



Briefing to Portfolio Committee on Transport

PFMA
2019-20

10 November 2020



AUDITOR - GENERAL
SOUTH AFRICA

Reputation promise

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



Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report* (BRRR).



The 2019-20 audit outcomes



Our annual audit examines three areas

THE AG'S
ANNUAL
AUDITS
EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND
ABSENCE OF SIGNIFICANT
MISSTATEMENTS IN
FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE
PERFORMANCE
INFORMATION FOR
PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL
LAWS AND REGULATIONS
GOVERNING FINANCIAL
MATTERS

The AGSA expresses the following different audit opinions

Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

Disclaimed opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements



Important to note

The percentages in this presentation are calculated based on the **completed audits of thirteen auditees**, unless indicated otherwise.

Audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Outstanding audits

Movement over the previous year is depicted as follows:

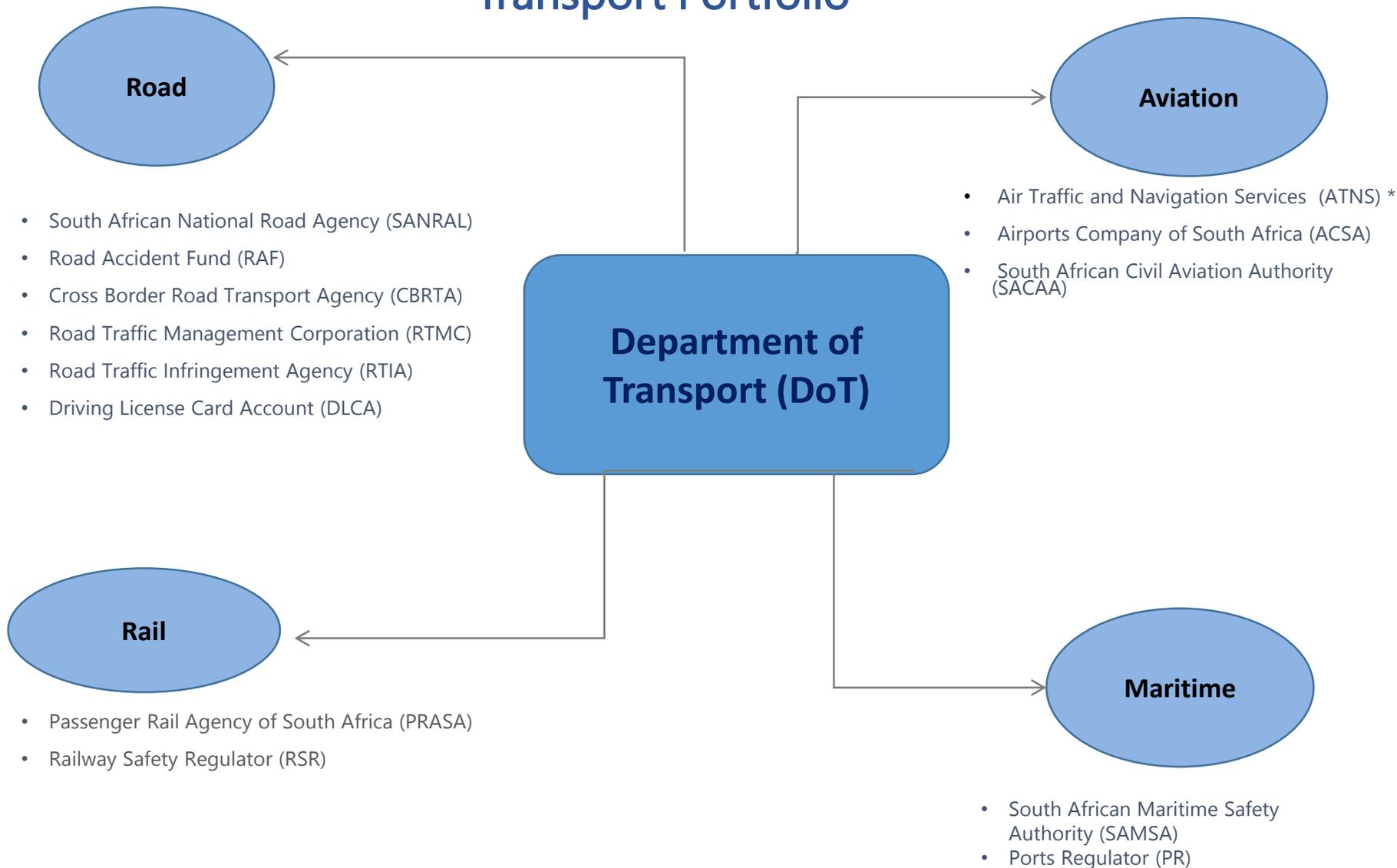
-  Improved
-  Unchanged
-  Regressed



ACCOUNTABILITY = PLAN + DO + CHECK + ACT



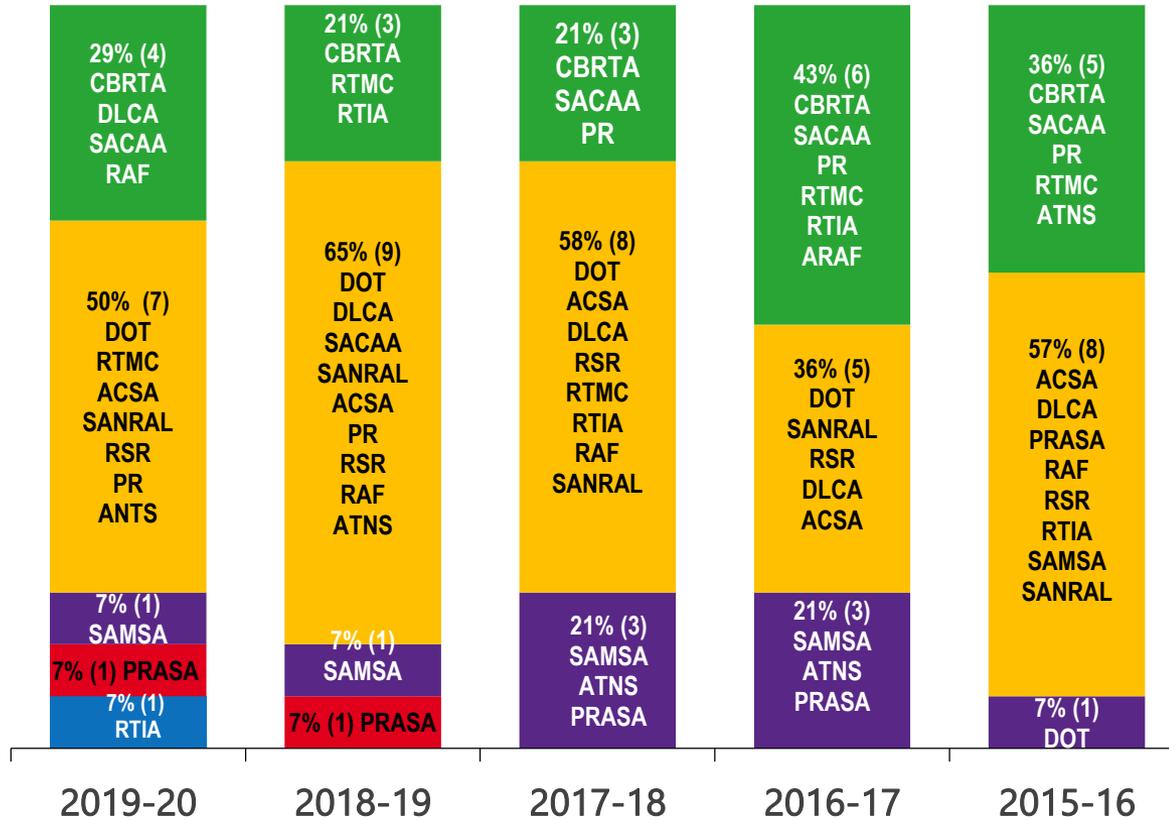
Transport Portfolio



• * Section 4(3) entity



Audit outcomes of portfolio over five years



Movement	
▲	3
▼	1
▶	9

- The audit outcomes of the portfolio improved slightly compared to the prior year.
- PRASA has remained the same with a disclaimer due to significant material misstatements in the financial statements and limitation of scope imposed.
- SAMSA remained the same with a qualified audit opinion as they addressed some prior year qualification paragraphs, but did not address all to avoid a qualification.
- SACAA, RAF and DLCA have improved from the prior year by implementing action plans to address the internal control weaknesses reported in the previous year resulting in these entities receiving an unqualified audit opinion with no findings.
