SCoA BRIEFING NOTE | **PFMA 2018-19**

PASSENGER RAIL AGENCY OF SOUTH AFRICA (PRASA)

20 November 2019

AUDITOR-GENERAL SOUTH AFRICA

CONTENTS

1. Introduction

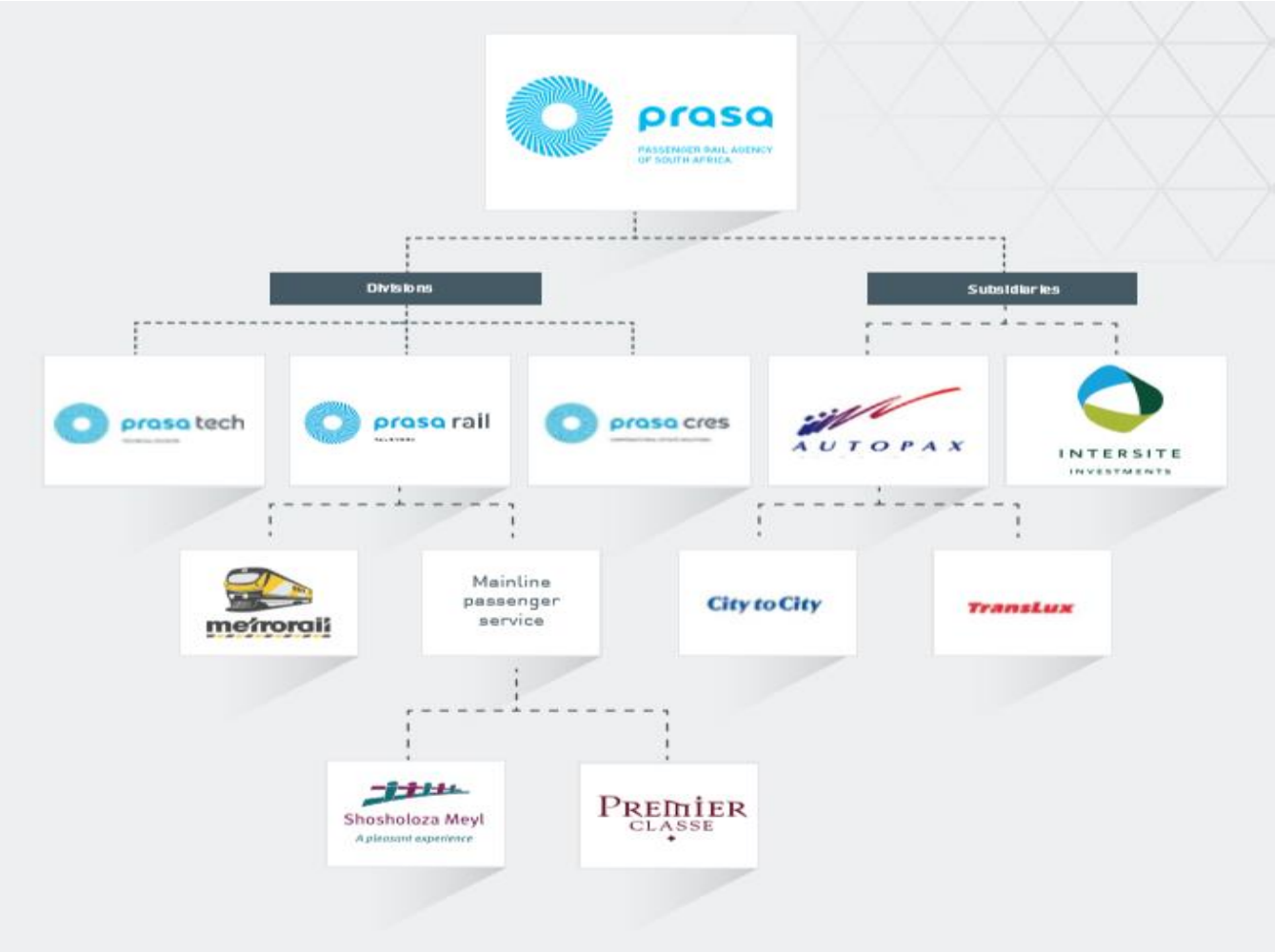
1.1 Reputation promise of the Auditor-General of South Africa

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

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to provide an overview of the audit outcomes and other findings in respect of PRASA for the 2018/19 financial year.

