

# The Effectiveness of the Public Finance Management Act in Zimbabwe: The Factors and Strategies to Improve Acquiescence

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## Abstract

The sought to identify factors that influence the effectiveness of PFMA and strategies needed to understand it. Since its introduction some officers are failing to execute their duties as, PFMA does not have the Regulations. The descriptive survey and documentary analysis were used as they extract facts from people's minds. The population of 300 was used. Random and judgmental sampling was used to select a sample of 75 participants. Findings revealed that up to now no audit committee to review internal controls has been set up and the ACT has had no impact since its inception. Further there has not been any decrease in failure to adhere to the ACT. Recommendations are that the public sector organizations should develop policies in line with PFMA and that there must be political will to enable effective implementation.

**Keywords:** Effectiveness, Public Resources, Management, Accounting, Public Finance Management Act (PFM Act).

## Background of the study

In the decades since independence, many countries have battled with crippling debt burdens, low credibility of their enacted budgets, poor links between their policy priorities and the inputs that public resources actually fund, and the high costs of wastage and corruption. There is hardly a country in Africa that has not embarked on some effort to improve or reform its Public Financial Management system (PFM) (CABRI 2010). The existence of a comprehensive legal framework for budget preparation is important in managing the budget process, in assigning responsibilities and in providing all fiscal decisions and activities with a base in law. Earlier assessments of both Francophone and Anglophone systems found legal frameworks to be lacking in terms of coverage and implementation. (Lienert 2008; OECD 2008). However by the beginning of 2000, both developing country governments and donors began to question why PFM and public sector management interventions to improve expenditure management had only achieved limited success (Pretorius and Pretorius 2008). To this end, African countries enacted different PFM statutes based on many developed countries legislation like that of Scotland.

In Zimbabwe PFMA was enacted in 2009 to fill gaps not addressed by the Audit and Exchequer Act and for the country to embrace this new management of public resources. The Act aimed to achieve proper financial management in order to ensure effective service delivery through the effective and efficient use of available national resources. The PFM Act (2009:147) consists of the following components: Control and management of public resources, National Budgeting, Financial management and Budgeting, Regulation and control of public entities, Examination and audit of public accounts, Financial Reporting and Financial misconduct of public officials.

However, effectiveness of the PFMA remains a challenge, the Act does not have Regulations and does not have the revised Treasury Instructions aligned to the PFMA but to the repealed Audit and Exchequer Act and also the Office of the Comptroller and Auditor General is still an Officer of Parliament thereby compromising independence, notwithstanding the availability of documented PFMA, various factors influence effectiveness of PFM Act.

## Statement of Hypothesis

This research is premised upon the following hypothesis:

1.  $H_0$ : There is no association between effectiveness of PFMA and factors influencing the effectiveness of the PFMA.

$H_1$ : There is an association between effectiveness of PFMA and factors influencing the effectiveness of the PFMA.

2.  $H_0$ : There is no decrease in the number of cases for failure to adhere to the PFMA before and after its enactment. ( $\bar{d} = 0$ )

$H_1$ : There is a decrease in the number of cases for failure to adhere to the PFMA before and after its enactment. ( $d < 0$ )

3.  $H_0$ : There is no impact and effectiveness of PFMA on audit qualifications ( $d = 0$ )

$H_1$ : There is effectiveness of PFMA on audit qualifications ( $d \neq 0$ )

### Related Literature

Public financial management has traditionally been developed around a framework of control and is reflected in checking, testing, verifying and regulating through control accounts, centres, procedures (instructions) and departments (treasuries) (Madue 2007). Since Zimbabwe is a developing country, the government is concerned with introducing and effecting policies (the PFM Act) with a view to achieving greater improvement in management and accounting of public resources. Zahra *et al* (2000) noted that management and control practices in public sector organizations have evolved during the past few decades. The world-wide trend has been towards incorporating management practices borrowed from the private sector. New developments around public finance led to the principle of public financial management rather than financial control. Hoque, Arends and Alexander (2004) agrees on need to improve public service management by stating that generally, public services have come under pressure to become more efficient and effective and to be a less burden to the taxpayers while retaining the volume and quality of services to the public. This was re-emphasized also by Parker and Guthrie (1993) when they stated that there is a global drive for the introduction of market-oriented practices to the traditional public sector in order to raise the level of efficiency and effectiveness in this sector. However Gildenhuis (1997) claims that policies and strategies exist in the statements made by politicians and in written documents and legislation but without proper implementation. The South African PFM Act (1999) on section 38(1) (b) stresses that, with the introduction of the new financial management dispensation effectiveness was made obligatory by law, however the Zimbabwean PFM Act does not stress this issue of effectiveness and only stresses its objectives which when followed are effective. Pauw *et al* (2002: 23) agrees with both the PFM Acts of Zimbabwe and South Africa, and add that, the pursuit of effectiveness has important repercussions for financial management.

