Exploring the Effectiveness of NPO Annual Report Submission to the Department of Social Development in South Africa

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Abstract: This study investigates the landscape of annual reporting practices by Non-Profit Organizations (NPOs) to the South African Department of Social Development (DSD). Focusing on the motivations, challenges, and compliance levels of NPOs, the research aims to improve reporting effectiveness. Through qualitative research methods, including interviews with DSD officials, this study uncovers that well-established NPOs with DSD funding demonstrate better understanding and adherence to reporting obligations. Challenges in financial statement preparation and record-keeping were identified, with compliance varying between government funded and non-governmental funded NPOs. The study emphasizes the importance of updated report templates, support mechanisms, and transparent communication between NPOs and the DSD. Furthermore, it addresses the implications of recent amendments to the NPO Act, highlighting the need for comprehensive awareness campaigns and education in the sector, particularly regarding money laundering and terrorism financing risks. The study offers actionable recommendations to enhance NPO reporting practices, fostering transparency, accountability, and effective social development outcomes.

Keywords: Non-Profit Organisation, reporting challenges, annual reporting, compliance, money laundering, financial reporting, and capacity building.

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1.0 Introduction

South Africa has a relatively sizable non-profit sector comprised of numerous nonprofit organisations (NPOs). These organisations range in size from small not-forprofit organisations operating in a single community to large, well-established organisations with a national footprint. NPOs play a very important positive role in terms of, among others, social justice, upliftment, and community building in several sectors of the South African society. Under the Non-profit Organisations Act, 71 of 1997 (the NPO Act), the National Department of Social Development (the National Department) regulates aspects of the operation of NPOs in South Africa; however, several concerns are being raised regarding the registration with the National Department and compliance with the reporting requirements set for registered NPOs.

The objectives of the NPO Act are set out in its preamble stating that, among others, it aims to:

- "Provide for an environment in which non-profit organisations can flourish".
- "Establish an administrative and regulatory framework within which nonprofit organisations can conduct their affairs".

To achieve these aims, NPOs have to voluntarily register with the Register of NonProfit Organisations (the Register) with the DSD as envisioned in section 1 of the NPO Act unless an NPO provides services or perform activities outside the South African borders. Section 1 of the Act furthermore encourages NPOs to maintain adequate standards of governance, transparency and accountability. Section 18 of the Act requires NPOs to keep proper accounting records and to prepare annual financial statements. This is aimed at promoting transparency and accountability in the management of the organisation's finances. In addition to this section, the NPO Act includes several provisions that promote accountability and transparency in the management of NPOs. For example, section 21 requires NPOs to submit annual reports to the Directorate for NPOs, which provides information on the organisation's activities, finances and compliance with the Act.

Therefore, the requirement for NPOs to maintain a reasonable level of accountability, transparency, and governance is reflected throughout the NPO Act and are fundamental principles that underpin the regulation of NPOs in South Africa. NPOs are depending on public support and donors to fund and assist their activities (Caers et al., 2006). Donors are, however, critical of a charity's continued ability to operate in the future and the way their funding is spent. Hence, comprehensive, timeous, and trustworthy

financial information offers NPOs the opportunity to communicate effectively regarding their activities (Howson & Barnes, 2009). Therefore, annual reporting by registered NPOs to the National Department is averred to be advantageous to NPOs as it is said to enhance the credibility of such NPOs, as many donors and funding agencies require NPO registration as well (DSD, 2012).

NPOs who have voluntarily registered with the DSD are required to annually submit a narrative of their activities as well as financial statements according to section 18 of the NPO Act. However, several NPOs appear to experience difficulties in producing annual narratives and financial statements. Many treasurers or management of NPOs appear not to see the value of preparing financial statements for their donors or submitting them to the National Department or simply do not have the capacity or resources to compile such annual narratives or financial statements. According to the National Department's Annual Report for the 2020 financial year, only 50% of registered NPOs submitted their annual reports, which included both the annual narrative and financial statements (DSD, 2020:49).

According to Recommendation 8 of the Financial Action Task Force (FATF), NPOs run the risk of being misused for purposes of money laundering and the financing of terrorism on a variety of levels, from street fundraising to programme delivery where terrorist groups infiltrate them and misuse them to spread their ideology or achieve their illicit goals (FATF, 2016:26). NPOs and terrorist organisations, according to Jenkins (2006), have very different goals but frequently rely on the same logistical resources, namely: money, material, people, and public influence, all of which are critical resources for NPOs.

On 24 February 2023 South Africa was placed under increased FATF monitoring, also known as the so-called "grey list" (FATF, 2023). "When FATF places a 3 jurisdiction under increased monitoring [the so-called 'grey list'], it means the country has committed to resolving identified strategic deficiencies as soon as possible within agreed-upon timeframes and is subject to increased monitoring" (FATF, 2023). This followed the outcome of FATF's most recent Mutual Evaluation Report of South Africa, dated October 2021, which found South Africa to be lacking in respect of the following concerning NGOs (FATF Mutual Evaluation, 2021)

- Effective supervision and monitoring of the non-profit sector to prevent abuse for terrorism financing and money laundering purposes.
- Insufficient legal framework and measures to detect and prevent terrorism financing and money laundering through NPOs.
- Weaknesses in the implementation of the risk-based approach to anti-money laundering and countering the financing of terrorism.

Some amendments have since been made to the NPO Act to improve the situation regarding the beneficial ownership of NGOs and in particular the maintaining of records regarding beneficial ownership information. These improvements were implemented through the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act 22 of 2022, commonly referred to as the GLAA. This Act specifically amends the NPO Act, focusing on maintaining detailed and accurate information about the individuals who ultimately own, control, or benefit from the activities of NPOs. The amendments to the Act

includes the details of the natural persons who ultimately own, control, or benefit from an NPO and that records must be kept up-to-date and made available to the relevant authorities upon request. These amendments to the NPO Act in South Africa are expected to enhance the transparency and accountability of the non-profit sector and prevent the misuse of NPOs for illicit purposes, including money laundering and terrorism financing.

Appropriate measures, as per the requirements of FATF and the amendments to the NPO Act, should now be implemented to ensure that South Africa can be removed from the grey list, but more importantly to mitigate the vulnerabilities of the country's NPO sector for misuse by money launderers and the financing of 4 terrorism. This will require enhanced registration of NGOs with the National Department, comprehensive and timeous submission of the required information, and then such information needs to be acted upon by the Department of Social Development to reduce the risk of money laundering and terrorism financing.

The purpose of this research is to explore the effectiveness of annual NPO reporting to the National Department, to attain the goals, set in terms of the NPO Act as well as that of FATF, as it pertains to the NPO sector. Selected interviews will be conducted with relevant individuals within the National Department working in NPO compliance to determine how the DSD can improve the submission of NPO Annual Reports to achieve the objectives of such reporting.

1.1 Background of the Study

NPOs are defined by the Development Resources Centre (1993) as "selfgoverning, voluntary, non-profit distributing organisations operating in the public interest, not for commercial purposes, for the promotion of social welfare and development, religion, charity, education, and research". Mudogwa (2016:5) argues that this definition limits its applicability to organisations that work in the public interest, excluding those with a more private function or that don't have a distinct social public goal. According to section 1 of the NPO Act, an NPO is defined as any trust, company, or other association of people that was established for a public purpose, whose income and property are not distributed to its members or office bearers except as reasonable compensation for services rendered, whose main goal is to carry out any public benefit activity. The definition expands and highlights that an NPO can be established as a trust, company, or association of persons and that its primary objective must be to carry out public benefit activities. It also emphasises that the income and property of an NPO cannot be distributed to its members or office bearers, except as reasonable compensation or expenses. In this research paper reference to these entities will be denoted as NPOs.

NPOs play a crucial role in society by addressing important social, environmental and humanitarian issues (Kaltenbrunner & Renzl, 2019: 976). They are driven by a social mission rather than a profit motive, and they use their resources to make a positive impact on society (Santos, 2012: 335). He further indicated that NPOs often 5 fill gaps in public services by providing services or resources that the government cannot or does not provide. Overall, NPOs are an essential part of civil society, and their contributions are critical for promoting social welfare and addressing important societal challenges. The National Council of Non-Profits (2022) indicated that NPOs function as organisations that are driven by a social mission rather than a profit motive, and they use their

resources to address important social, environmental and humanitarian issues. NPOs are funded through a variety of sources, including government grants, donations from individuals and corporations, fundraising events and fees for services.

Figure 1-1, below, is derived from data of the National Department, reflecting that the bulk of registered NPOs (95%) are voluntary associations, with non-profit companies (NPCs) accounting for 3% and trusts accounting for only 2%, according to the DSD NPO Register (2020).

Figure 1-1 DSD number of registered NPOs

Voluntary associations are typically member-based organisations that are formed by individuals who share a common interest or objective, such as a social or cultural cause. These associations are governed by their members and are usually run by volunteers. Voluntary associations are governed in terms of the common law as there is no statute that regulates them in South Africa. NPCs, on the other hand, are incorporated entities that operate on a non-profit basis and are regulated in terms of the provisions of the Companies Act, 71 of 2008. Trusts are legal arrangements that allow a trustee to manage property or assets for the benefit of a specific purpose or beneficiary and are regulated by the common law and the Trust Property Control Act, 57 of 1988.

Except for the above, NPOs are regulated by the DSD in terms of the NPO Act. The DSD is responsible for registering and monitoring NPOs to ensure that they are operating according to the law and their stated missions, according to sections 16 6 and 17 of the NPO Act. The NPO Act aims to provide a supportive regulatory system to NPOs and to provide an environment in which NPOs can flourish. Section 12 of the NPO Act outlines the requirement for NPOs to operate in a non-profit manner and for the public benefit. This includes the responsibility to manage the affairs of the organisation in a responsible and accountable manner.

According to section 24(1) of the NPO Act, the Director within the National Department is required to maintain a register in the prescribed format of all NPOs that have been registered with them.

Figure 1-2, below, is derived from data of the National Department, reflecting the total number of registered NPOs and the trend of the number of non-compliant NPOs, over the period 2016/17 to 2020/21.
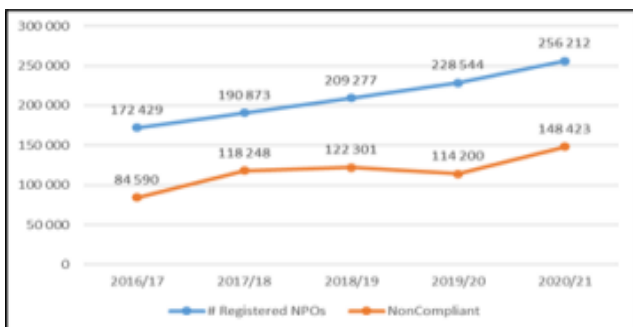
Figure 1-2 Non - compliant trend: DSD NPO register, 2022

The above figure shows an increasing trend in the number of NPOs that do not comply with the requirements set for the period 2016 to 2021. Non-compliance and the subsequent deregistration of a non-compliant NPO can have serious consequences for an NPO. It means that the organisation will no longer be recognised as a registered NPO, which may affect its ability to receive tax-exempt status or access certain government funding or grants. It may also damage the organisation's reputation and make it more difficult to attract donors or volunteers.

Table 1-1, below, is derived from the data of the National Department, reflecting the percentage of non-compliant NPOs registered in the DSD for the financial years 2016/2017 to 2020/2021.

Year	# Registered NPOs	Non-Compliant	Percentage
2016/17	172 429	84 590	49%
2017/18	190 873	118 248	62%
2018/19	209 277	122 301	58%
2019/20	228 544	114 200	50%
2020/21	256 212	148 423	58%

Table 1-1 Number of Non-compliant NPO: DSD NPO register, 2022

The FATF is an intergovernmental organisation that sets standards and promotes the implementation of measures to combat money laundering and terrorist financing (FATF, 2023). When a country fails to implement the FATF's recommendations effectively, it may be placed on the organisation's grey list, which can have significant economic and reputational consequences (FATF , 2021a). The issue of FATF grey listing is particularly relevant to NPOs because they often rely on international funding, which can be disrupted when a country is placed on the grey list.

The vulnerability of NPOs being abused by terrorist organisations is a serious concern, not only in respect of compliance with the FATF Recommendations, but also in respect of the risks that are created for a country and its inhabitants. For instance, according to a report from the United Kingdom (UK) Government (HM Government, 2019) regarding the funding of Islamist extremism in the country, it was found that whilst terrorist groups rely on a range of funding sources, including state sponsorship, criminal activities, and exploitation of natural resources, a significant portion of their funding came from individual donations and charities. The report recommended a range of measures to address the issue of terrorist financing, including enhancing the regulatory framework for charities, improving information-sharing between government agencies and charities, and strengthening the legal and operational frameworks for combatting terrorism financing.

One important reason for requiring annual reports from NPOs is to assist in the prevention of the misuse of the sector for money laundering and terrorism financing purposes. By requiring NPOs to submit annual reports, the government can monitor the financial transactions of these organisations and detect any suspicious activity. This is important for maintaining the integrity of the non-profit sector and ensuring that it is not exploited by criminal elements.

The DSD in South Africa is responsible for funding several NPOs that deal with the mandate of social development in the

country (DSD, 2012). However, there have been longstanding concerns about the effectiveness and transparency of the DSD's funding processes, as well as the capacity of NPOs to meet the DSD's reporting and compliance requirements. These issues have led to calls for reform to the funding system, including greater transparency and accountability in the allocation of funds, simplified reporting and compliance requirements, and increased capacity building support for NPOs (DSD, 2020).

Overall, addressing the problems with the current funding system and ensuring effective implementation of the FATF Recommendations are critical for promoting the sustainability and effectiveness of NPOs in South Africa. This requires a coordinated effort by the National Department, NPOs and other stakeholders to identify and address the root causes of these issues. The other challenge is that the majority of the funded NPOs do not spend their allocated grants for its intended purpose by deviating from the service level agreements they entered into with the DSD. It means that those deviations that happen will be considered non-compliance and can result in the termination of funding.

1.2 Problem Statement

The DSD has a legislative responsibility to create a conducive environment for NPOs to fulfil the important role they play in society. Part of this includes the funding of NPOs who render services on its behalf, subject to the availability of resources. The NPO Act currently requires that NPOs, who have registered with the DSD, submit an annual narrative report of their activities as well as their annual financial statements. The purpose of this annual report is to inform the DSD about the services rendered during the period under review as well as to provide details on the NPO's use and management of its finances.

Failure to provide the annual report can, among others, result in the NPO's deregistration by the DSD. Compliance with this requirement appears to be a problem. Only 42% of all registered NPOs submitted their annual reports, according to the DSD's Annual Report for the 2021 financial year (DSD, 2021). The number of non-compliant NPOs appears to be on the increase. If a registered NPO does not comply with the reporting obligations, they may be deregistered (known as noncompliance deregistration) or their financial assistance may be terminated. If an NPO fails to comply with regulatory requirements, it could face the risk of losing its tax-exempt status and eligibility for certain government funds or grants. Additionally, non-compliance can tarnish the organisation's reputation, potentially deterring donors and volunteers from offering their support. This scenario underscores the importance of adherence to compliance standards for the sustained operation and credibility of the organisation.

In a regulatory system, transparency, accountability and good governance are essential, which includes annual financial and operational reporting. This applies to the NPO sector as well. Not only are these aspects essential for the continued funding and support for NPOs by the DSD, as well as from the public and sponsors, but also to mitigate the risk of NPOs being misused by criminals for purposes of money laundering and the financing of terrorism. As such the 2021 Mutual Evaluation Report of FATF for South Africa has shown that South Africa's regulatory dispensation has some vulnerabilities for the misuse of NPOs for money laundering and terrorism financing. Recent amendments to the NPO Act, require that more NPOs be registered with the DSD to address these vulnerabilities and the implementation of additional

measures to assist with the issue of beneficial ownership of NPOs (FATF, 2016:44).

Based on the high percentage of non-compliance and inactive or non-operational NPOs in the current registered NPO database, it appears that the NPO Directorate's monitoring capacity is limited. South Africa has been grey-listed by FATF, partly as a result of that. The DSD, as the responsible entity in terms of the NPO Act, should monitor compliance with the Act. Furthermore, should all or more NPOs be required to register with the DSD, and/or possibly be required to execute certain functions to address the risk of abuse of NPOs for purposes of money laundering and terrorism financing, the situation may become even more complicated.

If the DSD fails to adequately monitor and keep the funded NPO register up to date, the register's credibility and the Act's intentions are jeopardised. This monitoring also includes monitoring of service level agreements entered into with registered NPOs that have received grants from the DSD. The DSD will need to find efficient and cost-effective ways to monitor NPO reporting as required by the Act. Such measures should however not lose sight of the nature of the NPO industry; in particular, its lack of funding and capacity in terms of administration and financial reporting.

1.3 Research Objectives
1.3.1 Research primary objective

The study's primary objective was to explore effective methods for improving NPO annual reporting to the DSD.

1.3.2 Secondary objectives

To achieve the above-mentioned primary objective, the following Secondary Objectives (SO) have been identified:

- SO1: To determine the reasoning for and current state of reporting practices by NPOs to the DSD.
- SO2: To assess whether the required information to be annually reported by NPOs (i.e., the content of the annual report and financial statements) sufficiently addresses the outcomes envisaged for such reporting to the DSD.
- SO3: To determine the challenges experienced with annual reporting and to develop possible solutions for such challenges.

1.3.3 Research question

The research question to be addressed is, therefore: Which measures should be introduced to enhance the effectiveness of NPO annual reporting to the DSD, and how?

1.4 Contribution/Significance of the Study
1.4.1 Theoretical contribution

The study will be beneficial to other scholars to serve as a future reference for research about NPO funding, NPO compliance, and monitoring, as well as NPO governance and accountability in South Africa. Researchers, NPOs and practitioners will also benefit from being able to draw out the discussions and justifications of the information revealed in the study's findings.

1.4.2 Practical contribution

The study will help the DSD find ways to entice or persuade funded non-profits to produce annual financial

reports/statements. It will aid in identifying the gaps in NPOs who do not know how to do basic bookkeeping for their organisation so that the DSD can arrange financial management capacity building. It will also help the DSD and funders of NGOs to determine and enhance the quality of services provided by NPOs, as well as their sustainability.

1.4.3 Contribution to national policies

In terms of section 1 of the NPO Act, NPOs are encouraged to maintain adequate governance and transparency when executing their organisational affairs. The aim of this research is to contribute to such goals being met. The additional contribution will help the DSD, as the funder of some NGOs, to ensure that such funding is used for its intended purpose. It means that if the NPO submits its annual financial report, the DSD will be able to monitor how the money was spent during that financial year. The study will also assist the DSD to amend the NPO Act or its regulations or policies of the DSD, should the need arise.

