Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

FINAL MANAGEMENT REPORT

Passenger Rail Agency of South Africa

31 March 2022

Communicated to the accounting authority on: 20 September 2022

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Auditing to build public confidence

AUDITOR-GENERAL SOUTH AFRICA

MANAGEMENT REPORT

Passenger Rail Agency of South Africa
31 March 2022
Discussed with the accounting authority on: 21 September 2022

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MANAGEMENT REPORT TO THE ACCOUNTING AUTHORITY ON THE AUDIT OF THE PASSENGER RAIL AGENCY OF SOUTH AFRICA FOR THE YEAR ENDED 31 MARCH 2022

INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting authority and to provide a summary of the material irregularities and suspected material irregularities of which the authority was notified. The report does not constitute public information.

2. The management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 31 March 2022. These findings were communicated to management and this report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.

3. In accordance with the terms of engagement, our responsibility in this regard is to:

   - express an opinion on the consolidated and separate financial statements
   - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected objective, and report the material findings in the auditor's report
   - report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)
   - notify the accounting authority of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor's report.

4. Our engagement letter sets out our responsibilities and those of the accounting authority in detail.

5. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.

6. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.

7. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:
   - Status of the audit outcomes
   - Status of the drivers of internal controls
   - Status of risk areas
   - Root causes to be addressed/Best practices that should be maintained
8. Movement from the previous year is depicted as follows:

   Improved

   Unchanged / slight improvement / slight regression

   Regressed

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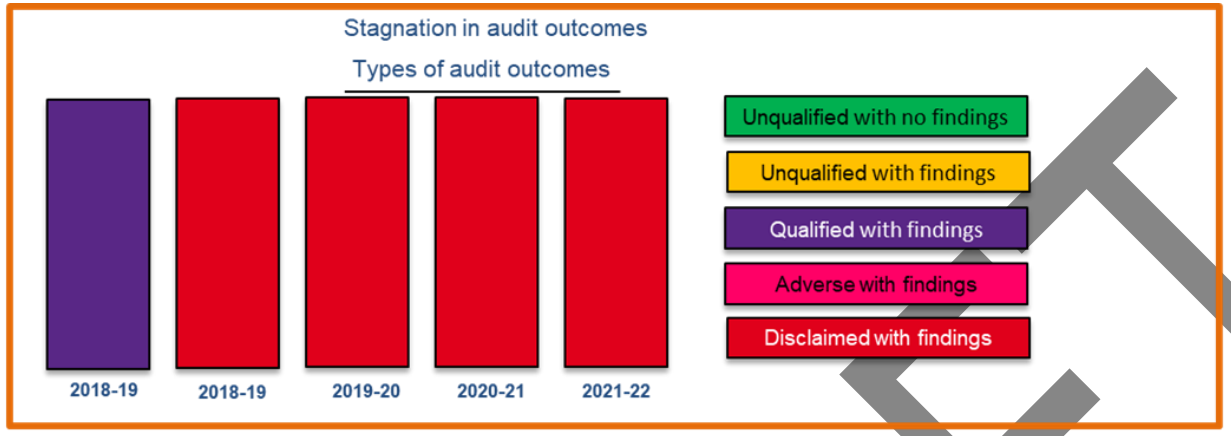


1 To improve the **audit outcomes** ...

2 ... the key role pla[illegible] to **assure** that ...

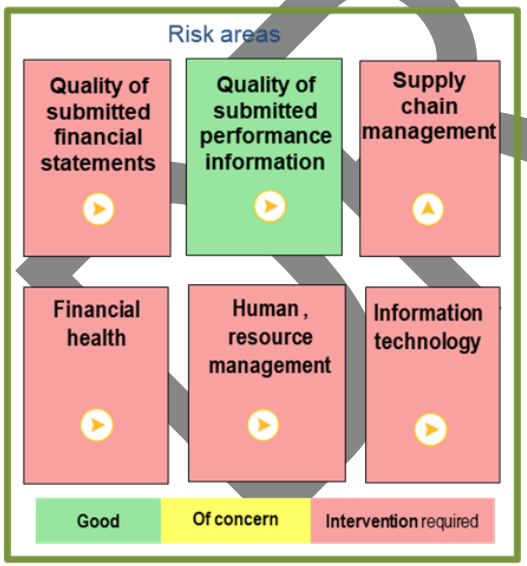
5 ... the **root causes** are addressed ...

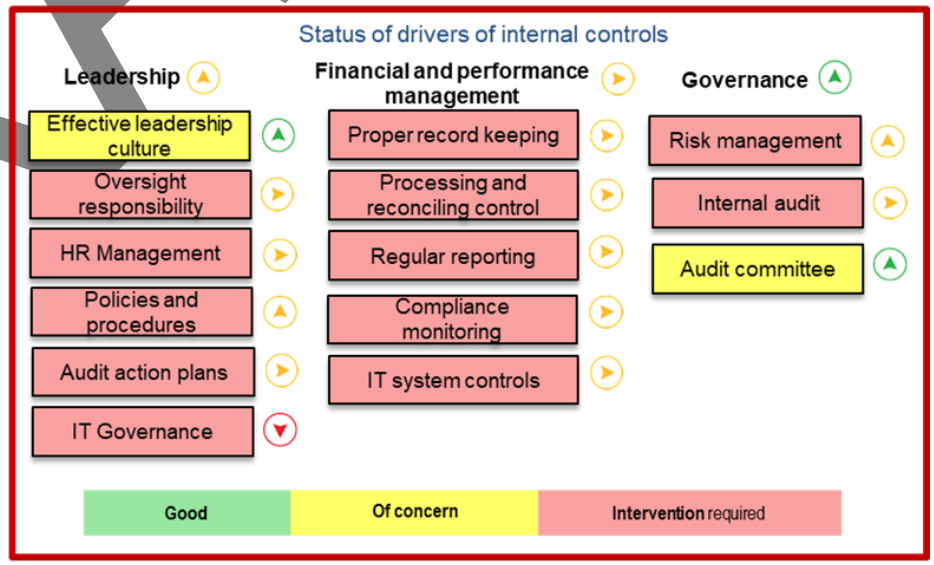
4 ... the **risk areas** and ...

3 ... attention is given to the **key controls** and ...

Root causes should be addressed

- Instability in executive management.
- Critical capacity constraints.
- Insufficient financial processing and reconciling controls combined with poor record keeping.
- Inadequate financial reporting processes including reviews.
- Lack of compliance monitoring and enforcement.
- Poor procurement planning and lack of preventative controls to avoid irregular expenditure.
- Lack of legislatively prescribed consequence management.
- No sustainable and comprehensive turnaround plan that will address audit outcomes and performance shortfalls.





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OVERALL MESSAGE

AUDIT OUTCOME

9. The overall audit outcome for the Passenger Rail Agency of South Africa (PRASA) for the financial year ended 31 March 2022 remains disclaimed on its annual financial statements with material findings on compliance with laws and regulations.

10. PRASA is however commended for again having submitted a fairly presented annual performance report with no material findings having been noted in this area.

11. The year under review has seen the accounting authority being stabilised and the issue surrounding governance records have not surfaced as a concern. This is evident from a strategic planning perspective and the board and its sub-committees are appraised of the multiple challenges facing the entity, many of them not emanating from the current board's tenure to date. To this extent there is no lack of various plans at a strategic level to turn around PRASA, although a need remains to consolidate the various strategies into one consolidated turnaround document which should be structured to allow for continuous tracking of implementation until completion (discussed in more detail in the audit action plan section below).

12. Further positive traction has been noted on the accountability front with critical matters, such as our material irregularities, being addressed through investigation and where required disciplinary action. Additionally, while security threats compromising rail network infrastructure remain significant, asset related crimes showed and continue to show a declining trend – indicating significant progress on the security front.

13. While positive progress has therefore been noted, some critical root causes – as articulated in our 2020-21 reports – remain unresolved (as discussed in more detail throughout this overall message). These included:

    - The action plan that was only formulated in the last month of the financial year and resultantly left too little time to effect corrective actions successfully.
    - In-year vacancies at executive management level and such positions being filled by acting incumbents, contributing to the inability to address collapsing internal controls across the financial and compliance disciplines. This was indicated as a matter requiring urgent intervention.
    - Financial statements contained material misstatements emanating from inadequate financial reporting disciplines and an ineffective review process, which was expected to have included a validation process of the schedules, listings and registers in support of the figures presented in the annual financial statements.
    - Major capital projects behind schedule resulting in low amounts of capital subsidies utilised. The recommendation was that the supply chain management and project management function must be strengthened to ensure that the supply chain process does not create unwarranted delays and that the projects are properly managed to minimise delays.

- Inadequate document management processes.

14. Consequently, considering the magnitude of issues to be addressed, the financial statements will be disclaimed on the basis of material misstatements in following areas: Property, plant and equipment (assets); Capital grant reserve; Cash flow statement; Commitments; Prior period errors; Risk management; Fruitless and wasteful expenditure; Irregular expenditure and the Statement of comparison of budget and actual amounts. [Areas in yellow might be resolved based on AFS adjustments in progress]

15. Similar to 2021-22, material findings relating to non-compliance with laws and regulations were noted in the areas of annual financial statements, expenditure management, procurement and contract management as well as consequence management. In a positive development, the number of findings on procurement and contract management have reduced significantly in as far as PPPFA evaluation, CIDB and local content compliance is concerned. The sustainability thereof should however be considered in light of the depressed levels of procurement in 2021-22, which were significantly lower than previous years. Intervention is still required to ensure that all procurement of goods, works or services are procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

ANNUAL FINANCIAL STATEMENTS

16. Prior to the submission of the annual financial statements (AFS) for auditing purposes, on 13 May 2022, we issued a letter to the Chairperson of the Accounting Authority detailing the requirements pertaining to the submission of AFS. In this letter we highlighted the following:
    - The public entity must follow a due quality assurance process to ensure that credible and accurate AFS are submitted for auditing. The public entity should ensure that it has adequate controls in place to prevent misstatements in its AFS.
    - The submission of the AFS should include a complete and accurate audit evidence file to support all classes of transactions, balances and disclosures included in the AFS.
    - This includes the verification of supporting records against the reports, internal audit review and audit committee oversight before submission. Sufficient time should be allowed for each tier in the accountability assurance model to review and interrogate the reports.

17. The AFS was due on 31 May 2022 but it was communicated to the AGSA that the submission would be delayed due to the asset verification process that was still in progress.

18. Submission took place on 30 June 2022 however a high-level review thereof revealed material misstatements and critical supporting information that was not submitted in conjunction with the AFS, most notably no asset registers were included in the submission. These shortcomings were formally communicated and an audit finding issued in this regard on 6 July 2022. Some of the outstanding information was received by 12 July, including the asset registers (the first submission for the 2021-22 audit cycle). The information that could not be submitted and/or corrected forms part of the basis for disclaimer where material.

19. The preparation of the consolidated and separate set of financial statements for the PRASA group hinged on one individual, which is completely unreasonable considering the volume and complexity of the PRASA group AFS, additionally it speaks to a lack of risk mitigation as PRASA had no alternative plan in place if the individual in question became unavailable for whatever reason. Furthermore, internal audit – due to a debilitating lack of capacity – did not perform the requisite quality assurance. Based on our first high-level review of the AFS and subsequent audit procedures performed, it is clear that there was no comprehensive review – which included the verification of supporting records, schedules and registers – prior to submission.

20. That being said, it should be noted that units responsible for submission of accurate, complete and timely information to enable the effective preparation of AFS did not take the responsibility seriously in certain instances. Officials throughout PRASA should be sensitised that future improvement on the current status quo depends on all, not the finance function in isolation.

21. Due to the late finalisation of figures, including those relating to property, plant and equipment, insufficient time was available for proper interrogation and review of the AFS by accountability structures such as EXCO, the Audit and Risk Committee and the Board of Control, consequently basic errors remained undetected.

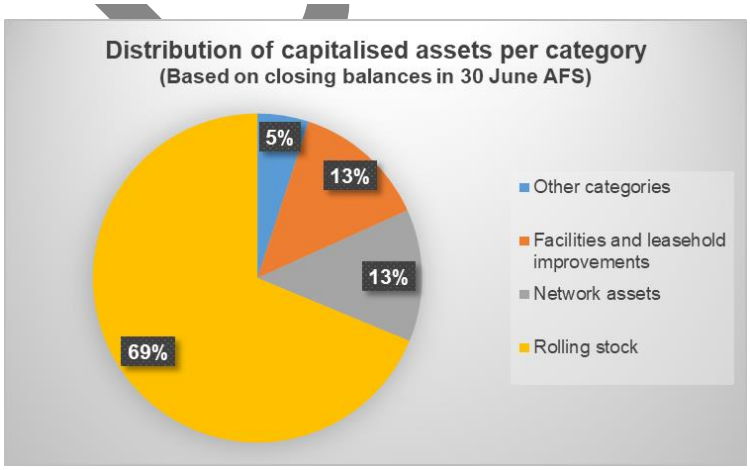
22. The significant deficiencies in the record-keeping system previously reported remained unresolved as supporting documentation requested for audit purposes was only submitted after a limitation of scope finding was issued in more instances than not and in some instances could not be submitted at all.

23. Credible AFS are crucial for enabling accountability and transparency. None of the matters noted above are new and the lack of implementation of corrective action should not recur in the upcoming year. The resolution thereof is however contingent on the adequate capacitation with enough suitably skilled individuals in all key units, especially finance.

STATUS OF ASSETS AND THE SAFEGUARDING THEREOF

Reporting on property, plant and equipment (PPE) in the annual financial statements

24. PPE has historically been a problematic area for PRASA. Consequently, the entity embarked on a comprehensive asset verification process to verify the existence and completeness of the assets contained in the asset register.

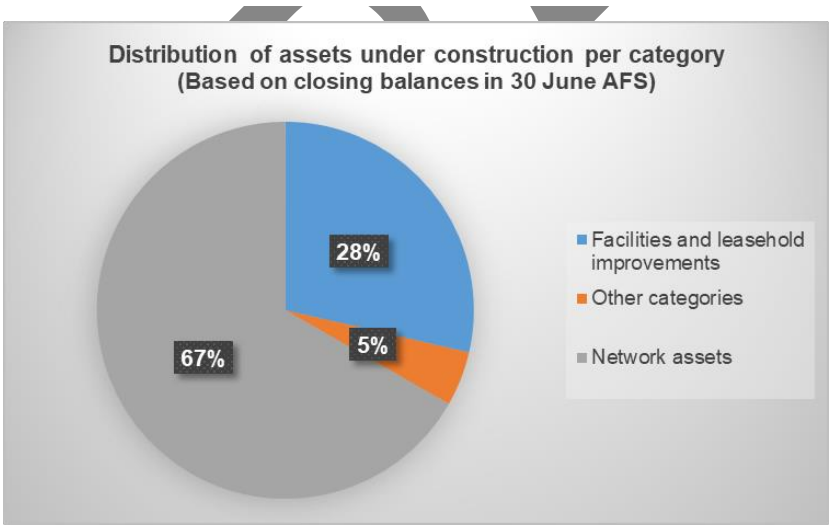


25. We are pleased to report that per our audit results we have obtained reasonable assurance that PRASA has achieved this objective (existence & completeness) for the biggest category of capitalised assets, rolling stock, which constitutes 69% of the total capitalised assets of PRASA. Testament to the hard work and efforts that were put into the process.

26. We have further managed to obtain assurance on the existence of facilities and leasehold improvements however completeness remains an issue with us not having been able to trace a material amount of selected physical assets to the register.

27. With regards to capitalised network assets, despite the process having been reportedly complete up to AFS level, we detected during the course of the audit that the updating of the counting results onto the SAP system is still in progress. Consequently the asset register submitted was devoid of physical marker indicators (km/mast pole markings) that would enable the verification of the assets contained in the asset register. Alternative procedures were explored and consideration was given to using the "counting sheets" that were completed as part of the asset verification process. However, as these were not reconciled to the asset register – and it was unfortunately a completely impracticable exercise for the auditors to conduct given the large volume of various documents – we have been unable to confirm the existence and completeness of assets on the asset register that was submitted in support of the disclosed figure in the financial statements.