1.3 Organisational structure



*The organisational structure is also available on page 11 of the Annual report of PRASA

1.4 Funding

PRASA received government subsidies from the Department of Transport amounting to R7.4 billion for operations and R8,4 billion for capital expenditure during the 2018-19 financial year. In addition, PRASA generates revenue of R1. 5 billion in the form of fare revenue, operating lease rental income of R773 million, other income of R308 million and interest received of R1 billion.

2. Audit opinion history

The audit outcomes for the current period and the past 3 years have been summarised below:

DESCRIPTION	15-16	16-17	17-18	18-19
Audit opinions	U	Q	Q	D
Areas of modification				
Property, plant and equipment			✔	✔
Change in accounting policy – first time adoption of GRAP				✔
Unspent conditional grants and revenue from non-exchange transactions – Capital subsidy and grants amortised				✔
Receivables from non-exchange transactions, subsidy received in advance, revenue from non-exchange transactions – operational subsidy and bad debts written off			✔	✔
Fare revenue			✔	✔
Commitments				✔
Risk management				✔
Irregular, fruitless and wasteful expenditure		✔	✔	✔
Cash flow statement				✔
Statement of comparison of budget and actual amounts				✔
Other findings				
Compliance with legislation				
Material misstatements in the submitted financial statements	✔	✔	✔	✔

DESCRIPTION	15-16	16-17	17-18	18-19
Audit opinions	U	Q	Q	D
Expenditure management	✔	✔	✔	✔
Procurement and contract management	✔	✔	✔	✔
Consequence management		✔	✔	✔
Liability management	✔			
Strategic planning			✔	
Revenue management			✔	
Audit of predetermined objectives				
Material findings on usefulness and reliability of reported performance information	✔	✔	✔	✔

AUDIT OPINION

C	CLEAN AUDIT OPINION: No findings on PDO and Compliance
U	UNQUALIFIED with findings on PDO and Compliance
Q	QUALIFIED AUDIT OPINION (with/without findings)
D	DISCLAIMER/ADVERSE AUDIT OPINION

The audit outcomes have regressed over the four-year period. PRASA regressed from a qualified audit opinion from the prior year to a disclaimer in the current year due to significant material misstatements in the financial statements and the significant limitation of scope imposed on the auditors. The regression in the audit outcome is mainly due to instability at executive management level and lack of accountability by senior management to address repeat findings over the years.

3. Overview of the audit outcomes

- The audit outcome of PRASA in the current audit year has regressed to disclaimer and this follows two financial years of a stagnant position of "qualified audit opinion with findings". The Board of Control (BOC) has remained stable during the financial year whilst the position of Group Chief Executive Officer (GCEO) has remained filled by acting incumbents. During the 2018/19 year, 3 officials have acted in the position of the GCEO. There was an effort by the BOC to "turn PRASA around" which included the implementation of disciplinary processes at executive level, however the instability at the executive management level coupled with lack of accountability to address significant matters that have been repeatedly reported over the previous audit cycles has thwarted the efforts of the BOC resulting in a regression in the audit outcome.

- The breakdown in controls at the entity, failing infrastructure together with the repeated incidents of accidents, theft, vandalism, delays and security issues have impacted negatively on rail commuters and the ability of PRASA to effectively discharge its mandate. PRASA has only managed to achieve 26% (2017/18: 21%) of its annual performance plan (APP) targets for the year and this together with declining passenger numbers and unrealised revenue targets demonstrates that the entity is in a downward spiral with regards to its service offering to rail commuters and its overall performance.

- Material findings were reported on two strategic objectives (Improve rail systems performance and expand PRASA rail networks and services). PRASA did not provide sufficient appropriate supporting documents to support the reported performance of these strategic objectives in the annual performance report. Please refer to the key focus areas section in this document from page 14 for the specific findings on these strategic objectives.

- Ineffective compliance monitoring processes that have been previously reported to senior management, has remained unaddressed resulting in repeat non-compliance findings. This includes ineffective steps taken to prevent irregular, fruitless and wasteful expenditure. Please refer to the key focus areas section in this document from page 17 for the specific non-compliance findings.