Fourie (2005: 679) stresses that public financial management in the South African context is based on the three elements: improving transparency, entrenching accountability and ensuring the integration of policies and this is in agreement with the Zimbabwean PFM Act section 3 which states that its objects is to secure accountability, transparency and sound management of public resources. Further explained by (Peterson, 1996) was that the necessary conditions of reform which are trust, need, help, and urgency.

### Factors influencing PFMA effectiveness

Different factors affect the effectiveness of PFMA in a positive and negative way. The Ministry of Finance (MoF) of Rwanda (2008:8) stated that an "Enhanced PFM system that is effective, efficient, transparent, reduces opportunities for corruption and have factors that promote effectiveness like, aggregate fiscal discipline, strategic prioritization of expenditure or strategic allocation of resources, improved performance during budget execution, transparent and comprehensive financial reporting for greater accountability, participatory and transparent budget processes at the national and local levels and external scrutiny. PEFA (2005) agreed and identifies the critical dimensions of an open and orderly PFM system as budget comprehensiveness and transparency, policy based budgeting, predictability and control in budget execution, accounting and reporting and, external scrutiny and audit. Similarly Fourie (2007) stated that the main objective of the PFMA is to secure transparency, accountability, and sound management of the revenue, expenditure, assets and liabilities of the institutions to which the Act applies and also identified the factors promoting effectiveness of PFMA as the components of risk management, asset management, financial management and budgeting, performance management, procurement, provisioning and third party services, legal compliance, financial reporting and record management, medium term expenditure framework, strategic & business planning.

Olander (2007) describes four inter-related elements that need to be considered when assessing and developing PFM capacity and he differs with above on factors affecting PFM. The elements stated includes, resources which includes the quantity and quality of staff, adequate and timely financial resources, equipment and facilities. The second is management, which comprises leadership and political will, operational management and change management of the PFM reform programme. The third element, which is institutional framework, takes account of legislation, procedures and organisational culture. The final element relates to support structures including the role of tertiary education institutions and professional bodies, the upgrading of skills through training and the role of consultants.

SIDA (2007) identified other factors affecting PFM stated as PFM-related procedures that can lead to a greater risk of corruptive behaviour than otherwise. These are largely related to weak accounting and reporting

systems and the handling of cash. Special areas to note are procurement, all handling of cash in the distribution of expenditure resources and revenue, collection (e.g. taxes) such as custom fees or service fees, the cash flow of external funds that is are they registered in the budget? Is everything registered or just part of it? Payroll registration and disbursement of salaries, uneven, infrequent or uncommon events with public cash flow for example privatization of state enterprises, collection of concession fees, uncommon or uneven payments of debts, or approval of new loans. It further explained the factors impacting negatively as some examples of corruption risks linked to PFM systems, that is biased planning (to certain regions, expenditure areas), skewed or unrealistic budgeting for the purpose of misuse of funds, off-budget resources not subject to public control. Poor or no financial reporting of expenditure and revenue, inaccurate distribution of funds in relation to allocations, weak procurement processes, leaking payment systems, no reconciliation of accounts. Weak control of domestic revenue, weak audit and supervisory functions, lack of accountability control by parties outside the government, lack of sanctions when misuse has been confirmed, no institutionalised follow-up procedures for results.