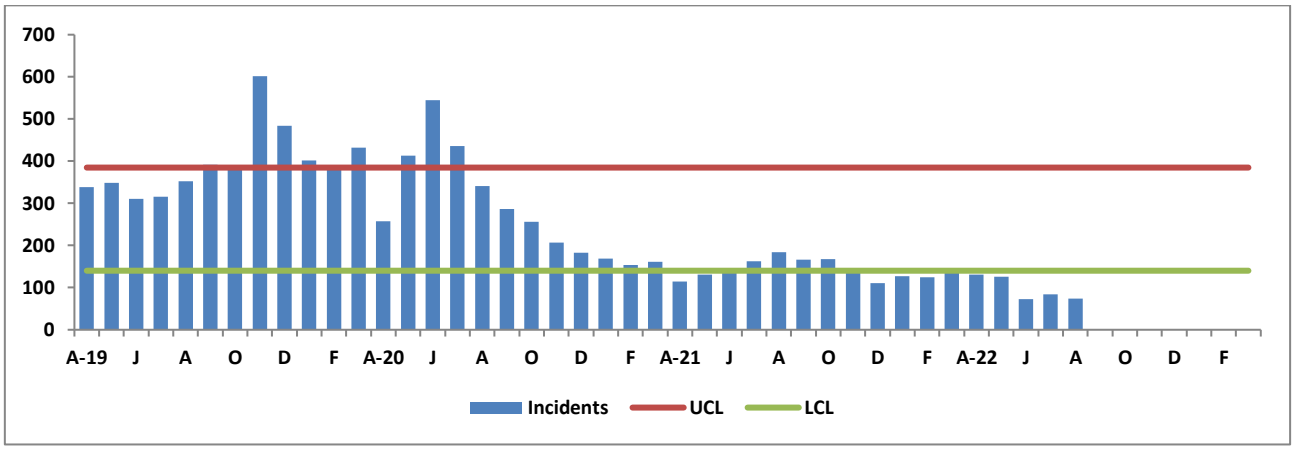
28. Although significant progress has been noted in respect of existence and completeness, valuation remains an issue with PRASA again not having submitted the annual assessment of residual values and useful lives of all items of PPE as required by GRAP 17, despite the importance of submission thereof having been emphasised prior to the submission of financial statements.



29. Assets under construction constitutes 36% of the closing asset balance for the year under review. Little progress has been noted in terms of resolving issues previously noted. Schedules could not be submitted to support R6,3 billion worth of network assets under construction and late capitalisation remains a concern. Work-in-progress (WIP) costs (R191 million) written off due to lack of capitalisation documentation, reflected as fruitless and wasteful expenditure, based on "clean-up" work that was done on assets under construction is indicative of the problems that might be faced if the situation is not arrested.

30. This problem pertaining to the capitalisation of assets has now persisted for years and per our assessment the sheer volume and scale of the assets in question are unmanageable, given that every single asset bought or constructed by PRASA first goes through WIP and the responsibility for capitalisation is centralised in the severely under capacitated asset unit in Corporate. If at all possible, system changes should be considered where "straightforward" assets e.g. buses, vehicles, movables and workshop equipment won't pass through WIP. Furthermore, consideration should be given to decentralisation of this function.

Safeguarding of assets and security related matters



31. Asset related crime trends (reflected above) have shown a steady decline from the onset of the 2018-19 financial year to date. PRASA appointed approximately 3 100 in-house security personnel between the period June to December 2020.

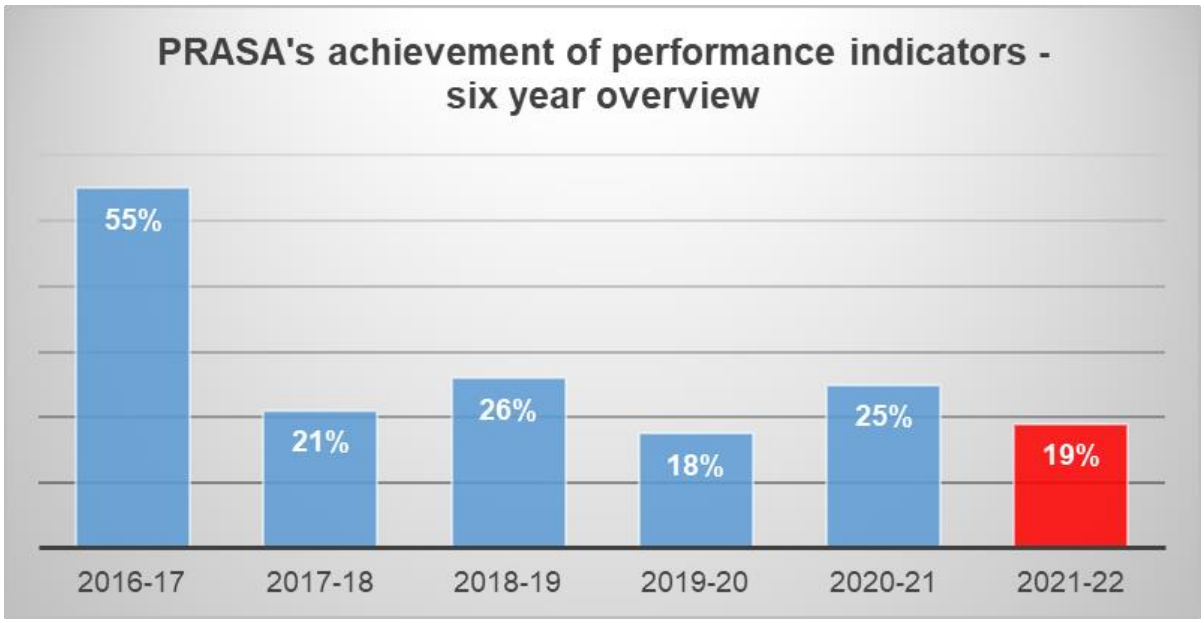
32. PRASA also managed to formally approve a comprehensive national PRASA rail security plan on 23 February 2022, resolving a matter that was long outstanding. Implementation of the plan is currently underway with significant progress being reported.

33. Despite promising developments on the security front, the risk to PRASA's infrastructure remains extremely high and therefore security - and the ongoing improvement thereof - must remain a top priority. The reduction in asset related crime trends must also be viewed from the perspective that PRASA's rail infrastructure was subjected to a colossal onslaught of theft and vandalism in the wake of the cancellation of security contracts in 2018-19, which all but destroyed the entire national passenger rail network. A situation that PRASA is still battling to recover from. Therefore, it will only be once infrastructure has been materially recovered that one would be able to determine whether the improved numbers are sustainable.

PERFORMANCE FOR THE FINANCIAL YEAR ENDED 31 MARCH 2022

34. PRASA's ongoing efforts pertaining to performance reporting are recognised, as once again the entity managed to produce a valid, complete and accurate annual performance report which was both useful and reliable.

35. No material findings have been noted on the annual performance report, however the unresolved root causes noted in the introductory section to this overall message, have also impacted negatively on PRASA's performance and its ability to achieve its predetermined key performance indicators and targets in pursuit of the effective discharge of its mandate to the benefit of South African citizens.



36. PRASA only achieved three (19%) out of the total 16 predetermined performance indicators for the 2021-22 financial year. The major root cause for non-performance was failures on the procurement front with planned contracts not having been awarded and in certain instances awards that were cancelled. Cognisance is taken of certain circumstances beyond PRASA's control – which included the continued impact of Covid-19, civil unrest in July 2021, the NUMSA strike in October 2021 and the delay in relocation of informal settlements in the Western Cape which is dependent on the conclusion of overarching governmental processes. Nevertheless, even when taking into account the aforementioned factors, PRASA's performance was at an unacceptable level and the second lowest it's been in the past six years. To this effect, procurement planning must be improved to effectively cater to the multi-disciplinary environment and the supply chain and contract management units must be stabilised with a sufficient number of appropriately skilled personnel.

37. The indicators and targets for the year under review were grouped under the following strategic objectives:

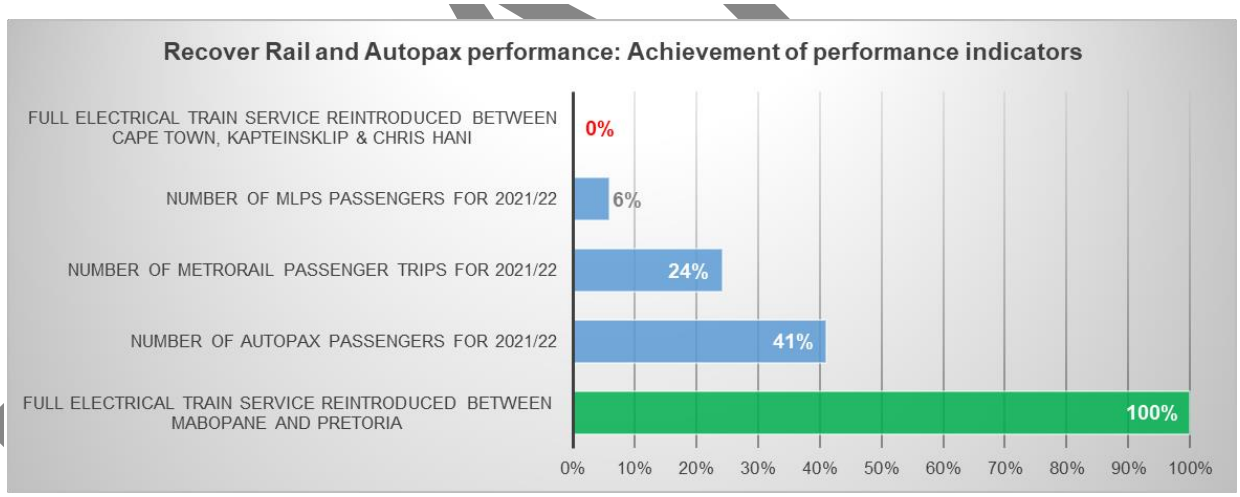
- Recover Rail and Autopax performance (objective scoped in for audit)
- Modernize rail through manufacturing, infrastructure development and maintenance
- Improve operational safety, security and compliance
- Restructure and improve performance of the secondary mandate

38. PRASA reported very positive performance in terms of the **improvement of operational safety, security and compliance**. The two indicators – namely the number of safety occurrences for specified categories and number of security occurrences per RSR categories 1-9 reported for 2021-22 – were both achieved, showing a decline of 67% (the maximum tolerable occurrences were set at 748 and only 247 occurred) and 60% (the maximum tolerable occurrences were set at 4 258 and only 1 705 occurred) respectively. This is commendable, however should also be considered in light of the lower risk of such occurrences given the limited operations and passenger numbers during the year under review.

39. Conversely, only 7 (16%) out of the 43 planned national station improvement and upgrade projects were completed on the **Restructure and improve performance of the secondary mandate** objective as a result of failed procurement strategies. The main purpose of the station improvement and upgrade project is to enable PRASA to rent out retail space with consequential increased rental income, thereby reducing dependence on subsidies from government. The delays encountered is ultimately reducing PRASA's ability to start generating that income in the near future.

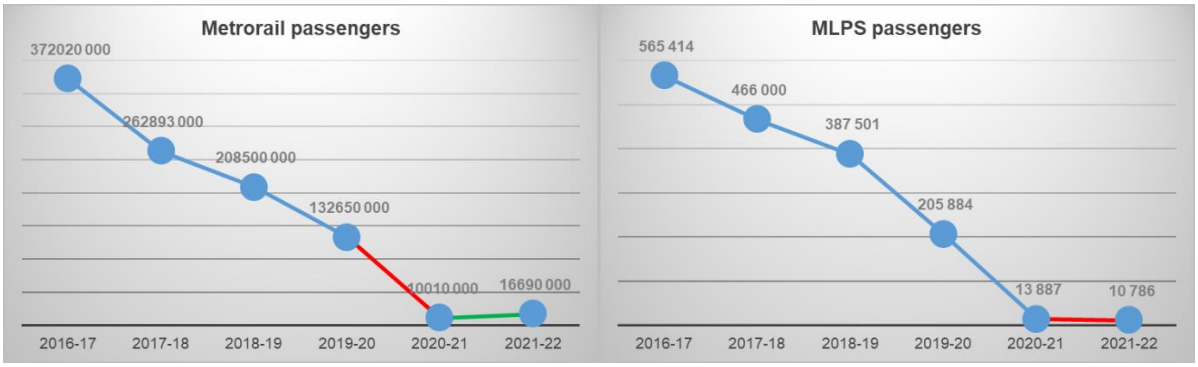
Recover Rail and Autopax performance:

40. The table below reflects PRASA's performance on achieving the predetermined performance indicators relating to the objective of recovering rail and Autopax performance:



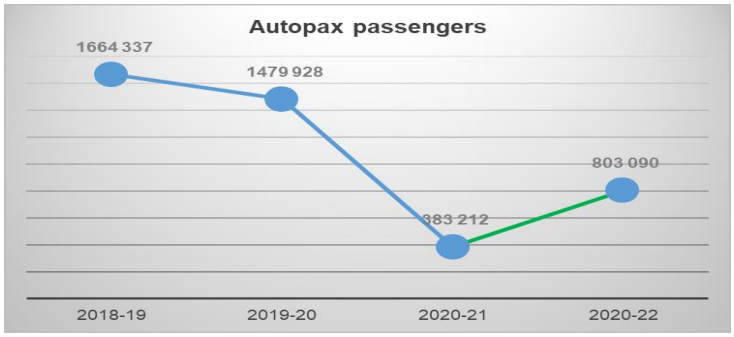
41. In a positive development the full electrical train service was reintroduced between Mabopane and Pretoria. The reintroduction of electrical train services between Cape Town, Kapteinsklip and Chris Hani could however not be completed as the relocation of illegal settlements is pending, while PRASA has done all they can they are now dependent on other government structures such as Human Settlements to complete the relocation process. Notwithstanding, PRASA should continue to put pressure on the resolution of this matter.


42. The number of Metrorail and MLPS passengers remain alarmingly low and is of particular concern considering that it constitutes the main driver of fare revenue for PRASA, the category of income that is meant to enable PRASA to function as an independent self-sustaining entity.



43. Metrorail passengers increased from 10,01 million passengers in 2020-21 to 16,69 million passengers in 2021-22, however MLPS passenger numbers continued to decline over the same period reaching an ultimate low figure over the past six years of only 10 786. This culminated in an improved fare revenue figure when compared to the prior financial year whilst remaining undesirably low.

44. The alarming trend that emerged over the past six years until 2021-22 saw Metrorail and MLPS passengers drop with 96% and 98% respectively. This is indicative of the continuing impact of historical mismanagement and poor decisions such as the cancellation of security contracts, without alternate measures in place, during the 2019-20 financial year. During the year under review PRASA continued to struggle to make headway in recovering its critical infrastructure that was pilfered and vandalised, nearly to a point of utter destruction, during this period. This lack of desired progress was predominantly due to procurement failures, which resulted in the non-awarding of contracts geared towards infrastructure recovery. To this effect, as noted previously, procurement planning must be improved to effectively cater to the multi-disciplinary environment and the supply chain and contract management units must be stabilised with a sufficient number of appropriately skilled personnel.