1.5 Scope of the Study
1.5.1 Field of study

The field of study is primarily in the field of governance of the South African public sector, particularly the regulation of the NPO sector. It will be beneficial to other scholars to serve as a future reference for research about NPO funding, NPO compliance, and monitoring, the combatting of money laundering and terrorist financing, as well as NPO governance and accountability in South Africa

1.5.2 Sector/ Industry/ Business under investigation

The study focuses on the public sector and its relationship with NPOs in the private sector. The NPO Act, section 1, defines an NPO as "a trust, company, or other association of persons established for a public purpose, the income, and property of which are not distributable to its members or office bearers except as reasonable compensation for services rendered". NPOs generally include community-based organisations, non-governmental organisations (NGOs), civil society organisations and the voluntary sector. The study will assist the DSD in determining how to enhance NPO registration (particularly NPOs funded by the DSD) with the DSD as well as to ensure that NPOs comply with prescribed registration requirements, particularly the submission of annual reports and financial statements. It will also assist the DSD in ensuring better financial control over NPOs' funding and the quality of services provided by NPOs. Issues regarding the possible misuse of NPOs for money laundering and terrorist financing will also be addressed, although it is not the primary focus of the study.

1.5.3 Geographical Demarcation

The study will have an impact on NPOs on a national level, although the planned interviews will take place in Pretoria, Gauteng, at the DSD, Chief Directorate NPO. The branch, Community Development, is responsible for the Chief Directorate NPO within Programme 5 of the Department. The Department has four Directorates, with 61 officials who report to the Chief Directorate. Within the NPO Directorate, four specialised Directorates were formed, each focusing on a specific strategic area, namely NPO Governance and Stakeholder Relations, NPO Information and Registration Management, NPO Compliance Monitoring, and NPO Programme Management and Institutional Support.

1.6 Broad overview of research methodology

The research methodology employed in this study followed a qualitative approach, aiming to explore the effectiveness of annual report submission by NPOs to the DSD. A purposive sampling technique was used to select twelve participants from the National DSD who possess intimate and adequate knowledge of the terrain that is being researched in this study. Semi-structured interviews were conducted with these participants to gather in-depth insights. The study adhered to ethical considerations, ensuring voluntary participation, informed consent, and confidentiality of participant information in line with the provisions of the Protection of Personal Information Act (POPIA), 4 of 2013.

The data collection process involved online one-on-one interviews, conducted via platforms such as Zoom and MS Teams, allowing participants to engage from their own environments. These semi-structured interviews were audio-recorded, transcribed, and analysed through a qualitative coding process. Trustworthiness was maintained by ensuring credibility through respondent validation, transferability through rich description, dependability through rigorous documentation, and confirmability through a clear audit trail. The study's limitations included a relatively short duration, potential non-response bias, and a focus solely on the perspective of DSD officials, which may impact the generalizability of findings. Despite these limitations, the research contributes to understanding the challenges and potential improvements related to NPO annual report submissions, offering valuable insights for policy and practice in the non-profit sector.

2.0 Literature Review
2.1 Introduction

NPOs play a crucial role in addressing societal needs, promoting social welfare, and driving positive change in South Africa. As entities that operate for the public benefit, NPOs are expected to adhere to principles of transparency, accountability, and good governance. Annual reporting to the DSD serves as an important tool for NPOs to fulfil their obligations, providing stakeholders with a comprehensive overview of their activities, financial performance and impact. However, the process of annual reporting for South African NPOs to the DSD is not without its challenges and conceptual complexities.

This literature study provides an in-depth overview of NPO annual reporting in South Africa, covering various aspects such as the definition and conceptual issues surrounding NPOs, the challenges faced by NPOs in the reporting process, the effectiveness of reporting in conveying meaningful information, the content typically included in NPO annual reports, and the importance of accountability and governance in ensuring transparency and public trust. Additionally, the current state of reporting practices and the development of the NPO database will be explored to shed light on the efforts to improve reporting standards and enhance the sector's overall transparency and effectiveness.

2.2 Defining NPOs and Their Function in Society

NPOs play a crucial role in society by promoting the public interest and addressing a wide range of social needs. The codes of good practice for South African NPOs include that private, self-

governing entities operate on a non-profit basis, focusing on social welfare, development, religious activities, charitable giving, education and research (Hendrickse, 2014). With a mission-driven approach and a commitment to serving the greater good, NPOs have become instrumental in driving positive social change and addressing societal challenges. The importance of NPOs reside in their ability to mobilise resources, form partnerships, and engage communities to achieve positive change. NPOs draw attention to crucial issues, propose innovative solutions, and promote social justice and equity through their focused efforts and devotion to the public good, according to Cummings and Rhode (2009:603).

NPOs come in a wide variety of sizes, scopes, and areas of specialisation. NPOs take part in activities like aiding marginalised populations, distributing humanitarian aid, conducting research, carrying out development projects, and promoting sustainable development (Lewis et al., 2020).

2.2.1 Defining NPOs

NPOs, also known as NGOs or community-based organisations (CBOs), play an important civic, developmental, and rights-based role in both developed and developing countries. Such organisations are considered to be part of what is known as the non-profit sector, the voluntary sector, or community-based organisation sector. However, numerous perspectives exist on how designation influences the industry, and this section relates to this topic.

NPOs are defined according to the Development Resources Centre (1993) as "selfgoverning, voluntary, non-profit distributing organisations operating in the public interest, not for commercial purposes, [but] for the promotion of social welfare and development, religion, charity, education and research. According to Davis (2019), the term "public benefit" in the context of NPOs refers to actions or initiatives that are carried out for the greater good of the public or specific groups of society. These initiatives aim to solve social, environmental, and cultural issues while also enhancing the well-being of people and communities. Since NPOs seek to improve society and have a significant impact on people's lives, public benefit activities are important to their mission. It also emphasises that the income and property of an NPO cannot be distributed to its members or office bearers, except as reasonable compensation or expenses.

Section 1 of the NPO Act defines an NPO as any trust, company, or other association of people that was established for a public purpose, whose income and property are not distributed to its members or office bearers except as reasonable compensation for services rendered, whose main goal is to carry out any public benefit activity. The definition shows that an NPO can be established as a trust, company, or association of persons, but that its primary objective must be to carry out public benefit activities.

NGOs are private, self-governing NPOs that serve the public interest by promoting social welfare and development, religion, charitable giving, education and research according to Swilling and Russell (2002:7). The definition provided by Swilling and Russell (2002) underscores the diversity and broad scope of NGOs. They can vary in terms of size, focus areas, geographic reach, and organisational structures. NGOs play a vital role in advocating for social change, mobilizing resources, and implementing programmes and initiatives that contribute to social

development, justice, and equity. In this study the term NPO will be used in line with the terminology used in the NPO Act.

It is important to note that the specific characteristics and definitions of NPOs can vary across different contexts and regions. Nonetheless, the overarching aim of NPOs remains focused on serving the public interest and working towards positive social impact, and the fact that they work on a non-profit basis.

2.3 Legislative framework

The NPO Act was enacted to foster a conducive environment for the growth and prosperity of NPOs. It serves as the regulatory framework for the functioning and governance of NPOs operating within the country. There are five chapters in the NPO Act.

The primary objective of the NPO Act is to create an environment where NPOs can flourish, to create a legal and administrative framework within which NPOs can operate, and to take care of concerns related thereto according to section 2(a) and (b) of the NPO Act. The DSD is vested with the crucial responsibility of overseeing and implementing the NPO Act according to section 4 of the Act.

Under the provisions of the NPO Act, the DSD's role encompasses a range of pivotal functions aimed at fostering the transparency, accountability, and effective operation of NPOs. These functions encompass various aspects such as the registration and regulation thereof as per section 12(1) of the NPO Act, and the monitoring of NPOs to ensure their compliance with legal stipulations, as per section 17 of the Act.

The DSD also plays a crucial role in facilitating public access to information about registered non-profit entities, thereby enhancing their credibility and public trust. In essence, the DSD's administration of the NPO Act is instrumental in creating a conducive environment that encourages the growth and positive impact of NPOs, and thereby contributing to the broader social and developmental objectives of the community (Wyngaard & Hendricks, 2010).

Rezaee (2008) claims that the establishment of this legislative framework gives the government the right to monitor and regulate NPOs, promoting transparency, accountability and adherence to legal requirements. The legislative framework enables the DSD to establish mechanisms and enforce regulations to safeguard the integrity of the NPO sector. This includes requirements such as registration, reporting, and compliance with financial and governance standards. By exercising their oversight role, the government, via the DSD, can ensure that NPOs operate within the boundaries of the law and contribute positively to society, while also safeguarding against potential risks and abuses that might occur.

Section 5 of the NPO Act provides for the establishment of a Directorate for Nonprofit Organisations within the DSD. This Directorate is entrusted by the NPO Act with various responsibilities aimed at supporting and regulating the NPO sector in South Africa. One of the key roles of the Directorate according to section 5 of the NPO Act is to facilitate the processes involved in the registration of NPOs. This includes assisting and providing guidance to NPOs throughout the registration process, ensuring that they meet the requirements and fulfil their obligations under the NPO Act.

Coordination with interested parties and other state agencies is another crucial function of the Directorate according to section 5(c) of the NPO Act. By fostering collaboration and partnership, the Directorate aims to create synergies and optimise the resources available for the NPO sector.

Furthermore, section 5(d) of the NPO Act states that the Directorate plays a role in facilitating the creation and implementation of multidisciplinary and multisectoral programmes. These programmes aim to leverage the expertise and resources from multiple sectors to maximise the positive impact of NPOs and create sustainable solutions (Choto et al., 2022). These programmes are designed to harness the knowledge and assets from diverse sectors to amplify the beneficial influence of NPOs and generate lasting solutions (Álvarez-González et al., 2017).

While the NPO Act is the primary legislation governing the NPO sector in South Africa, other laws also have a significant impact on the sector's operations. Two important laws that directly affect NPOs are the Financial Intelligence Centre Act, 38 of 2001 which was recently amended by the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act, 22 of 2022, which will be alluded to elsewhere in this chapter.

The DSD commonly recognises three distinct legal structures for registration as NPOs as per the NPO Act:

1. **Voluntary Associations (VA):** A VA is created in terms of the common law (and some of them are regulated by NPO Act) by an agreement between three or more people to form an organisation to work together to achieve a common nonprofit objective. The VA should submit a completed NPO application and two signed copies of its constitution indicating the objectives of that particular organisation according to section 13(1) of the NPO Act. The constitutional agreement does not need to be in writing in terms of the common law. However, it is typically advised that it be reduced to writing to minimise ambiguity and disagreements. A written constitution is, however, according to section 13(1)(b) required if a VA wishes to register as an NPO under the NPO Act. The constitution of the organisation is a written document that was normally created at its inception.

2. **Non-Profit Companies (NPC):** These are companies that are established for public benefit or other purposes related to cultural, social, communal, or group interests according to section 1 of the Companies Act, 71 of 2008. The main characteristic of an NPC is that it operates for the public benefit and not for the financial gain of its incorporators, members, directors, officers, or any individuals related to it. They have directors and are subject to governance regulations, including reporting and accountability requirements (King IV, 2016). It is crucial that the income and property of an NPC cannot be distributed to its incorporator, members, directors, officers, or any related individuals (Thobani, 2018). Instead, these resources must be utilised to advance the purpose for which the NPC was created, as stated in its memorandum of incorporation. This ensures that the company's activities and resources are dedicated to fulfilling its public benefit or other specified objectives, rather than benefiting any particular individuals or private interests. Whilst operating under the provisions of the Companies Act, an NPC might also opt to be registered under the NPO Act with the DSD to contribute to the broader public welfare and to serve the needs of various cultural, social, communal, or group interests without the primary motive of financial gain. An NPC is therefore a type of NPO, which may be registered with the DSD, but which obtains it legal personality in terms of the Companies Act

3. **Trusts (only charitable trusts):** According to Honey (2002), trusts are legal agreements in which property or assets are managed by trustees for the benefit of designated beneficiaries or a specified charitable purpose. According to the DSD (2009), only charitable trusts are recognised and registered by the DSD. These trusts must have clear objectives that are aimed at advancing charitable causes, such as education, poverty alleviation, healthcare or social development.

Each of the aforementioned legal structures have its own set of requirements, regulations and benefits. NPOs can choose the legal structure that aligns best with their mission, activities and governance preferences. It is important to note that the choice of legal structure can have implications for governance, reporting, fundraising and liability, among other factors.

If a VA aims to become a recognised NPO under the NPO Act, it must adhere to the specific requirements outlined in the Act. Registering as an NPO offers several advantages. One significant benefit is that many funders and donors prefer to collaborate with organisations that have obtained formal legal recognition. According to Patel (2012:603), an organisation's operations gain legitimacy and transparency when it is registered under the NPO Act.

To give themselves credibility and accountability, many South African NPOs have decided to apply for official registration through the NPO Directorate of the DSD (Anderson & Isaacs, 2010). In fact, several donors demand that NPOs be registered before they will provide it with funding, according to Ayinkamiye and Spencer (2021:69).

The NPO registration process involves several steps to formally establish an organisation as an NPO under the NPO Act. The organisation needs to prepare the required documentation, which may include its constitution, memorandum of incorporation (for NPCs), trust deed (for trusts), and other relevant information about its objectives, governance structure and activities. The organisation submits its application for NPO registration to the DSD. This application includes the completed NPO application form along with the necessary supporting documents (DSD, 2009).

The state of registration report (DSD, 2009) indicates that the second step of the registration process involves the DSD scrutinising the application and supporting documents to ensure they meet the requirements outlined in the NPO Act. This may involve, according to section 13(1) of the NPO Act, verifying whether the organisation's prescribed form is properly completed, and whether two copies of the constitution (that includes the organisation objectives, governance, and compliance with the Act's criteria for public benefit activities), are submitted.

If the application is approved according to section 15(1) of the NPO Act, the DSD issues a certificate of registration to the organisation. This certificate officially confirms the organisation's status as a registered NPO and provides its unique NPO registration number according to section 15(1)(a). Once an NPO has obtained a certificate of registration from the Directorate at the DSD, it serves as sufficient proof that the organisation is registered and recognised for purposes of the NPO Act, according to section 16(1) of the Act.

The NPO is required to fulfil several obligations to ensure compliance with the NPO Act. These obligations include:

❖ Reflecting registered status: According to Section 16(2) of the NPO Act the NPO must indicate its registered status and registration number on all its documents, including official correspondence, reports and publications. This helps to establish the organisation's credibility and legal recognition.

❖ Accounting records: Section 17(1)(a) states that the NPO is responsible for maintaining accurate and complete accounting records, along with 22 supporting documentation, for the prescribed period. These records should reflect the organisation's financial transactions, income, expenses and assets.

❖ Financial statements: Section 17(1)(b) of the NPO Act indicates that within six months after the end of the NPO's financial year, it is required to prepare financial statements which include a statement of income and expenditure (commonly known as an income statement or profit and loss statement) and a balance sheet (providing a snapshot of the organisation's financial position) as at the end of the financial year.

❖ Accounting Officer's report: The NPO must arrange for an accounting officer according to section 17(1)(b) of the NPO Act to compile a written report within two months of preparing the financial statements. The accounting officer's report confirms that the financial statements are consistent with the accounting records, that the accounting policies are appropriate and applied correctly, and that the NPO has complied with the financial reporting requirements of the NPO Act.

❖ Narrative report: Section 18(1)(a) of the NPO Act requires that a narrative report be submitted to the Directorate in the prescribed format, together with its financial statements and the accounting officer's report within nine months of the end of its financial year. A comprehensive narrative report provides an insightful overview of an organisation's activities, achievements and developments over a specified period (Rhodes & Brown, 2005). Section 18(1) of the NPO Act requires the narrative report to define the period under review, which objectives of the organisation's constitution were met by the projects, and which activities were undertaken to accomplish those objectives. Section 18 also states that it must describe such projects' benefits and advantages. These details set the context for the report and offer readers a clear objective of the organisation and its beneficiaries.

2.4 Overview of NPO Annual Reporting for South African NPOs

This section aims to provide an overview of NPO annual reporting in South Africa, including the challenges faced by NPOs, the effectiveness of reporting, the content of the reports, and the importance of accountability and governance. Additionally, the current state of reporting practices and the development of the NPO database will be discussed to highlight the ongoing efforts to enhance transparency and accountability within the sector. Understanding the complexities and dynamics of NPO annual reporting is essential for promoting good governance, fostering public trust, and maximising the positive impact of NPOs in South Africa.

2.4.1 Challenges facing annual reporting by the NPO to the DSD

Annual reporting by NPOs to the DSD can face various challenges. These challenges can impact the accuracy, completeness, and timeliness of the reporting process. Some common challenges faced by NPOs in annual reporting to the DSD include:

• Data collection and management: NPOs may encounter difficulties in collecting and managing the necessary data for reporting. According to Silvola et al. (2011), this may be the result of the organisation's insufficient data management procedures, a lack of standard data-gathering systems, or restricted resources. Incomplete or inaccurate data can compromise the quality and reliability of the annual report.

• Reporting requirements: NPOs may face challenges in understanding and complying with the reporting requirements set by the DSD (Morkel, 2022:54). This can include difficulties in interpreting complex guidelines, meeting specific formatting or content criteria, or aligning their internal reporting processes with the DSD's expectations.

• Financial reporting. According to Maboya and Mckay (2019), financial reporting can be particularly difficult for NPOs, especially those with limited financial knowledge or resources. This means that NPOs may struggle with preparing accurate financial statements, adhering to accounting standards, and ensuring transparency in financial reporting. Challenges can also arise 24 in documenting and verifying the use of funds received from different sources.

• Capacity and skills: Bach-Mortensen and Montogomery's (2018) research suggests that NPOs may lack the necessary capacity and skills to effectively carry out the reporting process. This can include challenges in data analysis, report writing, financial management and understanding regulatory requirements. Insufficient training and support can worsen these challenges.

• Technical infrastructure: Legislation, tax reforms, staffing and volunteer issues, as well as technology problems, are just a few of the difficulties faced by NPOs (Takahashi et al., 2015). According to Maluleka (2021), in a more dynamic and ever-changing world, technology is integral to business operations, including the works of NPOs. Maluleka (2021) indicated that most developing NPOs rely heavily on manual and paper-based processes. Inadequate technological infrastructure, including outdated or inefficient information systems, can hinder the reporting process. This means that NPOs may face

difficulties in collecting, analysing, and submitting data electronically, impacting the efficiency and accuracy of reporting.

- Communication and feedback: There may be difficulties in the communication and feedback process between NPOs and the DSD. The reporting process can be hampered and improvement in following reporting cycles might be hampered by a lack of clear reporting requirements, limited or delayed communication routes, or inadequate feedback on submitted reports (Monyane, 2014).

