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Mr N T Godi
Chairperson: Standing Committee on Public Accounts
PO Box 15
Cape Town 8000

By email: bkali@parliament.gov.za

Dear Mr Godi

SCOPA REVIEW OF 2016-2017 IRREGULAR, FRUITLESS, WASTEFUL EXPENDITURE, DEVIATIONS AND EXPANSIONS OF SANRAL

Your letter dated 20 February 2018, has reference.

SANRAL welcomes the opportunity to meet with the SCOPA and to engage with regard to the irregular, fruitless and wasteful expenditure which was reported in the 2016/17 Integrated Report.

We attach the full details of each of the events, as requested.

Furthermore, SANRAL would like the Committee to note the progress it has made in curbing non-compliance with laws and regulations, which may lead to irregular expenditure.

The table below indicate the expenditure since 2012 when it was first identified:

Type (R'million)	2012	2013	2014	2015	2016	2017
Irregular	2 099.7	3 305.7	1 541.3	1 606.2	1 156.3	424.9
Fruitless and Wasteful	-	-	-	-	-	15.1
Total	2 099.7	3 305.7	1 541.3	1 606.2	1 156.3	440.0

The Routine Road Maintenance model which was applied up to 2012/13, led to more than 90% of the irregular expenditure initially, has been phased out.

As part of SANRAL's strategy to develop small contractors as per Government's aims and objectives, SANRAL used a Procurement model that will ensure that the prices tendered will protect and develop SMMEs. The model is aimed at appointing a Management Contractor that will sublet 80% of routine maintenance work (of which more than 90% are black companies) to SMMEs. The work was tendered in smaller work packages, which SMME's are more capable of undertaking and can be sustained. Due to the smaller economy of scale of work packages the realistic rates at which SMMEs can do the work for a fair price is generally higher than a main contractor. SANRAL applied a proven mathematical equation, calculated independently by the University of Pretoria, to determine the lowest acceptable tender price that allows the appointment of a contractor with the most realistic and lowest acceptable rates at which



SMMEs can do the work and be financially viable. The tender methodology and adjudication method are clearly stipulated in the tender documentation and is fair and reasonable to SMMEs and the management contractor. Even though this methodology was widely accepted in the industry, the fact that the "lowest acceptable price" is not defined in the PPPFA, led the AGSA to conclude that the methodology was not in-line with the Act.

SANRAL maintains that the model's objective was in line with the PPPFA objective of sustainable transformation. In our discussions with industry and the Office of the Chief Procurement Officer, the model is regarded as effective and is considered to be progressive. It is considered for future changes to the PPPFA.

We appreciate the work done by the Committee and the opportunity to present our case in this manner.

Yours Sincerely

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Mr. Roshan Morar
Chairperson of the Board

Cc:
Minister of Transport
Acting Director-General: Transport
SANRAL Board
Ms NT Nkabinde

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