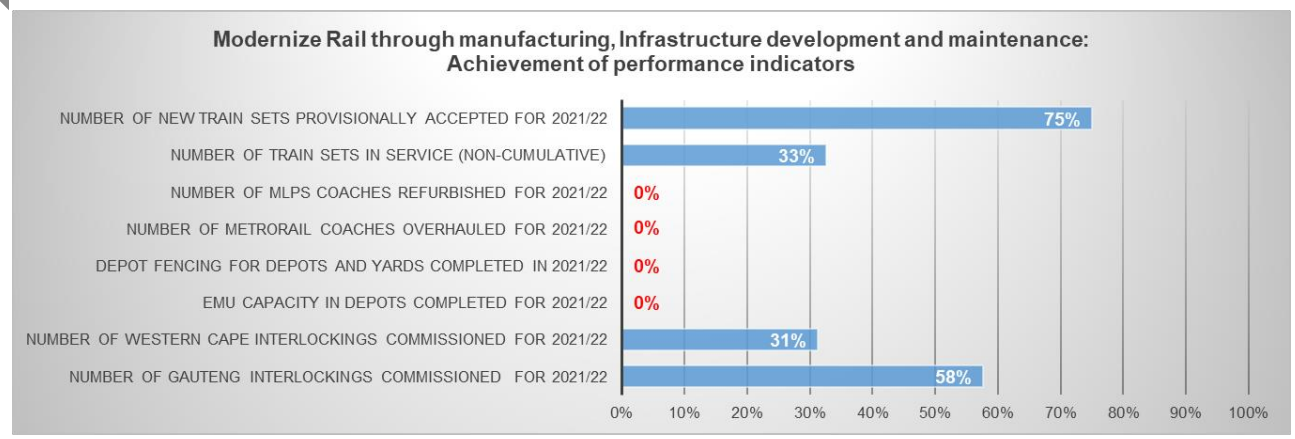


45. Autopax, PRASA's wholly owned subsidiary, is in charge of execution of the primary mandate relating to long haul bus services. Due to severe prevailing financial difficulties and persistent going concern issues Autopax was placed under business rescue on 18 November 2021, a process that is ongoing. While the business rescue practitioners are confident that Autopax can continue into the future, the turnaround of the entity – in whichever form it will take – is hinging on additional funding being secured to enable the acquisition of a new bus fleet. The resolution of the funding issue with National Treasury, the Minister and other role players such as the Department of Transport should continue to receive priority attention by the board.

46. This is critical in light of the fact that PRASA continues to avail funds to Autopax to cover necessary and unavoidable expenditure to keep the entity going. This loan amounted to a cumulative value at year-end of R1 358 391 and has been fully impaired given the unlikely scenario that PRASA will recover any of the money availed, especially in light of the fact that this loan is subject to an approved subordination agreement in favour of Autopax's other creditors. The situation must be arrested and cannot continue as PRASA actually requires the funds they are providing to Autopax for their own business.

47. It is duly noted that, despite there having been less operable busses during 2021-22, only 62 vs 67 in 2020-21, passenger numbers have increased with 110%. While the target was not achieved this indicative of the commitment by Autopax management to do the best with what they have at their disposal.

Modernize rail through manufacturing, infrastructure development and maintenance:



48. Most notably, there was a **0% achievement on 4 (50%) out of the 8 indicators** for the modernization objective.

49. PRASA planned to overhaul 110 Metrorail and 10 MLPS coaches during 2021-22, which could not happen in the wake of the non-awarding of the general overhaul contract that was only awarded after year-end.

50. This, in turn, had a negative impact on the number of train sets in service that dropped with a further 24% from 83 in 2020-21 to 63 in 2021-22. The target for 2021-22 was 193, thus not achieved with a negative variance of 67%.

51. Depot fencing was not completed for any of the seven sites identified due to a delay in the awarding of depot fencing tenders, with contracts only concluded in February 2022. This is of particular concern, given the critical role of fencing in securing the infrastructure and protecting such from vandalism and pilferage.

52. The re-signalling programme in Gauteng suffered setbacks and the target of 26 planned interlockings commissions could not be achieved due to theft and vandalism at 4 stations and the delay in transfer of the Satellite Traffic Control to the Gauteng Nerve Centre (GNC). In the Western Cape only 31% of the planned interlockings could be commissioned as the re-signalling programme ground to a halt in the aftermath of the cancellation of the contract by the contractor amidst safety and security concerns and the uncertainty on the relocation of illegal settlements (a matter beyond PRASA's control).

53. New train sets (electrical modular units (EMUs)) provisionally accepted improved from 25 in 2020-21 to 33 in 2021-22, a target that will most likely be achieved going forward. In light of the improvement in this area, the zero achievement on the target of 186 in respect of EMU capacity in depots completed for 2021-22 is exceedingly concerning. The non-performance in this regard is also predominantly due to supply chain management challenges. Further insights into these indicators are included below, where we present a summary on our audit of the key project, Gibela.

MANUFACTURING OF NEW TRAIN SETS BY THE GIBELA RAIL TRANSPORT CONSORTIUM (PTY) LTD

54. PRASA highlighted the Rolling Stock Fleet Renewal Programme in the Corporate Plan 2021-2024 as one of the flagship modernisation projects. As part of the Rolling Stock Fleet Renewal Programme, PRASA have appointed Gibela Rail Transport Consortium (Pty) Ltd (Gibela) on 14 October 2013 and entered into a Manufacturing and Supply Agreement (MSA) and Technical Spares Supply Support Agreement (TSSSA).

55. Through these agreements, Gibela would supply 3 600 new Metro Rail coaches (600 trains consisting of six vehicles each) over a 10 year period (2015 to 2025), that was since extended to 30 June 2030 due to delays. The first 20 trains (18 trains were for operations and two for testing purposes) were manufactured in Lapa, Brazil and were received by PRASA by September 2017. As part of the MSA, Gibela had to construct a factory for local manufacturing. The production of the trains started at the local factory at Dunnottar Park in January 2018. As at July 2022, the date of the audit, the 96th train was provisionally accepted1 by PRASA. Up to 31 March 2022, Gibela has delivered and PRASA has provisionally accepted 89 trains that was destined for operational purposes.

56. The 89th train was delivered at a price of R140 706 755.59 (including VAT)2. The total cumulative value of the first 20 imported trains were R3 183 219 477 and the further 69 trains manufactured locally were R9 611 190 074. As at 31 March 2022, the total cumulative value of the 89 trains were R12 794 409 551. During March of each financial year an indexation3 meeting between PRASA and Gibela is held to index the contract price for the next fiscal year to account for inflation according using the indexation formula4 set out in Schedule 7 of the MSA. Based on the indexation meeting held on 27 March 2020, the forecasted total contract price for the MSA was R86 540 990 820.57.

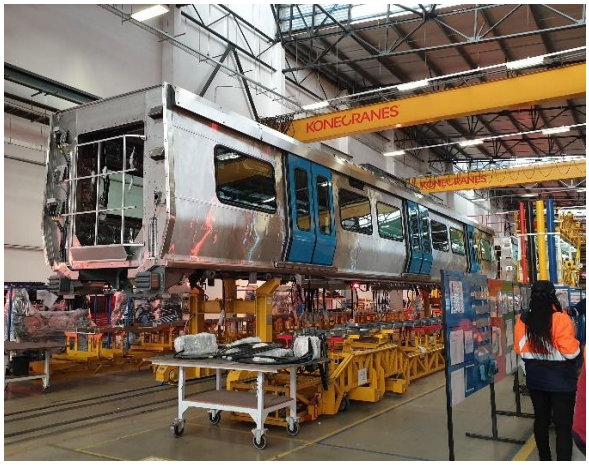
57. Picture 1 below shows one of the trains and how each of the trains are made up of six vehicles. Picture 2 shows Gibela's factory at Dunnottar Park where the local manufacturing of the trains take place.

Pictures 1 and 2: One of the trains and the Gibela local factory at Dunnottar Park

[1] Payment is due on the date of provisional acceptance and final acceptance occurs on 10 000 kilometres mileage fault free test running of a train.
[2] All the amounts are inclusive of VAT, except if it was specifically indicated that the amount is excluding VAT.
[3] Indexation of contracts also called "index-linking" and "contract escalation" is to readjust contracts to account for inflation
[4] The Indexation formula is based on Consumer Price Index (CPI) and other variables in respect CPI inflationary increase

58. Picture 3 below shows the interior of one of the trains. Picture 4 shows the manufacturing activities at the Gibela's factory at Dunnottar Park.

Pictures 3 and 4: Interior of one of the trains and manufacturing activities at the Gibela's local factory at Dunnottar Park



59. Furthermore, one of the key objectives of the Rolling Stock Fleet Renewal Programme is to revitalise the rail industry in South Africa through local manufacturing and ensuring local content as part of the Government's Industrial Policy Action Plan, employment creation and skills development and Broad-Based Black Economic Empowerment. To achieve this, PRASA has set several contractual obligations for Economic Development (ED) within the MSA and TSSSA with Gibela. Table 1 below, on a high level indicate the three categories and the respective basis of the ED obligations that Gibela agreed to in the MSA and TSSSA.

Table 1: Categories of ED obligations and the respective basis of the obligations

Categories of ED obligations	Basis of the ED obligations
Local content	Local content percentage based on the value of the trains
Skills development	Skills development commitments based on the contract value as well as commitments on the number of individuals skilled
Broad-Based Black Economic Empowerment (B-BBEE)	Based on B-BBEE criteria

60. During the 2021-22 PFMA audit cycle, follow-up audit procedures were conducted on the previous year's audit work that related to PRASA's management of the Gibela agreements. Follow-up audit procedures are normally conducted during the life-cycle of multi-year key projects of high value.

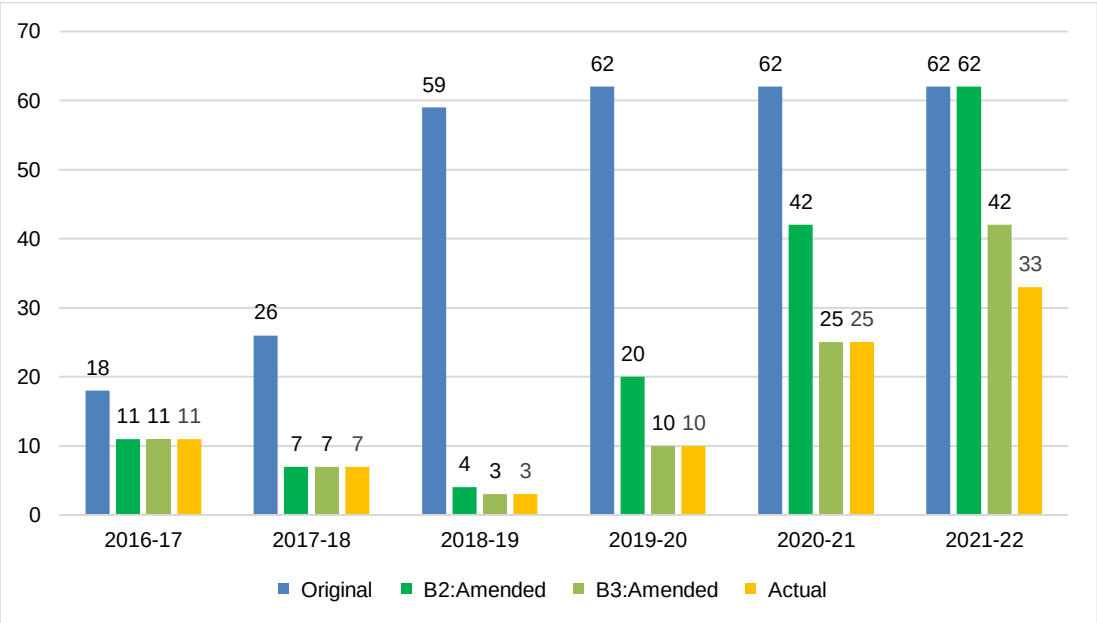
61. Due to the Gibela's local factory's capacity limits, the multi-year manufacturing, the supply nature of the MSA and TSSSA, adverse events and delays that affected production in the prior years will continue to have a knock on effect on the future delivery schedule of the trains, the deployment and utilisation and the escalation of the contract price due to inflation.

62. Regrettably, none of the critical matters raised in the prior year - relating to the delays in the manufacturing of the trains; delays in issuing penalties to Gibela; lack of effective utilisation of new trains; new stations and depots not being prepared and/or ready to receive the new trains; PRASA not having completed the verification and certification of Gibela's actual performance on their economic development obligations and targets; as well as only three employees (far too little) being responsible for the overall and contract management of this huge contract - have been resolved despite positive traction being noted on train delivery by Gibela. This is attributable to a slow response by management to address these matters that have ongoingly been highlighted as well as the capacity constraints in the Gibela project management unit. These burning issues must receive the requisite attention, because if it doesn't, it might ultimately result in this project failing. The current status of previously reported matters are indicated below.

Delays experienced in the acceptance of trains

63. By 31 March 2022, PRASA have provisionally accepted 89 trains in total from Gibela. According to the revised B2 scheduled acceptance this was a shortfall of 57 trains. The target for scheduled acceptance was amended after the extensions of time for the Covid-19 delay that was granted to deliver 42 trains for the 2021-22 financial year. The actual number of provisionally accepted and certified trains were 33 trains for the 2021-22 financial year, a shortfall of nine trains. Graph 1 below depicts the original planned number of trains per financial year since the commencement of the project and the actual provisionally acceptance and certification of the trains.

Graph 1: The original planned number of trains and the actual number of provisional acceptance of trains for the financial period 2015 to 2022



64. A further six trains were not provisionally accepted and certified by 31 March 2022 but were ostensibly complete. The male connectors of the shore supply units were missing on some of these trains due to supply disruption from Europe (ongoing Covid-19 impact) that had since been installed on all.

65. These six trains were provisionally accepted on 9 May 2022 with a 15% retention that applied until any further fleet defects were rectified to the satisfaction of PRASA.

66. The manufacturing at the local factory have been ramped up significantly following the Covid-19 delay and the delivery of new trains have reached levels of up to eight trains per month between December 2021 and March 2022. The 96th train was provisionally accepted and certified on 9 May 2022 and during the audit team's visit on 12 July 2022 to the Gibela factory, train number 109 were observed to be almost complete on the factory floor. This was indicative that the local factory is approaching a manufacturing rate of between five and six trains per month.

67. The delays in the delivery of the trains has an impact on the future value of PRASA's financial commitments. On 17 April 2014, the Minister of Finance approved the funding requirements of the MSA for the purchase of 600 trains at an amount not exceeding R53 billion, subject to price adjustments contemplated in the MSA. The TSSSA for relevant maintenance was to be funded through PRASA's baseline budget.

68. Based on the last successful indexation meeting held on 27 March 2020, the forecasted total contract price for the MSA was already R86,5 billion. Since then PRASA and Gibela have been unable to reach consensus on the indexation to apply, thus the aforementioned amount do not take into account the future value of the financial commitments that will continue to escalate and for periods that will stretch beyond the original period of the contract period.

69. The evident ramp up of manufacturing at the local factory and improved delivery of new trains by Gibela will necessitate that the MSA contract is adequately funded for future financial commitments. PRASA has acknowledged that there will be foreseeable budget shortfalls and this is regarded as a high risk for the project, especially in light of the fact that – in accordance with the MSA - multi-currency invoicing will be applied from new train number 104 onwards that is due to be provisionally accepted and certified during the 2022-23 financial year.

70. Our recommendations in this regard is as follows:

- The project manager should continue to manage the MSA in terms of further possible delays and emerging risks to the delivery schedule of the new trains.
- The project manager should calculate and implement penalties where applicable for the trains that are not delivered by Gibela on time. To this extent PRASA has indicated that it is continuously engaging Gibela in that the Extension of time formal agreement matters must be closed out soonest so that PRASA can invoice the penalties.
- PRASA should consider to approach the Department of Transport and the National Treasury to address the foreseeable budget shortfalls due to the ramp up in new train manufacturing and the multi-currency invoicing from new train number 104 onwards.

No agreement reached on the contract prices for the new trains or the 2021-22 financial year

71. During March of each financial year, an indexation meeting between PRASA and Gibela is held to index the contract price for the next fiscal year to account for inflation by using the indexation formula set out in Schedule 7 of the MSA. The indexed prices will then be used to calculate the invoicing for the new trains in the coming financial year. However, despite a meeting having been held, PRASA and Gibela could not reach agreement on the contract price for 2021-22.