CABRI, AFROSAL, ATAF, (2010) stated that addressing core principles for financial governance reforms in Africa are Transparency that is progress towards good financial governance will be limited unless African governments in general effect significant improvements in fiscal and budget transparency. Accountability which is a commitment by African political leaders and senior public servants to restoring and building the functionality of internal and constitutional accountability systems is necessary and institution building whereby African governments need to focus on building transparent, accountable, and effective institutions in the public resource management cycle. Balancing reforms and capacity growth that is poor human resource and system capacity can derail any reform initiative.

### **Benefits of PFMA**

Pretorius and Pretorius (2008) identified benefits that Strong Public Financial Management (PFM) systems are essential to improved service delivery, poverty reduction and to achievement of the MDGs. Effective PFM systems maximise financial efficiency, improve transparency and accountability, and – in theory – would contribute to long-term economic success of transparency and accountability in government finances and to ensure long-term. He further explained that Effective Public Financial Management (PFM) systems are required to maximise the efficient use of resources and create the highest level of economic success. A well-functioning PFM system, the donors felt, would provide the assurance that the funds released through debt forgiveness would be productively used in a transparent and efficient manner. Similarly, it would contribute to overall governance through protection of public resources against the risk of expropriation and corruption. SIDA (2007) reported that a sound PFM system is, for instance, a prerequisite for making it possible to effectively channel resources to fulfil a number of human rights, such as access to basic education or health services. Without proper management of public funds, the macro economy would be negatively affected, with adverse effects on the business climate and redistribution of wealth through inflation. Corruption also thrives where PFM is weak and not only limits possibilities for growth, but also directly affects basic human rights. Hence, an effective PFM system both secures control of public resources by being transparent, open, and having proper accountability arrangements; and promotes effective handling of funds, thereby indirectly reducing the likelihood of engagement in corruption.

### **Enforcing Compliance and Compliance Strategies**

However, it is essential for a well-functioning enforcement system to support PFM systems. In the absence of a meaningful enforcement system, PFM systems can be subverted (Prakash and Cabezon 2008) Firstly, it should be noted that policymakers are focused on the desired outcomes of change, but neglect the contextual factors that influence implementation and effectiveness of PFMA. This statement suggests that, in many instances, non-compliance can be attributed to poor implementation or a lack of insight into the policy process which results in effectiveness of PFMA. Coveney et al (2003: 25) echo this statement by stressing that the gap between actual and intended results is unavoidable. The second argument relates to the implementation process which includes problems of capacity and resources – these prevent policies from being properly implemented (CEPD 2000; De Clercq 2001; Khosa 2003). A key problem, according to Welton (2001: 182), is that some of the managers who should be leading feel disempowered; they cannot see the way forward, feel de-skilled and, in some cases, lack acceptance by other stakeholders.

The above factors, insufficient staffing, and the incapacity of all three spheres of government, as well as insufficient linkages between these spheres, have largely worked against successful compliance with the PFMA. Line function and cost centre managers in both national and provincial departments normally come from various backgrounds, and tend to possess a variety of educational qualifications in non-financial fields (such as social development, engineering, medical, legal, or other practices). Interpreting and implementing financial processes pose a challenge to these managers. Indeed, the majority of managers are not trained in financial management. A study by Van Wyk (2004: 414) identified, amongst others, the following factors: Lack of

experienced, knowledgeable, skilled and qualified staff, Outdated accounting and information systems, Inadequate knowledge of the Public Financial Management Act, 1 of 1999 ,the transformation from financial control/ administration to financial management, Inadequate control systems and a lack of knowledge of accrual accounting and Generally Recognized Accounting Practices (GRAP)(Madue 2007).Polidano (2001) agrees that most reforms fail not because of the contents or technical aspects of the reform programmes, but because of the way they were implemented.

## METHODS AND MATERIALS

A qualitative descriptive survey and documentary analysis were adopted to investigate the effectiveness of Performance Financial Management reforms. This enabled extraction of information such as factors, opinions and points from people's minds. The study was conducted on a population of three hundred people (300) drawn from various ministries. Stratified and judgemental sampling were used which resulted in a sample of seventy five(75) people being selected comprising of ten(10) managers and directors, twenty five(25) auditors, twenty five (25) accountants and fifteen (15) administration officers . Structured questionnaires and in-depth telephone interviews were used to collect the data. The data collected was analysed using statistical packages with measures of central tendency and standard deviations being calculated.

