



**PFMA
2021-22**

Budgetary review and recommendations report (BRRR) **Portfolio Committee on Transport**

11 October 2022



AUDITOR-GENERAL
SOUTH AFRICA



MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution 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.

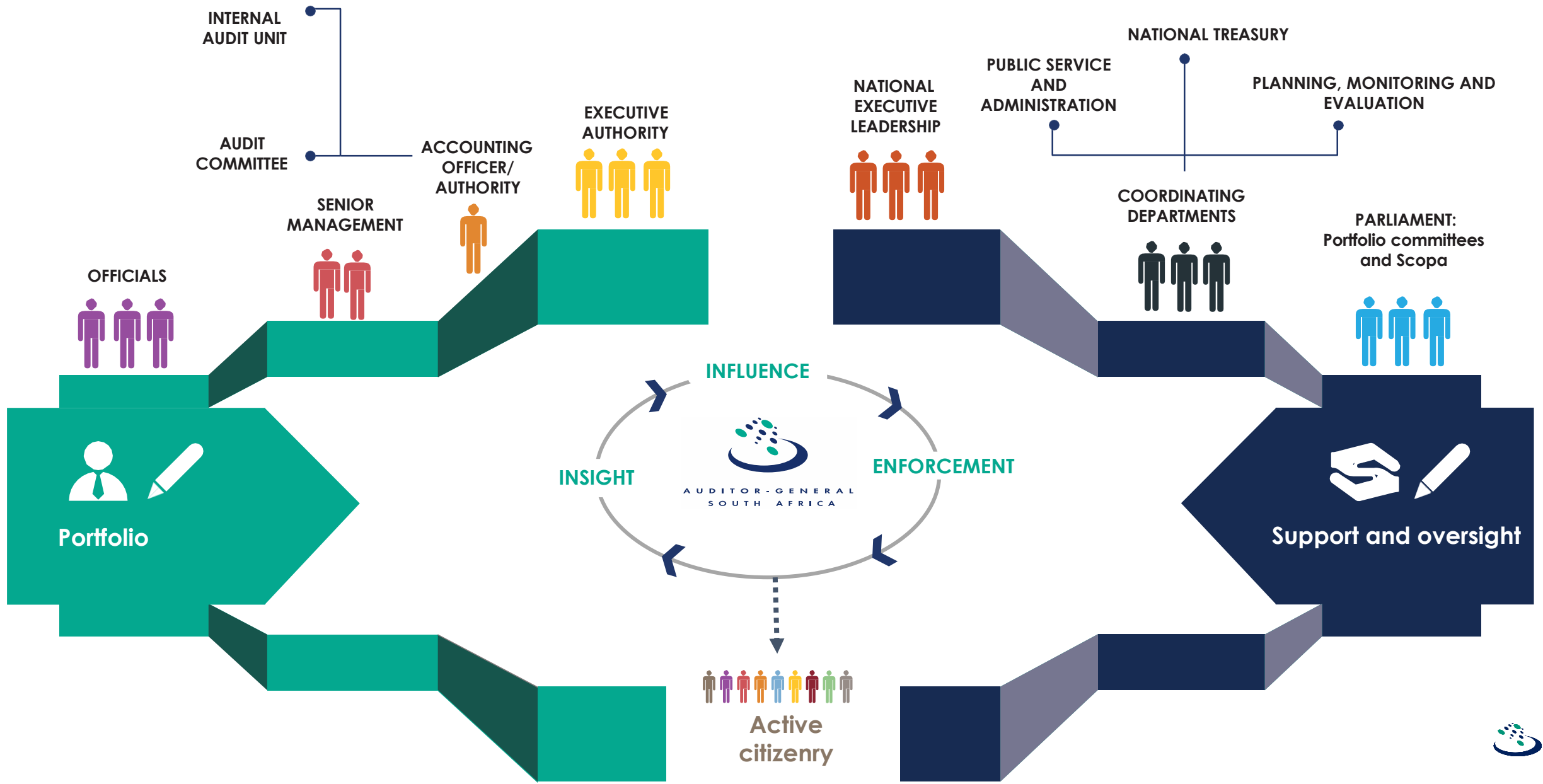


VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.



All have role to play in national government accountability ecosystem



Department of Transport (DoT)

Road

- South African National Roads Agency (SANRAL)
- **Road Accident Fund (RAF)*****
- Cross Border Road Transport Agency (CBRTA)
- Road Traffic Management Corporation (RTMC)
- **Road Traffic Infringement Agency (RTIA)*****
- Driving License Card Account (DLCA)

Rail

- Passenger Rail Agency of South Africa (PRASA)
- Railway Safety Regulator (RSR)

Aviation

- Air Traffic and Navigation Services (ATNS) *
- Airports Company of South Africa (ACSA)
- South African Civil Aviation Authority (SACAA)

Maritime

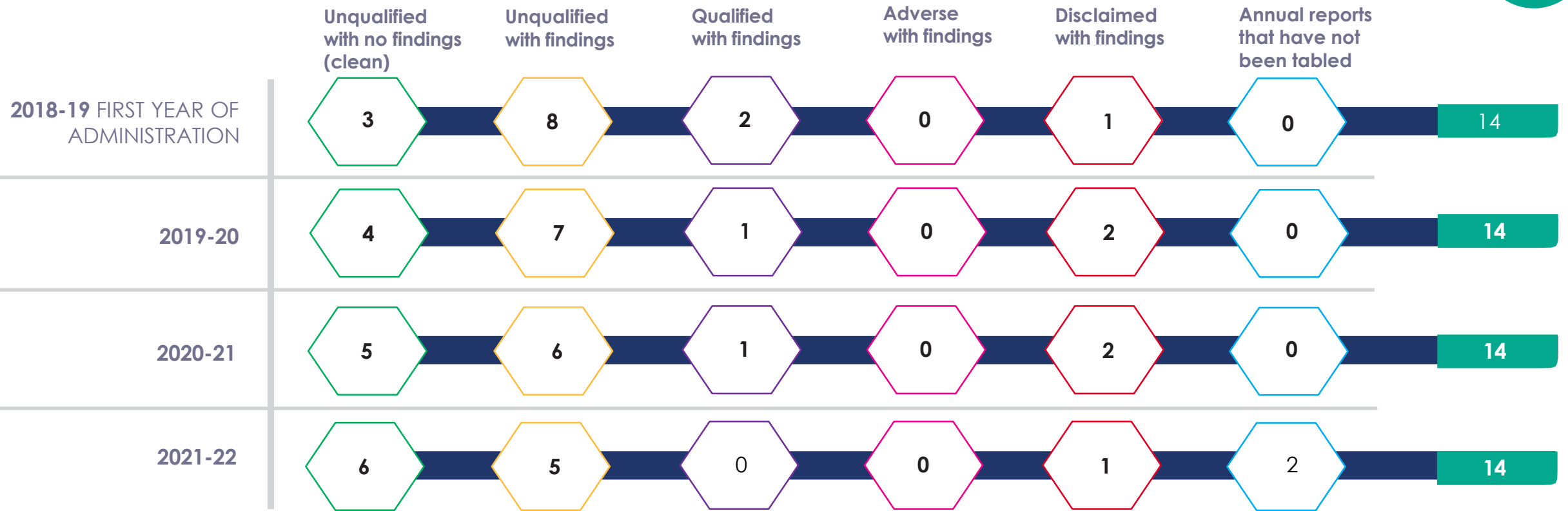
- South African Maritime Safety Authority (SAMSA)
- Ports Regulator (PR)**

*Section 4(3) entity

**PR is classified as a small auditee based on the size and nature of the business.

*** RAF and RTIA audits are excluded as the annual reports have not been tabled.

Improvement / Regression / No change over administration term



MOVEMENTS FROM PREVIOUS YEAR:
 1 ↑ 0 ↓

FROM FIRST YEAR OF ADMINISTRATION:
 3 ↑ 0 ↓

CBRTA, RSR, SACAA, PR, DLCA and RTMC

ATNS, ACSA, DOT, SAMSA and SANRAL

None



None

PRASA

Annual reports that have not been tabled

The RTIA audit has been finalised and the audit report has been issued to the accounting authority on 18 August, however the annual report has not been tabled as the accounting authority is disputing the audit outcome. RAF served the AGSA with court papers to interdict the AGSA from issuing/publishing the 2021-22 audit report. In the application for interdict RAF wanted the AGSA to put the audit for 2021-22 on hold until the current ongoing litigation relating to the 2020-2021 audit has been finalised. The interdict application was heard on 27 September 2022 and the judgement was handed down on 30 September 2022 according to which the application was dismissed with cost. The AGSA has since finalised the audit and issued the audit report to RAF board on 30 September 2022. The RAF is yet to table the annual report and audit report, the audit outcome will therefore not be discussed until the audit report has been made public.

