with employees in order to ascertain their views and attitudes. The participants were interviewed with a recorder (provided the interviewer agreed to be recorded) being used as the main mode of recording, accompanied by taking down notes for better reflection and analysis at a later stage. The interviewer asked the main question and probed more once the discussion was underway (Frankfort-Nachmias, 1996). All participants' identity would not be revealed in the report. The interview was conducted with ten participants.

1.6 Limitations of Study

SARS has offices in all the provinces in which research can be conducted. The study population was 70 employees limited to line and finance managers based mainly in Gauteng. Where practically possible someone from another province would also participate. The location was chosen based on practicality; it was in close proximity of the researcher. Zikmund (2003) submits that a study population should be well defined to the extent that it comprises only the elements that have features that are applicable to the problem. The target sample for the research was drawn through identifying people who were knowledgeable about or dealt with finance management on a daily basis. Therefore line managers have specific experiences in financial management owing to their role of leading business units, and finance staff, particularly finance managers, have special expertise in finance which could enrich the study.

Owing to the data collection method chosen, a literature review (i.e. review of documents regarding policies, standard operating procedure and relevant documents for SARS), observation (including past experience) and semi-structured individual interviews were used to narrow the scope of the research. The interviews form a critical part of the research as they help the researcher understand participants' perspective of the problem and what can be done to solve it.

The limitation of the study is that a small sample was used for interviews, which might compromise the extrapolation. However, findings obtained from interviews were used as validation of information gathered through observation and reviewing organisation documents, which included but were not limited to policies, processes and budget manuals. This information can assist in confirming that the sample was a true representation of the entire population.

The challenge with interviews was that the participants may choose not to be honest with answers in order to avoid follow up questions that may dig into confidential information (Saunders, Lewis & Thornhill, 2007).

1.7 Analysis and Interpretation

Interviews were used to obtain better understanding through qualitative questions. The general analytical procedure of Hussey and Hussey (1997) was seen as most appropriate since it assists the researcher to use rough notes made during the interviews to be processed into written records to assist the researcher to make informed conclusions including his reflections.

Creswell (2009) indicates that analysing data involves collecting open-ended data from questions asked and conducting an analysis based on the information obtained from participants. The researcher used a cell phone recorder to record interviews while writing down the key points and analysed qualitative data collected for perspectives or themes and reported on the themes which emerged.

1.8. Sequence of chapters

Chapter 1: Introduction and Problem in Context

This chapter introduces the study giving the background as to why the research was undertaken. It started with outlining the South African financial landscape, articulating the challenges of government and what has been done so far to improve financial management. A case was put forward to improve financial management in a public sector institution.

Chapter 2: Problem Analysis

This chapter analyses the problem in detail supporting it with a theoretical viewpoint. The proposed research hypothesis is that the “what mechanisms are required to facilitate continuous improvement in financial management to keep SARS on the cutting edge of efficiency?”

Chapter 3: Literature Review

This chapter reviews the literature in line with the research problem. The researcher sought to understand whether continuous review of financial management can facilitate effective financial management.

Chapter 4: Research Methodology

This chapter discusses the research design and methodology to be used in the study. The researcher sought to understand the views of employees about financial management practice within Operations division through conducting interviews.

Chapter 5: Results and Discussion

This chapter discusses the findings obtained through the collection of data via semi-structured individual interviews. The analysis was done in line with research objectives and to establish if the research question was answered adequately.

Chapter 6: Recommendations and Conclusions

This chapter outlines conclusions based on the investigation and data collected. This was followed by relevant recommendations to assist SARS Operations to improve financial management practice, and to assist other tax revenue authorities to learn how to institutionalise an effective financial management function.

2. Chapter 2: Problem Analysis and Theoretical Considerations

2.1. Introduction

This chapter reviews and analyses the organisational problem “**what mechanisms are required to facilitate continuous improvement in financial management to keep SARS on the cutting edge of efficiency?**” in consideration of relevant literature review related to the problem. According to Bromley (1990), a case study is a “systematic inquiry into an event or a set of related events which aims to describe and explain the phenomenon of interest”. The purpose of the study was to establish if continuous review or evaluation of financial management practice can facilitate an improvement in financial management within the Operations division of the South African Revenue Services. Mariano (1993) states that the purposes of case study research may be exploratory, descriptive, interpretive and explanatory. For the purpose of the study, financial management was taken to refer to management that focuses on budgeting, expenditure, assets, travel, fleet management, procurement, internal control and reporting. The stakeholders in the financial management function are mainly line managers and finance managers.

The researcher felt that, based on his experience and observation, financial management could be improved. The interviews were intended to give the researcher a better understanding about certain issues within financial management as highlighted above. He wanted to establish whether other employees, particularly line and finance managers, also viewed these issues as being problematic, how did they affect them or the organisation and what they thought should be done to address them.

2.2 Background of SARS

South African Revenue Services is a public entity established through the South African Revenue Service Act 34 of 1997. It falls under the Ministry of Finance and its roles are collection of revenue as well as administration of tax laws. SARS's main functions are to guide the finance minister on matters of revenue, administer and collect all duties, levies and taxes. In addition, it collects revenue levied by various legislations in agreement with other state organs who should receive such revenue.

It also promotes trade and protects South Africa against illegal goods being exported or imported (SARS, 2013).

The organisation plays a critical role in assisting government with the collection of funds to facilitate South African growth and development. SARS has approximately 15000 employees who collect revenue and administer taxes (SARS, 2013).

SARS currently uses the following functional structure; the Commissioner is the head of the organisation supported by a deputy commissioner and chief officers who lead various divisions. In line with strategic objectives the structure is as follows:

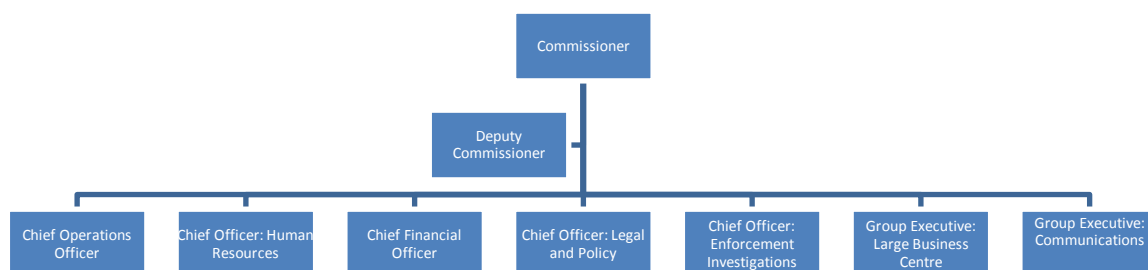


Figure 2.1 SARS Top Management Structure (2013)

SARS is made up of various divisions as illustrated in Figure 2.1 above, namely; Strategy and Enterprise Enabling (which falls under the Deputy Commissioner's portfolio), Operations, Human Resources, Group Finance, Legal and Policy, Enforcement investigations, Large Business Centre and Communications. The Operations division is responsible for more than seventy percent of the organisation's functions, revenue collections and employees. The Strategy and Enterprise Enabling division is responsible for organisational strategy and continuous improvement. The Large Business Centre division is dedicated to large enterprises and high net worth individuals. The Legal and Policies division is responsible for all

tax laws and amendments while the Human Resource division is responsible for all people related operations. The Group Finance division is responsible for enterprise-wide finance and lastly the Communication division is responsible for both internal and external communications (SARS, 2013).

2.3 Analysis of Operations Division

The Operations division is the biggest division within South African Revenue Services, having approximately 11000 of the 15000 employees in the organisation. This division administers all tax types and customs; it is also responsible for all modernisation of tax processes and technology within SARS and sometimes in other government departments. It is led by the chief operating officer, with group executives leading various sub divisions. Each group executive is given a budget to run his/her division and is accountable for resources under his/her custodianship (SARS, 2013).

The figure below the next level of Operations structure which is led by Chief Operating Officer:

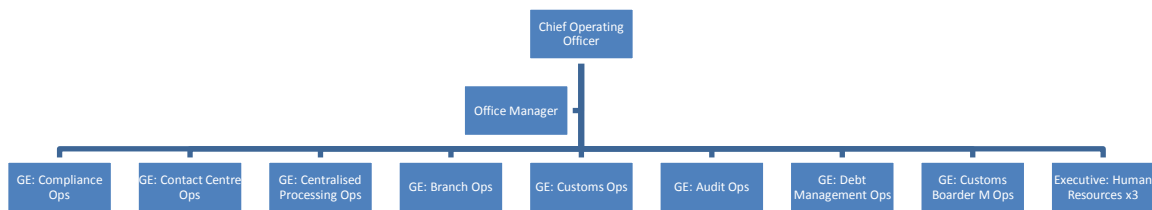


Figure 2.2 SARS Operations Top Management Structure (2013)

SARS’s strategic plan is approved by the Minister of Finance and is tabled at parliament each year. One of its outcomes is “cost effectiveness and internal efficiency”. Therefore line managers (chief officer, group executives, executives,

senior managers and managers), as illustrated above, are charged with the responsibility of effectively and efficiently managing operations which should include financial management. Kotter (1990) argues that leaders have responsibilities of both leadership and management; however in his view not everyone in leadership positions clearly provides leadership.

Operations line managers tend to view financial management as an extension of their operation management not as a core part of the business. They hold a perspective that all finance related matters should be handled by the Finance Department to the extent that some of them do not worry about what is embedded in the finance related policies. They seldom spend time trying to understand their budget, how much they have spent so far and what are their spending patterns. Some managers at certain times ask permission from Finance for permission to spend their budget, yet it is within their right to spend the budget. Finance often gets queries about “does a travel or procurement policy allow me to...?” yet they should know policy for themselves. Line managers need to have a certain degree of financial literacy; currently there is too much dependency on Operations finance for almost everything, from budget to asset management. Jamison (2007), Lebovits (2006) and Lord (1996) argue that an organisation has a much greater appreciation for the implications of financial decisions when financial knowledge is seen as an essential element of business and not necessarily limited to Finance.

SARS has good talent when it comes to both managers and specialists; a sizeable number of employees have special knowledge in their discipline. However, there is no or limited emphasis on the importance of financial management within Operations. Shank (1989) argues that today’s competitive business world requires line managers to have immediate access to required financial information like rolling forecasts, channels and services in order to better manage organisational resources during the current financial year and not after. Management Advisory Board (1997) believes successful organisations have committed, competent managers who report on organisation effectiveness as well as the efficient and effective use of resources. There is a great need for line managers to prioritise financial management and give it the time it deserves in management, so that in operational meetings they can

demonstrate that Operations business units are serious about improving financial management.

Most of the financial management key performance areas (expenditure management, asset, travel, procurement) are included in the performance agreement of finance employees not line managers and operations employees. Some managers prioritise operational functions to the extent that they do not honour monthly meetings scheduled to discuss finance management reports. Partnership between finance and line managers is useful in the daily management of operations, which include asset management, procurement and expenditure management (Baxter and Chua, 2003).

2.4 Analysis of Operations Finance

There are two finance departments within SARS. Group Finance is responsible for enterprise wide finance. It has the following sub business units: Revenue Accounting, Financial Accounting, Management Accounting, Procurement and Activity Based Management. Operations Finance is responsible for financial management within Operations division. There are finance teams that provide dedicated support to business units within operations. These teams are divided into head office and regional teams.

Operations Finance's role should be advancing strategy for operational excellence through working effectively and achieving operational efficiencies. However it is used as an administrative unit where fulfils the requirement of operations business units. This makes finance a reactive department rather than a proactive one that identifies the risks and assists the division to manage financial loss and identify opportunities for savings. Leonard-Barton (1992) argues that other organisations grow through achieving productivities and key competences in areas that have main flexibilities.

SARS uses a shared services model where all supporting units report to the division being supported as opposed to centres of excellence. The group executive is responsible for Operations Finance reports to the chief operating officer not to the chief financial officer. The benefit of this model is that there is better communication and turnaround time between Operations division and finance, which means that the objective of the division can be achieved faster and with fewer complexities.

However, the disadvantage is that it creates silos and sometimes duplicates resources as each business unit within Operations has a dedicated support finance structure particularly in head office, for example there is finance that supports the audit operations business unit, and the customs operations business unit. Silvers (2010) submits that most global organisations use centres of excellence and shared services to attain efficiencies without losing control or compromising quality.

Finance teams in the regions support all functional areas within the boundaries of the region i.e. KZN finance support Audit Operations, Customs Operations, Contact Centre Operations and other business units in KZN. This helps to establish shared financial analysis and planning resources to support decisions of business with standardisation of processes throughout the regions. According to Silvers (2010) the business mode of an organisation should indicate to what extent will finance centralise or decentralise its processes and relevant standards should establish relevant levels of service and outline responsibilities in order to provide uniformity. The below figure shows high level structure of Operations finance:

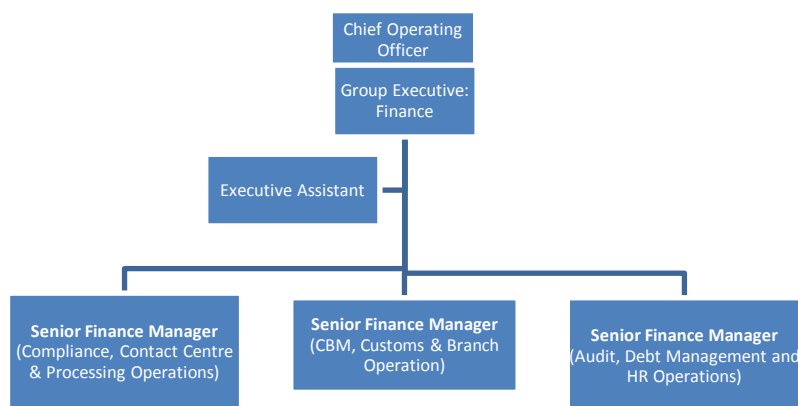


Figure 2.3 SARS Operations Finance Senior Management Structure (2013)

The above figure shows that finance is split among three different senior finance managers who represent different finance teams. The first team is supporting Compliance, Contact Centre and Centralised Processing Operations. The second team is supporting Collaborative Border Management, Customs and Branch Operations. The last team is supporting Audit, Debt Management and Human Resource Operations.

The three senior finance managers are led by a group executive: finance who reports to the chief operating officer. SARS uses several finance teams around the country to service and support Operations business units. The typical structure under a senior finance manager is as follows:

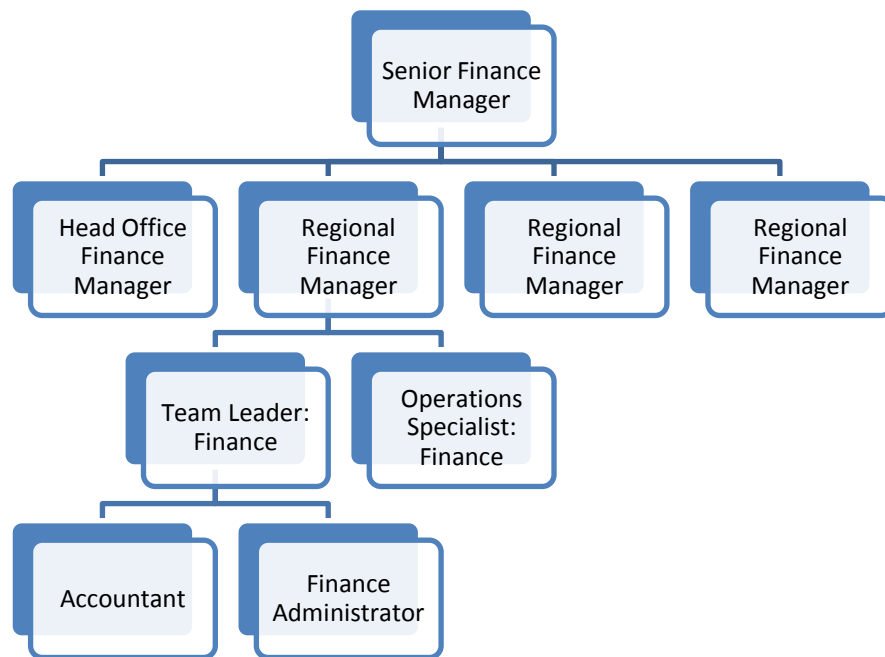


Figure 2.4 SARS Operations Finance Functional and Regional Structure (2013)

The head office finance team is responsible for support to head office line managers and consolidation and analysis of regional finances. The regional finance teams are responsible for day to day support of line functions which includes among other things; assets, travel, fleet management, procurement, and budgets and reporting.

Operations Finance has about 170 employees (including head office and regional finance) with many of these focusing on finance administration, which includes assets, travel, fleet and procurement administration. Ideally finance administrations should be performed by the relevant operations business unit that requires support. This can enable the finance department to be capacitated by a few highly skilled employees like accountants, specialists and finance managers. Hoe (2009) argues that modern finance structures are leaner and flatter with improved technology.

A qualifications audit commissioned by senior finance managers revealed that there are employees with limited and others without necessary qualifications to execute the finance function. Some of junior staff, like finance administrators, have matric while others have grade 9 as their highest educational qualification. This is a fundamental problem that could affect the performance of the finance department and should be resolved to ensure that all employees are equipped with necessary skills and knowledge to be able to discharge their duties with the highest level of competency. Lack of necessary skills is a challenge and according to Ezzamel, Scapens, Baldvinsdoittir, & Burns (2003), International Federation of Accountants (2002), Porter (1985) finance departments around the world are continually expected to be more proactive in advancing good financial management and delivering more value in support of overall organisational objectives. This cannot be delivered without requisite skills. The issue of skills remains a problem that affects financial management; the lack of qualified, experienced staff as well as incorrect placement of people has cost governments billions of Rands through the forced use of consultants as well as wasteful expenditure (AG, 2013). Clearly, such an argument runs counter to the view (central to the deficiency claim) about the widespread lack of qualified or competent staff in third world public sector organisations (Gujarathi, 1993).

Financial management is dependent on competent and committed finance staff. Hoe (2009) is of the view that most organisations expect finance to reduce time spent on processing transactions and spend more time on analysis and reporting which can assist managers take instant and sound decisions. This calls for a fundamental shift in thinking by Finance moving beyond cost cutting to the creation of value using available financial, technological and human resources (Hoe, 2009). This shift includes assisting with the management of cost at a planning stage (Shank, 1989). Arthur (1996) and Johnson and Kaplan (1991) view finance's role as being critical in financial management as it is the help by which line managers measure the financial impact of decisions and strategies chosen. This could make a big difference particularly during scenario planning.

Operations Finance needs to transcend from a gatekeeping role to strategic business partnering in order to respond to the modern needs of various business units within Operations. Hoe (2009) proposes that the finance function understands the impact of customer service, cooperation and teamwork and moves away from command and control. Wunder (2008) concludes that achievement of tangible business results can be influenced by finance staff particularly finance managers with a solid business alignment. Firstly, finance staff can be of assistance in aligning functions, strategic divisions and regions to realise synergies and improved revenue. Secondly, they can assist management to unleash unexploited management resources through focused, reliable and consistent management reporting. Lastly, finance is better placed to allocate resources against projects of strategic importance through overall business impact monitoring.

Operations Finance needs to understand that it is a strategic business partner and should use the management function as an enabler to the achievement of Operation's strategic goals. Therefore there is a need for finance employees to spend time with business units they support to understand their operation in order to support them better, rather than spending time with each other at the Finance department. Bromwich (1989), Bhimani (1989) and Guilding, Cravens and Tayles (2000) consider it unfortunate that most finance departments are still far from overcoming this challenge. There is limited interaction between finance and business. Finance can learn more from line managers while line managers can learn more about financial management from their finance colleagues. The institutionalisation of a culture of financial management is dependent upon finance and line managers having a common understanding and working together to achieve organisational strategic objectives. Coad and Cullen (2006) propose that finance should go beyond normal organisational financial boundaries and be a part of integrated system.

