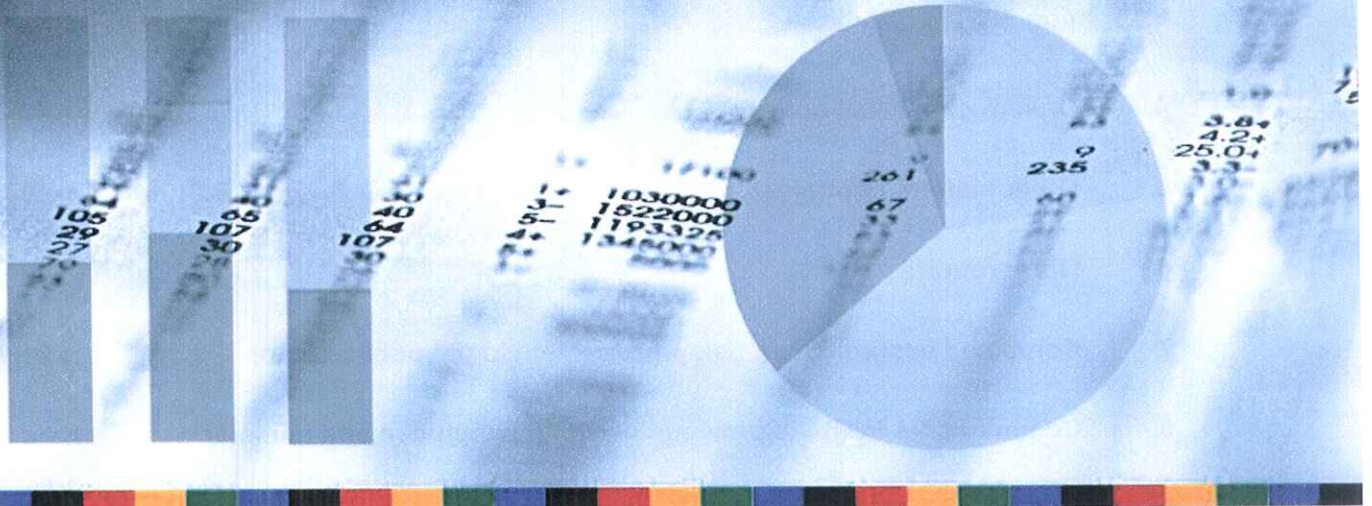


151013 PC TRANSPORT

# PC BRIEFING NOTE



PFMA audit outcomes of the 2014-15 financial year for the

Transport Portfolio

13 October 2015



AUDITOR-GENERAL  
SOUTH AFRICA

Auditing to build public confidence

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## **1. Introduction**

### **1.1 Reputation promise of the Auditor-General of South Africa**

The auditor-general has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

### **1.2 Purpose of document**

Annually oversight committees set aside time to focus on assessing the performance of departments. On completion of the process, portfolio committees are required to develop department-specific reports, namely budgetary review and recommendations reports (BRRR) which express the committee's view on the department's budget for recommendation to the National Treasury ahead of the following year's budget period.

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role in assessing the performance of the departments taking into consideration the objective of the committee to produce a BRRR.

### **1.3 Overview**

The regression in overall audit outcomes was caused by DLCA and RTIA which regressed from unqualified with no findings in the prior year to an unqualified with findings on compliance with legislation and/or predetermined objectives.

ACSA, which was audited by the AGSA for the first time in the 2014-15 financial year, received an unqualified audit opinion with findings on compliance with legislation and predetermined objectives compared to unqualified with no findings in the prior year. PRASA's audit outcomes are included in this general report as the annual financial statements were submitted timeously, while their 2013-14 outcomes were excluded from the prior year general report as the audit had not been finalised by 31 August 2014. PRASA received an unqualified audit opinion with findings on compliance with legislation and predetermined objectives, as was the case in the prior year.

Transport, CBRTA, RSR, SAMSA and SANRAL remained unchanged as they received an unqualified audit opinion with findings on their annual performance report and/or compliance with legislation. RTMC improved from a qualified audit opinion to an unqualified audit opinion with findings on compliance with legislation. RTMC management honoured their prior year commitments by improving asset management processes and credibility of the asset register.

The Ports Regulator improved its audit outcomes as it submitted financial statements that were free from material misstatements, resulting in an unqualified audit opinion with no findings on its annual performance report and compliance with legislation. Management honoured their prior year commitments by improving controls over accounting for revenue and disclosure notes. RAF and SACAA sustained their unqualified audit opinion with no findings by maintaining and monitoring their systems of internal control.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, were as follows:

**Financial statements**

The published financial statements in the portfolio included the following material misstatements:

- The financial statements submitted for auditing by Transport, ACSA, DLCA, PRASA, RSR, RTIA, RTMC, SAMSA and SANRAL contained material misstatements in the areas of assets, revenue, expenditure and certain disclosure notes. All these entities received an unqualified audit opinion only because they corrected all the misstatements we had identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Staff involved in financial reporting should be trained on the financial reporting framework, and the review process should be enhanced to detect and correct errors prior to submitting financial statements for audit;
- Proper record keeping should be implemented for the collection and consolidation of information supporting disclosure notes that are only finalised at year-end;
- Key commitments made to implement the AGSA’s recommendations to address the root causes should be promptly implemented;
- Vacancies in key positions should be filled timeously with competent personnel.

**Annual performance report**

The published annual performance report of Transport, SAMSA and ACSA included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes and objectives we had selected to audit:

| Auditee   | Programme/objective   | Not useful | Not reliable |
|-----------|---|------------|--------------|
| Transport | Road transport  |            | x            |
| SAMSA     | Maritime safety   |            | x            |
|           | Maritime security   |            | x            |
| ACSA      | Entrench and deepen partner relationship                            | x          |              |
|           | Enhance returns (Identify and secure new business)                  | x          | x            |
|           | Continually re-engineer and align business operations and processes |            | x            |
|           | Inclusive infrastructure capacity planning and development          | x          |              |
|           | Good governance   | x          |              |

The annual performance reports submitted for auditing by PRASA and SANRAL contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements we had identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Staff involved in the preparation of annual performance reports should be trained on the Framework for managing programme performance information (FMPPI);
- There should be proper record keeping of evidence to support the achievement/ non-achievement of targets;
- Quality reviews should be performed in a timely manner prior to submission of such reports for audit.