Movement from previous year

 Movement  Audit outcome	1 Improved	13 Unchanged	0 Regressed	0 New auditee	0 Outstanding audits
Unqualified with no findings = 6	RTMC	CBRTA, RSR, SACAA, PR, DLCA			
Unqualified with findings = 5		ATNS, ACSA, DOT, SAMSA and SANRAL			
Qualified with findings = 1		RTIA not included in the details as the annual report has not been tabled			
Adverse with findings = 0					
Disclaimed with findings = 1		PRASA (RAF not include in details as not tabled as yet)			





Overall messages on portfolio audit outcomes



The overall outcomes in the portfolio has **slightly improved**, when compared to the prior year.

Six auditees (**CBRTA, DLCA, SACAA, RSR, RTMC and PR**) achieved an unqualified audit opinion with no findings (clean), representing 43% of the auditees in the portfolio. This is a slight improvement from 36% (5) in the prior year due to **RTMC** improving from unqualified with findings on compliance to a clean audit report. **CBRTA** has managed to **sustain their “clean” audit status for six consecutive years, SACAA for 3 years and RSR and PR for 2 years.**

- The factors that contribute to clean audit outcomes are:
 - Leaderships oversight that is entrenched in the organisation.
 - The constant monitoring that takes place at all levels.
 - Internal audits effectively execute their mandate with the thorough follow up of audit action plans and monitoring the implementation of actions to address prior year audit findings.
 - The Boards through the audit committees monitor the implementation of the actions plans to address prior year audit findings.
 - Leadership culture that is committed to take action to address any findings identified supported by adequately resourced and skilled staff.

These entities have **effective governance structures** that ensures that actions are taken to address audit findings and are supported by **adequately resourced officials**. Going forward, the focus of these entities should be on maintaining clean administration and achieving strategic objectives and service delivery mandates to ensure **effective and efficient delivery of services to the citizens**.

The big entities in the portfolio should replicate these best practices to achieve clean administration for the portfolio as a whole.

All the entities with clean audit outcomes achieved their **key** indicators, except for DLCA which did not achieve on the indicator relating to the number of days taken to produce driving license cards. This was because of the breakdown of the card production machine due to flood damage as well as the fact that the machine has long exceeded its useful life cycle.



PRASA - The overall audit outcome of PRASA remained disclaimed with material findings on compliance with laws and regulations. The financial statements were disclaimed because of material misstatements relating to property, plant and equipment (assets), commitments, prior period error disclosures, fruitless and wasteful expenditure and irregular expenditure. PRASA managed to resolve three areas that formed the basis of disclaimer in the prior year, namely capital subsidy and grants, statement of comparisons of budgets and actual and the risk management disclosure note. This is indicative of the commitment of leadership to turn around the audit outcome. Capacity constraints, instability in key positions, inadequate reviews as well as the late implementation of the audit action plans are some of the factors contributing to the repeat disclaimer areas not having been fully addressed in the current year. We urge the board and management to continue to prioritise the disclaimer areas and develop and monitor actions plans to ensure that there is an improvement in the audit outcomes of the entity going forward.

PRASA is commended for producing an annual performance report (APR) with no material findings on the usefulness and reliability of key performance indicators and targets. However, the entity has not achieved on key performance indicators and targets that relate to their core mandate. We recommend that specific focus be given to implementing interventions that will enable the entity to achieve on its core mandate and ensure that there is service delivery to the citizens.

Similar to the previous year, material findings relating to non-compliance with legislation were noted in the areas of annual financial statements, expenditure management, procurement and contract management as well as consequence management. In the current year, the number of findings on procurement and contract management decreased significantly in as far as PPPFA evaluation, CIDB and local content compliance is concerned. The sustainability thereof should however be considered in light of the level of procurement in 2021-22, which were significantly lower than in previous years. Intervention is still required to ensure that all goods, works or services are procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

PRASA should implement a comprehensive turnaround plan to ensure improved audit outcomes and service delivery. This should include creating stability at executive management level, fully capacitating critical units, effective and efficient procurement and fast tracking depot and infrastructure modernisation. Although PRASA has multiple actions plans, these need to be consolidated into a comprehensive turnaround plan.



Governance/Stability: The instability at board/executive management level over the years had a negative impact on governance in the portfolio. This contributed to service delivery challenges in some entities and the portfolio's inability to sufficiently implement audit action plans to address controls deficiencies, resulting in the portfolio not improving the audit outcomes. We have noted positive progress in the filling of vacancies at board level and executive management as well as DDG positions at the department. This will go a long way in enhancing governance, accountability and oversight in the portfolio. The executive authority should prioritise the appointment of the new DG at **DOT** as well as the filling of the CEO vacancies at **SAMSA and SANRAL**. The organisational structure for RTIA should also be approved urgently so that the agency can fill key management positions. At **PRASA**, the executive management should be stabilized and key position such Group CEO, Group CFO, Group CPO, Group Chief Audit Executive, currently filled in an acting capacity, should be permanently filled.



Expenditure management: Irregular expenditure increased from R1 623 million to R1 786 million, and fruitless and wasteful expenditure increased from R117 million to R291 million over the past year. **PRASA, ACSA and SANRAL** remained the largest contributors to irregular expenditure. Most of the entities need to implement preventative controls to monitor compliance with legislation especially relating to supply chain management (SCM). Non-compliance with SCM prescripts is the biggest contributor when it comes to irregular expenditure. An assessment was done of irregular expenditure where non-compliance with section 217 of the constitution was identified. The results indicated that in 84% of the instances the process was not transparent and competitive; 11% was not equitable and 11% was not fair. The risk exist that the non-compliance can result in Material Irregularities and the accounting officer/authorities therefore needs to deal with these matters properly with a zero tolerance approach.

Quality of submitted financial statements and annual performance reports –Eight auditees (**DOT, RTMC, DLCA, PR, SACAA, RSR, CBRTA, and ACSA**) submitted financial statements free of material misstatements. This is an improvement from the prior year when only five auditees (**CBRTA, RSR, SACAA, PR and DLCA**) managed to submit financial statements that are free of material misstatements. This can be attributed to improved review and oversight controls. Three entities (**SAMSA, SANRAL and ATNS**) had to correct material misstatements identified through the audit process achieve an unqualified opinion. **PRASA**, again did not submit financial statements by the legislated date similar to the prior year. The financial statements was submitted on 30 June 2022 due to late finalisation of asset verification process. These financial statements contained material misstatements which PRASA could not all correct resulting in a disclaimed opinion. The key root causes for the errors and/or misstatements in the financial statements are the lack of a proper understanding of the requirements of accounting frameworks and inadequate review by finance management, internal audit and the Audit and Risk Committee. The accounting officer/authorities should implement disciplined financial reporting structures based on solid accounting and financial management knowledge and enhance review processes of the financial statements to ensure that quality financial statements is submitted for audit.



Financial sustainability/going concern (continued) -The financial health of the revenue-generating entities in the portfolio were mostly affected by the impact of covid-19, however these entities (**ACSA, CBRTA, SACAA**) are expected to recover from the impact of covid-19 as restrictions have been lifted and the local and global economy return to normal. A material uncertainty may exist regarding the going concern at **RTIA** due to the High Court judgement relating to the AARTO Act as disclosed in the AFS. The agency applied to appeal the judgement. The department and the accounting authority should continue to monitor this matter and should assess the impact on the going concern of the agency.

SANRAL is experiencing liquidity challenges on the toll segment due to motorists resistance to pay e-toll and the impact thereof in generating revenue and its ability to raise funding on the toll segment. In the current year, the liquidity challenges were exacerbated by the maturing debt within 12 months which SANRAL may not be able to fully service due to the reduction in the borrowing limit and current restrictions on the issue of new bonds or the refinancing of existing bonds. Over the years government has used non-toll funds to toll segment in order to manage the liquidity risk, which has a negative impact on the delivery of the road infrastructure mandate as envisioned in the MTSF and NDP. In the long term, this will put pressure on the country's fiscal position as the government will need to find funding for these unearmarked projects.