- In accordance with our expanded mandate, the concept of a material irregularity was introduced. The Standing Committee on the Auditor-General (SCoAG) approved a phased approach for the implementation of the expanded mandate. PRASA was included in the selection of auditees as part of the phased approach on the basis of its previous audit outcomes and its high level of irregular expenditure over the last 3 years. We have identified 9 Material irregularities and these related to unfair and uncompetitive procurement processes and competitive bidding processes not followed. Please refer to the material irregularities as detailed in this document from page 10 for further details on the matters identified.

- Over the past few years PRASA has embarked on a number of large infrastructure related projects with a view to modernise its fleet, rail network and infrastructure.

Unfortunately, a number of these awards did not comply with SCM legislation and has continued to trigger irregular expenditure that has resulted in PRASA being continuously ranked as one of the top offenders with regards to irregular expenditure in the public sector. Please refer to the material irregularities and procurement and contract management non-compliance findings as detailed in this document from page 10 and 19 for further details on the specific findings.

- The procurement process for the purchase of the locomotives resulting in a R3,5 billion award to Swifambo Rail Leasing (SRL) was found to have breached a number of legislative prescripts. An investigation into the award initiated by the BOC in 2015, resulted in a court application for the setting aside of this contract. The court matter with SRL was finally concluded with the Constitutional Court confirming the decision of the Supreme Court of Appeal to set aside the contract on the basis that "no purpose would be served in continuing with the performance of the contract, the high court was correct in saying that it would be harmful to allow a contract, concluded in a corrupt process, to stand". Of the R2,6 billion prepayment made to SRL for the purchase of the locomotives, R2,2 billion has been impaired and it is unlikely that it will be recovered.

- Gibela rail Transport Consortium (Gibela)was awarded a R59 billion (with an annual adjustment provision) contract for the provision of 600 new trains sets. For the 2018/19 year, 3 new train sets were provisionally accepted from Gibela while the target was 4-7 train sets. According to the revised acceptance schedule, by 31/03/2019 PRASA should have provisionally accepted train set # 30 while collectively from 2015/16 only 23 have been provisionally accepted. These train sets were only permitted to run during "off-peak" time schedules on specific corridors in line with the Railway Safety Regulator's (RSR) validation process in respect of testing the train sets.

- Multi-billion rand awards were made in 2012 in respect of the re-signalling contracts nationally for Gauteng, Western Cape and Kwazulu Natal. Work in respect of these contracts are currently all behind schedule. With regards to Kwazulu Natal, the contract was terminated in October 2018 however only 73% of the work was completed and 16% of stations commissioned where the new signalling infrastructure was rolled out.

- As indicated in the annual performance report of PRASA, protracted SCM processes including delays in constituting the various bid committees and delays in the probity checks where the procurement is in excess of R10 million has hampered progress with the Modernisation Programme projects which comprises depot modernisation, the 120km/h perway upgrades and station modernisation. As the roll-out of the new train sets is dependent on these upgrades, these delays impact on the roll-out. The capital grants have remained largely unspent. According to the annual performance report, of a targeted spend of R8,4 billion only R4,6 billion was spent.

- In accordance with the requirements of Directive 12 issued by the Accounting Standards Board, for the 2018/19 financial year PRASA was required to apply Standards of Generally Recognised Accounting Practice (GRAP) as the financial reporting framework as compared to South African Statements of Generally Accepted

Accounting Practice that it previously applied. The financial statements compilation process was deficient as a number of material misstatements was identified and limitations imposed in respect of information not being provided to support disclosures made, resulting in a disclaimer of opinion being issued. Although the financials were submitted on 31 May 2019, not all the required supporting records were included in the submission as a result it was considered an incomplete submission.

- Deficiencies in asset management previously reported to executives and senior management remained unaddressed. Not all assets recorded in the register were supported by sufficient and appropriate documentation. The supporting information not provided included amongst others project scope, progress reports, payment packs, completion certificates relating to assets under construction projects.

- Record keeping issues as previously reported in the prior year audit report, remained unaddressed. Information was not timeously provided and in some cases were not provided at all resulting in a number of limitation of scope findings. The lack of records relating to the minutes of governance structures including the Board and its sub-committees is of significant concern. This had a significant impact across the audit of PRASA.