Addressing these challenges requires a collaborative effort between NPOs and the DSD. Providing capacity-building support, guidance, and training to NPOs can enhance their reporting capabilities. Streamlining reporting requirements, providing clear guidelines, and establishing efficient communication channels can also help overcome challenges and improve the overall quality of annual reporting by NPOs to the DSD.

2.5 Effectiveness of annual reporting by NPOs

Effectiveness is described by Meharg (2009:1) as a term frequently used to refer to the objective accomplishment of a measure, linking the results of a process to its original goals. The effectiveness of submitting an annual report by an NPO can vary depending on a range of factors, including the accomplishment of the measure, the content of the report and the organisation's goals

According to Gordon and Khumawala (1999), a person's decision to give to charity is influenced by several factors. The use of data in annual reports assists donors in making educated decisions about their donations (Trussel & Parsons, 2007). By relying on the data and information presented, donors can gain insight into an NPO's financial stability, programme impact and overall organisational performance. By providing information on the organisation's financial performance, programmatic achievements, and plans, an annual report can help build trust and credibility with these audiences (Keating & Frumkin, 2003:3).

Zainon et al. (2014:37) indicated that donors can obtain the necessary information after the NPO submitted an annual report in that it can strengthen and increase transparency and accountability to stakeholders, including donors, board members and the general public.

According to earlier research by Callen (1994:35) and Tinkelman (1998, 1999), donors are the main stakeholders who utilise the data presented in annual reports to make informed decisions about their donations. These studies suggest that donors rely on the information provided in annual reports to assess the effectiveness of an NPOs' performance.

Roslan et al. (2017) indicated that by analysing the data and information disclosed in annual reports, donors can evaluate the impact and outcomes of an NPOs' programmes and initiatives. This data may include financial statements, programmatic achievements, goals and objectives, and other relevant information.

Moreover, an annual report can also serve as a marketing tool for the organisation, showcasing its impact and accomplishments to potential donors, according to Liket and Maas (2015:268). Horn (2017) stipulates that highlighting the success stories and providing concrete examples of how the organisation has made a difference in the lives of its beneficiaries, an annual

report can help attract new donors and build relationships with existing ones.

However, the effectiveness of an annual report depends on how well it is crafted and tailored to the needs of its audience. A well-written and interesting report that provides straightforward details about the organisation's operations and impact, is more likely to be read and appreciated than one that is overly technical, according to Gibbs and Warhover (2002).

While there is no guarantee that an annual report will lead to increased funding or support, it can be an important tool for building trust, credibility and awareness among key stakeholders, according to Morsing and Schultz (2006:323). As such, NPOs should carefully consider the content and format of their annual reports and ensure that they are aligned with the organisation's overall goals and priorities.

2.6 Content and format of the NPO annual report

The annual report of an NPO typically consists of two main components, financial reporting and narrative reporting.

1. **Financial reporting:** According to Gibson (2012:95 and 157) financial reporting includes a balance sheet that presents the organisation's assets, liabilities, and net assets at the end of the fiscal year. An overview of the organisation's revenues, costs, and net profits or losses for the year is given in the income statement. A cash flow statement outlines the organisation's cash inflows and outflows during the fiscal year, showing changes in cash and cash equivalents. Notes to the financial statements include additional information and explanations related to the financial statements, such as accounting policies, significant transactions, and contingencies and the auditor's report, if the financial statements have been audited, which indicates the accuracy and fairness of the financial information.

According to section 17(1) of the NPO Act, the financial report should adhere to generally accepted accounting principles (GAAP) or other applicable reporting frameworks, providing clarity and transparency about the organisation's financial position and performance.

Financial reporting, according to Crawford et al. (2018) attempts to guarantee openness and accountability to stakeholders, such as donors, beneficiaries, governmental agencies and the general public. By disclosing financial information, NPOs demonstrate how funds and resources are obtained and used to fulfil their mission and deliver their programmes and services.

Through financial reports, stakeholders can assess the financial health and sustainability of an NPO (Khumawala & Gordon, 1997:11). They can evaluate whether resources are managed effectively and efficiently and whether the organisation is achieving its objectives.

Overall, financial reporting in NPOs aims to provide public accountability information that helps stakeholders understand how resources are acquired and utilised. It promotes transparency, builds trust, and allows stakeholders to assess the financial performance and impact of the organisation.

2. **Narrative reporting:** Section 17(2) of the NPO Act obligates every registered NPO to arrange a written report about the organisation. This report includes the mission and vision, which is a brief statement describing the organisation's mission and vision, providing a clear understanding of its purpose and goals. Organisational objectives are an overview of the organisation's history, structure and governance, highlighting key achievements and milestones (Holdt, 2014).

By combining the financial report with a narrative report that highlights the organisation's mission, accomplishments, and plans, an NPO's annual report provides a comprehensive view of its operations and impact, fostering transparency, accountability, and stakeholder engagement.

2.7 Accountability as a managing tool of NPOs to the DSD

Ebrahim (2003) describes accountability as a broad and dynamic concept that includes not just holding individuals and organisations accountable for their actions, but also taking internal responsibility for developing an organisational mission and values. It means accountability can serve as a crucial management tool for both NPOs office bearers and the DSD, by promoting transparency, ensuring responsible stewardship of resources, and fostering trust with stakeholders.

The term "accountability" has been defined in a variety of ways. For instance, according to Cornwall et al. (2000:3), accountability has both an internal and an external component because it entails both accepting responsibility for one's actions and being held accountable by others. NPOs have a responsibility to be accountable to their stakeholders, including donors, beneficiaries, volunteers, and the general public.

According to Gray et al. (1996) accountability is "the duty to provide an account (by no means necessarily financial) of what one is held responsible for"; it entails a promise to perform and a moral or legal responsibility to account for it. This definition underscores the idea that accountability is not limited to financial reporting alone but extends to various dimensions of an organisation's operations. It acknowledges that providing an account can take different forms, such as narrative reports, performance evaluations, impact assessments, or explanations of decisionmaking processes.

In the context of NPOs, according to Ortega-Rodriguez et al. (2020), accountability includes the obligation to demonstrate responsible use of resources, communicate with stakeholders, fulfil legal and regulatory requirements, and uphold ethical standards.

Both the definitions of accountability mentioned earlier indicate that it encompasses two interconnected responsibilities, the obligation to take specific actions and the obligation to provide an account of those actions. Therefore, it is important to identify the stakeholders to whom an NPO should be accountable before discussing the accountability instruments that should be adopted.

Understanding the stakeholders to whom an NPO is accountable is crucial in designing appropriate accountability instruments and mechanisms (Snirivas, 2015). These instruments may include regular reporting, financial audits, impact assessments, stakeholder consultations, codes of conduct, and

governance structures that promote transparency, participation, and responsiveness to stakeholder needs (IFAC, 2014:28).

By recognizing and fulfilling their accountability obligations to these stakeholders, NPOs can strengthen trust, maintain credibility, and effectively contribute to their mission and the communities they serve according to Ortega-Rodriguez et al. (2020).

Here are some aspects of NPO accountability according to the Code of Good Practice for South African NPOs (2010):

- Compliance with legal and regulatory requirements: NPOs are accountable to the DSD for adhering to legal and regulatory obligations set forth by the department according to section 16 of the NPO Act. This includes proper registration and compliance with the NPO Act and any other relevant legislation governing NPO operations.
- Reporting and documentation: NPOs must provide the DSD with accurate and timely reporting on their activities and financial management according to section 17 of the NPO Act. This may involve submitting annual reports, financial statements, progress reports, and other relevant documentation as required by the DSD.
- Funding accountability: According to the DSD (2012), NPOs that receive funding from the DSD are accountable for the proper use and management of those funds. They must demonstrate transparency and accountability in financial management, ensuring that funds are allocated appropriately and used for the intended purposes.
- Programme implementation and impact: The implementation of programmes, according to Monyane (2014:13), does not equal real execution of promises stated; instead, emphasis should be placed on outcome and impact. In other words, NPOs must work in partnership with the DSD to be accountable for the effective implementation of programmes and initiatives. This includes demonstrating the impact of their interventions, achieving the desired outcomes, and providing evidence of the benefits received by beneficiaries.
- Compliance, monitoring and evaluation: According to Simister and Smith (2010:4), an organisation's capacity level determines how well it can implement a monitoring and evaluation system, because capacity can either give an organisation the ability to develop measurable objectives and goals efficiently or, in the absence of capacity, cause it to develop inappropriate objectives and goals. In other words, the DSD must have the capacity to conduct monitoring and evaluation activities to assess the performance and compliance of NPOs. This may involve site visits, audits, and evaluations to ensure that NPOs are operating according to the agreed-upon standards and contractual obligations.
- Collaboration and communication: According to Mudogwa (2016:52) a stronger working relationship between the DSD and NPOs is essential for providing regular feedback on the progress made in the delivery of social services. Mudogwa (2016:52) added that it means that regular meetings are required to guarantee efficient communication. It means that NPOs are accountable to the DSD for maintaining open and effective

communication channels. This includes timely reporting of any changes or challenges in operations, seeking guidance or support when needed, and fostering collaboration to achieve shared objectives.

The specific mechanisms and processes of accountability between NPOs and the DSD may vary depending on the jurisdiction and specific agreements or contracts in place. Registered NPOs need to understand and fulfil their accountability obligations to the DSD, as it helps ensure responsible and transparent operations and strengthens the overall partnership between the NPO sector and the government in advancing social development goals.

2.8 Current state of reporting practices by NPO to DSD

There is an obligation that all registered NPOs must comply with the requirements of sections 16 to 23 of the NPO Act. Section 18 of the NPO Act requires all registered organisations to submit an annual report to the NPO Directorate within 9 months of the end of the financial year. Section 19 of the NPO Act states that registered NPOs are also required to inform the NPO Directorate of any significant changes within the organisation. This could include changes in office bearers, amendments to the organisation's constitution or founding documents, or any other material changes that may affect its status or operations as an NPO.

The Directorate has the responsibility of processing those reports and issuing compliance letters to the particular NPOs. The Directorate, according to the DSD's 2023 Annual Operational Plan, aims for "80 percent [of] NPO reports to be processed within two months" (DSD, 2022). This means that the DSD aims to review, assess, and provide feedback on the submitted reports within a two-month timeframe for the majority of NPOs. This target is in place to ensure timely review and analysis of NPO reports, allowing for effective monitoring and evaluation of NPO activities and compliance with regulations. Meeting this target requires efficient coordination and processing of reports within the DSD. NPOs need to submit their reports accurately and promptly to facilitate the processing and assessment by the DSD. Compliance with reporting deadlines and providing comprehensive and transparent information in the reports can help ensure a smooth review process.

Timely processing of NPO reports by the DSD enables effective oversight, accountability, and decision-making related to the allocation of resources, funding, and support to NPOs. It allows the DSD to assess the impact and outcomes of NPO programs, evaluate financial management practices, and identify areas where additional support or intervention may be needed (DSD, 2019).

Submitting these annual reports is not merely an issue of compliance with the requirements set for continued registration with the DSD. Annual reporting is an important vehicle through which the NPO itself can become transparent and accountable to beneficiaries, donors and other stakeholders and members of the public (DSD, 2009b:20).

2.9 Non-compliance in submitting those reports (Deregistration)

Section 20(1) of the NPO Act lists examples of noncompliance by NPOs, such as failure to keep accounting records, failure to provide reports, and inability to submit amendments to its constitution. Furthermore, section 20(1) states

that the DSD's notice of compliance must be in writing and inform the organisation of the violation, the steps it must take to comply, and the deadline for compliance, usually one month from the date of the notice. Subsection 3 stipulates that the Director may extend the date for compliance if the organisation can provide a valid justification.

Non-compliance with the reporting requirements for NPOs in South Africa can have serious consequences. Failure to submit reports and other required documentation according to section 18 of the NPO Act within the specified timeframes (nine months) can lead to the deregistration of the NPO by the DSD.

Once an NPO is deregistered, it loses its legal status as a registered NPO with the DSD and will therefore no longer be able to operate as a registered NPO in South Africa according to section 29 of the NPO Act. This can have a significant impact on the organisation's ability to access funding, receive donations, and carry out its charitable activities.

In addition to the risk of deregistration, non-compliance with reporting requirements can also damage the reputation of the NPO and erode the trust and confidence of its stakeholders, including donors, beneficiaries, and the public. Therefore, NPOs need to take their reporting obligations seriously and ensure that they submit all required reports and documentation on time. NPOs should also ensure that their reports are accurate, complete, and transparent, to maintain their credibility and accountability to their stakeholders.

2.10 Cooperation and partnership between an NPO and the Government (DSD)

In most cases, NPOs are established to provide social welfare services for the general public while also supporting the government in attaining its objectives (Nwauche & Flanigan, 2022:119). These NPOs, in most circumstances, have a much better understanding of working with communities and may be more effective at recognising problems and implementing programmes that will have a big impact.

To develop an efficient partnership with the NPOs, the DSD must first create an enabling environment as prescribed by the NPO Act, which will allow them to be properly recognised and obligated in terms of the NPO Act. The NPO Act has been enacted by the South African government as part of the legal framework that creates an enabling environment for the NPO sector. Scholars like Muchie (2004:7) state that civil society is strong because it works closely with and is coordinated by the government. This means that civil society, and therefore NPOs, are more effective because of their collaboration and partnership efforts with the Government.

According to MacAbbey (2007:3), NPOs play a significant role in improving government capacity through two interconnected avenues. Firstly, NPOs act as advocates and facilitators, pushing government institutions to be more responsive to the needs and rights of the people they serve. Secondly, NPOs contribute to strengthening the government's commitment to providing inclusive services and opportunities for all individuals.

Table 2-1 Below, displays the benefits to be received by each sector in this collaboration, according to the DSD.

	DSD	NPO
Benefits	• Better developmental social services to the communities with higher coverage; • Re-allocation / Reprioritisation of funds to other priorities, especially for the vulnerable populations; • More opportunity and availability of tools and techniques for service delivery and research; • Change of attitudes and management style, learning from mutual strengths; • Programme efficiency improved; • Greater programme sustainability.	• Enhanced image to the community of responsiveness towards social issues; • Team motivation (for socially engaged agencies); • Shared risks and results; • Influence in national developmental social agenda; • Higher visibility and credibility; • Competitive advantage gained.

Table 2-1 Benefits between DSD and NPOs: DSD, draft developmental social welfare service, 2015

NPOs frequently act as advocates for underprivileged or underserved populations, drawing attention to their needs and promoting their rights, according to Hasenfeld and Garrow (2012). By actively engaging with government institutions, NPOs can influence policies, programmes, and practices to be more inclusive and responsive. They provide valuable insights, data, and on-the-ground knowledge that can shape government decision-making processes. Horn (2017) mentioned that NPOs act as intermediaries, negotiating the space between donors and community members. In other words, they are facilitating dialogue and collaboration between communities and government, ultimately pushing for more effective and equitable service delivery.

Through their programmes and initiatives, NPOs often fill gaps in service provision, targeting specific needs that may not be adequately addressed by the government alone (Rapoo & Tshiyoyo, 2014). By demonstrating successful models and best practices, NPOs can inspire and influence the government to adopt similar approaches on a larger scale. They showcase the importance of prioritizing social development, promoting equal access to opportunities, and improving the overall welfare of communities.

According to Jelinek (2012:19), both the government and NPOs need to recognise that they have a collaborative role in addressing development challenges. The statement suggests that there is a gap or "space" in development efforts that needs to be filled, and this can be achieved through the joint efforts of the government and NPOs. It also implies that development efforts should not be seen as a competition between the government and NPOs. Instead, they should recognise that they share a common goal of improving the well-being and quality of life for individuals and communities. Both actors have unique strengths and capacities that, when combined, can lead to more comprehensive and impactful development outcomes.

In practice, this means that the government and NPOs should engage in partnerships, collaboration, and dialogue. They should leverage each other's strengths, knowledge, and resources to develop and implement effective strategies, policies and programmes. By recognising their complementary roles and working together, they can bridge the gaps in development and create a more inclusive and sustainable society.

The government will benefit from the NPOs' positive public interest and commitment to community development. According to the DSD (2013:41), the Department's partnership with funded NPOs should strive to provide comprehensive, integrated, sustainable, and high-quality social welfare services.

According to the DSD (2015:22), for the partnership between the DSD and NPOs to work well and last, both sides need to gain something important from it. When both DSD and NPOs benefit from working together, they are more likely to contribute effectively to their shared goals.

2.11 Compliance evaluation of NPO Governance

Section 10 of the NPO Act outlines the requirements for the governing body of an NPO, which is responsible for the management and control of the organisation. This includes the appointment of office bearers such as the chairperson, secretary and treasurer.

Anheier (2005) and Brody (1996) argue that NPOs are not "owned" in the same way as for-profit entities that have shareholders. The ownership structure of NPOs is different, as they do not have shareholders who hold equity or financial stakes in the organisation

In NPOs, the concept of ownership is typically replaced by the concept of governance (Wygaard & Hendricks, 2010). NPOs are governed by office bearers, a board of directors, or trustees who are responsible for overseeing the organisation's operations, ensuring compliance with legal requirements, and advancing its mission and goals. The board members commit to the organisation and its stakeholders to operate in their best interests.

Instead of serving the interests of office bearers or board members seeking financial returns, NPOs exist to serve the public benefit (Hyndman & McKillop, 2018). They are mission-driven and operate for the public benefit, focusing on social, charitable, educational, or other public service objectives.

While NPOs may generate revenue through various means such as grants, donations, or earned income, any surplus generated is reinvested in the organisation's mission and activities, rather than being distributed to owners or shareholders (Defourny & Nyssens, 2012:71). This is known as the non-distribution constraint, which distinguishes NPOs from for-profit entities.

Good governance is practiced in NPOs in the same way that it is practiced in businesses and the public sector (Wygaard & Hendricks, 2010:176). The Committee on Corporate Governance and King (2016) emphasise the importance of having accountability, transparency, legitimacy, sustainability, ethics, adherence to the rule of law, and effective control as essential elements to ensure good governance and responsible business practices. In simpler terms, it stresses that organisations should be open, honest, ethical, and operate within the boundaries of the law while maintaining effective control over their activities to achieve sustainability and legitimacy.

Every NPO in South Africa must have a clear and transparent mechanism for appointing board members. According to Ingley and Van der Walt (2001), the board is in charge of deciding on the organisation's overall strategy and direction, and management is in charge of carrying it out on a daily basis. The board must be comprised of individuals who have the necessary skills and knowledge of the social sector. According to section 66 of the Companies Act, an NPC must have at least three directors. It means that a registered NPO should have at minimum a number of three office bearers to be part of the governing structure of that particular organisation.