The Department of Transport and SANRAL are recommended to continue engaging the National Treasury and Cabinet to find a sustainable solution. This include a permanent solution for the GFIP matter.

Compliance with laws and regulations: The most non-compliance areas were expenditure management, consequence management and material misstatements identified in the financial statements submitted for auditing. Action plans to address audit findings are developed, but not effectively implemented and not adequately monitored. Most findings raised are recurring findings. The portfolio should implement consequence management for continuous non-compliance.



Information technology: The public sector has experienced some cyber attacks which poses a significant cyber security risk which could have an impact on business continuity. Such attacks were experienced at **SAMSA** in the prior year and lately at **RAF**. The rapid changes in the information technology environment and increase dependence on remote access to key systems makes the portfolio vulnerable to cyber security threats. The portfolio still struggles with internal controls in the IT governance controls specifically around network security management, user access management, programme change management. Action plans should be developed and implemented to improve information technology controls, together with the necessary system enhancements and patches to effectively address the shortcomings identified with regards to the network security. The dynamics of the discipline requires constant optimisation of security management to mitigate the risk of cyber security vulnerability and threats. The accounting officer/authorities should also prioritise the filling of critical ITC positions, i.e. CIOs.

Material irregularities (MIs): Nine MIs were identified at **PRASA** in 2018-19 and two potential material irregularity that were identified at **SANRAL** in 2020-21. Remedial action was issued to **PRASA** relating to unfair procurement processes for the purchase of locomotives. This material irregularity has been resolved as adequate actions were implemented to address the remedial action. The AGSA will continue to follow up on further actions to be taken, should such be considered deficient in future we reserve the right to re-instate this material irregularity. The actions taken by **PRASA** to address the other MIs is currently assessed as appropriate and the AGSA is following up on the progress made on the investigation and disciplinary actions. The potential MIs that were identified at **SANRAL** have been resolved.



KZN flood relief effort

Generally, the reconstruction of transport infrastructure takes longer to complete due to a number of successive activities that have to be completed before actual reconstructive work can commence. These include visual assessments of the extent of damage, scope determination (which requires geotechnical assessments in many instances) as well as the compilation of comprehensive infrastructure recovery plans. Some work has already been completed, such as the restoration of PRASA's Reunion station in KZN as well as the embankment between Reunion and Merebank resultantly PRASA was able to extend the service between Durban and Merebank to Isipingo effective 25 July 2022. Additionally, PRASA's internal teams have performed clean up work that became necessary after the floods caused severe mud slides. Similarly, at SANRAL, immediate interventions to restore mobility have been undertaken, these include amongst others make safe measures clearing of debris, deviation and traffic accommodation. Furthermore, mobility has been restored on the N 2 and N 3 highway with some restrictions in sections with major failures.

Notwithstanding these activities, we noted that the progress in the implementation of the flood relief for transport (SANRAL and PRASA) is slow when compared to the implementation plan. This is mainly as a result of delays encountered in the approval for budget reprioritisation requests and the related changes in implementation plans. The accounting authority of these entities are recommended to closely monitor the implementation plan to ensure timeous restoration of the infrastructure at the right quality and in a cost effective manner. The accounting officer of the department and executive authority are recommended to continue exercising oversight to ensure adherence to the implementation plan.



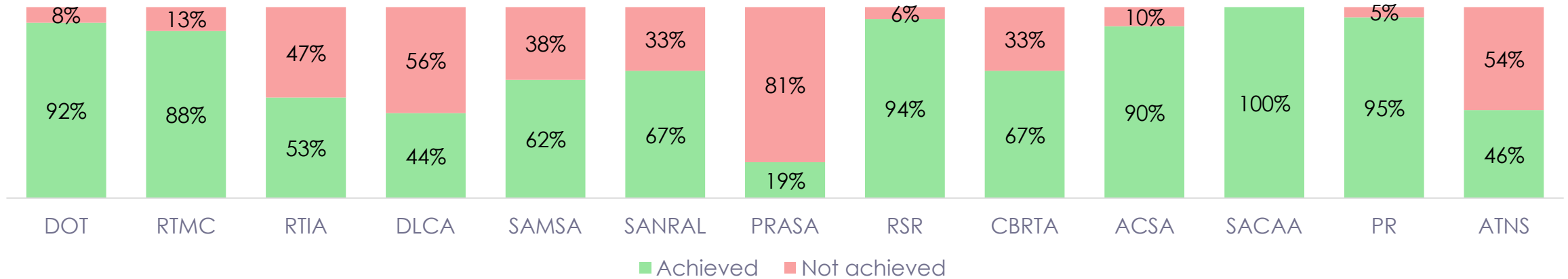


Key messages on service delivery



Key messages on service delivery and sector performance

Achievement of annual targets as reported in annual performance report (all indicators) – 2021-22



Although the majority of entities are achieving their KPIs, PRASA and SANRAL which utilise the majority of the budget are **currently behind in their progress on achieving** the outcomes for vision 2024. The KPIs that were not achieved relate mainly to **job creation, major road and rail infrastructure** projects. PRASA’s performance is the lowest at 81% non-achievement and this relate to the key KPIs such as the targeted passenger numbers for Metrorail, full electrical train services, number of Western Cape interlockings commissioned etc. The key KPIs not achieved by SANRAL relates to network resurfaced, road strengthened, Improved and New (CAPEX) km, number of SMMEs working for SANRAL etc. The non-achievement is mainly as a result of delays in procurement processes and instability at executive level, especially at PRASA.

With the **exception of DLCA** all entities with **clean audits have achieved their key KPIs**. DLCA did not achieve its target on **timeous production and delivery of license cards** due to a breakdown of the production machine from November 2021 to January 2022. The procurement of a new production machine was dependent on the approval and finalisation of the specifications for the new driving licence card design. The latter was only finalised after year-end.

The **oversight and monitoring indicators** would in most cases be **achieved**, but it **does not necessarily result in the required corrective action** needed to address **negative outcomes/non-achievement** of performance indicators and **service delivery objectives** at departments and its entities. In some instances, **resource capacity and inadequate skills compromised the quality** of monitoring and oversight at programme level



Service delivery objectives: Transport is a **fundamental role player in the economic recovery plan and is an enabler of service delivery and infrastructure build, that grows the economy.** The Medium-Term Strategic Framework (MTSF) priority outcomes for the transport sector were set out to achieve the goals as per chapter 4 of the National Development Plan (NDP). The transport sector contributes to the realisation of the vision of improved social and economic development as articulated in the National Development Plan, and priority 1 (economic transformation and job creation) and priority 5 (Spatial Integration, Human Settlements and Local Government) of government's 2019-2024 medium-term strategic framework. These priorities are incorporated in the **strategic and annual performance plans** of the department and its entities. In this slide we are reflecting on the performance of the department and the entities against the MTSF targets, annual performance and delivery on key infrastructure projects.

Performance against MTSF targets and annual performance

Generally we have noted that the **strategic plans and APPs are aligned with government priorities as contained in MTSF and NDP.** This will assist government in the implementation of its own plans. The department should focus on the implementation of its own plans and exercise effective oversight and monitoring of the delivery of the key indicators by the respective entities. An assessment was done to evaluate the Transport sector's progress to achieve the 5- year strategic outcomes in relation to the MTSF priorities (priority 2 and 5) to which the transport sector is aligned to. The assessment did not include all targets in the MTSF but have included only those key to delivering road and rail infrastructure and targets which impact the lived experiences of citizens significantly. Based on the assessment, **SANRAL and PRASA**, who receives more than 60% of the budget, are behind on the achievement of MTSF targets. Amongst others, this relates to road maintenance, passenger trips, delivery of new trains, job creation targets.

Although the majority of entities are achieving their KPIs, **PRASA, DLCA and SANRAL** did not achieve all their key performance indicators in the current year relating to their mandate. The KPIs not achieved relate mainly to production and delivery of driving licences as well as major **road and rail infrastructure** projects. With the **exception of DLCA** all entities with **clean audits have achieved their key KPIs.**

Both **SACAA** and **RSR** have critical responsibility of securing the safety of citizen's lives. We noted that both entities did achieve their key indicators. This was achieved through setting quality standards combined with rigorous monitoring and enforcement action when necessary.