Finance needs to understand business activities that drive the costs and give good advice to ensure that business partnerships are effective (Boedeker and Hughes, 2005). Understanding operational objectives can assist finance to develop better understanding of risks and costs, which can enable finance to work out best possible solution thus maintaining a balance between good financial management and

business goals (Iversen and Wren, 1998). The Management Advisory Board of Australia (MAB) came to the conclusion that traditional ways of finance in private and public sectors are constantly being challenged. Operational managers are continuously demanding insightful financial analysis in place of transaction processing and bean counting (Management Advisory Board, 1997).

2.5 Analysis of Financial Management

SARS is a Schedule 3C public entity, which receives a budget allocation from voted funds under the National Treasury Department. It has received financially unqualified audit opinions from the Auditor General for the past 15 years. The Auditor General indicated in the December 2012 audit report that there were no deficiencies in internal control which he considered sufficiently significant for inclusion in his report (SARS, 2012). This may not necessarily mean the organisation has the best financial management function. It is an indication that there is a good framework of financial management which the organisation can build on. SARS has a potential of having the best financial management practice in the whole of government given the fact that it has been successful in modernising its tax systems and processes. Wunder and Muller (2008) say organisations that are exceptional understand that they need to constantly acquire knowledge in order to be successful and remain competitive for a long period of time. The challenge with SARS Operations is that financial management and its continuous improvement is not prioritised as much as the core business of SARS which is administration of taxes and collection of revenue, therefore financial management practice does not keep up with all the latest changes and the best practices, particularly in solving long outstanding issues pertaining to asset management.

Benchmarking helps the organisation to enhance the opportunities of driving continuous improvement and of identifying competitive advantage. Acquiring knowledge assists in stimulating new ideas as well as exploring areas of opportunities that will ultimately bring significant transformation in the organisation.

Structural and organisational reforms in the Ghanaian Internal Revenue Service (IRS) have contributed significantly to their success (Joshi and Ayee, 2009). It is one of the great success stories, which results in better financial management, reduced

corruption and increased revenue (Terkper, 1995; Chand and Moene, 1999). There is an opportunity for SARS to learn from other organisations in order to improve financial management.

Management of finances has become an essential function in most organisations as it assists the organisation effectively to manage limited resources in order to maximise its value. There is a need to prioritise financial management as a function of strategic importance. Some private companies go to the extent of developing financial management strategies and establishing finance committees to give necessary attention to issues of financial management. Whilst SARS may have a good framework that provides a good environment for effective financial management, it is becoming critical to have a continuous review of financial management practice and benchmark this against other top government and private sector organisations in order to achieve world class financial management.

SARS has developed a good framework and policies in an effort to support the mandate of the organisation. Some of these policies have standard operating procedures that seek to clarify a particular process and how the policies should be complied with. These have created a good platform for the organisation to comply with the minimum requirements of PFMA and other applicable legislation. However these policies are not reviewed frequently enough to align them with latest international accounting standards (IAS). IAS 16 provides that once an asset has been marked for disposal, the accounting entity must stop depreciating the asset. However the assets are depreciated until they leave the building irrespective of whether they are being used or not. Rabinowitz (2007) proposes that procedures and policies need to be evaluated continually and be updated in line with relevant legislation and objectives of the organisation. Critical financial processes need to be enhanced and redesigned to support these policies. Compliance with PFMA and other applicable legislation becomes easier if you create policies that seek to achieve these acts. Apart from various policies, SARS has good Enterprise resource planning (ERP) systems which assist in management of finances. It is a partly integrated system that includes a finance module, asset management module, procurement and HR modules. SARS still needs to ensure that this system is fully integrated especially between the finance and HR modules which link the head count

and people costs. This can makes it easy to manage information and also provide an end to end solution to the organisation, including a complete electronic audit trail. Likierman (1994) states that information is the most important resource in the management process: a comprehensive accounting information system is crucial for public revenue and expenditure planning, performance measurement and asset management control.

An organisation's superior performance can be achieved through benchmarks and striving for best practices (Mathaisel, Ccathcart & Comm, 2004). These encourage organisations to constantly find ways to optimise their processes or change them for the better (Maire, Bronet & Pillet, 2005). Lack of continuous improvement can have a devastating effect on an organisation's financial management function. Ghanaian Inland Revenue Service was unable to change its records to computerised forms owing to its inflexibility in budget management, something which could have improved effectiveness and efficiency (Joshi and Ayee, 2009).

Best practices and benchmarks assist to assess whether the organisation has the best possible way of administering a particular function, therefore it becomes a good performance metric (Hoe, 2009).

The following highlight some of the issues the researcher was concerned about in financial management practices:

2.5.1 Finance Policies and Responsibilities within Financial Management

Certain line managers within the division often forget the content of policies and sometimes think administration of policies is a Finance responsibility. They believe knowledge of policies should be possessed by Finance staff yet they are the most frequent users of these policies. Some policies are not in line with the latest changes in the market i.e. cellphone allowances are mostly based on cellphone packages which were offered by service providers a few years ago; the reality is that most employees are using data more than voice calls by accessing emails, the internet etc. Furthermore, some of the policies are not easy to understand and require manuals or a clear process. The ambiguity in policies results in inconsistencies in their application, and in addition some finance staff do not have the required skills to be able to interpret policies correctly.

It was highlighted in the previous sections of this chapter that line managers do not fully understand their roles within the financial management function. This confusion creates a gap which affects the effectiveness of financial management as line managers think the responsibility for budgeting; expenditure management and other aspects within the financial management function are a responsibility of Finance.

2.5.2 Fleet Management

Fleet Management policy is good for safeguarding SARS vehicles and ensuring proper usage. However it does not address vehicle replacement strategy which is important to save costs and maintain employee safety. The organisation is operating an ageing fleet which is becoming more expensive to maintain each year. It also becoming a safety issue as the older vehicles are becoming unsafe to drive. The organisation can attain huge savings if it can replace vehicles after they reach a certain mileage or after a certain time. The savings, which can be in millions of Rand, can be directed to other priority areas. The updating of the fleet management policy with a vehicle replacement strategy can ensure that vehicles are purchased every five years or once they reach say 200,000 kilometres. This means SARS Operations can incur a once off capital expenditure every five years, as new vehicles come with maintenance plans and do not incur maintenance costs every year.

Fleet management policy provides that where a driver has obtained a traffic fine (speed, parking, etc.) he will be personally liable for payment. This is done to encourage responsible citizenship of observing traffic laws and avoids recklessness, which can result in unnecessary costs to the organisation. The line manager's role is to ensure that fines are allocated to the relevant driver and to collect payment; unfortunately, however they consider this a role for finance. The un-enforcement of payments may result in drivers receiving more fines with an understanding that they won't pay. If the driver does not pay, SARS becomes liable as it is the entity that owns the vehicle. All traffic fines paid by SARS on behalf of the drivers can be considered as fruitless and wasteful expenditure.

2.5.3 Asset Management

Operations division has been having asset problems for years, even while asset management is improving. However, the problems cannot be completely eliminated owing to the lack of an asset management strategy. This strategy can also give direction to asset management policies; for example, an asset disposal policy aims to assist the organisation to dispose of unnecessary or unwanted assets by SARS divisions. However, it has made it difficult for divisions to dispose of their assets. The policy provides that disposal should be coordinated with the Corporate Social Responsibility department and first preference should be given to donating assets to schools. If this is unsuccessful for whatever reason, pawn shops should be approached to buy the assets. If the pawn shops are unable to take the assets, they must write a letter confirming this. The last option is to get scrapping companies to buy the assets for destruction.

The policy also stipulates that hard drives from computer or laptop assets must be removed prior to the asset being handed to a particular school and this means schools need to buy their own hard drives to get these machines operational; this is in addition to transport costs incurred to collect the assets from a SARS office. Some of the schools end up declining donated assets owing to the cost involved in acquiring them. As there is no replacement strategy linked to an asset management policy, many business units take a longer time to dispose of their assets. Assets not disposed of for a long time become fairly unusable; either they become an old technology or cumbersome furniture. Most of the time pawn shops are not interested in these items. The challenge with this policy is that some business units lose interest in the process before they even get into the last option and end up not disposing of the assets.

This policy needs to be reviewed and updated to meet the needs of internal stakeholders i.e. Operations division, and external stakeholders like schools and pawn shops. If the policy remains unchanged it will make it difficult for managers to properly manage assets. Assets that are not disposed of timeously are expensive as they occupy space that is being rented. This can be considered as fruitless and wasteful expense. Therefore policies are effective tools which can be used to

improve financial management and they require constant review to ensure that they are still relevant.

2.5.4 Travel Management

Travel Management policy seeks to assist Operations managers to effectively manage travel, however this is an area where Operations loses money. To this end the organisation has entered into agreements with various stakeholders like airline companies, hotel groups and vehicle rental companies with the intention to save costs. However, sometimes the travel behaviour and nature of SARS business does not support these agreements. It is important that line managers keep their part of the agreement by for example, booking their travel seven days before they travel. If a line manager has a trip that falls outside the seven day period, he needs to obtain approval from a finance manager before a trip can be booked by the travel office. This requires line managers to carefully plan their travel and avoid making late bookings or unnecessary changes to existing bookings, which may be costly to the organisation. One of the agreements is with airline companies, which assist SARS to manage travel costs by booking air tickets seven days in advance and therefore derive savings; for example, a ticket to Cape Town may have a public fare of R3000, however in relation to the agreement, if SARS books seven days in advance the ticket may only cost R2200, which results in R800 cost savings (that can contribute towards the cost of the next trip). If any Operations business units do not adhere to the policy, SARS incurs unnecessary additional costs.

Line managers still need constant guidance with regard to travel management, which is a key element of financial management, as late bookings and unnecessary changes to existing bookings are still prevalent in Operations division. Currently the travel office receives about two thousand travel changes per month, which is very high, and most of these changes carry non-refundable amounts, particularly airfares. This is also an administrative nightmare as each change request might require three transaction changes i.e. changing the date for a trip may require the travel office to change flights, accommodation and rental vehicles. If all bookings are planned carefully, it can free up human resources to focus on other critical functions and significantly reduce rework.

Another point on travel management is that travellers do not check their itineraries, which results in them calling a travel agency outside business hours. Every request processed outside business hours attracts an admin fee, and depending on the number of request in a month, this can result in huge amounts.

2.5.5 Supply Chain Management and Procurement

The fact that SARS has a procurement department not a supply chain management unit is a problem in itself. Studies reveal that the implementation of supply chain management practices is far from satisfactory (Mathee, 2005; Ambe, 2006; van Zyl, 2006; Migiro & Ambe, 2008). Supply chain management concepts embrace all elements which include demand management, strategic sourcing, procurement and logistics. While SARS may have certain aspects of these elements, many need to be structured differently in order to yield significant results e.g. value for money, cost savings etc. Procurement policies help the organisation to spend responsibly and obtain value for money for every procurement expenditure. The division needs to attain a culture of responsible procurement spending i.e. there is a tendency to procure goods and services without following approved procurement processes. There are business units within Operations that engage one service provider in a business without following procurement policy; the concerned business unit then loses an opportunity to compare prices through quotations or a competitive bid process. There is a likelihood that the price charged by one particular service provider may not be the lowest and the quality of goods may not be properly evaluated This results in SARS paying unnecessarily high prices for goods and services which would otherwise cost less if the procurement process was followed. There is still a high number of deviations from the procurement process, which are approved by a form of exemption or condonation.

Exemption refers to a process of asking to be exempted from a procurement process, either because there is a sole service provider for a particular goods and services or the business unit cannot go through a procurement process due to urgency of goods and services. Condonation is procuring goods and services without approval. The procurement of these goods and services will need to be subsequently approved for the payment to be made to the service provider. Condonements are normally permitted in a case of an emergency i.e. where there is a burst water pipe,

an employee can engage the first available plumber instead of obtaining three quotations. However, business units use condonement even if it is not a case of emergency.

Adherence to procurement policies and processes is critical as it assists each business unit to procure goods and services that are required to fulfil objectives. In addition adherence ensures that the service provider is critically assessed through technical evaluation that it is competent to provide the required goods and services, and that these are supplied at best reasonable prices. Procurement policies also encourage fair competitions as all services providers are given an equal opportunity to bid for business. Unfortunately deviating from policies does not provide for these kinds of assessment as only one supplier is targeted which results in SARS paying higher prices. Finance is the right department to assist line managers to appreciate creation of value and understand what financial consequences are caused by their actions and decisions (Hoe, 2009).

According to Gragan (2005) cited by Ambe and Badenhorst-Weiss (2012:83-84), the public procurement task is "to help organisations obtain the goods and services needed to do their jobs, while controlling the process that spends large amounts of public funds." Although public sector procurement operates in a rule bound environment, many of its tasks can be automated. Gragan (2005) advises public procurement professionals to promote communication with vendors and users, and to explain the strategic role of purchasing in public sector operations to their requisitioners or users, in particular. He also argues that "training should be mandatory for anyone charged with spending public funds." Public procurement has a reputation of being tactical, even clerical, adhering to "stringent policies and guidelines", not requiring highly educated professionals, and stifling innovation (Matthews, 2005 cited by Gragan, 2005:84). However, public sector procurement is shifting from being tactical to being more strategic and focusing on alliances, global sourcing, life cycle costing, empowerment, and tools such as procurement cards. According to Bailey, Farmer, Jessop, & Jones (2005) cited by Gragan (2005:84), "professional training and education of those personnel responsible for the strategic direction and practical application of procurement action" is needed in the public sector. In South Africa, training has been on-going from 2005 on the implementation

of supply chain management involving actors such municipal entities, departments and stakeholders. Several initiatives are being considered by the government to dramatically increase efficiencies and service delivery country wide. Among these are rolling out strategic sourcing objectives and transversal contracts (Ambe and Badenhorst-Weiss, 2012).

Newman (2003) notes that, while private sector procurement is more receptive to entrepreneurship and innovation, public procurement is based on legislation, policy and process. Public sector procurement serves a broader range of stakeholders, places greater emphasis on accountability and transparency, and allows little or no flexibility for negotiating with bidders/responders to a request for proposal. McGuinness (2004) concurs that "the skill set of the public sector purchasing manager is geared more toward supervising the procurement process and preparing reports than negotiating the best deal." However, there is a suggestion that flexibility rather than formality is the key to improving public procurement performance (Ambe and Badenhorst-Weiss, 2012).

SARS has an opportunity to obtain leverage from many cost saving interventions. By structuring the Procurement department correctly it can have huge savings. However, procurement is regarded as a separate function from the finance function. Owing to this arrangement, like many organisations, it is losing out on cost savings opportunities and improved purchasing efficiencies (Hoe, 2009), which could be realised by integrating accounts payable and the purchasing function. Operations division needs to emphasise the importance of expenditure management and cost savings in order to improve financial management practices.

2.5.6 Budgeting Process

The current budget process lacks feedback owing to a lengthy approval process. There is no document that outlines the budget process and its approval levels. Sometimes the budget can be approved two months after the beginning of the new financial year which causes many delays driving key deliverables as managers do not know whether their budget proposals have been approved. This is not an effective way of budgeting as finance spends less time on analysis while most of the time is devoted to budget preparation (Hoe, 2009). There are many organisations

around the world that know that they do not have the most effective budgeting process but few make an effort to change it (Segelod, 1998). Wunder and Muller (2008) argue that continuous improvement through benchmarking helps organisations develop a broad understanding of current processes and activities of the targeted area.

While time consuming and costly, budgets have serious consequences for SARS. Most business units within Operations are reluctant to start spending when they are not sure that their budget requests have been approved. This results in delays in executing their business plans as this means they will be two months behind with their deliverables and budget spent. This also results in unspent monies being returned to National Treasury not because Operations division does not have the capacity to spend but because of budget process delays.

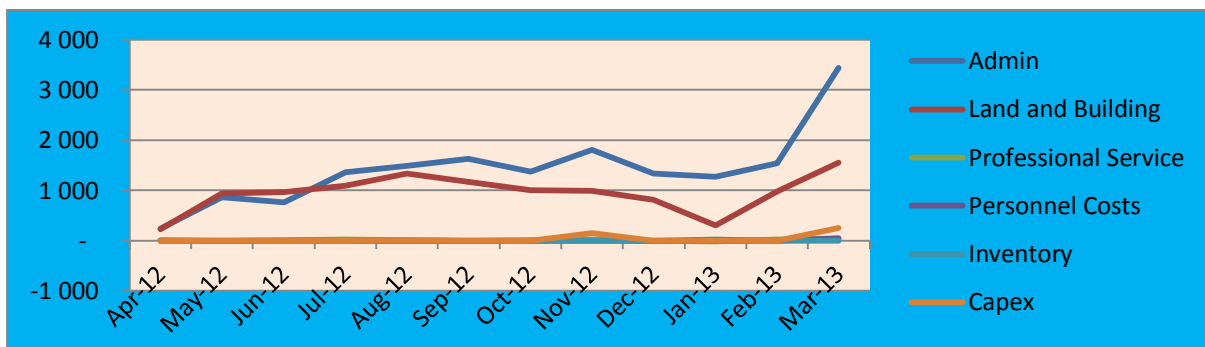
The second challenge with the budget process is that it is not linked to the business plan or a strategic plan but to previous year's spending (incremental budget method). Government entities are required by IFAC to have procedures and policies in place that can assist them to have effective financial management and efficient budgeting (IFAC, 2001). The budget process currently being used assumes that business units will carry on or perform the same activities as in the previous year with a slight increase measured by inflation, and in most instances this is not necessarily the case. The disadvantage of this is that new programmes may not be funded or old programmes may no longer be required / relevant but continue receiving funding owing to the budget method being used. Hoe (2009) states that there are many organisations which have budgeting and forecasting processes which are not linked to performance measurement or strategic planning. There is a great incentive for Operations division to link budgeting with organisational planning as well as integrate this with performance measurement. Budgets are powerful and continuous management too; they guide business plans and assist to assign accountability and allocate resources. Therefore the process of budgeting should not start with a spread sheet: it should start with a strategic plan (Hoe, 2009).

2.5.7 Expenditure Management

Line managers have the responsibility of (a) ensuring that the expenditure is a valid business requirement i.e. is it necessary to achieve business objectives (b) ensuring it is in line with the budget and is the best value for money. Some managers seem to leave the above for finance to make the decision. Some of the managers even approve expenditure requests without checking budget availability; this sometimes results in budget overruns which could have been avoided.

The following are three different business units that overspent in the previous financial years (2012/13).