### **Compliance with legislation**

We identified material non-compliance (excluding non-compliance with the PFMA due to the submission of financial statements that contained material misstatements) with legislation by Transport, ACSA, CBRTA, PRASA, RTIA, RTMC, SAMSA and SANRAL in the following areas:

- Transport did not fill funded vacant posts within 12 months, which is in contravention of public service regulation 1/VII/C.1A.2. The overall vacancy rate for the department was 22%. A five-year strategic plan that covered the current financial year (2014-15) was not prepared as required by treasury regulation 5.1.1.
- ACSA did not always follow competitive bidding processes. Some invitations for competitive bidding were not advertised for a minimum period as prescribed by the supply chain management policy. Certain contracts were awarded to and quotations were accepted from suppliers whose tax matters had not been declared by the South Africa Revenue Services to be in order. The corporate plan did not cover the affairs of the subsidiaries, as required by section 52(b) of the PFMA and National Treasury practice note 4 of 2009-10.
- PRASA did not notify the National Treasury of an award of an unsolicited bid proposal as required by the National Treasury practice note 11 of 2008-09.
- PRASA did not consistently apply its discretion to disqualify bidders based on conflict of interest, as required by section 51(1)(a)(iii) of the PFMA, in awarding a contract relating to the Broad-Based Black Economic Empowerment (BBBEE) equity partners to the fleet renewal programme (new rolling stock). The attendance register for the adjudication committee for the invitation to participate (ITP) and supplementary ITP process in respect of the BBBEE tender for rolling stock could not be provided; consequently we were unable to confirm receipt of all appointment letters.
- RTIA and RTMC procured goods and services with a transaction value above R500 000 without inviting competitive bids. The procurement of goods and services was split into parts or items of a lesser value to circumvent competitive bidding, resulting in non-compliance with practice note 8 of 2007-08.
- SAMSA did not comply with treasury regulation 27.2, which led to ineffective functioning of the internal audit function. This resulted in the internal audit unit not having the required three-year rolling and annual audit plan; not evaluating reliability and integrity of financial, operational information and compliance with laws and regulations; and not submitting reports directly to the audit committee. Internal audit did not report directly to the accounting authority.

- SAMSAs did not comply with treasury regulation 27.1, which led to ineffective functioning of the audit committee, resulting in the audit committee not reviewing the effectiveness of the internal audit unit and the adequacy, reliability and accuracy of the financial information; and not reviewing the entity's compliance with legal and regulatory provisions. Furthermore, the audit committee did not meet at least twice a year, as required by section 77(b) of the PFMA.
- SANRAL procured goods and services with a transaction value below R500 000 without obtaining the required price quotations. Invitations for competitive bidding were not always advertised in at least the government tender bulletin, as required by the Treasury Regulations, and the CIDB website for construction contracts, as required by CIDB requirements. Contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act (PPPFA) and its regulations. Bidders did not submit valid B-BBEE status level verification certificates or certified copies thereof.
- The RTIA and SANRAL awarded contracts to bidders who had not disclosed past supply chain practices, as prescribed in order to comply with treasury regulation 16A9.2.
- Transport, CBRTA, SAMSAs, PRASA, ACSA and SANRAL did not take effective and appropriate steps to prevent irregular expenditure. Transport, SAMSAs, PRASA and ACSA did not take effective and appropriate steps to prevent fruitless and wasteful expenditure. Transport did not take effective and appropriate steps to prevent unauthorised expenditure. Furthermore, SAMSAs did not take effective and appropriate disciplinary action against officials who incurred and/or permitted irregular, fruitless and wasteful expenditure.

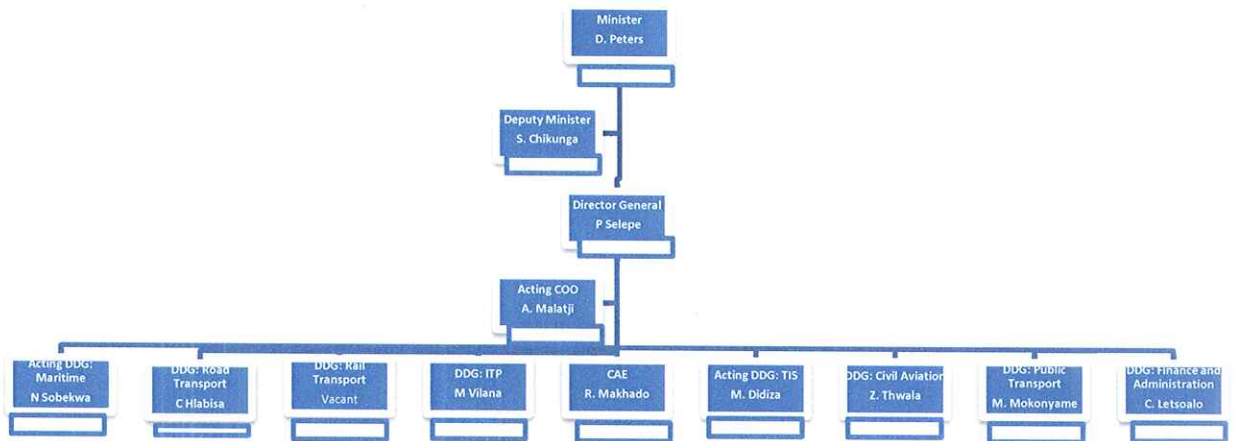
The transport portfolio incurred a total of R2,4 billion (95%) in irregular expenditure as a result of non-compliance with supply chain management (SCM). R1,6 billion of the total irregular expenditure was incurred by SANRAL and this expenditure by SANRAL increased by 4% compared to the prior year. Ninety-two per cent (92%) of the irregular expenditure was identified by SANRAL while the remainder was identified through the audit process. SANRAL should exercise oversight of contract management to ensure compliance with the PPPFA and its regulations. PRASA incurred irregular expenditure in the amount of R550,6 million (R24,7 million 2013-14) as a result of non-compliance with supply chain management practices. Five percent (5%) of this expenditure was identified by PRASA while the remainder was identified through the audit process. PRASA should exercise oversight over contract management.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

