



AUDITOR-GENERAL  
SOUTH AFRICA



## **Report of the Auditor-General**

to Parliament on a performance audit of  
projects that are funded by the National  
Development Agency

October 2009

Published by authority

RP 258/2009

ISBN 978-0-621-38993-7



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## Report of the Auditor-General

to Parliament on a performance audit of projects that are funded by  
the National Development Agency

OCTOBER 2009

AUDITOR GENERAL OF S.A  
LIBRARY  
2009 -11- 27  
TABLED REPORT

AUDITOR GENERAL  
2009 -12- 10  
LIBRARY

AUDITOR - GENERAL  
LIBRARY



AG08419



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Our reputation promise/mission**

"The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence."



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## TABLE OF CONTENTS

	<b>TITLE</b>	<b>PAGE</b>
1.	Executive summary	1
2.	Purpose and content of the report	2
3.	Audit process	2
4.	Audit scope	3
5.	Overview	3
6.	Findings, recommendations by the Auditor-General as well as response from the accounting authority	4
7.	Appreciation	15

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON A PERFORMANCE AUDIT OF PROJECTS THAT ARE FUNDED BY THE NATIONAL DEVELOPMENT AGENCY

## 1. EXECUTIVE SUMMARY

1.1 On 6 March 2008 the Auditor-General of South Africa (AGSA) engaged with the National Development Agency (NDA) to conduct a performance audit on certain projects funded by the NDA. This audit was performed as result of deficiencies identified during the financial audit.

1.2 The primary mandate of the NDA is to contribute towards the eradication of poverty and its causes by granting funds to civil society organisations.

1.3 This report demonstrates that measures to manage projects economically, efficiently and effectively were either not in place or not applied by the NDA, which primarily resulted in funds being granted to projects that were not sustainable and the NDA not being able to measure the impact of grants on poor communities. The following are the main findings:

### 1.3.1 Quality of reporting

- Project beneficiaries did not comply with the signed funding agreements. Monitoring actions by the NDA were ineffective and actions were not taken timeously to address deficiencies in project reports. As a result, there was a lack of relevant, accurate and complete management information, while challenges were not identified timeously for the NDA to give effective and efficient support to the beneficiaries.
- The sustainability of projects and the impact of projects on communities were not monitored and measured effectively, and the NDA could not determine if the community as a whole, rather than certain individuals, benefited from grants.

### 1.3.2 Governance arrangements

- Procedures to write back discontinued projects were ineffective and the NDA had no procedures to recover funds from non-complying projects. As a result, R7,146 million could not be recovered.

### 1.3.3 Leadership oversight

- Inadequate assistance by the NDA to project beneficiaries to meet the pre-funding conditions resulted in delays between the planned and actual commencement dates of projects. This resulted in increased budgets and prices as well as the beneficiaries' planning being influenced.
- Late payments by the NDA further delayed the implementation of projects.
- Requests and queries from project beneficiaries were not resolved timeously because of inefficient communication and coordination by the NDA.



- 1.4 The accounting authority (AA) of the NDA has indicated various steps that will be taken to address the shortcomings listed in this report. These include minimising pre-contract conditions by instituting more rigorous project assessment and adjudication processes before approving grants and putting more emphasis on mentoring and coaching projects.

## **2. PURPOSE AND CONTENT OF THE REPORT**

- 2.1 The performance audit was conducted in terms of section 188(4) of the Constitution of the Republic of South Africa, 1996, read in conjunction with sections 5(3) and 20(3) of the Public Audit Act, 2004 (Act No. 25 of 2004). The purpose of this report is to facilitate public accountability by bringing to the attention of the executive authority and Parliament the findings of the performance audit. This audit was performed as a result of deficiencies identified during the financial audit.
- 2.2 Audit work was performed to provide sufficient audit evidence for the findings set out herein. Where deemed appropriate, comments received from management have been reflected in the report.
- 2.3 It is expected that this report, which reflects the response of the AA, will give rise to corrective steps that would contribute constructively to the establishment and implementation of appropriate management measures and controls and, consequently, to improved value for money.
- 2.4 The responsibility for instituting these management measures rests with management. The primary objective of performance auditing is to confirm independently that these measures do exist and are effective and to provide management, Parliament and other legislative bodies with information, by means of a structured reporting process, on shortcomings in management measures and examples of the effects thereof. The function of the Auditor-General (AG) is not to question policy. It is, however, his responsibility to audit the effect of policy and the management measures that lead to policy decisions.