72. In terms of the provisions of the MSA, indexation variance sharing between PRASA and Gibela, becomes applicable if the indexation increase exceed 4%. The 2021-22 financial year was the first year that the indexation increase exceeded 4%. Despite various correspondence and meetings held on 6 July and 10 August 2021 in an effort to resolve the matter, a resolution could not be achieved. As at 31 March 2022, the matter was still under dispute or review.

73. Consequently, the forecasted total contract price for the MSA could not be calculated accurately because the indexation of prices for the 2021-22 financial year were not determined. Similarly, a realistic view of the actual contract cost for the MSA from the 2021-22 financial year onwards may not be possible and budgeting for the MSA might be compromised.

74. The project manager should resolve the indexation impasse with Gibela, possibly through a formal dispute resolution to ensure a reasonable and fair application of the variance sharing. Furthermore, this should be done with a view to also determine the actual MSA contract cost for the 2021-22 financial year onwards.

Implementation of penalties delayed

75. At the time of the audit, July 2022, PRASA have not issued tax invoices for the penalties to the amount of R226 571 090,92 (excluding VAT) in relation to the delay delivery events for April 2014 to December 2020 to be in effect. This was because the notices of delay penalties by PRASA was under dispute.

76. Management has indicated that PRASA and Gibela is in the process of closing out matters regarding formal agreements relating to extension of time that must be concluded prior to the invoicing of the penalties. Such processes should continue to receive priority attention with a view of concluding on this matter.

77. Management provided further clarity with regards to the implementation of penalties and indicated that PRASA is continuously engaging Gibela in that the extension of time formal agreement matters that must be closed out soonest so that PRASA can invoice the penalties.

78. Once the dispute is resolved PRASA should commence with the issuing of invoices to Gibela for the penalties that accumulated due to the delay of delivering the trains.

Verification and certification of Gibela's actual performance on their ED obligations have not been completed

79. Economic Development (ED) obligations and targets form a significant part of Gibela's deliverables in the MSA and TSSSA. These are measured in employee numbers (indicators such as B-BBEE and training), percentage of localisation and rand value spending on items such as skills development and ED contributions in the rail sector when compared to the total contract value.

80. PRASA have not completed the verification and certification of Gibela's actual performance on their ED obligations and targets in terms of the MSA and TSSA for any of the financial years since the appointment of Gibela on 14 October 2013.

81. As a result, contractual remedies available per the MSA and TSSSA in the event of non-performance by Gibela could not be determined and, if necessary, enforced. Those include performance deductions (which could amount up to 15% of the total contract value in a particular financial year) and ED penalties and/or termination points that could be levied against Gibela.

82. Similarly, possible performance credits were not determined and calculated in any years that Gibela possibly achieved their ED targets.

83. This situation is attributable to the non-appointment of an ED monitor. Therefore, no person or entity was appointed to verify the implementation and ongoing compliance of Gibela for the five year period from 31 May 2017 to end of the financial year 31 March 2022. It is noted that the South African Bureau of Standards (SABS) was initially appointed in this capacity for period of 16 months (1 February 2016 to 31 May 2017). Payment disputes however arose, which was being resolved but interrupted and had to start from scratch when SABS was placed under administration. The dispute has since been cleared and it was reported that SABS had started putting together a proposal for the extension of ED monitoring work for the period from contract year 3 onwards. The proposal was to deal in a detail manner with how the outstanding part will be incorporated. However, at the time of the audit, July 2022 this proposal was not yet completed.

84. Our recommendations are as follows:

- PRASA should prioritise the finalisation and verification of the ED achievements reported by Gibela that is outstanding since the inception of the MSA and TSSSA during 2013. Should performance deductions and financial obligations arise, the project manager should issue an ED performance deduction certificate and tax invoices to Gibela for the amount set out in the same.
- PRASA should ensure that proper monitoring, reporting and remedial processes are followed and implemented for the ED initiatives throughout the duration of the MSA and TSSSA with Gibela by ensuring the appointment of an ED Monitor throughout the MSA and TSSSA period.
- PRASA should ensure that a contract with the ED Monitor are in place and monitored to protect the interest of PRASA through penalties and remedial actions where the contractual deliverables and milestones are not achieved by the ED Monitor.

- PRASA should ensure that the required procedures, mechanisms and contract provisions are designed and implemented to facilitate the finalisation of the ED Monitor's audit processes and dispute resolutions between PRASA and the ED Monitor.

Lack of capacity in PRASA for the project and contract management responsibilities of the MSA and TSSSA

85. The overall management of the project, including the contract management responsibilities for the MSA and the TSSSA is vested in three employees of PRASA. The project manager is supported by a project manager representative on a temporary basis and supported by one other employee. The responsibilities include the monitoring, project and contract management of the MSA, the TSSSA together with the ED initiatives contained in these agreements. The interest of PRASA measured in terms of the contract value of the MSA of approximately R86 billion and the TSSSA, including the ED initiatives are not well represented by the small compliment of employees and the human resource capacity in terms of technical and financial skills needed to manage a project of this complex nature. Consequently, given the lack of capacity and the best intentions and hard work of the people currently in the unit, the complexities and challenges relating to the Gibela project might not be dealt with in a timely manner which might compromise the success of the project.

86. PRASA should perform a human resource needs assessment for the unit that are responsible for the management of the train manufacturing contracts. Once the needs assessment is concluded and the posts approved, PRASA should consider to capacitate the unit with the required number of human resources that have the required technical and financial skills, taking into account the scope of the MSA and TSSSA, including the ED initiatives that needs to be managed.

87. PRASA should finalise the appointments for the posts that were advertised during April 2022. Only two senior manager posts for MSA and TSSA contract management were advertised but not yet filled by the time we concluded our audit work.

Utilisation of trains were not optimal and/or trains were not put into service

88. The fleet of 89 trains remained significantly underutilised during the 2021-22 financial year. Table 2 below indicates the utilisation of trains, in terms of the number of trains that travelled less than and those that travelled more than 1 000 kilometers during four selected months during the 2021-22 financial year. For example, during December 2021, 69 trains were available for operational purposes. From these 69 trains, 67 travelled less than 1 000 kilometers during the month and only two travelled more than 1 000 kilometers during the month.

Table 2: Number of trains with usage of less and more than 1 000 kilometers per month

Month	Number of trains			Total mileage done in the month
	Total deployed	Travelling less than 1 000 kilometers	Travelling more than 1 000 kilometers	
June 2021	64	61	3	5 138 kilometers
September 2021	66	65	1	6 232 kilometers
December 2021	69	67	2	6 280 kilometers
March 2022	89	73	16	74 416 kilometers

89. Even though the majority of the trains that were deployed to the depots were underutilised, the manufacturing at the local factory have been ramped up, as previously noted, and trains are being delivered at a much more rapid pace.

90. The audit team visited the Wolmerton depot in Gauteng on 20 July 2022 and then the Kwa-Zulu Natal depot and the Salt River depot in the Western Cape on 22 July 2022. During the visits to these three depots, it was evident that most of the trains that were deployed to these depots were not put into service or not optimally utilised.

91. At the time of the audit team's visit to the Wolmerton depot, where most of the new trains were being deployed to, only 20 trains were in service on a rotational basis of which only six trains were utilised on a daily basis. Another 47 trains were placed in dynamic storage conditions at the depot and not put into service.

92. The high number of trains deployed to the depot contributed to the congestion of trains at this depot. Train number EM01 00 002 was involved in an accident at the depot, according to the depot's production manager this accident could have been as a result of the congestion at the depot. Picture 5 to 7 depict the Wolmerton depot were most trains were deployed to, indicating the congestion at the depot and train number EM 01 00 002 that was in an accident at the depot.

Pictures 5 and 6: Trains deployed to Wolmerton depot leading to congestion at the depot.

Picture 7: Train number EM01 00 002 damaged at the Wolmerton depot due to congestion at the depot

93. At the time of the audit team's visit to the Kwa-Zulu Natal depot, nine trains were deployed to the depot but no trains were in service. The depot manager indicated that the depot only have space for a maximum of 10 new trains. Therefore, they are close to reaching their capacity to accommodate any new trains.

94. At the time of the audit team's visit to the Salt River depot in the Western Cape, 16 trains were deployed to the depot. However, currently only five trains were used on any specific day on the Simons Town route. From the 16 trains, 13 were used on a rotational basis. The remaining three trains were not operational and awaiting repairs. The details are included below:

    - Train number EM 01 00 004 was not operational since 13 May 2022 due to its high tension cable that burnt. The depot is awaiting spares from Europe which were delayed due to the war in Ukraine. The estimated repairs date is 30 October 2022.
    - Train number EM 01 00 020 was not operational since 9 May 2022 due to an electrical power line, also called a panto hook up that requires replacement. The date of repairs was unknown.
    - Train number EM 01 00 019 was not operational since 15 November 2021 due to skidded wheels on one vehicle. The depot is awaiting approval for the wheel to be cut in Saldanha as the vehicle cannot be driven there and the wheels cannot be removed. The date of repairs was unknown.

95. PRASA's stations and depots are clearly not prepared and do not have the required capacity to receive and operate all these new trains. Management further attributed the under-utilisation to the rail network that is largely unavailable due to vandalism.

96. As far as possible, the station and depot modernisation infrastructural developments projects need to be implemented and fast tracked to ensure that the trains accepted by PRASA from Gibela are accommodated and are fully utilised.

IMPACT OF PRASA'S PERFORMANCE ON CITIZENS

97. The inability of PRASA to provide adequate, reliable, and consistently safe rail commuter services as well as long haul passenger rail and bus services has a detrimental effect on the citizens of South-Africa as well as the economy at large, as follows:

- Increased transport costs for citizens as they take more expensive alternate forms of transport, resulting in less expendable income for other basic necessities.
- It is time-consuming for workers to get to work as rail travel, especially over longer distances and during peak travelling hours, is quicker than travelling by road.
- Negative impact on people being able to easily and affordably access work opportunities where those are present.

98. These factors ultimately have a negative effect on the economy at large and has resulted in negative consumer sentiment with regards to rail travel which might complicate PRASA's financial recovery, even if they manage to recover their infrastructure.

99. Furthermore, PRASA's inability to verify and certify Gibela's actual performance on their economic development obligations and take corrective measures through the implementation of performance deductions and/or penalties if necessary, is potentially compromising one of the key objectives of the Rolling Stock Fleet Renewal Programme – namely to revitalise the rail industry in South Africa through local manufacturing and ensuring local content as part of the Government's Industrial Policy Action Plan, employment creation and skills development as well as Broad-Based Black Economic Empowerment.

100. There is a need for serious continued intervention by all the role players to ensure that PRASA turns around and enable the effective function of the passenger rail transport system.

101. These interventions should include, amongst others, bolstering and stabilising the SCM and contract management units (including the one dealing with the Gibela contract), improving procurement planning to avoid undue delays in the awarding of critical contracts and accelerating the multi-faceted infrastructure recovery and modernization programme in a responsible manner (taking into account all components that must be present in order to recover services) that won't result in more irregular expenditure. Particular priority should be given to the creation of EMU capacity in depots and other infrastructure amendments required to effectively deploy the new trains to the benefit of citizens.

INSTABILITY IN EXECUTIVE MANAGEMENT AND CRITICAL CAPACITY SHORTAGES

102. The in-year vacancies on executive management was noted as a matter requiring immediate intervention in our prior year audit report. The situation however remained unchanged during the financial year under review. This, in combination with severe capacity shortages – especially in terms of enough appropriately skilled individuals being appointed in critical departments such as Finance and SCM – probably constitutes the single biggest root cause for the unchanged audit outcome.

103. Even the best laid plans to turn around PRASA from an audit perspective, but more importantly from a mandate execution/performance perspective, will not come to fruition in the absence of a stable team of executive leaders supported by enough people with the skills necessary to successfully execute such plans.

104. We have noticed the tendency of the various divisions to function in isolation and the lack of coherence in some instances have also contributed negatively to collective accountability towards PRASA as a whole. Consequently emphasising the need for cohesive leadership from executive management.

105. Therefore, we reiterate our prior year recommendation that the instability in executive management and capacity shortages in critical departments be addressed as a matter of extreme urgency.

COMPREHENSIVE TURNAROUND PLAN FOR PRASA

106. Extensive debrief meetings on the 2020-21 audit was held during March 2022, where the need was identified for PRASA to compile an action plan or in essence an overall turnaround strategy which would result in PRASA sustainably improving their internal control environment to the desirable level, with appropriately designed preventative controls that are effectively implemented.

107. Additionally, it was emphasised that such a plan should include comprehensive actions allocated to responsible/accountable individuals to address the core root causes that have resulted in negative audit outcomes and a lack of the desired level of service delivery in the recent past. It was further acknowledged that the implementation of such a strategy might stretch over more than one financial year and it must therefore contain detailed project milestones to enable progress tracking.

108. The audit action plan/turnaround strategy was also identified as the primary area where the AGSA could add value and partner with PRASA, by initially reviewing the document to assess whether implementation of proposed actions would result in the desired outcome and then through independent verification of relevant milestone achievements.

109. Upon request the action plan was availed on 25 April 2022 and after evaluation thereof we formally raised our concerns with the acting Group Chief Executive Officer at the time in a letter dated 18 May 2022. These included, amongst others, the fact that the plan was based on individual audit findings raised during 2020-21 (which amounted to 176 findings). While the need for such a plan was recognised from an operational perspective, we were concerned that the volume would complicate implementation and progress tracking for all involved, including those charged with governance.

110. Additionally, many of the findings shared similar root causes and even if the responsible division was to address the finding it might surface elsewhere.

111. It was thus questioned in our communication whether the plan in its format at the time was feasible to effect a sustainable turnaround and whether it would be conducive to monitoring and oversight by executive and non-executive leadership of the entity.

112. These concerns were also elevated in subsequent correspondence to those charges with governance.

113. The plan in question turned out to not have made a material difference as evidenced by the stagnation in the audit outcome.

114. As noted earlier in this document, there are many plans of a strategic nature in circulation at PRASA aimed at turning around various aspects of the business and it is clear from documentation inspected and meetings held throughout the audit process that leadership is well versed in what constitutes the key root causes for less than desirable audit outcomes and performance. However, we are yet to see a consolidated strategic turnaround plan conforming to the requirements set out above.

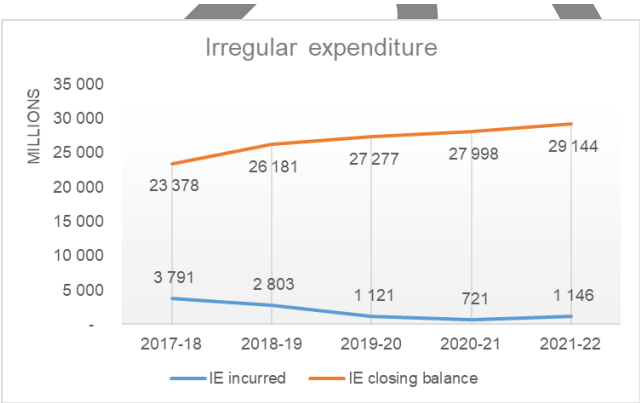
115. We thus restate the need for the compilation of one strategic plan that is deliberate in setting out PRASA's strategy to turn around the entity and conclusively resolve the underlying root causes that have resulted in negative outcomes from a financial, performance and compliance perspective.