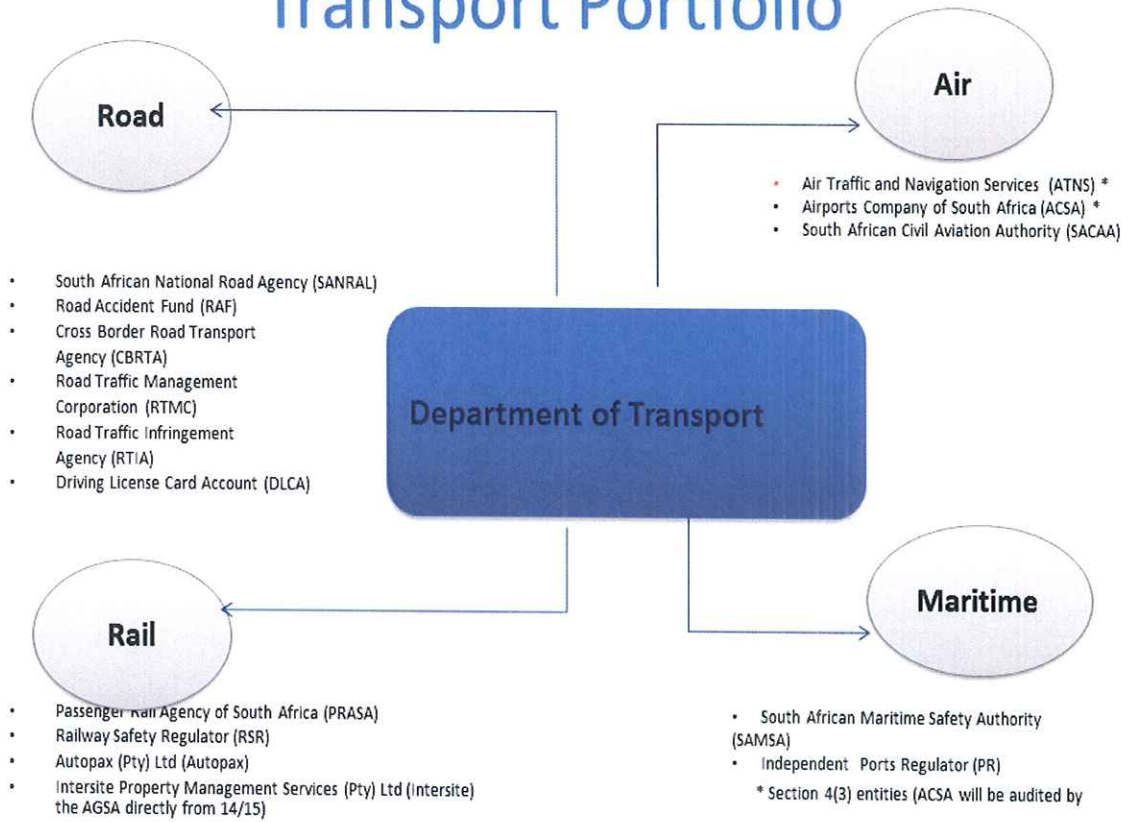
- Key commitments made to implement the AGSA's recommendations to address the root causes should be promptly implemented;
- Control processes should be adhered to at all times when procuring goods and services;
- Proper record keeping should be implemented for information supporting compliance and procurement process;
- Implement consequence management for staff members who fail to comply with applicable legislation.

A number of the commitments that were made by the Minister in the 2013/14 financial year have not yet been fully implemented in the respective entities. This is evident in the root causes that have led to repeat findings.

Organogram



# Transport Portfolio





**2. Audit opinion history**

| <b>AUDIT OPINIONS</b>                             | <b>10/11</b> | <b>11/12</b> | <b>12/13</b> | <b>13/14</b> | <b>14/15</b> |
|---|--------------|--------------|--------------|--------------|--------------|
| • <i>Department of Transport</i>                  |              |              |              |              |              |
| • <i>South African National Roads Agency Ltd</i>  |              |              |              |              |              |
| • <i>Railway Safety Regulator</i>                 |              |              |              |              |              |
| • <i>South African Civil Aviation Authority</i>   |              |              |              |              |              |
| • <i>South African Maritime Safety Authority</i>  |              |              |              |              |              |
| • <i>Road Traffic Management Corporation</i>      |              |              |              |              |              |
| • <i>Ports Regulator of South Africa</i>          |              |              |              |              |              |
| • <i>Road Traffic Infringement Agency</i>         |              |              |              |              |              |
| • <i>Road Accident Fund</i>                       |              |              |              |              |              |
| • <i>Cross-border Road Transport Agency</i>       |              |              |              |              |              |
| • <i>Driving Licence Card Account</i>             |              |              |              |              |              |
| • <i>PRASA</i>                                    |              |              |              |              |              |
| • <i>Air Ports Company of South Africa (ACSA)</i> |              |              |              |              |              |

**AUDIT OPINION LEGEND**

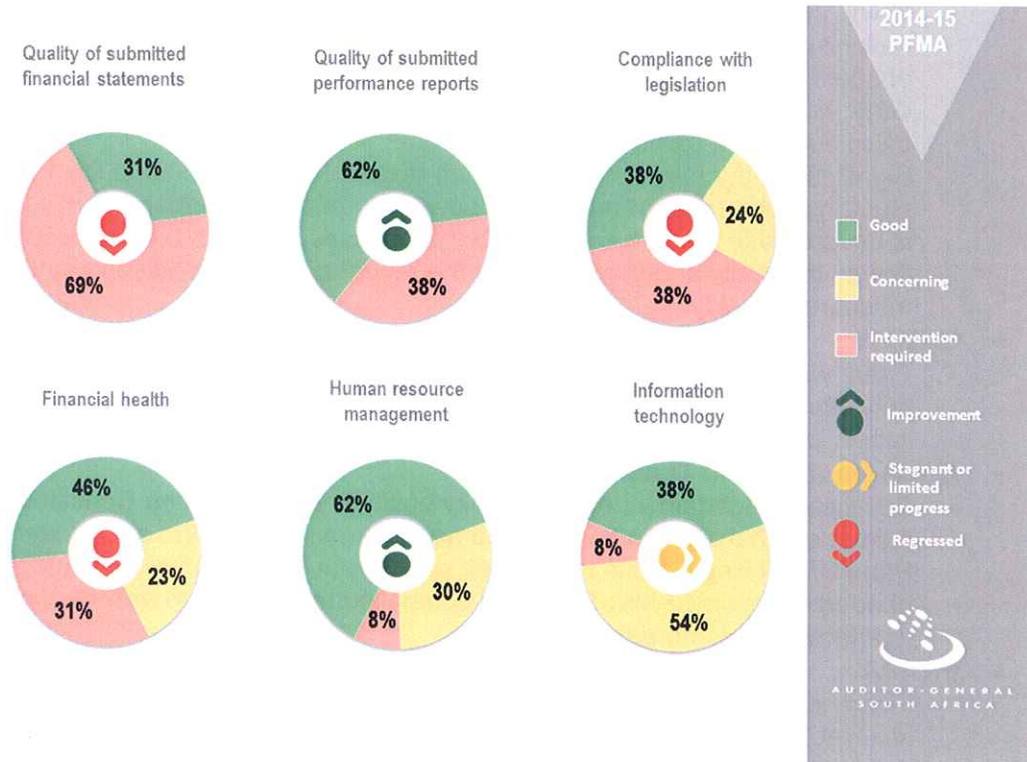
|     |  |  |
|-----|--|--|
|     | CLEAN AUDIT OPINION: No findings on PDO and Compliance |  |
|     | UNQUALIFIED with findings on PDO and Compliance        |  |
|     | QUALIFIED AUDIT OPINION (with/without findings)        |  |
|     | DISCLAIMER/ADVERSE AUDIT OPINION                       |  |
| N/A | New entity   |  |