- Fare revenue has continued to decline from the previous financial years to R1,5 billion (2018: R1,8 billion) (2017: R2,3 billion) and is reflective of the declining passenger numbers as reported on PRASA's annual performance report. This remains a challenge as physical access and security controls at stations remain weak and thus commuters evade paying for the service which results in the loss of fare revenue for the entity.

- Information technology (IT) deficiencies previously reported on prior year audit reports remain unaddressed despite some matters being reported on consecutively for the past 4 years. The key findings in the IT environment include amongst others that the ICT governance committee was not functioning effectively, lack of service level agreement with IT vendors, deficiencies in user account management, programme change management and security management, lack of vulnerability detection tool etc. The large number of vacancies in key IT positions including the Information Security Officer (ISO) who is responsible for overseeing the overall entity's ICT security as well as the suspension of the Chief Information Officer who is responsible to lead the function also affected the governance of IT negatively.

- The financial viability and sustainability of the subsidiaries of PRASA are uncertain and the financial position of both have regressed further.

- Other specific details relating to the issues raised above are highlighted in this document under the key focus areas.

4. Irregular, Fruitless and Wasteful expenditure

(a) Irregular expenditure:

	Auditee	Irregular expenditure (Balance)			
		Movement	Amount R 2019	Amount R 2018	Amount R 2017
1	PRASA Group	↑	R27,2b	R24,2b	R20,3b

Irregular expenditure increased by R3,037 billion from the prior year. The irregular expenditure was mostly as a result of contravention of supply chain management prescripts. The current year irregular expenditure consisted mostly of the following:

- Competitive bidding process in terms of the SCM Policy and legislative prescripts not followed including deviations where it is not impracticable to follow a competitive bidding process, needs assessment not being performed, awards based on criteria that differ from the original specifications, awards based on preference points that were not calculated in accordance with the Preferential Procurement Policy Framework Act and specification for awards did not include the minimum threshold for local production and content (R2 513 million),
- Contract price exceeded without obtaining the necessary approvals including those from National Treasury (R167 million),
- Payments without contract where the contract continued after the contract end date without the necessary approvals (R118 million)

(b) Fruitless and wasteful expenditure:

	Auditee	Fruitless and Wasteful expenditure (Balance)			
		Movement	Amount R 2019	Amount R 2018	Amount R 2017
1	PRASA Group	↓	R383m	R1b	R992m

Fruitless and wasteful expenditure has decreased by R665 million from the prior year. The decrease was as a result of an adjustment to the opening balance relating to the locomotives SRL contract. The current year fruitless and wasteful expenditure amounted to R51 million; and it comprised mostly interest and penalty on late payments (R21 million) and incorrect overtime payments (R21 million).

5. Material irregularities

In the implementation of our expanded mandate, a phased-in approach was followed and PRASA was one of the auditees that was selected for implementation.

The following material irregularities were identified and reported to the BOC:

	Material Irregularity	Status of Material Irregularity
1	Unfair procurement process for the purchase of locomotives	The first phase of the investigation into the transaction resulted into the setting aside of the contract in May 2019. The second of phase of investigation into the implicated employees is still in progress The following recommendations have been issued: a. Appropriate action should be taken to ensure the second phase of the investigation is concluded b. Effective and appropriate disciplinary steps should be taken against employees found to be responsible The locomotive contract is still under investigation by the Directorate for Priority Crime Investigations (DCPI) since 2015.
2	Competitive bidding process not followed in appointment of general overhaul and upgrade contractors	The proclamation for Investigation by Special Investigation Unit (SIU) into the matter was approved by the President on 13 August 2019 Progress on the matter will be followed in 2019/20 audit cycle.
3	Unfair procurement process followed in the appointment of signalling contractors	The BOC committed to initiate an independent investigation.
4	Unfair award for the control of vegetation	
5-7	Competitive bidding process not followed in the award relating to: • provision of bus services in the Western Cape • provision of surveillance services (drones) • provision of security services	The BOC committed to initiate an independent investigation.
8-9	Uncompetitive process followed in the award relating to:	

	Material Irregularity	Status of Material Irregularity
	• Supply and delivery of signalling equipment • Repair and replacement of signalling equipment	

6. Modification (Disclaimer) paragraphs

Property, plant and equipment

- Sufficient appropriate audit evidence could not be obtained that management had properly accounted for property, plant and equipment (PPE) in accordance with GRAP 17. This was due to the inadequate state of accounting records, including the lack of a credible fixed asset register and the non-submission of information in support of these assets. Some assets were not recorded in the asset register, while others were recorded but their existence could not be verified.

