On Managerial Accounting Practices in South African Public Departments

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ABSTRACT The availability and adequacy of accurate cost information is required for sound financial decisions in any organisation, but the level of its usage differ from one organisation to another either private or public according to the relevance attached to it. In particular, this study examines the determinants of implementing cost and management accounting systems in two South African public departments based on two determinants: (a) to satisfy regulations, and (b) to provide legitimacy. Furthermore, this study presents the outcome of studies conducted in a water agency and a hospital in South Africa. Participants were selected based on their relevance to managerial accounting practices in these organisations. Evidence suggests that those departments that claims to have a management accounting system in place did so only to satisfy regulations and to legitimatimise their activities before external stakeholders such as the auditor-general’s office as having control on their operations.

INTRODUCTION

The pressure on governments to deal with shrinking budgets and dwindling financial resources have raised concerns for public department managers to efficiently and effectively utilize available financial resources, increase transparency, expand constituent services, and improve performance. The increasing level of competition for the few available resources among government agencies has intensified this challenge for public department managers to have detailed understanding of the required financial resources needed and consumed in relation to the goals, mission, and outputs of the department (OECD 1995; Jung 2013). This understanding is required for public department managers to make decisions that enable effective utilization of limited financial resources to improve performance and transparency. Due to the limitation in government financial resources, performance measurement issues are receiving increasing attention as these organisations attempt to implement new measurement techniques that better support their objectives (Cavalluzzo and Ittner 2004). While many performance measurement initiatives stem from the private sector, recent efforts by governments worldwide to improve public departments’ performance have placed emphasis on increasing accountability and improving decision-making (Ittner and Larcker 1998). Essentially, governments are compelled to cut costs by taken steps to reduce costs and improve services through regulations like the Public Finance Management Act (PFMA) (No.1 of 1999 as amended by Act 29 of 1999) in South Africa for instance (National Treasury South Africa 1999).

In response to this challenge, a range of management accounting techniques has emerged (Chenhall and Langfield-Smith 1998). Accounting literature identifies some critical attributes of a costing system design to include the level of detail provided, the ability to separate costs according to behaviour, the frequency with which cost information is reported, and the extent to which variances are calculated (Pizzini 2006). Pavlatos and Paggios (2009) warn that if management accounting practices is to remain relevant, it needs to adapt to meet the changing needs of managers. Particularly, there have been increasing emphasis on delegated budgets and accountability, cost accounting and cost management initiatives, and value-for-money audits as a means to increase the efficiency and effectiveness of public department operations (Broadbent and Guthrie 1992; Humphrey et al. 1993). In contrast, descriptive studies find that public departments’ management accounting systems are implemented to satisfy government mandates and regulations like the PFMA and are rarely used for internal decision-making purposes (Uddin and Tsamenyi 2005). Instead many of these public departments’ cost and manage-
ment accounting systems are merely implement-
ed to satisfy regulations and provide legitimacy
for their activities to be seen by external stake-
holders as having control on their operations
(Geiger and Ittner 1996).

While research on management accounting
practices have largely focused on accounting
systems of large manufacturing organisations
in developed countries (Waweru et al. 2004; Pav-
latos and Paggios 2009); a number of govern-
ment cost accounting issues have not yet been
dealt with comprehensively in existing literature.
Drawing on both institutional and contingency
theories of management accounting practices,
this study examines the determinants of imple-
menting cost and management accounting sys-
tems in the South African public departments
based on two determinants: (a) to satisfy regula-
tions, and (b) to provide legitimacy. In addition,
this study reports on two case studies about what
influences of managerial accounting practices in
government departments in South Africa.

Institutional and Contingency Theories of
Management Accounting

Proponents of normative institutional theo-
ry argue that it extends beyond the focus of
contingency theory on an organisation’s task
environment (Covaleski et al. 1996). Other pro-
ponents indicate that because individuals are
led to make conceptual changes to public sector
accounting systems and financial reports, the
system of institutions provides the framework
with which accounting systems are shaped (Lud-
er 1992). While supporters of contingency the-
ory contend that a one-size-fits-all approach is
undesirable; they suggest that the approach will
be more effective if it takes into consideration
the potential diversity of governance mechan-
isms which deal with important contingencies
(Aguilera et al. 2008). Conversely, public de-
partments should consider that management
accounting is not only a homogeneous set of
calculative practices that is highly contingent
and situational specific, but as a dynamic and
organisational embedded social phenomenon
utilising instruments that are not stable and fixed
but oftentimes complex, temporary and fragile
(Vaivio 2008). Due to conflicting interests among
public departments’ officials to fully implement
management accounting systems in South Afri-
ca which may lead to inefficiency and sub-opti-
mality in the use of the few available financial
resources, this study considers both the insti-
tutional and contingency argument to support
the need for public departments to embrace the
use of managerial accounting information for
improved public service delivery.