| <b>QUALIFICATION ISSUES</b>                   | <b>10/11</b> | <b>11/12</b> | <b>12/13</b> | <b>13/14</b> | <b>14/15</b> |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>Road Traffic Management Corporation</b>    |              |              |              |              |              |
| • Assets, receivables                         | ✓            |              |              |              |              |
| • Assets                                      |              |              |              | ✓            |              |
| <b>Road Traffic Infringement Agency</b>       |              |              |              |              |              |
| • Revenue, receivables, irregular expenditure | ✓            |              |              |              |              |
| <b>Cross- border Road Transport Agency</b>    |              |              |              |              |              |
| • Revenue, receivables                        | ✓            | ✓            |              |              |              |
| <b>OTHER MATTERS</b>                          | <b>10/11</b> | <b>11/12</b> | <b>12/13</b> | <b>13/14</b> | <b>14/15</b> |
| <b>Predetermined objectives</b>               |              |              |              |              |              |
| • Department of Transport                     | ✓            |              |              | ✓            | ✓            |
| • South African National Roads Agency Ltd.    |              |              |              |              |              |
| • South African Civil Aviation Authority      | ✓            |              |              |              |              |
| • South African Maritime Safety Authority     | ✓            | ✓            |              | ✓            | ✓            |
| • Road Traffic Management Corporation         | ✓            | ✓            | ✓            | ✓            |              |
| • Road Traffic Infringement Agency            | ✓            | ✓            |              |              |              |
| • Cross-border Road Transport Agency          | ✓            | ✓            |              | ✓            |              |
| • Driving Licence Card Account                | ✓            |              |              |              |              |
| • ACSA  |              |              |              |              | ✓            |
| <b>Compliance with laws and regulations</b>   |              |              |              |              |              |
| • Department of Transport                     | ✓            | ✓            | ✓            | ✓            | ✓            |
| • South African National Roads Agency Ltd.    |              |              | ✓            | ✓            | ✓            |
| • Railway Safety Regulator                    | ✓            | ✓            | ✓            | ✓            | ✓            |
| • South African Civil Aviation Authority      | ✓            | ✓            |              |              |              |
| • South African Maritime Safety Authority     | ✓            | ✓            | ✓            | ✓            | ✓            |
| • Road Traffic Management Corporation         | ✓            | ✓            | ✓            | ✓            | ✓            |
| • Ports Regulator of South Africa             | ✓            | ✓            | ✓            | ✓            |              |
| • Road Traffic Infringement Agency            | ✓            | ✓            | ✓            |              | ✓            |
| • Road Accident Fund                          | ✓            | ✓            |              |              |              |
| • Cross Border Road Transport Agency          | ✓            | ✓            | ✓            | ✓            | ✓            |
| • Driving Licence Card Account                | ✓            | ✓            |              |              | ✓            |
| • PRASA                                       | ✓            | ✓            | ✓            | ✓            | ✓            |
| • ACSA  |              | ✓            |              |              | ✓            |

## 2.1 Significant emphasis of matters

- **SANRAL**
  - Going concern of Gauteng Freeway Improvement Project: the announcement of the new dispensation on the Gauteng Freeway Improvement Project (GFIP) has ensured that the project could continue and the uncertainty whether the tolling of the GFIP would continue as a result of the announcement of the provincial panel on e-toll in July 2014, has been removed.
  - Significant judgement: alternative tariff revenue to the amount of R6.1 billion for Gauteng open road tolling has not been recognised. In management's judgement it is not probable that the economic benefits associated with the transaction would flow to the entity and the amount of the revenue to be recognised could not be measured reliably.
- **SAMSA**
  - There was uncertainty as to whether the entity would be able to fund its future obligations as the entity had incurred a deficit of R81 470 000 and was in a net liability position.
- **Cross-border Road Transport Agency**
  - Significant uncertainty (the net liability position was due to the Constitutional Court judgement that ruled in favour of some cross-border hauliers and rendered the 2011 Permit Tariff Regulations invalid with effect from 01 April 2011. The judgement was handed down on 12 May 2015 and compelled the agency to provide for the refunds to affected cross-border operators).
- **PRASA**
  - Financial sustainability of subsidiary: a significant net loss amounting to R26 million incurred by the subsidiary was attributed to the budgeted revenue from property investments, third-party projects and commercial projects not materialising.
  - Material capital commitment: the capital commitment for the purchase of new locomotives has increased significantly by R1,3 billion and the number of anticipated locomotives declined from 88 (as per the initial contract) to 70.
  - Material capital commitments: the capital commitment for the purchase of rolling stock (fleet renewal programme) was R59,6 billion, which was disclosed under events after the reporting date in the 2013/14 annual report as R51 billion.
  - Material prepayments for capital assets: prepayments for capital expenditure to the amount of R7, 8 billion were made towards the purchase of new locomotives (R2,1 billion) and the new rolling stock fleet renewal programme (R5.7 billion).
- **Road Accident Fund**
  - There was uncertainty as to whether the entity would be able to fund its future obligations as the entity had incurred an accumulated deficit amounting to R110 254 732 000 and was in a net liability position.
  - Financial reporting framework: RAF had adopted International Financial Reports Standard 4 (IFRS 4 – Insurance Contracts) for the first time on instruction received from the Accounting Standards Board. The effect on the annual financial statements was limited to presentation and disclosure of the claims liability.