## **3. AUDIT PROCESS**

- 3.1 Performance audits are conducted in accordance with the *Performance audit manual* of 2008, which contains the policies, standards and guidelines for the planning, execution, reporting and follow-up of performance audits conducted in the public sector. In view of the complexity of the environment to be audited, each performance audit focuses on a delimited segment of the activities of a particular institution. Preference is therefore given to the more important aspects.
- 3.2 When the initial arrangements were made for the performance audit, the AA and the management of the NDA were informed in detail regarding the objectives and modus operandi of the performance audit. The chief operating officer of the NDA was the



chairperson of the steering committee. After consensus was reached on the factual correctness of the findings in the management report during a steering committee meeting held on 3 September 2008, the findings were brought to the attention of the AA.

- 3.3 The final response of the AA, dated 5 August 2009, has been incorporated into the report.

#### **4. AUDIT SCOPE**

- 4.1 On 6 March 2008 the engagement letter with the NDA was signed for a performance audit on certain projects that are funded by the NDA.
- 4.2 This report is based on information obtained from the NDA and various beneficiaries during visits to projects in KwaZulu-Natal, the Eastern Cape and Gauteng.

#### **5. OVERVIEW**

- 5.1 The NDA, which is classified as a public entity under schedule 3A of the Public Finance Management Act, 1999 (Act No. 1 of 1999), was established in November 1998 by the National Development Act, 1998 (Act No. 108 of 1998) (NDA Act).
- 5.2 According to section 3(1)(a) and (b) of the NDA Act, *the primary mandate of the NDA is to contribute towards the eradication of poverty and such causes by granting funds to civil society organisations for the purpose of:*
- *carrying out projects or programmes aimed at meeting the development needs of poor communities*
  - *strengthening the institutional capacity of other civil society organisations that provide services to the poor.*
- 5.3 The secondary mandate of the NDA is *to promote consultation, dialogue and knowledge sharing between civil society organisations and the relevant organs of state and to undertake research and publication aimed at providing the basis for the development policy.*
- 5.4 The NDA plays a critical role in the distribution of funds to development projects to ensure that these projects become sustainable and profitable. In the 2007-08 financial year, 78 projects amounting to R133,07 million (2006-07: 95 projects amounting to R92,38 million) were approved by the NDA board for disbursement to poverty alleviation projects.
- 5.5 These development projects, which are mostly located in rural areas, included:
- agricultural development projects
  - HIV/Aids prevention, education and counselling projects



- school enrichment projects
- beading
- tourism
- skills development and basic job skills
- social services.

## 6. FINDINGS, RECOMMENDATIONS BY THE AUDITOR-GENERAL AS WELL AS RESPONSE FROM THE ACCOUNTING AUTHORITY

### 6.1 Commencement of projects

#### 6.1.1 Background

- (a) In terms of section 4(1)(c) of the NDA Act, *the NDA must contribute towards building the capacity of civil society organisations to enable them to carry out development work effectively.*
- (b) When a project is approved by the projects and programmes steering committee of the NDA, there are certain pre-funding conditions that need to be met by the project beneficiaries before the contract (funding agreement) is signed. Such conditions include the following:
  - Opening of a separate bank account
  - Preparation of a detailed/reworked budget
  - Confirmation to be provided in respect of the appointment of caregivers
  - Proof of ownership to be provided in respect of the offices used
  - Confirmation of support from other organisations
  - Memorandum of understanding to be signed with other role players.
- (c) The NDA must pay the first tranche within two weeks after signing the contract.