Business unit 1

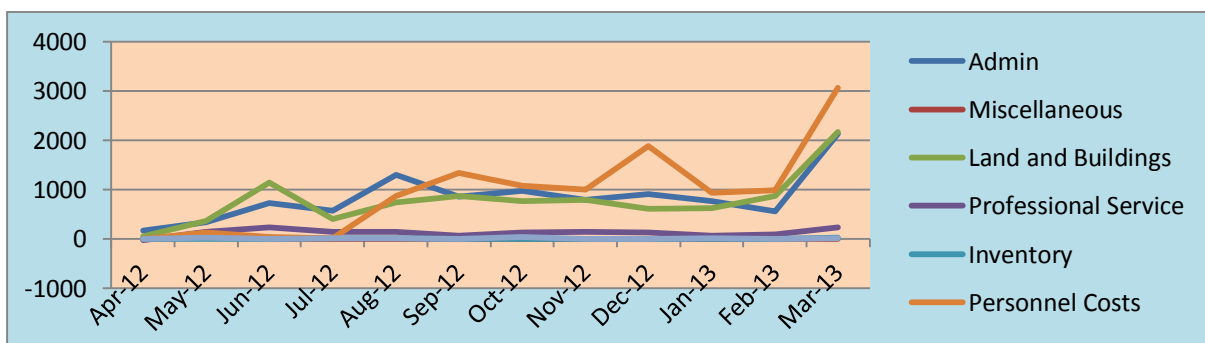


X =R'thousands

Y= months

Figure 2.5 Expenditure Trend for Business Unit 1 (SARS, 2013)

Business unit 2

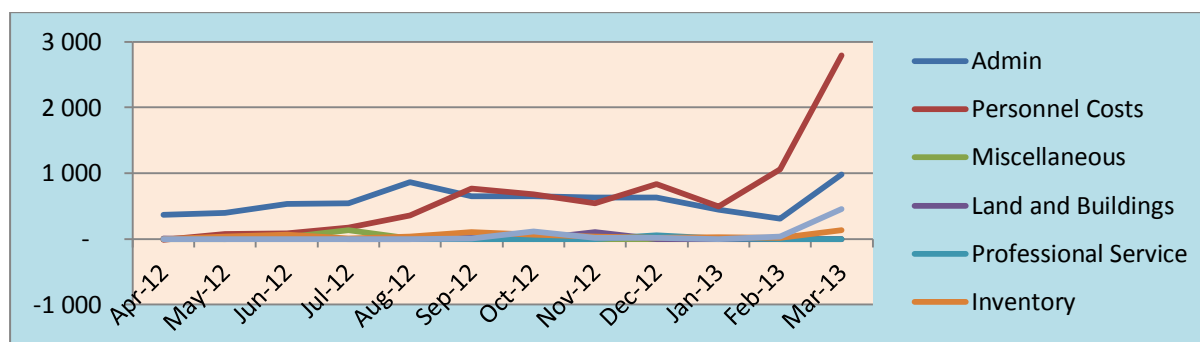


X =R'thousands

Y= months

Figure 2.6 Expenditure Trend for Business Unit 2 (SARS, 2013)

Business unit 3



X =R'thousands

Y= months

2. 7 Expenditure Trend for Business Unit 3 (SARS, 2013)

The above graphs show the trend of expenditure per cost category of the three business units within Operations division over a period of twelve months. It is evident from all the graphs that there is a suddent increase in expenditure in the last three months of the financial year. Some managers purchase more goods and services before year end in order to avoid losing unused budgets.

Horner (2012) outline four drivers that negatively impact achieving savings:

- Unavailability of clear guidelines that assist to budget for, calculate and track savings.
- No clear definition of “savings” which results in people having different interpretations.
- Cost containment activities being done in isolation from finance.
- No formal plans for cost savings which is integrated with operational and strategic plans.

Operations division does not have formal multiyear savings plans that can validate, project and audit cost savings. This makes it difficult for Operations business units to consider a holistic view of the organisation. Such processes are required to close a gap where service providers can avoid taking responsibility for undelivered savings promised at the beginning of the contract. The lack of clear guidelines on savings makes the division miss an opportunity of identifying, measuring and reporting on

cost savings, and also track these at the time transactions are being recorded (Horner, 2012).

2.5.8 Internal Controls

Internal controls are important for any organisation as they determine whether processes and policies are working as they were intended. The challenge in Operations is that there is no much emphasis on internal controls; these are not discussed at regular operational or strategic meetings. Therefore this does not create the culture that people should take internal controls seriously to ensure that policies and processes are not compromised, which might even result in a financial loss to the organisation. The only time internal controls are discussed is during the audit meetings which are held if there is statutory audit or scheduled annual internal audit.

2.5.9 Reporting

Most reports produced by finance are based on expenditure; there is no link between revenue collected or trying to measure output with investment in expenditure. Operations finance has established a head office task team with an intention to improve on analysis and reporting. This has shown some significant value in the last few months; however finance in the regions still lacks capability to provide insightful analysis and reporting. Baxter and Chua (2003) argue that there has been a growing need for finance to provide projections and financial analyses that operational plan to increase revenue. Therefore continuous improvement can be achieved by having a constant approach in sharing both external and internal best practices. Benchmarking exercises should be considered on a regular basis as they are the key drivers for maintainable performance improvement (Wunder, 2008).

2.6 Conclusion

The importance of developing continuous improvement to support sound financial management for Operations was discussed. It was noted that financial management processes, policies and practices can be irrelevant and need to be evaluated on a continuous basis to ensure their effectiveness. Benchmarking can be one of the critical tools that can assist an organisation to improve its financial management practices (Hoe, 2009). In addition, the researcher referred to various authors to

demonstrate the consequences where financial management processes are not reviewed regularly. In the following chapter the literature that is relevant to the research is discussed.

3. Chapter 3: Literature Review

3.1 Introduction

The review of literature will advance a theoretical case through critically reviewing different interpretations in print regarding topics discussed in chapter 2. These topics are as follows:

- The role of financial management
- Importance of financial management
- Responsibilities within financial management
- Budgeting and expenditure management
- Supply chain management (procurement)
- Asset management
- Internal controls and reporting

This chapter reviews literature with a view of developing an academic case through discussing critically different views on the issues discussed in the previous chapter. There is not much academic literature about financial management of a tax revenue authority, therefore the researcher has used, as much as possible, available academic literature and literature around government entities and their financial management.

The researcher was unable to locate academic literature that covers role and importance of financial management, responsibilities within financial management, budgeting and expenditure management, supply chain management, asset management, internal control and reporting relative to the tax revenue authority. Therefore this study seeks to fill the gap in knowledge by investigating financial management practice of tax revenue authority and establish how it can be improved.

It's sought to establish how managers managers are affected by financial management challenges and what they believe should be done to overcome these. The recommendations provided by the study could provide solutions which might improve financial management practice of SARS and other public entities.

There is a significant shift in the way government entities are managed; there is a concentrated effort in managing these entities in the same way as private companies i.e. getting return on investment for money spent by government, obtaining value for money etc. These approaches aim to ensure that relevant stakeholders experience value out of government service e.g. citizens experience excellent service delivery in line with objectives of the government. The introduction of PFMA in 2001, the Preferential Procurement Policy Framework Act, adoption of corporate governance and other relevant regulations all seek to achieve a common objective (Du Preez, 1999). There is also a global trend towards accounting and public sector reforms which is moving at high speed. Developments in Australia, United States of America, New Zealand, Canada and Netherlands should be considered by South Africa (Van der Linde, 1994) in order to improve South African management practice.

Despite evidence of reforms in public sector management and improvements in financial management, particularly an emphasis in measuring outputs against inputs, the achieved benefits do not justify the cost of these interventions (Pollitt and Bouckaert, 2004).

3.2 The Role of Financial Management

The science and art of managing money may be defined as finance. Provision of money when it is required is also known as finance. The effective utilization and procurement of funds in a business concern is known as finance function. The finance concept involves funds, amounts, capital and money; however each of these words has a meaning which is unique. Understanding and studying finance concepts is a critical aspect of the organisation (Subramanian, 2009).

The integral and important part of the organisation is finance; hence, its importance can be seen in all activities of the business. Finance is categorised into the following two key elements:

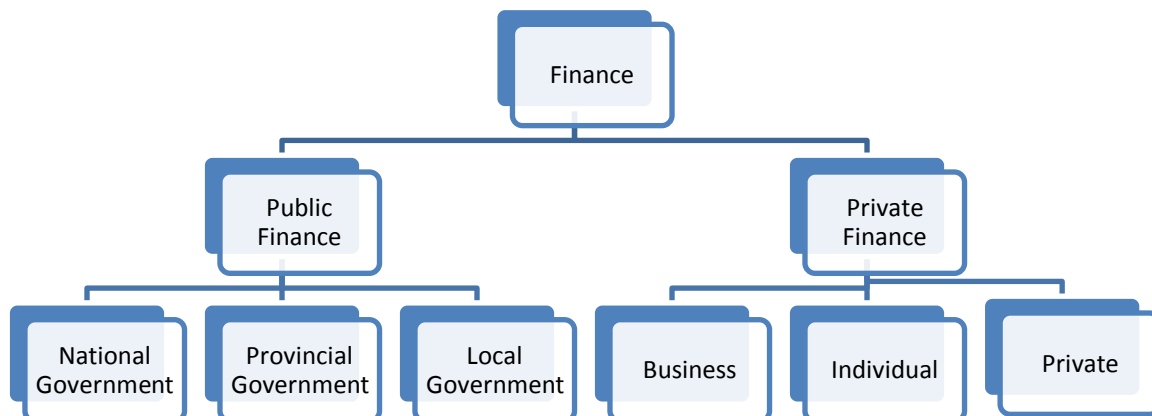


Figure 3.1 Different Kinds of Finance (Subramanian, 2009:3)

Finance which is private involves firms, individuals, financial activities of the corporate or business world in order to meet requirements. On the other hand public finance deals with expenditure and revenue of government, this includes public entities, national and provincial departments as well as other government organisations (Subramanian, 2009).

A finance manager is a person who deals with finance related activities and he is a key stakeholder in the finance function. The finance manager needs to have knowledge about finance, accounting, management and economics. His role is analytical and critical in solving different finance related problems (Subramanian, 2009).

The finance manager is expected to interact with different kinds of functional departments and therefore should possess knowledge of both finance and other business areas in order to understand the cost drivers and other pertinent information. He needs to create and maintain good relationships with all organisational departments (Subramanian, 2009).

Solomon (1963) as cited by (Subramanian, 2009:3) refers to financial management as follows: It is concerned with the efficient use of an important economic resource namely, capital funds” while Massie (1979) as cited by (Subramanian, 2009:3) states

that it is “the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations”. Financial management’s main purpose is effective management of financial resources of the organisation (Subramanian, 2009). Financial management is a vital element of non-economic and economic activities that assist in making an informed decision on efficient utilization and procurement of financial resources (Subramanian, 2009). Denning support this view as successful running of any organisation is dependent on sound financial management as this determines how organisational resources should be used effectively. Financial management in the private sector has a primary focus of examining different sources of finances, how such finance is used and the linkages between utilisation and financial decisions (Denning, 2000). Financial management in government is a major tool for utilising, mobilising and allocating resources effectively and efficiently in achievement the objective of government (UN, 1991). Burger (2008) emphasises the importance of reprioritization of limited financial resources, management of assets and getting value for money in order to achieve government objectives.

Ball, Robin and Wu (1999) articulate how reforms in public sector financial management have positively affected fiscal consumption. They established in their study how encouragement of efficient control over public expenses and resources increased accountability and prudence in management of state resources. However Tanzi (2000) disagrees citing that the tendency of pushing for efficiency in public spending, as often done, has a risk of providing results which are inaccurate as government entities use assets without considering the cost of using them (Grubišić, 2009).

The use and safeguarding of funds and other limited resources to benefit all the people are regarded as financial management goals (Pauw, Woods, Van Der Linde, Fourie and VRisser, 2002). Public sector financial management’s purpose is to manage limited financial resources deployed to ensure output delivery in an efficient and economical manner that will assist in achievement of the desired outcome (effectiveness) in order to fulfil the community needs (appropriateness). Asare (2009) agrees with Pauw as he views financial management’s objectives as, efficient

allocation of resources, provision of public services in an effective and efficient manner, and achievement of financial discipline.

Financial management for the purpose of the study focuses on budgeting, expenditure management, assets, travel, fleet management, procurement, internal control and reporting. The stakeholders in the financial management function are mainly line managers and finance managers. Gildenhuis (1997) lists key components of financial management in government as follows; accounting, budgeting and expenditure management while Szymanski (2007) and Baltaci & Yilmaz, (2006) believe internal control environment and control systems are critical in improving governance process transparency and accountability (Aikins, 2011). Wescott (2008) submit that expenditure involves budget process (which includes its preparation), internal and external audit, reporting, accounting, and procurement.

It is important that one understands that money in the hands of government (including SARS) does not belong to it, it belongs to the citizens that is the taxpayers, who contributed to fiscus. Therefore government entities like SARS have a stewardship role to such funds and as such should manage them with huge accountability. Government entities should strive to use the most equitable and reasonable ways to allocate financial resources and the most effective and efficient ways to apply the finances to satisfy public needs. They need to promote equal and fair distribution of limited financial resources. Lastly, government should strive to gain most possible value at the lowest possible price (Gildenhuis, 1997).

Legislation and effective policies are critical tools for financial management within SARS. They help to set boundaries of what can or cannot be done. It is through legislation and policies that budgets are approved, expenditure is expended to support functions of government (Visser & Erasmus, 2002). Good legislation is an enabler and helps to develop effective policies; together these assist to support objectives of government entities. However, these need to be reviewed and adapted on a continuous basis otherwise they become irrelevant and a hindrance to organisational goals (Visser & Erasmus, 2002). Updated and effective policies can better help the organisation to achieve its goals.

It is therefore essential that every government entity puts in place a proper financial management system (FMS) as it facilitates better management of expenditure by establishing standard operating procedures for recording transactions i.e. creating forms to process petty cash requests, internal charges, payments to suppliers, internal charges, and receipt of monies. FMS goes beyond recording transactions for accounting purposes but serves as good systems for management of funds (Visser & Erasmus, 2002). FMS assists to provide management with records of spending patterns, which reveal (a) variances between budgets and actual year to date expenditure, (b) budget against current expenditure and future commitments, (c) budget exceptions (Visser & Erasmus, 2002).

It is essential for government entities to continuously review how they prepare their plans, budget, manage resources, and implement programmes in order to meet the demands of citizens, and government demands for improved accountability and performance through delivery of services. Public sector reforms have been instituted by countries like New Zealand, South Africa, Britain, and Australia in order improve their performance, subsequently there are many entities which are under-going change management processes (Boyne, 2003).

3.3 Importance of Financial Management

An organisation's lifeblood is its financial resources. They should always be available to meet the business concern's requirements. It is necessary for every organisation to create and maintain sufficient financial resources in order to run the business and achieve its goals. Effective management of finance assists in the achievement of business goals, therefore there is no management (line and finance managers) that can afford to ignore financial resources importance at any time (Subramanian, 2009).

3.3.1. Financial Planning

Financial management is useful in determining a business concern's financial requirements and guide the organisation's financial planning. The critical part of the business concern in the financial management function is financial planning as it assists in the proper allocation of resources to achieve organisational goals (Subramanian, 2009). Therefore it is critically important that the budget process is aligned to business planning in order to ensure achievement of the organisation's

objectives. The integrated financial planning makes the process of budgeting and business planning pleasant and effective.

3.3.2. Proper Use of Funds

Effective funds allocation and utilisation assist in increasing a business concern's operational efficiency. Organisations can reduce fruitless and wasteful expenditure and increase organisation value by using financial resources properly (Subramanian, 2009). Government organisations like SARS will need to be measured using return on investment for every Rand spent. This will assist to establish what percentage of allocated funds goes to wasteful expenditure where there is no value, and what percentage is really put to good use.

3.3.3. Financial Decision

Sound financial decisions in any organisation are facilitated by effective financial management. These decisions are critical to the extent that they affect the operations of the organisation due to the fact that there is a connection between financial decisions and various department functions like human resources, operations, marketing etc. (Subramanian, 2009). Government organisations' financial decisions need be measured using certain criteria e.g. amount of assets purchased and how effective are these assets in creating value for government and citizens. Most private organisations are measured on the bottom line e.g. profit margins, headline earning, dividends paid. However, there have not been concrete measures formulated to measure growth in public organisations.

3.3.4. Promoting Savings

Organisations that maximize wealth make it possible to achieve savings; therefore mobilisation and promotion of organisational savings are facilitated by effective financial management. The financial management function nowadays is regarded as corporate finance or business finances. The financial management function is embedded into private organisations to the extent that corporate sectors and business concerns are unable to function properly without financial management (Subramanian, 2009). The financial management function needs to be embedded in government organisations to the extent that they cannot function properly without

this function. Government organisations should be measured through how much they save funds allocated to them. They should strive to run their operations with less financial resources each year. This should include funding new initiatives using existing financial resources and implementing war on waste projects thus stretching funds allocated to them.

3.4 Responsibilities within Financial Management

Roles and responsibilities of all officials other than accounting officers and chief financial officers are outlined in PFMA's Section 44; this means all employees within a government entity are responsible for fiscal discipline and financial management.

PFMA's Section 45 deals with responsibilities of all officials which includes but is not limited to ensuring:

- Establishment of internal control and financial management systems.
- Transparent, economical and efficient utilisation of financial resources
- To make extra effort to prevent fruitless and wasteful expense, irregular and unauthorised expenditure.

Section 27(4) indicates that line managers can be held responsible for outcomes produced by their government entities. Finance managers have an important role to play in the financial management function. They are responsible for ensuring that measures of financial management are in place to support effective management of line functions.

They are responsible for continuous evaluation of whether the organisation has sufficient measures to deal with uneconomical and inefficient use of government properties, money and other resources which the executive authority or accounting officer is responsible for.

They are responsible for giving best advice on the budgets, financial results and other matters of line function and advising management on the financial implications of proposed decisions. Visser & Erasmus (2002) list the following responsibilities of line managers:

- Line managers are required to identify activity related tasks in order to be costed by finance.
- They are responsible for asset management of their business units.
- They are responsible for monitoring and controlling expenditure.
- They are responsible for classifying functions for budgeting purposes.
- They are responsible for managing budgets with assistance from finance section.
- They are responsible for estimation of anticipated expenditure.
- They need to safeguard and keep control of documents for accounting and auditing purposes.

It is important that financial management be performed by someone with required technical competencies and training. Objective considerations should be given to decisions with financial impact that also affect organisational performance with a view to providing the most appropriate, effective, efficient and economical service to the public. Accounting officers and financial staff need to exercise due professional care with all decisions with financial impact (Visser & Erasmus 2002:42).

3.5 Budgeting and Expenditure Management

Business plans are derived from strategic plans; they help to quantify and describe inputs to achieve output and are done on a yearly basis. They list performance indicators and measures which can be used to determine outcomes. Business plans and budgets complement each other in a sense that one has objectives and targets while the other outlines financial resource allocation to achieve the objectives (Visser & Erasmus, 2002). Where there is no alignment between business plans and budgets this can affect the achievement of goals as the organisation may allocate more or less financial resources than required. More allocation of resources may result in wastage as human beings have a tendency of spending what has been allocated for fear of losing funds before the end of the financial year, and reduced resources allocation may affect delivery of required objectives.

A budget is a document outlining particular goals with expenditure linked to each goal. Budget assists the organisation to realise goals within a specific period of time. It is a control measure for expenditure and also serves as a source of information. It

is used to monitor spending by government organisations (Visser & Erasmus, 2002). Government organisations are required to put measures in place that will ensure implementation and monitoring of the budgets. This view is supported by the researcher given the amount of budgets allocated to government departments to run their operations.

Incremental budgets - This type of budget assumes that objectives remain the same year after year. The proposed budget allocation is based on previous expenditure plus a particular percentage of annual increase. It does not consider changes in objectives or activities in the new year. Therefore the disadvantages of this method are that some functions can be funded long after their usefulness is no longer relevant (Visser & Erasmus, 2002).

Zero-based budgeting - This method ignores previous spending and related history. The budgets are compiled as if a new function is being established. The requesting division has to justify each and every line item in the budget. Kramer (1979) states that this method is intended to discourage managers who take it for granted their functions should be funded; however it encourages critical review of expenditure and reallocations of funds (Visser & Erasmus, 2002).

