Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 8, No. 6, 4735-4748
2024
Publisher: Learning Gate
DOI: 10.55214/25768484.v8i6.3025

Addressing financial mismanagement in state-owned enterprises and municipalities: An integrative review and call for action

Moyo Kearabilwe Charmaine[1], Lilian Ifunanya Nwosu[2], Prince Chukwuneme Enwereji[3], Omobolade Stephen Ogundele[4*]
[1,2]School of Accounting Science, North-West University, South Africa; kearabilwemoyo@gmail.com (M.K.C.) 23012064@nwu.ac.za (L.I.N.)
[3]Department of Financial Accounting, University of South Africa, South Africa; enwerpc@unisa.ac.za (P.C.E.)
[4]Department of Commercial Accounting, University of Johannesburg, South Africa; omoboladeo@uj.ac.za (O.S.O.)

Abstract: This study critically explored the financial measures and policies that can be implemented to protect and mitigate the risks of mismanagement of the financial resources of state-owned enterprises (SOEs) and municipalities. This study adopted a qualitative research approach by reviewing readily available literature such as books, journals, articles, and other published materials. A stakeholder theoretical framework was used to understand the organisational ethics, morality, and values of SOEs and municipalities and their interactions and relationships with public and private firms and South African citizens. The significant findings of the study revealed that factors such as corruption, lack of financial transparency, and inadequate governance structures contribute to the mismanagement of funds in SOEs and municipalities. The findings further highlighted the urgent need to address the mismanagement of funds in SOEs and municipalities. The study calls for urgent action to strengthen financial accountability and oversight mechanisms and implement effective measures to combat corruption. By addressing these issues, SOEs and municipalities facing these challenges can promote financial integrity, restore public trust, and ensure the efficient use of public resources. The study recommended that SOEs should be protected from economic mismanagement, embezzlement, state capture, and corruption, requiring the implementation of effective financial measures.
Keywords: *Audits, Corruption, Governance, Mismanagement of funds, Money laundering, State-owned enterprises.*

1. Introduction

State-owned enterprises (SOEs) are legal entities established by the government to conduct commercial activities on its behalf, and they play a crucial role in the South African economy. Their financial status is an integral part of public finance oversight (1). SOEs hold duties and responsibilities of sustaining the infrastructure and services the economy depends on, including generating electricity, water supply, freight logistics, commuter transportation, and telecommunications (2). Concerns regarding poor governance have prompted questions as to whether SOEs can accomplish the desired objective of addressing economic and market failures, particularly corruption and the misuse of public power, which can unfavourably affect the functioning of a firm (3).

SOEs in South Africa have proven to be vulnerable and prone to corruption, adversely affecting citizens and Small and Medium Enterprises (SMEs). The corruption risks in relation to SOEs are heightened by their operational presence in sectors with large economic rent (3). Some of the largest SOEs that have a significant impact on the economy include Transnet HOC Ltd (Transnet), which controls the entire non-passenger rail transport system in conjunction with ports and pipelines, and Eskom HOC Ltd (Eskom), which accounts for 95% of electricity generated in South Africa (4). The National Anti-Corruption Strategy was formulated to ensure the whole-of-government and society approach in the fight against corruption in 2015 when the first phase was implemented in 2016/2017 with the hope of eliminating corruption (5). However, this has not occurred since this strategy has been

* Correspondence: omoboladeo@uj.ac.za

implemented as there is no evidence of the improvement in ethical practices across sectors; for example, Eskom's debt has reached R423 billion as per the national treasury report (6). It is evident that the government is lenient towards implementing strategies formulated in their policies to combat corruption as it is ongoing.

South African citizens frequently experience electricity power cuts, otherwise known as load-shedding, because of the inefficiencies in Eskom. Commission into the allegations of state capture and corruption revealed that Eskom and Transnet were some of the enterprises where favouritism, fraud, and corruption prevailed (4). SMEs face substantial challenges, with 85% of business owners reporting that load-shedding has reduced their revenue (7,8). This study aims to delve deeper into the dynamics surrounding the mismanagement of funds in both SOEs and municipalities through an integrative literature review. The motivation for this study stems from the urgent need to address and mitigate the pervasive financial mismanagement within these public entities, which has far-reaching implications for economic stability and public welfare. The novelty of this study lies in its integrative approach, combining insights from various sources to provide a framework to address the mismanagement of financial resources in SOEs and municipalities. Unlike previous studies that may focus on isolated aspects, this review synthesises information to propose actionable strategies for improving financial management in SOEs and municipalities. The goal is to promote financial integrity, restore public trust, and ensure the efficient use of public resources, thereby contributing to the broader discourse on public sector reform in South Africa.

1.1. Context of the Study

The financial mismanagement in SOEs and municipalities has been an ongoing challenge in South Africa. These government-owned companies oversee basic services, including power, transportation, and telecommunications (9). Conversely, municipalities are local government entities that offer communities essential services like water, sanitation, and waste management (9). South Africa has 257 municipalities, and according to the audit report by Auditor General South Africa (AGSA), in the 2017/2018 fiscal year, approximately 8% of all municipalities had a clean audit (10). The misappropriation of funds in these organisations stretches back to the apartheid era, when racial prejudice and corruption were pervasive (11).

Nevertheless, the poor management persisted even after the end of apartheid, which resulted in the continuation of poor financial management of most SOEs and municipalities. SOEs have struggled with poor corporate governance and financial mismanagement. Notably, Eskom, burdened with more than R400bn debt, is resorting to desperate measures to cover outstanding payments, including R52bn owed by local municipalities (12).

Corruption is one of the key causes of the misappropriation of public funds. Both SOEs and municipalities are rife with corruption, which manifests in various ways, such as fraud, bribery, and embezzlement (13). Public officials in positions of authority are primarily responsible for the alleged corruption because they abuse their influence to rig bids and contracts in their favour (14). The mismanagement of financial resources in SOEs and municipalities results in poor financial management systems (14), and many of these organisations lack efficient financial procedures and controls, which result in financial irregularities and loss of funds (13). Furthermore, the financial difficulties encountered by SOEs and municipalities are made worse by the inability to mobilise debts from the service consumers (15,16).

Therefore, South Africa has a significant burden due to financial mismanagement in SOEs and municipalities. (11) advise that corrective action must be performed, including enhancing governance frameworks, implementing efficient financial management systems, and implementing consequence management on corrupt public officials. As a road map to establishing this corrective action, this study provides an integrative review of how financial resources in SOEs and municipalities can be appropriately managed.