- CBRTA sustained its unqualified audit opinion with no findings.
- RTMC regressed from unqualified audit opinion with no findings to unqualified with findings due to material misstatements in AFS.
- RTIA is outstanding due to some critical technical issues that are still being engaged on with management.



Overall message- Transport Portfolio

The overall transport portfolio continues to have challenges with effective implementation of controls in the majority of auditees. This is an indication of a lack of financial discipline, the deliberate lack of compliance with legislation and lack of consequence management. Management needs to address internal controls and significant audit risks to improve and sustain audit outcomes.

The audit outcomes for **DOT** has remained unchanged for the past three years as unqualified audit opinion with findings. The department should monitor the audit action plan to ensure that it achieves an unqualified opinion without significant findings.

We commend **CBRTA, DLCA, RAF and SACAA** in obtaining unqualified audit opinion with no material findings.

SANRAL

E-tolls - The decision on future funding model for Gauteng Freeway Improvement Project (GFIP) is still not yet finalised. The delays in the finalisation of the GFIP matter has negatively affected the financial sustainability of SANRAL.

SAMSA

The overall control environment at the entity requires intervention to improve audit outcomes. There were no adequate consequence management and action plans to address non-compliance and financial statements related findings. We have noted some improvement in commitments and irregular expenditure that had been qualified in the previous year. It is critical that the appointment of the CEO is fast tracked to ensure that there is accountability.

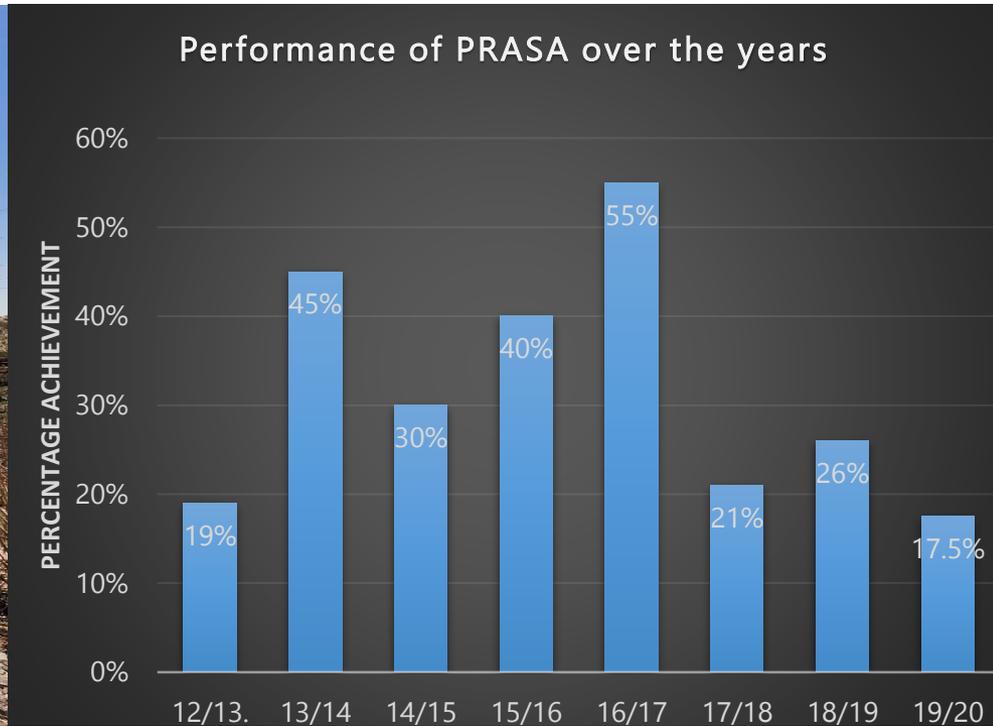
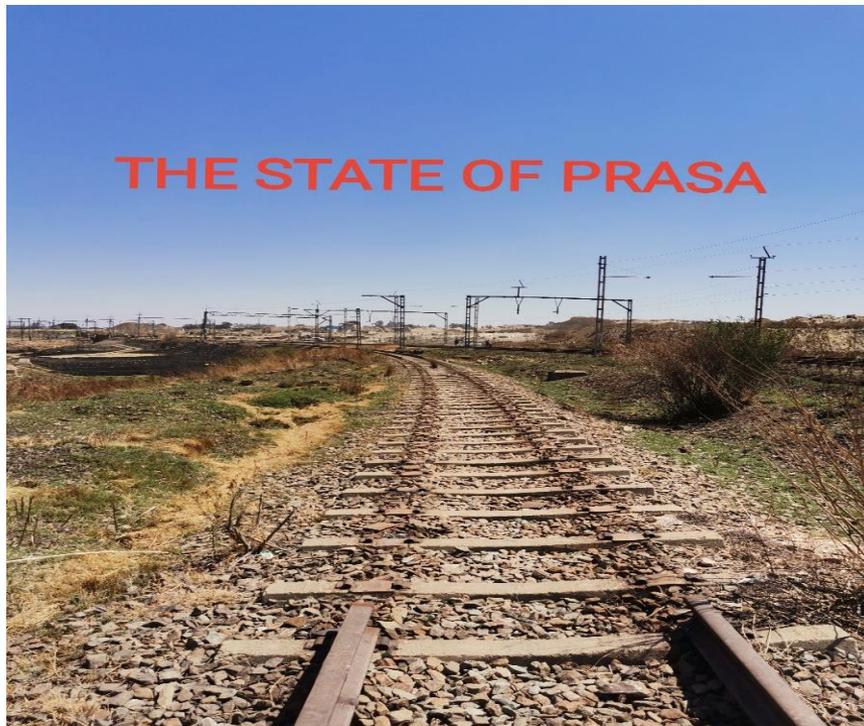