## RESULTS, ANALYSIS AND INTERPRETATION

Seventy-five questionnaires were sent and sixty responses received .The respondents were Accountants who contributed 41% followed by Auditors with 17% and Directors and Managers with 15% each and finally Administration Officers' with 12%.This shows that most respondents are from middle management(Accountants and Auditors) and top management(Directors and Managers) and Lower level employees who are the Administration Officers. Results further indicate that male respondents dominated with seventy-two per cent (72%) while females were twenty-eight per cent (28%) showing greater disparity in gender sensitivity by ministries, designated bodies, and statutory funds on their recruitment and selection. The majority of the respondents sixty three per cent (63%) had more than ten years of service in PFMA while thirty-seven per cent (37%) had less than ten years. This may not have any effect on the study results as most professionals know the tools and corporate resources for work.

## DOCUMENTARY EVIDENCE

Documentary analysis indicate that the policy stipulates the establishment of audit committees to review internal controls ,preparation of accounts and reviewing with the Comptroller and Auditor General or other external auditors who are to meet twice a year. However these have not yet existed in ministries resulting in provisions of the framework being applied partially instead of severally. The results of the hypothesis 2 test  $t_{calc} = -1.449 >$   
 $t_{crit} = -2.179$  lead to acceptance of  $H_0$  and concluding that there is no impact or effectiveness of PFMA on audit qualification since its enactment (see appendix 1). Further analysis of **The 2012 Mid Term Fiscal Policy Review, PFMS Regulations-pp 147-156** as stated that, Treasury would gazette the PFMS Regulations and roll out of the PFMS to all centres for purposes of enhancing the control and management of expenditures, the revenue retention Funds when also inspected revealed a number of concerns which include:-

- Lack of transparency in the utilisation of retained funds,
- No remittance of revenue due to the fiscus and
- Non-production of financial statements for audit.

These indicate to date that Ministries and Departments have not adhered to Treasury instructions, thereby making it difficult for Treasury to keep track of revenue collections. Findings agree with Prakash and Cabezon( 2008)who noted that it is the political will that lead to a well-functioning enforcement system which must support PFM systems and in the absence of a meaningful enforcement system, PFM systems can be subverted .

## Effectiveness and easy application

When asked on the effectiveness, the majority 81.67% of the respondents stated that the PFMA was not effective while only 18.33% of the respondents indicated that PFMA was very effective. The results indicate that PFMA was not effective and hence need to make it effective.

The other question was on easy and simplicity of the PFMA to understand and implement, the responses indicate that the average rating of 18.64% shows that slightly more respondents are of the opinion that the PFMA framework is simple, easy to understand and implement. Probably their concern is the technical language used in the PFMA; the framework is simple only when you are familiar with the document. The PFMA should establish a uniform appreciative language and ensures the application of minimum norms and standards. Questions were also asked to participants on number of financial misconduct, wilfully or negligently to

elicit views on effectiveness of the PFMA as an intervention to PFM.

**Table 2: Financial misconduct committed before and after enactment of PFMA**

From the data shown on table 2 it shows that the level of financial misconduct has actually increased from 48.82% to 51.18%. This shows that the PFMA might not be effective or that the PFMA might be good but not implemented well. The results of study agree with Prakash and Cabezon (2008) who stated that it is essential for a well-functioning enforcement system to support PFM systems. This statement suggests that, in many instances, non-compliance can be attributed to poor implementation or a lack of insight into the policy process which results in ineffectiveness of PFMA.

**Table 2: Financial misconduct committed before and after enactment of PFMA**

	2006-2008	2010-2012
Control, issue, delivery, transfer and custody of State property	97	182
Making or permitting any irregular, unauthorised, wasteful or fruitless expenditure	99	55
Failing to exercise that power and authority to perform a particular duty	55	48
Collection and receipt of public money	268	259
<b>Total</b>	<b>519</b>	<b>544</b>
Percentage of Total %	<b>48.82%</b>	<b>51.18%</b>

**Source: Research Data**

From these results it shows that the above factors really affect the effectiveness of PFMA. These factors identified here agree with those of The Ministry of Finance of Rwanda (2008:8) that refers the factors as aggregate fiscal discipline, strategic prioritization of expenditure or strategic allocation of resources, improved performance during budget execution, transparent and comprehensive financial reporting for greater accountability, participatory and transparent budget processes at the national and local levels and external scrutiny. These also agreed to those identified by PEFA (2005), Van Wyk (2004: 414).