- Assets under construction were not disclosed per class of PPE as required by GRAP 17, and material inconsistencies were identified between the amounts disclosed in the reconciliation of PPE and the reconciliation of work in progress as detailed in note 4. I was unable to confirm these assets by alternative means.

Change in accounting policy - first time adoption of GRAP

- Sufficient appropriate audit evidence could not be obtained that management had properly accounted for the change in accounting policy for the first time adoption of GRAP. This was due to the lack of supporting audit evidence to substantiate the change in accounting policy adjustments for the capital subsidy and grants – non-current liabilities.

- Material inconsistencies were also identified between the amounts disclosed in respect of the adjustment to the capital subsidy and grants – non-current liabilities. I was unable to confirm this adjustment by alternative means.

- The change in accounting policy was not accounted for in accordance with the requirement of GRAP 3. There was a lack of supporting audit evidence to substantiate the change in accounting policy adjustment for the accumulated surplus. I was also unable to confirm the restatement of the opening accumulated surplus. This amount, together with the restatement of R2,5 billion at 1 April 2018, is not included in note 35 to the financial statements. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to note 35 to the financial statements and the accumulated surplus stated

at R18,9 billion (2018: R20,4 billion) and R18,8 billion (2018: R20,5 billion) for the controlling entity and the economic entity, respectively.

Unspent conditional grants and revenue from non-exchange transactions – capital subsidy and grants amortised

- I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for the unspent conditional grants and capital subsidy and grants amortised in accordance with the requirements of GRAP 23. This was due to management being unable to substantiate that conditions applied to these grants, resulting in a liability being recognised on the statement of financial position, and that these conditions had been met, resulting in amounts being recognised in the statement of financial performance. I was unable to confirm these by alternative means.

Receivables from non-exchange transactions, subsidy received in advance, revenue from non-exchange transactions – operational subsidy and bad debts written off

- PRASA did not recognise all revenue from non-exchange – operational subsidy in accordance with the requirements of GRAP 23. Revenue from non-exchange – operational subsidy relating to the current year was incorrectly recognised as a receipt of R838,8 million relating to a prior year receivable from non-exchange transactions and R247 million was recognised as a subsidy received in advance. The R838,8 million receivables from non-exchange transactions should have been derecognised in accordance with the requirements of GRAP 104, Financial instruments.

- Consequently, the revenue from non-exchange – operational subsidy and bad debts written off were understated by R838,8 million and the subsidy received in advance was overstated by R247 million as included on notes 23, 26 and 18 to the financial statements for the controlling entity and economic entity. Additionally, there was an impact on the deficit for the period and the accumulated surplus.

Fare revenue

- During 2018, I was unable to obtain sufficient appropriate audit evidence for fare revenue and to confirm the revenue by alternative means, consequently I was unable to determine, whether any adjustment was necessary to fare revenue stated at R1,3 billion and R1,8 billion for the controlling entity and economic entity respectively. My audit opinion on the financial statements for the period ended 31 March 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the fare revenue for the current period.

Commitments

- I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for commitments disclosed in note 30 to the financial statements in accordance with the requirements of GRAP 1, Presentation of financial statements.

This was due to a lack of supporting audit evidence to substantiate R19,2 billion included in operational commitments as services contracted but not provided for. I was unable to confirm this amount by alternative means.

- Consequently, I was unable to determine whether any adjustments were necessary to the commitments already contracted but not provided for stated at R20,4 billion in note 30 to the financial statements for the controlling entity and the economic entity.

Risk management

- I was unable to obtain sufficient appropriate audit evidence that the risk management details disclosed in note 36 to the financial statements were in accordance with the requirements of GRAP 104. The financial instruments have been categorised into risk categories however, no supporting audit evidence was provided to substantiate the categorisation of the various financial instruments. I was unable to confirm this categorisation by alternative means.