3. Key focus areas



3.1 Material misstatements to financial statements

| Entity                                | Finding  | Root cause  | Recommendation   |
|---------------------------------------|--|---|--|
| Department of Transport               | Disclosure notes : Assets and commitments<br><br>Account Balance: investments  | Lack of consequences for poor performance and transgressions and vacancies in key positions | Management should ensure that information used to prepare financial statement is accurate and reliable and should ensure that the figures disclosed in the financials are in line with the MCS and the department's accounting policy. |
| Driving Licence Card Account          | Disclosure notes: Changes in accounting estimates and statement of comparison of budget and actual amount  | Key officials lacking appropriate competencies  | Management should capacitate the Finance Department with the appropriate skills to prepare credible financial statements and conduct a full review of the financial statements.  |
| Passenger Rail Agency of South Africa | Account balances: Property, plant and equipment, prepayments, leased assets, intangible assets, trade and other payables, inventories, finance lease liability, capital subsidy & grant, | Key officials lacking appropriate competencies and slow responses by senior management      | Management should capacitate the Finance Department with the appropriate skills to prepare credible financial statements and conduct a full review of the financial statements.  |

| Entity                                  | Finding  | Root cause  | Recommendation  |
|---|--|---|---|
|   | <p>trade and other payables, accumulated loss</p> <p>Class of transactions: revenue (government subsidy, other income), expenditure (depreciation &amp; amortisation, finance costs, fair valuation of investment property, Impairment (losses)/reversal recognised, operating expenses, de-recognition/losses on disposal of assets.</p> <p>Disclosure notes: Prior period error adjustment, unsolicited proposal, irregular expenditure, fruitless and wasteful expenditure, capital commitments</p> |   |   |
| Railway Safety Regulator                | <p>Class of transactions: expenditure (other operating costs)</p> <p>Disclosure notes: cash flow statement, intangible assets.</p>   | Key officials lacking appropriate competencies  | Internal controls to gather information required for disclosure notes should be developed and implemented. Management should put in place the internal controls like reviewing to ensure that financial statements are accurate and complete.                             |
| Road Traffic Infringement Agency        | Disclosure notes: provision for bonus, leasehold improvements, irregular expenditure   | Slow responses by senior management   | Management should capacitate the Finance Department with the appropriate skills to prepare credible financial statements and conduct a full review of the financial statements.   |
| Road Traffic Management Corporation     | <p>Account balances: receivables from non-exchange transactions</p> <p>Class of transactions: revenue (infringement fees) expenditure ( debt impairment, finance loss)</p> <p>Disclosure notes: cash flow statement, related parties, prior period error, commitments, financial and capital risk management.</p>  | Key officials lacking appropriate competencies  | Management should capacitate the Finance Department with the appropriate skills to prepare credible financial statements and conduct a full review of the financial statements.   |
| South African Maritime Safety Authority | Disclosures: bonus payment, CEO's increase, irregular expenditure, fruitless and wasteful, assets, inventories   | Key officials lacking appropriate competencies and instability in key positions (i.e. board members). | Officials responsible for the preparation of financial statements should be trained in the financial reporting framework. Internal audit and audit committee should on a quarterly basis, review the internal controls in place to gather information required to prepare |

| Entity                                      | Finding  | Root cause                                      | Recommendation   |
|---|--|---|--|
|   |  |   | financial statements including disclosure notes.   |
| South African National Roads Agency Limited | Account balances: financial liabilities<br><br>Class of transaction: toll revenue<br><br>Disclosure notes: toll revenue, commitments, irregular expenditure.   | Key officials lacking appropriate competencies. | Management should take ownership of preparation of the financial statements to ensure that they are free from material misstatements. Officials responsible for the preparation of financial statements should be trained in order to have a proper understanding of the financial reporting framework. Internal controls to gather information required for disclosure notes should be developed and implemented. Management should perform detailed reviews of the financial statements to ensure that they are accurate and complete. |
| ACSA  | Account balances: investment property, deferred tax liability, retained income, <i>fair value adjustment on gains on investment property (OCI)</i><br><br>Class of transactions: revenue ( <i>fair value adjustment, future lease payments</i> )<br><br><i>Cash flow statement</i> | Key officials lacking appropriate competencies  | Management should capacitate the Finance Department with the appropriate skills to prepare credible financial statements and conduct a full review of the financial statements.  |

### 3.2 Predetermined objectives

| Entity                                  | Findings  | Root cause   | Recommendation   |
|---|---|--|--|
| Department of Transport                 | Significantly important targets were not reliable when compared to the source information or evidence provided.   | Lack of consequences for poor performance and transgressions | Management should exercise oversight responsibility by ensuring that adequate reviews are performed by the delegated officials to ensure that information reported is valid, accurate and complete.  |
| South African Maritime Safety Authority | Maritime safety: Adequate and reliable audit evidence could not be provided for 33% of the targets to assess reliability of the reported performance information.<br>Maritime security: The | Lack of consequences for poor performance and transgressions | Management should ensure that it is possible to validate the processes and systems that produce the indicator to enable them to produce the required evidence supporting their reported performance. |

| Entity | Findings   | Root cause                                     | Recommendation  |
|--------|--|--|---|
|        | <p>evidence provided to support reported targets was not appropriate and/or was incomplete:</p> <ul style="list-style-type: none"> <li>- The entity only provided six months instead of 12 months of evidence to support indicator no. 2 which reported on 'time taken to distribute maritime domain awareness information'. This was due to the fact that the system recording the vessel activities had had a failure which resulted in loss of data for six months.</li> </ul>  |  |   |
| ACSA   | <p>A total of 100% of the indicators for the following objectives were not well defined:</p> <ul style="list-style-type: none"> <li>- Entrench and deepen partner relationship</li> <li>- Inclusive infrastructure capacity planning and development</li> <li>- Good governance</li> </ul> <p>A total of 50% of the indicators for the following objectives were not well defined:<br/>Enhance returns (Identify and secure new business)</p> <hr/> <p>Continually re-engineer and align business operations processes: Adequate and reliable corroborating evidence could not be provided for 50% of the targets to assess the reliability of the reported performance information. The system used to record the safety and security incidents was live and did not provide historical data. The auditee's records did not permit the application of alternative audit procedures.</p> | Key officials lacking appropriate competencies | <ul style="list-style-type: none"> <li>- The corporate plan should be developed in accordance with the requirements and the criteria of the Framework for Managing Programme Performance Information.</li> <li>- The indicators in the corporate plan should be reviewed and be enhanced to meet the criteria of the Framework for Managing Programme Performance information.</li> </ul> <hr/> <p>Management should again look at the whole KPI so that it is clear what they want to achieve/ measure.</p> <p>Management should ensure that the necessary adjustments are made to the reported information to ensure that the data reported is reliable and not misleading to the users</p> |

