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A Comparative Assessment of Compliance Implementation in Mitigating Irregular Expenditure Within South Africa Major Public Entities

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Abstract:

The study examined how effectively major public entities (MPEs) implement compliance measures to reduce irregular expenditure (IE) reported in their annual reports, by comparing IE over two-years period. MPEs are governed and held accountable through corporate governance frameworks and stipulations derived from PFMA and government regulations. Therefore, to avoid incurring IE, MPEs must comply with supply chain management (SCM) frameworks. Qualitative research approach was adopted using content analysis to assess compliance implementation in reducing IE. MPEs annual reports (AR) served as the unit of observation and IE closing balances were used to calculate change in IE percentage. The findings show that regardless of SCM frameworks being in place, most of the MPEs still struggle to implement effective controls to ensure compliance with relevant SCM legislation, leading to continuous IE being reported. Results contribute to agency, institutional and accountability theories and suggest that managers should prioritise practices that benefit the entity over their own financial benefits by implementing a sound compliance system to reduce IE. MPE's management should enforce accountability and apply consequence management to enhance organisational compliance culture. Furthermore, analysis of results provides managerial implications for MPEs' management and policymakers to strengthen their SCM internal control systems and provide continuous training for employees involved in the procurement process to equip their procurement skills. Moreover, management must ensure that all AGSA recommendations regarding IE are implemented to prevent future incurrence of IE.

Keywords:

Irregular Expenditure, Major Public Entities, Supply Chain Management, Compliance Implementation

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Introduction

South Africa's (SA) major public entities (MPEs) have an important role in driving economic growth and providing services delivery (Nabane, Klingelhöfer, & Geyer, 2024). They have strategically been placed at the core of SA national development plans to address market failures and eliminate direct barriers to development (Selebi, 2023). As a result, failure for MPEs to provide key public services can lead to negative social and economic consequences on nation's communities (Adebayo & Ackers, 2024). To ensure that this entities achieve their significant role as significant contributor towards national development, South African parliament enacted the Public Finance Management Act 1 of 1999 (PFMA RSA 1999) to adopt the "new public management" (NPM) approach, emphasising the use of corporate best practices in the public sector to promotes robust internal controls designed and ensure that public sector organisations attain operational effectiveness, efficiency, and dependable financial reporting (Fourie, 2018). This act also provides accountability and effective management of revenue, spending, assets, and liabilities of the relevant institutions (Nabane et al, 2024).

MPEs are governed and held accountable through corporate governance frameworks and stipulations derived from enabling legislation, including Treasury regulations, the Companies Act 71 of 2008 (RSA 2008) and the King IV Report on Corporate Governance (Institute of Directors Southern Africa [IoDSA] 2016). This means that MPEs need to comply and adhere to above mentioned legislations to avoid incurring irregular expenditures (Adebayo et al., 2024) which result in unfavorable audit outcomes (Auditor-General of South Africa (AGSA, 2023). PFMA defines IE as spending that violates SCM laws and procurement processes (RSA, 1999:). MPEs exert a profound influence on residents' lives by facilitating essential service delivery (AGSA, 2023) and if these entities incur IE, it will result in residents being deprived of their essential services that are intended to enhance their quality of life and bolster the government's fiscal stability (AGSA, 2023).

Prior literature shows that MPEs violate the PFMA (RSA, 1999), which was enacted to improve the governance and performance of public institutions in South Africa (Kaunda & Pelser, 2023). While the avoidance of IE has primarily concentrated on the municipal sector, there is an increasing tendency of IE among MPEs (Hasani & Munzhedzi, 2024). The increase in IE has been propelled by various factors, including negligent acquisitions by MPEs employees and their failure to adhere to legislation, particularly the PFMA and supply chain management policies, coupled with deficiency in consequence management and accountability (Hasani et al., 2024; Scott, 2021). Notwithstanding the corporate governance measures and compliance measurements adopted by MPEs has not produced the anticipated outcomes (Nabane et al, 2024), and IE persists and remains obstinate. Furthermore, current literature concentrated on identification of non-compliance with applicable laws and regulations (AGSA, 2018; Thusi & Matyana, 2024) that results in IE and recommendations on how public entities can mitigate IE,

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including the implementation of effective internal control mechanisms (Adebayo et al.,2024; Hasani et al.,2024). However, there are few empirical studies which assessed how compliance measurement is implemented within MPEs and to what extent do they contribute towards deteriorating IR. Therefore, by doing two-year comparisons of IE, this paper aimed to examine effectiveness of MPEs compliance implementation to reduce IE reported in their annual reports (AR).

