



14 March 2017

TRANSNET SOC LTD 2015/16 ANNUAL REPORT AND AUDIT OUTCOMES ANALYSIS

1. Introduction and summary of audit outcomes

Transnet SOC Limited is a freight transport and logistics company that owns South Africa’s railway, ports and pipeline infrastructure; and the company is wholly owned by the South African Government. Transnet SOC Limited contributes to the South African economy through the delivery of reliable freight transport and handling services. Since the 2013/14 financial year, Transnet SOC Limited has been audited by the same independent auditors, Sizwe Ntsabula Gobodo Inc. Table 1 indicates the audit outcomes for Transnet since the 2013/14 financial year.

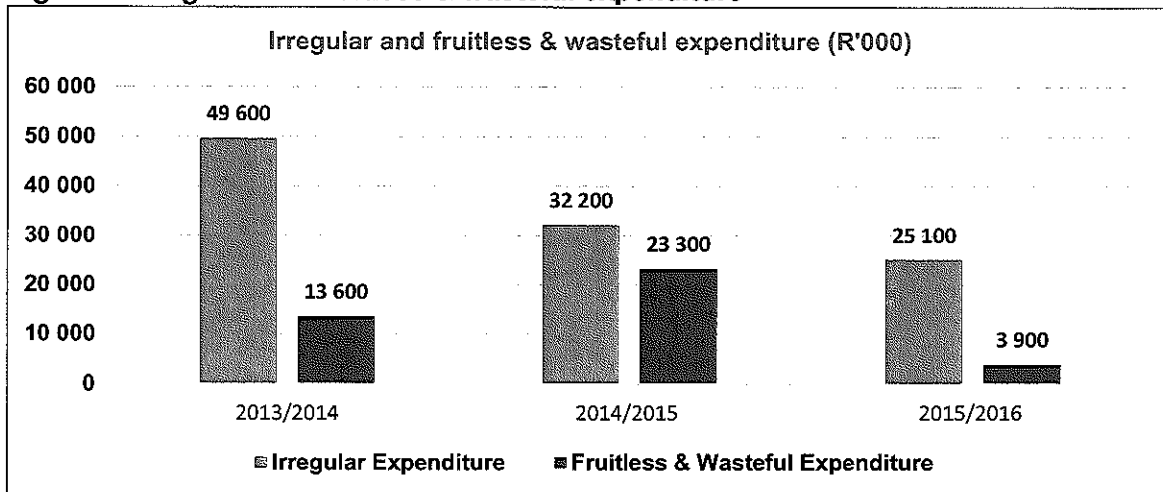
Table 1: Summary of audit outcomes

Year	2013/14	2014/15	2015/16
Audit Opinion	Unqualified with findings	Unqualified with findings	Unqualified with findings

2. Basis for audit opinion and findings by the Independent Auditors

2.1. Irregular, fruitless and wasteful expenditure

Figure 1: Irregular and fruitless & wasteful expenditure



Source: Transnet SOC Ltd annual financial statements (2013/14-2015/16)

Transnet SOC Ltd incurred irregular expenditure of R25.1 million in the 2015/16 financial year, down from R32.2 million in the 2014/15 financial year and R49.6 million in 2013/14 financial year (see figure 1). Fruitless and wasteful expenditure increased from R13.6 million in the 2013/14 financial year to R23.3 million in the 2014/15 financial year and thereafter decreased to R3.9 million in the 2015/16 financial year. There was no reported unauthorised expenditure

for the period under review. **Table 2 and 3 below** indicates instances where irregular, fruitless and wasteful expenditure were incurred.

Table 2: Programme where irregular expenditure was incurred (R million)

Programme	Irregular Expenditure (R million)		
	2013/2014	2014/2015	2015/2016
Contract costs exceeded	40	10,8	7,5
Contracts expired		14,5	7,9
Procurement and capital expenditure procedures not adhered to	1	3,7	9,7
Delegation of authority	8,6	3,2	

Source: Transnet SOC Ltd annual financial statements (2013/14-2015/16)

Table 3: Programme where fruitless and wasteful expenditure was incurred (R million)

Programme	Fruitless and wasteful expenditure (R million)		
	2013/2014	2014/2015	2015/2016
Overpayments			2,2
Redundant stock			0,7
Cancellation fees			0,5
Other		1,9	0,5
Incentive overpayments of gainshare		18,7	
Interest	13,6	2,4	

Source: Transnet SOC Ltd annual financial statements (2013/14-2015/16)

2.2. Compliance with legislation

2.2.1. Strategic planning and performance management

The independent auditors also discovered that executive management failed to maintain effective, efficient and transparent systems of risk management and internal controls with respect to performance information and management as required by section 51(1)(a)(i) of the PFMA.

2.2.2. Expenditure management

Furthermore (see figure 1), the independent auditors found that the executive management of the company, failed in their responsibilities to take effective steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA.

2.2.3. Procurement and contract management

The independent auditors also discovered that contracts 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.

2.3. Internal control (leadership,)

2.3.1. Leadership

The independent auditors found that the public entity's executive management did not exercise adequate oversight responsibility regarding compliance with applicable laws and regulations which resulted in instances of irregular and fruitless and wasteful expenditure being incurred by the entity.

3. References

Transnet SOC Ltd, annual financial statements, 2013/14
Transnet SOC Ltd, annual financial statements, 2014/15
Transnet SOC Ltd, annual financial statements, 2015/16