Irregular expenditure

- The group did not have an adequate system for identifying and disclosing all irregular expenditure and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all such expenditure had been properly recorded in note 40 to the financial statements. Consequently, I was unable to determine the full extent of the adjustment necessary to the balance of irregular expenditure stated at R26,2 billion (2018: R23,4 billion) for the controlling entity and at R27,3 billion (2018: R24,2 billion) for the economic entity in note 40.

Fruitless and wasteful expenditure

- The group did not have an adequate system for identifying and disclosing all fruitless and wasteful expenditure and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all such expenditure had been properly recorded in note 39 to the financial statements. Consequently, I was unable to determine the full extent of the adjustment necessary to the balance of fruitless and wasteful expenditure stated at R333 million (2018: R1 billion) for the controlling entity and at R383 million (2018: R1 billion) for the economic entity in note 39 to the financial statements.

Cash flow statement

- The cash flow statement was not presented in accordance with GRAP 2, Cash flow statements. The cash flow statement included material inconsistencies where non-cash items were included in the statement and cash items were not appropriately classified and presented. Consequently, cash flows from operating activities and cash flows from investing activities were understated by R118 million (2018: R209 million) for the controlling entity and the economic entity.

Statement of comparison of budget and actual amounts

- The statement of comparison of budget and actual amounts was not presented in accordance with GRAP 24, Presentation of budget information in financial statements. The approved budget amounts presented were not the approved budget amounts as contained in the corporate plan and no adjustment to the budget was presented even though there was an in-year approved adjustment of R1,3 billion to the operational subsidy budget amount. Furthermore, total revenue for both the controlling entity and economic entity was understated by R1,8 billion and total expenditure was overstated by R973 million and R969 million for the controlling entity and the economic entity, respectively. Additionally, there was an impact on the deficit for the period.

7. Key Focus areas

7.1 Predetermined objectives

Objective	Finding	Root cause	Recommendation
Improve rail system performance	**Indicator: Metrorail commuter coaches in service** The achievement for the target of 2400-2879 Metrorail coaches in service reported in the annual performance report was 1986. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 1439	There is a lack of adequate review of information submitted for performance reporting by the management at both regional and national level.	Management should review all commuter coaches in service information supplied for performance reporting to ensure that there is sufficient and appropriate information to evidence the reported achievement.
Improve rail system performance	**Indicator: Perway faults per annum** **Indicator: Electrical faults per annum** **Indicator: Signal faults** I was unable to obtain sufficient appropriate audit evidence to validate the actual	Management did not ensure that the system used to record actual performance is updated on a regular basis to ensure that the reported performance information is reliable	Management should ensure that the system used to report performance information is updated on a regular basis

Objective	Finding	Root cause	Recommendation
	achievements for the indicators listed below as the entity did not have sufficient appropriate records to support the achievements reported. The system used as a basis for the actual achievement, was not updated with the correct event cause after work had been completed and was not updated with valid faults resulting in incorrect event classification.		
Improve rail system performance	**Indicator: Reduce temporary engineering speed restrictions measured in km on the rail network** I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 169 kms on the network under temporary speed restrictions by year-end as the entity did not have adequate records to support the achievements reported. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine the full extent of adjustments required to the reported achievement of 169 kms as reported in the annual performance report.	There is a slow response by management in addressing the control deficiencies relating temporary speed restriction reporting. There is a lack of oversight in the review of information submitted to Metrorail Head Office for reporting. There is a poor recording keeping process, thus resulting in the lack of sufficient and appropriate evidence.	Consequence management should be implemented for repeat findings Management should review all information submitted for reporting. Management should investigate the population and make the necessary adjustments to correct the misstatements, ensuring that the information reported is supported by sufficient and appropriate evidence.