According to the (4), the illegal activities occurring in South African SOEs reduce economic growth and income, consequently increasing job losses and the risk of poverty. SOEs in South Africa continue to pose challenges for the government, citizens, and businesses. To address these issues, the following research questions were used as a road map to establish corrective action on how financial resources in SOEs and municipalities can be appropriately managed:

1. *How does the mismanagement of financial resources in SOEs and municipalities negatively affect public and private companies, as well as the economy of South Africa?*
2. *What financial measures can be implemented to protect SOEs and municipalities from the mismanagement of funds, embezzlement, state capture, and corruption?*
3. *Which policies can be employed in SOEs and municipalities that will mitigate the risks of the mismanagement of financial resources that will work effectively?*

This study was guided by the above research questions, which aim to provide a comprehensive roadmap for establishing corrective actions to ensure appropriate financial management and governance in these critical institutions. The goal is to develop actionable strategies that mitigate these risks, thereby enhancing the financial stability and operational effectiveness of SOEs and municipalities and contributing to sustainable economic growth and social well-being in South Africa. The following section provides the theoretical framework of the study.

1.2. Theoretical Framework

R. Edward Freeman originally proposed the stakeholder theory in his 1984 book entitled *"Strategic Management: A Stakeholder Approach."* The theory was introduced as a counterpoint to the traditional shareholder-centric view of the firm, which focused primarily on maximizing shareholder value (17). The stakeholder theory expanded the scope of managerial responsibility to include a broader array of constituents to show the importance of considering all individuals and groups affected by an organisation's actions. According to (18), the stakeholder theory deals with managing stakeholders in projects or organisations. It is concerned with business ethics, morality, and values, with the objective of optimising relationships with stakeholders to make the project or organisation more efficient. It is also used in various critical areas, such as project management, corporate social responsibility, strategic management, and business ethics (18). The stakeholder theory was used to analyse the existing organisational ethics, morals, and values of SOEs and municipalities in their involvement with both public and private companies and the citizens of South Africa.

According to (19), the stakeholder theory posits that organisations should create value for shareholders and all stakeholders. Stakeholders are defined as any individuals or groups affected by or can affect the achievement of the organisation's objectives. The stakeholders may include the shareholders, employees, customers, suppliers, communities, and the environment where the organisation operates. The theory advocates for inclusive decision-making by including the voices and interests of various stakeholders and understanding their needs and concerns (19). One key dynamic is balancing the often-conflicting interests of different stakeholders, requiring effective management to negotiate and reconcile these interests for sustainable and ethical outcomes (17). The theory further strongly emphasises ethical behaviour and social responsibility, suggesting that organisations have moral obligations to all stakeholders.

In the context of SOEs and municipalities, adopting the stakeholder theory is relevant due to the impact entities have on various stakeholders. SOEs and municipalities operate in environments where their actions significantly impact citizens, employees, governments, suppliers, and the broader community. The mismanagement of public financial resources often leads to a loss of trust and confidence among stakeholders. These organisations can enhance accountability and transparency and ensure that the needs and concerns of all stakeholders are considered and addressed by adopting the stakeholder theory. The stakeholder theory emphasises ethical considerations and sustainability, which can encourage SOEs and municipalities to make financially sound, socially responsible, and environmentally sustainable decisions. Integrating the perspectives of diverse stakeholders can lead to more informed and effective decision-making, which is particularly important in public entities where the consequences of financial mismanagement can have wide-reaching implications.

2. Research Methods

This study adopted a qualitative research approach to explore the financial measures and policies that can be implemented to protect and mitigate the risks of mismanagement of financial resources in SOEs and municipalities. The qualitative approach was chosen because it provides an in-depth understanding of complex issues such as organisational ethics, financial governance, and stakeholder interactions. Data for this study were collected through an extensive review of readily available literature. Sources included books, peer-reviewed journals, articles, reports, and other published materials relevant to the topic of financial management in SOEs and municipalities. The literature review method allowed for synthesising existing knowledge and identifying common themes, patterns, and gaps related to financial mismanagement and its mitigation. A synopsis of the literature review was made, comprised of the findings from the study's research objectives. These synopses formed the conceptual insights to address the mismanagement of financial resources in SOEs and municipalities. The collected literature was systematically analysed using thematic analysis. The analysis focused on extracting insights that could inform the development of effective financial measures and policies to address these issues. To ensure the validity and reliability of the findings, the study adhered to rigorous academic standards in selecting and reviewing the literature. Only credible and relevant sources were included in the analysis. The findings were cross-verified with multiple sources to ensure consistency and accuracy. However, the study acknowledges certain limitations, including the reliance on secondary data and the potential for bias in the selected literature. Despite these limitations, the qualitative approach and comprehensive literature review provided a robust foundation for understanding the complexities of financial mismanagement in SOEs and municipalities and proposing practical solutions that cannot be generalised to some extent.

3. Literature Review

(20) stated that the total SOE debt was R692.9 billion in the SOEs' report in 2021. The debt incurred by some SOEs can be directly linked to fraudulent activities; for example, the State Capture Commission found that Eskom had entered crooked contracts amounting to R15 billion (21). The electricity grid remains in a severe state of decay due to poor policy decisions from the past, as well as understaffing, maladministration, and state capture (21). A total of 163 out of 257 South African municipalities (approximately 63%) are dysfunctional or in distress due to poor governance, corrupt financial and administrative management, and poor service delivery (22). Table 1 presents the functional state of South African local municipalities from the 2016/2017 to 2021/2022 financial years.

Table 1.
Summary of submitted municipal financial reports (2017–2021).

Years	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	Total in SA
2016/2017	33	114	72	6	32	0	257
2017/2018	20	94	93	6	39	5	257
2018/2019	32	96	87	7	33	2	257
2019/2020	27	96	80	7	22	25	257
2020/2021	41	100	83	4	26	3	257
2021/2022	38	104	78	6	15	16	257

Source: AGSA Annual Report 2016/2017 to 2020/2021.

Table 1 summarises the financial reports submitted by 257 municipalities in South Africa from 2017 to 2022. The data indicates that the performance of these municipalities is generally poor, with most failing to achieve clean audit reports. However, unqualified financial statements with no findings rose from 33 in 2016/2017 to 38 in 2021/2022. Table 1 also shows that the total number of financial statements with unqualified opinions reduced slightly from 114 in 2017 to 104 in 2021/2022. It can be identified from the evidence from the AGSA that the policies stipulated in the National Anti-Corruption Strategy have not been followed through to establish that SOEs can be protected from corruption, mismanagement of funds, and state capture. Therefore, there is an indication of a gap between policy and practice. The following section reviewed the literature to address the research objectives outlined in this study.