Performance against MTSF targets and annual performance (continued)

The non-achievement of infrastructure targets are mainly attributable to project management challenges, reprioritisation due to flood relief initiatives in affected areas, procurement delays and community unrest relating to the community participation in the infrastructure projects. Instability in leadership also contributed to the non-achievement of targets related to the key indicators at **PRASA**.

The non-achievement of key indicators at **SANRAL and PRASA** resulted in significant capital underspending. R18.2 billion at SANRAL and R6.5 billion at PRASA for the current year.

In respect of the Provincial Road Maintenance Grant (PRMG), the developed **transversal indicators were not formally implemented** during the 2021-22 financial year due to the reprioritisation of the key performance indicators as a result of the covid-19 pandemic based on a transport sector resolution at the Sector Forum meeting on 17 September 2020.

The **transversal indicators** ensure that there is uniformity in planning and reporting towards the achievement of government and / or sector priorities. The DoT needs to coordinate the development and implementation of standardised/customised indicators in consultation with all stakeholders that reflect key deliverables.

The DOT **continued to monitor** compliance with the DORA framework on the PRMG for both physical and social indicators. Where provinces did not perform, their funds were re-allocated to other provinces. This was the case at Gauteng, Free State and KwaZulu-Natal where a sum of R144,6 million was re-allocated to Mpumalanga, Northern Cape, North West and Western Cape.

Northern Cape, Eastern Cape and Free State, did not allocate sufficient funds for road infrastructure and appear to be heavily dependent on the PRMG, due to the provincial treasuries not matching the grant allocation as required. There are other **competing provincial priorities requiring funding** that are currently funded by equitable share instead of matching the equitable share for road maintenance in the province. The under funding from equitable share for Road maintenance presents a service delivery risk as this has a detrimental impact on service delivery, since the department cannot address the maintenance backlog timeously.

The DoT, as transferring entity, should ensure alignment of monitoring processes to the responsibilities and conditions as articulated in the Division of Revenue Act (DORA). The departments should enhance the **internal monitoring mechanisms** to ensure strict adherence to the grant conditions, and that any control deficiencies around compliance monitoring are addressed expediently.



Infrastructure

R41,8 billion was allocated to the transport capital budget for 2021-22 of which 84,4% represents transfers to **PRASA, SANRAL and PRMG**. We have executed procedures in line with the DORA conditions and oversight functions exercised by the department. Below are the key infrastructure observations.

Generally we have noted that **SANRAL** construct quality road networks and this can mainly be attributed to the implementation of international best practice and the conformity with the International Federation of Consulting Engineers (FIDIC) conditions. We have also noted that there are certain projects that were completed without significant delays e.g. the Winburg Interchange to Winburg Station and the Moloto Road upgrade. Although good project management measures were put in place by SANRAL, there were instances of project delays and escalation of costs. This related mainly to the projects that were terminated before completion i.e., the Mtentu bridge and R23 projects. The escalation of costs is mainly due to instances where SANRAL did not commission valuation and/or assessment of the works onsite to make a determination of the work and cost required to complete the project prior to the appointment of the replacement or new contractor. This resulted in SANRAL incurring additional cost on some of the delayed projects. SANRAL needs to find a strategy to minimize the impact of delays on the implementation of the planned targets. They need to develop an action plan to urgently address the non-performance, delayed projects. This should include amongst others fast tracking of procurement, continuous engagement with community and other stakeholders causing disruptions etc.

PRASA has entered into a contract with GIBELA as part of the Rolling Stock Renewal Programme to deliver 600 new trains by 2030. By June 2022, PRASA had received 105 trains to the value of R9,8 Billion. These trains are currently vastly under-utilized and stock piled due to PRASA inability to bring the new trains into operation. The under-utilization is due to the lack of infrastructure development. The urgent completion of the rail infrastructure is therefore critical for deployment of trains and ultimate service delivery. PRASA should ensure that the rail infrastructure development is aligned to the production of new trains to ensure optimal utilisation of the new fleet



PRASA have not been able to verify the Economic Development (ED) Obligations in the GIBELA contract. The ED obligations and targets form a significant part of Gibela's deliverables in terms of the agreements. The obligations are measured in employee numbers (indicators such as B-BBEE and training), percentage of localisation and rand value spending on items such as skills development and ED contributions in the rail sector when compared to the total contract value. As a result, contractual remedies (penalties) available per the contract in the event of non-performance by Gibela could not be determined and, if necessary, enforced. This is mainly due to capacity constraints within the project management team responsible for this project. PRASA should therefore prioritise the capacitation of the project management division to ensure that there is adequate monitoring and ED obligations are adhered to.

PRASA's infrastructure is also targeted by vandalism and theft. Crime related incidents at PRASA reached an all-time high in November 2019 in the wake of the cancellation of irregular security contracts without appropriate alternate measures in place. High levels of incidents continued during the Covid-19 lockdown during the first half of 2020, however measures put in place by PRASA since then has resulted in a marked decrease of reported asset related crimes. Vandalism and theft continue to have a negative impact on service delivery at PRASA. PRASA should continue to collaborate with Transnet and the law enforcement agencies on security management to mitigate the vandalism of the rail infrastructure.

PRMG

We have identified **project management, cost management and grant utilisation** related findings at various provinces. For example A cost management finding was raised for an overpayment of R13 147 028.18 made to the contractor in the Eastern Cape. In the North West the PRMG grant was **not used for PRMG projects**, but was instead used for upgrade and construction of new assets. Five projects were put on hold due to the termination of contractors and related legal action, mainly due to ineffective contract management for poor performance by the contractors which took a long time to resolve. This resulted in losses and escalated costs (Free State). Two projects in the Northern Cape (the rehabilitation of road near Douglas and the upgrade to surfaced road near Magobing) were finalised late and this was due to **community unrest relating to employment opportunities**.



Quality of the infrastructure and impact on economy

- **Significant underspending** of capital budgets has a negative impact on the **delivery of infrastructure**, ultimately affecting service delivery.
- The timeous delivery of infrastructure projects has a **positive impact on the economy** as the cost of transport will be lower and will also stimulate the economy through the creation of jobs.

Impact on the citizens

- **Delayed projects** and poor road infrastructure prevent **seamless mobility** to educational facilities and workplaces and prevents timely access to health, home affairs and policing services. This will further fast track the degrading of road infrastructure which contributes to accidents and road fatalities, as well as negatively impacting on the RAF.
- The inability of **PRASA** to provide adequate, reliable, and consistently safe rail commuter services as well as long haul passenger rail and bus services has a detrimental effect on the citizens of South-Africa as well as the economy at large:
 - Increased transport costs for citizens as they take more expensive alternative forms of transport resulting in less expendable income for other necessities.
 - It is time consuming for workers to get to work as rail travel, especially over longer distances and during peak travelling hours, is quicker than travelling by road.
 - Negative impact on people being able to easily and affordably access work opportunities where those are present.



Conclusions and recommendations



Overall root causes of significant findings



The following are root causes for the lack of improved audit outcomes and non-achievement of service delivery objectives:

Audit outcomes

- **Ineffective action plans** and inadequate monitoring by the accounting officer/authorities.
- Inadequate **consequence management** for SCM transgressions.
- **Instability at leadership** within some of the entities.
- **Inadequate financial management discipline** over daily and monthly control activities, e.g. performance and review of reconciliations, reviews of financial statements, etc.

Infrastructure and service delivery infrastructure

- The **quality of monitoring and oversight** of grant management (PRMG) are in some instances compromised by capacity and skills challenges.
- The **underspending in capital expenditure** and non-achievement of targets is **largely due to delays in the procurement processes**, impact of covid-19 restrictions, court challenges in some of the awards etc.
- **Disruptions by local communities**, business forums or contractors filing for business rescue, disputes with contractors and work stoppages contributes to the delay of finalising the projects.
- **Inadequate capacity in the project management** units affects timeous delivery and monitoring of the infrastructure projects.