Budgets are in the centre of financial management as there is no expenditure without approved budget or allocation of funds. It provides a necessary framework for expenditure management. Shah (2007) agrees with Visser & Erasmus and further states that execution of budget needs to comply with compliance control basics, which are:

- The proposed expenditure must be approved by relevant accounting authority;
- The money needs to be made available for the same reasons it was budgeted for;
- Adequate funds should be made available in the correct class in the budget;
- The expenditure should be categorised correctly;
- There should be a way of verify goods that have been delivered or services that have been completed.

The accounting officer needs to put measures in place to ensure effective management of expenditure. This can be linked to a budget control process that seeks to achieve a particular goal (McThomas, 2003). This is supported by Phillips and McConnell (1996) who view the budget as a daily management control over operations. In the previous chapter we found that there are ways being implemented to manage expenditure, however they require improvement in order to be effective. On the other hand McThomas (2003) believes that expenditure patterns can be determined through implementation of an effective expenditure control framework. These interventions should filter down to every government entity and become a programme of actions for every accounting officer and chief financial officer. Finance meetings and continuous control and monitoring of financial resources should take place on a monthly basis.

3.6 Supply Chain Management

Supply chain management (SCM) has influenced the way organisations structure their procurement functions taking into account integration as well as issues of supply and demand management, which assist in creating value that will increase customer satisfaction, particularly in public sector organisations (Ambe and Badenhorst-Weiss, 2012).

The business literature term used for control of information, finances and materials while in the process of move between supplier, manufacturer, wholesaler, and retailer and eventually to consumer, is supply chain management (SCM). The supply chain terminology seeks to explain that prior to goods and services being delivered to the relevant stakeholders (citizens, businesses or taxpayers) they pass through numerous companies. The Council of Supply Chain Management Professionals (CSCMP, 2007) submits that "Supply chain management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. It also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third party service providers, and customers." When linking the above to functions it means that all functional departments get involved in supply chain management thus placing a greater focus on relationships and activities.

Supply chain management is defined by Hadfield (2011), as the achievement of maintainable inexpensive benefit and growth of customer value through dynamic management of supply chain activities. It arises from continuous effort by government supply chains departments to improve and maintain supply chain functions in an efficient and effective way. Supply chain management includes purchasing, strategic sourcing, logistics, development of product and systems required to manage such activities.

Effective financial management is dependent on economical, effective, efficient and timely objectives achieved by the organisation (Abedian, 1997 as cited in Mathiba, 2011). Government's system of integrated supply chain management is regarded as one of the significant improvements towards sound management (National Treasury, 2004). The conventional way of purchasing has changed; the focus is more on demand plan, strategic sourcing and total spent (Bowersox, Closs & Cooper, 2007). There is a great need for government organisations like SARS to adopt integrated supply chain management in order to take their procurement function to another level.

Supply chain management in the public sector provides a framework of reference for public sector multilevel and supply chains networks composition (Migiro & Ambe, 2008). Normally, higher productivity, lower costs, shorter lead times, greater customer loyalty, higher profits, greater agility, and lower inventories are benefits of effective supply chain management (Stevenson, 2009). Public institutions that do not implement effective supply chain management lose out on these key benefits.

The Office of Government of Commerce, UK, (2005) report of 2004 issued by the Public Accounts Committee, called 'Improving departments' capability to procure cost-effectively' indicates that most non-departmental public bodies, agencies and departments suffered a lack of assurances regarding the resilience and reliability of their important suppliers' subcontractors. Only 17 percent of them considered analysing supply chains of their suppliers as part of the process of selecting them (Ambe and Badenhorst-Weiss, 2012). This highlights the fact that organisations that do not adopt supply chain practices are exposed to more risks than those who practise supply chain management.

Government entities that modernise and streamline their supply chain can benefit from substantial time improvements and cost savings (Gansler, Luby Jr and Kornberg, 2004). This view is echoed by Essig & Dorobek (2006) who submit that there has been an improvement in secondary inventory management and greater optimisation of logistics support owing to the critical role played by government supply chain management (Ambe and Badenhorst-Weiss, 2012). It is therefore essential that the public sector examine and implement better ways to source, plan, pay for or move services and goods.

The introduction of procurement reforms has brought much transformation to the supply chain of South African government. The implementation of these reforms began in 1995 and had a main focus area, which was to address objectives of socio-economic policy through the introduction of a preference system and promotion of good governance principles. Supply chain management is an essential element of South African public financial management. It addresses government's policy objectives of preferential procurement and presents internationally accepted principles of best practice (Croom and Brandon-Jones, 2005). The intention of supply chain management is to add value at each process stage; starting with demand management of services and goods, to acquiring the goods, logistics management processes, to usage and finally disposal. Consequently, it resolves weaknesses relating to current procurement practice, obsolescence planning, asset and inventory control, and contract management (National Treasury RSA, 2003; Mkhize, 2004).

Ambe and Badenhorst-Weiss (2012) argue that a growing effective use of SCM contributes to a broad programme of improving value for money and increasing the efficiency of government entities' commercial activities by stimulation of increased efficiency in supplier management and promotion of competition across a wider base of supply.

Economization effects and reduction of cost can be achieved through a well devised supply chain control (Jehle, and Schulze, 2002). Supply chain management assumes a strategic planning role which includes consideration of government and public action strategic objectives, and long-term effects i.e. multi-level network outcome (Thom & Ritz, 2000).

Despite benefits highlighted in this chapter, Mathee, (2005), Ambe, (2006), van Zyl, (2006), and Migiro & Ambe, (2008) submit that supply chain management practices and effective implementation are not yet at acceptable levels. The biggest contributing factor to this is lack of people who possess necessary capacity, knowledge and skills to be able to implement supply chain management effectively in many departments as per the SCM policy requirements. It must be noted that "procurement is a crucial central element of SCM" and supply chain management includes "all functions throughout organisations, from marketing and production to procurement" (Mason-Jones, 2004:83). Government organisations like SARS can experience more benefits by establishing full supply chain management function.

3.7 Asset Management

Management of assets is regarded as one of the crucial elements in financial management. An asset can be defined as a resource controlled by an entity due to a past event from which a future economic benefit is expected to flow to the entity (Visser & Erasmus, 2002). It is critical that an organisation obtains a good mix of financial resources and assets for effective, efficient and economical delivery of objectives. The key processes of asset management are procurement, planning, maintenance and operations (Visser & Erasmus, 2002).

Physical asset plans should be fully integrated into strategic plans; this requires a full assessment of risks, benefits and cost to achieve a particular objective (Visser & Erasmus, 2002) and for a right procurement method for asset acquisition to be planned and executed accordingly. The assignment of responsibility to maintaining performance of an asset against target helps to establish effective and efficient operations over its economic life.

Visser & Erasmus (2002) argue that the organisation can derive a maximum benefit if it assigns effective responsibility for:

- Security of, access to and control over an asset;
- Prevention of breakdown that has a potential to interrupt service delivery through frequent preventative maintenance;
- Assessing information on actual performance against plans;

- Taking corrective measures where assessment indicates the need to do so. Therefore line managers have a responsibility to ensure that the organisation derives an economic benefit, and to take all necessary steps to prevent damages (Burger, 2008).

Finance responsibility is limited to ensuring correct classification and other analysis that will assist management to properly account for and manage assets (Hodges, 1996). Strategic processes should indicate decisions to service, replace, reduce or upgrade certain assets at a particular time or at the end of their useful life. Consideration should be given to the most effective way of achieving goals whether through acquisition, timesharing, leasing or contracting out.

The asset should be disposed of in a most economical way through scrapping, sale or otherwise once it has reached the end of its useful life. It is costly to keep a non-fully utilised asset as it takes up space which could be used for something productive (Visser & Erasmus, 2002).

An asset register is the most important aspect of asset management; it should be kept up to date as much as possible. It is usually updated when an asset is acquired, disposed off, transferred and sometimes after the physical verification of assets where there is no movement (Visser & Erasmus, 2002). A central register keeps a record of all assets in an effort to effectively manage their useful life (Hodges, 1996). Some part of government (including SARS Operations) considers asset management as the responsibility of an asset manager, which is not necessarily the case. Asset management cannot be divorced from the broader financial management framework. The Auditor General report exposes poor asset management throughout government which could have been caused by lack of requisite knowledge, inappropriate internal controls or systems failure (Auditor General, 2012).

3.8. Internal Controls and Reporting

3.8.1 Internal Controls

The measures put in place by managers to assist in mitigation of financial and operational risks as well as the achievement of an organisation's financial objectives and goals are called internal controls. These include, for example, invoices approval prior to payments being made, reviewing of captured entries of transactions prior to being processed.

Adequacy of internal controls refers to control structure design with regard to policies and procedures outlining direction and guidance for task performance and acceptable practices in order to accomplish organisational goals. Effective internal control indicates that controls implemented by management are achieving their purpose (Aikins, 2011).

Brown (1994) submits that internal controls comprise operational controls and financial accounting controls. Auditing of controls assists in the determination of the validity of financial statements while auditing of operational controls establishes whether Operations is controlled and managed as it was designed by management. These audits provide recommendations which assist management to strengthen controls in order to minimise losses or risk (Aikins, 2011). Government organisations need to intensify education on internal controls in order for all employees to observe and comply with them in the achievement of their organisational goals.

Therefore an internal controls system's main purpose is to provide reasonable assurance to management that the organisational information is reliable and accurate; for example, safeguarding of assets against loss is in place, all resources are utilised efficiently and economically, there is compliance with laws, policies, contracts, regulations and other relevant requirements (Fadzil, Haron & Jantan, 2005). However Agbejule & JokiPii (2009) consider internal controls effective when the objectives of the organisation are properly achieved.

3.8.2 Internal Finance Reporting

Organisational internal reporting of operational and financial results is important in the financial management function and therefore it cannot be underestimated. However, Drury (2001) argues that effective governance and financial management can be achieved if the managers are provided with relevant, accurate, high quality and timely information (van Wyk, 2003).

Internal finance reporting is unlike external reporting which is regulated; it is developed internally by the organisation for specific purposes and therefore uses a process that is less prescribed. However, most organisations conduct benchmarks in order to implement a best practice internal reporting framework (van Wyk, 2003).

Internal reports, particularly finance reports, should provide analysis, high quality and value-added information to managers in order to facilitate decision making. Organisations that adopt best practices implement internal management reporting systems that provide management with budgeting, operational business planning and integrated strategic planning information that assist in ensuring effective financial management (Coates, 1997).

Finance managers need to arrange information in a manner that is useful to the reader. Folk, Garrison & Noreen (2002) advise that the main purpose of internal management reporting is to assist management to make informed decisions. Therefore adequate information should be included in management reports.

The preparers of the reports need to strike an informed balance between providing meaningful information and overloading the reader with too much information (Cilliers, Coetzee, Stegman, Van Schalkwayk & Wesson, 2001). Lewis (2005) highlights preparation of annual and monthly reports on performance and expenditure as one of the responsibilities of the chief financial officer (Du Preez, 1999).

3.9. Conclusion

This chapter discussed; the role of financial management, importance of financial management, responsibilities within financial management, budgeting and expenditure management, supply chain management (procurement), asset management, internal controls and reporting, which are important aspects required to have effective financial management in the organisation. It evident that it is necessary for every organisation to establish a framework for the development of acceptable measures for financial management in order to assist them with the continuous evaluation of the quality of financial management and to report meaningfully thereon in the annual reports, contributing towards the improvement of financial management within government departments.

The following chapter presents and discusses research design and methodology that is relevant to the study.

4. Chapter 4: Research Design and Methodology

4.1. Introduction

This chapter outlines how the problem was investigated as identified in the first chapter in order to validate the research outcome. The research methods chosen are influenced by the problem situation and objective of the research. This chapter covers sources of data to be collected, approaches to be used to collect and evaluate the data, consideration of ethics and any limitation thereof.

4.2. Research Design

Designs of research are procedures and plans that transform broad assumptions and decisions into detailed analysis and data collection methods. These procedures and plans involve several decisions that need to be taken by weighing several possible questions of research, intuition, data gathering strategies, complex reasoning, alternate designs and potential theoretical frameworks. The researcher reflects on what should be done, what is doable and what is possible to do throughout the study (Rossman and Rallis, 1998).

The decision on the research design was informed by the chosen topic and assumptions of the worldview brought by the researcher to the study; data collection, interpretation and analysis methods as well as inquiry procedures (also known as strategies). Furthermore, the design selection is influenced by personal experiences of the researcher, the study audience and the nature of the problem being addressed (Creswell, 2009).

The research structure, where the entire approach which outlines how the research will be carried out as discussed, is called research design (Coldwell and Herbst, 2004). Design is part of the research structure, which reveals how various components of the methods and samples work together to answer questions of the research and address objectives in a holistic way. Coldwell and Herbst (2004) submit that the nature of research design has to be experimental as it helps with the validity and acceptance of the findings.

Research design has three methods; namely quantitative, qualitative and mixed methods. It must be noted that even though these methods appear to be discrete they are not. Quantitative and qualitative methods ought not to be regarded as dichotomies or opposites. However, they signify dissimilar approaches in a field (Newman& Benz, 1998). A study takes the shape of being more quantitative than qualitative or vice versa depending on the factors as discussed above. Mixed methods study takes into account features of both quantitative and qualitative approaches as it lives in the middle of the field.

The researcher wanted to capture the situation as it is experienced by participants. The views of the participants were important for the study; the researcher believed further probing will provide better insight for the situational analysis of SARS operations financial management.

The researcher chose qualitative design in order to investigate and analyse the study. A qualitative study is a way of understanding and exploring the meaning a group or individuals associate with a human or social problem. The research process contains emerging procedures, questions, data collected from participant's environment, analysis of data built from details to broad themes as well as interpretations made by the researcher (adapted from Creswell, 2007).

The researcher was confronted with the following practical problems during the design of the study; (1) there were no prescribed rules or guidelines to match, applying design of research to questions in art like science, and (2) the research was sometime constrained by external factors in carrying out best design (McGrath, 1981; Bono and McNamara, 2011; McGrath, 1981 as quoted by Bono and McNamara, 2011). The design was chosen with a view of answering the underlying question. However, a key challenge for the researcher was to get managers to comply (Bono and McNamara, 2011).

4.3. Research Approach

The researcher followed an exploratory approach. This approach was engaged in order to better understand the nature of financial management within the organisation. The above procedure formed the preliminary stage of the investigation, during which the current researcher investigated the interests of all affected key

factors, and sought to obtain a perspective that was related to the problem investigated. An effort was made to gain an understanding of the problem as to how SARS's financial management worked.

The researcher used a qualitative approach with empirical data being constructed mainly from interviews. Moreover, organisational documents were reviewed in order to obtain further information. The methodological approach was predominantly phenomenological which Creswell (2009) explains as an inquiry strategy where the one who conducts the research seeks to understand the core of peoples experience regarding a particular subject as the participants explain it and their interpretations of that experience. (Moustakas, 1994 as cited by Creswell, 2009) indicates that a researcher seeks to understand real experiences through relevant engagement with few people involved. The researcher chooses to suspend his judgments drawn from his experiences in order to understand and capture the perceptions of the people participating in his study (Nieswiadomy, 2008).

The types and numbers of approaches in qualitative research have become noticeable during the 19th to 21st century. There are complete and various types of procedures obtainable on particular approaches of qualitative inquiry, however the researcher chose phenomenological research. Research of a phenomenon is in an inquiry strategy where a researcher gathers people's experience as explained by participants about a phenomenon. Philosophical and methodological phenomenology is marked by understanding lived experiences, and the procedure comprises researching a small number of issues using prolonged and extensive engagement in order to develop meaning relationships and patterns (Moustakas, 1994). It is important to note that in this process the researcher set aside his own experiences in order to establish and understand the participant's experiences in the research (Nieswiadomy, 2008).

There was little research, if any, conducted on financial management practice of a tax revenue authority, therefore the study provided an opportunity to understand a particular phenomenon, hence the qualitative approach was chosen as a method of research. Researches which are qualitative in nature are exploratory and effective particularly when researchers don't know the variables which are important to examine or are trying to uncover what the variables are that need to be examined.

Qualitative research methods in academic investigations demonstrate a different approach from quantitative research methods. Inquiry which is qualitative, uses different inquiry strategies; interpretation, data collection and analysis methods; and assumptions which are philosophical. The process of both qualitative and quantitative research is similar; however qualitative procedures draw on different inquiry strategies, rely on data of images and text; and have distinctive data analysis steps (Creswell, 2009).

The researcher's personal experiences have also influenced the choice of this approach. This is critical to the study about financial management as:

- In qualitative studies, the data is gathered by the researcher in the place where participants face the problem. Participants are not brought into a contrived situation, like a lab, nor requested to complete instruments. However there is a direct conversation with people noticing their actions and behaviour which is a distinctive factor of qualitative research. Under normal circumstances, the researcher conducts face to face interviews over a period of time.
- One of the characteristics of the qualitative studies is that data is collected by the researcher himself by interviewing people, reviewing documents, and behaviour observation. Even if he collects data through different instruments, the information is collected by him as he does not use instruments prepared by other people or researchers.

Researchers in qualitative studies do not rely on a single data source. They obtain data through multiple channels, such as documents, interviews and observations. Most data originate from physical artifacts, documentation, interviews, participant observation, archival records, and direct observations (Yin, 1994). The researcher arranges the data into themes from data obtained from all sources after reviewing and makes sense of it.

- Participants' views are critical in qualitative research therefore the researcher places emphasis on understanding the experiences of the participants more than relying on what is written in the literature or on the researcher's personal experiences.

- The process for qualitative research is emergent which means that the researcher cannot have a rigid plan. Various process phases are likely to change as the researcher starts data collection and moves into the field. For example, sampled location may change, questions can change and data collection forms may also change as more variables are discovered. The most important factor in qualitative research is to understand the problem from participants' perspective. This may validate the researcher's initial concerns or disprove them.
- It should be noted that in qualitative studies the researcher interprets their observations, interviews and review of documents. Therefore understanding cannot be separated from this interpretation and vice versa. The researcher's interpretation is also influenced by his context, background and history. Upon issuing of the report, the readers have their understanding and make their own interpretation, so do the participants, contributing another interpretation on the study. Multiple views of the problem can emerge through various interpretations by the researchers, the readers, and the participants.

The researcher used his own organisation as a case study in what is known as "Backyard" research (Glesne & Peshkin, 1992) which involves studying the researcher's own organisation, or friends, or immediate work setting. Yin (1994) points out that case studies are the preferred strategy when "how" and "why" questions are posed. The challenge with this kind of research is that it may compromise the ability of the researcher in disclosing the required information particularly the information that can enrich the study. Certain information which is important for the study can be considered sensitive and confidential by relevant authorities within the organisation and therefore they do not permit the researcher to use such information for for the purpose of the study. The advantage of this kind of study is that collection of data is generally easy and convenient; however the disadvantage is that data reporting can be compromised, incomplete and at times biased. The researcher would avoid bias by verifying the questions with a third party and also eliminate leading questions in the interviews.

4.4. Population and Sample

According to Coldwell and Herbst (2004) the group of units, items and people that are being studied are called the population. Collection of information from each population member may be impractical at times; therefore, a population may be used to draw a sample (Du Plooy, 2001). Zikmund (2003) submits that a study population should be well defined to the extent that it comprises only the elements that have features that are applicable to the problem. In allowing extrapolation to be drawn in relation to the larger affected population, it is essential that the researcher assesses only the population portion which is regarded as truly representative of the population as a whole and in the case of this research it was managers within Operations division.