Literature Review

Underpinned Theoretical Lenses

The study adopted three theories, namely, agency, institutional, and public accountability theory, to provide insights on how compliance implementation impacts the reduction of IR within MPEs. These theories were mostly applied in prior literature when identifying non-compliance which results in IR, and when suggesting mitigating factors to reduce IE. However, as there are limited studies that examined the effectiveness of MPEs compliance implementation to reduce IE, this study addresses the gap by applying the above-mentioned theories.

Agency theory suggests that conflicts that occur between government and agents MPEs management (regarded as agent) emanate from their different interests within the organisation (Schrödter et al., 2024). Looking at MPEs within the SA context, managers often prioritise practices that financially benefit them over practices that comply with laws and regulations, leading to IE (Al-Faryan, 2024). Therefore, implementation of a sound compliance system and effective internal control systems can be a key instrument to assist in deteriorating MPEs IE and agency costs. On the other hand, institutional theory provides an overall sociological explanation of companies' compliance with laws and regulations. It ascertains that companies adopt certain practices because of the coercive pressure obtained from the institutional environment (Rana, Ahmed, Narayan, Zheng, 2022). In the context of MPEs, the coercive pressure arises from legislation and laws such as PFMA and procurement policies, which require the MPEs to comply with them (Schrödter & Weißenberger, 2024). However, most SA MPEs continue to incur IE due to failure to comply with laws applicable to their operations (Schrödter et al., 2024). Public accountability theory emphasises the importance of the onus that lies with public officials to justify their decision-making process and account for their actions to stakeholders (Mulgan, 2000). It was argued that the continuous occurrence of IE in MPEs is due to a lack of implementation of consequence management of officials, who cannot account for their decision-making processes, and poor accountability structure within the entity (Hasani et al., 2024). If MPEs apply the accountability theory framework, they can enhance their accountability and mitigate IE from recurring.

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The Effect of Compliance Management on IE Compliance Inside MPEs

One of the critical challenges SA public sectors is facing is a continuous increase in IE. Reports of SA section 9 institution (AGSA) indicates recurring IE material findings and large commutative IE closing balances (Auditor General of South Africa, 2023-24). This recurring finding occurs due to poor weaknesses in supply chain processes and non-adherence to procurement regulations (Thusi et al.,2024). These procurement laws and regulations are primarily developed from SA constitution to serve as a basis of budget management across all public entities including MPEs (Nagabe et al.,2024). Some of the procurement legislations include but not limited to: PFMA, the State Tender Board Act, 1968 (No. 86 of 1968) and any other regulations developed within PFMA and provincial legislation within government sector. These laws are designed to ensure that all bidders are given equal opportunities and fair treatment during procurement processes for acquiring goods or services (Makole et al., 2023). Therefore, any action or behaviour that deviate from designated laws and meet the definition of IE will constitutes a breach of procurement laws and regulations. It is the responsibility of the accounting officer to implement efforts to avert such violations (PFMA RSA, 1999).

It has been found that persist IE reported by MPEs is due to non-adherence to supply chain management (SCM) and non-adherence to with competitive bidding requirements (Phakathi, 2024; Mojaki, Tuyikeze & Ndlovu, 2024). Administrative and regulatory complexity are also considered to be one of factors that contribute to increase in IE (Phakathi, 2024; MAPS Initiative, 2024). Phakathi (2024), found that human resource constraints and lack of procurement skills contribute to continuous risk of IE. This is because there are complex rules and regulations required in procurement process. It was noted that some of MPEs procurement staff lack technical skills to understand complex procurement processes (Hasani et al., 2024) and MPEs do not offer sufficient trainings to close this gap (Makole et al.,2023).

Mokele et al. (2023) highlighted that another element that increase the IE in MPEs is due to consequence management mechanisms that are undermined by government officials. Consequence management pertains to the implementation of direct and proportional repercussions to ensure accountability for non-compliance (Hasani et al., 2024). Section 83(1) of the PFMA designates accounting authorities (AA) as accountable for financial misconduct if they intentionally or carelessly neglect to ensure adherence to any PFMA regulation to prevent IE. According to AGSA consolidated report issued in 2023-24, emphasised on recommending that the public entities should document consequence processes to ensure better detection and accountability.