2.12 Relevant aspects of financial intelligence and the combatting of money laundering and terrorism financing

The intricacies of NPO annual reporting are crucial to understand, for fostering accountability, promoting informed decision-making, and maximizing the positive impact of NPOs in South Africa, as well as ensuring compliance with the country's responsibilities in respect of compliance with the Recommendations of the Financial Action Task Force (FATF)

The Financial Intelligence Centre (FIC) was established in 2002 to administer aspects of the Financial Intelligence Centre Act, 38 of 2001 (FICA). The FIC is South Africa's national centre for the development of financial intelligence according to international standards and requirements. The FIC's main goal, as mentioned in the Act, is to support efforts to identify the proceeds of illegal activity, combat money laundering, and stop the financing of terrorism and similar activities (FICA, 2017). FICA also aims to align South Africa's Anti-Money Laundering and Terror Financing (AML and TF) measures with international standards and best practices, promoting transparency, accountability, and integrity in financial transactions. It introduces stricter requirements for due diligence, risk assessments, and reporting suspicious transactions or activities. These measures are designed to detect and deter money laundering and terrorist financing activities more effectively (FATF, 2018).

In the context of NPOs, the FIC intends to play a role in ensuring compliance with anti-money laundering and counter-terrorism financing regulations. Section 29 of the FIC Act places reporting obligations regarding suspicious transactions or activities that may be linked to financial crime on accountable institutions such as banks, however NPOs can voluntarily submit suspicious transaction or activities.

Certain amendments were made to, among others, FICA in order to address the deficiencies identified in the South African framework for the combatting of money laundering and terrorism financing through the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act, 22 of 2022 (the Amendment Act). This Amendment Act (GLAA, 2022) builds upon existing laws, including FICA,

"by amending the definitions of ''beneficial owner'', ''domestic prominent influential person'' and ''foreign prominent public official'', and inserting a definition of ''prominent influential person''; by amending the objectives of the Financial Intelligence Centre (''Centre''); by amending the functions of the Centre to include the provision of forensic information; by empowering the Centre to request information held by other organs of state by providing for additional and ongoing due diligence measures, and by amending the process followed when there are doubts about the veracity of information"

Sections 19(a) and (b) of the amendments to FICA addresses the evolving challenges and risks associated with money laundering and terrorist financing, recognising the importance of preventing these illicit activities within the country's financial system.

The Amendment Act was introduced to address the areas where South Africa has been found lacking, as was found in the FATF's Mutual Evaluation Report of South Africa. By making these amendments, the intention was to demonstrate South Africa's

commitment to combatting financial crimes and to strengthen our position in the global efforts to maintain the integrity of the financial system.

The Amendment Act specifically amends section 18 of the NPO Act "by requiring registered NPOs to submit prescribed information about the office-bearers, control structure, governance, management, administration, and operations of NPO to the director". According to section 11 of the Amendment Act, an NPO must be registered under this Act if it makes donations to individuals or organisations outside of the Republic's borders; or provides humanitarian, charitable, religious, educational or cultural services outside of the Republic's borders.

By strengthening NPO reporting requirements, FICA aims to enhance transparency, accountability, and integrity within the NPO sector, reducing the risk of money laundering and terrorist financing (Bricknell 2011:6).

2.12.1 Mitigating risks of NPO misuse for money laundering and terror financing

On 24 February 2023, South Africa was placed under increased FATF monitoring, also known as the so-called "grey list" (FATF, 2023). According to FATF (2023), "when FATF places a jurisdiction under increased monitoring, it means the country has committed to resolving identified strategic deficiencies as soon as possible within agreed-upon timeframes and is subject to increased monitoring". This followed the outcome of FATF's most recent Mutual Evaluation Report of South Africa, dated October 2021, which found South Africa to be lacking in respect of the following concerning NPOs (FATF, 2021):

- Effective supervision and monitoring of the non-profit sector to prevent abuse for terrorism financing and money laundering purposes;
- Insufficient legal framework and measures to detect and prevent terrorism financing and money laundering through NPOs;
- Weaknesses in the implementation of the risk-based approach to anti-money laundering and countering the financing of terrorism

Some amendments have since been made to the NPO Act to improve the situation regarding the beneficial ownership of NPOs and in particular the maintaining of records regarding beneficial ownership information. This includes the details of the natural persons who ultimately own, control, or benefit from an NPO and that records must be kept up-to-date and made available to the relevant authorities upon request. These amendments to the NPO Act in South Africa are expected to enhance the transparency and accountability of the non-profit sector and prevent the misuse of NPOs for illicit purposes, including money laundering and terrorism financing.

Identified NPOs are required to implement robust systems and controls to identify and report suspicious transactions or activities that may be linked to these illicit activities (FATF, 2016). They are expected to conduct thorough customer due diligence, and risk assessments, and maintain records of financial transactions to ensure compliance with the provisions of FICA.

By addressing money laundering and terror financing risks within the NPO sector, FICA aims to safeguard the financial system's integrity and protect against the potential misuse of NPOs

for illicit purposes. Compliance with the FIC Act's reporting obligations helps in identifying and disrupting potential threats, contributing to broader efforts to combat financial crimes and maintain national security.

3.0 Research Design and Methodology
3.1 Introduction

The research design and methodology, form a crucial component of any research study. This chapter outlines the approach and strategies employed to collect and analyse data, as well as the overall structure of the research process executed in this study. In the context of this study on exploring the effectiveness of NPO annual report submission to the DSD, it is important to establish a robust research methodology to gather comprehensive and reliable insights into the challenges, effectiveness, content, accountability and governance aspects of NPO reporting.

The research design involves making decisions about the overall framework and structure of the study, including the choice of research approach, data collection methods and data analysis techniques. It is essential to select a research design that aligns with the objectives of the study and ensures the validity and reliability of the findings. In this study, a qualitative research design will be employed, to provide a comprehensive understanding of the research topic.

3.2 Research paradigm

The research paradigm, which includes the methodology, approach or design, ontology, and epistemology, forms the foundation of any study. In the social and management sciences, two popular research paradigms are positivism and interpretivism (Collis & Hussey, 2009:43). The positivistic paradigm operates under the assumption that everything is objective and that the researcher has no influence. It focuses on facts, logic, reasoning, and the examination of correlations between variables (Collis & Hussey, 2009:43; Gravetter & Forzano, 2012:158).

The interpretive research paradigm is situated at the other end of the research spectrum. It relies on participant opinions to construct theories and utilises subjective experiences to explain human behaviour (Collis & Hussey, 2009:50). In this study, the interpretive paradigm will be adopted as it is qualitative in nature, allowing the researcher to conduct interviews with some participants from the NPO sector and transcribe the results. The study will focus on understanding and explaining what NPOs must provide to comply with the NPO Act, including their annual financial statements and narrative reports.

By employing an interpretive approach, the researcher aims to gain a deeper understanding of the challenges, effectiveness, content, accountability, and governance aspects of NPO reporting. This paradigm recognises the subjective nature of human experiences and emphasises the importance of participant perspectives in constructing knowledge. The researcher will engage with NPO practitioners, gather their insights through interviews, and analyse the data to generate meaningful interpretations and explanations.

The research paradigm for this study is interpretive, aligning with a qualitative methodology. It acknowledges the subjective nature of human behaviour and the significance of participant opinions. By adopting this paradigm, the study seeks to explore and elucidate the requirements of NPO compliance with

the NPO Act, specifically focusing on the annual financial statements and narrative reports.

3.3 Research approach

The process of conducting research and the logic applied throughout can be characterised as the methodological approach (Collis & Hussey, 2009:67). According to Henning and Smit (2004:36), research methodology refers to a cohesive collection of approaches that work together to provide data and conclusions relevant to the research question and study objectives.

In the field of management research, the methodological approach can be either deductive or inductive (Zalaghi & Khazaei, 2016:24). Deductive research is associated with the positivistic research paradigm and involves formulating research hypotheses based on existing literature, which are then empirically tested using deductive reasoning (Saunders et al., 2019:74). On the other hand, inductive research, aligned with the interpretive research paradigm, involves developing new theories by observing reality and collecting primary data without being constrained by pre-existing concepts (Saunders et al., 2019:74).

For this study, the inductive methodological approach was employed as it aligned with the interpretive research paradigm. The researcher collected data from National DSD officials, which was relevant to the research topic of interest. The data was interpreted through the lens of the participants, considering their perspectives and experiences. The researcher then analysed the data to identify patterns and develop a theory that could explain those patterns.

By utilising the inductive methodological approach, the study aimed to generate new insights and theories regarding NPO annual reporting to the DSD. The focus was on exploring the experiences and perspectives of the participants and allowing the data to shape the emerging theories. This approach acknowledges the importance of context and individual interpretations in constructing knowledge.

In conclusion, the study employed an inductive methodological approach within the interpretive research paradigm. The data collected from selected National DSD officials were analysed and interpreted to develop new theories and understandings related to NPO annual reporting. By adopting this approach, the study aimed to provide a deeper understanding of the challenges, effectiveness, content, accountability, and governance aspects of NPO reporting to the DSD in South Africa.

3.4 Methodological choice

Researchers have to decide on the qualitative or quantitative nature of their research, as pointed out by Antwi and Hamza (2015:220). Quantitative research, associated with the positivistic research paradigm, aims to examine hypothesised correlations between variables using numerical data collected from large samples and statistical analysis (Wiid & Diggines, 2013:860). On the other hand, qualitative research, aligned with the interpretive research paradigm, focuses on subjective opinions and beliefs gathered from a small sample (Wiid & Diggines, 2013:87). Specific information is collected to gain a deeper understanding of the research topic and develop theories (Wiid & Diggines, 2013:87).

According to Kothari (2004:18), the choice of data collection method should be based on the nature of the inquiry, its goals and scope, available financial resources, time constraints, and

the desired level of accuracy. Greef (2011:364- 365) states that semi-structured interviews consist of carefully selected and sequenced questions based on the study's aims and objectives, allowing for comprehensive responses. Interviewers have the flexibility to decide which questions to ask, in what order, and how to follow up with different interviewees on specific subjects. The semi-structured approach acknowledges that the conversation can be influenced by the interviewee's understanding and the researcher's interests.

Considering the nature and objective of the study, the qualitative research method was chosen as the suitable methodological approach for this study. The identified DSD officials' interview responses were used to collect data for this study. The qualitative approach was preferred as it focuses on obtaining high-quality feedback in the form of justifications, descriptions and narratives (Fidel, 2008:265). The method considers both the understanding of the interviewees and the interests of the researcher.

In conclusion, the research approach for this study was qualitative, aligning with the interpretive research paradigm. Semi-structured interviews were conducted with DSD officials to collect data. The qualitative method allowed for an in-depth exploration of the research topic, considering the perspectives and experiences of the participants. The chosen approach provided valuable insights and supported the development of meaningful interpretations and understandings related to NPO annual reporting to the DSD in South Africa.

3.5 Research strategy

The selection of the data collection technique, known as the methodological strategy, follows the determination of the research paradigm, approach and methodology (Bryman et al., 2014:100). For this study, the researcher employed a qualitative research method. A qualitative approach aims to explore a problem or topic by gathering information from participants and using this information to gain insights into the research investigation (Nkosi, 2014:37). Techniques such as focus groups and interviews are commonly used in qualitative research to investigate attitudes, behaviours and experiences (Fouche & Delport, 2005:79).

In this study, an exploratory research design was employed to gain a deeper understanding of the subject under investigation. The qualitative approach allowed the researcher to delve into the complexities of NPO annual reporting, explore the challenges experienced, examine the effectiveness of reporting, analyse the content of reports, and assess accountability and governance aspects. Through semi-structured interviews with DSD officials, the researcher collected rich and detailed data that captured the perspectives and experiences of participants in the NPO sector.

The chosen data collection technique facilitated an in-depth exploration of the research topic, enabling the researcher to gather valuable insights and information. By using interviews with DSD officials, the study aimed to capture the complexity and depth of the participants' views, attitudes, and experiences related to NPO annual reporting. The qualitative approach provided a comprehensive understanding of the phenomena under investigation and allowed for the emergence of new insights and perspectives.

In the end, the research employed a qualitative data collection technique following the selection of the research

paradigm, approach and methodology. The qualitative approach enabled the exploration of NPO annual reporting, using semi-structured interviews to gather rich and detailed information. The data collection process was conducted using an exploratory research design, which allowed the researcher to dig into the complexities of the research topic and gain a deeper understanding of the challenges, effectiveness, content, accountability and governance aspects of NPO reporting to the DSD.

3.6 Time horizon

According to Melnikova (2018:34), the time horizon refers to the period during which a study is conducted. There are two main approaches to the time horizon in research: longitudinal and cross-sectional studies. In longitudinal studies, multiple interviews or data collection points are conducted with study participants over an extended period (Collis & Hussey, 2009:64; Zikmund et al., 2013:196). On the other hand, cross-sectional studies are characterised by a quick data collection process and the examination of information gathered from participants at a single point in time (Bryman et al., 2014:53; Collis & Hussey, 2009:63).

In the case of this study, it adopts a cross-sectional approach as it is conducted over a relatively short period. The analysis will involve interviewing selected national DSD officials within a concise timeframe to gather their opinions and understanding of NPO annual reporting. By conducting interviews at a single point in time, the study aims to capture a snapshot of the officials' perspectives and experiences regarding NPO reporting.

The choice of a cross-sectional study design allows for efficient data collection and analysis within a specific timeframe. It enables the researcher to gain insights into the research topic within a shorter duration, making it suitable for addressing the research objectives promptly

In the end, this study utilises a cross-sectional time horizon, focusing on conducting interviews with national DSD officials within a short period. This approach allows for a targeted examination of their opinions and understanding of NPO annual reporting. By adopting a cross-sectional design, the study captures a snapshot of the officials' perspectives, providing valuable insights into the challenges, effectiveness, content, accountability and governance aspects of NPO reporting to the DSD.

3.7 Study population and sampling
3.7.1 Population

The population, as defined by Saunders and Lewis (2012:205), refers to the total number of individuals belonging to a specific group that have been identified for the study. It is crucial for researchers to specify the population before selecting a sample. According to Lewis and Ritchie (2003:49), the researcher should choose a research location and population based on the research question and relevant literature to ensure that the selected group is best suited to provide accurate, complete, and relevant information. By aligning their research question with the existing literature, the researcher was able to identify the appropriate population and sources of information. This enabled him to obtain accurate and valuable responses in line with their research objectives.

In this study, the population group consists of the relevant unit within the National Department known as the Chief Directorate NPO, comprising approximately 60 staff members. The researcher focused on this specific group as it was deemed relevant

to the research question and aligned with the objectives of the study. By narrowing down the population to this particular unit, the researcher was able to gather information directly from individuals who have expertise and involvement in the NPO sector and annual reporting processes.

Having a well-defined research question and conducting a literature review provided the researcher with a clear direction for the study. It allowed the researcher to identify the appropriate population group within the National DSD and filter out irrelevant information. This strategic approach contributed to the effectiveness and accuracy of their research, enabling the researcher to obtain meaningful insights into the challenges, effectiveness, content, accountability, and governance aspects of NPO annual reporting within the chosen population group.

3.7.2 Sampling

A sample, as defined by Salkind (2010:1109), refers to a subset of the population that is randomly selected to represent the entire population in a study. It allows the researcher to choose a group or individuals that are considered representative of the larger population. The researcher has the flexibility to determine the sampling approach during the preliminary stages of the research.

Du Plooy (1995:54) distinguishes between two types of sampling methods: probability-based sampling and non-probability-based sampling. Non-probabilitybased sampling involves selecting units from the population in a non-random manner. On the other hand, probability-based sampling determines the likelihood of selecting a particular sample through computation. For this study, purposive or purposeful sampling, a type of non-probability sampling, was employed to gather qualitative data. The participants were selected purposefully based on their familiarity with the internal workings of the DSD and the NPO partnership.

Snowball sampling, as described by Strüwig and Stead (2013:116), is a sampling technique where participants are selected based on their accessibility to the researcher. In snowball sampling, initial participants assist in identifying and contacting potential participants who share similar characteristics. The sample size for this study was 12 participants from the NPO registration section of the DSD, representing 20% of the relevant unit. These participants are knowledgeable about the workings of the DSD and the NPO partnership. The snowball sampling strategy was utilised by the researcher, whereby participants referred the researcher to others who could provide valuable insights.

The study included a sample size of 12 participants from the National DSD who possess knowledge about the collaboration between the DSD and NPOs. The following individuals were specifically chosen to participate in the study:

- The first participant in the study was the Chief Director of NPO Registration Management. This individual is responsible for overseeing the registration process and monitoring services provided to NPOs. This position involves providing strategic direction and guidance to NPOs within the context of registration and management.
- Another participant in the study is the Director of NPO Compliance Monitoring. This individual holds the responsibility of monitoring compliance of NPOs with relevant regulations and requirements, especially the

NPO Act. The unit the person is heading is responsible for conducting assessments, inspections, and evaluations to monitor NPO compliance and take appropriate actions when necessary.

- The study also included the Director of NPO Capacity Building as a participant. This individual plays a key role in developing and enhancing the capacity of NPOs. This position's responsibilities include identifying training needs, designing capacity-building programmes, and providing support to NPOs to strengthen their organisational and operational capabilities. They work closely with NPOs to enhance their skills, knowledge and resources, enabling them to effectively fulfil their mandates and contribute to social development.
- Additionally, the Acting Director of NPO Funding Coordination was included as a participant in the study. This individual holds the responsibility of coordinating and managing funding initiatives for NPOs. This role involves identifying funding opportunities, developing funding strategies, and ensuring the effective allocation of financial resources to support NPOs' initiatives. This position works closely with NPOs to facilitate the funding 48 application process, assess funding needs, and monitor the utilisation of funds to ensure compliance with funding requirements and objectives.
- A further participant in the study is the Deputy Director of NPO Compliance Monitoring. This individual holds a significant role in monitoring the compliance of NPOs with regulatory guidelines and standards. This position's responsibilities include conducting inspections, audits, and assessments to ensure that NPOs were operating according to prescribed regulations. This position plays a crucial role in identifying any noncompliance issues, providing guidance and support to NPOs to rectify them, and taking appropriate actions when necessary to ensure accountability and adherence to compliance requirements.
- The Deputy Director of the NPO Database also participated in the study. This individual holds a crucial role in managing and maintaining the NPO database. This position's responsibilities include overseeing the collection, organisation and storage of data related to NPOs. It ensures the accuracy and integrity of the database by regularly updating and verifying information provided by NPOs. This position also played a key role in ensuring the security and confidentiality of the data stored in the NPO database. The position's expertise in database management and involvement in maintaining NPO data makes it an important participant in the study.
- Another participant in the study was the Deputy Director of NPO Registration. This individual holds a significant role in overseeing the registration process of NPOs. The position's responsibilities include managing the registration applications, reviewing the documentation submitted by NPOs, and ensuring compliance with the registration requirements set by the Directorate. It provides guidance and support to NPOs throughout the registration process and played a crucial role in maintaining the accuracy and integrity of the NPO registration system. The expertise and knowledge in

NPO registration make this position a valuable participant in the study.

