

Perspectives

on KwaZulu-Natal

Volume One - Number Eight - October 2001

Auditor-General releases report on RDP projects

The KwaZulu-Natal auditor-general has released a report on the financial statements of the Reconstruction and Development Programme. In the April 2001 edition of *Perspectives* (Volume 1 Number 2) it was reported that the KwaZulu-Natal government had abandoned a peace education programme after spending millions from the R80 million budget. The money was supposed to be used to recognise communities and individuals who had made a significant contribution towards establishing peace in the province and to ensure long-term sustainability of peace by investigating in the people of the province. The initiative included the provision of infrastructure and the establishment of a peace education programme.

The recently released auditor general's report notes with concern that the contract of the project managers had been extended with an increased budget to R15.6 million with a further request of an increase to R18.5 million for the 2000/2001 financial year.

The auditor-general found that neither payment vouchers nor a treasury order could be produced for expenditure to the value of R8.6 million. As a result this expenditure was treated as unauthorised.

The auditor-general summarised the investigation by a firm of external auditors that was engaged to review project management fees, related expenditure, community projects and other expenditure, as follows:

- management fees amounting to R1 790 092 appear to be overcharged";
- the contract entered into between the Province of KwaZulu-Natal and a project management consultant revealed that the contract lacked sufficient detail and contained various deficiencies to enable one to easily determine the reasonableness of expenditure incurred;
- a review of the claims submitted by the consultants to the Provincial Government revealed that the information in the form of supporting documentation included with each claim was insufficient to enable the relevant officials to adequately verify and scrutinise the claims;
- the consultant's staff failed to maintain daily time-sheets which detailed the work performed as required by the contract;
- a significant portion of the travel expenditure incurred by the principal consultant and the consultant staff was not supported by appropriately detailed travel claims;

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- although the appointment of sub-consultants is regulated by the contract which requires the approval of the Director-General for each appointment, in four instances such approval was not obtained by the consultants;
- various related party transactions were identified during the review;
- only transactions to the value of R2 946 015 out of a total of R6 449 177 could be traced to the Provincial Financial Management System (FMS) impromptu report. The remainder of the expenditure could not be traced to the ledger as the relevant batches could not be located. These batches contain the documentation in support of the relevant transactions;
- of the 15 community projects for which project business plans had been approved, 11 projects did not have written maintenance agreements in place where the communities accept responsibility for the payment of recurrent costs associated with the facilities to be provided;
- of the batches of other expenditure recorded in the provincial ledger, batches with a cumulative total of R20 824 611 could not be located for verification purposes.

The auditor-general said a special investigation that covered the 1996/1997 and 1997/1998 financial years revealed numerous deficiencies in the management and control of the financial resources of the Discretionary Fund. This was an initiative that allocated a certain amount of money to each provincial department to be used at the discretion of the respective minister. He summarised these as follows:

- the application documents for funding of 14 projects was not available;
- the relevant documents relating to three projects could not be located;
- only partial approval had been obtained for two projects;
- various discrepancies were noted with respect to the tracing of project allocations to the relevant project bank accounts;
- of the project expenditure which was supported by documents, the majority was supported by till slips or receipts. Such documentation did not provide conclusive evidence that the expenditure was incurred for the purpose of the relevant project because essential information, such as the name of the project and the description of the supplies purchase were in most incidences not stated on the relevant documentation;
- in the majority of cases, no or limited corroborating evidence existed to support the reasonableness or otherwise of explanations received in support of expenditure incurred. In most cases, project expenditure had not been recorded by the project members and the only documentary evidence of such expenditure were the cash withdrawals recorded in the project savings books or certificates;
- expenditure totalling R1 242 086 was not supported by adequate documentation and a further R2 851 800 could only be substantiated by explanation;
- no physical evidence could be obtained to support the existence of 21 projects;
- 36 projects had ceased to operate due to various reasons. In some cases, although the projects had ceased operations, the equipment purchased from the RDP grant was inspected at the original project instead of being returned and placed under State custody;
- the status of five projects could not be determined due to a lack of physical evidence;
- based on the evidence obtained during the investigation, 39 projects with a value of R4 213 149 were handed over to the South African Police Services for further investigation.

The auditor general also stated that various investment policies had been taken out with portions

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of money from the RDP fund. With regard to one policy more than R13 million was to be paid in premiums between February 1, 1998 and January 1, 2008, but it was not clear as to whom the beneficiary was from the documentation submitted.

The auditor-general described expenditure amounting to R2.5 million that was used for a housing project in Mpumalanga as unauthorised. Authority had been applied for, but not yet received and submitted by the auditor-general's office.

The auditor-general found that funds had been spent on about 70 projects that were incomplete. "It was also established that the deterioration of unfinished structures will result in additional cost to complete the projects which has not yet been quantified," the report states.

A provincial internal audit division has performed an audit on the findings of an investigation by the Special Investigating Unit, which was headed by Willem Heath. The auditor-general summarises the findings of the audit division as follows:

- Legal action, as provided for in the contract, should be instituted to recover the amount that has not been conceded by the consultants.
- Due to the significant errors found on the invoices submitted, all future payments to the consultant by the Administration be subject to a detailed audit, possibly at the expense of the consultant, prior to payment being made.
- The composition of the management committee should be re-evaluated with a view to extending its size and involving more people who do not have vested interests in the decisions taken by this committee. The additional members could include senior officials of the Department of Finance and Department of Public Works.
- The pros and cons of terminating the consultant's contract should be evaluated and if there is no significant negative effect on the projects then the contract should be terminated.

The auditor-general did, however, find that there was an improvement with regard to proper business plans being in place for projects that were receiving funding and in further funding being advanced only when progress reports had been received. Such problems had been reported in previous years, but the auditor-general found that satisfactory responses were received in response to informal queries.