### Strategies

Strategies to improve acquiescence with PFMA were also collected and when asked on possible strategies, results show that Training is essential as shown by frequency of 11 followed by workshops of Stakeholders on PFMA contents which had a frequency of 10. Promulgation of PFMA Regulations and Treasury Instructions had a high frequency also of 9, awareness may sound the same as workshops but it has a frequency of 8. The other various strategies were meant to show different views the respondents felt was going to improve effectiveness of PFMA. These results agree with Madue (2007) who also identified almost the same strategies of improving PFMA acquiescence to name but a few issues like: adjusting diaries for planning and reporting purposes; holding information meetings with members of staff to explain the PFMA prescripts; listing own responsibilities and target dates for the finalisation of actions preparing an own implementation plan.

The respondents further highlighted other strategies as: capacity development, training, awareness on PFMA prescripts and other ideas which are contributing towards effectiveness of PFMA, PFMA must be enforced without fear and favour.

Two hypothesis (1 and 3) were then tested

### HYPOTHESIS TEST 1

This was testing whether there was a relationship between effectiveness and the factors influencing PFMA. Since our  $\chi^2_{calc} = 9.95 < \chi^2_{crit} = 26.296$ , accept  $H_0$  and conclude that there is no association between effectiveness of PFMA and the factors influencing PFMA effectiveness.

### HYPOTHESIS 3

It was meant to test the statistic of the PFMA whether there has been a decrease in the number of misconduct cases for failure to adhere to PFMA before and after.

Since our  $t_{calc} = -0.262 > t_{crit} = -2.179$ , accept  $H_0$  and conclude that there is no decrease in the number of cases for failure to adhere to the PFMA before and after its enactment in management and accounting of public resources. This can be interpreted together with PEFA (2005) which elaborated and identified several factors that are likely to be relevant in supporting an effective reform process in many country contexts basing on recent and on-going reform experiences in terms of level and nature of political engagement in the reform process, the extent to which the government articulates a compelling case for PFM reforms

### RECOMMENDATIONS

PFMA processes should be put into practice within the public organizations. The organizations should develop policies that must be implemented accordingly. The strategic plan of the organisations should be revisited

regularly to ensure proper public resource management and accounting. It is therefore recommended that:

Promulgation of the PFM Regulations and revision of Treasury Instructions and Accounting Officers Manual in line with the PFMA

establishing the Audit Committees as needed by PFMA to improve on cases of financial misconduct and audit qualifications

The Office of the Comptroller and Auditor General must be independent from the Parliament to improve independence and enforcing compliance with PFMA and mitigating corruption related activities inherent to PFMA

That each public organization must develop a PFMA strategy that includes levels of service, financial projections, improvement plans and addresses the performance measures for the management and accounting of public resources

provides PFMA training and leadership skills from management level downwards, and

develops programs and activities for all personnel to raise awareness of PFMA as a strategic corporate resource.

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**Appendix 1**  
**TESTING HYPOTHESIS 2.**

**Hypothesis Test**

$H_0$ : There is no impact and effectiveness of PFMA on audit qualifications ( $\bar{d} = 0$ )

$H_1$ : There is effectiveness of PFMA on audit qualifications ( $\bar{d} \neq 0$ ) **Decision Rule**

If  $-2.179 \leq t_{calc} \leq 2.179$  Accept  $H_0$

If  $-2.179 \geq t_{calc} \geq 2.179$  Reject  $H_0$

At 5% level of significance,  $V=12_{df}$ ,  $t_{crit}=2.179$  accept  $H_0$ , Reject  $H_0$  -2.179

**Table 1: Audit qualifications of Line Ministries 2006 and 2010**

	Before(2006)	After(2010)	$\bar{d}$	$\bar{d}^2$
Parliament	4	2	2	4
Finance	2	6	-4	16
Industry	6	2	4	16
Agriculture	1	19	-18	324
Mines	6	12	-6	36
Transport	9	6	3	9
Foreign Affairs	3	12	-9	81
Health	5	22	-17	289
Education	1	6	-5	25
Higher Education	5	1	4	16
Home Affairs	14	6	8	64
Small Medium	1	5	-4	16
Energy	1	1	0	0
<b>Total</b>			$\Sigma\bar{d}=-42$	$\Sigma\bar{d}^2=896$