3.1. The Mismanagement of Financial Resources in SOEs and Municipalities and its Impacts on the South African Economy

SOEs have a constitutional responsibility to serve citizens and play an economic developmental role in the country (26). They tend to be given favourable treatment by the state and may have access to discounted funding, government financial guarantees, preferential tax enforcement, or insolvency legislation (4); therefore, they should function effectively and efficiently. SOEs are also directly linked to the governmental budget through bailouts, foreign investments, and debts; however, corruption is prevalent in them (4). "Corruption today has continued to inhibit development, especially in Africa. Particularly in the case of South Africa since 1994, many have attributed the slow pace of development to the menace of sleaze that is widespread at different levels of governance in the country" (23). This means that sordid behaviour by those in governance continues to derail the development of the country.

According to Mr Enoch Godogwana, Minister of Finance, the financing condition of several SOEs remains weak, and they are finding it challenging to meet funding needs because of their poor credit quality with some development finance institutions; however, SOEs have continued to request and apply for government funds to deliver basic services (24). The Auditor's report for 2016/2017 shows that some SOE undertakings incurred irregular expenditures resulting from the failure to comply with legislation on government contracts and non-conformities in procurement procedures, which includes Denel: R146 million, Transnet: R923 million, and Eskom: R4 043 million (25). The status of the financial health of SOEs, as presented by the Auditor General's report, has reflected that 26% of SOEs have significant doubt that operations can continue in the future. In comparison, 32% comply with ongoing concerns, and 42% reflect good financial health (10). SOEs continue to drain massive sums of taxpayer money with little return in terms of services, goods, or profits, with conservative estimates showing horrendous inefficiency, waste, and corruption in these companies, which have taken more than R1 trillion in government money over the last decade (27).

The mismanagement of financial resources in South African SOEs and municipalities negatively impacts public companies and the broader economy. This mismanagement leads to underinvestment in critical infrastructure, raising operational costs for public companies and reducing service quality, diminishing South Africa's attractiveness for investment. According to a study by (28), inadequate investment in infrastructure is a significant constraint to economic growth and competitiveness in South Africa. It also erodes investor confidence, negatively affecting stock market performance and making investors hesitant to invest in South According to (15) poor governance, lack of transparency, and accountability further exacerbate these issues, resulting in loss of investor trust, challenges in raising capital, inadequate risk management, and increased government oversight. Ultimately, these factors undermine effective organisational functioning and economic development and highlight the need for improved financial management and governance in SOEs and municipalities (29).

In the private sector, the mismanagement of financial resources in South African SOEs has severely impacted their financial performance, which has been characterised by bureaucratic restrictions, lack of investment incentives, and centralised decision-making (8). This inefficiency harms the private sector, which plays a crucial role in economic recovery and employs a significant portion of the workforce (30). As privately owned companies are prominent participants in the economy, they are affected by the negative economic impact SOEs might have due to their reputation of not achieving financial stability (31). Notably, Eskom's inefficiencies have led to regular power cuts, severely affecting private companies by increasing operational costs and disrupting services (32). In 2019, South Africa experienced the worst year on record for load-shedding, with total blackouts lasting over 530 hours and stage 6 power cuts being implemented for the first time (33). For example, South Africa's largest private medical network faces quadrupled diesel costs due to generator use, while scheduled surgeries were cancelled, impacting patient health. These issues highlight how poor SOE management negatively affects the economy and the well-being of South African citizens.

The establishment of SOEs is a governance approach adopted by the government to promote economic growth, increase the government's ability to deliver public services, and helping develop the state (34). However, since the 2011/2012 fiscal year, SOEs like South African Airways (SAA) have incurred significant fruitless and wasteful expenditures (34). Of the R38.1 billion received by SAA over the years, R27.6 billion was deposited after its business rescue process, while irregular expenditure rose from R22 billion to R44.5 billion and fruitless and wasteful expenditure surged from R24.8 million to R207.3 million over a four-year period, with audit outcomes worsening since 2017-18 (37). Furthermore, a shareholder dividend has also not been paid, with reports suggesting that SAA is unlikely to be able to generate sufficient cash flows for the continued operation. According to (34), data on SAA activities have not been made publicly available because audited financial statements for the two years ending March 2018 and March 2019 were not provided. SAA has an outstanding debt of R9.2 billion after the cumulative cash injection of more than R50 billion (34). SAA did not present outstanding data throughout the 2011/2012 financial year, and the entity was reported to have incurred R4 million in unnecessary and excessive expenditure, R3 million of which was due to baggage claims, penalties, and fines. As a result of a lack of adherence to supply chain management procedures, another R128 million was also incurred for business continuity (34). To maintain operations, the airline's performance has been affected by these unauthorised expenditures, and it is now necessary for the state to intervene. In these dimensions, the mismanagement of financial resources in SOEs significantly impacts the South African economy. This mismanagement leads to inefficient use of taxpayer money, increases public debt, and reduces the government's ability to invest in other critical areas.

3.2. Financial Measures that can be Implemented to Protect SOEs from the Mismanagement of Funds, Embezzlement, State Capture, and Corruption

SOEs are significant drivers of economic development in most countries, particularly emerging economies (2). These companies frequently possess significant market dominance and provide necessities like electricity, water, and transportation. As a result, SOEs have the potential to be extremely important in accomplishing governmental development goals, creating jobs, and reducing poverty (3). However, SOEs frequently face various financial hazards, including misappropriation of cash, theft, state capture, and corruption. Strong financial safeguards must be implemented to protect SOEs from these threats (4). These measures are highlighted in subsequent delineations.

3.2.1. Internal Control Systems

One crucial financial measure that can be implemented is adopting robust internal control systems. (35) affirms that robust internal control refers to a system that ensures the reliability and accuracy of financial reporting, compliance with laws and regulations, and effectiveness and efficiency of operations. It involves a set of policies, procedures, and mechanisms designed to safeguard assets, prevent fraud, and minimise errors or misstatements in financial statements (38).

A study by (39) emphasised the importance of strong internal control systems in mitigating corruption risks within public entities, including SOEs. Such systems involve implementing checks and balances and segregation of duties to ensure that no single individual has control over the entire financial process (36). According to (40), it reduces the risk of fraud and embezzlement, and internal or external auditors conduct regular internal audits to identify weaknesses in internal controls, deter any mismanagement or fraudulent activities, and provide recommendations for improvement.