Overall message- Transport Portfolio (Cont...)

PRASA – disclaimer of opinion

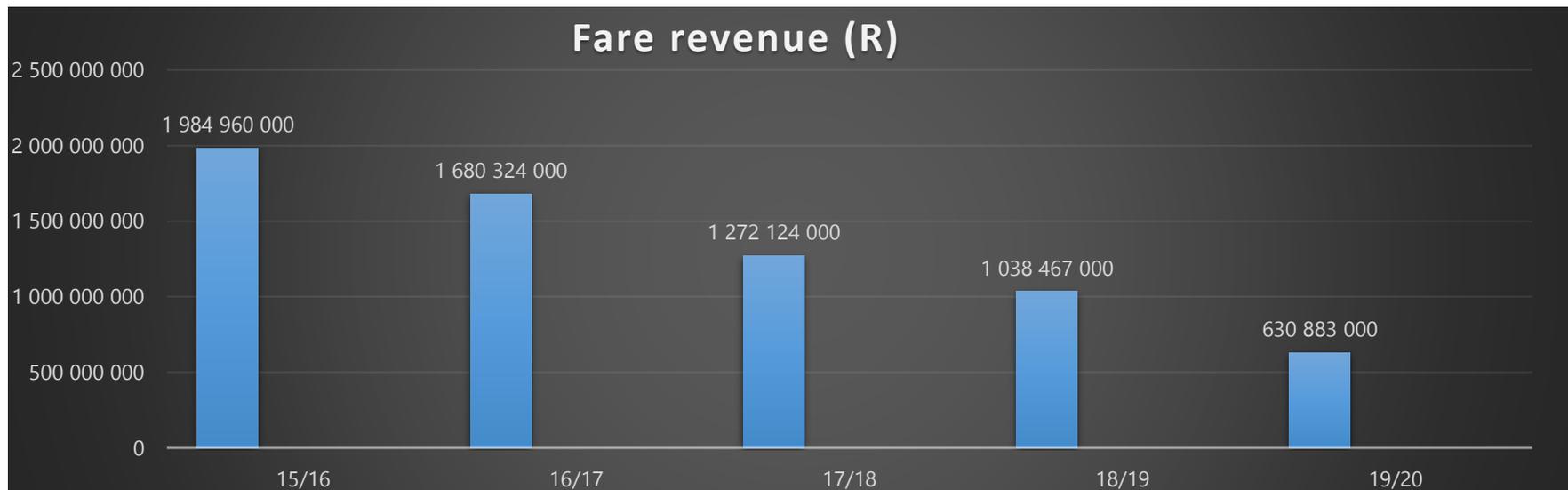
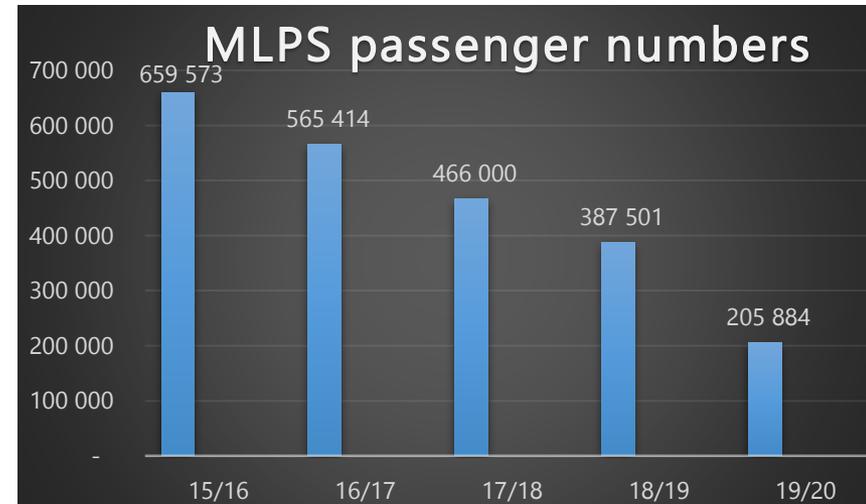
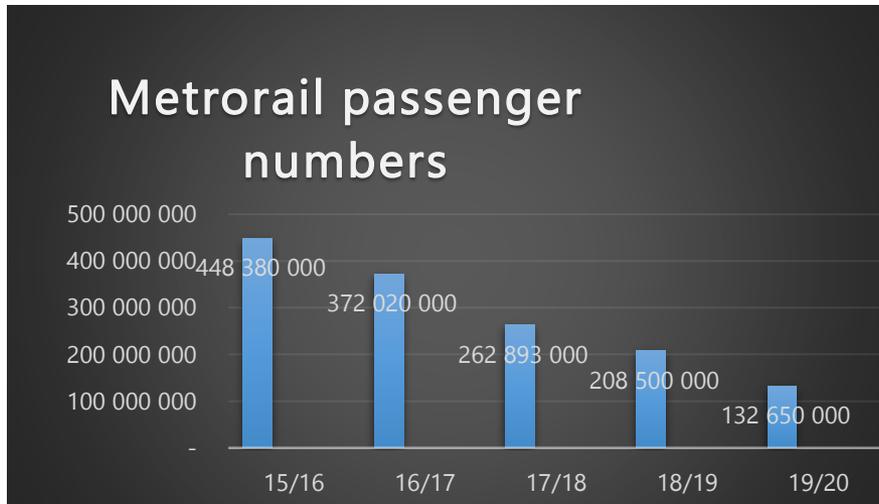
PRASA has once again received a disclaimer of opinion for the second year in a row due to material misstatements in the financial statements and limitation of scope. Governance challenges has continued in the 2019/20 financial year with the removal of the board and the appointment of the administrator which was set aside by the high court after year end.