Source: Report of the C&AG 2006 and 2010

Test statistic:  $t_{calc} = \frac{\bar{d}\sqrt{n}}{S_d}$

Where,  $\bar{d} = \Sigma\bar{d}/n = \frac{42}{760} = .055$   
 $S_d = 3.2$

$S_d^2 = \frac{1}{n-1} \left( \Sigma\bar{d}^2 - \frac{(\Sigma\bar{d})^2}{n} \right) = 0.083333333(896 - 135.69231)$

$S_d^2 = 0.083333333 * 760.3076923$

$S_d^2 = 63.35897436$

$S_d = \sqrt{63.35897436} = 7.958$

$\frac{-3.2\sqrt{13}}{7.958}$

Therefore  $= -1.449$

**Appendix 3**  
**Hypothesis Test.**

At 5% level of significant,  $V=(c-1)(r-1)df(4*4)=16df$ ,  $\chi^2_{crit}=26.296$  accept  $H_0$

Reject  $H_0 = -26.296$

**Table 2: Test statistic: Association between factors affecting PFMA and level of effectiveness**

Factors	Level of effectiveness					
	Very High	High	Fair	Low	Very Low	Total
Accounting, recording and reporting	10(7.5)	26(28.13)	21(18.75)	3(5.42)	0(0.21)	60
Transparency and Comprehensiveness	7(7.13)	25(26.72)	20(17.81)	5(5.15)	0(0.20)	57
Financial Management and Budgeting	7(7.00)	27(26.25)	18(17.50)	4(5.06)	0(0.19)	56
Regulation and Control of Public Entities	6(7.13)	28(26.72)	15(17.81)	8(5.15)	0(0.20)	57
Examination and audit of public accounts	6(7.25)	29(27.19)	16(18.13)	6(5.24)	1(0.20)	58
Total	36	135	90	26	1	288

Source: Research Data

$$\chi^2_{calc} = \frac{\sum(f_o - f_e)^2}{f_e}$$

$$= 0.83 + 0 + 0 + 0.18 + 0.22 + 0.16 + 0.11 + 0.02 + 0.6 + 0.12 + 0.27 + 0.01 + 0.44 + 0.25 + 1.08 + 0 + 0.22 + 1.58 + 0.11 + 0.21 + 0.2 + 0.19 + 0.2 + 3.20$$

$$\chi^2_{calc} = 9.95$$

**Appendix 4**  
**Hypothesis Test 2**  
**Decision Rule**

If  $-2.252 \leq t_{calc}$  Accept  $H_0$ , if  $-2.252 \geq t_{calc}$  Reject  $H_0$  At 5% level of significance,  $V = 3_{df}$ ,  $t_{crit} = 2.252$

**Table 3: Financial misconduct committed before and after enactment of PFMA**

	2006-2008	2010-2012	d	d <sup>2</sup>
Control, issue, delivery, transfer and custody of State property	97	182	-85	7,225
Making or permitting any irregular, unauthorised, wasteful or fruitless expenditure.	99	55	44	1,936
Failing to exercise that power and authority to perform a particular duty	55	48	7	49
Collection and receipt of public money	268	259	9	81
<b>Total</b>	<b>519</b>	<b>544</b>	<b><math>\sum d = -25</math></b>	<b><math>\sum d^2 = 9,291</math></b>

Source: Research Data

Test statistic:  $t_{calc} = \frac{d\sqrt{n}}{S_d}$  Where,  $\bar{d} = \frac{\sum d}{n} = \frac{-25}{4} = -6.25$

$$S_d^2 = \frac{1}{n-1} (\sum d^2 - \frac{(\sum d)^2}{n}) = 0.25(9,291 - 156.25) = 2,283.6875$$

$$S_d = \sqrt{2,283.6875} = 47.79$$

Therefore,  $\frac{-6.25\sqrt{4}}{47.79} = -0.262$



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