Methods and Data

To choose appropriate research paradigms, the study adopted an objectivist ontology approach based on an ontological framework. This is because the study data was collected from secondary data (MPEs

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annual financial statements (AFS) and is not by individual cognisant (Nagar, V., Nanda, & Wysocki, 2003). Furthermore, ontology assesses the essence of existence, reality structure, and the subject of the inquiry (Fouché et al., 2021). The reality of this study was informed by the positivist paradigm, which assesses the compliance implementation in mitigating IR within MPEs. The assessment was influenced by public sector compliance practices and content analysis used in the study to organise data collected.

The study used a qualitative research approach to evaluate compliance implementation in reducing IR in South African MPEs (Gamage, 2025). This methodology was deemed appropriate since the researcher employed content analysis to determine if MPEs apply applicable compliance standards as a mitigating factor to reducing IR. MPEs that published audited AFS, and annual reports (AR) were used as a unit of observation for two consecutive years (2023 and 2024).

Parts 1, 2, and 3A-D of Schedule 2 in South Africa have 21 MPEs (National Treasury 2015). Due to the small number of NPEs included in Schedule 2, we evaluated all MPEs on the list published by South African Treasury on their website. The audited AFS reports, and AR evaluated were obtained from the NOEs websites with fiscal years ending on 31 March 2023, and 31 March 2024, and were all publicly available online. The researcher chose 2023 and 2024 since most MPEs are currently undertaking 2025 audit; so, we used the most recent audited two years for reliability purposes. Data collected from the AFS was total IE figure disclosed in their AFS and AR. Data collected was captured in structured template for analysis. Predetermined content analysis coding was developed by comparing IE amounts across two years (2023 and 2024) disclosed in the AR and audited AFS to assist researchers to identify patterns and determine whether procurement compliance requirements were implemented by to deteriorate IE. Comparative content data analysis was then used to calculate the change in IR percentage. This approach is in line with qualitative content analysis which allowed a researcher to contextualise data extracted from AFS and be able to interpret it in a meaningful manner within each context. Moreover, researcher ensured reliability of IE figures used and dependability of data used through applying the following: firstly, researcher extracted IE figures from AFS which were externally audited in accordance with PFMA and AR reviewed by AGSA. Secondly, IE figures used were cross referenced between AR and audited AFS to ensure consistency in reporting. The increase in IR figure indicates that MPEs management did not implement compliance requirements to reduce IR while decrease, shows that management have implemented compliance requirements to reduce IR. The change in percentage was calculated as follows using comparative figures extracted from MPEs reports:

$$\text{IR change in } \% = \frac{(\text{CYIE} - \text{PYIE})}{\text{PYIE}} \text{ X } 100$$

Where:

IR = Irregular Expenditure

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CYIE = Current Year Irregular Expenditure

PYIE = Prior tear Irregular Expenditure

Results

Reviewed literature showed that South Africa MPEs should comply with applicable laws to reduce reported IE. From the sample selected and tested, we have assessed 42 annual reports issued by MPEs in 2023 and 2024, and these reports were readily accessible on companies' websites. Regardless of SCM compliance frameworks being in place to assist in procurement of goods and services, most of the MPEs do not put control measures to ensure compliance with SCM regulation hence they continuously incur IE. To assess how compliance measurement is implemented within MPEs and to what extent do they contribute towards deteriorating IE, the study performed two-year comparison of IE to examine effectiveness of MPEs compliance implementation to reduce IR reported in their annual reports (AR). As indicated in the methodology, the increase in IE figure indicates that MPEs management did not implement compliance requirement to reduce IR while decrease, shows that management have implemented some or all compliance requirement to reduce IE. MPEs assessed were labelled from MPE1 to MPE21 to avoid showing the identity of each MPE. Table 1 below shows the comparison of reported IE figures and their change in percentage as well as trend direction.

N0	MPE Coding	2023 IR Figure R 000	2024 IR Figure R 000	Change in %	Trend direction
No irregular expenditure reported					
1	MPE1	0	0	0%	Complied
Decrease in change in % to 0%					
2	MPE2	739 598	0	100%	Decrease
3	MPE3	3 254	0	100%	Decrease
4	MPE4	111	0	100%	Decrease
5	MPE5	223	0	100%	Decrease
Decrease in change in %					
6	MPE6	29 432	3 715	87%	Decrease
7	MPE7	5 934	4 149	30%	Decrease
8	MPE8	7 579	5 941	22%	Decrease
9	MPE9	980 564	982 448	0%	Decrease
10	MPE10	3 324	2 860	14%	Decrease
11	MPE11	444 410	61 673	86%	Decrease
12	MPE12	813 221	813 683	0%	Decrease
Increase in change in %					
13	MPE13	59 086	333 103	-464%	Increase
14	MPE14	14 368	16 580	-15%	Increase
15	MPE15	4 365	5 188	-19%	Increase
16	MPE16	573 519	620 288	-8%	Increase
17	MPE17	168 394	171 662	-2%	Increase
18	MPE18	2 439	2 606	-7%	Increase
19	MPE19	3 950	4 243	-7%	Increase
Disclaimer reports issued by AGSA					