The process of qualitative research requires sampling. All qualitative researchers need to consider the importance of choosing a sampling scheme. It is encouraging to note that there is a wide variety of sampling schemes from which qualitative researchers can choose. There are 24 sampling schemes identified by Onwuegbuzie and Leech (2004b), Miles and Huberman (1994) and Patton (1990), which exist today and can be used by researchers on all three methods i.e. mixed methods, quantitative and qualitative. These schemes are categorised as probabilistic selection (i.e. random sampling) or random sampling (e.g. non-random sampling) as covered by Onwuegbuzie and Leech, (2007).

The fact that it is impractical and inefficient to research the entire population renders choosing a sample an important decision to make. It may not be possible to obtain information from every single person due to cost and time constraints. The objective of the study usually guides the selection of the appropriate method. A quota or incidental samples may be acceptable even though they are less rigorous methods. The problem with these methods is that they may not be representative of the population. Probability or random samples are the commonly used approaches. Random sampling allows equal chances of selection for all members as the population nature is defined. Variants of random sampling are area sampling and stratified random sampling, which facilitate the studying of subgroups in more detail (Marshall, 1996). The results of the population can be better generalised using

random sampling. However it may not be an effective way of understanding issues relating to the behaviour of humans as they are complex in nature.

The following are practical and theoretical reasons for selecting a sample:

Firstly, qualitative research samples are inclined to be small as described later in this chapter. Even if the research obtains a sample which truly represents the population, the mistake of using a sample which is small can be so big that prejudices are unavoidable. Secondly, the whole population's characteristics should be known in order to select a true random sample, however this is likely to be impossible given the complexity of qualitative study. Thirdly, a representative sample can be produced by a random sampling of a population only if the characteristics of the research are spread within the population. There is yet to be evidence of normal distribution of attitudes, values and beliefs which are fundamental to qualitative studies which makes random sampling inappropriate approach. This is because human beings are dynamic therefore key factors like attitude, value and belief differ from one person to another which makes it difficult to get results representing total population using random sampling. Fourthly, sociologists have documented that people are not at the same level in understanding, interpreting and observing other people and their own behaviour. Researchers in qualitative studies know that certain people have more information than others so these people can provide understanding and insight that can enrich their studies. Therefore choosing people at random for qualitative research may not be appropriate, it is like asking a plumber to repair a vehicle engine (Marshall, 1996).

The sample size that answers the research question adequately for a qualitative study is an appropriate sample size. Sampling depends on the type of questions: detailed studies or simple questions might require a single figure; however large samples and complex questions might require different kinds of techniques.

Kalnins (2007) believes that researchers conducting case study research are perhaps in the best position to overcome sample selection biases. Selection of samples in qualitative research involves three comprehensive methods which are theoretical sample, convenience sample and judgement sample.

Convenience sampling relates to selecting the most reachable subjects, which is the less rigorous technique. It is cost effective, in relation to money, effort and time to the researcher; however it may lack intellectual credibility and produce poor quality data. The researcher mitigated these risks by combining this with judgemental sample which is recognized as “purposeful sample”. It is the most commonly used technique of sampling.

The most productive sample was actively selected to answer questions of the research. A framework of the variables which might impact participant’s contribution was developed based on the researchers’ practical knowledge of the research environment, evidence from the study and the available literature.

Though social class, gender and age might be variables that are important for certain studies, what was important for this study was to select a sample of people who were involved in financial management or possess relevant knowledge which can enrich the study irrespective of their social class, gender or age. Subjects may be stratified according to recognized public beliefs or attitudes since they are known to the researcher. It was considered appropriate to select a number of subjects who had specific experiences (line managers) and subjects with special expertise (mainly finance managers). During analysis and interpretation of the data the researcher considered subjects who could validate or perhaps reject the researcher’s initial concerns (Marshall, 1996).

The target sample for the research was drawn through identifying people who were knowledgeable or dealt with finance management on a daily basis. SARS has thousands of employees; it would have been impractical to conduct a census, so the researcher drew a sample from the population; and in addition not all employees were at management level or dealt with financial management on a daily basis. The drawing of a representative sample was particularly important, because the research concerned inter functional collaboration, with some of the divisions being represented in the sample for the researcher to cover as many of the key business units within Operations as possible in order to obtain the opinions of the participating employees.

A population sample consisting of 10 employees in responsibility and leadership positions within Operations division was selected among a population of approximately 70 employees. This was an appropriate sample considering that the total population of possible participants was spread across the provinces which would have made it difficult if not impossible to complete the study within the required timeframes due to constraints of time and financial resources required if the researcher were to increase the sample. The researcher mitigated this by carefully selecting the sample which includes executives, senior managers, finance managers and financial managers with necessary experiences and expertise which would enrich the study. Simplicity is the greatest benefit of this approach (Marshall, 1996).

4.5. Research Instruments

The purpose of the qualitative research interview is to understand and describe central themes and meanings in the subjects' life. It is through interviewing that the researcher understands what the participants say about the topic. Interviews strive to deal with meaning and factual aspects of the study, while it is hard to conduct interviewing on a meaning which is to explain a particular phenomenon (Kvale, 1996). The researcher conducted face to face qualitative interviews with the participants. These were semi-structured and contained open ended questions with an intention of getting participants' opinions and views on SARS Operations' financial management (Creswell, 2009). The researcher collected primary data which came from observation and first-hand experience (Guffey, 2007).

The story behind a participant's experiences can be effectively obtained through interviews. In-depth information about the topic can be pursued by an interview. Interviews are effective in clarifying answers given by respondents to research questionnaires; they provide better avenues for investigating the responses received (McNamara, 1999).

4.6. Semi-structured Individual Interviews

The schedule of interviews containing questions which are open-ended encouraging participants to describe their experience in greater details is enclosed in Appendix 1. The researcher provided some structure by standardising questions for these semi-structured interviews, which prevented undesired deviation, and which also enabled

better analysis. Furthermore, the researcher allowed adequate time for probing and follow-up questions (Du Plooy, 2001). Moreover, the researcher chose individual interviews over group interviews in order to allow participating employees to express themselves freely and without being concerned about criticism from others.

The researcher conducted interviews in his office or met participants at their offices in order to ensure a quiet environment without distraction or any form of interruption. This assisted respondents to relax and be comfortable to answer questions in the environment in which they were familiar. It was convenient for participants to conduct interviews in their offices. The researcher used a cell phone recorder to record interviews while writing down the key points to ensure that critical themes were recognised and he did not miss communication which was non-verbal. The recorded interviews provided an opportunity for the researcher to work through certain meanings and get a better understanding of the views participants were putting across.

The researcher ensured that the participating employees understood the questions through probing and verification of the responses, this was done in an effort to increase interview measurement validity. Furthermore, he used different angles to cover the topic (Coldwell and Herbst, 2004).

4.7. Data Analysis

The data analysis process involved getting deeper understanding of image and text data. It included data preparation for analysis, analysing the data in different ways, getting closer to desired understanding, interpreting larger data meaning. The proposal included numerous generic processes which conveyed overall qualitative data analysis activities at a high level on a continual basis, making investigative inquiries, obtaining answers, and taking down notes throughout the research. Data gathering, report writing and interpretations were done concurrently with analysis of qualitative data. For example, the researcher was analysing data collected from earlier interviews while busy with other interviews, writing notes that would be included in the final report as narrative and finalising the final report structure (Creswell, 2009).

Each participant was interviewed separately and each interview lasted at least 30 minutes. The questions were purposefully created to gain insight into SARS Operations' financial management practice. Examples of interview questions included the following: How would you rate the level of financial management within SARS Operations and please support your answer with examples? What do you like most about financial management within Operations? What kinds of problems do you experience with regard to SARS Operations financial management? What causes these problems? How do these problems affect you? What do you think need to be done to improve financial management within Operations division? (Frels and Onwuegbuzie, 2011). The questions were designed to meet objectives of:

- assessing the level of financial management within the operations division;
- evaluating how does these affect managers in achieving their objectives;
- establishing if SARS operations financial management requires improvement, depending on the findings propose recommendations that can improve financial magement.

Meanings were generated following the collection of the raw data from interviews, observations and review of documents (Coldwell and Herbst, 2004). This assisted the researcher to understand early results of the study before the conclusion of the study. The researcher limited generalisation of the findings of the case study to the case study itself. It must however be noted that paying attention to certain details increased reasoning clarity and also enhanced the analysis. The analysis depends on explaining the criteria through which the results were interpreted and linking the data to proposals (Yin, 1994). Some social scientists feel that generalizations restrict use of the case study method. However Yin (1984) submits that generalization theory can be useful to the case study domain.

Stake's (1978) position on generalisation focuses on the "naturalistic" or context-specific. This approach related to the reader's inferred knowledge, which enabled people to make associations and connections without the benefit of words. There is a general understanding that human beings have the capability to keep this knowledge and are able to build understanding from it.

The researcher spent time reading documents like manuals, policies and observing financial management practice. The researcher used data analysis approaches discussed above and prior experience in financial management to analyse feedback received from participants and outcome of his investigation through observation as well as reading documents. This assisted the researcher to objectively arrive at a conclusion and make appropriate recommendations that could improve the situation.

4.8. Ethical Considerations

The researcher considered all ethical implications in order to prevent any damage being caused by data collection, research publication, or any material related to this research (Hofstee, 2006).

The researcher ensured the following in complying with ethical standards in this research. Appendix 2, which is the interview cover letter, demonstrates that the researcher was transparent with participants with regard to why he was conducting interviews and invited them during the interview to see the results should they want to. It was clarified to the participating employees why they were invited to participate and also before the beginning of the interview that the participation was on a voluntary basis and that they could withdraw at any time without giving reasons for withdrawal. However, they were encouraged to participate in the study. Furthermore, the participants were given assurance that no names would be mentioned at any stage of the study including reporting and that the information would be used for the purpose of the study and held with highest confidentiality.

4.9. Conclusion

The current chapter described the investigation that was carried out in this study to establish how financial management can be improved within the Operations division at South African Revenue Services. The chapter explained in great length why a qualitative approach was chosen and why structured one-on-one interviews were selected as the means to collect the raw data. The researcher also considered ethical issues relating to the study to ensure that it caused no harm. The research data will be presented and analysed in the next chapter.

5. Chapter 5: Findings and Discussion

5.1. Introduction

The topic of the study, “understands how financial management can be improved within the Operations division at South African Revenue Services”, therefore, the research instrument was precisely intended to gather data that fulfilled the study objectives.

The data collection intended to establish how the SARS Operations division, as part of a public entity, can improve financial management, governance and compliance. The results intended to add to academic and public institutions’ knowledge base validating the view that continuous review or evaluation of financial management practice may facilitate effective financial management. This incorporates all factors that affect financial management including review of policies, skills of people responsible for financial management (e.g. line and finance managers), expenditure management etc.

The instrument used to collect data was semi-structured interviews. Interviews were conducted with finance and line managers in order to understand how financial management can be improved within the Operations division at South African Revenue Services. Ten employees who are leaders of certain business units within Operations division were selected as the sample. It was necessary to use a convenience sample combined with a judgement approach as the population of managers, which includes candidate employees, was spread across the country. The researcher ensured that the sample included executives, senior managers, finance managers all with relevant experience and financial management expertise. The simplicity of this approach becomes its advantage (Marshall, 1996).

Participants who were known to have necessary information that would enrich the study were chosen. The participants included four line managers and six finance employees. Line managers included two executives and two senior managers while finance staff included two senior managers, three finance managers and one financial accountant.

Figure 5.1 below shows the geographical areas and business units within Operations that were sampled.

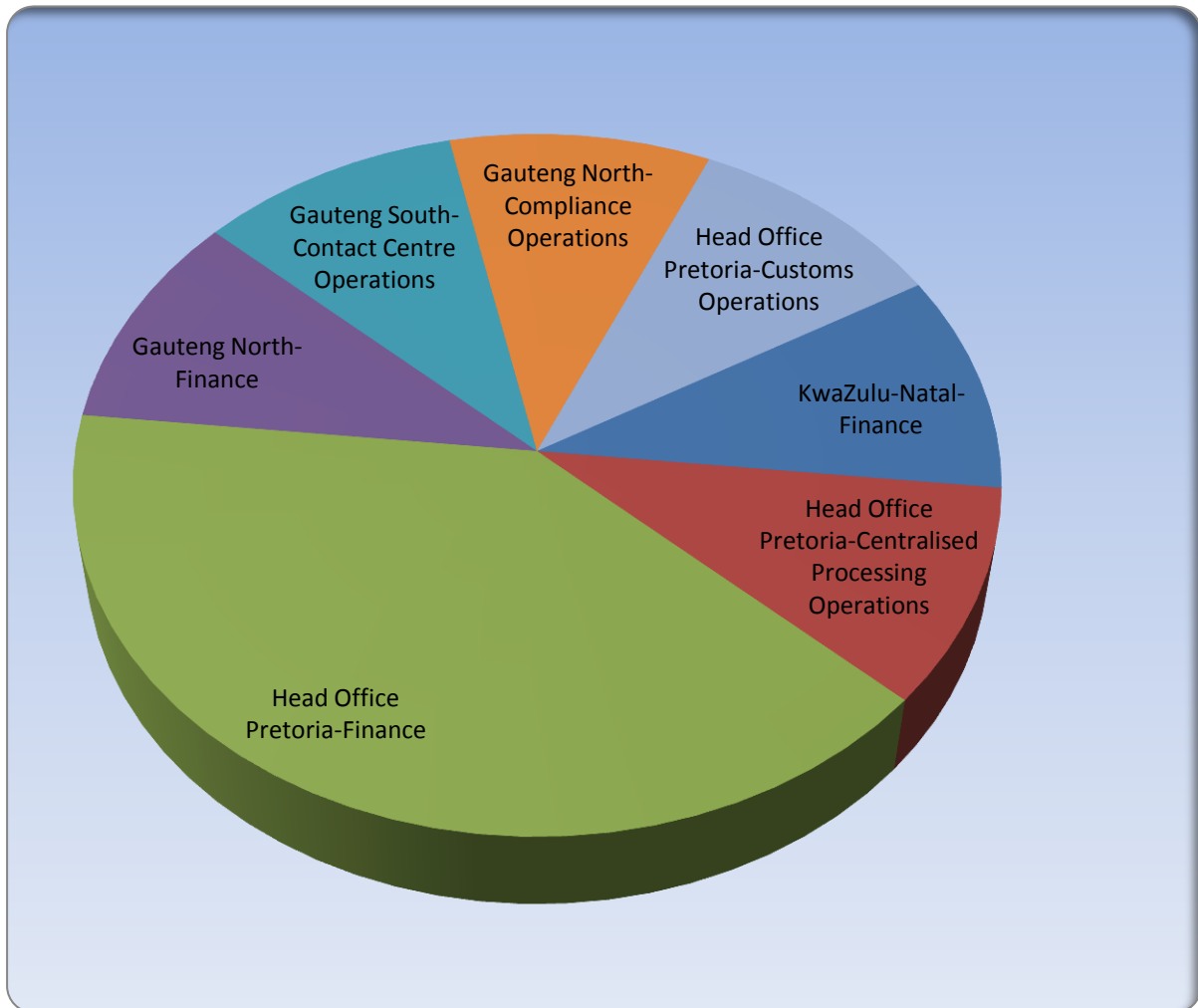


Figure 5.1 Sampled Locations and Business Units

All participants were interviewed at Pretoria; the researcher used the opportunity to meet certain participants (e.g. KZN) where they travelled to head office for official meetings. The participants were interviewed with a cellphone recorder (all respondents agreed to be recorded) being used as main mode of recording accompanied by taking down notes for better reflection and analysis at a later stage. The interviewer asked the main question and probed more once the discussion was underway (Frankfort-Nachmias & Nachmias, 1996; Ryan, 2000).

The main challenge to qualitative data analysis is that there is 'no clear and accepted set of conventions for analysis corresponding to those observed with quantitative data (Robson, 1993).

Interviews were used to obtain better understanding through qualitative questions. General analytical procedure of Hussey and Hussey (1997) was used as the main method of data analysis since it allowed the researcher to use rough notes made during the interviews to be processed into written records to assist the researcher to make informed conclusion including his reflections.

Owing to the amount of data collected from field notes, documents and transcript of interviews, the information was condensed, made manageable and summarised systematically into themes of financial management e.g. budgeting, procurement etc. The researcher did not impose categories as he was not using a strong theoretical framework but allowed these to emerge from data. The summaries were used to construct generalisations which confront existing theory (Hussey and Hussey's, 1997).

Where applicable the information was scaled to determine which information should be included. This ensured that only important information was included and all other information was omitted (Lindlof, 1995). It was also necessary in certain areas to analyse the content converting text to numerical variables (Mostyn, 1985). This assisted in determining the number or percentage of respondents who had similar answers or views. The analysis was evaluated using criteria suggested by Lincoln and Guba (1985) which include; credibility, transferability, dependability and conformability.

A demonstration that the study was carried out in way that the enquiry topic was properly described and identified is called 'credibility'. Credibility was also improved by the fact that the researcher was involved throughout the study, obtaining understanding and using different collection methods for data. Application of findings to a different situation that is adequately comparable in order to allow generalisation to be made is called 'transferability'. An indication that the process of research was well documented, systematic, and rigorous is called 'dependability'. A description of a full research process by the study and the possibility of evaluating the audit trail from the data to findings is called 'conformability'.

The findings of the study are discussed below:

5.2. General Understanding of Financial Management

Respondents interviewed appeared to have an understanding of what financial management is about. This gave an indication that some of the line managers might not have been inducted in basic financial management which is necessary for them to manage their environments. Finance managers had a better understanding of financial management than line managers as expected as this is their area of expertise. Chapter 2 emphasised the importance of line managers' need to have a certain degree of financial literacy without depending much on Operations finance. Operations Finance is a department that was created to provide financial support (completing budget, reporting, analysis, providing advice, assisting with asset management etc.).

5.3. Assessment of SARS Operations Financial Management

5.3.1 When respondents were asked to assess how effective was SARS Operations financial management, the individual ratings ranged from four to eight (from the scale of one to ten, one being the lowest and ten being the highest score) and the average of all ten respondents was six. The rating reflects respondents' experience with regards to financial management practice and the reasons for the ratings are explained below. Respondents felt that SARS Operations division always tried to do the right thing, however it was not always implementing its discoveries. It was indicated in chapter 2 that Organisation's superior performance could be achieved through benchmarks and striving for best practices (Mathaisel, Cathcart and Comm, 2004).

One respondent felt that there was work being done on the ground and there were policies as well as processes that were put in place but there was a clear element of discord between the skills and application of policies. Some respondents were concerned that SARS financial management is split too far down the line, meaning business has created so many business units and finance has followed. This is in line with the statement made in chapter 2 that Operations finance has about 170 employees, which is too many. This number includes about 65 employees who do finance administration. This function should be moved to line managers altogether,

as it is intended to support them in running their business units. The remainder of finance staff would focus on analysis, reporting and other value add finance activities. Furthermore most of the administrative employees were having less work each year as most of the processes were being automated.

There were many finance teams which made it difficult to consistently apply policies. SARS finance function was decentralised to the extent that each division had its own finance team and in certain areas like Operations division, each business unit within Operations had its own finance team. Hence one of the respondents complained that Finance was split too far down the line. This made the organisation to have many different finance teams who reported to the chief officer of each division and there was no formal coordination at organisational level that ensured standardisations in processes and application of policies. This created problems as certain finance teams allowed line managers to do things outside policies depending on the finance team's interpretation of the policy.

Another concern raised was that line managers did not take the finance department seriously and the financial management function was not prioritised in their environments. Hence it was indicated in chapter 2 that partnership between finance and line managers was useful in daily management of operations which included asset management, procurement and expenditure management (Baxter and Chua 2003; Busco, Riccaboni and Scapens, 2006; IFAC 2001).