3.2.2. Transparency and Disclosure

Promoting transparency and accountability in financial transactions is one crucial measure to reduce the risk of corruption and embezzlement (41). This could entail regular audits of financial records and conducting background checks to monitor the integrity of employees. SOEs should disclose all relevant financial information to the public, including budgetary and financial reports, procurement contracts, and other relevant financial information. Public disclosure of financial information can facilitate public scrutiny and improve financial management practices (42). These measures can help prevent fraud and embezzlement within SOEs, as they provide a system of checks and balances, ensuring that funds are appropriately allocated. Additionally, SOEs could establish a robust internal control system that includes policies, procedures, and controls to minimise the risk of fraud and corruption.

3.2.3. Implementation of Risk Management Measures

Risk management measures should be implemented to minimise the risk of financial mismanagement and corruption (43). This includes identifying potential sources of risk, evaluating the likelihood and impact of such risks, and implementing controls to mitigate them. Risk management should be conducted at all levels of the organisation, with employees trained and informed of the risks associated with their roles. Regular risk assessments and monitoring should be conducted to identify new risks and trends and develop strategies to mitigate them. Risk management measures can also enhance the efficiency of financial systems, protect against cash shortages, and reduce the risk of financial irregularities (43). These systems must be integrated across the organisation and developed and executed according to policies, procedures, and monitoring guidelines. Internal controls should also be regularly tested to ensure the system's effectiveness (40).

3.2.4. Strengthening Corporate Governance

Establishing a strong corporate governance framework is crucial for preventing corruption and mismanagement in SOEs. This could involve appointing independent directors, establishing board committees, and enforcing a code of conduct and ethical guidelines. Strengthening corporate governance refers to the process of enhancing the structures, practices, and principles that govern the operation and management of a company (43). It involves adopting measures that promote transparency, accountability, and ethical conduct, ultimately ensuring that the company is managed in the best interests of its stakeholders (43).

Strengthening corporate governance helps to build trust among stakeholders, enhance decision-making processes, and improve the long-term sustainability of a company (45). Effective corporate governance frameworks are essential for mitigating risks, preventing fraud and corruption, and ensuring the responsible and ethical management of the organisation (45).

3.2.5. Anti-Corruption Policies

Anti-corruption policies are a set of measures, guidelines, and principles adopted by organisations, governments, or institutions to prevent, detect, and combat corruption (5). It outlines the company's commitment to ethical behaviour, its expectations of employees and stakeholders, and the steps that will be taken to detect and address corrupt practices. These policies aim to promote transparency, accountability, and ethical conduct, thereby reducing the risk of corruption and its detrimental effects on society, economy, and governance (46). Anti-corruption policies typically cover various aspects of an organisation's operations, including procurement, financial management, hiring practices, and interactions with external stakeholders (5).

3.2.6. Whistleblowing

Implementing whistleblowing systems is another financial measure that SOEs could consider to monitor and prevent fraud within the organisation. Whistleblowing provides a mechanism for employees to anonymously report any suspected wrongdoing, which would then be investigated and resolved promptly (47). This measure increases accountability by giving employees a channel to voice their concerns and promoting a culture of transparency and accountability (48). In this regard, protecting SOEs from financial mismanagement, embezzlement, state capture, and corruption requires the implementation of effective financial measures. These measures must be enforced strictly to ensure that they effectively combat the identified issues and enhance the performance of SOEs. While these measures can significantly contribute to protecting SOEs from financial mismanagement and corruption, their effectiveness may vary based on the specific context and legal frameworks of each country and organisation. It is essential to consult relevant laws, regulations, and guidelines applicable to the specific SOE.

3.3. Policies that SOEs and SMEs can Employ to Mitigate the Risks of the Mismanagement of Financial Resources

Amongst many South African SOEs, most are known to have been exposed to corruption, bribery, embezzlement, and nepotism, which has interfered with their daily operations, especially the utilisation of their funds (49). Overall, there seems to be increasing pressure on the local government's finances. In the early part of the 2019/2020 financial year, 126 municipalities adopted unfunded budgets representing 49% of the total municipal budgets, which are unrealistically expected revenues and are insufficient to cover planned expenditures (50). The causes and indicators of financial distress in municipalities are often not in the control of the municipalities, but in the control of the Parliament (51). The municipalities and SOEs have internal challenges with their finances. These shall include the deficiency of appropriate financial management, such as failing to recover revenues or uncontrolled expenditure. Secondly, political dysfunction, such as the one we saw in 2019/2020 in the City of Tshwane and Nelson Mandela Bay municipalities (51).

3.3.1. Anti-Corruption Approaches

In the majority of SOEs, there is a legal framework in place to avoid corruption risk and mechanisms for this have been put in place over the past year, which has resulted in an expected 1.5% of their operating budget dedicated to prevention and detection of corruption (49). Additionally, the government has set up a multidisciplinary approach and collaboration system of both statutory and non-statutory structures and institutional bodies, aiming to fight corruption in the state and society (5). However, these rules and mechanisms do not seem effective as corruption cases have continued to surface.

The Corruption Act (Act 94 of 1992) was enforced to assist the government in identifying all acts that can be classified as corruption and the legal consequences they carry. In addition to the Corruption Act (Act 94 of 1992), the Prevention of Corruption (Amendment) Bill of 2003 aims to implement the recommendations resulting from a full review of the 1992 legislation (Department of Public Service and Administration 2003). The Prevention of Corruption Bill of 2013 reintroduces the common law crime of bribery; it presumes that accepting a favour to facilitate prosecution is corrupt, and it extends the scope of the law to all public officials, individuals, and their representatives (Department of Public Service and Administration 2003). The current architecture for fighting corruption, which is more an inherited system than one configured to cope with today's challenges, has evolved over the years, and changes have occurred (5).

3.3.2. Implementation of Policies

To carry out its mission, the cabinet shall decide on relevant and desirable policies and the country's mandate (6). The Minister and the Department then discharge these policies as a directive through the pertinent policy department relevant to SOEs charged with carrying out that policy (6). Due regard should be given to the primary purpose of an enterprise when assessing all aspects of SOE policy, regardless of whether they concern finance or any other area (1). The government has advised every stakeholder to adopt the revised National Evaluation Policy Framework for 2024.