PRASA's failing infrastructure together with the repeated incidents of accidents, theft, vandalism, delays and security issues continued to impact on both rail commuters and the ability of PRASA to effectively discharge its mandate. The entity's service offering to rail commuters is diminishing at alarming levels which is evident by the passenger numbers being at its lowest level since 2012-13 financial year.



Overall message- Transport Portfolio (Cont...)

PRASA – disclaimer of opinion (Cont...)



Overall message- Transport Portfolio (Cont...)

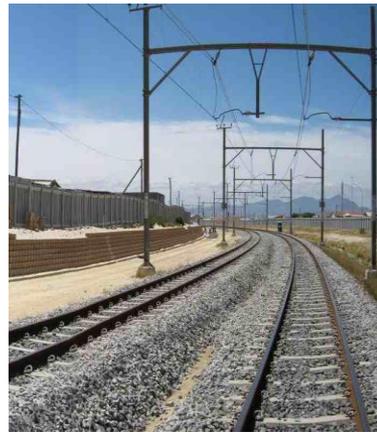
PRASA – disclaimer of opinion (Cont...)



Overall message- Transport Portfolio (Cont...)

PRASA – new rolling stock

PRASA received 10 new trains during 2019/20 financial year while the cumulative number of trains received is still behind schedule. The new trains are still only permitted to run on the Pretoria – Pienaarspoort Corridor. The lack of infrastructure development in respect of the modernisations of depots and stations negatively impacts on the deployment of new trains across the country-wide rail network. The delays are caused by a number of SCM deficiencies and since the roll-out of the new train sets is dependent on these upgrades, it is important that these are attended to as a matter of urgency. Capital spend in relation to the capital subsidies received remain significantly low.



Overall message- Transport Portfolio (Cont...)

PRASA – disclaimer of opinion (Cont...)

Financial viability and sustainability of the subsidiaries of PRASA remains a concern. The financial position of both subsidiaries have regressed further. Both subsidiaries are unable to sustain their operations and requires ongoing financial assistance from PRASA.

Material non-compliance findings were raised on a number of subject matters, i.e. annual financial statements, expenditure management, procurement and contract management as well as consequence management. Compliance monitoring deficiencies previously reported remained unaddressed.

The entity has multiple significant issues including ineffective internal controls. These deficiencies require urgent attention in order to improve the stagnant audit outcome. The board must focus its attention on bringing stability to the entity by ensuring that key positions are filled.

PRASA is constantly under threat from a security perspective with the pillaging and destruction of the rail infrastructure that is continuing unabated. Not only are the trains continuously being vandalised and burnt, rail network infrastructure has also been under consistent attack, stripped of copper cables, railway tracks, signalling equipment and overhead electricity cables and its facilities are being vandalised. This pillaging escalated during the lockdown period with a number of facilities and rail network assets being completely damaged or pilfered rendering some parts of the network unusable until alternate arrangements are made.

Despite a number of security related targets being included as part of the APR including the development and commencement of a plan for creating internal security capability, the implementation of armoured vehicles for critical security hotspots, implement the national security drones operation tender and commence implementation of the integrated control rooms in line with the C14STAR model none of these security related targets were achieved. The reasons cited by management were due to SCM deficiencies.



Overall message- Transport Portfolio (Cont...)

PRASA – disclaimer of opinion (Cont...)

Record keeping issues previously reported remained unaddressed, with an incomplete submission of annual financial statements on 31 July 2020 and a number of limitation of scope findings across a number of audit areas. Inadequate governance records has again been highlighted as having a significant impact on the audit as certain procurement approvals could not be confirmed in line with the delegations and key decisions taken could not be confirmed. This included resolutions taken relating to the subsidiaries.

Repeat areas of concern in the annual financial statements include property, plant and equipment, capital grants, irregular, fruitless and wasteful expenditure and other disclosure items. These are all repeat findings where deficiencies have not been addressed.

Deficiencies previously noted over asset management has remained unaddressed in respect of the lack of a credible asset register, inadequate records to support disclosed (WIP) projects and inadequate records relating to network assets. The quality of the useful lives and impairment assessment of the assets is a significant concern. While there are significant indications of assets across all classes being significantly impaired, no impairment losses have been recognised while the state of disrepair of the assets is evident in terms of the number of operational corridors as well as the reasons for the train delays and cancellations.





Credible financial reporting



Financial statements

Submission of financial statements by legislated date



Financial statements submitted without errors (ACSA, SACAA, CBRTA, SANRAL, RSR, PR, DLCA, ATNS, RAF)



Quality of final submission after audit (ACSA, SACAA, CBRTA, SANRAL, RSR, PR, DLCA, ATNS, RAF DOT, RTMC)



Movement

2019-20

2018-19

14

14

9 (64%)

6 (43%)

11 (79%)

12 (86%)

2 (14%) achieved unqualified opinions only because they corrected all misstatements identified during the audit (DOT, RTMC)

SAMSA was qualified and PRASA was disclaimed

RTIA has not been finalized as yet





Credible performance reporting



Performance report

Performance report submitted without errors (DOT, ACSA, SACAA, CBRTA, SANRAL, RSR, PR, DLCA, RTMC)



Quality of final submission after audit (DOT, ACSA, SACAA, CBRTA, SANRAL, RSR, PR, DLCA, RTMC, SAMSA, PRASA, RAF)



Movement

2019-20

2018-19

	9 (64%)	7 (50%)
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12 (86%)

10 (71%)

3 had no material findings only because they corrected all misstatements identified during the audit (SAMSA, PRASA and RAF)

Reliable reporting of achievements



12 (86%)

10 (71%)

Usefulness of performance indicators and targets



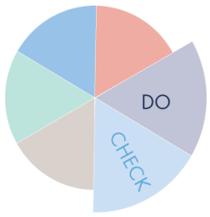
13 (93%)

12 (86%)

ATNS had material findings on reliability of evidence that resulted in a qualification conclusion (ATNS)