- An Assistant Director of NPO Registration also participated in the study. This individual played an important role in supporting and assisting the Deputy 49 Director in the registration process of NPOs. This position's responsibilities include reviewing registration applications, verifying documentation, and ensuring that NPOs meet the necessary requirements for registration. The position works closely with NPOs to address any queries or issues related to the registration process and guided the necessary steps to complete the registration successfully. The position's expertise and involvement in NPO registration makes it a valuable participant in the study.

- Another participant in the study is the Assistant Director of NPO Appeals. This individual holds a key role in handling appeals related to NPO registration and compliance decisions. This position's responsibilities include reviewing appeals submitted by NPOs that disagreed with the decisions made by the Directorate or other relevant authorities. The position conducts assessments, evaluates evidence, and provides recommendations or decisions regarding the appeals process. This position's role is crucial in ensuring fairness and transparency in the appeals process and addressing any concerns raised by NPOs regarding their registration or compliance status.

- A senior NPO Officer responsible for NPO registration participated in the study. This individual holds a significant role in the registration process of NPOs. The position's responsibilities include reviewing and evaluating registration applications, verifying documentation, and ensuring compliance with the registration requirements set by the Directorate. It provides guidance and support to NPOs throughout the registration process, addressing any queries or issues that arose. The position's expertise and experience in NPO registration makes it a valuable participant in the study, providing insights into the challenges and effectiveness of the registration process.

- A senior NPO Officer responsible for NPO compliance was also included as a participant in the study. This individual plays a significant role in monitoring and ensuring the compliance of NPOs with relevant regulations and guidelines. The position's responsibilities include conducting regular assessments, inspections, and audits of NPOs to assess their adherence to 50 compliance standards. It provides guidance and support to NPOs to help them meet the necessary compliance requirements and addressed any issues or concerns related to compliance. The position's expertise and experience in NPO compliance made it a valuable participant in the study.

- One of the participants in the study is a Data Capturer responsible for handling NPO reports. This individual plays a crucial role in collecting and capturing data from NPO reports. The position's responsibilities include ensuring the accurate and timely recording of information provided by NPOs in their reports. The position is responsible for organising and maintaining the database of NPO reports, making sure that the data is properly entered and easily accessible. The position's role is essential in facilitating the analysis and evaluation of NPO performance based on the information provided in their reports.

In this research, a paramount consideration was the anonymization of the information obtained, ensuring that the identity of the interviewees remained confidential. This crucial step aligns with the provisions of the POPI Act. The researcher treated participants' personal information according to the requirements outlined in the said Act. This included obtaining consent, ensuring lawful processing, specifying the purpose of data collection, maintaining data security, and respecting data subject rights. The researcher ensured that the participants' contact information was obtained with their permission or by the participants themselves contacting prospective participants and sharing the researcher's contact information. By following these procedures, the researcher-maintained compliance with the POPI Act.

3.8 Designing the measurement instrument

Individual interviews, focus groups, and direct observations are commonly used data collection methods in qualitative research (Bryman et al., 2014:209). For this study, raw data will be collected directly from the participants through their accounts and experiences. The researcher's ability to gather information relies heavily on the willingness of participants to share their knowledge about the research topic. Semistructured interviews were employed as the primary data collection instrument. This approach allows the researcher to maintain focus on the research objectives while eliciting valuable insights from participants regarding their interactions, thoughts, and emotions related to the issue at hand.

In this research project, a qualitative approach is adopted, employing one-on-one interviews with National DSD officials. As outlined in the methodology section, the researcher utilised a semi-structured interview guide to facilitate the interviews. Bryman et al., (2014:228) notes that interview questions can vary in their format and purpose. Some questions serve as brief prompts to cover essential topics in an unstructured interview, while others consist of a list of subjects to be addressed in a structured yet informal manner.

Prior to conducting the interviews, the researcher developed a set of interview questions based on a comprehensive understanding of the significance of annual NPO reporting to the DSD. These questions were included in the interview guide to ensure that the primary research question is effectively addressed.

3.9 Collection of data

Data collection, as described by Creswell (2013:15), involved a series of coordinated actions to gather data for addressing the research questions. In this study, semi-structured interviews were employed as the primary data collection instrument, as previously discussed. Interviews are widely utilised in qualitative research due to their effectiveness in eliciting in-depth information and adapting to the research needs (Bryman et al., 2014:223).

To collect data, the researcher conducted online one-on-one interviews with specific DSD officials identified as participants.

The researcher followed the requirements of the POPI Act as alluded to earlier.

Participants were contacted via personal emails to schedule interviews, utilising the online platform MS Teams for conducting the interviews. The online setting allowed participants to engage in the interviews from the comfort and privacy of their own homes or offices. This environment, as noted by Bryman et al. (2014:227), fostered a sense of ease for the participants, enabling them to actively participate in the interviews. The interviews began with the researcher introducing himself, expressing gratitude to the participants for their involvement, outlining the study's objectives, and seeking their consent to record and take notes. High-quality digital recording equipment was used to capture the interviews. Participants were reminded that their participation was voluntary and that they had the freedom to withdraw from the study at any time. Each participant was assured that their provided information would be kept confidential, used solely for research purposes and that their identities would be protected (Bryman et al., 2014:127).

3.10 Data collection instruments

According to Khothari (2004:17), the existing data available may often be insufficient to adequately address the research problem at hand, necessitating the collection of new and appropriate data using suitable data collection methods. To ensure that the data collected is relevant and aligned with the research objectives, researchers must carefully consider the nature of their research problem and select appropriate data collection methods.

For this study, the researcher chose to utilise semi-structured interviews as the primary data collection instrument. Semi-structured interviews provide a balance between structure and flexibility, allowing for a guided conversation while also enabling the exploration of deeper insights and follow-up on interesting points raised by the participants. The researcher conducted online one-on-one interviews with specific DSD officials to gather the required information.

Greef (2011:364–365) describes the semi-structured interview as a data collection method that involves the use of thoughtfully constructed and organised questions. These questions were designed based on the research study's goals and objectives, ensuring comprehensive answers to each question. In a semi-structured interview, the researcher prepares a set of core questions or topics to guide the interview process. These questions serve as a framework to cover key areas of interest. However, unlike a structured interview with fixed questions, a semistructured interview allows for flexibility, enabling the researcher to explore additional topics or delve deeper into specific areas based on the participant's responses. This approach acknowledges the influence of both the researcher's interests and the participant's understanding, facilitating a more dynamic and insightful conversation.

In this study, the researcher employed semi-structured interviews as a data collection method, recognising the need for appropriate and relevant data to address the research objectives.

3.11 Statistical analysis

To analyse the qualitative data gathered from the interviews, the researcher followed a process of evaluation and interpretation without the use of numerical data, as described by Rubin and Babbie (2011:627). The designated DSD officials were interviewed during the research, and their responses were transcribed for analysis. The researcher focused on uncovering underlying meanings and patterns in the data.

A crucial step in data analysis is the coding process, as emphasised by Marshall and Rossman (2016:398). The researcher took cautious notes, including dates, names, titles, and the actual answers provided by the participants. This allowed for the identification of potential connections or similarities in terms of services offered, operational procedures, or actions taken within the context of the research.

The written transcripts served as the basis for extracting qualitative information from the spoken words. The researcher transitioned from the interview mode to the research mode, adopting a more analytical perspective to interpret the words and extract meaningful insights (Saunders & Lewis, 2018:638). Various computer-aided qualitative data analysis software tools were available for analysing the qualitative data, providing support and assistance in organizing and interpreting the data (Saunders & Lewis, 2018:692). In this study, the researcher utilized ATLAS.ti, a powerful qualitative data analysis software, to effectively manage and analyze the data collected from the interviews. This tool was instrumental in organizing, coding, and interpreting the responses from the 12 participants. ATLAS.ti allowed for the systematic categorization of data into various themes and codes, ensuring a comprehensive analysis that accurately captured the intracies of each response. , Based on the study objectives and interview questions and the topic, a network was created for each subject (category code), and each code was examined together with the quotes that went with it to make sure it was relevant based on the questions of the researcher, to analyse the data collected through semi-structured interviews from the participants.

The researcher employed a qualitative data analysis approach to uncover and interpret the rich information obtained from the interviews. The focus was on understanding the underlying meanings and patterns within the data to address the research questions.

3.12 Reliability and validity

Trustworthiness is a crucial aspect of qualitative research as it enhances the understanding and interpretation of study findings and instils confidence in the quality of the inquiry (Daniel, 2018:265). Four qualities contribute to trustworthiness, namely credibility, transferability, dependability and confirmability (Bryman et al., 2014:44).

Credibility is established by presenting the findings to the participants, who are National DSD officials, to ensure that the interpretation of the data is accurate. The process of respondent validation allows participants to review and provide feedback on the findings, further enhancing the credibility of the research (Bryman et al., 2014:44).

Transferability refers to the ability to apply the research findings to different contexts. Readers are encouraged to explore the original study in greater depth and identify similarities with their situations, thus assessing the transferability of the findings (Bryman et al., 2014:44). The saturation of primary themes by the sixth interview helps ensure the transferability of the study's findings.

Dependability is achieved through a logical and traceable research methodology that is well-documented. The transparency and comprehensiveness of the research process enable it to be audited and demonstrate dependability (Bryman et al., 2014:45).

Confirmability is demonstrated by the reliability, transferability, and credibility of the researcher. It assures that personal values do not influence the research and that explanations and conclusions are solely based on the gathered data. To ensure confirmability, the study's supervisor and a qualitative research expert have been consulted, providing an additional layer of scrutiny (Bryman et al., 2014:45).

By attending to these qualities, the researcher ensures the trustworthiness of the study, instilling confidence in the validity and reliability of the findings.

3.13 Limitations of the study

This study has identified several limitations that should be acknowledged. Firstly, the study was focused on a specific group of participants, namely the DSD officials working in the NPO Directorate. Therefore, the findings may not be generalisable to the entire NPO sector or reflect the perspectives of NPOs and their funders. Future research should consider including a more diverse range of participants to capture a broader understanding of non-profit reporting.

Secondly, the study was conducted within a limited timeframe, which may have affected the depth and breadth of the data collected. A longer duration could have allowed for more extensive data collection and the inclusion of additional perspectives. Although the sample represents only 20% of the population of the National DSD officials working with the NPOs, it will not in any way affect the outcome of the research

Furthermore, the study relied solely on qualitative data collection methods, such as interviews, which may have limited the ability to gather quantitative data or explore certain aspects of non-profit reporting more comprehensively. Future studies could consider incorporating mixed-methods approaches to gain a more holistic understanding of the phenomenon.

Despite these limitations, this study contributes to the existing body of knowledge on NPO reporting to the DSD and provides valuable insights into the perceptions of DSD officials. It highlights the need for further research that includes the perspectives of NPOs and their funders to gain a more comprehensive understanding of reporting requirements and effective enforcement strategies.

Overall, these limitations offer opportunities for future research to build upon and expand the findings of this study, ultimately contributing to a more comprehensive understanding of NPO reporting practices.

3.14 Summary

In summary, this research has employed a qualitative research methodology to analyse the annual reporting practices of NPOs to the DSD in South Africa. The use of semi-structured interviews as the primary data collection method allowed for an in-depth exploration of the topic and the collection of rich, descriptive data. The researcher ensured ethical considerations by obtaining informed consent from participants, maintaining confidentiality, and adhering to the guidelines of the POPI Act regarding the

handling of personal information. The trustworthiness of the study was enhanced through respondent validation, documentation of the research process, and involvement of a supervisor and qualitative research expert.

However, this study also has certain limitations. Firstly, the sample size was relatively small, consisting of 12 participants from a relevant unit within the National DSD. While efforts were made to select participants with relevant knowledge and experience, the findings may not be fully representative of the broader NPO sector. Additionally, the study focused solely on the perceptions of DSD officials and did not include the perspectives of NPOs, their funders or beneficiaries. Therefore, the findings may lack a comprehensive understanding of the challenges and experiences related to annual reporting in the sector.

Furthermore, the study was conducted over a short period, which may have limited the depth of data collection and the ability to capture changes or variations in reporting practices over time. Additionally, the researcher faced challenges in scheduling interviews with some identified participants due to their work commitments, which may have impacted the completeness of the data.

Despite these limitations, this study provides valuable insights into the annual reporting practices of NPOs to the DSD. The research methodology and ethical considerations employed contribute to the credibility and trustworthiness of the study. Future research can build upon this study by incorporating a larger and more diverse sample, including perspectives from NPOs and beneficiaries, and exploring longitudinal changes in reporting practices.

4.0 Presentation and Discussion of the Study Findings Indings and Results

4.1 Introduction

This study sought to investigate the challenges experienced regarding effective NPO annual reporting to the DSD. It aims to identify the factors that cause these challenges and to develop possible solutions to enhance annual NPO reporting. This chapter starts by setting out the process that was followed and then continues to present the findings of the research conducted – particularly by discussing the results gained from the empirical evidence, in light of the literature study conducted in the previous chapter. The specific issues identified and discussed in this chapter include the demographic variables of the respondents, the impact of governmental funding, reporting challenges experienced by NPOs, the role of the DSD in supporting NPOs, and the DSD's ability to assist in combatting money laundering and terrorism financing.

4.2 Empirical process applied and results thereof

4.2.1 Methodology

According to Antwi and Hamza (2015:220), researchers have to choose whether their study would be qualitative or quantitative. Using numerical data gathered from large samples and statistical analysis, quantitative research affiliated with the positivistic research paradigm aims to investigate proposed relationships between variables (Wiid & Diggines, 2013:860). However, subjective opinions and beliefs obtained from a small sample are the main emphasis of qualitative research, which is in line with the interpretive research paradigm (Wiid & Diggines, 2013:87). This study's qualitative research methodology adhered to

the interpretive research paradigm. Twelve relevant DSD officials participated in semi-structured interviews in order to gather data. The qualitative method made it possible to thoroughly investigate the research issue by considering the perspectives and experiences of the participants. The chosen technique produced important insights and made it easier to construct important interpretations and understandings of NPO annual reporting in South Africa.

4.2.2 Demographic information of respondents

A total of 12 respondents, all of whom hold official positions within the National DSD, were engaged in interviews. These respondents were carefully selected due to their essential roles in the registration and monitoring of NPOs within the DSD. As key informants within the realm of NPO annual reporting challenges, their insights provided invaluable perspectives on the subject matter. The interviews were conducted via MS Teams and recorded, subsequent to setting out to each of the participants the purpose, nature and format of the study. In particular, the safeguards to ensure confidentiality and anonymity, and measures to ensure the academic integrity and adherence to relevant ethical requirements, including compliance to the provisions of the POPI Act, were highlighted to each of them. Thereafter each interview was thoroughly listened to and transcribed.

The transcription process for this study involved using Microsoft Teams to record the individual interviews conducted with the participants. Once recorded, the researcher accessed these recordings and utilised Microsoft's built-in transcription features to automatically convert the audio content into written text. It was essential to carefully review and edit the transcriptions for accuracy, as automated transcription can sometimes contain errors. After ensuring the accuracy of the text, the researcher saved and organised the transcripts for analysis. These transcriptions played a central role in the thematic analysis, allowing the researcher to identify and present key themes and findings in line with the research questions and objectives. Throughout this process, data privacy and confidentiality were top priorities, particularly when handling sensitive information provided by the participants.

Figure 4-1 Participants Gender: Author

Figure 4-1 above, shows that among the 12 participants, there was a balanced gender distribution, with six males and six females actively contributing to the research. This gender equilibrium allowed for a balanced gender diverse range of viewpoints, ensuring a comprehensive understanding of the challenges associated with NPO annual reporting.
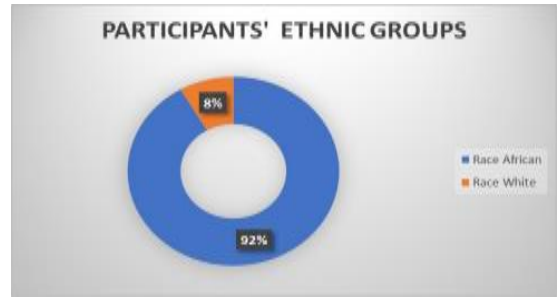

Figure 4-2 Participants' Ethnic Groups: Author

Figure 4-2 above, indicate that one white respondent was included in this set of participants and the rest were black, which fairly represents the racial composition of the country. Black Africans (81,4%) continue to be the largest demographic group, followed by Coloureds (8,2%), Whites (7,3%), and Indians/Asians (2,7%), according to StatsSA (StatsSA, 2023). By including persons from various demographic backgrounds and diverse opinions, a more inclusive analysis of the problems that NPOs confront in their reporting efforts to the DSD can be achieved.

4.2.3 Sample size

Table 4.1 The number of officials who participated in the research and positions held at the National DSD.

NO.	Number of Officials	Position
1.	1	Chief Director of NPO Registration Management
2.	1	Director of NPO Compliance Monitoring
3.	1	Director of NPO Capacity Building
4.	1	Acting Director of NPO Funding Coordination
5.	1	Deputy Director of NPO Compliance Monitoring
6.	1	Deputy Director of the NPO Database
7.	1	Deputy Director of NPO Registration
8.	1	Assistant Director of NPO Registration
9.	1	Assistant Director of NPO Appeals
10.	2	Senior NPO Officer: NPO Compliance Reporting and Capacity Building.
11.	1	Data Capturer: NPO Reporting

Table 4-1 Number of official and position

Table 4.1 above, shows the number of participants and their respective positions held within the National DSD. The study was enhanced by the involvement of these 12 key participants, hailing from diverse backgrounds, and having a range of qualifications, job responsibilities and years of experience. They offered a comprehensive view of the variety of NPO annual reporting challenges within the DSD. The study findings reported in the following sections are built on their insights on the topic.

4.2.4 Thematic analysis

Using the research question as a guide, and based on the study objectives and interview questions, a network was created for

each subject (category code), using ATLAS.ti, a qualitative data analysis software. This facilitated the organization and coding of responses obtained from the 12 participants. In ATLAS.ti, each identified code was meticulously examined in conjunction with the relevant quotes from the participants The grouping of data ensured that essential information was not overlooked throughout the study. This was because different solutions were supplied for the same queries. Each answer's critical elements were recognised and assigned a unique code.

Each individual's data was separately analysed, and each answer was coded and summarised separately. Responses containing "yes" or "no" were not coded and hence were not analysed. The limitation of "yes" or "no" responses is that they do not provide a comprehensive knowledge of how the respondent views a subject. To find common replies and linkages, all other responses were coded, sorted and summarised.

Dominance was found by counting the quantity of common codes or responses. To find dominance, common replies from the 12 participants were clustered together. Throughout the interviews, dominance was assessed based on how frequently identical answers were given to the same question. The use of ATLAS.ti in this process significantly enhanced the accuracy and thoroughness of the data analysis, enabling a comprehensive understanding of the key themes and patterns emerging from the interviews.