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20	MPE20	N/A	N/A	N/A	N/A
21	MPE21	N/A	N/A	N/A	N/A
Overall results					
TOTALS		**3 853 771**	**3 028 139**	**21%**	**Decrease**

Table 1: Comparison of reported IE figures in 2023 and 2024 fiscal years by MPEs
(Source: Researcher's derivation)

Discussion of Results

Table 1 presented under results heading shows that only MPE1 reported no IE in both 2023 and 2024 fiscal years. This indicate that management implemented effective controls to ensure accurate financial reporting and exercised adequate oversight responsibility over compliance with procurement laws and legislation, which resulted in no IE reported. This also indicate that MPE1 sustained strong compliance culture within their entity.

As indicated in literature review, public accountability theory emphasises the importance of the onus that lies with public officials to justify their decision-making process and their responsibility to ensure compliance with procurement regulations and laws. MPE2-MPE5 shows 100% reduction in IE when comparing reported IE between 2023 and 2024 which aligns with public accountability theory. Moreover, these results indicate that considerable efforts have been expended by MPEs management in improving the SCM processes. In addition, there is high possibility that trainings for employees involved in the procurement of goods and services has been conducted to equip their procurement skills. Moreover, the results suggest that IE root causes were addressed, AGSA recommendations were implemented, and management have put in place adequate control measures to prevent future incurable of IE. This is evidenced by the fact that no IE was reported in 2024 fiscal year.

Based on analysis presented in Table 1, MPE5 TO MPE12 shows the decrease in IE expenditure with no full elimination. The seven MPEs reported decrease in IE ranging from 12% to 87% with MPE6 being the highest and MPE10 being the lowest. The results suggest that management partially implemented effective controls to reduce IE, unstainable strong compliance culture and non-compliance with some of procurement laws and regulations. Analysis of results also ascertains that MPEs adopted procurement regulations and practices because of the coercive pressure obtained from their institutional environment hence having difficulty in fully complying with them. This analysis aligns with institutional theory discussed in literature review.

MPE13 to MPE19 experienced increase in IE from 2023 to 2024 fiscal year. The increase rage from 2% to 464% with MPE13 being the highest. This suggest that management of this MPEs did not take effective and appropriate steps to prevent IE as required by section 51(1)(b)(ii) of the PFMA caused by non-compliance with the SCM prescripts. The results indicate that some of items and services procured by MPEs were not obtained through a procurement procedure that is fair, equitable, transparent, and

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competitive, as required by section 51(1)(a)(iii) of the PFMA. Moreover, the findings indicates that officials who are responsible for procurement failed to ensure effective controls over compliance with SCM legislation, leading to internal errors and significant adjustments to the IE balances. This means that MPEs managers prioritise practices that financially benefit them over practices that comply with laws and regulations, leading to IE and increased agency cost. Therefore, to reduce this agency cost, agecy theory in the context of IE suggests management to implement sound compliance system and effective internal control systems as a key instrument to assist in deteriorating IE.

The data for MPE20 and MPE21 were marked as not applicable due to disclaimer opinion issued by AGSA. This means that the data will not be used as is unreliable, preventing meaningful analysis. The disclaimer opinion suggests that this MPEs have significant breakdown in the compliance reporting. Furthermore, the results indicate that there is a weak control environment in relation to the monitoring and implementation of consequence management as the reporting of disciplinary matters and misconduct which is evidence by disclaimer opinion.