Key recommendations to, and commitments by, accounting officers and authorities



- Develop and implement action plans that is root cause focused and is assessed for effectiveness in addressing the findings. These action plans should include amongst other the findings, rating of the findings root causes, allocated responsibilities and indicate completion timelines. The implementation of the action plans must be reviewed by internal audit and reported to the audit committee on a regular basis.
- Implement disciplined financial reporting structures based on solid accounting and financial management knowledge. This should include finance and SCM divisions that are fully capacitated with required skills and competencies, implementation of financial management discipline such as monthly reconciliations, segregation of duties and reviews etc.
- Monitor performance and consequence management especially around supply chain management. There should be a culture of high performance and adherence to ethical standards. Where poor performance and transgressions with SCM prescripts are identified appropriate actions should be taken in line with the internal policies and procedures.
- Accounting officers/ authorities must continue to do their work through audit committees to ensure management implement and enhance processes of review of the financial statements and performance information.
- The internal audit functions and Audit and Risk Committees should enhance their independent review of the financial statements and annual performance report. Any deficiencies identified should be corrected by management before submission to the next level.
- Accounting officers/ authorities should strengthen their oversight by ensuring that executive management are held accountable for poor performance and transgressions of the law.



Key recommendations to, and commitments by, accounting officers and authorities



- Develop, implement and monitor **integrated action** plans to address non-achievement of key indicators and monitoring of the progress towards the achievement of MTSF targets.
- **Capacitate** the supply chain management and project management units to ensure timeous and quality delivery of infrastructure projects.
- **Strengthen the oversight function** at the department to ensure achievement of key performance indicators by the entities and provincial departments.
- Develop and implement proper procurement plan which takes into account the risk and mitigation of procurement delays and the impact thereof on delivery of infrastructure projects.
- In compliance with the relevant laws and regulations, develop a strategy to involve the local community in key projects and continuous engagement with the relevant stakeholders to create awareness of the process to be followed to minimize the disruptions.



Key recommendations to, and commitments by, accounting officers and authorities



In relation to PRASA:

- PRASA should implement a comprehensive turnaround plan to ensure improved audit outcomes and service delivery. This should include creating stability at executive management level, fully capacitating critical units, effective and efficient procurement and fast tracking depot and infrastructure modernisation. Although PRASA has multiple actions plans, these need to be consolidated into a comprehensive turnaround plan.
- The infrastructure modernization programme should be urgently fast tracked to ensure effective deployment and utilisation of the new trains which will ultimately have a positive impact on service delivery.
- PRASA should facilitate the project management team to ensure the effective management of the Gibela contract, including monitoring and enforcement of penalties where applicable.
- The board should finalise a lasting solution on the financial sustainability of Autopax through engagement with stakeholder such as the Department of Transport and National Treasury.
- PRASA should finalise the investigation on the possible ghost employees and implement corrective actions.





Recommendations, commitments by executive authority

- Committed to reprioritize resources to establish a Project Management Unit that will serve as an engineering and project management knowledge repository to assist Provinces and Municipalities in giving traction to projects funded through conditional grants.
- Strengthening of the Shareholder Compact with each of the entities and put measures in place to achieve the targets of eliminating fruitless and wasteful expenditure and reducing irregular expenditure by 75% by 2024.
- Restoring normalcy at the Road Traffic Infringement Agency following investigations that unearthed fraudulent practices and attending to the finalisation of the RTIA organisational structure.
- The final determination on the funding of the Gauteng Freeway Improvement Project (GFIP) to be made soon.
- Working with Provinces and municipalities, improving efficiencies at Driving Licence Testing Centres (DLTCs) will be driven by a new service delivery mode.
- The rollout of the Integrated Public Transport Networks (IPTNs) will be equally strengthened by the establishment of an oversight mechanism under the leadership of the Minister and the political principals of the relevant Cities implementing IPTNs. This will ensure accountability for the implementation of the IPTNs at political level.
- Follow up with the accounting officer and the boards to ensure that action plans to address audit findings are developed and implemented timeously,
- Follow up with the accounting officer and the accounting authorities to ensure that executive management positions are filled with appropriately skilled and experienced personnel
- Ensure that the culture of consequence management should be enforced in the portfolio,
- Continue to pay attention to PRASA and SANRAL to ensure that these entities timeously delivery on key infrastructure projects.

In 2020-21, we recommended the following:

Monitor and regularly follow up with the executive authority and accounting officer / authority on:

- progress on audit action plans put in place by the department and entities
- monitor the vacancies to ensure stability of leadership
- follow up with entities that incurred irregular, fruitless and wasteful expenditure to ensure there is consequence management



Overall reflections on implementation of recommendations:

- Action plans to address audit findings are developed, but not effectively implemented and not adequately monitored. Findings raised are in most instances recurring findings.
- We have noted positive progress in the filling of vacancies at board level and executive management as well as DDG positions at the department. This will go a long way in enhancing governance, accountability and oversight in the portfolio.
- There was an increase in the incurrence of irregular expenditure from R1 623 million to R1 803 million, but a decrease in fruitless and wasteful expenditure from R291 million to R117 million over the past year. The incurrence of Irregular Expenditure remains a challenge in the portfolio and this is due to inadequate consequence management for SCM transgressions.

Key messages going forward

The portfolio committee should monitor and do regularly follow up with the executive authority and accounting officer / authority to ensure that:



- 1** The big entities in the portfolio replicate the best practices to achieve clean audit. For entities where clean audit was achieved this should be maintained and focus should shift to achieving strategic objectives and service delivery mandates.
- 2** Accounting officers / authorities strengthen their oversight by ensuring that executive management are held accountable for poor performance and transgressions of the law.
- 3** Accounting officers / authorities develop and implement action plans that is root cause focused and is assessed for effectiveness in addressing the findings.
- 4** The executive authority continue to pay attention to PRASA and SANRAL to ensure that these entities timeously delivery on key infrastructure projects.
- 5** The progress towards achievement of the MTSF targets is monitored and corrective actions are put in place where the portfolio is behind.



THANK YOU



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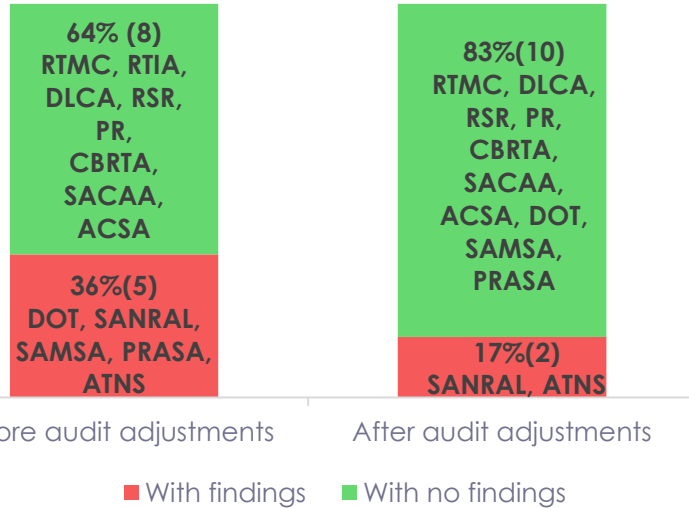


AUDITOR - GENERAL
SOUTH AFRICA

Annexures



Quality of performance reports before and after audit



Findings: Reporting

- At ATNS evidence was not obtained that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions.
- At SANRAL reported achievement for some targets were not agreeing to the supporting evidence and one reported achievement was not supported by evidence.

Impact

- Lack of accountability if achievement are not appropriately reported and supported by evidence.
- The citizens will not be able to assess how funds were used if the performance achievement is not supported by evidence.
- The achievement of targets may not be tracked if reporting systems and processes are not developed and implemented.



Achieving key performance targets – summarised information from performance report - PRASA

Performance indicator	Planned Annual Target	Actual achievement 2021/22	Reasons for deviation
Full electrical train service reintroduced between Mabopane and Pretoria	Quarter3	Achieved. Full Electrical service with new train sets re-introduced.	Not applicable – achieved.
Full electrical train service reintroduced between Cape Town, Kapteinsklip & Chris Hani	Quarter3	Not achieved	Relocation of illegal settlements not completed.
Number of Metrorail passenger trips for 2021/22	69 million	16,69 million	Delay in the recovery of lines (corridors).
Number of MLPS passengers for 2021/22	183 000	10 786	Unavailability of locomotives; Status of TFR network.
Number of Autopax passengers for 2021/22	1.95 million	0,80 million	Divisionalisation strategy and funding unsuccessful.