Objective	Finding	Root cause	Recommendation
Improve rail system performance	**Train incidents (delays & cancellations) allocated to protection services for identified categories** I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target of 3144-4440 train incidents allocated to protection services as per identified categories.	This was due to sufficient appropriate audit evidence not being available to verify that train incidents allocated met the definition as contained in the standard operating procedure	Management should review all information submitted to the Business Performance office, ensuring that it is supported by appropriate and sufficient and appropriate evidence to validate the incident.
Improve rail system performance	**Indicator: Rail passenger injuries and fatalities per million passengers** I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 16.52 passenger injuries and fatalities per million paying passengers transported in rail as the entity did not have adequate records to support the achievements reported. The system used as a basis for the actual achievement does not provide details that the injuries and fatalities was in respect of passengers as defined in the standard operating procedure.	Management did not ensure that the information reported in the APR is adequately evidenced and reviewed prior to reporting in the APR.	Management should ensure that the reported achievement in the APR is reviewed for accuracy and supported by sufficient and appropriate evidence.
Improve rail system performance	**Indicator: Rail public injuries and fatalities per million passengers** I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 2.67 public injuries and fatalities per million		Management should ensure that the reported achievement in the APR is reviewed for accuracy and supported by sufficient and

Objective	Finding	Root cause	Recommendation
	paying passengers transported in rail as the entity did not have adequate records to support the achievements reported. The system used as a basis for the actual achievement does not provide details that the injuries and fatalities was in respect of public as defined in the standard operating procedure.		appropriate evidence.
Objective 5: Expand PRASA rail networks and services	**Indicator: Rail expansion projects** I was unable to obtain sufficient appropriate audit evidence for the reported completion of the Motherwell extension detail designs that was approved by PRASA however not approved by the Transport Authority. This was due to inadequate records to confirm that the designs were approved by PRASA as reported.	Management did not ensure that the information reported in the APR is adequately evidenced and reviewed prior to reporting in the APR.	Management should ensure that the reported achievement in the APR is reviewed for accuracy and supported by sufficient and appropriate evidence.

7.2 Compliance

Subject matter	Finding	Root cause	Recommendation
Annual Financial Statements	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 (b) of the PFMA. Material misstatements of non-	This was mainly due to a lack of financial management discipline of staff involved in financial reporting and a slow response by senior management in addressing previously reported deficiencies to ensure credible financial statements are compiled. Despite	Management should compile an action plan to improve the preventative controls around the preparation of the AFS to ensure compliance with the applicable financial reporting framework.

Subject matter	Finding	Root cause	Recommendation
	current assets, current assets, non-current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer of opinion.	senior management being aware of the move from SA GAAP to Standards of GRAP from 2015, the process to start with the transition only commenced late in the financial year. The statements, which were of a poor quality were prepared by a consultant however the accounting authority and senior management remains accountable for the quality and submission of credible financial statements for audit.	Consequence management should be implemented for repeat findings.
Expenditure Management (irregular & Fruitless)	Effective and appropriate steps were not taken to prevent irregular and fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for the disclaimer of opinion, the value disclosed in note 40 and 39 to the financial statements does not reflect the full extent of irregular and fruitless and wasteful expenditure incurred which could not be quantified. The majority of the irregular expenditure disclosed in the financial statements was caused by non-compliance with supply chain management-related legislation. The majority of the fruitless and wasteful expenditure disclosed in the financial statements was caused	There is a slow response by SCM management in addressing the ongoing deficiencies over non-compliance with laws, regulations and PRASA policies and the lack of consequence management in respect of staff that continuously do not perform their allocated job responsibilities.	Management should develop and implement a system to prevent, detect and report on non-compliance in accordance with the NT framework on irregular expenditure. All irregular expenditure should be disclosed in the register.

Subject matter	Finding	Root cause	Recommendation
	by payments made where the value derived could not be justified.		
Procurement and contract management	Some goods, works or services were not procured through a procurement process that is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA. Some of the non-compliance matters resulted in material irregularities as reported in the section on material irregularities. Similar non-compliance was also reported in the prior year.	There is a slow response by SCM management in addressing the ongoing deficiencies over non-compliance with laws, regulations and PRASA policies and the lack of consequence management in respect of staff that continuously do not perform their allocated job responsibilities.	Management should develop and implement a system to prevent, detect and report on non-compliance in accordance with the NT framework on irregular expenditure. All irregular expenditure should be disclosed in the register. Consequence management should be implemented for officials who permit or causes non-compliance with laws and regulations
	Sufficient appropriate audit evidence could not be obtained that the bids of the winning suppliers were received before the stipulated closing date and time, which impacts on a fair, equitable, transparent and competitive procurement process, as required by section 51(1)(a)(iii) of the PFMA.		
	Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).		
	Sufficient appropriate audit evidence could		