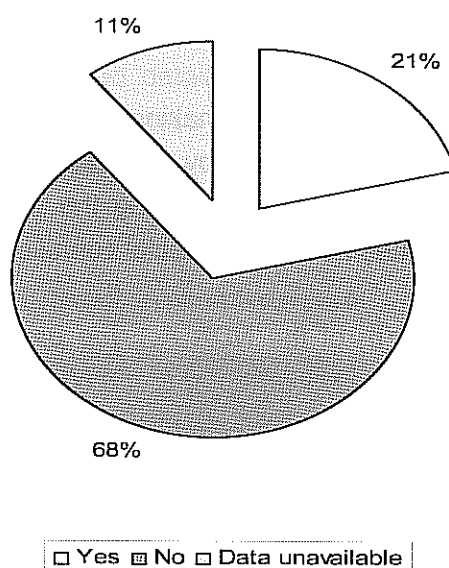
#### 6.1.2 Findings

- (a) In the majority of cases, pre-funding conditions were not met by the beneficiaries on a timely basis. For example, separate bank accounts were not opened for a number of projects, which could impact on the proper accounting, control and reporting of expenditure relating to the NDA grant, as the unspent balance of the NDA grant should remain in a separate bank account.
- (b) Furthermore, payments of the first tranches were not made by the NDA within two weeks from the date on which the NDA and the project beneficiaries had signed the contracts. In the sample of projects selected, first tranches were not paid within two weeks in 68% of the cases (graph 1). The average period after the NDA had signed the agreement until the date of payment was seven weeks.



**Graph 1**

**Projects paid within proposed timelines**



Source: NDA beneficiary contracts

- (c) The average period for meeting pre-funding conditions and payments of the first tranches was 4,8 months, which impacted negatively on the actual commencement dates of projects. Examples of such negative impacts are as follows:
- Budgets were outdated and prices had increased by the time the project commenced and had to be reworked, which further delayed the process.
  - Project members withdrew as project beneficiaries lost interest in the projects.
  - Delays in the commencement of seasonal agricultural projects resulted in crops not being planted or being planted after the season, resulting in project objectives not being met.

### **6.1.3 Recommendations by the AG**

- (a) The NDA should provide assistance to project beneficiaries to understand and to meet the pre-funding conditions and requirements on a timely basis.
- (b) Payments of the first tranches should be made within the prescribed two-week period.

### **6.1.4 Response of the AA**

The NDA has ensured that the pre-contract conditions are minimised by instituting more rigorous project assessment and adjudication processes through institutionalised provincial peer review and national peer review/technical review committee processes, thereby improving turnaround times for the payment of tranches. To regulate the requirement of separate bank



accounts, the NDA has instituted a practice whereby it no longer releases payment without confirmation of a separate bank account.

## **6.2 Non-compliance with signed funding agreements by project beneficiaries**

### **6.2.1 Background**

- (a) According to the NDA policy on grant making, the NDA will generate a contract (funding agreement) for all projects approved by the NDA board. The contract will set out the responsibilities of the beneficiaries, including the description of all activities, specific milestones, reporting dates as well as special conditions relating to project approval.
- (b) In terms of section 4(4)(b) of the NDA Act, *the project beneficiaries are required to submit a comprehensive narrative report to the NDA no later than the date prescribed.* The first report should be submitted six months after receiving the first tranche, and a second report should be submitted five months after the first report. The objective of the narrative report is to improve the project's chances of self-sustainability through addressing risk areas timeously. The funding agreement requires that the narrative reports be compiled in the prescribed format. The prescribed format of the narrative report addresses the most important aspects of the project, such as:
  - project activities
  - project results
  - project impact
  - sustainability factors
  - financial review.
- (c) Furthermore, according to the NDA policy on grant making, the projects considered for funding must demonstrate the potential to have a significant impact on job creation and increase household income and food security. The narrative report provides for reporting on this matter in the prescribed format.