Achieving key performance targets – summarised information from performance report - PRASA

Performance indicator	Planned Annual Target	Actual achievement 2021/22	Reasons for deviation
Number of new train sets provisionally accepted for 2021/22	44	33	Covid-19 supply chain constraints; unrest of July 2021; NUMSA strike in October 2021 and doubling one production line.
Number of Gauteng interlockings commissioned for 2021/22	26	15	Cancelling of 4 stations due to vandalism and theft and transfer of Satellite Traffic Control to GNC delayed.
Number of Western Cape interlockings commissioned for 2021/22	16	5	Illegal settlements not re-located and contract cancelled by contractor.
Depot fencing for depots and yards completed in 2021/22	7 sites	0	Procurement evaluation to award were ineffective.
EMU capacity in depots completed for 2021/22	186	0	Non-award of tenders and court order against award of Salt River, Durban and Springfield depot designs.
Number of Metrorail coaches overhauled for 2021/22	110	0	No contracts awarded by end March 2022
Number of MLPS Coaches refurbished for 2021/22	10	0	No contracts awarded by end March 2022
Number of train sets in service (Non-cumulative)	193	63	Failure of procurement strategies and time required for allocation of coaches to panel of contractors.



Achieving key performance targets – summarised information from performance report - SANRAL

Auditee SANRAL

Performance indicator	Target	Actual performance	Reason for non-achievement
Network resurfaced	1000 km	449 km	<ul style="list-style-type: none"> • Delays in award of new reseal contracts • 3- month ramp-up period after award resulted in very limited actual expenditure from projects procured in terms of latest SANRAL procurement requirements.
Road Strengthened, Improved and New (CAPEX) km	600 km	92.6 km	<ul style="list-style-type: none"> • Delays in award of new capital expenditure contracts • 3- month ramp up period after award resulted in very limited actual expenditure from projects procured in terms of latest SANRAL procurement requirements.
Number of SMMEs working for SANRAL	2000 SMMEs	1684 SMMEs	<ul style="list-style-type: none"> • Delays in award of new contracts • 3-month ramp-up mobilisation period after award to enable SANRAL 14-point procedures to be followed
Community development Infrastructure projects	18 projects	3 projects	<ul style="list-style-type: none"> • Procurement delays
Jobs created on project (full-time equivalent)	10 000 jobs	9 129 jobs	<ul style="list-style-type: none"> • Delays in award of new contracts. • 3-month ramp-up mobilisation period after award to enable SANRAL 14-point (Transformation) procedures to be followed. • Court challenges resulted in delays in several other tender evaluations pending the finalisation of the court cases. Some of these court cases were only finalised as late as July/August 2021 whilst others are still pending.



Achieving key performance targets – summarised information from performance report - Driving Licence Card Account

Auditee Driving Licence Card Account ...

Performance indicator	Target	Actual performance	Reason for non-achievement
Organizational structure approved	Updated organizational structure approved	Memo requesting approval has been sent to the office of the Director General (DG)	The Minister of Transport has pronounced the transfer of DLCA to RTMC as part of rationalization process of the roads entities and therefore DLCA was no longer required to go ahead with the proposed structure.
Percentage of vacant positions filled	Vacancy rate not more than 10% of the approved organisational structure	52% vacancy rate (13/25) 13 – number of vacant positions as per the approved structure 25 – Total number of positions as per the approved structure	The new revised structure was ultimately not approved and as such position that the entity intended to fill could not be filled, the actual performance is based on the old approved structure
Percentage of training plans implemented	100% of the training plan implemented	0% of the training plan implemented	Although training was conducted, the trainings conducted were not on the training plan.
New production machine procured	New card machine procured	1. BSC and BEC for the bid were appointed. 2. Terms of reference for the bids were developed. 3. The bids were advertised and withdrawn	Delay in the approval of the new card design as the bid can only be published once the design has been approved by Cabinet
New ISO 18013-compliant driving license card rolled out	Approved card design	The card design was presented to the JCPS Cabinet Committee in March 2022 and awaiting tabling at the next sitting of Cabinet.	The card has been presented to Cabinet, which formed the Ministerial committee to advice before the approval of the card design.
Number of days taken to produce driving license cards	14 working days	29 days	Machine Breakdown in November 2021 – Jan 2022 resulted in a backlog of 639 000 cards.

Achieving key performance targets – summarised information from performance report - Driving Licence Card Account ...

Auditee Driving Licence Card Account ...

Performance indicator	Target	Actual performance	Reason for non-achievement
Percentage of driving license cards delivered within a number of working days	95% of cards delivered within 7 working days	94.02% of cards delivered within 7 working days. Formula = network days between date posted & date delivered excluding public holidays (all cards delivered in 7 days and less/ total number of cards delivered) x 100	The driving license cards for the Gauteng province were produced but held back due to non-payment, this resulted in the percentage of driving license cards delivered exceeding seven working days as Gauteng has the largest number of driving license card orders.
Percentage of the external calls logged and resolved within a number of working days	95% of all calls logged resolved within 7 working days	73% of all calls logged resolved within 7 working days (98%+47%+83%+63%/4) x 100	Delay in appointing SMMEs after Mühlbauer contract ended on July. Calls could not be followed up due to system challenges & insufficient capacity
Percentage of project milestones implemented	100% implementation of collaboration tool project	69% of project milestones have been implemented (11 milestones of project completed tasks/ 16 total project milestones)	DLCA lack of capacity delay the approval of documents and migration of data took longer due to the slow internet. There is a domain issue which is contributing to the configurations of the solution.
Full implementation of the initiatives identified in the SDIP	Implement 2 service delivery initiatives, namely prior: 1. Online smart enrolment solution 2. Adoption of ISO 10011 standards	1. As per Minister's directives, the project has been assigned to RTMC as the delivery agent and DLCA as the client. 2. ISO 10011 standards have been adopted through the development and monitoring of the ISO 10011 plan	The Minister has directed that the project be assigned to RTMC as the delivery agent and DLCA as the client



Quality of the infrastructure and impact on economy

- Significant underspending of capital budgets will have a negative impact on the delivery of infrastructure and ultimately impacting service delivery.
- The timeous delivery of infrastructure projects has a positive impact on the economy as the cost of transport will be lower.

Impact on the citizens

- Delayed projects and poor road infrastructure prevents seamless mobility to educational facilities and workplaces and prevents timely access to health, home affairs and policing services. This will further fast track the degrading of road infrastructure which contributes to accidents and road fatalities, as well as negatively impacting on the RAF.
- The inability of PRASA to provide adequate, reliable, and consistently safe rail commuter services as well as long haul passenger rail and bus services has a detrimental effect on the citizens of South-Africa as well as the economy at large, as follows:
 - Increased transport costs for citizens as they take more expensive alternative forms of transport resulting in less expendable income for other necessities.
 - It is time-consuming for workers to get to work as rail travel, especially over longer distances and during peak travelling hours, is quicker than travelling by road.
 - Negative impact on people being able to easily and affordably access work opportunities where those are present.



Key targets in medium-term strategic framework for portfolio

Five-year target

INTEGRATED TRANSPORT PLANNING

- **Single Transport Economic Regulator established and operationalised by 2020**
- **10% of road freight transferred to rail by 2024**
- **Expansion of the Integrated Public Transport Networks in Cities to 10 cities**
- **100% compliance with spatial referencing of Integrated Public Transport Network Programme**
- **Revised Bus Rapid Transport (BRT) system specifications and technical norms and standards by March 2022**
- **Increase in operational hours for BRTs to 18 hours per day**

ROAD TRANSPORT

- **Upgrading, refurbishing and maintenance of +- 25,000km of road network.**

Progress as at 31 March 2022

INTEGRATED TRANSPORT PLANNING

- The ERT Bill is still being processed in Parliament due to prolonged Parliamentary deliberations because of the complex nature of the Bill
- Road freight transferred to rail decreased from 6,1 million tons to 5,3 million tons during the period under review
- Seven cities (Cape Town, George, Ekurhuleni, Johannesburg, Tshwane, and Nelson Mandela Bay and Polokwane) are operational and working towards expanding current services
- Spatial Development Frameworks reviewed for 10 cities
- Cities implementing IPTN suite of offerings guide (George, Nelson Mandela Bay, Mangaung, Rustenburg and Polokwane implementing quality bus services with limited/scaled down infrastructure. Cape Town, Johannesburg, eThekweni, Ekurhuleni and Tshwane have BRT Lite Infrastructure
- Operational hours have been assessed as between 15 and 19 hours per day