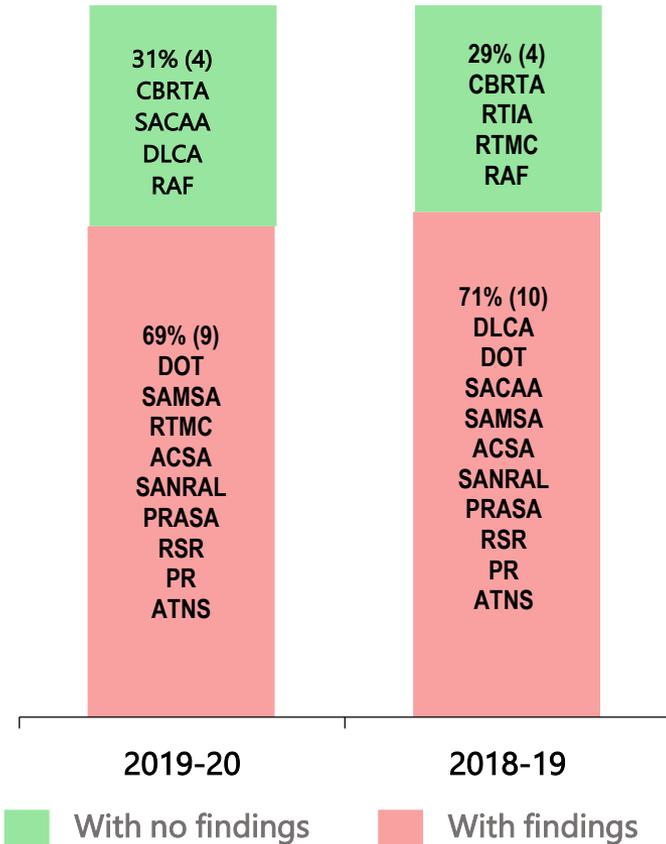
RTIA has not been finalised





Disregard for compliance with legislation

Findings on compliance with key legislation



Top five non-compliance areas

- Quality of financial statements (DOT, RTMC, SAMSA and PRASA)
- Management of procurement and contracts – local content (DOT, PR and PRASA)
- Management of procurement and contracts – Declarations of interest not submitted by providers (PR, PRASA and SAMSA)
- Prevention of irregular, fruitless and wasteful expenditure (DOT, SAMSA, ACSA, PRASA, RSR, PR and ATNS)
- Consequence Management (SAMSA, SANRAL, PRASA and PR)



Status of internal control



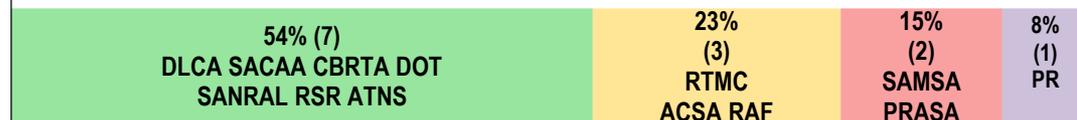
Leadership

Effective leadership



Financial and performance management

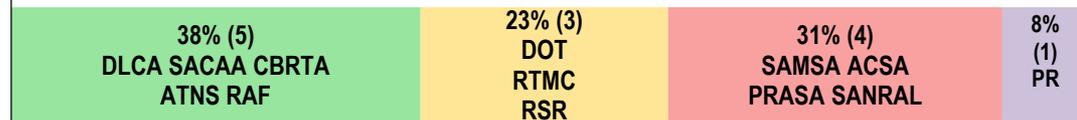
Proper record keeping



Daily and monthly controls

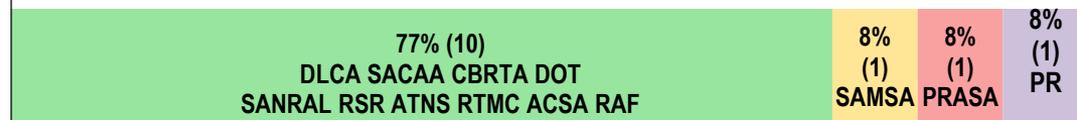


Review and monitor compliance



Governance

Risk management



Note that the assessment was not done for Port Regulator as the auditee is classified as a "small audit" based on its importance and the size and nature of the business. This makes it a limited assurance engagement and therefore the audit work is limited. This assessment is done annually at firm level.