### **6.2.2 Findings**

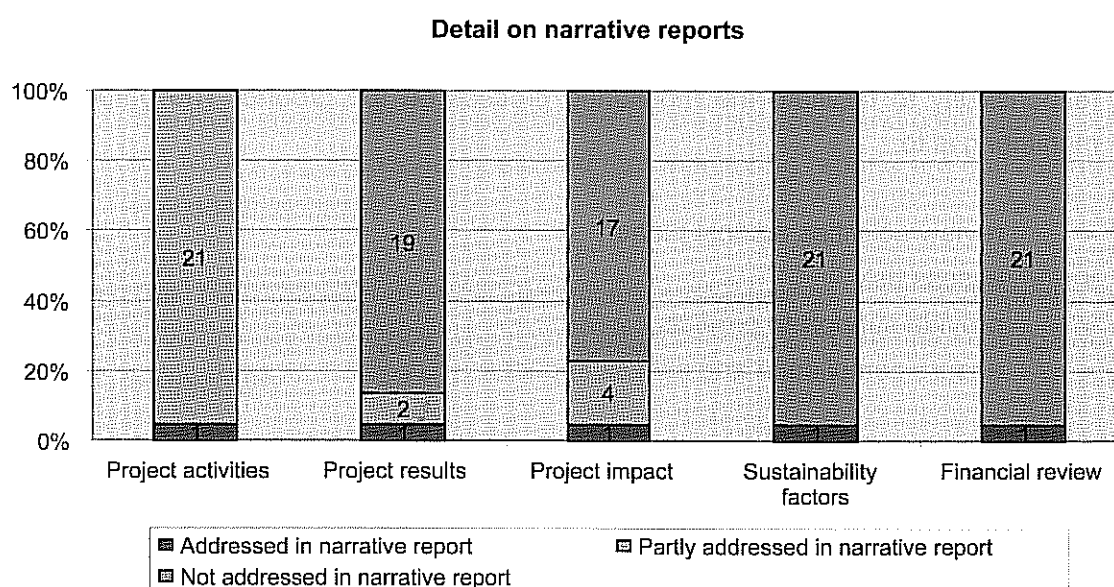
- (a) Several instances were identified where projects did not meet the requirements of the signed funding agreement. This was, however, not timeously identified or followed up by the NDA. If the narrative report is not completed properly and if it does not receive the necessary attention from the development managers, it becomes ineffective as a monitoring tool. The following serve as examples:
  - Expenditure was incurred that had not been budgeted for and was not in line with the project's operations. Although the agreement contains a 15% deviation clause, the deviation in expenditure should nevertheless relate to the project and should be substantiated when necessary. Consideration should also be



given to the fact that deviations will have a material impact on the budget of the rest of the project. Technical review as well as due diligence reporting procedures prior to funding did not take the deviation into account; therefore, it is possible that the deviation might influence the sustainability of projects.

- In the sample of projects selected, all but one of the 22 narrative reports did not provide the required detail, but were nevertheless accepted by management (graph 2). Corrective steps were not instituted to ensure that beneficiaries would report comprehensively in future.

**Graph 2**



Source: NDA beneficiary narrative reports

### 6.2.3 Recommendations by the AG

- The NDA should institute measures to enforce proper monitoring and allow for timely action to be taken in the event of non-compliance with the funding agreement.
- Expenditure should be monitored closely to ensure that it is in line with the project's budget and operations. All deviations should be substantiated.
- The development managers should review the narrative reports in detail and take corrective action if they are incomplete or do not meet the prescribed requirements.
- The NDA should institute measures to effectively monitor and assess the impact of projects. This may include developing a qualitative or quantitative tool for determining the impact on communities.



#### 6.2.4 Response of the AA

The research and development directorate conducts biannual impact assessments and case studies on lessons learnt and best practice in project implementation.

### 6.3 Monitoring of projects by the NDA

#### 6.3.1 Background

(a) According to the NDA policy on grant making, it is one of the roles of the programmes screening committee to ensure that approved projects are properly monitored and evaluated. Development managers are appointed by the NDA and delegated the responsibility to facilitate the monitoring process on the ground. The purpose of such monitoring is to:

- review activities against plans
- assess risk
- provide support to projects
- ensure compliance and assess impact.