The Changing Information Needs of
Government Managers

There have been increasing emphasis on
delegated budgets and accountability, cost ac-
counting and cost management initiatives, and
value-for-money audits as a means to increase
the efficiency and effectiveness of public de-
partment operations (Broadbent and Guthrie
1992; Humphrey et al. 1993). In contrast, these
initiatives have yet to yield desired improve-
ments envisaged for an efficient and cost-effect-
ive public service. Moreover, there are few skilled
accountants within public departments to make
the adoption and implementation of private sec-
tor-styled managerial accounting techniques
thrive to yield improved cost decisions in gov-
ernment service delivery (Hyndman and Con-
nolly 2011). Moreover, Kober et al. (2010) argue
that the increasing public sector managerial au-
tonomy in decision-making necessitated the
 generation of financial information other than
cash by public accountants to assist public sec-
tor managers improve their financial decisions.

Incidentally, critical attributes of a costing
system design includes the level of detail pro-
vided, the ability to separate costs according to
behaviour, the frequency with which cost infor-
mation is reported, and the extent to which varia-
tes are calculated (Pizzini 2006). Nevertheless,
Verbeeten (2011) found that while cost manage-
ment information is used by some public depart-
ments’ financial managers; it is hardly used by
political managers thereby debunking the claims
that cost management information has become
important in managing public sector orgniza-
tions. This assertion remains true, inasmuch as
protagonists in politics, government and public
administration assume the possibility of politi-
cal managers to pursue one’s self-interest pre-
suposes a discretionary margin in public deci-
sion-making (Luder 1992). With regards to this,
Cavalluzzo and Ittner (2004) argue that the ex-
tent of performance measurement and account-
ability in public service are positively associat-
ed with greater use of performance related in-
formation provided by its managerial accounting systems for various purposes. Similarly, Pizzi (2006) found that managers’ evaluations of the relevance and usefulness of cost data are positively correlated with the extent to which its managerial accounting systems can provide greater cost detail, better classify costs according to behaviour, and report cost information more frequently. Conversely, Mucciarone and Neilson (2011) observe that one institutional factor that can influence the development and use of management accounting principles in a public service department is the extent that its bureaucrats have the requisite knowledge and experience to support its implementation.

The Influence of Costing Information in Government Business

Government managerial accounting systems are implemented to satisfy government mandates and are rarely used for internal decision-making purposes (Uddin and Tsamenyi 2005). Instead, many of these public departments’ cost and management accounting systems are merely implemented to satisfy regulations and provide legitimacy for their activities to be seen by external stakeholders as having control on their operations (Geiger and Ittner 1996).

Implementing Managerial Accounting to Satisfy Regulations

While private sector accounting served as a benchmark for evaluating public sector accounting; many of these public departments’ cost and management accounting systems are merely implemented to satisfy regulations so that they can be seen by external stakeholders as having control on their operations and activities (Geiger and Ittner 1996). In order words, public sector management accounting most often refers to budgeting and control in relation to expression of public policy and political preferences, or more of an instrument of fiscal policy on revenue and spending to achieve macroeconomic objectives (Chan 2003). In other words, Jackson and Lapsley (2003) confirm that public service departments’ main reason for adopting new managerial practice is to comply with regulations and statutes. They argue that instead many public service finance or accounting departments reports that they are adopting new managerial accounting procedures to cope with the pressure from government to reduce costs and utilise resources more efficiently because they are faced with increasing pressures and demands for information to justify future financial resource allocation to their departments.

Implementing Managerial Accounting to Provide Legitimacy

Many of these public departments’ cost and management accounting systems are merely implemented to provide legitimacy for their activities to be seen by external stakeholders as having control on their operations (Geiger and Ittner 1996). With regards to this, Verbeeten (2011) indicates in a study in The Netherlands that while the design and use of cost management accounting systems differs across public departments; information from cost management systems is used to legitimise the organisation’s activities to external stakeholders rather than to manage public sector finances. Similarly, Geiger and Ittner (1996) maintain that other public departments are compelled to implement a management accounting system in order to meet the legal requirements for revolving funds from the government. Eventually, when managerial accounting change takes place because of forced regulation or legislation, it is not difficult to precisely determine that such public departments are under pressure to improve their efficiency, their budgetary process and flow of information to the public and other interested parties (Jackson and Lapsley 2003). Consequently, public service departments need to increase their ability to supply detail costs of their services with greater measurement and accountability through effective cost accounting system design to enable them manage their services successfully (Cavalluzzo and Ittner 2004; Pizzini 2006).