Despite the substantial development of financial systems in South Africa over the past 20 years, the gap in access to financial services for individuals and SMEs has not been sufficiently closed (6). The National Treasury of South Africa issued a Financial Inclusion Policy draft, *"An Inclusive Financial Sector For All"* in 2020, which sets out regulatory frameworks and important policy objectives. The Financial Inclusion Policy targets focus on what is necessary to enhance financial inclusion, provide details for the inclusion of individuals in the financial services market, expand access to small, medium and micro enterprises (SMMES), and incorporate a more diversified provider and distribution system for financial services in South Africa (6). This policy's approval would benefit government entities, as it would improve financial systems and lay out helpful guidelines for managing funds and effectively operating its facilities.

3.3.3. Laws and Legislation that Govern SMEs, SOEs and Municipalities

SOEs, municipalities, and SMEs are governed by various laws and legislations in carrying out their specific duties, which are further supervised by other laws and legislations relevant to their respective sections. These laws and regulations include The Companies Act (Act 71 of 2008), the Municipal Financial Management Act (MFMA) (Act 56 of 2003), and the Public Financial Management Act (PFMA) (Act 1 of 1999). The main legislation passed by Parliament is the PFMA, which the state uses to define the rules and regulations relating to financial management and reporting that SOEs' governing bodies and management have followed and observed. The MFMA, as an adjustment to the PFMA, aims to provide support to local governments to further develop their effectiveness as envisaged. It expressly sets out ways to fight corruption and misappropriation of funds, with a view to promoting ethical behaviour among all interested parties involved in the management and furtherance of municipalities (Act 56 of 2003). To maintain financial stability, organisations should always adhere to accounting and auditing policies and procedures. The PFMA requires SOEs and municipalities to use Generally Accepted Accounting Principles, otherwise known as "*GAAP*" to compile their financial statements (Department of Public Service and Administration 2003). GAAP is a potent set of standards, as the practice of accounting requires recognising changes in the economic situation, technology and new business procedures, and ways to classify and record transactions (Department of Public Service and Administration 2003).

The state must implement good corporate governance if SOEs are to contribute to economic efficiency and competitiveness throughout the nation (Department of Public Service and Administration 2003). SOEs and SMEs, both public and private, should ensure that internal controls are not compromised by employees, partners or stakeholders of that entity, as weak internal controls, non-compliance to laws and regulations, and poor risk management systems result in unethical behaviour in the organisation (38). These actions have often resulted in inefficiencies, as the gaps in their policies have presented corruption, embezzlement, and fraud risks in the past. They must be eliminated with guidelines on effective policies and strategies.

4. Discussion

This section provided discussions and conclusions based on the literature reviewed above for each research objective. The issue of funds mismanagement in SOEs has garnered significant attention in academic literature. The available research identified several key factors that contribute to this problem. Regarding the findings of the literature review on the mismanagement of funds in SOEs and municipalities, this poses a significant problem in South Africa (3). The literature further indicates that mismanagement of funds in these entities can have detrimental effects on the economy, public services, and overall development (52). One of the key findings is that corruption and lack of transparency are significant factors contributing to the mismanagement of funds (10).

Based on the findings of objective one, which entail how the mismanagement of financial resources in SOEs and municipalities negatively affects public and private companies and the South African economy at large, (29) affirm that mismanagement of financial resources in SOEs and municipalities leads to a loss of public trust and confidence. This can have a detrimental impact on the reputation of these organisations, making it difficult for them to attract investment and secure partnerships with private companies. As a result, the overall performance of both public and private companies is affected, leading to reduced economic growth and development. (27) upholds that the mismanagement of financial resources can also lead to inefficiencies and wasteful expenditure. When funds are not allocated and utilised appropriately, it hinders the delivery of essential services and infrastructure projects. This negatively impacts both the public and private sectors, as businesses rely on reliable infrastructure and services to operate effectively. The mismanagement of financial resources can contribute to corruption and state capture. When funds are embezzled or misused, it diverts resources from their intended purpose and undermines the principles of transparency and accountability. This creates an unfair playing field for private companies and can discourage investment and economic activity. The mismanagement of financial resources in SOEs and municipalities has a rippling effect on public and private companies, as well as the South African economy. It is imperative to address these issues by implementing robust financial measures, enhanced transparency, accountability, and a strong legal framework to combat corruption. This will not only protect the interests of the public, but also promote a conducive environment for economic growth and development. Therefore, the study concludes that there is an urgent need to address the mismanagement of funds in SOEs and municipalities.

Based on the findings of research objective two, which explored the financial measures that can be implemented to protect SOEs from the mismanagement of funds, embezzlement, state capture, and corruption, a complex approach is necessary to address these issues effectively. Implementing robust internal control systems is crucial to prevent and detect financial irregularities within SOEs (35). (36) maintains that establishing clear policies and procedures, conducting regular internal audits, and ensuring appropriate segregation of duties can significantly reduce the risk of mismanagement and embezzlement. Effective risk management practices are vital in protecting SOEs from financial misconduct. Implementing appropriate risk mitigation strategies and establishing whistle-blower mechanisms helps organisations proactively address vulnerabilities and prevent corruption. (53) emphasised on the need for appropriate financial record-keeping to mitigate the mismanagement of fund and corruption in businesses.

Similarly, transparency, and accountability are key principles in combating corruption within SOEs. This is affirmed by (54), who maintain that the regular publication of financial statements and performance reports, subjecting them to independent external audits, and making them available to the public can help promote transparency and build trust. In this regard, promoting a culture of accountability and ethical leadership within the organisation is essential to deter corrupt practices. A strong legal framework is crucial to address financial misconduct effectively. Enacting and enforcing laws that criminalise corrupt practices, establishing specialised anti-corruption agencies, and promoting international co-operation in fighting corruption are important steps to ensure that those involved in financial misconduct are held accountable. The findings obtained in this section highlight the importance of a comprehensive approach to protect SOEs from financial mismanagement and corruption. This includes implementing robust internal controls, effective risk management practices, promoting transparency and accountability, and having a robust legal framework. SOEs can safeguard their financial resources and uphold their mandate of serving the public interest by implementing these measures and fostering a culture of integrity.