One of the respondents indicated that there was poor management of expenditure in a sense that most of the expenditure was incurred towards the end of the financial year and again people spend in order not to lose their budget without necessarily applying their mind fully on what they were procuring. Having reviewed management reports of a few business units it can be seen through analysing the trend that there was a spike of expenditure in the last three months of the financial year. This trend showed that most of business units were concerned about losing their budget should it remain unused. This means any item that could not be procured in a particular year would need to be purchased using the new budget. This was problematic for some business units given the fact that a business as usual budget from a previous financial year could not be carried into the next year. The only budget that could be carried over to the next year was for unfinished projects provided it had been

approved as a rollover budget by National Treasury. This comment validated the statement made in chapter 2 that Operations division needed to emphasise the importance of expenditure management and cost savings in order to improve financial management practice.

The information on figure 2.5, 2.6 and 2.7 show real life information of spending patterns of three business units within Operations; this confirms the spike of expenditure in the last three months of the financial year.

Respondent number ten felt that most of the financial planning was not informed by any strategy. The researcher got a sense that most of the time they “thumb suck” numbers in that for the past two or three years they had been taking actuals, and adjusting with inflation, when it might be that there could be a change in a business model and that whatever was in place in the previous year might not be applicable in the new year. This was in line with a statement made in chapter two that the budget process was not linked to a business plan instead it was linked to previous spending (incremental budget method). It is common in any business that a strategy is formulated and relevant financial resources required to execute the strategy are determined. The strategy will then be broken down to an annual business plan with relevant targets in order to measure milestones towards achievement of the strategy over of the period of time. The business plans which are part of the strategy should inform the resource required in the budget.

However at SARS Operations, the budget was determined first and business units were informed to determine what could be achieved with the budget allocated. What was even worse was that the budget allocation was made using what a particular business unit spent in the previous financial year plus an inflationary adjustment percentage. This arrangement makes it difficult for business units to deliver on their business plans or work on new projects. This is against guidelines issued by IFAC requiring government entities to have procedures and policies in place that can assist them to have effective financial management and efficient budgeting (IFAC, 2001).

5.3.2 The outcome of the researcher’s probing showed that eight out of ten the respondents felt that SARS financial management was better than that of other

government entities. Respondents made this judgement based on the information available in the public domain through the media where it was reported from time to time that most government entities were affected by financial mismanagement, maladministration, fraud and corruption. The most evidence is in the Auditor General's 2011/12 audit report where he indicates that almost twenty six percent of departments that were given qualified opinions by the Auditor General hold fifty three percent of voted funds. This means that more than half of total budgets were controlled by departments that did not have proper financial management in place (Auditor General, 2012). Some of the reasons cited by respondents were that SARS was advanced because it had proper systems like SAP although it was not utilising its full functionality while other government entities were using different system which were not integrated. From time to time there were stories in the media of mismanagement of funds, fraud, funds being transferred to other areas as opposed to the objectives and other issues.

Two respondents felt that even though SARS had received unqualified audit reports that did not mean it had good financial management. There were provincial departments who had received qualified audit reports which made them employ extra efforts in improving their financial management to the extent that the application of their financial policies was even better than SARS. The splitting of finance into too many teams in one building in line with operations structures was cited as one of the problems affecting the financial management function.

5.4. Challenges within SARS Operations Financial Management

5.4.1 When respondents were asked what kind of problems they experienced with regard to SARS Operations' financial management, different reasons were given; some respondents citing that there were too many people involved and it was often a case where people did not want to make a decision which reflected lack of accountability. Most respondents felt that the issue of skills was a huge challenge to financial management as most line managers did not have a degree in finance or a formal course in financial management; therefore they were unable to discharge their duties effectively as far as financial management was concerned. Jamison (2007), Lebovits (2006) and Lord (1996) argue that an organisation has a much greater appreciation for the implications of financial decisions when that financial knowledge

need is seen as an essential element of business and is not necessarily limited to finance. In Chapter 2, we noted that Shank, (1989) argues that today the competitive business world requires line managers to have immediate access to financial information like rolling forecasts, channels and services in order to better manage organisational resources during the current financial year and not after.

The other problem was that line managers tended to prioritise operational functions rather than financial management, the focus is on serving taxpayers and ensuring compliance while neglecting to strengthen certain functions like financial management. Management Advisory Board (1997) argues that successful organisations have committed, competent managers who report on organisation effectiveness as well as efficient and effective use of resources.

5.4.2 Respondents felt it was frustrating as Operations division was re-doing things as they could not get them right the first time. Therefore where there was no accountability, people did not deliver, and the organisation does not benefit from economies of scales and lose money.

5.4.3 The purpose of good financial management is not only to get a clean audit but to accelerate service delivery, SARS may still collect revenue but if finance is not properly managed it may cost more to collect the revenue. The more skilled the people involved in financial management are, the less it will cost to administer revenue collection as skilled people will always implement better ways of saving costs, obtaining value for money and doing things in the most efficient ways.

5.4.4 Seven out ten of respondents felt that issues of financial management should be treated with urgency and be resolved as soon as possible because the confidence of a country also depends on its revenue authority not only on collection but but also how its funds are being used. SARS's responsibility is to collect but it must also be an ambassador by putting that which it has collected into good use: therefore it should lead by example. They know the pain of collection but SARS must also know how to put into good use what is collected and let other government organisations learn from them rather than SARS should learn from other organisations. SARS is the first line of defence; if people lose confidence in SARS

they lose confidence in the country. Respondents felt that SARS is not just an organisation but it represent a country.

The other three respondents felt that SARS Operations had little time to plan better but the problems could not be left indefinitely. These problems needed to be resolved in a space of 12 to 18 months and as part of strategy.

5.5 The Ways of Improving Financial Management

5.5.1 Respondents felt that financial management could be improved by having better integration of systems which could reduce time spent reconciling information. In relation to up skilling, one respondent felt that the division needed to focus on practical training, taking managers on a journey and starting with basic financial management in the workplace. Secondly succession planning should not only focus on operational functions but it should include a big focus on financial management. This was supported by another respondent that indicated that financial management and governance should form part of a manager's development. Moreover the line managers should not see financial management in isolation from operations. It is a value chain and part of what they do and they should understand that there is interdependency across the board. This is in line with respondent number three who said "Operations line people need to be more involved with finance and spend more time to understand the financial side of things, what it means to business". This can be achieved by strengthening finance impact to business, currently there is less influence from finance.

Better communication (which includes proper consultation on new polices, regular meetings between finance and line managers) and application of finance related policies (e.g. procurement, travel, fleet and asset management policies to mention few) were some of the items respondents believed could improve financial management. Respondents felt that this assisted people to do things without having to check with executives.

5.5.2 In relation to improving compliance and governance in Operations division, respondents recommended that every accounting officer (group executives, executives, senior managers etc everyone who is allocated a budget) should understand their operational objectives, what are the resources they have been

allocated in order to achieve those measurable objectives and what are the risks that are embedded should they not play according to the policy. The scorecard seemed to be used to replace operational plans; people were being managed according to the scorecard not according to operational objectives of the organisation. The operational plan must carry the vision of the organisation.

They felt that Finance needed to educate people on what governance is all about and to get business partners to make them understand what are the benefits of following certain policies and procedures. Let them celebrate the achievements, encourage culture change, arrange more seminars and workshops. Monthly meetings should be used to share things like the current status and what needed to be changed until people took ownership of governance in their environments. Another respondent said “communication and role clarity can play a bigger role in improving it. You can only comply if you know; most of non-compliance to governance is driven by lack of knowledge”.

It was also suggested that Finance performs regular audits to monitor compliance, “if you don’t audit how would you know if people comply other than from an audit done by internal or external auditors”. Therefore a monitoring effort from finance particularly where people were using an old policy and were not aware that there were new updates could encourage compliance. People tend to comply when they know someone will check them. Respondents believed Finance could play a big role as indicated in Chapter 2: Johnson and Kaplan (1991) view the finance role as being critical in financial management as it is the helpline by which managers measure the financial impact of decisions and strategies chosen.

5.6 Finance Policies and Responsibilities within Financial Management

5.6.1 Respondents felt that finance related policies were adequate, however they lacked regular updates and there was no effective communication on new policies. It was difficult to find the latest version of a policy on the organisation’s intranet. There was not effective communication between people who drafted policies and those who applied them. Sometimes policies became outdated and could not be applied by relevant business units. The example given by respondent number three was that we are living in a world that is changing every day e.g. cell phone policy needed to be

updated to accommodate current times - people were receiving more data than voice calls with emails, internet etc. So the policies were not talking to the needs of the users. This was a confirmation of an earlier statement in Chapter 2 where a need to review policies on a regular basis was highlighted, supported by Rabinowitz (2007) who proposed that procedures and policies needed to be evaluated continually and be updated in line with relevant legislation and objectives of the organisation. Policies need to be reviewed and adapted on a continuous basis otherwise they become irrelevant and a hindrance to organisational goals (Visser & Erasmus, 2002).

5.6.2 Six out of ten respondents felt that application of policies was also a challenge, with respondent 3 citing a clear element of discord between the skills and application of policies. Respondent 2 indicated that repercussions for a person doing something wrong were not as severe as they should be. Other respondents felt that there were a lot of inconsistencies in the application of policies, and loopholes in certain policies needed to be addressed. Policies are important because they give directions; therefore they should be precise and should not have grey areas. There were a few that needed amendments, and communication should be a key tool as people needed to be reminded all the time about compliance. There was a feeling that the more people are informed about something the less they forget about it.

5.6.3 When it came to responsibility of financial management, 70 percent of respondents indicated that it should be a responsibility of both line managers and Finance. Financial management is a discipline instilled in each and every activity of finance operations. If you are an executive in a business unit you are an accounting officer, so financial management should be a discipline that should be embedded in every process so both business and finance should be able to manage their funds. This is in line with section 44 of PFMA which explains that all employees within a government entity are responsible for fiscal discipline and financial management.

Respondent 2 said "If you have someone from finance who understands the system and comes up with the actual outcome of the information that they have, it allows business to make good on how to go forward but it's a combination of the two as both have to work together. Line managers don't have to know how to do a balance sheet, however they must understand the basics in order to apply their mind to the

decisions that they need to make based on the information that is provided by finance". As outlined in Chapter 3, Section 27(4) indicates that line managers can be held responsible for outcomes produced by their government entities.

While it should be a dual responsibility, Finance fulfils an important role in support, and probably from a knowledge and expertise point of view the finance team is perfectly positioned as it is working closely with business. Line managers should rely on Finance in application of financial management. Respondents believed Finance should be a monitoring function rather than a partner as that barrier or relationship could be easily influenced. This is in support of the statement made in Chapter 3 that finance managers have an important role to play in the financial management function. They are responsible for ensuring that measures of financial management are in place to support effective management of line function. They are responsible for giving best advice on the budgets, financial results and other matters of line function, projects, and advising management on the financial implication of proposed decisions.

5.6.4 Five out of ten respondents said Finance was being effective in instilling a culture of financial management within the division. There was more involvement of Finance now than there had been a few years ago. There was more regular feedback and understanding where a business unit stood financially. There was still a lot of work. Respondent 5 said "When I joined SARS it used to be easy to flout process but now it's difficult, so we have come a long way. There have been improvements in the last eight years".

While Finance was being effective, effectiveness is also measured by the results. Finance was making the right noises but the maturity of the organisation was questionable when it came to financial discipline. People did not understand their roles and responsibilities when it came to finance yet we had a finance division. People must realise that change management was necessary, the organisation needed to start owning up to what finance does, so finance was doing enough but enough may not necessarily be the results that finance managers wanted to see because one component that was lacking was change management and change management may not necessarily need to be driven by finance. Perhaps it may need

to be driven by HR or change management through communication: there was a lack of accountability and responsibility.

The remaining respondents felt that Finance was not being effective as employees did not have the right skills on the lower levels to implement controls. The focus was more about building relationships and performing finance administrative work. The communication between finance and line managers was limited to discussion of finance reports at month end.

These results support the argument made in Chapter 2 that Operations Finance needed to transcend from a gatekeeping role to strategic business partnering in order to respond to the modern needs of various business units within Operations. Wunder and Mueller (2008) believe that achievement of tangible business results can be influenced by finance staff, particularly finance managers, with a solid business alignment.

5.7 Budgeting and Expenditure Management

5.7.1 Nine out of ten respondents described SARS Operations budget process as one of the biggest challenges in financial management. Words used by respondents were; “Its Hell”, “It is a thorny issue”, “it is flawed”, “We are not doing the budget properly” and “I don’t think the budget process in this point in time is fair”. These highlight serious issues embedded within the budget process.

Respondent number ten said “Our budget process is not informed by anything other than using historic data and applying a percentage and it is not interrogated to see if it addresses business requirements or needs. The questions therefore are, are the resources allocated adequate for business to deliver on the mandate, it does not address business needs and most of our financial planning is not informed by any strategy. I get a sense that most of the time we “thumb suck” numbers in the sense that for the past two or three years we have been taking actuals then adjusting them with inflation. You may find that there could be change in a business model and you may find that whatever was in place in the previous year may not be applicable in the next year”. Government entities are required by IFAC to have procedures and policies in place that can assist them to have effective financial management and efficient budgeting (IFAC, 2001).

SARS budget process needed to be revisited in the sense that SARS Operations tried to carry it from year to year without linking the budget to a strategic plan. It is a question of the budget not being aligned to the strategic plan. Many managers within SARS did not remember what was sitting within SARS strategic plan as more focus was on scorecard and KPIs which sometimes were not linked to the strategic plan. Strategic plan was not discussed by managers in most meetings.

Respondents wanted the process of review to be started much sooner and to get a decision in enough time to be able to deal with other issues. In Chapter 2 it was indicated that the current process was not an effective way of budgeting as Finance spent less time on analysis, while most of the time was devoted to budget preparation (Hoe, 2009). During October each year budget allocations and methods of splitting the amount into relevant business units should be communicated. This would assist in managing the process much better. This confirms a statement made by the researcher in Chapter 2 that sometimes the budget could be approved two months after the beginning of the new financial year which caused delays driving key deliverables as managers did not know whether their budget proposals had been approved.

Business units were requested to do zero based budgeting, however none of those budgets were approved and loaded on the system while another decision to load last years actual expenditure plus a percentage was taken. It was noted in Chapter 3 that incremental budgeting does not consider changes in objectives or activities in the new year. Therefore the disadvantages of this method are that some functions can be funded long after their usefulness is no longer relevant (Visser & Erasmus, 2002).

It was further noted in Chapter 3 that zero-based budgeting might be the ideal solution for SARS as the requesting division has to justify each and every line item in the budget. Kramer, (1979) states that this method is intended to discourage managers who take it for granted their functions should be funded; it encourages a critical review of expenditure and reallocations of funds (Visser & Erasmus, 2002).

Decisions on final allocation were not communicated in time to enable Finance to discuss changes with managers who requested the budget and ask them to prioritise

the budget request to approved amounts. This was a confirmation of what was highlighted in Chapter 2, that the current budget process lacked feedback owing to lengthy approval process. There was no documented clear process that outlined the budget process and its approval levels.

The researcher further highlighted that there were many organisations around the world that know that they do not have the most effective budgeting process, however they are few that make the effort to change it (Segelod, 1998). SARS may be one of them.

5.7.2 Most respondents felt that expenditure management was not where it should be. Some of the issues cited were that the system used to manage expenditure had no budget availability check which informs you that you have only R3000 available for stationery therefore you cannot make a purchase for R5000.

In addition, business units spent what was allocated without considering doing more by spending less. Financial management does not necessarily mean spending to the last cent. But it means achieving more with the same money. This made SARS Operations' expenditure management poor. It was stated in Chapter 2 that line managers had a responsibility of (a) ensuring that the expenditure was a valid business requirement i.e. is it necessary to achieve business objectives (b) checking that it was in line with the budget and was the best value for money. Some managers seemed to leave the above to Finance to make the decision. Some of the managers even approved expenditure requests without checking if there was a budget available. This sometimes resulted in budget overruns which could have been avoided.

Horner (2012) proposes that frequent audits be conducted prior to any transactions in order to establish a baseline for all cost categories. This would assist with full analysis of details per invoice. The aim is to evaluate the effectiveness of cost savings intervention by comparing initial spending with spending during the intervention, and thus calculate savings achieved in a particular period e.g. three months.

SARS's financial year was from April to March of the following year. By January you found that the bulk of the money had not been spent and while finance was preparing to close off the financial year, people were rushing to spend the money because they are scared that it will be taken away. Yet as pointed out in Chapter 3 line managers are responsible for monitoring and controlling expenditure. The problem with this is that they did not apply their minds looking at priorities but they did things haphazardly and at the end it was not what would be done under normal circumstances. People were not looking at value for money yet there could be a lot of savings that SARS Operations should be getting. We have learned in Chapter 3 that the accounting officer needed to put measures in place to ensure effective management of expenditure; this could be linked to a budget control process that sought to achieve a particular goal (McThomas, 2003).

Furthermore in Chapter 3 it was stated that proper use and allocation of funds leads to improving the operational efficiency of the business concern. When the finance manager uses the funds properly, he can reduce the cost of capital and increase the value of the firm (Subramanian, 2009).

5.8 Supply Chain Management (procurement)

Respondents felt that supply chain management of SARS had a lot of work to be done based on the amount of exemptions and condonments done on a daily basis. It was not effective because when you have too many exemptions it is an indication that the division is giving work to one person or company and may not be sure that it is getting value for money. There was no guarantee that SARS was paying the lowest possible price. We have noted in Chapter 3 that the benefits of effective supply chain management include lower inventories, lower costs, higher productivity, greater agility, shorter lead times, higher profits and greater customer loyalty (Stevenson, 2009).

The biggest problem within Operations was that most people thought the procurement process was too long and that it was impractical to follow a competitive bid process. Exemptions did not circumvent procurement processes; instead they wasted lot of money because they did not give the requester an opportunity to compare prices and the technical ability of services from different services providers.

It was noted in Chapter 3 that implementation of supply chain management practices had still a long way to go (Mathee, 2005; Ambe, 2006; van Zyl, 2006; Migiro & Ambe, 2008). There was a lack of demand management, strategic sourcing, value for money analysis, and there were many procurement deviations.

There was a feeling that there was far too much red tape, not only created by regulation but by the organisation's policies. This resulted in unnecessary delays in the procurement of goods and services. This confirms a statement made in Chapter 3 that because public sector procurement operated in a rule bound environment, many of its tasks could be automated. Therefore streamlining and modernising the government supply chain could result in substantial cost savings as well delivery-time improvement (Gansler, Luby Jr & Kornberg, 2004).

Respondent number 4 said "Procurement is sitting outside and they look at themselves as a separate entity and they are not closer to the business units they support: as a result they don't understand what operations require". There was not much involvement with the business units they supported, especially when it came to sourcing of goods and services; there was a misalignment between the demand plan and the budget available. The contracts had higher prices than what could be obtained outside those contracts.

Furthermore, as noted in Chapter 3, Ambe and Badenhorst-Weiss (2012) argue that a growing, effective use of SCM contributes to a broad programme of improving value for money and increases the efficiency of the commercial activities of government entities by stimulation of increased efficiency in supplier management and the promotion of competition across a wider base of supply.

Procurement should be brought closer to Operations division. Reliance was placed on buyers and there were not many inputs from Business or Finance on which supplier to use, analysis and what the market offers. There was no effective communication between Procurement and Operations. It was noted in Chapter 3 that partnerships between Finance and line managers are useful in the daily management of operations, which includes asset management, procurement and expenditure management (Baxter and Chua 2003; Busco et al. 2006; IFAC 2001).