ROAD TRANSPORT

- 22 266 km of the national road network was exposed to routine maintenance during the period under review



Key targets in medium-term strategic framework for portfolio

Five-year target

RAIL TRANSPORT

- Roll out new rolling stock to various priority corridors - 35 train sets
- 218 new train sets (2 616 coaches)
- 33 (16 stations on the Central Line in Cape Town and 17 stations on the Mabopane Line in Tshwane) modernised

Progress as at 31 March 2022

RAIL TRANSPORT

- A total of thirty-three (33) trains were provisionally accepted during the period under review
- Thirty-nine (39) new train sets were produced during the 2021/22 financial year, bringing the total number of trains produced to 85
- PRASA is currently on the process of service recovery of the priority corridors. Station improvement and revitalisation were done in order to allow for the service resumption of priority corridors.
- Work on the Western Cape Central Line remains suspended due to safety issues in particular as a result of the building encroachment of informal settlement, erecting structures on the railway lines and land servitudes. The project scope of work on all other areas of the network has been completed and the Western Cape Re-signalling Project has been terminated.
- Project completion for the Mabopane corridor is at 98,5%. An accelerated scoping of work has been completed to allow train service to run between Mabopane and Pretoria as well as Pretoria and Dewildt/Garankuwa



Roads – R34,2 billion



- **Achievement of targets** - SANRAL and DLCA did not achieve some of their key KPIs. SANRAL targets not achieved related to road infrastructure and DLCA relates to the production and delivery of licenses
- **Capital expenditure** - SANRAL accumulated R35 billion by 31 March 2022 due to capital underspending over the past three years
- **Delivery of projects** - We want to commend SANRAL for the good quality road network constructed through the implementation of the International Federation of Consulting Engineers (FIDIC) conditions and the projects successfully completed, e.g. the Winburg Interchange to Winburg Station Moloto Road Although good project management measures were put in place by SANRAL, there are delays in some projects
- **High dependency on the Provincial Road Maintenance Grants (PMRG)** - Some provinces did not allocate **sufficient funds** for road infrastructure and rely on **only the PMRG** to fund maintenance activities
- **Non compliance with grant conditions** - A sum of **R144,6 million** was reallocated to other provinces due to non-performance
- **Poor contract management on PMRG projects** has resulted in stalled projects and a lack of progress with service delivery
- **Expenditure management** - Fruitless and wasteful expenditure was incurred by SANRAL in some projects. These related to i.e. materials claimed by the contractor which could not be verified (R3,6 million), payments made for site visits after contractor services were terminated (R14,4 million)

Rail - R33 billion



- **Achievement of targets** – PRASA did not achieve the majority of its key indicators for the 2021-22 performance year. Transnet also did **not achieve** most of its **key KPIs**
- **Transnet** is experiencing operational challenges that are largely due to **disruption caused by vandalism to its infrastructure** which in turn negatively affected maintenance plans. This challenge impacts not only Transnet, but the entire rail and logistics economy
- **Capital underspending:** Only 35% of the capital budget of PRASA was spent during the year under review (R6,5 billion out of budget of R18,6 billion)
- **Inadequate Project monitoring** - PRASA has not been able to verify the economic development obligations in the GIBELA contract such job creation. Thus adherence to this by contractor not confirmed
- RSR received a clean audit outcome and achieved its **key KPIs**
- **Utilisation of assets** – Good progress has been made in manufacturing and delivering of trains through the Gibela project however trains are under-utilised due to the lack of functional rail infrastructure
- **Inadequate progress over MTSF** – PRASA is behind in achieving its objectives over MTSF period



Maritime – R148,2 million



- **Implementation of Operation Phakisa 3-Foot Plan** was monitored during the period under review. A draft business case for the establishment of a National Shipping Company was developed as targeted. During the period under review, the draft National Maritime Security Strategy was developed. However, **SAMSA did not achieve its KPI relating to Reportable Maritime Incident rate from all types of vessels.**
- The current challenges impacting on the achievement of the oceans economy targets are as follows:
 - Depressed global and local economic climate resulted in a slowdown in investments especially from the private sector
 - Reduction in demand and investor appetite
 - Reduced commitment to Operation Phakisa methodology and operations regressing back into business-as-usual

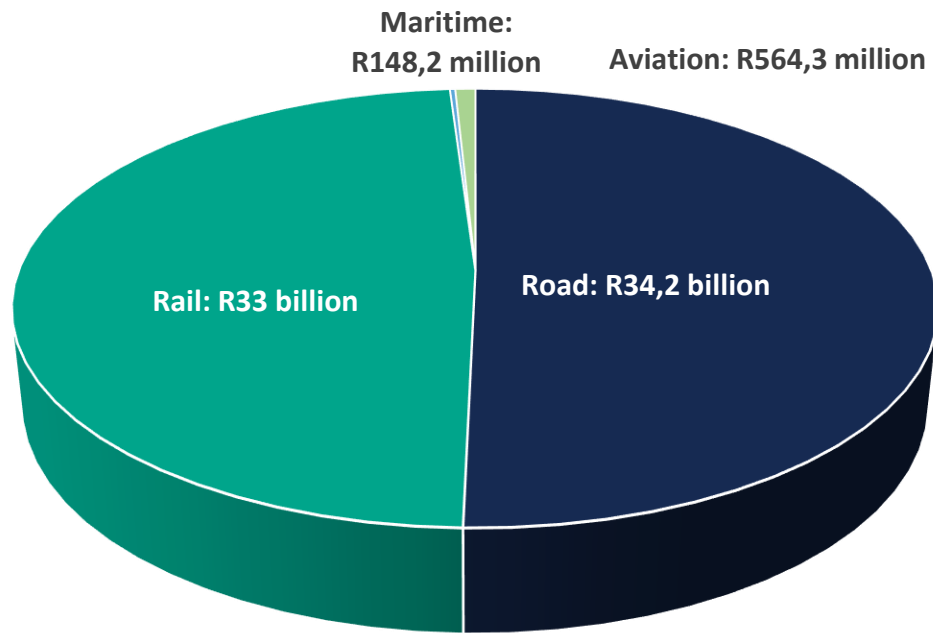
Aviation – R564,3 million



- **Achievement of targets** - Both SACAA and ACSA have substantively achieved their **key indicators** thereby executing their mandate effectively.
- However, ACSA did not achieve their target for job opportunities created through the capital expenditure programme.