(b) According to the grant monitoring procedures, *the development manager should establish contact with their respective projects once a month and undertake a physical visit once per quarter. Development managers are further required to produce reports after each visit using approved templates. These should be signed off by the relevant provincial manager and submitted to the development management director for approval.*

#### 6.3.2 Findings

(a) The minutes of the programmes screening committee did not reflect on the monitoring and evaluation of approved projects. In addition, in the sample selected, the development managers did not adhere to the grant monitoring procedures, as the monitoring reports on file were inconsistent or incomplete, there was insufficient recording of monitoring procedures, and in some cases no reports were available. It could also not be established whether compliance with the stipulated contract conditions had been followed up and whether risks and impact had been assessed for all projects.

(b) No actions were taken against development managers who failed to execute their functions with regard to the monitoring of financial and governance matters. The NDA's monitoring procedures were not applied comprehensively when development managers reported on visits to beneficiary projects. For example, most of the projects had:

- no evidence that the financial records and governance aspects of the project had been monitored



- no indication that the narrative reports, which should be completed and submitted by the beneficiaries prior to the monitoring visit (refer to paragraph 6.2.2), had been reviewed and taken into account when compiling the monitoring report
- no indication that financial and institutional sustainability had been reviewed
- no report on compliance set by the NDA board and it could not be determined whether non-compliance identified in earlier monitoring visits had been followed up.

The NDA approved these reports without addressing the deficiencies in the monitoring reports.

### **6.3.3 Recommendations by the AG**

- (a) The NDA should ensure that all activities are monitored and controlled in accordance with the NDA's organisational goals and that monitoring reports are consistent, complete and well documented.
- (b) The NDA should consider instituting measures to take appropriate action against development managers who do not effectively perform their monitoring duties as required by the NDA.
- (c) The NDA board should institute measures to strengthen its oversight mechanism in the monitoring of projects and to keep evidence to support it.

### **6.3.4 Response of the AA**

- (a) The NDA will continuously improve the skills and capacity of project and development managers in the areas of project monitoring and report writing. Payment and monitoring schedules have been developed for each province, which will be submitted to the NDA board for their review and approval. Quarterly reports will then be generated on the status of project monitoring per province.
- (b) Furthermore, the NDA has already taken corrective steps in respect of development managers whose portfolios are not properly monitored.

## **6.4 Communication and coordination of projects**

### **6.4.1 Background**

The NDA projects involve many role players. The NDA's five-year strategic plan for 2006-2011 indicated that consistent poorly segmented and poorly targeted communication, which also accounted for inadequate and outdated contact information on stakeholders, had a debilitating effect on the NDA's efforts to partner and collaborate with stakeholders. It was further stated that although collaboration did take place, it had not been pursued aggressively enough and that



contact was lethargic and perhaps low key, with a resultant low impact on both funding and capacity to deliver on its mandate.

#### **6.4.2 Findings**

- (a) Most of the projects funded by the NDA are located in rural areas. The NDA did not have an effective and efficient system to communicate with beneficiaries. From the sample of projects visited, beneficiaries indicated that they could easily reach the development managers via telephone, but communication with head office was slow and they rarely got any form of feedback.
- (b) Insufficient communication and coordination led to a poor turnaround time on all business processes, including project presentation, approvals and payments. Furthermore, queries received from projects and regions were not resolved timeously.

#### **6.4.3 Recommendations by the AG**

- (a) The NDA should institute measures to ensure that the coordination and integration of all role players promote efficient service delivery.
- (b) Communication should be formal and should occur via a central point, where a call should be logged and routed to the intended individual (development manager). If possible, communication should be in writing.

#### **6.4.4 Response of the AA**

In general, communication with projects on contractual issues is reduced to written correspondence. In instances where there is an amendment to contracts, an addendum will be issued to the project beneficiaries for their signature. The NDA has also improved communication between the projects and provincial offices through biweekly contact with provinces and monthly meetings between the development management director and provincial managers.