Subject matter	Finding	Root cause	Recommendation
	not be obtained that persons in service of the entity whose close associates had a private or business interest in contracts awarded by the entity had not participated in the process relating to that contract, as required by section 50(3)(b) of the PFMA.		
Consequence Management	I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular and fruitless and wasteful expenditure, as required by section 51(1)(e)(iii) of the PFMA. This was due to proper and complete records not being maintained as evidence to support that investigations into such expenditure was undertaken.	There is a slow response by senior management in enforcing compliance with the approved disciplinary processes and addressing the ongoing non-compliance previously reported.	Management should ensure that all outstanding documentation is provided to audit within the stipulated time to ensure that the audit process is not delayed. The respective senior managers should ensure that the approved disciplinary procedures are effectively implemented.

8. Drivers of internal controls

	Leadership						Financial and performance					Governance		
Entity	Oversight responsibility	Effective leadership culture	HR Management	Policies & procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT Systems controls	Risk management	Internal audit	Audit committee
PRASA														

Legend Drivers	Good	Causing Concern	Intervention required

The above picture is clearly evident of an entity that has multiple significant issues including ineffective internal controls. These deficiencies require urgent attention in order to improve the audit outcome. Refer below for specific details under each driver of internal controls.

Leadership & Governance

- Instability in various key positions at executive level, which had been filled by a number of acting incumbents has continued to impact the entity negatively and had contributed to the significant deficiencies in the financial management, performance reporting and compliance monitoring processes. This, together with the complacent attitude, lack of accountability and lack of effort of some executives to address the collapse of the internal controls, including those relating to asset management and the information technology environment which, when combined with the significant matters that have been repeatedly reported over the previous audits has contributed to the regression in the audit outcome. The inadequate records supporting amounts disclosed as assets under construction, which constitutes a significant portion of PPE are of significant concern and requires urgent intervention.

- Major capital projects including those related to rolling stock, signalling and the modernisation programme, are all behind schedule, resulting in low amounts of the capital subsidies being utilised. The supply chain management and project management function must be strengthened to ensure that the supply chain process does not create delays and that the projects are properly managed to minimise delays.

- Inadequate physical access and security controls at stations to restrict access to passengers with valid tickets have resulted in fare revenue evasion and contributed to

declining fare revenue amounts and poor financial performance, which must be addressed urgently.

Financial and performance

- The financial statements contained a significant number of material misstatements resulting in a disclaimer of opinion being expressed. This was despite an external consultant being engaged to compile the financial statements. The regressed outcome was mainly due to a slow response by senior management in implementing proper processes to ensure a smooth transition from the South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) to Standards of GRAP. Previously reported deficiencies regarding the inadequate financial discipline of staff involved in the financial reporting process and ineffective reviews to ensure that credible financial statements were compiled, remain unaddressed.

- The material misstatements relating to performance reporting were mainly attributable to inadequate record keeping and a lack of dissemination of details on how the actual achievements should be calculated.

- The documents supporting the financial statements were not in all instances properly filed and easily retrievable due to an inadequate document management system. Despite this matter being raised repeatedly during previous audit cycles, it has remained unaddressed to a large extent. The significant delays in the submission of information continued to have a negative impact on the audit process.

9. Key recommendations to the committee

- Follow up with the executive authority on the appointments of a permanent board for PRASA and its subsidiaries in accordance with legislative requirements,
- Follow up with executive authority on progress on the action to address audit findings and initiatives taken to address poor performance of the entity,
- Follow up with PRASA BOC on the following:
  - the appointments of permanent group chief executive officer and the filling of other key vacancies,
  - Progress on the action taken to address the audit findings,
  - Progress on the initiatives taken to address the poor performance of the entity,
  - Progress on the steps taken to address the financial sustainability challenges relating to its subsidiaries,
  - Progress on the investigations and consequence management, and
  - Actions taken with respect to the material irregularities reported by the AGSA.