With regards to the findings on research objective three, which explored the policies that SOEs and SMEs can employ to mitigate the risks of the mismanagement of financial resources, the findings highlighted numerous statutory and non-statutory laws and regulations and their importance in SOEs, SMEs, and at all levels of municipalities. For this objective, studies (51, 50) discussed anti-corruption approaches as a method to mitigate several corruption cases that have been reported in these enterprises, which entails the detection and preventative mechanisms to be implemented in combating the risk of corruption in the management of financial resources. These approaches include completely adhering to the Corruption Act (Act 94 of 1992) and the Prevention of Corruption (Amendment) Bill of 2003 to resolve the ongoing financial crises. Furthermore, the National Treasury of South Africa has revised a National Evaluation Policy Framework to be utilised in state enterprises to direct and promote relevance, efficiency, and quality in evaluating their existing policies. This would result in fewer unethical practices when handling finances, as it aims to pinpoint the flaws in the existing policies employed in organisations. SOEs, SMEs, and municipalities are also governed by the Companies Act (Act 71 of 2008), the Municipal Financial Management Act (MFMA) (Act 56 of 2003), and the Public Financial Management Act (PFMA) (Act 1 of 1999), among many other statutory laws in South Africa. These legislation pieces serve as a guide to the effective functionality of the operations of these organisations, as well as strict financial management and reporting activities in finance departments. The findings from the study suggest that issues of money laundering, embezzlement of funds, corrupt behaviour due to poor governance, and poor internal controls can resolved by applying the above-mentioned legislation pieces when done correctly. A comprehensive approach, including government action, citizen engagement, and international co-operation, is necessary to ensure effective fund management and promote economic development and social welfare.

5. Contributions of the Study

This study significantly contributes to understanding and addressing the mismanagement of financial resources within SOEs and municipalities in South Africa by identifying critical issues and analysing their broader economic impacts. Figure 1 presents the contribution of the study.

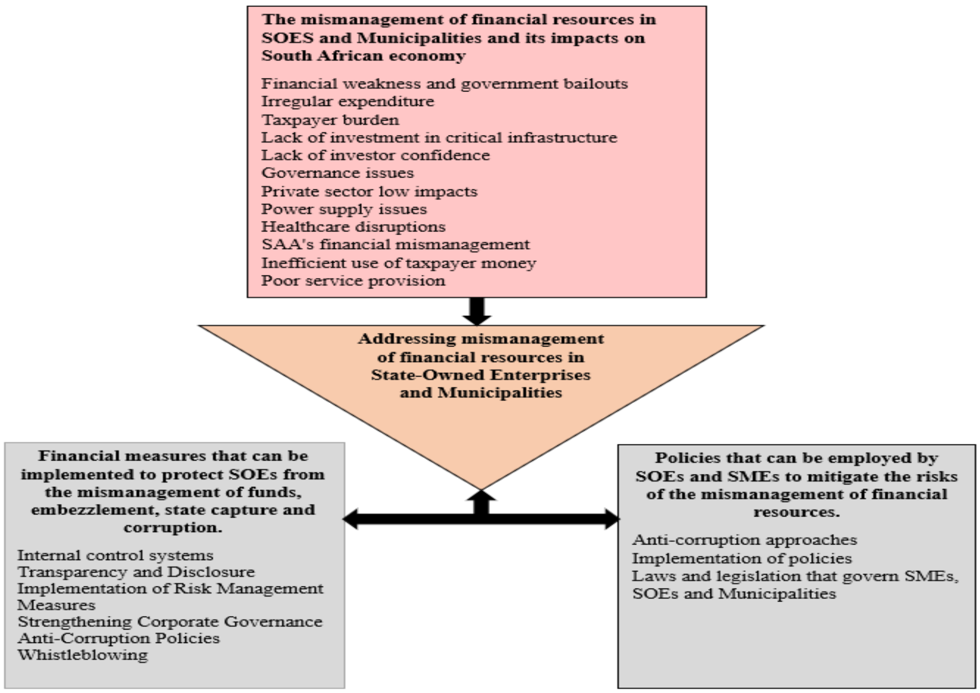

Figure 1.
Conceptual insight to address the mismanagement of financial resources in state-owned enterprises and municipalities.

Findings from the study identified that financial weaknesses, irregular expenditures, taxpayer burden, lack of investment in critical infrastructure, and governance issues elucidate the significance of financial mismanagement. Furthermore, the detailed examination of lack of investor confidence, governance issues, private sector low impacts, power supply issues, healthcare disruptions, SAA's financial mismanagement, inefficient use of taxpayer money, and poor service provision are the adverse effects on the broader South African economy. This analysis highlights the current financial challenges and emphasises the potential long-term consequences if these issues remain unaddressed.

In addition to problem identification, the study provides actionable solutions through specific financial measures and policy recommendations designed to protect SOEs from mismanagement and corruption. The study advocates for internal control systems, transparency, risk management measures, strengthening of corporate governance, anti-corruption practices, and whistleblowing as financial measures to improve financial accountability and operational efficiency. Finally, the study suggested that including anti-corruption approaches, policy implementation, and relevant laws further supports the establishment of a transparent and accountable financial management system. These contributions serve as a valuable resource for policymakers and practitioners and offer a clear roadmap for implementing reforms that can enhance the financial health of public sector entities. Implementing these suggestions could contribute to sustainable economic growth in South Africa.

6. Conclusions

It is evident from this study that mismanagement of financial resources in SOEs and municipalities can lead to a loss of public trust and confidence. This can have a detrimental impact on the reputation of

ISSN: 2576-8484
Vol. 8, No. 6: 4735-4748, 2024
DOI: 10.55214/25768484.v8i6.3025

these organisations, making it difficult for them to attract investment and secure partnerships with private companies. As a result, the overall performance of both public and private companies is affected, leading to reduced economic growth and development. The study also found that mismanagement of financial resources can lead to inefficiencies and wasteful expenditure. When funds are not allocated and utilised appropriately, it hinders the delivery of essential services and infrastructure projects. This negatively impacts both the public and private sectors, as businesses rely on reliable infrastructure and services to operate effectively. The mismanagement of financial resources can contribute to corruption and state capture. When funds are embezzled or misused, it diverts resources from their intended purpose and undermines the principles of transparency and accountability. This creates an unfair playing field for private companies and can discourage investment and economic activity.

The proposed conceptual insight to addressing the mismanagement of financial resources will not only protect the interests of the public, but also promote a conducive environment for economic growth and development. Implementing the conceptual insight also creates robust internal control systems to prevent and detect financial irregularities within SOEs and municipalities. Establishing clear policies and procedures, conducting regular internal audits, and ensuring appropriate segregation of duties can significantly reduce the risk of mismanagement and embezzlement. This would also result in fewer unethical practices when handling finances, as it aims to pinpoint the flaws in the existing policies employed in organisations.