Even though the two divisions were capacitated by people who understood the procurement process, unfortunately there was no effective sharing of that information and Procurement was so far removed from Finance that, “these two units are looking at each other as if one is trying to be an impediment to the other to achieve their mandate”. Yet they should be working in partnership to understand each other. Procurement should focus more on strategic matters rather than day to day operations. The researcher indicated in Chapter 3 that a well-devised controlling of the supply chain can yield both cost reduction and economization effects (Jehle et al., 2002). SCM takes the role of a strategic planner; this includes for instance the consideration of long-term effects (outcome of the multi-level network) and strategic objectives of public action and legislature (Thom & Ritz, 2000).

5.9 Asset Management

Asset management was one of the biggest challenges in SARS Operations management, which was highlighted by all respondents. Some of the remarks made were “Assets are painful issue”, “It’s a nightmare” and “It’s a chaos”.

Some of the factors contributing to poor asset management within SARS were that there was lack of accountability by line managers and also the individuals were not taking responsibility for the assets they used, while it was noted in Chapter 3 that line managers are responsible for asset management of their business units (Visser & Erasmus, 2002). Owing to lack of ownership assets were not disposed timeously.

There were buildings that had been vacated some time before, however the asset register still indicated that there were assets in those buildings. Therefore the fixed asset register was not clean as there were assets the division could not account for because people did not know where those assets were. The net effect was that SARS’s books were overstated with assets the division physically did not have. Respondents saw finance as being responsible for both asset management and audit. It was noted in Chapter 3 that an asset register is the most important aspect of asset management; it should be kept up to date as much as possible. It is usually updated when an asset is acquired, disposed of, transferred and sometimes after the physical verification of assets where there is no movement (Visser & Erasmus, 2002).

The asset management solution (asset declaration tool) that was implemented by SARS Operations was not fully functional; the organisation did not approach other organisations to establish how they had overcome some of the problems it was facing. The tool was frustrating as no one could reconcile the information between it and the fixed asset register and therefore respondents felt that the whole process was completely flawed. Each person needed to be responsible for their own assets and the tool should enable people to manage their assets.

Respondent number 3 indicated that there was no asset management strategy yet there were good asset management policies. However, the presence of policies does not necessarily mean the presence of a strategy. SARS Operations did not have a good strategy when it came to asset management. People were reactive and were managing assets for the auditors not for the organisation, so the reactive mode was the one that gave the division a problem. This is in line with a statement made by the researcher in Chapter 2 that because there was no replacement strategy linked to asset management policy, many business units took a longer time to dispose of their assets. It was also noted in Chapter 3 that physical asset plans should be fully integrated into strategic plans; this requires a full assessment of risks, benefits and cost to achieve a particular objective (Visser & Erasmus, 2002).

Respondents felt that it was a nightmare because there was never proper governance in place even though this had improved. Verification of assets was cumbersome and took time; therefore it needed to be improved. There was a feeling that Finance was overwhelmed as they took responsibility for assets in order to reduce audit findings, and line managers were not participating satisfactorily in management of assets. This is in line with what was said in Chapter 3 that some part of government (including SARS Operations) considered asset management as the responsibility of the asset manager, which was not necessarily the case. The reality is that asset management cannot be divorced from the broader financial management framework.

5.10 Travel Management

Most respondents indicated that the use of a travel agency to manage travel might not be the best way of travel management. They felt that SARS could get more

economies of scale if it implemented an online booking system, which could assist in more accountability for travel management. There was one respondent who felt she was satisfied with the way travel was managed.

SARS had a policy of booking travel in no less than seven days in order to save money; however this unfortunately did not save the organisation money because people did not plan their trips properly and as a result SARS did not benefit from this policy. Instead it lost money unnecessarily. The travel behaviour and haphazard way of doing things was the one area that was causing SARS all of these problems. This was highlighted in Chapter 2: line managers still needed constant guidance with regard to travel management which is a key element of financial management, as late bookings and unnecessary changes to existing bookings were still prevalent in Operations. It was further noted that the travel office received about two thousand travel changes per month which was very high and most of these changes carried non-refundable amounts, particularly airfares, therefore SARS incurred unnecessary additional costs.

The nature of SARS's business dictates that certain things are done in a particular way. The travel agency does not understand SARS's business. Consequently travel management should be an in-house activity. Many people have complained that air tickets booked by the travel agency were more expensive than what they would buy privately. SARS's policies on travel management were outdated. SARS people should be utilising other means like video conferencing instead of travelling. People still prefer to go to Cape Town for a two hour meeting which means funds are not being used properly.

5.11 Fleet Management

Fleet management was one of the areas that needed improvement in the sense that there was no accountability. Line managers did not take responsibility for fleet management, as it was seen as the responsibility of asset coordinators and the transport officer. There was an expectation gap between business and asset coordinators especially in areas where asset coordinators were finance people, so that expectation gap of whose role it was to manage the fleet was the one that left the fleet not being managed at all.

When Finance was auditing compliance they found that people were using vehicles without completing trip sheets and obtaining relevant authorisation for using the vehicles.

One respondent said “My experience is that if people don’t own the vehicles they abuse them. Personally I would have given employees a car allowance to do the work rather than providing them with vehicles. This results in a lot of repairs which SARS shouldn’t be doing. Vehicles are not managed properly as employees are not taking responsibility for speeding, accidents etc. SARS does not even have a vehicle replacement strategy and therefore pays high maintenance cost on ageing fleet”. It was stated in Chapter 2 that there was a fleet management policy however there was no vehicle replacement strategy which was important to save cost and maintain employee safety.

Other respondents said “There is no respect for vehicles, conditions of vehicles are in a poor state because of abuse and there is no consequence management”. SARS needed better controls and proper enforcement of those controls. This confirms what was stated in Chapter 2 that the line manager’s role in relation to fleet was neglected as it was often confused as a role of finance.

Business units were operating in silos and did not share vehicles with each other. Those business units without sufficient vehicles were compelled to request their employees to use personal vehicles and claim back from the organisation which resulted in unnecessary expenditure.

There was a service provider appointed to assist SARS to manage its fleet, however one of the branches had been battling with a service provider for six weeks to get one vehicle repaired.

5.12 Internal Controls and Reporting

5.12.1 Internal controls was one aspect of financial management that was least talked about in the organisation. There was no process to review or manage them other than by scheduled audit by internal or external auditors. It was indicated in Chapter 3 that an internal control environment and controls systems are critical in

improving transparency and accountability in governance processes (Szymanski 2007; Baltaci & Yilmaz, 2006; Aikins, 2011).

Operations Finance was supposed to be an internal control unit; however it was used as an administrative unit. Finance was used to react to business needs instead of indicating what business should be doing in the financial management function. So it was Business that informed how Operations Finance should work rather than how Finance should advise the business unit how manage their internal controls and processes. Therefore there was a lack of understanding of the internal control environment by both Business and Finance. It was also noted in Chapter 3 that PFMA's section 45 which deals with responsibilities of all officials indicates that public service officials are responsible for the establishment of internal control and a financial management system.

While it was highlighted in Chapter 3 that the auditor general indicated in his 2011/12 audit report that there were no deficiencies in internal control which he considered sufficiently significant for inclusion in his report, this does not necessary mean there are no deficiencies at all.

Internal controls were not linked to outcome e.g. security registered movement of assets between buildings however there were a number of assets that were reported missing. There was no feedback given by security companies to the organisation regarding the movement of assets.

5.12.2 Reports were produced by Finance but there was 'no appetite for consumption' and no feedback from line managers. People did not have any interest at all. Certain managers were good and one executive was cited as a good example who expressed interest and asked questions on spending patterns among the branches. The researcher indicated that Finance can assist management to unleash unexploited management resources through focused, reliable and consistent management reporting.

One respondent expressed her satisfaction with the reports she received from finance and that she had a better understanding of where her business stood as far as financial management was concerned.

SARS Operations finance reporting was mainly done to satisfy external users of reports; an example was that the group executive for finance had not seen internal finance management reports for three months. It was a national problem as reports were more focused on external use e.g. National Treasury, Parliament, rather than for internal management. They were not used for decision making and the manner in which decisions changed from week to week, particularly Opsco, made it difficult for Finance to progress.

Hence it was highlighted that this called for a fundamental shift in thinking by finance moving beyond cost cutting to creation of value using available financial, technological and human resources (Hoe, 2009). The preparers of the reports needed to strike an informed balance between providing meaningful information and overloading the reader with too much information (Cilliers, Coetzee, Stegman, Van Schalkwayk & Wesson, 2001).

Most of the Finance reports focused on expenditure; therefore there was a need to report holistically including revenue and certain business activities. Arthur (1996), and Johnson and Kaplan (1991) view the finance role as being critical in financial management as it is the helpline managers use to measure the financial impact of decisions and strategies chosen. Finance needs to understand business in order to improve it. In Chapter 3 the researcher emphasized the need for Finance employees to spend time with business units they supported to understand their operation in order to support them better rather than spending time with each other at the finance department (Bromwich and Bhimani, 1989; Guilding, Cravens and Tayles, 2000). Finance needed to advise business in certain things that could be achieved using fewer financial resources. There was an opportunity to learn from an Activity Based Management team and get some new ideas. The researcher indicated in Chapter 3 that Operations finance had established a head office team that was responsible for analysis and reporting, however finance in the regions still lacked capability to provide insightful analysis and reporting.

5.13 Conclusion

The focus of this chapter was to present and discuss the findings supported by relevant literature. The findings were informed by the data collected from individual interviews which were semi-structured. This information was gathered in order to answer the question of the research which is “how financial management can be improved within the Operations division at South African Revenue Services?” through interpreting the findings made in connection with the research data obtained. Participants gave their personal assessment of SARS Operation’s financial management making reference to what they believed were current challenges and the root causes, they even suggested ways in which financial management could be improved. The next chapter will outline the outcome of the study and give a set of recommendations that can assist SARS Operations to overcome obstacles and to improve financial management practice.

6. Chapter 6: Conclusion and Recommendations

6.1. Introduction

The objective of this study was to investigate how financial management can be improved within the Operations division of the South African Revenue Services considering the strategic importance of the organization in government and society at large. The researcher felt that, based on his experience and observation, financial management could be improved. The interviews were intended to give the researcher a better understanding with regard to certain issues within financial management as discussed in Chapter 2. He wanted to test whether other employees, particularly line and finance managers, viewed these issues as problematic as well: how did they affect them or the organisation and what did they think should be done to address them.

The findings from the interviews strengthened the researcher's concerns and also highlighted other problems and the extent to which they affect performance of the division. It was also discovered that other concerns were not problematic, as he initially had thought. The researcher believes effectiveness and efficiency can be achieved through sound financial management and good governance.

To reach his objective, the researcher focused on the financial management practices in the context of SARS which included; budgeting, expenditure management, supply chain management (procurement), asset, travel, fleet management, internal controls and reporting.

Unfortunately, there is not much academic literature written about financial management in the context of a Tax Revenue Authority, therefore the researcher used general financial management academic literature where appropriate and also compared SARS with other government entities where applicable.

The study underpinned the need for SARS to continually review procedures and actions in order to establish in which ways the division can holistically improve. In this case the focus was on financial management in order to improve effectiveness and efficiency in the revenue service.

The purpose of this chapter is to summarise all the recommendations from this study. This gives the researcher an opportunity to evaluate whether the research has adequately addressed the main problem and the interview questions. The chapter contains recommendations which can be used by SARS Operations for practical implementation and further studies.

SARS needs to keep abreast with regard to financial information, reviewing its process on a continuous basis in order to attain even better financial management. If this is not achieved the organisation runs the risk of suffering financial losses as some of the processes and systems might not mitigate the financial risk the organisation might be exposed to.

Sound principles of corporate governance and international best practices provide a sound basis for effective financial management in the public sector. In this regard National Treasury has issued a document called 'Normative measures for financial management' whose purpose is to provide a framework for financial management normative measures. These were intended to continuously improve financial management in the public sector.

The identified problem for this research is: **“what mechanisms are required to facilitate continuous improvement in financial management to keep SARS on the cutting edge of efficiency?”**

Best practices and benchmarking assist an organisation to assess whether it has the best possible way of administering a particular function, therefore it becomes a good performance metric (Hoe, 2009).

There have been few developments regarding accounting and financial management in the public sector at national or international level which seek to address challenges highlighted above. The establishment of an Accounting Standard Board at national level aimed to formulate standards of Generally Recognised Accounting Practice (GRAP) in an understandable way that could be incorporated into the practice and norms of South African public sector.

Despite these developments the impact of poor financial management in the public sector is prevalent and the Limpopo provincial government was a living example where most departments ran out of funds and at a particular point in time they could not pay salaries. This led to national government placing five departments under administration. Similar cases were reported at Gauteng Health Department, Eastern Cape Education department where budget overruns were the order of the day with serious consequences for service delivery. This led to a call for government to change the way they did things. These inefficiencies and poor financial management placed huge pressure on the fiscus.

IFAC states that the public sector financial management system objective is to guide government leaders in effective use of limited resources to ensure excellent delivery of relevant goods and services to achieve government goals in fulfilment of the community's needs (IFAC, 2000). On the other side, section 27(4) of PFMA states that line managers are responsible for continuous evaluation of whether the organisation has sufficient measures to deal with uneconomical and inefficient use of government properties, money and other resources which the executive authority or accounting officer is responsible for.

6.2. Conclusion of the Study

This chapter is structured to highlight the problem and then supported by the findings with reference to literature, to make relevant recommendation(s). The emphasis has been on how the researcher arrived at a particular learning or recommendation.

Financial management particularly in government is a major key to development. It is an indispensable tool for allocating, mobilising and utilising resources efficiently and effectively in order to attain development objectives (UN, 1991). It has been noted that successful running of any organisation is dependent upon sound financial management as it determines how organisational resources should be effectively used.

Financial management in the case of SARS includes organisational and legal frameworks in managing budgeting processes, which include preparation, analysis of budgeted expenditure, internal controls, procurement, travel & fleet management, monitoring and reporting. This research presented an evaluation of SARS

Operations' management. Most aspects of the problem analysis were further validated by respondents through semi-structured interviews.

The study has attempted to establish the current state of SARS Operations' financial management, why it is in the current state and what are employees' perspectives as well as their view on how to address problems embedded in the financial management practice. It must be noted that if there was prioritisation of financial management functions through continuous improvement by Operations division, most respondents would not be so negative about it.

SARS's priority, particularly in Operations division had been on a modernisation programme which sought to review tax and customs processes enabling SARS to provide effective and efficient solutions to taxpayers and also increase productivity. This has been the journey for the past seven years and continues to bring improvements for the organisation and benefits for taxpayers. Unfortunately, these improvements have taken place while there was limited or no improvement in the financial management function. It is vital that senior leadership within Operations division recognise the importance of financial management, and if employees appreciate the role of all employees in this function, they are likely to strive to improve their contribution to better financial management within the SARS Operations division. They may even develop an appetite to establish how other government entities have dealt with some of the challenges experienced within Operations financial management.

The objective of financial management at SARS Operations was to support management in the deployment of limited resources with the purpose of ensuring economy and efficiency in the delivery of outputs required to achieve desired outcomes which include revenue collection and administration of tax legislation.

The results of the study show that this objective was not currently being achieved. The respondents in the study gave a rating of 6 for the effectiveness of financial management in SARS Operations division. While there were challenges within SARS Operations' financial management as highlighted in Chapter 2, a higher rating was expected given the fact that SARS has a reputation of being the most efficient

government entity based on public perception. The reasons for the unsatisfactory ratings were discussed in the previous chapter.

In order to address the challenges highlighted throughout the study and to achieve continuous effective financial management, the following recommendations are necessary.

6.3. Recommendations

Semi-structured interviews undertaken during the study sought to answer questions asked by the researcher in assessing the soundness of SARS Operations' financial management. They revealed why Operations experiences problems in financial management. These were discussed in detail in Chapter 5. In certain instances respondents gave recommendations on how the situation could be improved. The research will assist Operations division to deal with challenges experienced by employees with regard to the financial management function in order to make informed decisions about relevant solutions.

6.3.1 Recommendations Based on an Assessment of SARS Operations' Financial Management

Fieldwork: It was noted in the previous chapter that Operations' finance department was too decentralised which impacted the support given to operational business units including the application of policies.

Respondents: one respondent raised a concern that finance was split far down the line.

Literature: Organisations' superior performance can be achieved through benchmarks and striving for best practices (Mathaisel, Cathcart and Comm, 2004). The business model of an organisation should indicate to what extent will finance centralise or decentralise its processes, and standards should establish relevant levels of service and outline responsibilities in order to provide uniformity (Silvers, 2010).

Conclusion: Finance's operating model and structure needed to be improved.

Recommendation: It is recommended that the Group Executive: Finance, commissions a benchmark exercise (both externally and internally) to establish the most appropriate operating model that will inform an effective structure for Finance, with adequate employees that will assist the division to have effective financial management. This should reinforce the role and authority of Finance in financial management.

6.3.2 Challenges within SARS Operations' Financial Management

Fieldwork: A qualifications audit commissioned by Operations Finance revealed that there were employees without necessary qualifications to execute the finance function. Some of junior staff like finance administrators had only matric while there were employees who had Grade 9 as their highest education. This could be legacy problem that should be resolved to ensure that all employees are equipped with necessary skills and knowledge to be able to discharge their duties with the highest level of competency.

Respondents: Respondents felt that lack of skills on the part of line managers and operations business units was a challenge as most of them did not have a degree or a formal training in financial management.

Literature: (Jamison 2007; Lebovits 2006; Lord 1996) argue that an organisation has a much greater appreciation for the implications of financial decisions if the need for financial knowledge is an essential element of business and is not necessarily limited to finance.

Conclusion: SARS Operations' employees, particularly line managers, lacked the necessary skills to execute the financial management function.

Recommendation: It is therefore recommended that Operations division focuses on practical training, starting with basic financial management in the workplace in order to assist employees to better manage finance resources and also to effectively manage governance issues. There are institutions that have already developed

courses like “financial management course for non-finance managers” which can be helpful to line managers and operations staff.

6.3.2.1 It is recommended that SARS Academy includes financial management training as part of its offering.

6.3.2.2 It is also recommended that all new managers be inducted in financial management as part of their induction. Succession planning should focus not only on operational functions but it should also include financial management. Therefore financial management and governance should form part of a manager’s development.

6.3.3 Finance Policies and Responsibilities within Financial Management

Fieldwork: It was noted that SARS had finance related policies in place (which included asset, fleet, travel management, procurement to mention few). However they lacked regular updates and there was no effective communication on new policies.

Respondents: Respondents felt that finance related policies were adequate. However, they lacked regular updates and there was no effective communication on new policies. It was difficult to find the latest version of a policy on the organisation intranet. It was further noted that there was work being done on the ground and there were policies as well as processes that were put in place but there was discord between the skills and application of policies.

Literature: Rabinowitz (2007) proposes that procedures and policies need to be evaluated continually and be updated in line with relevant legislation and objectives of the organisation.

Conclusion: Policies lacked regular reviews and updates.

Recommendation: It is recommended that policies be reviewed on an annual basis where possible. Key users of the policies should be identified in order to give meaningful inputs to updates. A dedicated policy section with adequate resources will ensure that all policies are kept up to date in relation to latest developments within the organisation and in the outside world. New policies or updates should be

communicated via internal communication within one month of approval or as soon as practically possible taking into account implementation implications. There should also be a dedicated site on the intranet that lists all policies either per function or alphabetically, this will facilitate easy access to policies and new updates.