4.3 Actual discussion of the result
4.3.1 Government funding

This theme narrates the impact of government funding on NPOs and the collaboration between Government via the DSD and NPOs in accelerating service delivery, especially in terms of the welfare and developmental needs of the country. The DSD (2022:25) describes a financial arrangement as providing support to NPOs that help vulnerable groups like children, the elderly, or people with disabilities. It can also involve funding services that the government is obligated to continuously provide.

All 12 respondents were asked how and to what extent government-funded NPOs assisted the DSD in accelerating the delivery of social welfare, if at all.

Six of the respondents shared the view that the DSD and government-funded NPOs have developed a partnership and indicated that, generally, their relationships with one another are "very well", in particular with provincial offices of the DSD because the provincial offices mostly deal with funding and the national DSD office is responsible for policy formulation and strategic objectives. They indicated that many government-funded NPOs are perceived as having a positive impact on the delivery of social welfare services due to their direct engagement with communities.

The six other respondents indicated that there is a "good" relationship with the Government via the DSD and government-funded NPOs; however, they are of the opinion that the services rendered via these government-funded NPOs is a drop in the ocean since there are many NPOs who lack resources and funds but are also doing a good job in communities.

"These NPOs help bridge the gap in service delivery that where government alone might struggle to reach. However, it's important to note that there hasn't been a comprehensive scientific study to measure the impact of the work done by these NPOs

across the board. We do have some data for specific programs, such as those related to HIV and AIDS, which have shown positive impacts. But in general, assessing the overall value and impact of government funding for NPOs on a national level remains a challenge" (Respondent 3).

"That said, they do alleviate some of the burdens from the government, particularly in areas where they operate. These NPOs often have a deep understanding of local issues and can provide services personalised to specific community needs. So, while we can't provide a definitive assessment of effectiveness, they do contribute significantly to the social welfare landscape" (Respondent 3).

It means that Government funding, especially from the DSD, plays an important role in enabling NPOs to fulfil their social welfare missions effectively, in respect of, among others, gender-based violence, HIV and AIDS, substance abuse, and victim empowerment.

Among the 12 respondents who participated in the study, a substantial majority comprising 11 individuals expressed a common viewpoint regarding the vital importance of NPOs. According to these respondents, NPOs play a pivotal role in their respective communities, operating near the communities and the challenges faced in such communities. Furthermore, they highlighted the NPOs' unique ability to gain first-hand experience in addressing and mitigating predominant social issues across the country.

The consensus among these respondents highlights a collective belief in the invaluable contributions made by NPOs within their communities. Their testimony highlights NPOs as integral components of social change and progress, drawing from their close engagement with grassroots issues. Consequently, the findings emphasise the pivotal role NPOs fulfil in addressing and combatting societal challenges on a local and national scale.

Findings: Government funding to NPOs appears to have a positive impact on social welfare service delivery, due to the NPOs' proximity to the communities they serve, although a lot more can be done. Furthermore, NPOs play an important role in addressing and combatting societal challenges.

4.3.2 Reporting challenges

The contents and structure of NPO Annual Reports and the mandatory Annual Report Submission for DSD-Registered NPOs are analysed in this theme by focusing on the difficulties NPOs encounter in understanding and complying with reporting obligations.
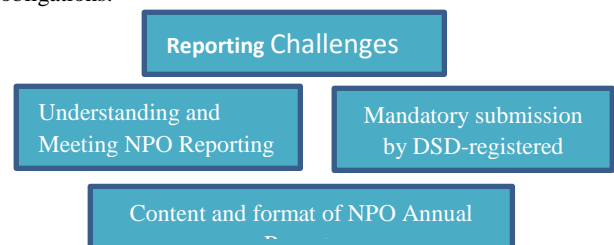

Figure 4-3: Reporting challenge persist: Author

Figure 4-3 above, shows the main NPO reporting challenges identified, namely: understanding and meeting NPO reporting requirements, the content and format of NPO annual reports, and mandatory submission by DSD-registered NPOs.

4.3.3 Challenges in understanding and meeting NPO reporting requirements

In this part of the study, we looked at the first question on challenges that NPOs face when it comes to understanding and following the rules for reporting on an NPO's activities each year. We found that among the 12 participants, 67% of them (eight participants) agreed that NPOs often struggle to understand these reporting requirements. Notably, the seriousness of the difficulties experienced depends on the type of NPO. NPOs that are well-established and are funded by the DSD tend to know what they need to do in respect of annual reporting to the DSD. However, newer, less-experienced and/or less-resourced NPOs often have a hard time figuring out what is expected of them in terms of annual reporting. This difference suggests that the DSD might have to provide clearer rules and training to NPOs in order to make sure all NPOs, regardless of their size or how they are funded, can report properly.

"For smaller and less-resourced NPOs, understanding and complying with reporting requirements can be discouraging. They may lack the financial expertise needed to prepare comprehensive financial statements and might struggle to interpret complex reporting templates" (Respondent one).

The majority of the respondents, which is 58% (seven out of the 12 interviewed), highlighted that challenges in meeting reporting requirements persist due to issues related to literacy and language barriers. They pointed out that the documents explaining the reporting requirements are primarily in English, which poses difficulties for NPOs, especially those whose primary language is not English and who might have lower literacy levels.

"There could be factors such as maybe the literacy levels of, you know, people that are involved in running these NPOs for example, let's look at the ECD sector" (Respondent 4).

"Most of our communication materials, including brochures, are in English" (Respondent 2).

The second question of this theme was: Are there any possible solutions that could be implemented to improve the effectiveness of the annual reporting process, such as providing more guidance on reporting requirements or streamlining the reporting process? All 12 respondents agree that the DSD has the responsibility to provide NPOs with training, guidance, and support with post-registration compliance and requirements. This includes offering training in financial management and annual reporting, simplifying reporting templates, and providing access to user-friendly reporting tools.

"I mentioned simplifying templates and decentralizing reporting to local offices. An improved online system would also help." (Respondent 10).

Respondent 6 added that the DSD should foster collaboration and unity within the NPO sector and contribute and assist with the sharing of knowledge and the provisioning of training opportunities. Secondly, the DSD must implement innovative communication methods such as SMS reminders for reporting deadlines, for example. It could also be explored to translate important information into local languages to accommodate those who may not be fluent in English. Lastly, deregistration for non-compliance should be enforced to encourage timely reporting.

Finding: To address the challenge of understanding and meeting NPO reporting requirements, the DSD could conduct outreach programmes and capacity-building initiatives to educate and train NPOs in post-registration requirements, and consider making it available in different languages in order to enhance the understanding thereof.

4.3.3.1 Content and format of NPO annual reports

The second question that was asked to the respondents was to what extent does the content and format of NPO annual reports and financial statements meet the information needs of the DSD for regulatory purposes, and how could these be improved to better meet the needs of stakeholders?

The NPO annual reports consist of programme reports, financial statements, and the accounting officer's opinion. While these components cover essential information, the DSD is working on providing guidelines for financial statements to make them more informative. The results show that all 12 respondents agreed that the format and the content of the current annual reporting, which includes both the narrative report and the financial report from the accounting officer, is serving its purpose; however, some updates can be implemented to stay abreast of developments in society and technology. The respondents added that there is a need to simplify some aspects of the reporting format.

"The current templates for NPO annual reports and financial statements may need continuous improvement. They should be updated regularly to align with the evolving needs and requirements of the sector." (Respondent 4)

They indicated that these reports provide information on organisational achievements and changes, which is valuable for regulatory purposes. However, there may still be room for improvement in restructuring reporting formats and ensuring consistency across all NPOs.

The issue is that government-funded NPOs and non-government funded organisations are currently reporting separately, causing fragmentation in reporting to the DSD. Seven respondents, or 58% of those interviewed, suggested that both government-funded and non-government funded NPOs must be presented in one report and at the same time, as it will encourage more of NPOs, especially those interested in applying for funding, to report annually.

Finding: The reporting format of annual reports that needs to be submitted to the DSD appears to be adequate, although some updates and improvements can be made. One way to improve the reporting process to the DSD is to create an online system. NPOs should be able to submit reports electronically, thereby simplifying the submission process.

4.3.3.2 Mandatory annual report submission for DSD-Registered NPOs

This sub-theme was derived from the 2021 DSD Annual Report. Compliance with the obligation of registered NPOs to submit their annual reports to the DSD appears to be a problem. Only 42% of all registered NPOs submitted their Annual Reports, according to the DSD's Annual Report for the 2021 financial year (DSD, 2021). The question was asked to the respondents if all

NPOs registered with the DSD are required to submit their annual reports on a mandatory basis.

"Yes, all NPOs registered with the DSD are required to submit annual reports. This includes NPOs of different types, such as voluntary associations, non-profit companies, and trusts. Regardless of their legal structure, if they are registered with the DSD, they must fulfil their reporting obligations. NPO numbers are assigned to

Registered NPOs, and these numbers are used to track and identify each organisation." (Respondent 4).

All 12 respondents share the common view that according to the requirements of the NPO Act, all NPOs registered with the DSD are required to submit annual reports. This requirement applies to both governmental-funded and nongovernmental-funded organisations. They indicated that the reason for this mandatory reporting is rooted in achieving enhanced accountability and oversight. The DSD, as the regulator of NPOs, needs to ensure that registered NPOs operate in compliance with legal standards and fulfil their intended social missions. By requiring annual reports, the DSD can assess an NPO's activities, financial health, and adherence to legal and regulatory obligations.

"Yes, indeed, it's a requirement that at the end of each financial year, NPOs must submit their annual reports. However, we are currently facing a challenge where more than 50% of NPOs have not submitted their reports. Consequently, if you were to look at our database, it would give the impression that there is a high level of non-compliance" (Respondent 3).

Respondent 7, who is managing the NPO compliance, emphasised that it is important to note that this reporting requirement serves several purposes. Firstly, it allows the DSD to monitor governmental-funded NPOs to ensure that they are using government resources effectively and in alignment with agreed-upon programmes and services. Secondly, for non-governmental funded NPOs, reporting helps the DSD track their activities and verify that they are operating as legitimate entities with a genuine commitment to their stated social objectives.

Finding: Despite the statutory requirement, more than half of the NPOs did not comply with their annual reporting requirement to the DSD. This non-compliance raises concerns regarding the ability of the DSD to render the required oversight and underscores the need for effective monitoring, in particular in respect of the activities of governmental-funded NPOs in order to ensure accountability and financial control.

4.3.4 The DSD's role in supporting NPOs

In this theme the DSD's contribution to the improvement of annual reporting practices among NPOs was examined. It was also evaluated how well the DSD manages to fund governmental-funded NPOs. Effective fund management and quality annual reporting are essential for NPOs to carry out their work in providing social welfare services. The two roles depicted in figure 4-4 will discussed below.

Figure 4-3: Reporting challenge persist: Author

Figure 4-3 above, shows the main NPO reporting challenges identified, namely: understanding and meeting NPO reporting requirements, the content and format of NPO annual reports, and mandatory submission by DSD-registered NPOs.

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"There could be factors such as maybe the literacy levels of, you know, people that are involved in running these NPOs for example, let's look at the ECD sector" (Respondent 4).

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The second question of this theme was: Are there any possible solutions that could be implemented to improve the effectiveness of the annual reporting process, such as providing more guidance on reporting requirements or streamlining the reporting process? All 12 respondents agree that the DSD has the responsibility to provide NPOs with training, guidance, and support with post-registration compliance and requirements. This includes offering training in financial management and annual reporting, simplifying reporting templates, and providing access to user-friendly reporting tools.

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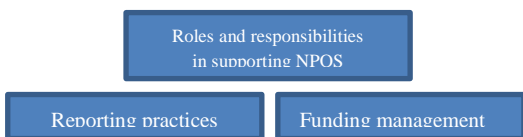
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The issue is that government-funded NPOs and non-government funded organisations are currently reporting separately, causing fragmentation in reporting to the DSD. Seven respondents, or 58% of those interviewed, suggested that both government-funded and non-government funded NPOs must be presented in one report and at the same time, as it will encourage more of NPOs, especially those interested in applying for funding, to report annually.

Finding: The reporting format of annual reports that needs to be submitted to the DSD appears to be adequate, although some updates and improvements can be made. One way to improve the reporting process to the DSD is to create an online system. NPOs should be able to submit reports electronically, thereby simplifying the submission process.

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"Yes, all NPOs registered with the DSD are required to submit annual reports. This includes NPOs of different types, such as voluntary associations, non-profit companies, and trusts. Regardless of their legal structure, if they are registered with the DSD, they must fulfil their reporting obligations. NPO numbers are assigned to

Registered NPOs, and these numbers are used to track and identify each organisation." (Respondent 4).

All 12 respondents share the common view that according to the requirements of the NPO Act, all NPOs registered with the DSD are required to submit annual reports. This requirement applies to both governmental-funded and nongovernmental-funded organisations. They indicated that the reason for this mandatory reporting is rooted in achieving enhanced accountability and oversight. The DSD, as the regulator of NPOs, needs to ensure that registered NPOs operate in compliance with legal standards and fulfil their intended social missions. By requiring annual reports, the DSD can assess an NPO's activities, financial health, and adherence to legal and regulatory obligations.

"Yes, indeed, it's a requirement that at the end of each financial year, NPOs must submit their annual reports. However, we are currently facing a challenge where more than 50% of NPOs have not submitted their reports. Consequently, if you were to look at our database, it would give the impression that there is a high level of non-compliance" (Respondent 3).

Respondent 7, who is managing the NPO compliance, emphasised that it is important to note that this reporting requirement serves several purposes. Firstly, it allows the DSD to monitor governmental-funded NPOs to ensure that they are using government resources effectively and in alignment with agreed-upon programmes and services. Secondly, for non-governmental funded NPOs, reporting helps the DSD track their activities and verify that they are operating as legitimate entities with a genuine commitment to their stated social objectives.

Finding: Despite the statutory requirement, more than half of the NPOs did not comply with their annual reporting requirement to the DSD. This non-compliance raises concerns regarding the ability of the DSD to render the required oversight and underscores the need for effective monitoring, in particular in respect of the activities of governmental-funded NPOs in order to ensure accountability and financial control.

4.3.5 The DSD's role in supporting NPOs

In this theme the DSD's contribution to the improvement of annual reporting practices among NPOs was examined. It was also evaluated how well the DSD manages to fund governmental-funded NPOs. Effective fund management and quality annual reporting are essential for NPOs to carry out their work in providing social welfare services. The two roles depicted in figure 4-4 will discussed below.

4.3.6 Reporting practices

The following theme discusses how the DSD plays a role in supporting NPOs in reporting practices, particularly in terms of

funding and capacity building. The DSD has dedicated NPO units responsible for capacity building, information and registration management, and NPO compliance monitoring.

The question asked to the respondents was, what role can the DSD play in supporting NPOs to improve their annual reporting practices? The results show that 11 of the 12 respondents, which is 92% of the participants, agree that the DSD needs to increase awareness of its reporting requirements and that by educating NPOs, the DSD can equip them with the information and abilities required for efficient reporting. The respondents said that the DSD should encourage NPOs to share their knowledge across their organisations by encouraging office bearers to do so.

"I think Information-sharing sessions are crucial. Many NPOs lack awareness about reporting requirements" (Respondent 7).

"We're implementing an E-learning management system, which will serve as a knowledge hub, housing frameworks, policies, guidelines, and other resources" (Respondent 8).

It means that with the implementation of the E-learning system, NPOs can access the reporting template and documents through the system, which will reduce the reliance on walk-ins or direct assistance.

One respondent raised the issue of decentralisation of responsibilities by suggesting that, instead of submitting NPO reports to the national DSD office, it can be submitted to the district office in the respective provinces. It means that each province will be able to assist their specific NPOs unlike now where the National DSD is dealing with all the NPOs country wide.

"I propose decentralisation of reporting services to provinces or districts. This would alleviate the burden on the national office and ensure that reports are processed more efficiently" (Respondent 4).

This proposal means that the DSD will have to provide more manpower and resources, especially at provincial level, in order to help address challenges in processing and analysing of NPO reports. As a result, each province will support their respective NPOs within their geographical area and allow the National DSD office to focus on policy issues.

The other results show eight respondents, being 66% of the cohort, who have indicated that the DSD has introduced an online system aimed at simplifying reporting for governmental-funded NPOs. This system allows NPOs to capture information, document their activities, and record financial transactions in real time. However, the challenge remains that a number of NPOs are run and operated largely by illiterate and/or old people who often are not able to use the electronic system effectively.

Finding: The DSD can support NPOs by providing user-friendly reporting tools, offering capacity-building programmes, simplifying reporting mechanisms, and considering differentiated reporting standards to suit various NPOs' needs.

4.3.7 Funding management coordination

This theme focuses on the role and responsibilities of the DSD in managing the funding coordination to the particular NPOs who render social development services, especially welfare. The question posed to the respondents was, in their opinion, does the

DSD fulfil its role and responsibilities regarding the management of funding to governmental-funded NPOs for the provision of social welfare services?

50% of the respondents agreed that the DSD fulfils its role and responsibilities. However, they also acknowledge that there has been challenges in the past with, for example, delays in payments to NPOs. This apparently occurred with the transfer of funds to NPOs in the last quarter of a financial year. Improvements have since been made, with the introduction of online payment systems and better monitoring of the progress. To ensure that the DSD properly manages the funding of governmental-funded NPOs, the process is managed by three units, which consists of the Programme/Directorate (for example GBV or Substance abuse), Funding Coordination, and the Finance Unit, headed by the CFO of the DSD.

It was also indicated that provincial offices have monitoring and evaluation officials who often visit NPOs to ensure that the funding is spent according to the intended purpose. They also indicated that they have introduced a funding timetable, which guides them in adhering to deadlines and managing the funding process efficiently. This ensures that the DSD is fair and transparent in its assessments and decisions regarding NPO funding.

"Our process is tripartite, involving representation from the NPO funding unit, finance, and program units. Each brings expertise to the table. Finance experts understand financial flows, while program experts ensure alignment with program objectives. We consider various Acts, such as the Constitution, the NPO Act, PFMA, and Paja, to make informed decisions"

On the improvement of funding management, 58% (7 out of 12) of respondents indicated that the DSD has taken positive steps to improve funding management by the development of the NPO funding policy, which was developed to establish processes that force the DSD to adhere to certain guidelines.

Respondent 4, who deals with the coordination of NPO funding, stated that the DSD fulfils its obligations in administering funds for NPOs. The respondent added that, before funds are distributed to NPOs, Service-Level Agreements (SLAs) are entered into, setting out the terms and conditions for funding. These agreements also include monitoring clauses that mandate regular money utilisation reports from NPOs. In cases of mismanagement or noncompliance, the DSD may intervene by freezing such an NPO's funding.