Good



Of concern

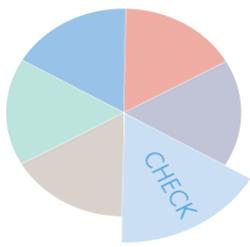


Intervention required

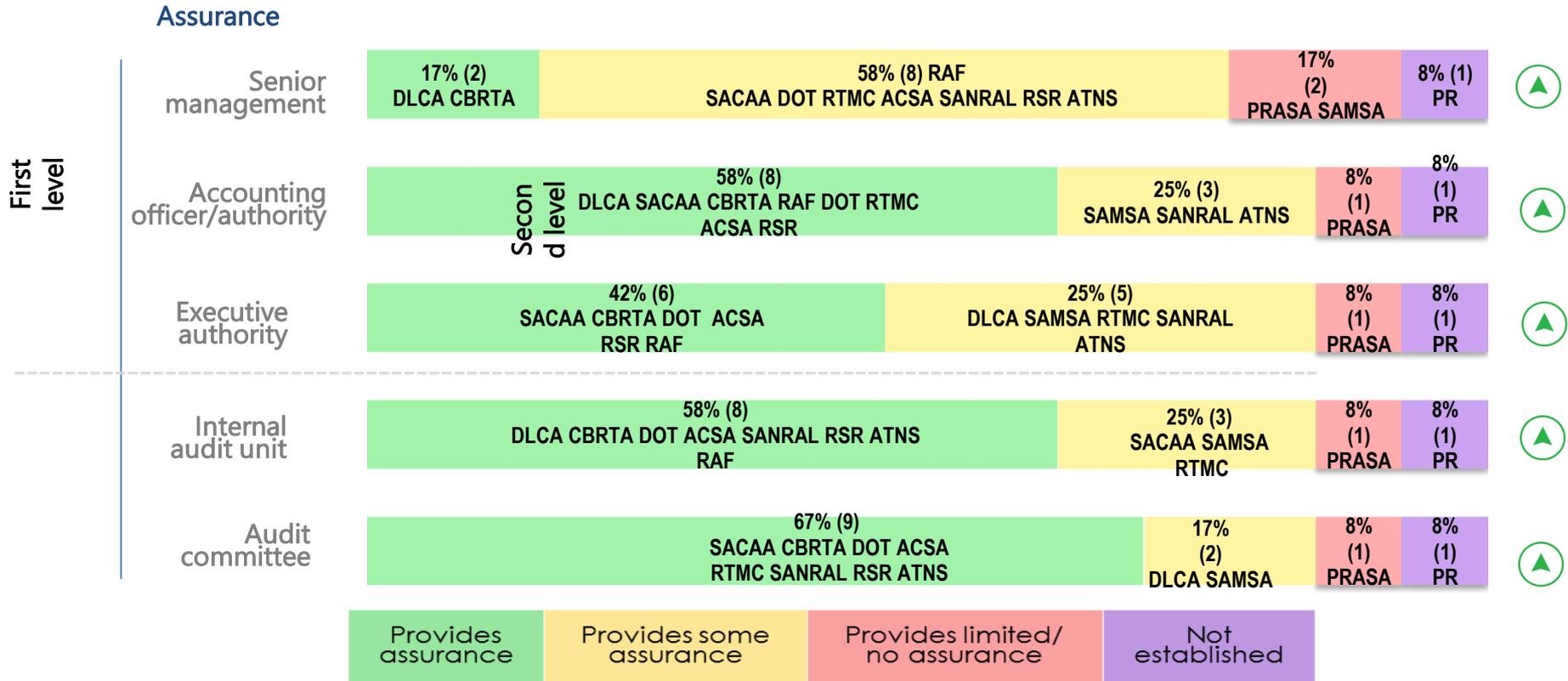


Assessment for the Ports Regulator (small audit) not done





Assurance provided



Note that the assessment was not done for Port Regulator as the auditee is classified as a “small audit” based on its importance and the size and nature of the business. This makes it a limited assurance engagement and therefore the audit work is limited. This assessment is done annually at firm level.



Financial health and financial management



Financial health

Material uncertainty exists whether
RAF and PRASA subsidiary)

3

of auditees can continue to operate in future (SANRAL,

Revenue management

- Collection of debt - inability to collect monies owed and the resultant high impairment of receivables (i.e. E-toll fees) for **SANRAL**. This is an indication of challenges in the collection of outstanding debt as they become due, which exposes the entity to liquidity risk. The entity should therefore continue to hold engagements with relevant stakeholders to find a permanent solution.
- **SANRAL**'s debtor's impairment provision as a percentage of accounts receivable is still very high and increased from 90.6% to 94.8% which indicates that the recoverability of a significant portion of trade and other receivables is in doubt.

Asset and liability management

- The financial performance of **PRASA** and group has slightly improved in the current year compared to prior years' restated figures which shows a profit (material misstatement noted). This is evidenced by an increase in profitability from a loss of R1.9 billion and R2.1 billion for the entity and group respectively in the previous financial period to a profit of R2.2 billion and R2.1 billion the entity and group respectively. This was as a result of the additional grant subsidy they received. **It should be noted that PRASA is disclaimed and therefore the numbers may not be reliable.*
- Loans to **Autopax** for the year was in excess of R236 million. **Autopax** is insolvent and the auditee is unable to prove its going concern status.
- At **RAF** the deficit of R59.6 billion and increase in accumulated deficit of R322 billion as at 31 March 2020 is due to the continued efforts of the RAF to complete and settle more claims.

Cash management

- Negative cash balance - possible cash flow constraints resulting in a higher risk in the event of financial set-backs and the ability of the auditee to meet its obligations to provide basic services and its financial commitments will be compromised. (**DOT**). This is as a result of historic unauthorised expenditure.



Of concern



Intervention required

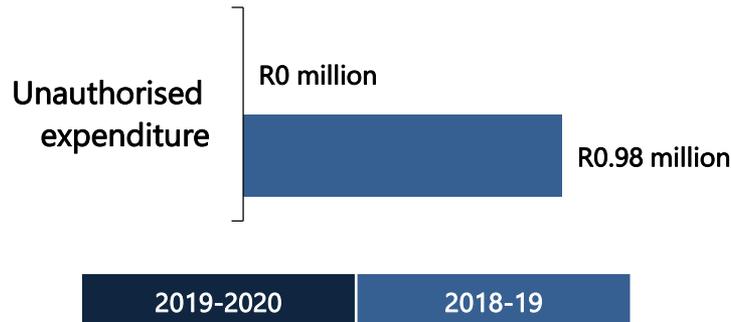


Unauthorised expenditure decrease over 2 years

Definition

Expenditure not in accordance with the budget vote/ overspending of budget or programme

Unauthorised expenditure incurred by entities in portfolio



Nature of unauthorised expenditure

- No unauthorised expenditure was incurred in 2019-20*

Previous year unauthorised expenditure reported for investigation

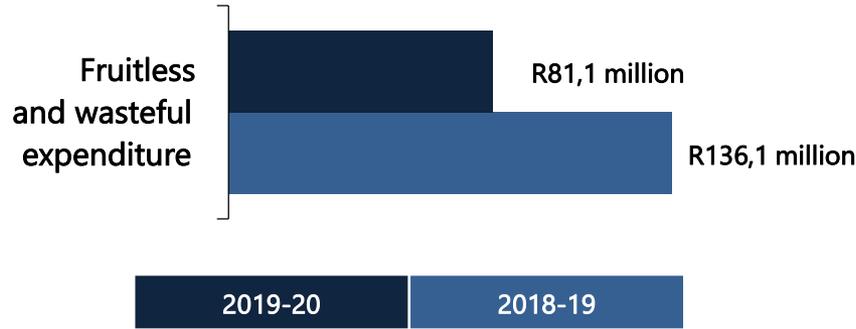
- DoT incurred unauthorised expenditure of R980 375 in the previous financial year as expenditure that was incurred but not in accordance with the vote of the programme (Road Transport). The matter is still being investigated*

Fruitless and wasteful expenditure decrease over 2 years

Definition

Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

Fruitless and wasteful expenditure incurred by entities in portfolio

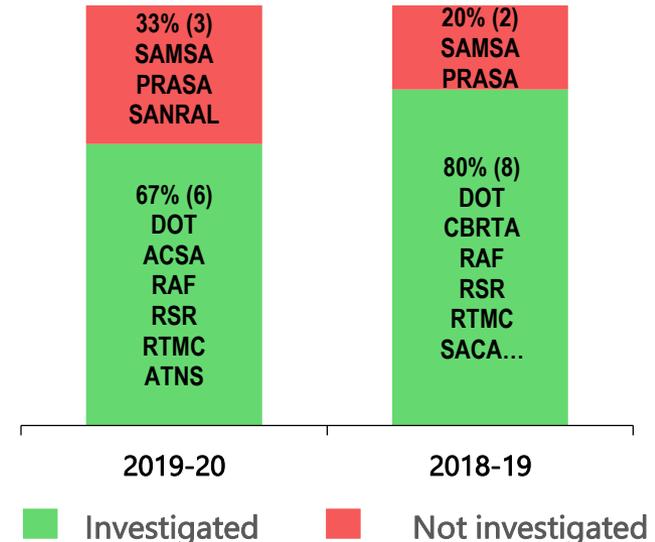


• Only R4 000 is expenditure relating to prior years

Nature of the fruitless and wasteful expenditure

- PRASA was the largest contributor - fruitless and wasteful expenditure amounting to R48.3 million identified in the current year related to interest and penalties (R34.4 million) and incorrect rate used for overtime (R12.4 million)
- RAF (R15.3 million) – Claims related expenditure
- ACSA (R16 million) – Penalties on revised tax liability resulting from SARS audits.