7. Recommendations

The research findings indicate that policies formulated by the government to ensure that funds in the custody of SOEs and municipalities can be accounted for timeously are not being followed. As a result, the study recommends that a compliance framework be implemented to adhere to all relevant policies to ensure that SOEs and municipalities' financial resources are managed effectively and efficiently. This will result in better service delivery to the public, the country at large, and the furtherance of the South African economy. All management officials of these entities should be held accountable and liable for their incompetence to eliminate future misconduct and mismanagement of financial resources. Implementing whistleblowing systems can promote a mechanism for employees to report any misconduct and unethical behaviour within the entities. Secondly, it will promote transparency as any wrongdoing will be identified, and the parties implicated will be held accountable.

Efforts must be made to enhance the financial management skills of employees through capacity-building initiatives such as training programmes and workshops. This will improve their expertise in managing funds and making sound investment decisions. Strengthening the regulatory framework through comprehensive legislation, clear governance guidelines, and strict penalties for financial misconduct can help prevent fund mismanagement. These measures must be enforced strictly to ensure that they effectively combat the identified issues and enhance the performance of SOEs and municipalities in South Africa.

References

[1] Parliament of the Republic of South Africa, "Report on state-owned enterprises for the standing committee on finance," Parliament of the Republic of South Africa, 2015. [Online]. Available: https://www.parliament.gov.za/. Accessed: Mar. 31, 2023.

[2] V. Gumede, S. Bila, M. Biyase, S. Chauke, and S. Arogundade, "Government and the Market: State-Owned Enterprises in South Africa," in *South African Economy*, African Histories and Modernities, Cham: Palgrave Macmillan, 2024

[3] A. Baum, C. Hacknay, P. Medas, and S. Mouhamadou, "Governance and state-owned enterprises: how costly is corruption?" *Economics of Governance*, vol. 25, pp. 181–208, 2024.

[4] M. Chitiga, H. Maisonnave, M. Henseler, and R. Mabugu, "Corruption in state-owned companies hurts low skilled workers the most: we show how," University of Pretoria, 2021. [Online]. Available: https://www.up.ac.za/. Accessed: Jun. 15, 2024.

[5] National Anti-Corruption Strategy, "National Anti-Corruption Strategy 2020-2030," South African Government Gazette, Pretoria, 2021.

[6] National Treasury Budget Review, "Eskom Debt Relief," Mar. 31, 2023. [Online] Available: https://www.treasury.gov.za/. Accessed: Mar. 31, 2024.

[7] BusinessTech, "Here's how much small businesses in South Africa say they lost because of load-shedding," BusinessTech, Mar. 8, 2023. [Online]. Available: https://businesstech.co.za/. Accessed: Mar. 8, 2023.

[8] N. Gumede and K. B. Dipholo, "Governance restructuring and the new public management reform: South African perspectives," *Journal of Educational and Social Research*, vol. 4, no. 6, pp. 43–50, 2014.

[9] M. M. Sibanda, B. Zindy, and T. C. Maramura, "Control and accountability in supply chain management: Evidence from a South African metropolitan municipality," *Cogent Business & Management*, vol. 7, no. 1, pp. 1785105, 2020. doi:10.1080/23311975.2020.1785105.

[10] Auditor-General South Africa (AGSA), "Consolidated general report on local government audit outcomes MFMA 2020-2021," 2022. [Online]. Available: https://www.agsa.co.za/. Accessed: Jun. 15, 2022.

[11] S. Mishi, N. Mbaleki, and F. B. Mushonga, "Financial mismanagement and efficiency trade-off in local municipalities: Lessons from Eastern Cape, South Africa," *Journal of Local Government Research and Innovation*, vol. 3, pp. 1–12, 2022.

[12] South African News, "Municipalities' R78 billion Eskom debt an 'urgent task'," South African News, Jun. 15, 2024. [Online]. Available: Accessed:Jun. 15, 2024.

[13] V. H. Mlambo and M. M. Masuku, "Governance, Corruption and COVID-19: The final nail in the coffin for South African administration," *Journal of Public Administration*, vol. 55, no. 3.1, pp. 549–565, 2020.

[14] T. W. Maseko, "The feasibility of the victims of corruption's claims against corrupt public officials in South Africa," *De Jure Law Journal*, vol. 54, no. 1, pp. 127 140, 2021.

[15] P. C. Enwereji and M. Potgieter, "A payment culture framework for municipal services: An empirical study," *Research in World Economy*, vol. 11, no. 5, pp. 56–71, 2020.

[16] M. A. Sbragia, "Politics, local government and municipal bond market," in *TheMunicipality Money Chase*, 1st ed., London: Routledge, 2019, pp. 67–111.

[17] E. R. Freeman, *Strategic Management: A Stakeholder Approach*, Cambridge, UK: Cambridge University Press, 2010.

[18] [18] R. Mahajan, W. M. Lim, M. Sareen, S. Kumar, and R. Panwar, "Stakeholder Theory,"*Journal of Business Research*, vol. 166, pp. 1–16, 2023. doi: 10.1016/j.jbusres.2023.114104.

[19] F. T. Rothaermel, *Strategic Management: Concepts and Cases*, New York, NY: McGraw Hill Irwin, 2013.

[20] N. Makona, "The role of monitoring and evaluation in South Africa's SOEs' performance management system," Ph.D. dissertation, Univ. of Johannesburg, Johannesburg, South Africa, 2023.

[21] K. Madisa, "State capture and mismanagement responsible for Eskom crisis, says Ramaphosa," *Business Day*, Dec. 17, 2022. [Online]. Available: https://businessday.co.za/. Accessed: Dec. 17, 2022.

[22] Parliament of the Republic of South Africa, "Report on state-owned enterprises for the standing finance committee," Parliament of the Republic of South Africa, 2022. [Online]. Available: https://www.parliament.gov.za/. Accessed: Mar. 31, 2023.

[23] K. Goto and O. Ogunnubi, "Corruption and development in Africa: Critical reflections from post-apartheid South Africa," *Lumina*, vol. 25, no. 1, pp. 48–69, 2014.

[24] BusinessTech, "South Africa's horror year of load-shedding - here's how it compares," *BusinessTech*, Mar. 31, 2023. [Online]. Available: Accessed: Mar. 31, 2023.