Overall results shows that IE of MPEs have declined from R3. 85 billion reported in 2023 to R3. 03 billion reported in 2024, representing 21% decrease. This suggest that considerable efforts have been implemented by MPEs to improve the SCM processes however, not all IE root causes were addressed to ensure that adequate control measures continue to be in place to prevent future incurable of IE. This is evidence by continuous reported IE in 2024. Below is Figure 1 chart summarising the effect of changes in IE as discussed and interpreted above:

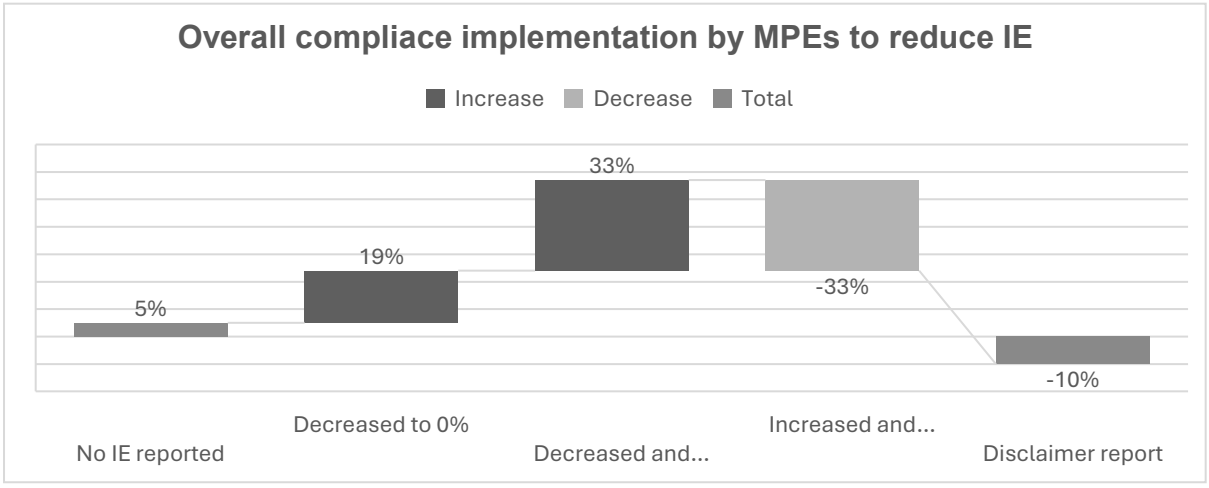

Figure 1: Overall compliance implementation by MPE to reduce IE

In summary, MPEs are still struggling to implement compliance requirement to reduce IE even though there is 21% overall decrease in IE reported in 2024 fiscal year. This is evidence by only 5% (one entity) MPEs reporting no IE and 19% (four entities) of the total MPEs) reduced their IE disclosure to 0%

illustrated in figure 1 above. Majority of the MPEs representing 76% of the total number of entities (decreased IE but recurring with 33%, increased and recurring IE with 33% and disclaimer with 10%) still report IE. This means that compliance with procurement processes is still a significant issue in MPEs.

Conclusion

The paper assessed how compliance measurement implemented within MPEs contributes towards mitigating IE within the SA context using a qualitative approach and performed a two-year comparison of IE to examine the effectiveness of compliance measurement. The findings show that regardless of SCM frameworks being in place, most of the MPEs still struggle to implement effective controls to ensure compliance with relevant SCM legislation, leading to continuous internal IE being reported. However, results also show gradual improvement in compliance implementation. This is evidenced by an overall decrease in IE from R3.85 billion reported in 2023 to R3.03 billion in 2024, and this represents a 21% decrease.

Analysis of results suggests practical managerial implications for MPEs' management and policymakers to strengthen their SCM internal control systems. Management should ensure that they provide continuous training for employees involved in the procurement of goods and services to equip their procurement skills. In addition, management must enforce consequence management and ensure that all AGSA recommendations regarding IE are implemented to prevent future incurrence of IE. Results further contribute to multiple theories listed below:

- Firstly, agency theory, suggesting that managers should prioritise practices that benefit the entity over their own financial benefits by implementing a sound compliance system and effective internal control systems, assists in reducing MPEs;
- Results also contribute to institutional and accountability theory and suggest that if MPE management properly adopt and implement SCM legislation and laws such as PFMA, it will enforce accountability, enhance organisational legitimacy and reduce reported IE. The study focused only on SA MPEs. Consequently, a similar study can focus on other state-owned enterprises other than MPEs. Future studies can also focus on assessing the role digital procurement systems and automated systems play in deteriorating IE.

While overall IE shown in analysis demonstrates management effort to enhance their compliance with SM laws, Persistence IE and disclaimer audit opinions in some MPEs indicate the need for management to implement effective controls and exercise adequate oversight responsibility over compliance with procurement laws.

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