Previous year fruitless and wasteful expenditure reported for investigation

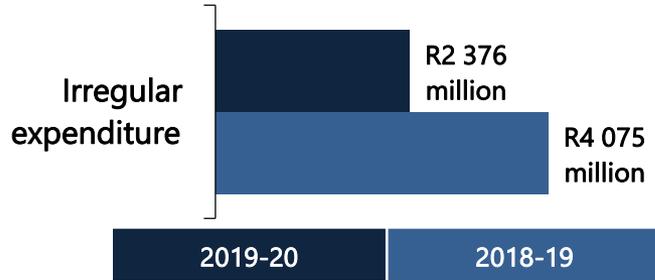


Irregular expenditure decrease over 2 years

Definition

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

Irregular expenditure incurred by entities in portfolio



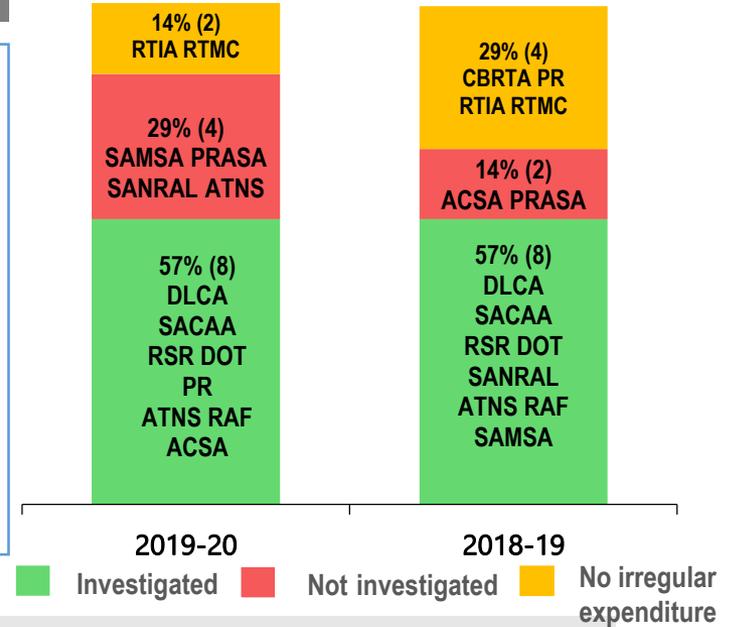
- R2 340 million represents non-compliance in 2019-20
- R36,2 million is expenditure relating to prior year non-compliance identified in the current year

Previous year irregular expenditure reported for investigation

Nature of irregular expenditure

PRASA, SANRAL and ACSA were the main contributors to irregular expenditure:

- *PRASA (R1 325 million) – Competitive bidding not followed (R625 million), procurement not in accordance with PPPFA and SCM policy (R401 million), contract price exceeded (R195 million), payment without contract (R40 million) and purchase of goods and services through splitting of quotes instead of a tendering process (R65 million).*
- *SANRAL (R342 million) – contract price exceeded (R173,7 million), expenditure not approved by duly delegated authority (R81 million), Contracts not advertised for at least five working days on CIDB website (R40,8 million) and non-compliance with other procurement process requirements (R46,5 million)*
- *ACSA (R560 million) – The largest portion of this relates to Non-compliance with Preferential Procurement Policy Framework Act (R536,7)*



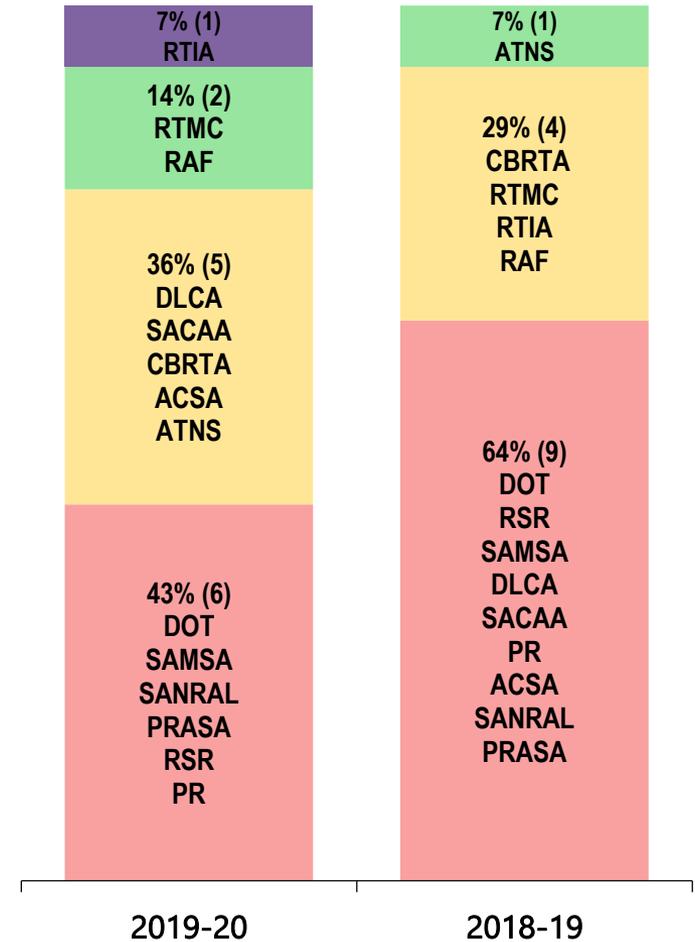
Supply chain management

- ▶ Stagnation in SCM compliance (2018-19: 7% with no findings)

All SCM findings should be investigated

Most common findings on supply chain management

- Not able to audit procurement of **R122,3 million** due to missing or incomplete information
- Payments made in excess of contract price to the amount of **R368,7 million**
- Uncompetitive and unfair procurement processes at **57% of auditees**
- Local content minimum threshold for local production not adhered to **by three auditees**



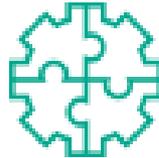
Portfolio snapshot (2019-20)



Clean audits: 4
(2018-19: 3)