### **6.5 Sustainability**

#### **6.5.1 Background**

- (a) The NDA is committed to empowering communities for sustainable development. One of the goals as per the NDA five-year strategic plan for 2006-2011 was a 20% improvement in the NGOs' capability to ensure year-on-year sustainability of targeted projects.



- (b) According to the adjudication criteria for the funding of projects used by the projects and programmes steering committee, a project should:
- demonstrate appropriateness of project solutions and results in relation to problems identified
  - provide objective and project purpose indicators reflecting the social and economic impact of the project on the community
  - demonstrate the project's suitability in terms of the social, cultural and environmental characteristics of the area
  - demonstrate long-term feasibility in technical, financial and organisational terms.

### 6.5.2 Findings

- (a) No baseline was determined to measure the 20% improvement in the NGOs' capability to ensure year-on-year sustainability of targeted projects in communities as set out in the five-year strategic plan.
- (b) The initial sustainability assessments of the projects in accordance with the funding criteria, as well as the supporting documentation submitted for evaluation by the projects during the pre-funding phase, were incomplete. For example:
- Business plans submitted did not always indicate the sustainability of projects, while no business plans were submitted in some cases.
  - Some projects were approved, while it was already clear that these projects could only be sustainable if they received additional funding.
- (c) Throughout the life cycle of the projects that had already been approved, the development managers are required to monitor sustainability as part of the monitoring and evaluation requirements. There were, however, insufficient monitoring by development managers and a lack of timely detection and follow-up in the event of insufficient sustainability plans or an inability to demonstrate long-term financial feasibility right from the start of the project. For example, in 64% of the monitoring reports audited, there was no indication that the financial sustainability had been assessed. In 23% of the reports, institutional sustainability (such as systems and procedures, governance, community ownership, strategic linkages and skills) was not addressed.
- (d) If financial sustainability is considered on a regular basis, it could reduce the risk of making payments to projects that are classified as unsustainable. The number of discontinued projects (write-backs), as highlighted in paragraph 6.6, and projects that qualify to be discontinued clearly highlights the lack of sustainability in projects approved by the NDA.



### 6.5.3 Recommendations by the AG

- (a) The NDA should determine a baseline to ensure year-on-year sustainability of projects.
- (b) The NDA should develop a strategy and implement measures to ensure timely detection and follow-up in the event of insufficient sustainability plans or an ability to demonstrate long-term feasibility regarding financial sustainability.
- (c) The NDA should institute measures to ensure proper monitoring of sustainability factors.

### 6.5.4 Response of the AA

The NDA has introduced the submission of business plans for all projects prior to funding approval as a measure of assessing the economic viability of projects that may be potentially funded. The NDA also ensures that each funded project has a capacity-building plan to assist them in developing sustainability. Furthermore, the additional measures taken in more effective monitoring will improve the timely detection of problem areas in project implementation.