3.3 Supply chain management

| Entity                                  | Finding  | Root cause                           | Recommendation  |
|---|--|--------------------------------------|---|
| South African National Roads Agency Ltd | Contracts were awarded to bidders who had not submitted a declaration of past supply chain practices such as fraud, abuse of the SCM system and non-performance, which was prescribed in order to comply with Treasury Regulation 16A9.2   | Slow responses by senior management  | The bid adjudication committee must verify that the recommended bidder has submitted all the required bid documentation, including the declaration of past SCM practices.   |
|   | Contracts were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations. Bidders did not submit original and valid B-BBEE status level verification certificates or certified copies of these. |                                      | Management should exercise sufficient oversight and monitoring to ensure that all required returnable schedules are specifically requested (that is original or certified copy) in tender data provided to prospective bidders to ensure compliance with the PPPF Act and Preferential Procurement Regulations. |
|   | Invitations for competitive bidding were not always advertised in at least the government tender bulletin as required by Treasury Regulation 16A6.3(c) and the CIDB iTender system for construction contracts as required by CIDB requirements.  |                                      | Processes must be established to ensure that invitation for competitive bids are advertised in at least the government tender bulletin as this is a cheaper medium and is accessible to a majority of potential bidders.  |
|   | SANRAL did not always obtain three quotations on procurement of goods and services under R500 000 where it could have reasonably obtained these had the request for quotation been made timeously.   |                                      | Management should ensure that the Treasury Regulations are complied with. Requests for quotations should be done timeously to ensure a fair, equitable procurement process.   |
| Road Traffic Management Corporation     | Goods and services of a transaction value above R500 000 were procured without inviting competitive bids as required by the Treasury Regulations. The procurement of goods and services was split into part or amounts of smaller value to avoid complying with the requirements of practice note 8 of 2007/08.                            | Slow responses by senior management  | The IT Department needs to assess its needs over a long- term period and it is recommended that a contract be entered into with a supplier through a bidding process to supply IT- related goods and services to the entity.  |
| Road Traffic Infringement Agency        | Goods and services of a transaction value above R500 000 were procured without inviting competitive bids as required by the Treasury Regulations. The procurement of goods and services was split into part or amounts of smaller value to avoid complying with the requirements of practice note 8 of 2007/08.                            | Slow responses by senior management. | The irregular expenditure identified should be disclosed in the annual financial statements as required by the PFMA 56(2)(b)(i), and appropriate remedial action taken against affected officials.  |
|   | Contracts were awarded to bidders who had not submitted a declaration of past  |                                      | The SCM manager should ensure that suppliers  |



| Entity                                | Finding  | Root cause  | Recommendation  |
|---------------------------------------|--|---|---|
|                                       | supply chain practices such as fraud, abuse of the SCM system and non-performance, which was prescribed in order to comply with Treasury Regulation 16A9.2   |   | provide the required (SBD) documentation prior to conclusion of the procurement process.  |
| Passenger Rail Agency of South Africa | A contract amounting to approximately R17,9 billion (30% of R59,6 billion) relating to the BBBEE equity partners to the fleet renewal programme (new rolling stock) was awarded to bidders. The following non-compliance were identified: <ul style="list-style-type: none"> <li>- Non-compliance with the invitation to participate (ITP), as the agency did not consistently apply its discretion to disqualify the bidders in terms of conflict of interest as required by section 51(1)(a)(iii) of the PFMA;</li> <li>- The attendance register for the adjudication committee for the ITP and supplementary ITP process in respect of the B-BBEE tender for rolling stock could not be provided; consequently, we were unable to confirm receipt of all appointment letters.</li> </ul> | Key officials lacking appropriate competencies and slow responses by senior management. | Management should address the lack of proper filing and archiving systems. This will ensure that documentation and information are readily available to support transactions and management decisions.  |
|                                       | The agency did not notify National Treasury of the award of an unsolicited bid proposal to the value of R91 million, in contravention of paragraph 12.1 of the National Treasury practice note 11 of 2008-09.  |   | Management should take steps to ensure that the PRASA SCM policy is aligned with the National Treasury prescripts. The applicable SCM prescripts for unsolicited bids should be complied with.  |
| ACSA                                  | Goods, works or services were not procured through a procurement process which was fair, equitable, transparent and competitive as required by the section 51(1) (a) (iii) of the PFMA:  | Key officials lacking appropriate competencies  | Management should include the declaration part in the tender documentation and perform adequate reviews of the supplier documents submitted in order to identify suppliers who did not submit the signed declarations of interest.  |
|                                       | Contracts and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Service to be in order as required by the Preferential Procurement Regulation 14 :<br>No original tax clearance certificates/no original or certified copy of B-BBEE certificate   |   | Members of the relevant committee and the chairperson should satisfy themselves that all service providers that are recommended for award have all the required documentation in terms of laws and regulations. The list of recommended bidders should be accompanied by a signed checklist confirming the completeness of required documents.<br>The amount of irregular |

| Entity | Finding  | Root cause | Recommendation   |
|--------|--|------------|--|
|        |  |            | expenditure should be determined by management and disclosed in the annual financial statements.   |
|        | <p>The procurement system did not comply with the requirements of a fair SCM system as per section 51(1)(a)(iii) of the PFMA, in that:</p> <ul style="list-style-type: none"> <li>- invitations for competitive bidding were not advertised for a minimum period as prescribed in the SCM policy.</li> </ul> |            | <p>Management should properly plan the acquisition of goods and services and exercise sufficient oversight and monitoring of controls to ensure that compliance with paragraph 4.8 of the SCM policy is achieved. Management should ensure that audit evidence is readily available and that the proof of the advertisement for advertised awards is kept: and such proof should contain the date on which the advertisement appeared in the media.</p> <p>Management should, furthermore, formulate compliance checklists that detail the compliance requirements for each requirement, and these checklists should be reviewed throughout the procurement process.</p> |