**Financially unqualified
financial statements:
11**
(2018-19: 12)



**No findings on performance
reports: 12**
(2018-19: 10)

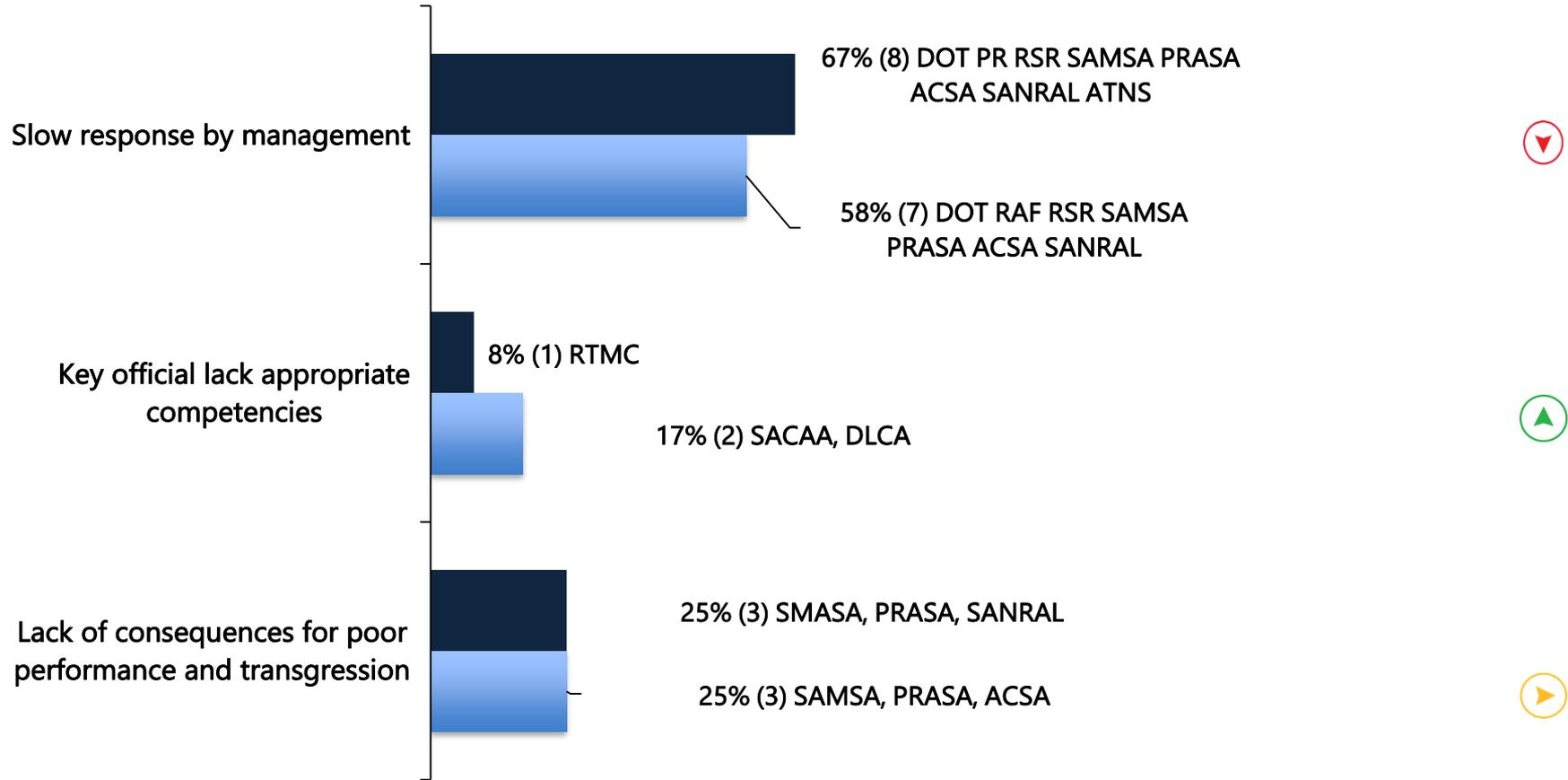


**No findings on compliance
with legislation: 4**
(2018-19: 4)



**Irregular expenditure:
R2 376m**
(2018-19: R4 075m)

Root causes



2019-20

2018-19



PAA phase 2 implementation



Introduction of material irregularities



... means any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under this act that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.

If the accounting officer/authority does not appropriately deal with material irregularities, our expanded mandate allows us to ...



Refer material irregularities to relevant public bodies for further investigations



Take binding remedial action for failure to implement the AG's recommendations for material irregularities



Issue a certificate of debt for failure to implement the remedial action if financial loss was involved

Implementation of expanded mandate in 2019-20



To allow for establishing capacity and processes, a phased-in approach for identifying material irregularities was followed in 2019-20

Type of material irregularity

Any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty that resulted in, or is likely to result in a material financial loss.

Selection criteria

The material irregularity process is implemented at selected auditees audited by the AGSA that represent a **significant portion** of the **expenditure budget** and the **irregular expenditure** of national, provincial and local government, including state owned entities. The selection is also focused on auditees that are key contributors to the **government priorities**.

Implementation in Transport Portfolio

PRASA was selected for implementation in the prior year and 9 MI's were raised and reported on. In the current year three (3) entities in the Transport portfolio have been identified for the implementation of phase 2, namely **PRASA, SANRAL and ACSA**. The audit teams are still busy assessing if there are any potential MI's for the current year.



Follow up on Material irregularities reported in 2018-19

Material irregularity identified in the entities/department on portfolio

Status of Material irregularities raised at PRASA in previous year

• *Unfair procurement process for the purchase of locomotives*

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

• *Unfair procurement process followed in the appointment of signalling contractors*
• *Unfair award for the control of vegetation*

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*

Uncompetitive process followed in the award relating to:

- *Supply and delivery of signalling equipment*
- *Repair and replacement of signalling equipment*

With regards to these prior year material irregularities, at PRASA nine (9) material irregularities were reported of which follow up on the matters in the current year revealed that the SIU has been commissioned to investigate these matters as of 1st of July 2020 except for the Swifambo matter which was commissioned as of 1st of August 2020. The investigation is expected to run for a duration of 6 months.

Recommendations

To department and its entities

- Executive management positions should be filled with appropriately skilled and experienced personnel,
- Develop and implement action plans to address audit findings,
- Monitor performance and consequence management especially around supply chain management, and
- Implement disciplined financial reporting structures based on solid accounting knowledge.

To the portfolio committee

- The PC should request accounting officer/authorities and the Minister to provide feedback on the implementation and progress of action plans to ensure improvement in the audit outcomes of the portfolio.
- Enhance oversight on PRASA to ensure that governance challenges, poor performance and poor audit outcomes are addressed.



Thank you



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