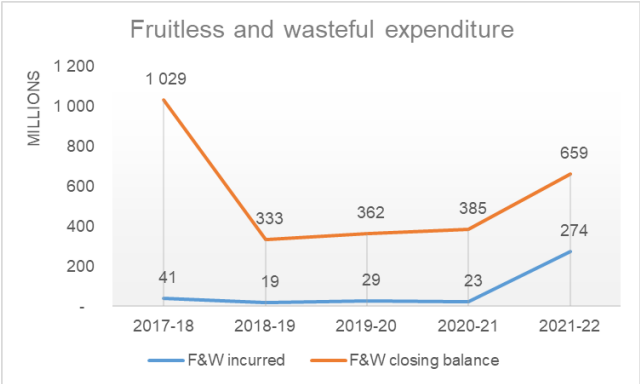
PROCUREMENT, EXPENDITURE AND CONSEQUENCE MANAGEMENT: EFFECTIVENESS AND COMPLIANCE

Procurement, expenditure and contract management

116. The year under review saw massive failures on the procurement front as this is sited as the primary root cause for the undesirably low achievement of predetermined performance objectives for the year.

117. We recommended in our audit report of the prior year that the supply chain and project management functions must be strengthened to eliminate unwarranted delays in major capital projects resulting in low levels of capital subsidies being utilised. This recommendation was not implemented and the situation arguably worsened even further during 2021-22. At the time of preparing this report (September 2022) these units are still destabilised and severely under-capacitated. Thus, if any improvement is to be expected in this area, urgent action must be taken without any further delay.





118. Both irregular as well as fruitless and wasteful expenditure reported increased in 2021-22 financial year despite procurement being not being back to pre-Covid levels and a number of non-awards of significant contracts planned for the financial year.

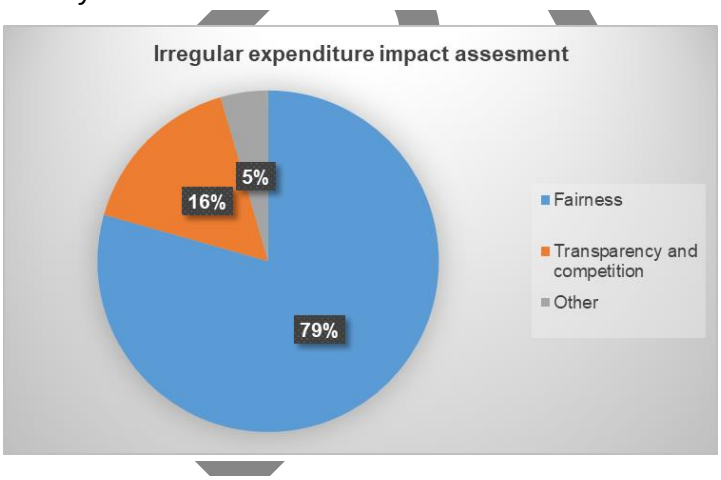
119. The main contributor to the steep rise in fruitless and wasteful expenditure was work-in-progress costs written off due to lack of capitalisation documents or any detectable underlying asset amounting to R191 million. Notably, the amount written off (which consists of numerous items) includes transactions dating as far back as 2012 – further evidence that WIP capitalisation is not under control. PRASA is however commended for the transparency in this regard in order to resolve historical issues.

120. Irregular expenditure reported for the 2021-22 financial year was 98,5% procurement related with the balance constituting non-compliance with the PRASA remuneration policy. PRASA did apply for condonement of some irregular expenditure, however National Treasury indicated some outstanding matters pertaining to consequence management in this regard, and as such it has not yet been approved.

121. Goods & services were delivered in instances where irregular expenditure were reported, however one or more of the 5 pillars of procurement in terms of section 217(1) of the constitution were compromised namely equitability, fairness, cost-effectiveness, transparency, and competitiveness.

122. Proper and successful government procurement rests upon certain core principles of behaviour - the Five Pillars of Procurement. They are best described as pillars because if any one of them is broken the procurement system falls down.

123. The irregular expenditure reported by PRASA in 2021-22, amounting to R1,1 billion, was analysed as follows:



124. Fairness is the pillar that was impacted the most often, with procurement transactions not having taken place in line with the PRASA SCM Policy and PPPFA as well as instances where unfair advantage was granted to the winning bidder. This was followed by transparency and competition in cases where a competitive bidding method was not followed for the appointment of suppliers. Transactions where goods and services were procured through splitting of orders (quotes were obtained instead of the prescribed tendering process having been followed) were also noted. The remaining balance consists of overspending on contracts prior to obtaining approval from delegated official (R34 million) and non-compliance with PRASA's remuneration policy (17 million).

125. PRASA's audit report has been modified on the complete reporting of irregular and fruitless & wasteful expenditure since 2016-17. As no action was taken to revisit the previously reported figures to ensure completeness, and audit results from 2021-22 are once again indicative of a lack of preventative and detective controls in these areas, the status quo remains.

126. It is further of great concern that warnings of red flags on procurement by the auditors are ignored in certain instances, such as the awards made to Premifield for the leasing of diesel locomotives. Regardless of irregularities having been noted in the awards made for 2021-22 and PRASA having been cautioned when a similar instance was seen coming on the recent flood relief efforts, another deviation was approved for a further contract to Premifield. We have recommended an immediate forensic investigation in this regard. Leadership is cautioned to ensure that there is sufficient and continuous monitoring of supply chain activities, not only on large contracts but also on day-to-day awards, given the significant inherent risk of fraud in this area.

127. We are fully cognisant that the resolution of this matter is a mammoth task, however the disclosure of irregular and fruitless & wasteful expenditure is a legislative requirement which cannot be circumvented. PRASA will therefore have to revisit figures as far back as 2016-17 unless it is possible for PRASA to prove impracticability – a matter that would have to be concurred with by National Treasury.

Consequence management

128. Leadership of PRASA has definitely shown improved commitment to taking a zero tolerance stance against transgressions of laws, regulations and PRASA policies in 2021-22. This has, amongst others, the material irregularity on the locomotive matter being resolved. We have also seen an increased level of disciplinary action where such is required.

129. With that being said, there is still a need for improvement in the timeframe in which disciplinary matters – which includes the suspension of officials – are handled and concluded. A number of instances of long suspensions were noted, a matter that should be avoided as in numerous instances there is no additional capacity brought in to carry the suspended official's workload – further overburdening the already constrained human resource capacity.

130. As consequence management is ramped up this must be done in a manner that does not instil a culture of debilitating fear where officials are reluctant to make the decisions necessary to move PRASA forward.

131. Notwithstanding the positive developments on critical and particular matters, PRASA continues to fail to investigate every day occurrences of irregular as well as fruitless and wasteful expenditure resulting in non-compliance with the PFMA.

132. Furthermore, we have been unable to obtain a consolidated list of all investigations that were started and are currently in progress. These are being handled by various units in PRASA, external parties and law enforcement agencies. This is a critical matter, as such a consolidated listing is necessary to enable leadership and those charged with governance to properly monitor progress and take corrective action where necessary.

133. Consequence management overall is therefore still not at a satisfactory level and every effort should be made in the upcoming year to get PRASA compliant to the prescripts of the PFMA in as far as this is concerned.

INFORMATION TECHNOLOGY

134. An analysis of the information technology (IT) audit outcomes indicated that management had not implemented the IT controls committed to in the previous cycle to ensure that all the designed controls are implemented and operating effectively in all IT focus areas. This was largely due to vacancies in key IT positions including the Information Security Officer (ISO) who is responsible for overseeing the overall entity's information and communication technology (ICT) security aspects, system limitations on the legacy revenue systems as well as the delays of upgrading the ICT infrastructure.

KEY FOCUS AND RECOMMENDATIONS

135. The following corrective actions must be taken if any improvement in the audit outcome and service delivery aspects are to be realised in 2022-23:

- Executive management must be filled with permanent appointments as soon as possible to create stability and enable the effective discharge of overarching oversight responsibility.
- PRASA must be capacitated with enough and, more importantly, adequately skilled individuals to enable the effective execution of financial and performance management, ensure compliance with prevailing laws and regulations and most critically the execution of PRASA's mandate to the benefit of the citizens of the country. Finance, supply chain and contract management (including the unit dealing with Gibela), internal audit, IT and the asset unit (including security) should be prioritised.
- The various strategic plans in place must be consolidated into one comprehensive turnaround plan addressing the critical root causes highlighted above. This plan must be practically executable, be allocated to officials that will be accountable for execution, and must contain milestones to enable continuous tracking of implementation with a view of resolving issues within the stipulated deadlines.
- Procurement planning and effectiveness must be addressed as a matter of great urgency to address the lag in infrastructure recovery and low spending of capital grants. This must be done in conjunction with the SCM and contract management units being stabilised and staffed with officials with the requisite expertise, as addressing one without the other will have no impact.
- The progress on the security front is noticeable, however the monitoring of the implementation of the national security plan remain essential as well as the securing of the additional funding necessary to ensure full execution thereof to protect infrastructure as it is being recovered.

- While progress has been noted, especially in relation to ensuring completeness and existence of rolling stock which constitutes the biggest category of assets, an honest assessment must be done on outstanding matters to get the PRASA asset registers to a level where they will be fairly presented. Internal audit must confirm the current status independently. This would not necessarily entail starting an asset count from scratch as we detected that all results from asset counts recently performed have not necessarily been processed on the SAP system, which produces the asset register, yet. Outstanding actions should form part of the turnaround plan. The upcoming year must also see historical work in progress being cleaned up and long overdue capitalisation being finalised.
- PRASA must finalise and implement a strategy to resolve the outstanding matter of incomplete irregular and fruitless and wasteful expenditure. This will have to entail an assessment of the practicability of the task at hand, as impracticability must be proven in as far as very old matters are concerned, should this be present. Collaboration with National Treasury is advised in this regard. This strategy should also address how the investigation of such expenditure is going to be fast-tracked to ensure compliance with legislative requirements pertaining to consequence management.
- The matters raised in relation to the Gibela contract raised above must be resolved without delay to ensure effective deployment and utilisation of the new trains as well as PRASA's ability to fund its obligations for the remaining duration of the contract. These include, amongst others, the fast tracking of depot and other infrastructure modernization to accommodate the EMU's, appointment of an ED monitor without further delay and capacitating the project management team appropriately.
- The board should finalise a lasting solution on the financial sustainability of Autopax through engagement with stakeholder such as the Department of Transport and National Treasury.

SECTION 1: INTERACTIONS WITH STAKEHOLDERS RESPONSIBLE FOR OVERSIGHT AND GOVERNANCE

136. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome of the public entity:

Key stakeholder	Purpose of interaction	Number of interactions
Portfolio committee on Transport	09/11/2021: BRRR discussion	1
Standing committee on public accounts	22/03/2022: PRASA oversight meeting 29/03/2022: PRASA hearing on annual report, financial statements & irregular, fruitless and wasteful expenditure for the 2020-21 financial year	2
Minister of Transport	01/02/2022: 2020-21 Audit outcomes for the Transport portfolio audits finalised late 07/09/2022: 2021-22 Audit outcomes for the Transport portfolio including a discussion of outstanding audits (including PRASA)	2
Chairperson of the accounting authority	13/05/2022: Correspondence – Audit process and submission of financial statements, annual performance report and legislated supporting documentation 13/05/2022: Correspondence – Request for progress made on addressing material irregularities No 1-3, 5-17 identified in the 2018-19 audit cycle. 16/05/2022: Correspondence – AGSA engagement letter for signature 31/05/2022: Correspondence – Various matters were communicated around the submission of financial statements and the annual performance report for auditing purposes; audit progress & shortcomings pertaining to the audit action plan 03/06/2022: Correspondence – Acknowledgement of receipt for letter indicating that PRASA won't be submitting financial statements on 31 May 2022 due to delays in finalising asset related processes 08/06/2022: ISA 240 fraud risk meeting 05/07/2022: Correspondence – Letter acknowledging receipt of the AFS and APR for audit purposes on 30 June 2022 including significant shortcomings noted in the submission 31/08/2022: Correspondence – Notification that appropriate actions have been taken to address the material irregularity relating to the appointment of Swifambo Rail Leasing	8

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Key stakeholder	Purpose of interaction	Number of interactions
Audit committee	Multiple interactions took place with the audit committee. At these interactions, we shared/highlighted the following key matters affecting audit outcomes and the auditee: – Debrief of the 2020-21 audit process – Audit engagement letter (with specific emphasis on the roles and responsibilities of the auditor and management as well as those charged with governance) – Overall audit strategy including the proposed nature, timing and extent of audit procedures to be performed – Concerns regarding the audit action plan and the likelihood that it won't have the desired impact – Risk assessment (including fraud risk assessment) and the effectiveness of the internal control – ISA 240 fraud risk discussion with the Chairperson of the Audit Committee – Ongoing audit progress and the status on resolving prior year modifications and material findings	Multiple

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SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

137. We identified material misstatements in the consolidated and separate financial statements during the audit. These misstatements were not prevented or detected by the public entity's system of internal control. These material misstatements also constitute non-compliance with section 55(1) of the Public Finance Management Act.

138. The misstatements that were not corrected form the basis for the disclaimer of opinion on the financial statements.

Material misstatement			Impact R current year	Impact R prior year
Financial statement item	**Finding**	**Occurred in prior year**		
Material misstatements not corrected				
For purposes of the draft management report the items in red are the ones where AFS adjustments are expected (in progress), where such corrections are made and are deemed material it will move to the next part of the table indicating misstatements corrected. Where the whole item is in red it will no longer receive a modified opinion.				
Property, Plant & Equipment: Rolling Stock (including assets under construction)	The following misstatements resulted in rolling stock being overstated by a projected value of R4 087 367 078. It is important to note that ultimately the misstatement cannot be reliably determined due to the level of limitation of scope encountered during the audit of these balances. – The financial statements did not agree to the trial balance, resulting in a factual overstatement of R350 342 000.	Yes	4 087 367 078	Unquantifiable[5]*

[5] The prior year misstatements were ultimately indicated as being unquantifiable, which is similar to the current year – we however attempted to be quite specific in terms of the major issues still facing PRASA pertaining to PPE. There is thus no direct comparative.