### 3.4 Financial health status

| Entity                                  | Finding  |
|---|--|
| Cross- border Road Transport Agency     | <p>There was uncertainty as to whether the entity would be able to fund its future obligations due to the following:</p> <ul style="list-style-type: none"> <li>- The entity was currently in a net liability position.</li> <li>- Net cash flow from operating activities was negative.</li> </ul> <p>These concerns were mainly due to the Constitutional Court case verdict where the entity had to refund operators from 1 April 2011 to 13 August 2013.</p>                               |
| Road Accident Fund                      | <p>There was uncertainty as to whether the entity would be able to fund its future obligations as the entity had an accumulated deficit, and its current liabilities exceeded its current assets.</p>  |
| South African Maritime Safety Authority | <p>There was uncertainty as to whether the entity would be able to fund its future obligations due to the following:</p> <ul style="list-style-type: none"> <li>- A significant deficit was incurred (expenditure exceeded revenue).</li> <li>- Net cash flows from operating activities were negative.</li> <li>- The entity's current liabilities exceeded its current assets.</li> </ul>  |
| PRASA                                   | <ul style="list-style-type: none"> <li>- The subsidiary company (Intersite Asset Investments SOC Ltd) incurred an operating loss of R28 million for the year.</li> <li>- The net loss amounted to R1. billion</li> <li>- The loss was primarily attributed to the budgeted revenue from property investment, third- party projects and commercial projects not materialising.</li> </ul> <p>These conditions indicated the existence of a material uncertainty that might cast significant</p> |

| Entity | Finding  |
|--------|--|
|        | doubt on the subsidiary's ability to operate as a going concern. |

**3.5 Human resources management**

| Entity                  | Finding   | Root cause                                  | Recommendation   |
|-------------------------|---|---|--|
| Department of Transport | Vacancies not advertised within six months and not filled within 12 months. | Instability and vacancies in key positions. | The advertising and filling of vacant posts should be prioritised in the department. The prescribed recruitment processes should be followed at all times. |

**3.6 Information technology controls**

An analysis of the IT audit outcomes indicated that the portfolio had designed the IT controls it had committed to in the previous cycle; however, these controls had not been implemented, and as a result the portfolio still experienced challenges with IT management controls that provided assurance of the confidentiality, integrity and availability of financial information.

4. Drivers of internal control

| Drivers of internal control |                              |                          |                 |                         |                 |                 |                                      |                                     |                 |                 |                     |                 |                 |                 |
|-----------------------------|------------------------------|--------------------------|-----------------|-------------------------|-----------------|-----------------|--------------------------------------|-------------------------------------|-----------------|-----------------|---------------------|-----------------|-----------------|-----------------|
| Entity                      | Leadership                   |                          |                 |                         |                 |                 | Financial and performance management |                                     |                 |                 |                     | Governance      |                 |                 |
|                             | Effective leadership culture | Oversight responsibility | HR management   | Policies and procedures | Action plans    | IT governance   | Proper record keeping                | Processing and reconciling controls | Reporting       | Compliance      | IT systems controls | Risk management | Internal audit  | Audit committee |
| Department of Transport     | Good                         | Causing concern          | Good            | Good                    | Good            | Good            | Good                                 | Good                                | Causing concern | Causing concern | Good                | Good            | Good            | Good            |
| SANRAL                      | Good                         | Good                     | Good            | Good                    | Good            | Good            | Good                                 | Good                                | Causing concern | Good            | Good                | Good            | Good            | Good            |
| RAF                         | Good                         | Good                     | Good            | Good                    | Good            | Good            | Good                                 | Good                                | Good            | Good            | Good                | Good            | Good            | Good            |
| DLCA                        | Good                         | Good                     | Good            | Good                    | Good            | Good            | Good                                 | Good                                | Good            | Good            | Good                | Good            | Good            | Good            |
| SAMSA                       | Causing concern              | Causing concern          | Causing concern | Causing concern         | Causing concern | Good            | Causing concern                      | Good                                | Causing concern | Causing concern | Good                | Good            | Causing concern | Causing concern |
| CBRTA                       | Good                         | Good                     | Good            | Good                    | Good            | Good            | Good                                 | Good                                | Good            | Good            | Good                | Good            | Good            | Good            |
| PRASA                       | Good                         | Causing concern          | Good            | Causing concern         | Good            | Causing concern | Causing concern                      | Good                                | Causing concern | Causing concern | Causing concern     | Good            | Good            | Good            |
| RSR                         | Good                         | Good                     | Good            | Good                    | Good            | Good            | Good                                 | Good                                | Good            | Good            | Good                | Good            | Good            | Good            |
| SACAA                       | Good                         | Good                     | Good            | Good                    | Good            | Good            | Good                                 | Good                                | Good            | Good            | Good                | Good            | Good            | Good            |
| RTIA                        | Good                         | Good                     | Good            | Good                    | Good            | Good            | Good                                 | Good                                | Good            | Causing concern | Good                | Good            | Good            | Good            |
| Ports Regulator             | Good                         | Good                     | Good            | Good                    | Good            | Good            | Good                                 | Good                                | Good            | Good            | Good                | Good            | Good            | Good            |
| RTMC                        | Good                         | Good                     | Good            | Good                    | Good            | Good            | Good                                 | Good                                | Good            | Good            | Good                | Good            | Good            | Good            |
| ACSA                        | Good                         | Causing concern          | Good            | Good                    | Good            | Good            | Causing concern                      | Good                                | Causing concern | Causing concern | Good                | Good            | Good            | Good            |

|                |      |                 |                       |
|----------------|------|-----------------|-----------------------|
| Legend drivers | Good | Causing concern | Intervention required |
|----------------|------|-----------------|-----------------------|

5. Other matters of interest

(a) Unauthorised expenditure:

| Auditee |                         | Unauthorised expenditure |               |               |
|---------|-------------------------|--------------------------|---------------|---------------|
|         |                         | Movement                 | Amount R 2015 | Amount R 2014 |
| 1       | Department of Transport | ↓                        | 392 000 000   | 768 000 000   |

(b) Fruitless and wasteful expenditure:

| Auditee |                                     | Fruitless and wasteful expenditure |               |               |
|---------|-------------------------------------|------------------------------------|---------------|---------------|
|         |                                     | Movement                           | Amount R 2015 | Amount R 2014 |
| 1       | Department of Transport             | ↓                                  | 96 000        | 1 294 000     |
| 2       | Cross-border Road Transport Agency  | ↓                                  | 0             | 2 224         |
| 3       | PRASA                               | ↑                                  | 19 909 000    | 19 429 000    |
| 4       | Railway Safety Regulator            | ↑                                  | 2 399         | 92            |
| 5       | Road Accident Fund                  | ↓                                  | 24 508 919    | 30 440 500    |
| 6       | Road Traffic Infringement Agency    | ↑                                  | 37 794        | 0             |
| 7       | Road Traffic Management Corporation | ↑                                  | 291 123       | 161 372       |
| 8       | SA Civil Aviation Authority         | ↓                                  | 0             | 231 549       |
| 9       | SA Maritime Safety Authority        | ↑                                  | 1 430 000     | 1 112 000     |
| 10      | ACSA                                | ↑                                  | 12 567 000    | 547 000       |