[25] Auditor-General South Africa (AGSA), "Towards Greater Accountability: Integrated Annual Report 2016-2017," 2017. [Online]. Available Accessed: Jun. 15, 2022.

[26] M. C. Nyathi, "The role and place of citizens in South Africa: a governance perspective," M.A. dissertation, Governance and Political Transformation, Univ. of the Free State, South Africa, 2023. Available: http://hdl.handle.net/11660/12442

[27] W. Gumede, "Malfunctioning SOEs urgently need citizen shareholder activists," Univ. of Witwatersrand, 2020. [Online]. Available: Accessed: Nov.16, 2022.

[28] P. Perkins, J. Fedderke, and J. Luiz, "An analysis of economic infrastructure investment in South Africa," *South African Journal of Economics*, vol. 73, no. 2, pp. 211 228, 2005. doi: 10.1111/j.1813-6982.2005.00014

[29] K. T. Hanna and I. Wigmore, "Transparency," TechTarget, 2022. [Online]. Available: https://www.techtarget.com/. Accessed: Nov. 16, 2022.

[30] M. O. Dassah, "Theoretical analysis of state capture and its manifestation as a governance problem in South Africa," *TD: The Journal for Transdisciplinary Research in Southern Africa*, vol. 14, no. 1, pp. 1–10, 2018. doi: 10.4102/td.v14i1.473

[31] OECD, "Corporate governance," Organisation for Economic Co-operation and Development, 2015. [Online]. Available: https://www.oecd.org/. Accessed: Nov. 14, 2023.

[32] International Energy Agency, "Renewable power's growth is being turbocharged as countries seek to strengthen energy security," International Energy Agency, 2022. [Online]. Available: https://www.iea.org/. Accessed: Dec. 6, 2023.

[33] S. Trace, "South Africa's crippling electricity problem," Oxford Policy Management 2020. [Online]. Available: lectricity-problem. Accessed: Aug. 29, 2023.

[34] K. Tleane, "State-owned enterprise bailouts on economic growth: a case on South African Airways," in *Proc. 5th Ann. Int. Conf. on Public Administration and Development Alternatives*, Oct. 2020.

[35] J. Aduam, "Assessing the effectiveness of internal controls mechanism of the Techiman Municipal Assembly," Ph.D. dissertation, Kwame Nkrumah Univ. of Science and Technology, Ghana, 2016.

[36] E. A. Abiodun, "Internal control procedures and firm's performance," *International Journal of Scientific & Technology Research*, vol. 9, no. 2, pp. 6407–6415, 2020.

[37] S. Thorne, "SAA's R38 billion taxpayer bailout," BusinessTech, 2024. [Online]. Available: https://businesstech.co.za/. Accessed: Sep. 25, 2024.

[38] P. Ncgobo and S. R. Malefane, "Internal controls, governance and audit outcomes-case of a South African municipality," *African Journal of Public Affairs*, vol. 9, no. 5, pp. 74–89, 2017.

[39] A. Farazmand, E. De Simone, G. L. Gaeta, and S. Capasso, "Corruption, lack of transparency and the misuse of public funds in times of crisis: An introduction," *Public Organization Review*, vol. 22, no. 3, pp. 497–503, 2022. doi: 10.1007/s11115-022-00651-8

[40] B. Niroula and A. Gyawali, "Internal control systems in Nepal: A case of Nepal Telecom," *Jambura Science of Management* vol. 3, no. 2, pp. 99–113, 2021.

[41] T. Vian, "Anti-corruption, transparency and accountability in health: concepts, frameworks, and approaches," *Global Health Action*, vol. 13, sup. 1, pp. 1694744, 2020.

[42] C. Park, in F. Taghizadeh-Hesary, N. Yoshino, C. J. Kim, and K. Kim, Eds., pp. 2139, Springer, 2021.

[43] G. Kirkpatrick, "The corporate governance lessons from the financial crisis," *OECD Journal: Financial Market Trends*, vol. 2009, no. 1, pp. 61–87, 2009.

[44] OECD, "OECD principles of corporate governance," Organisation for Economic Cooperation and Development, 2019. [Online]. Available: Accessed: Aug. 27, 2023.

[45] A. Corvino, F. Doni, and S. Bianchi Martini, "Corporate governance, integrated reporting and environmental disclosure: Evidence from the South African context," *Sustainability*, vol. 12, no. 12, pp. 4820, 2020.

[46] A. Farazmand, E. De Simone, G. L. Gaeta, and S. Capasso, "Corruption, lack of transparency and the misuse of public funds in times of crisis: An introduction," *Public Organization Review*, vol. 22, no. 3, pp. 497–503, 2022. doi:10.1007/s11115-02200651-8

[47] N. Smaili, "Building an ethical culture by improving conditions for whistleblowing," *Journal of Business Strategy*, vol. 44, no. 1, pp. 37–43, 2023.

[48] S. R. Stubben and K. T. Welch, "Evidence on the use and efficacy of internal whistleblowing systems," *Journal of Accounting Research*, vol. 58, no. 2, pp. 473–518, 2020. doi: 10.1111/1475-679X.12303

[49] OECD, "Anti-corruption and integrity in state-owned enterprises," Organisation for Economic Co-operation and Development, 2018. [Online]. Available: https://www.oecd.org/. Accessed: Jun. 8, 2022.

[50] T. Ledger and M. Rampedi, "End of the Road: A critical review of the local government fiscal framework," Public Affairs Research Institute, 2020. [Online]. Available: https://www.pari.org.za/. Accessed: Aug. 20, 2022.

[51] M. D. Glasser and J. Wright, "South African municipalities in financial distress: What can be done?" *Law, Democracy and Development*, vol. 24, pp. 413–441, 2020.doi: 10.17159/2077-4907/2020/ldd.v24.17

[52] A. B. El Yaqub, I. Musa, and S. Magaji, "Impact of mismanagement and embezzlement of public funds on government parastatals," *Indonesian Journal of Accounting and Governance*, vol. 8, no. 1, pp. 1–18, 2024.

[53] P. Jonck and L. Nwosu, "The influence of demographic variables on financial record keeping in small-and medium-sized enterprises in the South African informal sector," *Journal of Economic and Financial Sciences*, vol. 15, no. 1, pp. 1–9,2022. doi: 10.4102/jef.v15i1.681

[54] A. Y. Demamu, "Legal issues of transparency and disclosure in Ethiopian state-owned enterprises: A global perspective," *International Journal of Law and Management*, vol. 12, no. 5, pp. 138–145, 2024.