METHOD

The study method consists primarily of in-depth interviews with accounting officers of two public service departments in South Africa. Otherwise, where appropriate, relevant senior members of the accounting staffs were interviewed using open-ended questionnaire. Deciding on the appropriate choice of public departments proved a bit difficult because of the lack of willingness to participate in research by most pub-
lic department officials in South Africa and non-
response to survey questionnaires made the
choice of exploratory qualitative study approach
the best available option. At any rate, a qualita-
tive approach is preferred in this circumstance
since the study is particularly focused on exam-
ining the determinants of implementing cost and
management accounting systems in the two
South African public departments, and to sug-
gest potential social, economic and environmen-
tal benefits of adopting management account-
ing practice in public departments. A multiple
case study approach was adopted based on a
constructive paradigm that allows for a close
collaboration between the researcher and the
participant, while enabling participants to tell
their stories from different angle (Crabtree and
Miller 1999). The approach was to gain a better
understanding of managers’ actions; because
they are able to describe current reality as they
tell their stories (Lather 1992). The multiple case
approaches were to report the outcome of stud-
ies conducted at Lepelle Northern Water (LNW)
and Mokopane District Hospital in South Afri-
can. Participants were selected based on the rele-
vance of their duties to managerial accounting
practices. The in-depth-interview method was
used to collect data through a series of open-
ended questions from accountants and manag-
ers in the two organisations (Qu and Dumay
2011). While this study may have suffered some
inherent limitations such as subjectivity and
generalisation due to the case study approach
(Yin 2010); the findings obtained from these case
studies can be adopted in other situations since
each case may likely involve a number of com-
monalities. Although, generalizability is a con-
troversial issue in case study research (Yin 2010);
attentions were made to overcome this limitation
by asking open-ended questions which is un-
likely to overcome the limitation completely.

The Lepelle Northern Water

The Lepelle Northern Water (LNW) was es-

istablished and regulated under Water Services
Act No.108 of 1997 and Public Finance Manage-
ment Act of No1 of 1999 of South Africa. Its
primary mandated is to provide bulk water to
Water Services Authorities (municipalities) and
industries. The organization has the ability to
raise capital in the open financial market to fund
expansion projects. However, the department
has to contend with issues of non-remittance of
water revenue by municipalities for bulk water
services rendered to them. Other contending is-
ues are replacement, rehabilitation and refur-
bishment of water services infrastructures due
to the effects and consequences of aging and
climate change. The LNW consists of 306 em-
ployees with 26 in the finance department who
are responsible for Financial and Management
Accounting and Supply Chain Management.
The Management Board of LNW is the account-
ing authority tasked with the responsibility to
ensure LNW resources are managed in an effec-
tive, efficient and sustainable manner. The Chief
Executive participates in the development and
oversees the implementation of strategic plan
for the organization and reports directly to the
Board.

The Mokopane Hospital

At the Mokopane District Hospital, two se-

nior accounting officers were interviewed. The
Mokopane Hospital is a regional hospital in the
Waterberg District of Limpopo which offers both
primary and secondary services and a little bit
of tertiary services. All of the district clinics in
the Waterberg District most often refer their pa-
tients to the Mokopane District Hospital for sec-
ondary and tertiary services. The Mokopane
Hospital has three categories of patients: the
non- paying patients, the paying patients, and
the private patients. An established management
accounting information systems is likely to as-
assist managers improve their financial decision
making.

RESULTS AND DISCUSSION

While the objective of the study is to exam-
ine the determinants of implementing cost and
management accounting systems in two South
African public departments; there were challeng-
es in persuading the accounting managers to
participate in the research. However, the re-
searcher convinced them that their responses
and identities will be treated with discreet. More-
over, they were assured that the findings will be
useful to improve their decision making espe-
cially in relation to financial resources manage-
ment as well as contribute to improving their
departments' service delivery. Results from these
interviews were analysed using deductive rea-
soning. However, the lack of a separate cost accounting system within these two government departments is evident. Essentially, the shortage of skilled management accountants can be attributed for the lack of oriented use of performance measures for distortions in costing-related information within the public sector. Furthermore, current costs of producing a kilolitre of water had almost equalled water tariffs and the realisation that the water agency may longer be self-sufficient. Consequently, managers were oblivious of the usefulness of cost accounting information in decision-making while there is no reference to the use of cost accounting information during budget preparation.

The Lepelle Northern Water (LNW)

Findings indicate that LNW do not have a separate management accounting system in place contrary to the suggestion of Pavlatos and Paggios (2009). The existing financial management system is a finance department with no clearly defined cost and management accounting function to assist management to integrate the processes of financial management and accounting for accurate determination of product costs for an effective internal control system. According to one of the senior accounting officials interviewed:

'We do not have a separate cost accounting section; the cost per litre of water is agreed and fixed at the beginning of each financial year with the municipalities.'