(c) Irregular expenditure:

| Auditee |                                     | Irregular expenditure |               |               |
|---------|-------------------------------------|-----------------------|---------------|---------------|
|         |                                     | Movement              | Amount R 2015 | Amount R 2014 |
| 1       | Department of Transport             | ↓                     | 102 339 000   | 1 121 695 000 |
| 2       | Cross-border Road Transport Agency  | ↓                     | 534 938       | 827 753       |
| 3       | PRASA                               | ↑                     | 550 567 000   | 24 717 000    |
| 4       | Road Accident Fund                  | ↑                     | 14 644 885    | 18 457        |
| 5       | Railway Safety Regulator            | ↑                     | 11 917 398    | 0             |
| 6       | Road Traffic Infringement Agency    | ↑                     | 1 008 947     | 0             |
| 7       | Road Traffic Management Corporation | ↑                     | 3 660 012     | 3 268 675     |
| 8       | SA Civil Aviation Authority         | ↓                     | 0             | 154 002       |
| 9       | SA Maritime Safety Authority        | ↓                     | 16 352 000    | 28 846 829    |
| 10      | SANRAL                              | ↑                     | 1 606 238 000 | 1 541 309 000 |
| 11      | ACSA                                | ↑                     | 230 031 000   | 82 095 000    |

6. Other reports

- Investigations

**CBRTA** - an independent consulting firm performed an investigation at the request of the entity, which covered the period 18 August 2010 to 12 November 2013. The investigation was initiated based on an allegation of the misuse of a credit card. The investigation was concluded on 26 January 2015 and the entity was in the process of recovering some of the credit card expenditure.

**Department of Transport** – Investigations were being performed on matters related to contract management. The investigations covered the period 1 April 2014 to 31 March 2015. These investigations were still in progress.

**PRASA** - the Public Protector has performed an investigation based on a complaint received in 2012, which covered allegations made during the period between 2010 and 2012. The investigation was initiated based on allegations of financial mismanagement and tender irregularities. The investigation has been finalised and the report was issued in August 2015.

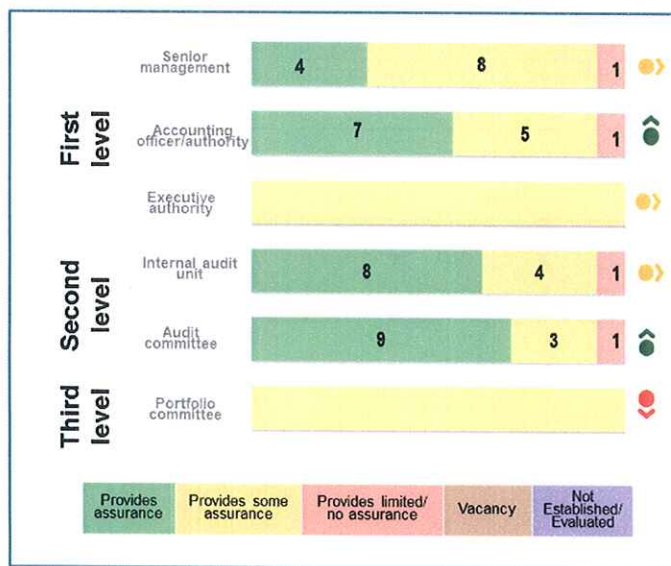
**RTIA** – a forensic investigation was concluded relating to printing of tabloids and inserts in newspapers. The investigation was completed, and the report issued was dated 20 April 2015. The report is currently being evaluated by the accounting authority.

**SANRAL** – an investigation on allegations of maladministration and irregular procurement processes relating to the Gauteng e-tolling contracts had been conducted since 2012 by the Public Protector, in terms of section 182 of the Constitution of the Republic of South Africa Act. The investigation is ongoing.

**7. Combined assurance on risk management in the public sector**

We assessed the level of assurance provided and its impact on the audit outcomes of the portfolio committee on the internal controls of the auditees. The assessments were based on our interactions with the committee, commitments made and honoured and the impact of their resolutions, actions and initiatives.

**Assessment of assurance providers for portfolio**



The first level of assurance should be improved further by management taking immediate action to address specific findings and recommendations. The second level of assurance should be improved by ensuring stability in senior management and more stringent oversight of consequence management.

The assurance provided through the oversight of the portfolio committee should be improved. The recommendation is based on the overall regression in audit outcomes in the portfolio. There should be an improvement in the monitoring of the implementation of action plans and consequence management.

**8. Commitments from the previous portfolio committee and the minister**

The following commitments should be actioned by the portfolio committee and minister:

| Commitment                             | Detail  |
|--|---|
| Regular feedback by departments to PCs | Request regular feedback from the department on key issues impacting entities in the portfolio as identified through the oversight process.             |
| e-Natis system                         | Monitor the process to transfer e-NaTiS system from the service provider.   |
| Action plans                           | Monitor implementation of action plans to improve audit outcomes regularly  |
| Key vacancies                          | Monitor vacancy management in the portfolio to ensure that all key posts are filled with appropriately skilled and competent people in a timely manner. |

The following commitments should be actioned by the minister:

| Commitment             | Detail  |
|------------------------|---|
| Action plans           | Implement the action plan to address the prior year audit findings.       |
| Contract management    | Contract management at all entities in the portfolio should be monitored. |
| Consequence management | Enhance performance and consequence management.                           |

**STATUS LEGEND**

|  |                                     |
|--|-------------------------------------|
|  | Fully implemented and functioning   |
|  | In progress                         |
|  | Not implemented and not functioning |

**9. SCOPA resolutions**

No previous SCOPA resolutions applicable to the 2014-15 financial year were identified in the Portfolio.

**10. Entities included in the portfolio not audited by the Auditor-General of South Africa (section 4(3) audit entities)**

| AUDIT OPINIONS                    | 14/15 | 13/14 | 12/13 | 11/12 |
|-----------------------------------|-------|-------|-------|-------|
| • Air Traffic Navigation Services |       |       |       |       |

**AUDIT OPINION LEGEND**

|   |  |
|---|--|
|   | CLEAN AUDIT OPINION: No findings on PDO and Compliance |
|   | UNQUALIFIED with findings on PDO and Compliance        |
|   | QUALIFIED AUDIT OPINION (with/without findings)        |
|   | DISCLAIMER/ADVERSE AUDIT OPINION                       |
|   | ENTITY NOT YET ESTABLISHED                             |
| ✓ | DEPARTMENT/ENTITY HAD FINDINGS (in the related matter) |