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Material misstatement			Impact R current year	Impact R prior year
Financial statement item	**Finding**	**Occurred in prior year**		
	– Projected disagreement misstatements pertaining to incorrect (repairs and maintenance) and late capitalisation resulted in a cumulative projected overstatement of R3 091 343 078. – Supporting evidence could not be provided for an amount of R645 682 000 pertaining to assets under construction, representing a limitation of scope resulting in overstatement. In addition to the abovementioned, residual values and useful lives of qualifying items of rolling stock were not reviewed at the reporting date as required by GRAP 17, *Property, plant and equipment.* We are unable to determine the impact as it is impracticable, however the maximum error was determined to be R4 591 527 147 (based on the cost prices of fully depreciated assets). This constitutes a material limitation of scope.			
Property, Plant & Equipment: Network assets (including assets under construction)	The following misstatements resulted in network assets being overstated by a projected value of R1 675 487 820. It is important to note that ultimately the misstatement cannot be reliably determined due to the level of limitation of scope encountered during the audit of these balances. – Factual disagreement understatement of R4 260 564 320 (differences between financial statements, trial balance and underlying asset register) – Projected disagreement (overstatement) of R13 975 691 due to differences noted when auditing assets under construction, e.g. erroneous capitalisation where it should have been operating expenditure and discrepancies between invoices vouched vs. amounts capitalised.	Yes	1 675 487 820	Unquantifiable*

DRAFT

Material misstatement			Impact R current year	Impact R prior year
Financial statement item	**Finding**	**Occurred in prior year**		
	– Limitation misstatements upon addition testing indicated a projected understatement of R486 833 433. – Factual limitation of scope (overstatement) amounting to R6 408 909 882 as we were unable to physically verify network assets in the absence of km/mast pole markings or other location indicator in the asset register. Alternative procedures were explored however because these location markings were present on counting sheets, these were however not reconciled to the actual asset register and it was impracticable for us to do so. The auditee was requested to perform the reconciliation but was also unable to do so as this is still in progress.			
Property, Plant & Equipment: Facilities and Leasehold improvements (including assets under construction)	The following misstatements resulted in facilities and leasehold improvements being understated by a projected value of R3 772 377 085. It is important to note that ultimately the misstatement cannot be reliably determined due to the level of limitation of scope encountered during the audit of these balances. – Factual disagreement understatement of R1 479 247 315 (differences between financial statements, trial balance and underlying asset register) – Projected disagreement understatement of R2 110 033 584 due to completeness issues identified during physical verification and late capitalisation.	Yes	3 772 377 085	Unquantifiable*

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Material misstatement			Impact R current year	Impact R prior year
Financial statement item	**Finding**	**Occurred in prior year**		
	– Supporting documents could not be submitted during substantive testing resulted in a projected limitation understatement of R183 096 186.			
Property, Plant & Equipment: Disclosure	the following items were not disclosed as required according to GRAP 17 paragraph 87(a –c): (a) The cumulative expenditure recognised in the carrying value of property, plant and equipment. These expenditures shall be disclosed in aggregate per class of asset. (b) The carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected, including reasons for any delays. (c) The carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s). The entity shall also disclose reasons for halting the construction or development of the asset and indicate whether any impairment losses have been recognised in relation to these assets. The incomplete disclosure of this carrying value of property, plant and equipment still under construction results in non-compliance with the reporting requirements of GRAP 17.	No	Qualitatively material	-
Capital grant reserve (statement of changes in net assets)	PRASA has correctly reflected revenue from non-exchange transactions for grants received from the Department of Transport in order to resolve the prior years' disclaimer in this regard. However, in order to demonstrate that such money is ring-fenced for specific purposes and not available for use in the normal course of business, a capital grant reserve was created.	No	20 979 725 000	-

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Material misstatement			Impact R current year	Impact R prior year
Financial statement item	**Finding**	**Occurred in prior year**		
	As we have been unable to obtain any audit evidence to support the amounts with which this reserve has been unwinded we are unable to determine whether this reserve is fairly presented.			
Cash Flow Statement	Erroneous calculation of cash flows from investing activities pertaining to the acquisition of property, plant and equipment due to the incorrect opening balance of PPE used. This has resulted in an understatement of cash outflows.	No	963 338 299	-
Commitments	The following misstatements were noted that resulted in an overstatement of commitments to the value of R31 635 674 633, however given the limitation of scope we are ultimately unable to reliably determine the misstatement. – Factual disagreement (understatement) of R52 334 731 590 when comparing the financial statements to the underlying supporting schedules. – Projected disagreement understatement from testing a sample amounting to R2 102 343. – The TSSSA calculation and information in support of assumptions provided was not approved. Furthermore, the kilometers used in the calculation were unreasonable and not supported by any justifiable underlying assumptions and/or documentation. The MSA indexation calculation is currently under dispute between PRASA and Gibela, there is thus no agreed upon indexation amount, PRASA was unable to supply us with the assumptions that were used in coming up with the ultimate commitment pertaining to the MSA.	Yes	31 635 674 633	87 725 976 482

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Material misstatement			Impact R current year	Impact R prior year
Financial statement item	**Finding**	**Occurred in prior year**		
	This has ultimately resulted in a limitation of scope of R83 852 072 840 (overstatement) – Projected limitation of scope amounting to R120 435 726 (overstatement) due to non-submission of audit evidence.			
Prior period errors	Limitation of scope: No supporting evidence could be submitted	No	28 493 326 000	-
Risk management	– Incorrect inclusion of prepayments in the risk management note as it does not constitute a financial instrument (PRASA is not expecting cash or any other financial asset to flow from the transaction) – GRAP 104 requires the disclosure of the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. Such would include the agreement PRASA has with Transnet on some of the debtors that are still the subject of renegotiation. This has been omitted from the disclosure.	Yes	7 430 275 000	7 951 087 000
Fruitless and wasteful expenditure	PRASA's audit report has been modified on the completeness of fruitless and wasteful expenditure since 2016-17. As PRASA has taken no action to revisit the previously reported figures to ensure completeness, we are unable to confirm whether fruitless and wasteful expenditure is completely and fairly stated in the annual financial statements.	Yes	Unquantifiable	Unquantifiable

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Material misstatement			Impact R current year	Impact R prior year
Financial statement item	**Finding**	**Occurred in prior year**		
Irregular expenditure	PRASA's audit report has been modified on the completeness of irregular expenditure since 2016-17. As PRASA has taken no action to revisit the previously reported figures to ensure completeness, we are unable to confirm whether irregular expenditure is completely and fairly stated in the annual financial statements.	Yes	Unquantifiable	Unquantifiable
Statement of Comparison of Budget and Actual Amounts	Budget amount overstated (factual disagreement)	Yes	4 233 801 000	15 005 879 000
Material misstatements corrected				
TBC based on adjusted AFS				

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MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Emphasis of matter paragraph

139. The following emphasis of matter paragraph will be included in our auditor's report to draw the users' attention to the matter presented or disclosed in the financial statements:

Material impairment of loans to controlled entities

140. As disclosed in note 7 to the financial statements for the economic entity, the amount loaned to Autopax Passenger Services (SOC) Ltd, the 100% owned subsidiary, was R1,4 billion, the total amount of which was impaired. There were no approvals of the loan as required by section 66(3)(b) of the PFMA.

AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

141. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected objective presented in the public entity's annual performance report for the year ended 31 March 2022:

Objective	Pages in annual performance report	Opinion	Movement
Pillar 2: Recover Rail and Autopax performance	x – x	Unqualified	

142. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000(R): Assurance engagements other than audits or reviews of historical financial information.

143. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Pillar 2 – Recover Rail and Autopax performance

Opinion

144. In our opinion, the reported performance information for *Recover Rail and Autopax performance* is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

Other matters

145. We draw attention to the matters below. Our opinion is not modified in respect of these matters.

Achievement of planned targets

146. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year.

Adjustment of material misstatements

147. We identified a material misstatement in the annual performance report submitted for auditing. This material misstatement was on the reported performance information of *Recover Rail and Autopax performance*. As management subsequently corrected the misstatement, we did not raise any material findings on the usefulness and reliability of the reported performance information.

Responsibilities of accounting authority for the reported performance information

148. The accounting authority is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework, as set out in annexure D to this report, and for such internal control as the accounting authority determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information

149. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected objective presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.

150. Our procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the public entity. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not examine whether the actions taken by the public entity enabled service delivery. Our procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our opinion does not extend to these matters.

151. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

AUDIT OF COMPLIANCE WITH LEGISLATION

152. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

Annual financial statements

153. Financial statements were not submitted for auditing within the prescribed period after the end of financial year, as required by section 55(1)(c)(i) of the PFMA.

154. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1) [(a) and/or (b)] of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of opinion. [Paragraph will change once updated AFS is received]

Expenditure management

155. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for the disclaimer of opinion the full extent of the irregular expenditure could not be quantified. The majority of the irregular expenditure disclosed in the financial statements was caused by non-compliance with supply chain related laws and regulations.

156. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for disclaimer of opinion the full extent of the fruitless and wasteful expenditure could not be quantified. The majority of the fruitless and wasteful expenditure disclosed in the financial statements was caused by historical work-in-progress costs written off as it could not be attributed to any particular asset.

Procurement and contract management

157. We were unable to obtain sufficient appropriate audit evidence that goods, works and services were procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA. Similar limitation was also reported in the prior year.

Consequence management

158. We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA. This was because investigations into irregular expenditure were not performed.

159. We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure as required by section 51(1)(e)(iii) of the PFMA. This was because investigations into fruitless and wasteful expenditure were not performed.

OTHER INFORMATION

160. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and the selected objective presented in the annual performance report that have been specifically reported on in the auditor's report.

161. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

162. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objective presented in the annual performance report, or our knowledge obtained during the audit or otherwise appears to be materially misstated.

163. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:

164. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.

165. The other information I obtained prior to the date of this auditor's report are the overview of the service delivery environment, board achievements over the period, message by the Group Chief Executive Officer, reflections on the primary and secondary mandates, overview of the capital programme including investments and mega projects, the corporate report and the safety, security and health report. The message by the Chairperson of the Board, statement by the Audit Committee and the review by the Group Chief Financial Officer are expected to be made available to us after [insert auditor's report date].

166. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

167. When I do receive and read the outstanding information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

INTERNAL CONTROLS

168. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure on page 6, are described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

Effective leadership culture

169. Since the Board of Control has been stabilised there is a marked improvement in leadership culture. Serious transgressions are ongoingly being addressed and the year under review has seen many officials being placed on suspension and undergoing disciplinary action. The pace at which these matters are concluded must continue to receive attention and where slow progress is attributable to PRASA such must be improved.

170. A formal code of conduct was established that addresses appropriate ethical and moral behaviour, however the absence of consequence management - where irregular or fruitless and wasteful expenditure is incurred - might inadvertently create the impression that behaviour contrary to what is prescribed in the code of conduct and legislation will not be addressed and might continue unabated.

Oversight responsibility

171. Oversight responsibility within PRASA was not discharged successfully during the 2021-22 financial year, as instability at executive management level continued to hamper efforts in this regard. Additionally, staff shortages at all levels also overburdened the remaining officials and detracted from their ability to conduct oversight in their respective areas.

172. The authority did not ensure that effective steps were taken in order to ensure that deficiencies in internal control identified by the external auditors during the prior year audit were addressed. While improvement has definitely been noted in certain areas, critical matters such as capacity constraints in key units such as Finance and SCM remained unaddressed.

Human resource management

173. There is a significant number of vacant positions in all the key divisions across the organisation that are instrumental in the implementation of the core business, maintaining oversight and reporting as well as ensuring compliance with laws and regulations.

174. During the audit of new appointments it was noted that integrity assessments (vetting) were not conducted in a number of instances, contravening PRASA's recruitment & selection policy.

175. We also detected non-adherence to PRASA's precautionary suspensions procedure, where precautionary suspension periods exceeded three months without the prescribed approval having been provided.

176. Critical organisational structures in the Corporate division were noted to not have been updated in more than five years, this – amongst others – included the finance unit.

177. There is a lack of enforcement of human resource management policies by officials responsible for recruitment, suspensions and termination processes. These have resulted in the entity incurring costs, which have not yielded any value to the entity. We reiterate our prior year recommendation that the requirements of human resource policies and procedures must be enforced and adherence must be closely monitored.

Policies and procedures

178. Policies and procedures are in place to guide the operations of the entity however adherence thereto is not consistently enforced rendering the existence thereof ineffective.

179. Instances were noted where policies and procedures have not recently been reviewed. This is a situation that must be guarded against given the dynamic environment and the risk of policies and procedures not being up to date with the latest prevailing laws, regulations and best practices.

Action plans to address internal control deficiencies

180. The public entity did not develop an effective plan to address external audit findings relating to financial and compliance matters. This is evidenced by certain critical root causes that resulted in previous negative outcomes not having been addressed or at least improved during the 2021-22 financial year.

Information technology governance framework

181. The approved interim ICT department structure had still not been implemented due to the re-structuring process that is underway within PRASA. As a result, the job profiling and evaluation had not yet been performed, a skills gap analysis project to assist in building ICT competencies and skills was still being implemented and the structure still needs to be resourced by filling-in the vacant positions.

182. Lack of an approved project management framework due to ICT management oversight has resulted in poor planning, managing and monitoring of ICT projects. There was no formal project charter for the FRAS replacement project, which resulted in project delays and uncontrolled project scope creep triggering additional budget costs relating to contracting the service provider and additional enhancements as required by the business. The initial contract budget with the service provider was R2 091 012.00 until 31 March 2022 and the new contract budget for the financial year 2022/23 is R3 450 000 for the enhancements and R4 857 600 for the support services.

183. Lack of software licensing management standard or procedure that is aimed at managing the acquisition, maintenance, renewal, and periodic monitoring of software licenses resulted in over payment of SAP software license by R552 132.22 and SAP software license review not performed on a regular basis to proactively identify over utilisation of the software to avoid penalties payments resulting in fruitless and wasteful expenditure.

Financial and performance management

Proper record keeping

184. Despite the lack of sound records management having been raised repetitively in the past, the situation has shown little improvement and ultimately resulted in a disclaimer of audit opinion on the financial statements. It was also a key contributing factor to the material non-compliance matters that were reported.

185. Significant delays were encountered in management providing the information requested for audit purposes and more often than not it was only submitted after a limitation of scope finding was raised and in some instances it could not be submitted at all.

186. The following previously reported deficiencies remained unresolved in 2021-22:

- The financial statements were submitted without valid, accurate and complete underlying supporting information. Amongst others, the submission was not accompanied by the asset registers and trial balance. These were only received after a finding was raised in this regard.
- Documents supporting SCM processes were not in all instances properly filed and easily retrievable.
- Documentation that could not be submitted regarding certain significant judgements and estimations that applied during the preparation of financial statements significantly impacted our ability to assess whether these were reasonable.

Daily and monthly processing and reconciling of transactions

187. Preventative controls pertaining to daily and monthly processing and reconciling of transactions were ineffective during the year under review. This discipline, which was not maintained during the year, resulted in discrepancies between the annual financial statements and the trial balance/general ledger and other underlying supporting schedules. This resulted in material misstatements.

Regular, accurate and complete financial and performance reports

188. While no specific concerns were noted with regards to performance reports, the same cannot be said for financial reporting. While basic in-year financial reporting was performed, these did not extend to areas critical to decision making such as assets and the status of capitalisation of assets under construction (work-in-progress) linking to levels of capital spending.

189. As indicated in section 2 of this report, the financial statements submitted for audit purposes contained numerous material misstatements, indicative of financial reporting during the year not being accurate and complete.

190. This is an area that is unlikely to improve unless the capacity in the finance unit is significantly increased.

Compliance monitoring

191. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

Information technology systems

192. The ICT converged infrastructure project which would allow ICT to implement upgrades the old software utilised, capacity limitations as well as systems limitations experienced on the non-SAP systems was still underway which resulted in the weaknesses identified around the user account management, program change management as well as security management for these systems such as:

- Change logs not maintained and changes implemented in production environment without being tested
- Inadequate password configurations on the entity's systems

- User account management reports not being available for extraction
- Inadequate review of user access rights and system administrator activities
- Systems running on unsupported operating system software

193. Furthermore, the lack of an oversight role over ICT security and non-renewal of the Security Information and Event Management (SIEM) solution resulted in activities of the firewall administrators not monitored, inadequate review of records reflecting security events and a lack of an updated register for the patches applied on all platforms.

194. There was no approved disaster recovery plan (DRP) in place for the entity due to lack of the disaster recovery infrastructure. Furthermore, it could not be confirmed that backup restorations were performed on certain non-SAP systems because when ICT was testing backup restorations, it was assumed that all systems were covered in the tests as these were hosted on the same server. In addition, lack of capacity of the infrastructure resulted in the backup system keeping backups logs for only six (6) months with inability to re-run failed backups, as a result it could not confirmed that backups were performed on the non-SAP systems for the other six (6) months.

195. One SAP basis user was assigned two sensitive authorisation functions due to resource capacity within the SAP COE department. Furthermore, seven dialog users were incorrectly assigned a role with object S_TCODE due to management oversight.

196. The identity or passport number field was not configured to be mandatory on the STAR system as it was not a business requirement during the project implementation phase due to that the business decision at the time was to also cater for the international passengers instead of the thirteen (13) digits only for South Africa passengers. Furthermore, the system was not always calculating discounts for qualifying senior passengers due to lack of system patches as there has been a delay from the service provider responsible to upgrade the system.

197. Due to contractual disputes with the service provider who was supposed to address issues identified in the previous year finding through replacement of the old system, the FRAS system which is utilised to capture shift journals for train tickets was still not configured to identify and reject existing shift journal numbers. As a result, the system still accepted and processed duplicate shift journal numbers and this resulted in an approximate duplicate amount of R4 037 499,50 during the 2020-21 financial period.