Although, financial reports are produced timely, this does not influence the costing decisions of the department. This is a consequence of the non-availability of a management accounting system. Moreover, finance staffs have been trained to adhere to a system where only monthly and variance reports are prepared for comparison with budget (Jackson and Lapsley 2003). On the contrary, there is no existing management accounting system to assist managers to adequately calculate unit product cost or monitor their budget (which is based on the incremental budgeting system) whether they are adhering to established standard. While officials have responsibilities to determine budget in terms of cost centres and communicate to end users; there are no measures to ensure compliance to established management accounting system to assist decision makers on input-output costs for pricing strategies (Verbeeten 2011). Furthermore, current costs of producing a kilolitre of water had almost equalled water tariffs and there is a realisation that the water agency may longer be self-sufficient because of its product costing system. Some of the accounting managers interviewed does not fully understand the usefulness of cost accounting information in day-to-day financial decision-making. There is absolutely no reference to cost accounting information during budget preparation because of the lack of qualified cost accountants in this public department (Hyndman and Connolly 2011). Consequently, there is no relevance of a management accounting system to assist the organization to monitor variances between planned and actual cost (Jackson and Lapsley 2003).

The Mokopane District Hospital

Within the Mokopane District Hospital, management accounting principles is not particularly used and not relevant in their day-to-day financial decision-making due to lack of competent officials with sound managerial accounting skill (Mucciarone and Neilson 2011). Although, the hospital has an established accounting information system in place but there is no separate management accounting system because officials follow the financial reporting rules set by the Provincial government and which are influenced by political interference (Vauvio 2008; Jackson and Lapsley 2003). While some of the services rendered at regional hospitals are paid for; the lack of an established management accounting system and improperly patient records makes it difficult to collect outstanding patient bills. For instance, files that were opened for pregnant women during ante-natal period are not updated even after delivery, a situation that results in such services not been paid for. The lack of updated patients record is more prevalent in most of the districts’ rural clinics where collection of payment for services are inefficient with no internal cost control mechanism to monitor the collection process because of the unavailability of cost accounting related information to make necessary decision for improvements. The lack of an effective management accounting systems make patients visit the hospital with no intention to pay because they are fully aware that they would not be turned back if they do not pay, this relates to the findings of
Pizzini (2006). This problem is compounded due to the lack of a good verification mechanism to determine the employment status of patients. This loophole encouraged patients to go to the police station to give false affidavits which claims that they are unemployed to avoid payment. Although, the hospital keeps changing the outpatient department’s (OPD) data capturing software; the information process at these OPD departments left little to be desired on revenue collection of outstanding patient fess. Another major deficiency is that the hospital internet and intranet facilities are disconnected most of the time with the loss of patients’ record often attributed to sabotage. Also, the cost of service to paying patients at the hospital has not been properly accounted for or documented. Consequently, the unavailability of a separate management accounting information system has placed limitations on the management’s ability to make improved decisions. The lack of articulated cost information through effective management accounting systems has also left employees with low morale and demotivated since financial information are prepared only to satisfy legislation and prove their legitimacy (Uddin and Tsamenyi 2005).

CONCLUSION

A critical analysis of the two case departments reveals that the implementation of managerial accounting practices is influenced by the choice to satisfy regulations and provide legitimacy but not necessarily to provide the desired level of cost detail required to analyse reported cost information for improved decision making. However, the inability by public departments in South Africa to attract skilled manpower with the necessary analytical competences in managerial accounting have contributed to a large extent to the non-application of management accounting practices in public service delivery. A significant implication of these findings is that public projects have been evaluated and implemented using inappropriate cost analysis which often leads to over-spending of public funds. In consequence, mass protests and civil disobedience have continued to trail public departments inability to provide improved service delivery. In conclusion, for public departments to improve its service delivery, adequate cost detail and analysis of projects through well established management accounting practices similarly to that in the private sector is encouraged.

RECOMMENDATIONS

This study suggests that public service departments, especially those that are required to be self-financing by fully recovering their service costs through collection of revenues such as the Lepelle Northern Water, should not only endeavour to implement elaborate managerial accounting systems that is better than public departments like the Mokopane District Hospital that is funded by appropriate budgets and reimbursement of expenses by the national government, but should make an extensive use of managerial accounting system for diverse internal control purposes to include pricing and management control. Indeed policy makers and public department officials should endeavour to establish and implement private-sector styled management accounting systems in projects planning, cost control, financial decision making, and project evaluation and monitoring for better service delivery. The study recommends the establishment of a functional cost accounting system to assist managers in cost control and decision-making process. The study recommends the implementation of management accounting practices in selected public departments through pilot studies to demonstrate its potential to influence and improve public spending and financial performance.

REFERENCES


ON MANAGERIAL ACCOUNTING PRACTICES