Finding: There is a mixed perspective on the DSD's performance in respect of the control and coordination of funding of NPOs. The use of SLAs was highlighted as a critical aspect of funding administration, setting out terms and conditions for funding and including monitoring clauses to mandate regular reporting on fund utilisation by NPOs. The DSD's willingness to intervene, including freezing funding in cases of mismanagement or noncompliance, was emphasised, underscoring the DSD's commitment to effective funding coordination for social welfare services.

4.3.8 Financial integrity

In this theme a closer look is taken at the DSD's ability to maintain the financial integrity of the country in the context of the misuse of NPOs for purposes of money laundering and terrorism

financing. This is addressed by examining the ability and extent of the DSD to analyse annual reports submitted by NPOs to the DSD.

The concern regarding the misuse of NPOs for purposes of money laundering and terrorism financing is an international phenomenon, as is illustrated in the Recommendations of FATF in this regard. This issue contributed to South Africa's grey-listing by FATF in 2023, as was pointed out in this regard in the 2021 Mutual Evaluation Report for South Africa. Amendments have since been made to relevant legislation to address this issue. One such amendment affected the NPO Act. The practical implementation of the amendment to the NPO Act by the DSD is of particular importance. In this section the tools and skills the DSD has to analyse NPO annual reports submitted to the DSD in order to adhere to the requirements set by FATF was explored. The two concepts provided in figure 4-5 will be discussed below.
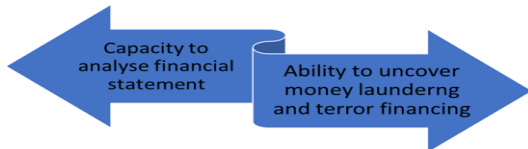

Figure 4-5: NPO Financial integrity: Author

4.3.9 Capacity to analyse annual financial statements

The question asked to all 12 respondents was, does the DSD have the capacity to analyse NPO Annual Financial Reports which have been submitted to the DSD for purposes of adherence to the aims of the FATF Recommendations as it pertains to the DSD? The results show that out of 12 respondents, 10 respondents, which is 83%, share the common view that the DSD does not have the capacity to analyse the annual financial statements submitted to the DSD for this purpose, while the remaining two respondents claim that the DSD does have the capacity.

83%, which is 10 out of 12, also indicated that the only thing the DSD is required to do is to accept the reports, capture them on the system, and issue a compliance letter to the NPO. They have acknowledged that since South Africa is grey-listed there is a need for formal training on annual financial statement analysis to be provided to the respective officials who deals with the NPO Compliance Monitoring.

"The Department is working on enhancing its capacity for financial report analysis. While some officials have experience, formal training is needed" (Respondent 2).

"No, currently, our role is more about receiving and capturing the reports rather than in-depth analysis. We mainly ensure compliance with specific elements" (Respondent 1).

Additionally, those 10 respondents have suggested that focused training and development programmes for officials in charge of assessing NPO reports may be useful to improve this capacity. Moreover, it should be considered to employ employees in the future who have deeper knowledge and expertise in financial analysis, for this specific purpose.

Findings: The study reveals that there is a necessity for formal training in financial statement analysis, suggesting that focused training and development programmes for officials handling NPO reports could be beneficial. Furthermore, there is a recognition of the need to potentially hire individuals with specialised knowledge and expertise in financial analysis.

4.3.10 Ability to uncover Money Laundering and Terrorism Financing

Regarding the issue of money laundering, five respondents pointed out that detecting it within the DSD is a high-risk challenge. As a recommendation, they suggest strengthening the knowledge of NPO officials on money laundering and terrorism financing. They mentioned that the DSD has already partnered with the FIC to conduct outreach webinars. These webinars aim to raise awareness in the NPO sector about the vulnerabilities of NPOs to terrorist abuse and the risks of terrorist financing. They also mentioned providing brochures and information guides for NPOs.

"We have trained them in various areas, including forensics and money laundering, and further training in financial statement analysis is in progress" (Respondent 1).

In addition, the 7 respondents who are in management positions, stated that they are taking steps to address this issue. They stated that the General Laws Amendment Act 2022 imposed certain duties on the DSD in respect of NPOs operating in other countries or receiving funding from other countries. The DSD is planning to conduct NPO sectoral risk assessment training for approximately six officials. These officials will then perform vulnerability risk assessments for the NPO sector, focusing on both money laundering and terrorism financing. Additionally, they mentioned that the DSD, particularly the NPO unit, is in the process of developing a modernised NPO system. This system will have the capability to track and integrate data with other regulators such as CIPC, SARS, Home Affairs, and banks to monitor NPO information. By doing so it will help or assist South Africa to address the risks posed for the misuse of NPOs for purposes of money laundering or terrorism financing and also to be removed from the grey list by FATF.

Findings: The study reveals that challenges in detecting money laundering and terror financing within the DSD is recognised. The study also shows that the DSD is planning NPO sectoral risk assessment training and the development of a modernised NPO system to enhance monitoring and compliance. These findings underscore the DSD's efforts to combat money laundering and ensure transparency within the NPO sector.

4.3.11 Financial records and documentation by NPOs

This theme will focus on the ability and capacity of the NPO to draw up financial statements within 9 months after the financial year end as stated in section 18 of the NPO Act and whether they are able to keep and maintain adequate supporting financial records for their annual financial statements. The discussion will then focus on timeous NPO financial reporting.

4.3.12 Timeous financial reporting

The sub-theme was to evaluate the timeous submission of NPOs' annual financial statements. The question posed to the 12 participants was whether NPOs have the ability and capacity to draw up financial statements within the required period after the end of their financial year? The result shows that 83% (10 out of 12) of the participants indicated that some NPOs can prepare financial statements within 9 months after the end of their respective financial years, while others struggle. However, especially emerging NPOs only provide information as to their

income and expenditure, which does not adhere to the requirements set by the NPO Act.

"It varies. Some NPOs can, especially if they have capable treasurers. Others might struggle and need more time, especially for auditing" (Respondent 4).

"Many NPOs struggle due to factors like financial illiteracy, lack of budgeting, and a one-person show approach where a founder runs the organisation without the necessary financial skills" (Respondent 2).

The result shows that 7 out of 12 respondents expressed a similar view that a number of NPOs are facing challenges in preparing financial statements and maintaining adequate accounting records, especially those with limited literacy and resources. These challenges are particularly predominant among nongovernmental funded NPOs.

Respondent 12 explained that the NPO funding selection process is a collaborative effort involving various units within the DSD. This includes their unit, known as NPO Funding Coordination, the Department's Finance division, and the specific programme unit responsible for overseeing the activities funded by the NPO, such as HIV and AIDS or substance abuse programmes. This collaborative approach ensures efficient management of funds. It means that finance experts understand financial flows, while programme experts ensure alignment with programme objectives. She indicated that when managing the transfer of funds to NPOs, the DSD considers various laws and regulations like the Constitution, the NPO Act, PFMA (Public Finance Management Act), and PAJA (Promotion of Administrative Justice Act), among others. This careful consideration helps ensure that NPOs are held accountable and that they meet their reporting obligations on time, promoting transparency and efficiency in the funding management process.

Finding: The study shows that the ability to meet the required timeline for the submission of annual financial statements often depends on factors like the presence of capable treasurers within the NPOs. It is evident that a substantial number of NPOs struggle with timely financial reporting. Challenges include financial illiteracy, a lack of budgeting, and the common practice of a single individual, often the founder, running the organisation without the necessary financial skills. This situation is more pronounced among non-governmental funded NPOs, highlighting the role of resources, both in terms of funding and skilled personnel, in enabling timely financial reporting.

4.3.13 Keeping adequate accounting records for annual reporting

The question that was asked to the respondents was, according to their observations, do NPOs keep adequate accounting records and supporting documents like invoices, receipts, or vouchers? About 8, which is 67% of respondents, indicated that according to their observation, the majority of NPOs maintain proper accounting records and supporting documents for purposes of reporting to the DSD.

Respondent 11 indicated that many NPOs understand the importance of documentation, especially when handling financial matters. However, there may be exceptions, and not all organisations are equally diligent in this regard. He added that governmental-funded NPOs are generally more likely to maintain

proper records and documents because they are often subject to regular monitoring and reporting requirements.

Respondent 6 highlighted that many of these NPOs heavily rely on volunteers or have limited staff, making it difficult to maintain effective financial record-keeping throughout the year, thus hampering the timely preparation of financial statements. This implies that NPOs are willing to maintain proper records, but the lack of determination and commitment to the administrative activities in different NPOs often hinders their ability to do so effectively.

"It is mandatory for NPOs to keep vouchers, bank statements, invoices, and receipts. Failure to do so can lead to non-compliance" (Respondent 4).

Finding: The study shows many NPOs are diligent in maintaining accounting records, however, challenges do exist, particularly for those with limited resources. Nonetheless, there is a recognition of the importance of proper record-keeping within the NPO sector to ensure compliance with reporting requirements and financial transparency.

4.3.14 Assessing service level agreement alignment in NPO annual reports

In this section the alignment of NPO annual reports against planned performance, as contained in the standard SLAs entered into between the DSD and NPOs, are evaluated. The respondents were questioned on whether the NPO annual reports for governmental-funded NPOs presented to the DSD provided evidence of the anticipated performance as was stipulated in their respective SLAs entered into between the NPOs and the DSD. 33%, which is 4 out of 12 participants, confirmed that the narrative annual reports submitted to the DSD adheres to the planned

performance as required in the standard SLAs. The remaining 67% seem to be unsure of what is contained in the SLAs

Respondent 5 first clarified the process involved when NPOs apply for funding. She indicated that NPOs must first prove their national presence by demonstrating activities in at least four provinces. This determines whether they qualify for national funding or provincial funding. She further explains that, before an organisation is approved for funding, a mandatory site visit is conducted. This visit verifies if they have physical offices, necessary tools, capacity and skills. If an NPO exists only on paper, the DSD will discover it during these visits.

"The alignment of content and format in NPO annual reports with the DSD information requirements varies based on several factors. Firstly, let's consider government-funded NPOs. Their reports must include narrative information that reflects the progress of programmes as per the Service Level Agreements (SLAs) established with the DSD" (Respondent 2).

It was indicated that the reporting time for government-funded NPOs is done quarterly on the progress of the funds allocated and project executed at the different offices within the DSD, whereas the narrative and financial report for compliance is done annually. If the government-funded NPO could only submit one report to the DSD per year, as 67% of respondents suggested, it would motivate them to complete the reporting. The lack of integration in the DSD is a concern because the unit in charge of NPO compliance and the unit responsible for NPO funding

coordination requests different documentation from the same NPOs.

It was indicated by one of the respondents that currently, the reports are not structured to provide the required level of detail. However, they are in the process of developing a new system that will allow for more detailed and useful reporting. The aim is to provide information that can guide government departments, private sector partners, and other stakeholders in addressing key social challenges. They want reports to be more than just compliance documents; they should be tools for informed decision-making.

Findings: The study highlighted the need for clearer communication and alignment between NPOs and the DSD regarding SLAs and reporting requirements. The DSD's initiative to enhance reporting systems demonstrates a commitment to improving the effectiveness and impact of development programmes through more informative reporting practices.

4.4 Discussion of the Results

The discussions of the findings are presented in this section, which also shows how the literature review and the research findings are related. The explanation of the results is set out using the concepts mentioned earlier.

4.4.1 Government Funding

On the theme of the positive impact of government funding, the findings reveal that society and the government benefits from the positive public interest and community-focused commitment of NPOs. The partnership between the DSD and especially government-funded NPOs is designed to provide comprehensive, integrated, sustainable, and high-quality social welfare services. The DSD (2013:41 and 2015:22) contend that for this collaboration to be successful and last, both parties must benefit. The research findings affirm that NPOs play a critical role in accelerating the delivery of social welfare services.

Reporting challenges

The study's findings shed light on the challenges faced by NPOs in understanding and adhering to annual reporting requirements, as mandated by section 17(1) of the NPO Act. The research has revealed that challenges are experienced, however, by mostly new and emerging NPOs. Well-established NPOs that received funding from the DSD showed a clearer understanding of reporting obligations.

The content and format of the NPO annual reports

In the sub-theme content and format of the NPO annual report (i.e., the narrative according to section 17(2) of the NPO Act and the financial report), the research highlights the importance of updating the NPO annual report templates to meet changing sector needs, addressing fragmentation in reporting, and finding ways to support NPOs in their reporting processes, including potentially utilising online systems and community radio stations for information dissemination.

Mandatory annual report submission to the DSD - DSD-registered NPOs

The mandatory reporting requirement for NPOs registered with the DSD is seen as essential for ensuring accountability, oversight, and compliance with legal standards as described in the

literature by Ebrahim (2003), Cornwall et al. (2000:3), and section 16 of the NPO Act. However, the challenge of low compliance remains a significant issue that needs to be addressed to maintain the integrity of the regulatory system as revealed by the DSD (2021) in the literature.

DSD's role in supporting NPOs in reporting practice context

NPOs may face challenges in understanding and complying with the reporting requirements set by the DSD (Morkel, 2022:54). The DSD's role in supporting NPOs in improving their reporting practices involves increasing awareness, education, and potentially decentralising reporting services. These efforts aim to empower NPOs with the knowledge and tools needed for efficient reporting, ultimately contributing to greater transparency and accountability in the NPO sector

DSD's role in fulfilling NPO funding management

The research establishes that while challenges exist, the DSD appears to be actively working to fulfil its role in managing and administering funds to NPOs for social welfare services. Legal mandates, policy development, and partnerships with NPOs underscore its commitment to this mission, ultimately contributing to the welfare of communities and individuals served by NPOs in the social development sector as indicated by DSD literature (2013:41 and 2012).

Capacity to analyse annual financial statements

The capacity of the DSD to analyse NPO Annual Financial Reports emerges as a significant concern in ensuring financial integrity within the sector as indicated in the literature (DSD, 2019, Khumawala & Gordon, 1997:11 and section 17(1) of the NPO Act). The research highlights the urgency of enhancing the DSD's capacity for financial report analysis to ensure the effective oversight and financial integrity of NPOs. This process requires a combination of formal training, potential recruitment of experts, and ongoing efforts to improve the analytical skills of officials responsible for NPO compliance monitoring. Ultimately, these measures are essential for maintaining the credibility and accountability of the NPO sector.

Ability to uncover money laundering and terror financing through annual financial reporting

The grey listing of South Africa by the FATF in February 2023 has brought to the forefront critical deficiencies in the country's oversight of the non-profit sector, particularly in preventing money laundering and terrorism financing through NPOs. Collaboration between the DSD and the FIC through outreach webinars, informational sessions and training materials is aimed at raising awareness about vulnerabilities within the NPO sector. Moreover, the amendments to NPO Act through the General Law Amendment Act 2022, is expected to improve the situation. The DSD plans for NPO sectoral risk assessment training and the development of a modernised NPO system to enhance oversight, data integration, and ultimately facilitate South Africa's resilience in respect of the misuse of NPOs for purposes of money laundering and terrorism financing.

Keeping adequate accounting records for annual reporting

The responses regarding NPOs' accounting record-keeping practices reveal a diverse landscape. While some NPOs exhibit a clear commitment to maintaining proper documentation, others

encounter difficulties, often stemming from resource limitations and reliance on volunteers or limited staff. This variation highlights the challenges that NPOs may face in collecting and managing the necessary data for reporting, as noted by Silvola et al. (2011). These challenges can result from insufficient data management procedures, the absence of standardised datagathering systems, or resource constraints, as acknowledged in the literature. However, the critical point is that, regardless of these challenges, section 17 of the NPO Act mandates NPOs to provide accurate and timely reporting on their activities and financial management, therefore ensuring proper accounting records is essential for maintaining financial integrity and compliance within the NPO sector. While some organisations may already meet these requirements, addressing the challenges faced by others could be crucial for enhancing reporting practices across the sector.

Assessing SLA alignment in the NPO annual report

The evaluation of the alignment of NPO Annual Reports with SLAs and reporting requirements within the DSD emphasises the importance of transparent and effective reporting in the NPO sector. As annual reports are vital tools for donors and stakeholders to assess the impact of NPO programmes, adhering to section 18(1)(a) of the NPO Act is crucial. While challenges in aligning reporting practices with SLAs exist, the findings reveal a shared understanding of the need for integrated, meaningful reporting beyond regulatory compliance. The development of a new reporting system, as suggested by respondents, holds the potential to address these challenges, modernise reporting, and provide stakeholders with a comprehensive view of NPO performance to drive positive social change. This evaluation underscores the vital role of reporting in promoting transparency, accountability, and the overall effectiveness of NPOs in their social missions.

4.5 Interview reflections

The process of conducting interviews with 12 officials from the DSD has been an enlightening and rewarding journey. The interviews were conducted from 19 September to 4 October 2023 and were conducted at a pace of two individuals per day, considering their availability and accommodating some evening interviews due to busy schedules. On the first day, the official was somewhat difficult since he was getting ready as if for a job interview, but he soon realised that we were just exchanging opinions and there were no right or wrong responses.

One notable aspect of this experience was the enthusiastic and collaborative spirit displayed by all the interviewees. From high-ranking officials like the Chief Director and Directors down to data capturers and NPO help desk officers, everyone was eager to contribute to the study. This willingness to engage and share insights speaks to their dedication to the programme and their commitment to improving their day-to-day work.

Another striking observation was the diversity of experience and qualifications among the interviewed officials. It was impressive to discover that the Department had a wide range of experience levels, with one official boasting more than 30 years of service while the least experienced had just 5 years, including one on a learnership journey. Moreover, it was remarkable that all the officials had postmatric qualifications, with one individual even actively pursuing a Ph.D. This level of education and commitment to continuous learning reflects positively on the DSD's workforce.

Throughout the interviews, officials expressed their opinions and views freely, underscoring their genuine interest in working at the DSD and their desire for further improvements in their roles. Their frank input has provided valuable insights into various aspects of the DSD's operations, particularly in the context of supporting NPOs.

In conclusion, the collaboration and openness displayed by the DSD officials during these interviews have been instrumental in enriching the study. Their collective experience, qualifications, and dedication to their roles highlight the potential for continued growth and enhancement within the department. Their active participation has not only contributed to the study's success but also underscored their commitment to making a positive impact on the communities they serve through their work at the DSD.

5.0 Conclusion and Recommendation
5.1 Introduction

This chapter, which is the study's conclusion, contains the outcome of the research's findings and analysis of ways to improve NPO annual submissions to the DSD. The study began with the introduction and background to introduce the problem statement and research objective followed by a literature review to understand the existing landscape of NPO annual report submission and the associated challenges in reporting to the DSD. Drawing from the insights gained in chapter two, the research questions and objectives were formulated, providing a clear path for the study. The specific objectives included investigating the current state of reporting practices among NPOs to the DSD, assessing whether the required information in annual reports adequately serves the intended outcomes, and evaluating the effectiveness of the annual reporting process while identifying challenges and proposing solutions.