198. The rental escalation amounts were manually calculated, as a result, inaccurate escalated rental amounts were calculated and the Manhattan system could not flag the any discrepancies between the budgeted and settlement amount fields. This was due to that the system is not configured to automatically calculate the rental escalation amounts and also flag where there are any discrepancies as the system that the entity is using is a legacy application which is more than 15 years old and has never been upgraded and this is the results of the technology limitations of the current version of the Manhattan system.

199. The SAP system was not configured to flag and reject processing of salary advances when they have exceeded five (5) times in the same financial period for the same employee. The SAP system was also not configured to send notifications to the payroll execution senior manager when payroll officials performed salary increases, as a result, there was no segregation of duties when the payroll officials performed salary increases as the transaction did not route to the payroll execution senior manager for review and approval to ensure that the correct increase percentage was implemented on the system. Furthermore, the SAP system was not configured to flag and reject processing of maternity leave with 100% pay for employees with less than twelve (12) months service.

200. An assessment on cybersecurity revealed the following weaknesses:

- Lack of appropriate capacity and capability to deal with cybersecurity incidents due to management has not been able to formulate and propose a complete ICT security capability, including budget, staff and mandate up to now.
- PRASA does not have vulnerability management process in place, no vulnerability management tool implemented. In addition, there is no threat awareness program or process in place to analyse threat landscape and allow for cross-departmental information sharing for threat intelligence across PRASA sites. The absence of a cyber-vulnerability management process and cyber threat awareness program to assess the network to detect and identify any cybersecurity vulnerabilities was due to delays in the procurement process to procure a vulnerability management tool. This also had the effect that a cyber-threat awareness program or process to analyse the threat landscape and allow for threat intelligence assessments could not be performed.
- PRASA does not have formal process in place to review network infrastructure for compliance with devices/systems configuration standard. Lack of review critical systems was due to management oversight in implementing review process.
- Lack of data classification and data loss prevention processes due to insufficient technology and skills to implement a comprehensive DLP and data classification capability.

Governance

Risk management activities and risk strategy

201. PRASA did not fall short when it comes to risk assessment and proposing risk mitigation strategies. The execution and monitoring of the agreed upon risk mitigation strategies were however not at an acceptable level and additionally where action was taken this was mainly centred around the Corporate division with no intentional focus on the other divisions.

Internal audit

202. The internal audit was completely under-capacitated during the year under review considering the size and complexity of PRASA and number of historical issues it faces that must still be dealt with.

203. Despite a consulting focus for the year under review in order to assist management with improving the design and implementation of key preventative controls, minimal improvement was noted in the internal control environment pertaining to compliance with laws and regulations.

204. A proper review of the annual financial statements by internal audit, including the key underlying schedules in support thereof, might have prevented some of the misstatements that were identified during our audit, especially the instances concerning basic material differences between the financial statements, trial balance/general ledger and schedules.

205. Internal audit must be properly staffed, whether by internal appointments or co-sourcing to enable proper first level assurance and value add going forward.

Audit committee

206. The audit and risk committee (ARC) was in place during the year under review and conducted their activities in line with legislative requirements, best practices and the approved ARC charter.

207. The audit committee, amongst its other responsibilities, assessed the effectiveness of internal controls and expressed concerns that need to be addressed to improve the overall adequacy of the control environment. The rate of implementation of these recommendations is poor, to a large extent attributable to the capacity constraints within PRASA. Consequently, these recommendations did not come to fruition and - while some improvements were noted – the audit outcome remained unchanged.

Summary

208. The matters above, as they relate to the basis for the disclaimer of opinion and findings on compliance with legislation, will be summarised in the auditor's report as follows:

209. Instability in executive management persisted during 2021-22 with most positions being filled by acting incumbents. Consequently, oversight responsibility relating to financial reporting and compliance with laws and regulations was not discharged effectively.

210. Critical staff shortages in terms of numbers and appropriate skills in key units, including - but not limited to – finance, asset management, supply chain and contract management, internal audit and information technology – hampered the effective execution of financial management, prevention of non-compliance with prevailing laws and regulations and most critically the execution of PRASA's mandate.

211. Poor procurement planning and failed procurement strategies resulted in prevailing levels of low capital spending and major projects falling behind schedule, negatively impacting on infrastructure recovery and modernisation initiatives.

212. Significant deficiencies were identified in the information technology and record-keeping systems of the entity. Complete, relevant, and accurate information was not readily accessible and available to support internal decision making as well as financial reporting.

213. The public entity did not develop a comprehensive and effective turnaround strategy aimed at resolving the root causes that resulted in historical poor audit outcomes and performance.

MATERIAL IRREGULARITIES

214. In accordance with the PAA and the material irregularity regulations, we have a responsibility to report on material irregularities identified during an audit and on the status of material irregularities reported in the previous year.

Status of previously reported material irregularities

Unfair procurement process for the purchase of locomotives

215. A R3,5 billion contract for the purchase of locomotives was awarded in July 2012. Multiple non-compliance matters were identified with section 51(1)(a)(iii) of the PFMA, including the following:

- The bid specifications were not drafted in accordance with the requirements of the supply chain management policy.
- The supplier was evaluated and allocated points for technical and financial capability even though insufficient, appropriate evidence was included in the bid submission to indicate or demonstrate that the supplier was capable of executing the contract.
- According to the bid documentation, the supplier subcontracted 100% of the work to another supplier however, at the bid submission date there was no subcontracting agreement between the two parties and the supplier was evaluated on the technical capabilities of the subcontractor.

216. A prepayment of R2,6 billion was made to the supplier for which PRASA has derived no value, as the supplied locomotives were assessed as not fit for purpose by PRASA and the amount has not been recovered. The prepayment which had been reclassified to a receivable from exchange transactions was impaired by R2,2 billion as disclosed in note 12 to the financial statements for 2018-19.

217. A material financial loss is likely as the supplier applied for liquidation in December 2018 and at the date of this report the liquidation process is still in progress

218. The initial phase of the investigation into this award, was initiated in 2015 by the board resulting in an application to the courts to set aside the contract which was finalised in May 2019. The second phase of the investigation into implicated employees was in progress at the finalisation of the 2018-19 auditor's report.

219. The accounting authority was notified of the material irregularity on 17 July 2019. While it was acknowledged that the contract with the supplier has been cancelled and the Directorate for Priority Crime Investigations (DCPI) had been investigating the matter since 2015, we recommended that the accounting authority take the following action to further address the material irregularity, which had to be implemented by 31 March 2020:

    a. Appropriate action had to be taken to ensure the second phase of the investigation was concluded.

    b. Effective and appropriate disciplinary steps had to commence against any employee that the second phase of the investigation found to be responsible, as required by section 51(1)(e) of the PFMA.

220. Delays were experienced with the implementation of the recommendations due to the changes at accounting authority level and the lockdown measures implemented in response to Covid-19. As a result, we granted the new accounting authority an extension for the implementation of the recommendations to 18 August 2020.

221. To implement the recommendations, Prasa requested the Special Investigating Unit (SIU) to assist with the finalisation of the investigation into the material irregularity through the secondment of resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020. The investigation report on the outcome of the investigation was only submitted to Prasa on 30 June 2021.

222. The accounting authority provided the investigation report and a written response on the implementation of the recommendations on 1 July 2021. After assessing the written response and investigation report, we concluded that the recommendations had not been adequately implemented, as the responsible employees had not been identified.

223. On 15 September 2021, we notified the accounting authority of the following remedial action to address the material irregularity, which must be implemented by 15 December 2021:

    a. Appropriate action must be taken to determine the role of the individual BEC and BAC members in the appointment of the supplier.

    b. Appropriate action must be taken to identify the other employees that were either actively or passively involved in the appointment of the supplier.

    c. Effective and appropriate disciplinary steps should commence against the individual BEC and BAC members and the other employees found to be responsible, as required by section 51(1)(e) of the PFMA.

224. The accounting authority provided a written submission and supporting documentation on the implementation of recommendations on 2 February 2022. We evaluated the submission and concluded, at the time, that appropriate actions were being taken to address the material irregularity. Given that these actions were still in progress, we requested a status update report by 13 July 2022.

225. The status update report and further supporting documentation was submitted by the accounting authority on 18 July 2022. We considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity. We will however continue to monitor the actions and the impact thereof during the subsequent annual audits.

Competitive bidding process not followed in the appointment of general overhaul and upgrade contractors

226. A competitive bidding process was not followed for the initial appointment of suppliers to provide general overhaul and upgrade services and for the subsequent extensions of the contracts, in contravention of the requirements of section 51(1)(a)(iii) of the PFMA which requires a fair, equitable, transparent and competitive procurement process. The extensions from 1 April 2014 to 31 March 2019 did not include any extension contract values. This was done despite the supply chain management policy at the time of the extension, prohibiting the awards of contracts for periods longer than three years.

227. Since the transition from South African Rail Commuter Corporation Limited (SARCC) to Prasa in 2008, a competitive bidding process has not been followed. Over time, various suppliers were added to the list of contractors from the SARCC, including some added through a "confinement" process which was also found to be non-compliant with section 51(1)(a)(iii) of the PFMA and had been reported on in previous audit reports.

228. These contractors continued to render services and significant irregular expenditure continues to be disclosed in respect of these services. Cumulative payments made in respect of these contractors exceeded R2,8 billion. A material financial loss is likely, as PRASA has not secured market-related prices by way of a competitive bidding process since 2008.

229. The accounting authority was notified of the material irregularity on 17 July 2019. The accounting authority requested an investigation by the SIU into the matter, which was approved by the president on 13 August 2019 and is in progress. We will follow up on the investigation and the implementation of the planned actions including disciplinary steps, financial recovery and civil and criminal cases arising from the outcome of the investigation, during my next audit.

Unfair procurement process followed in the appointment of the signalling contractor

230. A R1,8 billion contract for the design, construction and implementation of a new railway signalling system in the Western Cape, which is a key project, was awarded in July 2012. Non-compliance matters identified in this regard included the following:

- The closing date of the tender was extended from 31 March 2012 to 13 April 2012. However, there was insufficient, appropriate evidence to indicate that the revised tender closing date was communicated to all potential bidders, in contravention of section 51(1)(a)(iii) of the PFMA.
- Prasa failed to maintain a register of the bid submissions received in contravention of section 51(1)(a)(iii) of the PFMA and Prasa's supply chain management policy at the time of the award.
- A 10% mobilisation fee (advance payment) of R186,4 million was paid to the contractor in August 2013, while the signed contract did not include a provision for an advance payment guarantee to Prasa despite this being listed as an advance payment condition in the Briefing Note 007 issued in respect of the Request for Proposal (RFP) on 23 March 2012. No evidence was provided that the contractor had provided the advance payment guarantee, resulting in a contravention of section 51(1)(a)(iii) of the PFMA.
- The amount recommended by the Finance, Capital, Investment and Procurement Committee (FCIP) for approval was R1,6 billion, while the contract was awarded at R1,8 billion. No evidence was provided to justify the difference in amounts of R255,7 million.

231. The non-compliance is likely to result in a material financial loss as a fair and transparent process was not followed in the appointment of the contractor. There was also no justification for the difference of R255,7 million between the contract value and the value recommended by the FCIP.

232. The accounting authority was notified of the material irregularity on 17 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 31 August 2021.

233. Status to be included.

Competitive bidding process not followed in the award relating to the provision of bus services in the Western Cape

234. A competitive bidding process was not followed for the appointment of a supplier to provide bus services in the Western Cape since 2005, in contravention of the requirements of section 51(1)(a)(iii) of the PFMA which requires a fair, equitable, transparent and competitive procurement process. Prasa has continued to use this supplier on the basis of this 2005 contract, without testing the market and despite the 2009 and 2014 supply chain management policies prohibiting the awards of contracts for periods longer than three years.

235. A material financial loss is likely, as Prasa has not secured market-related prices by way of a competitive bidding process since 2005.

236. The accounting authority was notified of the material irregularity on 18 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 16 September 2021.

237. Status to be included.

Competitive bidding process not followed in the award relating to the provision of surveillance services (drones)

238. In February 2018, a deviation in terms of treasury regulation 16A.6.6 for the provision of surveillance services (drones) to the value of R3,2 million was approved for a period of six months.

239. The regulation used as a basis to deviate from the competitive bidding process does not apply to Prasa as a schedule 3B entity and the contracts were extended without obtaining the required approvals, resulting in a contravention of section 51(1)(a)(iii) of the PFMA.

240. A material financial loss is likely, as Prasa has not secured market-related prices by way of a competitive bidding process and the contract has been extended without obtaining the required approvals.

241. The accounting authority was notified of the material irregularity on 18 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 15 September 2021.

242. Status to be included.

Competitive bidding process not followed in the award relating to the provision of security services

243. In February 2018, a deviation in terms of treasury regulation 16A.6.6 for the provision of security services to the value of R9,3 million was approved for a period of six months.

244. The regulation used as a basis to deviate from the competitive bidding process does not apply to Prasa as a schedule 3B entity and the contracts were extended without obtaining the required approvals, resulting in a contravention of section 51(1)(a)(iii) of the PFMA.

245. A material financial loss is likely, as Prasa has not secured market-related prices by way of a competitive bidding process and the contract has been extended without obtaining the required approvals.

246. The accounting authority was notified of the material irregularity on 18 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 15 September 2021.

247. Status to be included.

Uncompetitive process followed in the awards relating to the repair, supply and delivery of signalling equipment on the basis of an "emergency" deviation

248. In July 2018, three deviations to the value of R7,5 million were approved on the basis of emergencies with contracts to the value of R11 million concluded in September 2018 with the same supplier for the repair, supply and delivery of signalling equipment.

249. The basis for the deviation did not meet the requirements of National Treasury SCM Instruction Note 3 of 2016/17 as it could have been avoided had proper planning been done and there was no evidence of additional approvals for the difference between the award amount and the amount approved for the deviation, resulting in a contravention of section 51(1)(a)(iii) of the PFMA.

250. A material financial loss is likely, as Prasa has not secured market-related prices by way of a competitive bidding process and the award price exceeded the deviation approval amount by R3,5 million.

251. The accounting authority was notified of the material irregularity on 18 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 17 September 2021.

252. Status to be included.

Unfair award for the control of vegetation

253. The supplier that scored the highest points was initially awarded the contract for the control of vegetation to the value of R2,8 million in February 2018; however, there was no documented justification for why this award was cancelled and another supplier, that did not score the highest points in terms of the PPPFA and its regulations, was awarded the contract of R5,2 million in August 2018 in contravention of section 51(1)(a)(iii) of the PFMA.

254. A material financial loss is likely, as the award of R5,2 million is significantly higher than the price tendered by the supplier with the highest points that was initially awarded the contract.

255. The accounting authority was notified of the material irregularity on 11 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 15 September 2021.

256. Status to be included.

Uncompetitive process followed in the award relating to the repair and replacement of signalling equipment on the basis of an "emergency" deviation

257. In May 2018, a deviation to the value of R3 million was approved on the basis of an emergency, with a contract to the value of R5,1 million concluded in July 2018 with a supplier for the repair and replacement of signalling equipment.

258. The basis for the deviation does not meet the requirements of National Treasury SCM Instruction Note 3 of 2016/17 as it could have been avoided had proper planning been done and there was no evidence of additional approvals for the difference between the award amount and the amount approved for the deviation, resulting in a contravention of section 51(1)(a)(iii) of the PFMA.

259. A material financial loss is likely, as Prasa has not secured market-related prices by way of a competitive bidding process and the award price exceeded the deviation approval amount by R2,1 million.

260. The accounting authority was notified of the material irregularity on 18 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 8 September 2021.

261. Status to be included.

OTHER REPORTS

262. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the public entity's financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of my opinion on the financial statements or my findings on the reported performance information and compliance with legislation. The summarised other reports will be included in the auditor's report as follows:

263. The forensic investigation by the National Treasury instituted in accordance with the remedial action recommended by the Public Protector in her August 2015 report is still in progress. The final outcome of these investigations, may also have an impact on Prasa's subsidiaries.