It is recommended that where possible policies be issued with relevant guidelines which clarify key sections and guide employees on implementation. Operations division needs to arrange briefings or training sessions that will help employees to better understand policies and ensure that application is consistent throughout the division.

Fieldwork: Line managers had a responsibility of, (a) ensuring that the expenditure was a valid business requirement i.e. was it necessary to achieve business objectives, (b) was it in line with the budget and was it the best value for money. Some managers seemed to leave the above to Finance to make the decision. Some of the managers even approved expenditure requests without checking if there was a budget available, this sometimes resulted in budget overruns which could have been avoided.

Respondents: The problem was that line managers tended to prioritise operational functions rather than financial management; the focus was on serving taxpayers and ensuring compliance while neglecting to strengthen certain functions like financial management.

Literature: Management Advisory Board (1997) believes successful organisations have committed, competent managers who report on organisation effectiveness as well as efficient and effective use of resources. Line managers are responsible for monitoring and controlling expenditure (Visser & Erasmus, 2002). Section 45 of PFMA is clear about responsibilities of all officials which includes establishment of internal control and financial management systems; transparent, economical and efficient utilisation of financial resources as well as making the extra effort to prevent fruitless and wasteful expense, irregular and unauthorised expenditure

Conclusion: Financial management accountabilities and responsibilities needed to be strengthened.

Recommendation: In order to strengthen governance and compliance it is recommended that it is re-inforced that accounting officers (chief officer, group executives, executives and cost centre managers) be accountable for financial management and not Finance as it is normally understood. This will also ensure that this level of responsibility is cascaded to employee level, thus improving financial management throughout the division.

Fieldwork: Operations finance had about 170 employees with many of these focusing on non-finance functions which were administrative in nature and these included travel, fleet and asset administration. A qualifications audit commissioned by Operations finance revealed that there were employees without necessary qualifications to execute the finance function. Some junior staff, like finance administrators, had only matric while there were employees who had grade nine as highest education.

Respondents: Five out of ten respondents felt Finance was being effective in instilling a culture of financial management.

Literature: Hoe (2009) argues that modern finance structures are leaner and flatter with improved technology. This means most manual processes can be replaced with technology, particularly since few skilled finance employees provide analysis and value added services to Operations business units. Arthur (1996), and Johnson and Kaplan (1991) view Finance's role as being a critical in financial management as it is the helpline managers use to measure the financial impact of decisions and strategies chosen. Lack of necessary skills may be a challenge as according to Burns, Ezzamel and Scapens (2003), IFAC (2002), and Porter (1985) finance departments around the world are continually expected to be more proactive in advancing good financial management and delivering more value in support of overall organisational objectives. This cannot be delivered without necessary requisite skills.

Conclusion: Finance department was not effective.

Recommendation: It is recommended that the effectiveness of Finance department should be measured with results. The division needs to benchmark with other organisations in the public and the private sector to establish how they measure

effectiveness of the finance department. This will assist to measure whether the division and the organisation are making progress from year to year in achieving effective financial management.

The other respondents felt that Finance lacked necessary skills to make an impact. It is recommended that a full skills analysis be conducted and a development plan be prepared based on the skills gap. Finance employees should be encouraged to belong to a professional body in order to keep up to date with latest information that affects their profession; professional institutions offer continued professional development which seeks to develop accounting and finance staff professionally.

6.3.4 Budgeting and Expenditure Management

Fieldwork: The current budget process lacked feedback due to lengthy approval processes. There was no document that outlined the budget process and its approval levels. Sometimes the budget could be approved two months after the beginning of the new financial year which caused many delays driving key deliverables as managers did not know whether their budget proposals had been approved.

Respondents: The budget process proved to be one of the key challenges in SARS Operations financial management. As discussed in the previous chapter, nine out of ten respondents gave the process a negative rating. SARS budget process need to be revisited in the sense that SARS Operations tried to carry it from year to year without linking the budget to a strategic plan. Business units were requested to do zero based budgeting however none of those budgets were approved and loaded on the system while another decision to load the previous year's actual expenditure plus a percentage was taken. It was noted in Chapter 3 that an incremental budget did not consider changes in objectives or activities in the new year. Therefore the disadvantages of this method were that some functions could be funded long after their usefulness was no longer relevant (Visser & Erasmus, 2002). This was not an effective way of budgeting as finance spent less time on analysis while most of the time is devoted to budget preparation (Hoe, 2009).

Literature: There are many organisations around the world that know that they don't have the most effective budgeting process, however few make effort to change it

(Segelod, 1998). Wunder and Mueller (2008) argue that continuous improvement through benchmarking helps organisations develop a broad understanding of current processes and activities of the targeted area. Hoe (2009) states that there are many organisations that have budgeting and forecasting processes, which are not linked to performance measurement or strategic planning. Government entities are required by IFAC to have procedures and policies in place that can assist them to have effective financial management and efficient budgeting (IFAC, 2001).

Conclusion: SARS Operations budget process was cumbersome and not effective.

Recommendation: It is recommended that SARS Operations budget processes be informed by the strategic plan. The process should provide a clear link between objectives and expenditures. It should outline clearly the roles and responsibilities of all participants. It should highlight the importance of monitoring and management of budget with emphasis on the results to be achieved. There should be a clear link between the strategic plan, MTEF and annual budgets to ensure better alignment.

6.3.4.1 The process of planning and budgeting should not only be aligned, it must also be started early to allow sufficient time to link deliverables to resource planning. Budgets should be approved on time to allow proper implantation planning and reprioritisation in case lower amounts are approved.

6.3.4.2 The process should outline clear communication and approval processes, all these should be documented properly.

Fieldwork: Operations division needed to emphasise the importance of expenditure management and cost savings in order to improve financial management practice. Line managers had a responsibility of (a) ensuring that the expenditure was a valid business requirement i.e. is it necessary to achieve business objectives, (b) was it in line with the budget and was it the best value for money. Some managers seemed to leave the above to Finance to make the decision. Some of the managers even approved expenditure requests without checking if there was a budgeted amount available. This sometimes resulted in budget overruns which could have been avoided.

Respondents: Most respondents felt that expenditure management was not where it should be. Some of the issues cited were that systems used to manage expenditure had no budget availability check which informed you that you had only R3000 available for stationery therefore you could not make a purchase for R5000. Business units spent what was allocated without considering doing more by spending less. Financial management does not necessarily mean spending to the last cent. It means achieving more with what you have with the same money. However some managers seemed to leave the above to Finance to make the decision. Some of the managers even approved expenditure requests without checking if there was budgeted available, this sometimes resulted in budget overruns which could have been avoided.

SARS financial year runs from April till March of the following year. When we get to January a bulk of the money has not been spent and while finance is preparing to close off the financial year, people are rushing to spend the money because they are scared that it will be taken away.

Literature: The accounting officer needs to put measures in place to ensure effective management of expenditure; this can be linked to a budget control process that seeks to achieve a particular goal (McThomas, 2003). Section 45 of PFMA requires officials to make extra effort to prevent fruitless and wasteful expense, irregular and unauthorised expenditure.

Conclusion: expenditure management at SARS Operations required improvement.

Recommendation: It is recommended that performance output be measured in relation to expense incurred. This will encourage expenditure that yields desired results and discourages fruitless and wasteful expenditure.

6.3.5 Supply Chain Management (procurement)

Fieldwork: There were business units within Operations that just engaged one service provider in a business without following procurement policy; the concerned business unit then lost an opportunity to compare prices through quotations or a competitive bid process. There was a likelihood that the price charged by one particular service provider might not be lowest, and quality of goods might not be

properly evaluated This resulted in SARS paying unnecessarily high process for goods and service which would otherwise cost less if the procurement process had been followed. There was still high number of deviations from procurement processes which were approved by a form of exemption or condonation.

Respondents: Respondents highlighted the fact that procurement was done via exemptions more than through the normal procurement process. The challenge with this was that the division did not know whether it was acquiring goods and services at the lowest cost.

Literature: More effective use of the supply chains contributes to the wider agenda of improving efficiency and value for money in the public sector's commercial activities, by promoting competition, not just at first tier supplier level, but across the wider supply base and also encouraging more efficient management of suppliers (Ambe and Badenhorst-Weiss, 2012). According to Gragan (2005), the public procurement task is "to help organisations obtain the goods and services needed to do their jobs, while controlling the process that spends large amounts of public funds.

Conclusion: SARS Operations procurement practice required improvement.

Recommendation: It is recommended that business units within operations plan their activities in advance. These plans should be discussed with both Finance and Procurement departments in order to establish procurement implications. This will assist in initiating relevant procurement processes in advance that will assist business units to acquire quality goods and services, on time and at the right price.

It is recommended that Procurement, Finance department and Operations business units work together and have regular forums where they share information in order to better support each other in fulfilling SARS's mandate. This will reduce the perception that there is too much red tape in the process and some of the regulations are working against business objectives.

6.3.6 Asset, Travel and Fleet Management

Fieldwork: Asset management was also highlighted as one of the biggest challenges within Operations division. Asset disposal policy aimed to assist the organisation to

dispose of unnecessary or unwanted assets by SARS divisions; however the policy has made it difficult for divisions to dispose of their assets. The policy provided that disposal should be coordinated with the Corporate Social Responsibility department and first preference should be given to donating assets to schools. If this was unsuccessful for whatever reason, pawn shops should be approached to buy the assets. If the pawn shops were unable to take the assets, they must write a letter confirming this. The last option was to get scrapping companies to buy the assets for destruction.

Respondents: Some of the contributing factors to poor asset management within SARS were that there was lack of accountability by line managers and also by individuals not taking responsibility for the assets they used. They saw Finance as being responsible for both asset management and audit. The asset management solution (asset declaration tool) that was implemented by SARS Operations was not fully functional; the organisation did not approach other organisations to establish how they have overcome some of the problems it was facing. The tool was frustrating as no one could reconcile the information between it and the fixed asset register and therefore respondents felt that the whole process was flawed. Each person needed to be responsible for their own assets and the tool should enable people to manage their assets. Lastly owing to the replacement strategy not being linked to asset management policy, many business units took longer time to dispose of their assets.

Literature: Physical asset plans should be fully integrated into strategic plans; this requires a full assessment of risks, benefits and cost to achieve a particular objective (Visser & Erasmus, 2002). The asset should be disposed of in the most economical way through scrapping, sale or otherwise once it has reached the end of its useful life. It is costly to keep a fully utilised asset as it takes up space which could be used for something productive (Visser & Erasmus, 2002).

Conclusion: Asset management was poor and needed to be improved.

Recommendation: It is recommended that Operations work out an asset management strategy to deal with all asset management challenges. This strategy

should outline among other things, roles and responsibilities of line managers and Finance which seems to be the biggest contributor to poor asset management.

The strategy, which should be based on the detailed investigation of all challenges and risk that the organisation is exposed to as far as asset management is concerned, will also inform whether there is a need to update relevant policies.

Fieldwork: Line managers still needed constant guidance with regard to travel management which was a key element of financial management as late bookings and unnecessary changes to existing bookings were still prevalent in Operations.

Respondents: Most respondents indicated that the use of a travel agency to manage travel might not be the best way of travel management. They felt that SARS could get more economies of scale if it implemented online booking systems, which could assist in more accountability for travel management. SARS had a policy of booking travel in no less than seven days in order to save money however it unfortunately did not save the organisation money because people did not plan their trips properly and as a result SARS did not benefit from this policy. Instead it lost money unnecessarily. The travel behaviour and haphazard way of doing things was causing SARS to waste money

Literature: No relevant academic literature could be obtained.

Conclusion: Travel management needed improvement.

Recommendation: SARS Operations appeared to be losing money in travel management practice. It is recommended that a travel management strategy be developed that will deal with all inefficiencies in travelling. The strategy will be informed by a detailed analysis that reveals where money was lost and what kind of travel behaviour was problematic. SARS would need to update policies in line with outcomes of the strategy which outlines economics of scales and clear savings targets.

Fieldwork: Fleet Management policy was good for safeguarding SARS vehicles and ensuring proper usage; however it did not talk to a vehicle replacement strategy, which was important to save costs and maintain employee safety. The organisation

was operating an ageing fleet which was becoming more expensive to maintain each year and it also was becoming a safety issue as the older vehicles were becoming unsafe to drive. The organisation could attain huge savings if it replaced vehicles after they reached a certain mileage or after a time interval. The savings which could be in millions of Rand could be directed to other priority areas. The updating of fleet management policy with a vehicle replacement strategy could ensure that vehicles were purchased every five years or once they reached say 200,000 kilometres. This meant SARS Operations could incur a once off capital expenditure every five years as new vehicles come with maintenance plan and do not incur maintenance costs every year.

Respondents: Fleet management was one of the areas that needed improvement in that there was no accountability. Line managers did not take responsibility for fleet management; it was seen as the responsibility of asset coordinators and the transport officer. There was an expectation gap between business and asset coordinators especially in areas where asset coordinators were finance people, so that expectation gap of whose role it was to manage the fleet was the one that left the fleet not being managed at all. Vehicles were not managed properly as employees were not taking responsibility for speeding, accidents etc. SARS did not even have a vehicle replacement strategy and therefore paid high maintenance costs on an ageing fleet”

Literature: It is important to take corrective measures where assessment indicates the need to do so. Therefore line managers have a responsibility to ensure that the organisation derives an economic benefit and take all necessary steps to prevent damages (Burger, 2008).

Conclusion: Fleet management needed improvement.

Recommendation: It is recommended that SARS Operations draft a fleet management strategy that will include a vehicle replacement strategy. This will deal with the issues of staff not taking responsibility for accidents, traffic fines, high speed etc. The vehicle replacement strategy will assist the organisation change its fleet at agreed intervals or once a vehicle has reached a certain mileage: this will prevent the organisation from incurring the high cost of maintaining ageing fleet.

6.3.7 Internal Controls and Reporting

Fieldwork: Internal Controls are important for any organisations as they determine whether processes and policies are working as they were intended. The challenge in Operations was that there was not much emphasis on internal controls; these were not discussed at regular operational or strategic meetings. Therefore this did not create the culture that people should take internal controls seriously to ensure that policies and processes were not compromised, which might even result in a financial loss to the organisation. The only time internal controls were discussed was during the audit meetings which were held if there was a statutory audit or scheduled annual internal audit.

Respondents: Internal controls were not linked to outcome e.g. security registered movement of assets between buildings however there were a number of assets that were reported missing. There was no feedback given by security companies to the organisation regarding the movement of assets. Therefore there was a lack of understanding of internal control environment by both business and finance.

Literature: Szymanski (2007) and Baltaci & Yilmaz, (2006) submit that an internal control environment and controls systems are critical in improving governance process transparency and accountability (Aikins, 2011).

Conclusion: Internal control management needed improvement.

Recommendation: It is recommended that Operations work with internal audits to develop or update proper controls where appropriate. Once controls are in place there should be a check list that will guide managers to ensure compliance.

Fieldwork: Operations finance had established a head office team that was responsible for analysis and reporting, however finance in the regions still lacked the capability to provide insightful analysis and reporting.

Respondents: Most of the finance reports focused on expenditure; therefore there was a need to report holistically including revenue and certain business activities. Finance needed to advise business in certain things that could be achieved using

less financial resources. There was an opportunity to learn from the Activity Based Management team and get some new ideas. SARS Operations finance reporting was mainly done to satisfy external users of reports. For example the Group Executive for finance had not seen internal finance management reports for three months. It was a national problem as reports were more focused on external use e.g. National Treasury, Parliament rather than for internal management and were not used for decision making. The manner in which decisions were made changed from week to week particularly at Opsco, which made it difficult for finance to progress.

One respondent expressed her satisfaction with the reports she received from finance and stated that she had a better understanding of where her business stood as far as financial management was concerned.

Literature: Arthur (1996) and Johnson and Kaplan (1991) view the finance role as being a critical in financial management as it is the helpline by which managers measure the financial impact of decisions and strategies chosen. Finance employees need to spend time with business units they support to understand their operation in order to support them better, rather than spending time with each other at the finance department (Bromwich and Bhimani 1989; Guilding, Cravens and Tayles 2000). Baxter and Chua (2003) argue that there has been a growing need for finance to provide projections and financial analyses that operationally plan to increase revenue. Continuous improvement can be achieved by having a constant shared approach in sharing both external and internal best practices. Benchmarking exercises should be considered on a regular basis as they are the key drivers for maintaining performance improvement (Wunder and Mueller, 2008).

Conclusion: Finance reporting was not bad but could be improved.

Recommendation: It is recommended that finance benchmark with other organisations on financial management reporting and analysis. The information should facilitate better decision making. Finance should develop a better understanding of business units they support in order to produce meaningful analysis and value add advice.

6.3.8 Conclusion

The objective of this study was to investigate how financial management can be improved within the Operations division of the South African Revenue Services considering the strategic importance of this organization in government and society at large. The study highlighted that SARS Operation's financial management faced many challenges and need to establish what mechanisms are required to facilitate continuous improvement in financial management to keep SARS on the cutting edge of efficiency. This report provides an opportunity for SARS Operations to review its financial management practice in order to have sound financial management.

The results of the study can be summarised in the form of the following recommendations which have been elaborated on in this chapter:

1. It is recommended that the Group Executive: Finance for Operations division commissions a benchmark exercise (both externally and internally) to establish the most appropriate operating model, financial management, reporting and analysis in order to facilitate effective financial management.
2. It is recommended that Operations division implement practical training in order to assist employees to better manage finance resources and to effectively manage governance issues.
3. It is recommended that SARS learning Academy includes financial management training as part of its offering.
4. It is recommended that all new employees particularly managers be inducted in financial management as part of the induction. Succession planning should focus not only on operational functions but it should also include financial management.
5. It is recommended that policies be reviewed on an annual basis where practical with inputs from key users of the policies should. Better communication methods should be developed. Policies should be issued with relevant guidelines which clarify key sections and guide employees on implementation.
6. It is recommended that it is reinforced that accounting officers (chief officer, group executives, executives and cost centre managers) be accountable for financial management in order to strengthen governance and compliance.

7. It is recommended that the effectiveness of the Finance department should be measured with results.
8. It is recommended that a full skills analysis be conducted and a development plan be prepared based on a skills gap analysis. Furthermore finance employees should be encouraged to belong to a professional body.
9. It is recommended that SARS Operations' budget processes be informed by the strategic plan.
10. It is recommended that Procurement, Finance department and Operations business units work together and have regular forums where they share information in order to better support each other in fulfilling SARS's mandate.
11. It is recommended that Operations prepares an asset management strategy to deal with all asset management challenges.
12. It is recommended that a travel management strategy be developed that will deal with all inefficiencies in travelling.
13. It is recommended that SARS Operations prepares a fleet management strategy that will include a vehicle replacement strategy.
14. It is recommended that Operations work with internal audits to develop or update proper controls where appropriate.

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19 July 2013

Mr Dumisani Sipho Dlamini 204516895
Graduate School of Business and Leadership
Westville Campus

Protocol reference number: HSS/0454/013M

Project title: Understanding how financial management can be improved within the Operations division at South African Revenue Services.

Dear Mr Dlamini

Expedited approval

This letter serves to notify you that your application in connection with the above has now been granted full approval.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach/Methods must be reviewed and approved through an amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number. Please note: Research data should be securely stored in the school/department for a period of 5 years.

Best wishes for the successful completion of your research protocol.

Yours faithfully

Professor Urmilla Bob (Chair) and Dr S Singh (Deputy Chair)

/px

cc Supervisor: Dr Stan Hardman
cc Academic Leader Research: Dr SA Bodhanya
cc School Administrator: Ms W Clarke and E Mohamed

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