## 6.6 Discontinued projects

### 6.6.1 Background

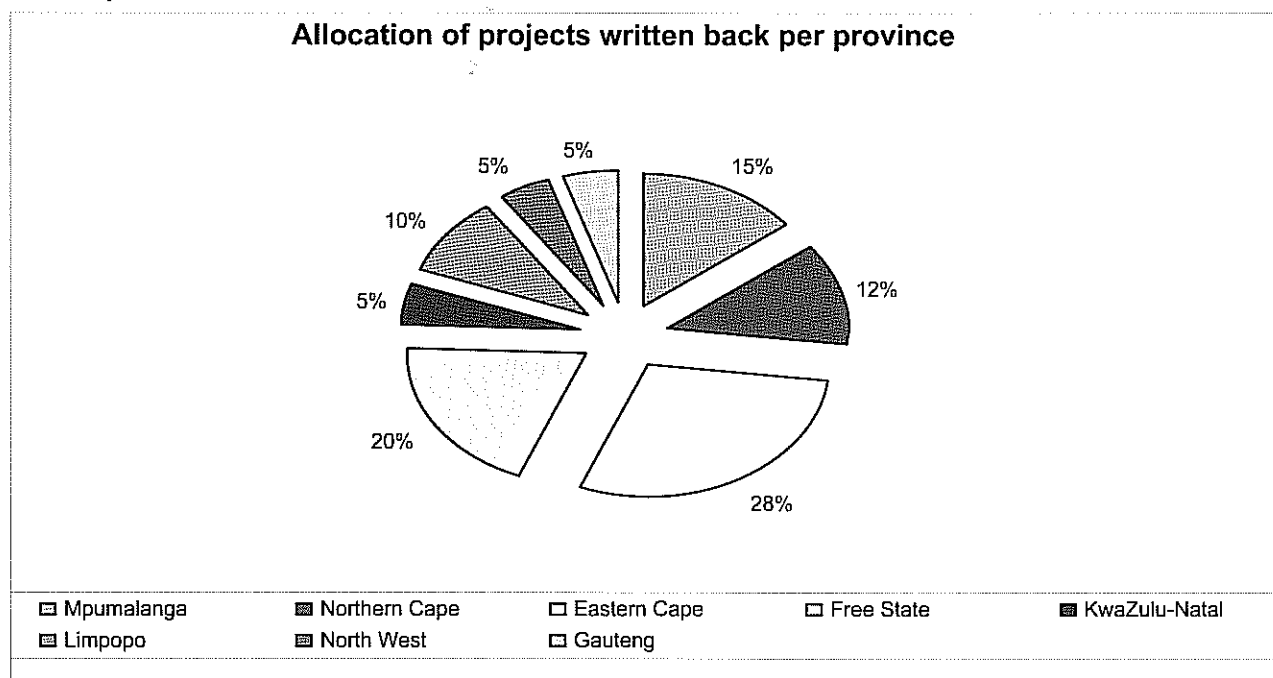
- (a) The NDA policy on discontinued projects indicates that *there are project-related challenges and environmental factors that may occasion the review of funding relationships between the NDA and the project partner. The following are circumstances under which a project may be recommended for withdrawal:*
  - *Activities of the project cannot be satisfactorily implemented as a result of the withdrawal of a significant number of project members*
  - *Unresolved conflicts within the project have impacted on delivery of planned activities*
  - *Project partners have adopted and signed a resolution recommending the withdrawal of a lead organisation*
  - *A formal written request has been received by the NDA seeking withdrawal from the contract*
  - *Project does not demonstrate adequacy in any of the following: governance, management and technical capacity to successfully implement project activities*
  - *Where 12 months had elapsed since the last payment, a project will qualify to be discontinued (written back) unless the project and the regional manager demonstrate otherwise.*
- (b) The NDA further retains the exclusive right and option to approve a withdrawal of a project based on evidence of mismanagement and misappropriation of funds by the project or its members.



## 6.6.2 Findings

- (a) On 21 June 2007, 41 projects amounting to R14,030 million, some dating back to November 2000, were approved to be discontinued. Of the R14,030 million, the NDA had already paid out R7,146 million on these projects. Fifty-nine per cent of the projects were written back due to non-compliance with the funding agreement requirements after more than R4 million had been paid out, while 10% of the projects were written back due to the misappropriation of funds or financial mismanagement after R338 380 had been paid to the projects. This could be classified as fruitless and wasteful expenditure.
- (b) The NDA did not have procedures to recover funds from non-complying projects or to control funds allocated to projects once misappropriation or mismanagement had been identified. No confirmation could be obtained from the NDA that assets and monies already paid out to projects that had been discontinued or identified as not complying with the funding agreement had been recovered from these projects. Graph 3 illustrates projects discontinued per province, referring to projects and not amounts:

**Graph 3**

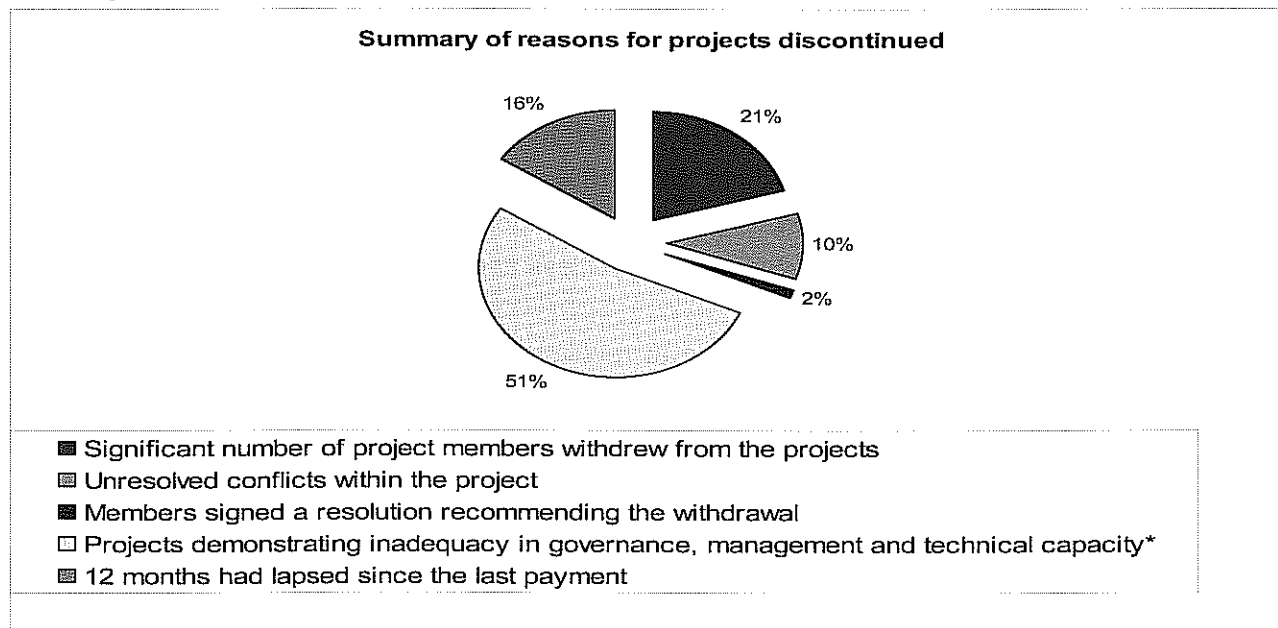


Source: NDA report on projects written back, dated 21 June 2007



- (c) The reasons for the discontinuance of the 41 projects are reflected in graph 4.

**Graph 4**



\*Included in "Projects demonstrating inadequacy in governance, management and technical capacity" is "non-compliance with NDA contract requirements".

Source: NDA report on projects written back, dated 21 June 2007.

- (d) In 44% of the projects discontinued, there were more than one qualifying reason for the project to be discontinued. This is an indication that there are various aspects that need to be corrected during the evaluation and adjudication processes, and the subsequent monitoring thereof, to ensure the effectiveness of the projects. The majority of discontinued projects occurred because projects failed to demonstrate adequacy in governance, management and technical capacity.

### 6.6.3 Recommendations by the AG

The NDA should institute measures to ensure that all activities are monitored and controlled in accordance with the NDA's organisational goals and that monitoring reports are consistent, complete and well documented. The NDA should also take timely action to discontinue projects in accordance with the policy on discontinued projects in order to minimise potential fruitless and wasteful expenditure.

### 6.6.4 Response of the AA

- (a) The NDA will be putting more emphasis on mentoring and coaching projects through the identification of qualified and credible lead organisations, and every project is allocated a capacity-building budget to enhance and strengthen governance, management and technical capacity.

- (b) Furthermore, the NDA has amended the funding agreement so that the contract terms now require the projects to deliver the assets to the NDA upon certain conditions.

## 7. APPRECIATION

7.1 The assistance rendered by the staff of the NDA during the audit is sincerely appreciated.

*Auditor-General*

Pretoria

October 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