264. The Directorate for Priority Crime Investigation (DCPI) is currently investigating cases reported by Prasa in terms of the Prevention and Combating of Corrupt Activities Act 12 of 2004 (Precca). The investigation has been ongoing since 2016. The outcome of this investigation may also have an impact on Prasa's subsidiaries.

265. During the year under review an investigation was initiated into allegations relating to fictitious "ghost" employees and possible fraudulent and irregular payments connected thereto. This investigation was in progress at the date of this report.

SECTION 4: SPECIFIC FOCUS AREAS

FRAUD AND CONSEQUENCE MANAGEMENT

266. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.

267. Below is a summary of fraud risk factors that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement due to fraud.

- With the continuation of SCM breaches and other non-compliance matters resulting in overwhelming levels of irregular expenditure, an assessment should be conducted to determine if breaches in compliance with legislative prescripts are not intentional and due to fraud.
- The non-submission of information that resulted in the limitations and other non-compliance must be assessed to determine the underlying cause if not intentional.
- While the investigation into possible ghost employees is ongoing, the preventative controls surrounding all aspects of human resources management must be reviewed for ongoing effectiveness and enhanced where required. Adherence thereto must be monitored on an ongoing basis. PRASA must place specific emphasis on ensuring that the requisite integrity checks (vetting) are performed for all new appointments.
- The veracity of insurance claims and any other forms of legal settlements must be thoroughly determined prior to any pay-outs by PRASA.

268. The PFMA and its regulations clearly stipulate that matters such as incurring irregular as well as fruitless and wasteful expenditure, the possible abuse of the SCM system (including fraud and improper conduct) and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the public entity's management of consequences. The significant findings are provided below:

Measures to manage consequences

269. The following measures were not still not implemented, despite having been recommended in the prior year, to ensure that the environment is conducive to effective consequence management:

- Consequence management processes were not adequately implemented in respect of reported irregular and fruitless and wasteful expenditure.
- Clearly defined processes should be compiled, approved and rolled out, for implementation across the entity so that management and employees alike are aware of the processes to be followed in respect of consequence management.
- The approved processes, should ensure that all reported irregular and fruitless and wasteful expenditure, is investigated and the necessary disciplinary processes follow from the outcome of these investigations.

Ongoing investigations

270. Firstly, it should be stated that there are numerous internal investigations that are currently being conducted within PRASA. Unfortunately there is no consolidated record available of such investigations, a matter of great concern as it is not clear how the progress of these investigations and the implementation of recommended actions in terms of completed investigations are tracked and monitored, in a manner that can be considered complete, by those charged with governance.

271. The feedback in this section will be provided based on the following known investigations – the SIU proclamation, the National Treasury investigation, the investigation underway by the DCPI and the ongoing investigation into ghost employees.

272. A total of four (4) investigations were ongoing at year-end into allegations relating to financial misconduct, fraud and/or improper conduct in SCM. Some of these investigations have been ongoing for a period exceeding 12 months. The table below provides a summary of investigations which had not been completed as at year-end:

Total number of ongoing investigations as at year-end	4
• Number of SCM-related investigations	3
• Number of fraud-related investigations	4
Number of investigations exceeding a period of six months	3

Failure to properly deal with allegations reported in the prior year

273. The table below provides a summary of findings from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.

274. Irregular and fruitless and wasteful expenditure:

Finding	Value
Irregular expenditure	
Irregular expenditure identified in the previous year was not investigated to determine if a person was liable for the expenditure	R1 146 123 000
Fruitless and wasteful expenditure	
Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether a person was liable for the expenditure	R274 136 000

Transgressions reported to management for investigation

275. Irregular and fruitless and wasteful expenditure disclosed in note 43 and 42 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the irregular and fruitless and wasteful expenditure. Disciplinary steps must be taken against officials who caused or permitted the irregular and fruitless and wasteful expenditure, and losses incurred as a result must be recovered from the person liable.

SECTION 6: EMERGING RISKS

Accounting, performance management/reporting and compliance matters

New pronouncements

Standards of GRAP

276. The ASB has issued the following GRAP pronouncements, with effective dates as indicated:

GRAP pronouncement	Effective date
GRAP 25 on *Employee benefits* (revised)	To be determined
GRAP 104 on *Financial instruments* (revised)	1 April 2025
IGRAP 7 on *The limit on a defined benefit asset, minimum funding requirements and their interaction* (revised)	To be determined
IGRAP 21 on *The effect of past decisions on materiality*	1 April 2023
Guideline on *Accounting for landfill sites*	1 April 2023

Subsequent events

277. During April 2022, severe floods in KwaZulu-Natal caused extensive damage to the rail infrastructure. PRASA is currently in the process of infrastructure recovery however significant challenges are being caused by local “business forums” hampering progress in this regard.

278. The final reports from the Zondo commission was released on 22 June 2022, implicating PRASA. The commission has recommended that a special commission of inquiry be appointed to examine why PRASA was allowed to slide into almost total ruin, who should be held responsible and who might have benefited out of the situation. There has been no indication yet as to the establishment of such a commission.

Audit findings on the annual performance report that may have an impact on the audit opinion in future

279. The planned and reported performance information of the selected objective was audited against the following additional criteria as developed from the performance management and reporting framework:

- Presentation and disclosure – overall presentation
  - Overall presentation of the performance information in the annual performance report is comparable and understandable
- Relevance – completeness of relevant indicators
  - Completeness of relevant indicators in terms of the mandate of the auditee, including:
    - relevant core functions are prioritised in the period under review

- relevant performance indicators are included for the core functions prioritised in the period under review

280. No material findings were identified in respect of the additional criteria.

SECTION 7: ENTITIES CONTROLLED BY THE PUBLIC ENTITY

281. In terms of the PFMA, the public entity has certain oversight responsibilities regarding the entities over which it has ownership control. The audit outcomes of these entities are summarised below.

Name of entity	Audit outcome			Significant deficiencies in internal control					
	Financial statement opinion	Findings on the performance report	Findings on compliance	Leadership		Financial and performance management		Governance	
				Assessment	Movement	Assessment	Movement	Assessment	Movement
Autopax Passenger Services SOC Ltd	Qualified	Yes	Yes		▲		▲		▲
Intersite Asset Investments SOC Ltd	Unqualified	No	No		►		►		►

▲ Improved ► Unchanged ▼ Regressed

Good | Concerning | Intervention required

SECTION 8: RATINGS OF DETAILED AUDIT FINDINGS

282. For purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report: These matters should be addressed as a matter/ of urgency.
- Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
- Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

SECTION 9: CONCLUSION

283. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to improve the audit outcome. Our staff remain committed to assist in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully

Sibongile Lubambo
Head of Portfolio

__ September 2022

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Audit committee
Head of internal audit unit
Executive authority

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SECTION 10: SUMMARY OF DETAILED AUDIT FINDINGS

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	Due to the volume of audit findings, the detailed findings will be presented in a separate report.										

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DETAILED AUDIT FINDINGS: ANNEXURES A TO C

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Due to the volume of audit findings, the detailed findings will be presented in a separate report.

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ANNEXURE B: OTHER IMPORTANT MATTERS

Due to the volume of audit findings, the detailed findings will be presented in a separate report.

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ANNEXURE C: ADMINISTRATIVE MATTERS

Due to the volume of audit findings, the detailed findings will be presented in a separate report.

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ANNEXURE D: PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK

The Performance Management and Reporting Framework (PMRF) consists of the following:

- Legislation applicable to performance planning, management and reporting, which includes the following:
  - Public Finance Management Act 1 of 1999 (PFMA)
  - Treasury Regulations, 2005 issued in terms of the PFMA
  - National Treasury practice note 4 of 2009-10
  - Public Service Act, 1994 (PSA)
  - Public Service Regulations, 2016 issued in terms of the PSA
  - Financial Management of Parliament and Provincial Legislatures Act 10 of 2009 (FMPPL)
- The Framework for Managing Programme Performance Information (FMPPI), issued by the National Treasury. This framework is applicable to all spheres of government.
- The Revised Framework for Strategic Plans and Annual Performance Plans, (Revised FSAPP) , issued in terms of the National Treasury instruction No. 10 of 2020. This framework is applicable to all national and provincial departments, constitutional institutions and those public entities listed in parts A and C of schedule 3 of the PFMA.
- Circulars and guidance issued by the National Treasury and the Department of Public Service and Administration (DPSA), Department of Cooperative Governance and Traditional Affairs (Cogta) and supported by the Department of Planning Monitoring and Evaluation (DPME) regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

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ANNEXURE D – CRITERIA DEVELOPED FROM THE PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	**Public entities**	**Parliament / provincial legislatures**	**Universities**
Consistency: performance indicators and targets are consistent between planning and reporting documents				
1. Reported indicators are consistent or complete when compared to planned indicators	Section 40(3)(a) of the PFMA NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Section 25(1) of the PSR	Section 55(2)(a) of the PFMA TR 28.2.2 Applicable to 3A & 3C public entities: TR 30.1.3(g) NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 55(3)(d) of the FMPPLA	Section 5(2)(k) & 7(4)(a) of the regulations for reporting by public higher education institutions
2. Changes to indicators are approved	TR 5.1.1 NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Sections 4.4.3 and 4.4.4 of Revised FSAPP	Applicable to 3A & 3C public entities: TR 30.1.1 NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Sections 4.4.3 and 4.4.4 of Revised FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 15(1) and (2)(b) of the FMPPLA	Section 5(2)(m) of the regulations for reporting by public higher education institutions

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CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	**Public entities**	**Parliament / provincial legislatures**	**Universities**
3. Reported targets are consistent or complete when compared to planned targets	Section 40(3)(a) of the PFMA TR 5.2.4 NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Section 25(1) of the PSR	Section 55(2)(a) of the PFMA TR 28.2.2 Applicable to 3A & 3C public entities: TR 30.1.3(g) Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 55(3)(d) of the FMPPLA	Section 5(2)(k) & 7(4)(a) of the regulations for reporting by public higher education institutions
4. Changes to targets are approved	TR 5.1.1 NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Sections 4.4.3 and 4.4.4 of Revised FSAPP	Applicable to 3A & 3C public entities: TR 30.1.1 NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Sections 4.4.3 and 4.4.4 of Revised FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 15(1) and (2)(b) of the FMPPLA	Section 5(2)(m) of the regulations for reporting by public higher education institution
5. Reported achievements are consistent with the planned and reported indicator and target	Section 40(3)(a) of the PFMA	Section 55(2)(a) of the PFMA	Section 55(3)(d) of the FMPPLA	Section 7(4)(a) of the regulations for reporting by public higher education institutions

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CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	**Public entities**	**Parliament / provincial legislatures**	**Universities**
Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound				
6. A performance indicator is well defined when it has a clear definition so that data will be collected consistently and is easy to understand and use	FMPPI chapter 3.2		Criteria not applicable	Section 1(d) of the regulations for reporting by public higher education institutions
7. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator	FMPPI chapter 3.2		Criteria not applicable	
8. A target is specific when the nature and the required level of performance of the target are clearly identifiable	FMPPI chapter 3.3		Criteria not applicable	Section 1(a) of the regulations for reporting by public higher education institutions
9. A target is measurable when the required performance can be measured	FMPPI chapter 3.3		Criteria not applicable	Section 1(b) of the regulations for reporting by public higher education institutions
10. A target is time bound when the time frames for the achievement of the target are indicated	FMPPI Chapter 3.3		Criteria not applicable	Section 1(c) of the regulations for reporting by public higher education institutions

DRAFT

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	**Public entities**	**Parliament / provincial legislatures**	**Universities**
Relevance: Performance indicators relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives				
11. The performance indicator and target relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives	FMPPI chapter 3.2		Criteria not applicable	Section 1(e) of the regulations for reporting by Public Higher Education Institutions
Presentation and disclosure: Performance information in the annual performance report is presented and disclosed in accordance with the requirements contained in legislation, frameworks, circulars and guidance				
12. Reasons for variances between planned and actual performance are disclosed in the annual performance report	The NT's annual report guide for national and provincial departments Section 31(1) of the PSR	Applicable to schedule 3A & 3C public entities: The NT's annual report guide for schedule 3A and 3C public entities	Criteria not applicable	
13. Reasons for variances are corroborated by source documentation	The NT's annual report guide for national and provincial departments FMPPI chapter 5	Applicable to schedule 3A & 3C public entities: The NT's annual report guide for schedule 3A and 3C public entities FMPPI chapter 5	Criteria not applicable	

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CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	**Public entities**	**Parliament / provincial legislatures**	**Universities**
14. Changes to performance indicators and performance targets are disclosed in the annual performance report	NT annual report guide for national and provincial departments Section 31(1) of the PSR	Applicable to 3A & 3C public entities: NT annual report guide for schedule 3A and 3C public entities	Criteria not applicable	
Reliability: Recording, measurement, collation, preparation and presentation of information on actual performance / target achievements that are valid, accurate and complete				
1. Reported performance occurred and pertains to the reporting entity	Section 40(3)(a) of the PFMA Chapter 5 of the FMPPI Section 25(1)(e) of the PSR	Section 55(2)(a) of the PFMA chapter 5 of the FMPPI	Section 55 of the FMPPLA	Section 7 of the regulations for reporting by public higher education institutions
2. Reported performance is recorded and reported accurately				
3. All actual performance is recorded and included in the reported performance information				

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ANNEXURE E: AUDITOR GENERAL'S RESPONSIBILITY FOR THE AUDIT OF THE REPORTED PERFORMANCE INFORMATION

1. As part of our engagement conducted in accordance with ISAE 3000(R), we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for the selected objective.

2. We are independent of the public entity in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

Quality control relating to assurance engagements

3. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

Reported performance information

4. In addition to our responsibility for the assurance engagement on reported performance information as described in the auditor's report, we also:

   - identify and assess risks of material misstatement of the reported performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. In making those risk assessments, we consider internal controls relevant to the management and reporting of performance information per selected objective in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control
   - evaluate the documentation maintained by the public entity that supports the generation, collation, aggregation, monitoring and reporting of performance indicators and their related targets for the selected objectives
   - evaluate and test the usefulness of planned and reported performance information, its consistency with the approved performance planning documents of the public entity, and determine whether the indicators and related targets were measurable and relevant
   - evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete.

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Communication with those charged with governance

5. We communicate with the authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

6. We also confirm to the accounting authority that we have complied with relevant ethical requirements regarding independence and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, the actions taken to eliminate threats, or the related safeguards applied.

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ANNEXURE F: ASSESSMENT OF INTERNAL CONTROLS

Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the [annual performance report/insert name of performance report] and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the [annual performance report/insert name of performance report] to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:

🟢	The required preventative or detective controls were in place.
🟡	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
🔴	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

⬆	Improved
⬌	Unchanged
⬇	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment	⬆		⬆		⬆	
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity	🟡	🔴	🟢	🔴	🟡	🔴
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls	🔴	🔴	🟢	🔴	🔴	🔴

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	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	☹	☹	☹	☹	☹	☹
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities	☹	☹	☺	☹	☹	☹
• Develop and monitor the implementation of action plans to address internal control deficiencies	☹	☹	☺	☹	☹	☹
• Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance	☹	☹	☹	☹	☹	☹
Financial and performance management						
Overall movement from previous assessment	⇔		⇧		⇔	
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting	☹	☹	☺	☹	☹	☹
• Implement controls over daily and monthly processing and reconciling transactions	☹	☹	☺	☹	☹	☹
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information	☹	☹	☺	☹	☹	☹
• Review and monitor compliance with applicable legislation	☹	☹	☺	☹	☹	☹
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information relating to user access management, programme change control and IT service continuity	☹	☹	☹	☹	☹	☹

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	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Governance						
Overall movement from previous assessment	↑		↑		↑	
• Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored	☹	☹	☺	☹	☹	☹
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively	☹	☹	☹	☹	☹	☹
• Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation	😐	☹	☺	☹	😐	☹

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