Chapter three detailed the research methodology, emphasizing the use of qualitative research within the interpretive research paradigm. Semi-structured interviews with twelve DSD officials were conducted to collect the data needed to address the research questions.

Chapter four presented the results of these interviews, offering an in-depth exploration of the challenges associated with effective NPO annual reporting to the DSD. This chapter forms the basis for understanding the details of the annual reporting process, uncovering the barriers faced by NPOs, and highlighting areas for improvement.

In this final chapter, the study concludes by drawing final analyses and conclusions from the content of chapter four. It also provides recommendations based on the insights gained throughout the research. These recommendations aim to propose practical measures and strategies that can enhance the effectiveness of NPO annual reporting to the DSD. Ultimately, this chapter closes the research circle by offering actionable guidance for both NPOs and the DSD to improve their reporting processes, foster transparency and accountability, and better serve their shared mission of social development.

5.2 Summary of Study findings

The following section provides a comprehensive summary of the key findings derived from the study's research and interviews.

- The partnership between the DSD and governmental-funded NPOs is designed to provide comprehensive, integrated, sustainable and high-quality social welfare services. The DSD (2013:41 and 2015:22) contends that for this collaboration to be successful and last, both parties must benefit. The research findings affirm that NPOs play a critical role in accelerating the delivery of social welfare services.
- The research has revealed that challenges experienced with annual reporting to the DSD are more prevalent among newer and emerging NPOs. Well-established NPOs that received funding from the DSD showed a clearer understanding of reporting obligations.
- The research highlights the importance of updating the NPO annual report templates to meet changing sector needs, addressing fragmentation in reporting, and finding ways to support NPOs in their reporting processes, including potentially utilising online systems and community radio stations for information dissemination.
- The mandatory reporting requirement for NPOs registered with the DSD is seen as essential for ensuring accountability, oversight, and compliance with legal standards as described in the literature by Ebrahim (2003), Cornwall et al. (2000:3), and section 16 of the NPO Act. However, the challenge of low compliance remains a significant issue that needs to be addressed to maintain the integrity of the regulatory system as revealed by the DSD (2021).
- The DSD can support NPOs by providing user-friendly reporting tools, offering capacity-building programmes, simplifying reporting mechanisms, and considering differentiated reporting standards to suit various NPOs' needs.
- The use of SLAs was highlighted as a critical aspect of funding administration, setting out terms and conditions for funding and including monitoring clauses to mandate regular reporting on fund utilisation by NPOs. The DSD's willingness to intervene, including freezing funding in cases of mismanagement or noncompliance, was emphasised, underscoring the DSD's commitment to effective funding coordination for social welfare services.
- The study reveals that there is a need for formal training in financial statement analysis, suggesting that focused training and development programmes for officials handling NPO reports could be beneficial. Furthermore, there is a recognition of the need to potentially hire individuals with specialised knowledge and expertise in financial analysis.
- The study reveals that challenges regarding the misuse of NPOs for purposes of money laundering and terrorism financing are recognised. The study also shows that DSD is planning NPO sectorial risk assessment training and the development of a modernised NPO system to enhance monitoring and compliance, in order to underscore the DSD's efforts to combat money laundering and terrorism financing and to ensure transparency within the NPO sector.
- Based on the study's findings, it is evident that the recent amendments to the NPO Act, brought about by the General Laws (Anti-Money Laundering and Combating

Terrorism Financing) Amendment Act of 2022, warrant a focused effort on implementation and compliance within the NPO sector. Specifically, the study highlights the necessity for the DSD to initiate a farreaching awareness and education campaign aimed at all registered NPOs.
- The study shows that the ability to meet the required timeline for the submission of annual financial statements often depends on factors like the presence of capable treasurers within the NPOs. It is evident that a substantial number of NPOs struggle with timely financial reporting. Challenges include financial illiteracy, a lack of budgeting, and the common 86 practice of a single individual, often the founder, running the organisation without the necessary financial skills.
- The study highlighted the need for clearer communication and alignment between NPOs and the DSD regarding SLAs and reporting requirements. The DSD's initiative to enhance reporting systems demonstrates a commitment to improving the effectiveness and impact of development programmes through more informative reporting practices.

5.3 Recommendations

Following the insight gained from the findings of the research conducted, the researcher is putting forward the following recommendations:

1. **Enhancing collaboration**
- One main recommendation for the theme is to strengthen collaboration between the DSD and NPOs. This collaboration should go beyond the financial aspect and focus on joint planning, shared objectives, and regular communication. By fostering a stronger partnership, both parties can work together more effectively to accelerate the delivery of social welfare services, ultimately benefiting the communities they serve.

2. **Enhanced support and guidance on the reporting obligation**
- Based on the study's findings, a key recommendation is to provide support and guidance to newer and emerging NPOs regarding their annual reporting requirements. This support can include induction workshops, training sessions, or the development of user-friendly reporting guidelines specifically tailored to the needs of these NPOs. Additionally, encouraging mentorship programmes where experienced NPOs can assist newer ones in navigating reporting requirements could be highly beneficial. The DSD should consider offering improved support mechanisms to assist NPOs in their reporting processes. This could include training sessions, webinars, or workshops on how to complete annual reports effectively and efficiently. Such support can empower NPOs, especially smaller or less-resourced organisations, in meeting their reporting obligations.

3. **Enhancing the Content and Format of NPO Annual Reports**
- The DSD should consider the periodic review and update of NPO annual report templates to align them with changing sector needs and evolving reporting standards. This ensures that NPOs are reporting on relevant and impactful information, thereby improving the usefulness of these reports for both the DSD and stakeholders.

4. **Mandatory annual report submission for DSD-registered NPOs**

- The DSD should invest in awareness and education campaigns aimed at NPOs. These campaigns should highlight the importance of compliance with mandatory reporting requirements, emphasizing the role of accountability, oversight, and legal requirements. Workshops, webinars and informative materials can be used to educate NPOs about their reporting obligations.

- They should work toward simplifying and streamlining the reporting process as much as possible. This includes providing clear guidelines, templates, and resources to assist NPOs in preparing and submitting their reports. The goal is to make compliance more straightforward and less burdensome.

5. **Possible measures to support NPOs in their reporting practices**

- To address the challenges NPOs face in understanding and complying with reporting requirements, the DSD should establish comprehensive education and capacity-building programmes. These programmes can include workshops, webinars, online resources, and training sessions tailored to the specific needs of NPOs. By enhancing the financial and reporting literacy of NPO staff and board members, they will be better equipped to meet reporting obligations effectively.

- Develop and maintain an online platform that hosts reporting resources, including templates, guidelines, FAQs, and instructional videos. Make this platform easily accessible to all registered NPOs, allowing them to access the information they need at any time. Ensure that the platform is userfriendly and regularly updated.

- Consider setting up a dedicated help desk or support center within the DSD in different provinces that NPOs can contact for guidance and assistance related to reporting. This help desk can provide clarifications on reporting requirements, offer templates, and assist NPOs in navigating the reporting process. Ensuring knowledgeable personnel staff, this help desk is crucial.

6. **Capacity to analyse annual financial statements**

- The DSD should prioritise investment in formal training programmes focused on financial reporting for its officials responsible for NPO compliance monitoring. This training should cover areas such as financial statement analysis, fraud detection and risk management, and financial risk assessment. It should be a continuous and structured programme to keep officials updated with evolving financial practices and regulations.

- The DSD must be able to create or adopt analytical tools and software that can aid officials and NPOs in the understanding of NPO financial reports. These tools can automate certain aspects of analysis, identify anomalies, and generate reports for further review. Providing officials with the right tools can significantly improve efficiency and accuracy.

- The study suggests that the DSD should consider forming partnerships with accounting professional bodies such as SAICA (South African Institute of Chartered Accountants), SAIBA (South African Institute of Business Accountants), and CIMA (Chartered Institute of Management Accountants) to offer discounted or pro bono services to emerging NPOs.

7. **Ability to address the risks posed by money laundering and terror financing through registration with the DSD and annual financial reporting**

- The DSD should continue and expand collaborative efforts with the FIC, law enforcement agencies, and other relevant regulatory bodies to address the risks posed, such as the misuse of NPOs for purposes of money laundering and the financing of terrorism. This collaboration should include ongoing outreach webinars, informational sessions, and the development of 89 comprehensive educational materials aimed at raising awareness about money laundering and terrorism financing risks in the NPO sector.

- Ensure the effective implementation of the amendments to the NPO Act introduced through the General Law Amendment Act 2022. This includes providing clear guidelines and training to NPOs on the new reporting and operational requirements introduced by the amendments.

- Develop and implement comprehensive training programmes on anti-money laundering and counter-terrorism financing specifically tailored for NPOs. These programmes should be accessible to NPO officials and cover topics such as risk identification, reporting obligations, and best practices in AML/CTF compliance.

- The NPO Directorate must streamline and simplify the registration and reporting processes, whilst maintaining the ability to collate information to adhere to the requirements set by FATF. This includes developing userfriendly reporting tools and templates that align with the legislative requirements. The DSD should also invest in capacity-building programmes for its officials responsible for NPO compliance monitoring, enabling them to effectively enforce the new regulations and support NPOs in their compliance efforts.

- The DSD should establish efficient reporting mechanisms for NPOs engaged in cross-border activities. This includes creating standardised reporting templates and guidelines tailored to the types of services provided. The reporting process should be user-friendly and accessible to NPOs, with clear instructions on what information needs to be submitted and when.

8. **Keeping adequate accounting records for annual reporting**

- The DSD must develop and disseminate standardised guidelines for accounting and financial reporting within the NPO sector. These guidelines should provide clear instructions on the types of records to maintain, the frequency of updates, and the format for financial statements and narrative reports.

- The DSD must incorporate its online system and create an online repository of resources, templates, and best practices related to accounting and financial record-keeping. NPOs can access these resources for guidance on setting up effective accounting systems and maintaining accurate financial records.

- In addition, the DSD must collaborate with accounting professionals and organisations to offer pro bono or

discounted services to NPOs, particularly in the area of financial record-keeping and reporting.

9. Assessing SLA alignment in the NPO annual report

- The DSD must ensure that the new reporting system can seamlessly integrate with existing databases and reporting platforms within the DSD. This integration should minimise disruptions and facilitate a smooth transition to the new system. They must actively pursue the development of a modernised NPO reporting system that integrates data from various sources, including SLAs, financial statements, and programme outcomes. This system should be designed to streamline reporting processes, reduce duplication of effort, and enhance the accuracy and timeliness of reporting.

5.4 Limitation of the study

The data collected for this research was sourced from officials within the DSD's national office in Pretoria, utilising the Microsoft Teams online platform as the primary mode of data acquisition. It's pertinent to note that the national office houses a total of 58 officials who are responsible for NPO-related matters. However, the research interviews were conducted with a sample size of only 12 of these officials, amounting to approximately 20% of the total population. This sample size, although relatively small in comparison to the total number of relevant officials, was considered representative for the purposes of this study, as they are directly involved with issues relevant to the study.

The study, however, did not engage with NPOs themselves or with the different communities served by NPOs. A broader perspective on the challenges faced in 91 terms of annual reporting to the DSD could be obtained by expanding the study to include such groupings as well.

5.5 Areas for further study

Building upon the findings of this study, there are several promising areas for further research that can contribute to a deeper understanding of critical aspects within the NPO sector. These areas for further study are informed by the identified compliance challenges, the impact of recent regulatory amendments, and the need for support, particularly among risk-based NPOs, emerging organisations, and those at risk of being involved in money laundering and terrorism financing. The following could be considered as possible future areas of research:

- As stated earlier the challenges faced with annual reporting to the DSD could be further researched by conducting a study among NPOs themselves as well as among the communities served by such NPOs.

- A researcher may conduct a comprehensive impact assessment of the recent regulatory amendments introduced by the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act (GLAA) of 2022, and examine how these changes will affect the operations, reporting practices, and overall compliance of NPOs. The effectiveness of awareness and education campaigns in helping NPOs adapt to the new regulatory environment can also be developed and assessed.

- Further study can include a focus on the challenges faced by newly registered or emerging NPOs in understanding and meeting reporting and compliance requirements. Exploring the unique needs of these organisations and develop tailored strategies, support mechanisms, and educational programmes can assist them in building a solid foundation for compliance and responsible operations.

One can investigate the compliance practices and challenges specific to NPOs which are at higher risk of being exposed to money laundering or terrorism financing; examine how these organisations navigate and implement anti-money laundering and counter-terrorism financing regulations, and identify effective 92 strategies to enhance their capacity to combat money laundering and terrorism financing.

By addressing these areas for further study, researchers can contribute to the ongoing improvement of compliance practices, transparency, and accountability within the NPO sector, ultimately supporting the sector's vital role in social development while safeguarding against financial crime and misuse.

5.6 Final conclusion and meeting the research objectives

The findings and conclusion of the study are presented below from the primary objective to the secondary objectives.

Research objective	Outcome
1. The study's primary objective was to explore effective methods for improving NPO annual reporting to the DSD.	• The study revealed that, while many NPOs understand the importance of reporting and compliance, challenges exist, particularly among newer and less- resourced organisations. These challenges include difficulties in preparing financial statements, maintaining adequate accounting records, and aligning reporting with Service Level Agreements (SLAs) and DSD requirements. • The research also highlighted the role of the DSD in supporting NPOs in improving their reporting practices. This support includes capacity-building efforts, partnerships with regulatory bodies like the FIC, and plans for modernised reporting systems. These initiatives reflect the DSD's commitment to enhancing transparency and accountability in the NPO sector.

	• The study recommends the implementation of comprehensive education and capacity-building programs by the DSD. These programs should include workshops, webinars, online resources, and training sessions, specifically tailored to meet the unique needs of NPOs. Such educational initiatives aim to improve the financial and reporting literacy of NPO staff and board members, enabling them to comply more effectively with reporting obligations. • The study suggests a collaboration between the DSD and accounting professional bodies like SAICA, SAIBA, and CIMA. This partnership aims to offer emerging NPOs discounted services, thereby providing them with access to professional accounting expertise. Such support is crucial for ensuring that their annual financial statements are accurate and comply with relevant legislations.
2. To determine the reasoning for and current state of reporting practices by NPOs to the DSD.	• The study revealed that NPOs engage in reporting practices primarily to ensure transparency, accountability, and compliance with legislative requirements, particularly as mandated by section 17(1) of the NPO Act. Well-established NPOs that receive funding from the DSD tend to have a clearer understanding of reporting obligations, emphasizing the importance of funding requirements in driving reporting practices. The study reveals that NPOs, particularly newer and emerging ones, often encounter challenges in understanding and complying with reporting requirements. To address these challenges effectively, the study recommends the establishment of comprehensive education and capacity-building programmes tailored specifically to the needs of NPOs. • The other significant outcome of this study is the recommendation to develop and maintain an online platform dedicated to hosting reporting resources. This platform, designed to be user-friendly and regularly updated, will serve as a valuable resource hub for all registered NPOs. It will provide access to essential reporting tools, such as templates, guidelines, FAQs, and instructional videos. By offering easily accessible and up-to-date reporting resources, this platform can significantly contribute to the enhancement of reporting practices by NPOs to the DSD.
3. To assess whether the required information to be annually reported by NPOs (i.e., the content of the annual report and financial statements) sufficiently addresses the outcomes envisaged for such reporting to the DSD.	• The study's outcome in this regard revealed that while NPOs generally recognise the importance of reporting, there is inconsistency in the quality and completeness of the annual reports submitted to the DSD. Some NPOs demonstrate a clear commitment to reporting in accordance with the NPO Act's requirements, providing comprehensive information about their activities, financial status and impact on beneficiaries. These reports align with the outcomes envisaged for reporting and compliance with legal standards. • However, the study also identified challenges, particularly among newer and less-resourced NPOs, in preparing financial statements and maintaining adequate accounting records. These challenges may result in incomplete or delayed reporting, which can hinder the achievement of desired outcomes. Therefore, the study's outcome emphasises the need for targeted support and capacity-building efforts to enhance the completeness and accuracy of annual reports,

	ultimately contributing to more effective reporting to the DSD and the achievement of desired outcomes.
4. To determine the challenges experienced with annual reporting and to develop possible solutions for such challenges.	• The study successfully identified the main challenges faced by NPOs in their annual reporting processes. These include complexities in understanding reporting requirements, limited financial and accounting expertise, and the time-consuming nature of preparing comprehensive reports. • One of the primary solutions proposed by the study is the creation of targeted educational and training programs. These programs, developed by the DSD, are designed to enhance the understanding of NPO staff and board members regarding reporting requirements and financial management. • The study recommends the development of an easily accessible online platform that provides NPOs with essential reporting resources. This hub would include templates, guidelines, and instructional materials to assist NPOs in preparing their annual reports. • The study suggests simplifying the reporting process to make it more efficient for NPOs. This can involve reducing unnecessary paperwork, clarifying reporting guidelines, and offering online submission options.

5.7   Conclusion of the study

In conclusion, this study has shed light on critical aspects of NPOs' annual reporting practices to the DSD. Through a comprehensive examination of current practices, challenges, and opportunities, several recommendations have been proposed to enhance the effectiveness of this reporting process and, in turn, promote transparency, accountability, and the achievement of social development goals.

One overarching recommendation is the strengthening of collaboration between the DSD and NPOs, expanding beyond financial support to include joint planning, shared objectives, and open communication. By developing a robust partnership, both parties can work harmoniously to accelerate the delivery of essential social welfare services to the communities they serve.

Furthermore, this study emphasises the need for tailored support to newer and emerging NPOs. Providing induction workshops, user-friendly reporting guidelines, mentorship programmes, and capacity-building efforts can empower these organisations to meet reporting requirements effectively, fostering transparency within the sector

The study underscores the importance of periodic updates to NPO annual report templates to ensure they align with evolving sector needs and reporting standards. Simplifying and streamlining the reporting process, coupled with an investment in comprehensive education and capacity-building programmes, can significantly enhance NPO's reporting capabilities.

Regarding financial management, streamlined payment processes, and improved transparency in fund allocation and disbursement are recommended to facilitate smooth operations and strengthen trust between the DSD and NPOs.

Additionally, the study advocates for increased efforts to combat money laundering and terrorism financing within the NPO sector. This includes awareness campaigns, the effective

implementation of regulatory amendments, comprehensive training programmes, and the streamlining of registration and reporting processes.

Lastly, the development of standardised guidelines for accounting and financial reporting, along with the creation of an online repository of resources, can assist NPOs in maintaining accurate financial records, promoting accountability.

In conclusion, this study emphasises that effective reporting practices are essential for NPOs to fulfil their missions successfully. By implementing these recommendations, the DSD and NPOs can work together to improve reporting processes, enhance transparency, and ultimately drive positive social change within South Africa's communities.

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