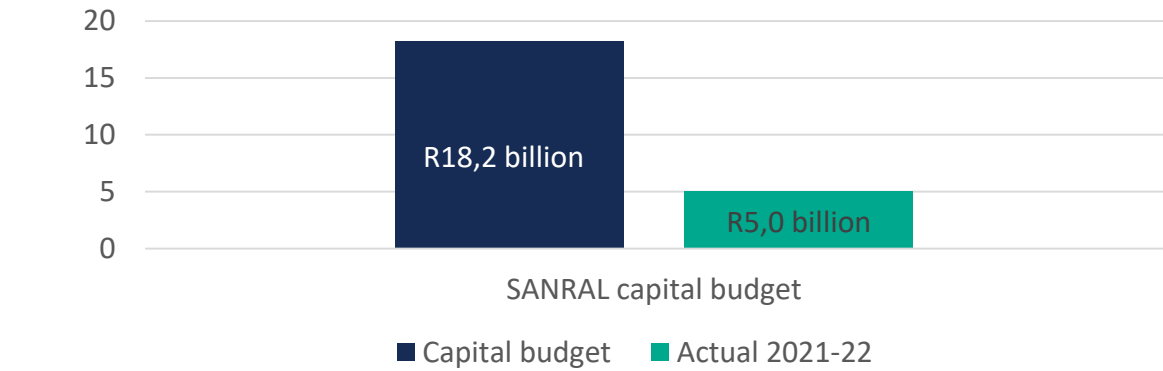


Budget allocation

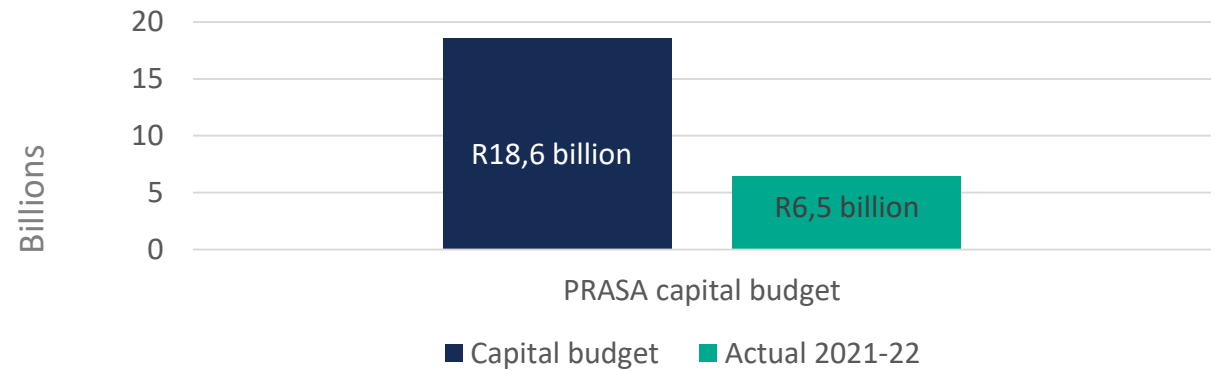


■ Roads ■ Rail ■ Maritime ■ Aviation

SANRAL capital budget



PRASA capital budget



Alignment to the 2019-2024 Revised Medium-Term Strategic Framework (MTSF)

An assessment was done to evaluate the Transport sector's progress to achieve the 5-year strategic outcomes in relation to the MTSF priorities (priority 2 and 5) to which the transport sector is aligned to. The assessment did not include all targets in the MTSF but have included only those key to delivering road and rail infrastructure and targets which significantly impact the lived experiences of citizens.

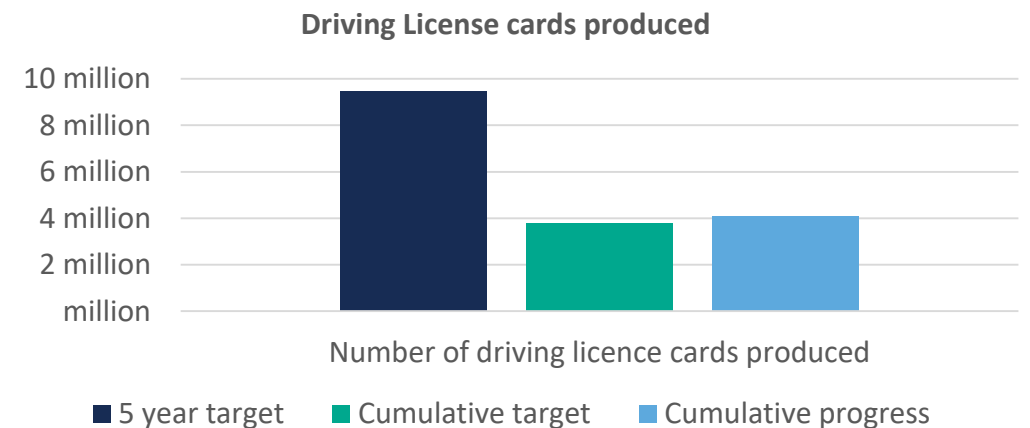
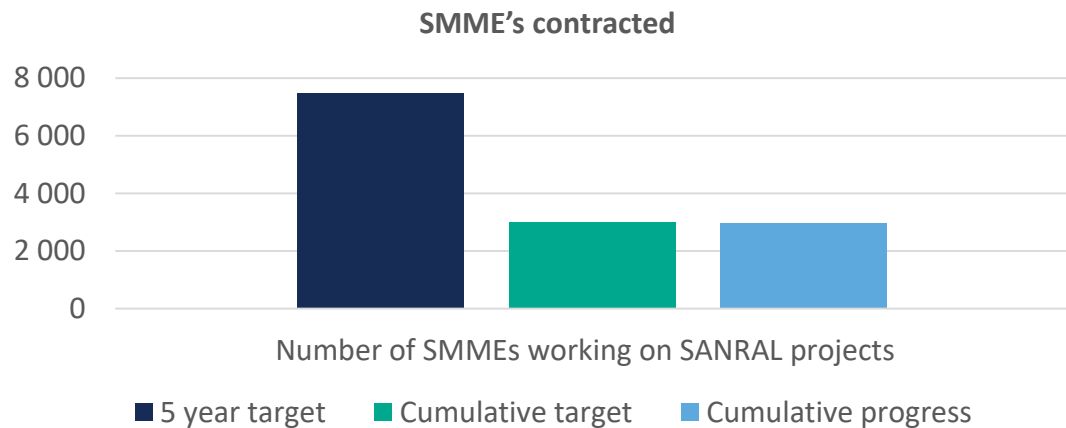
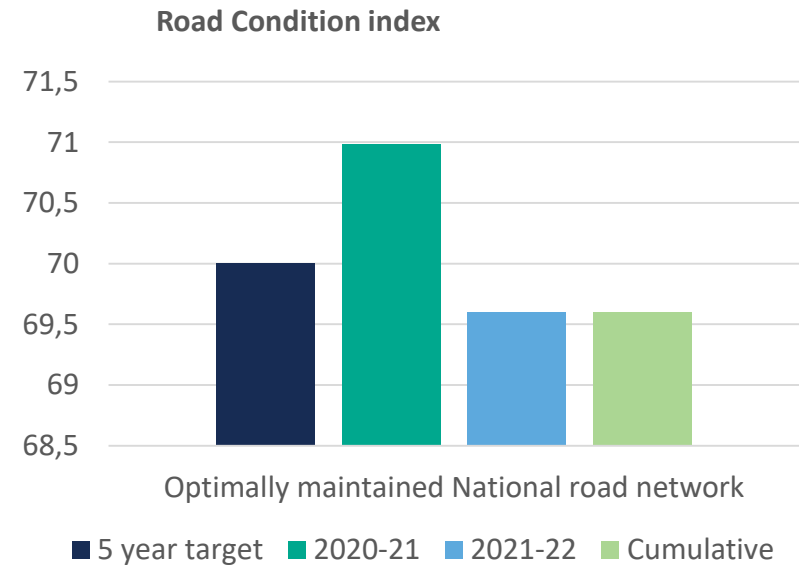
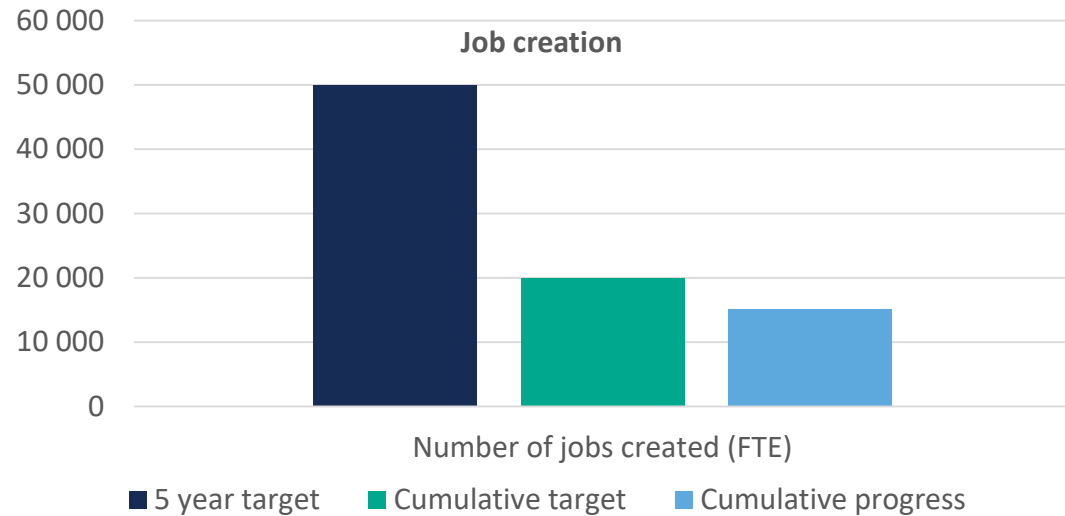
Priority 2 and 5

Based on the assessment the sector is still behind in achieving the 5-year strategic outcomes. This is due to the following:

SANRAL and PRASA collectively receives more than 60% of the total transfers budget from the Department, however both these entities are not on track with achieving their 5-year MTSF targets as depicted in the graphics on the slides below.



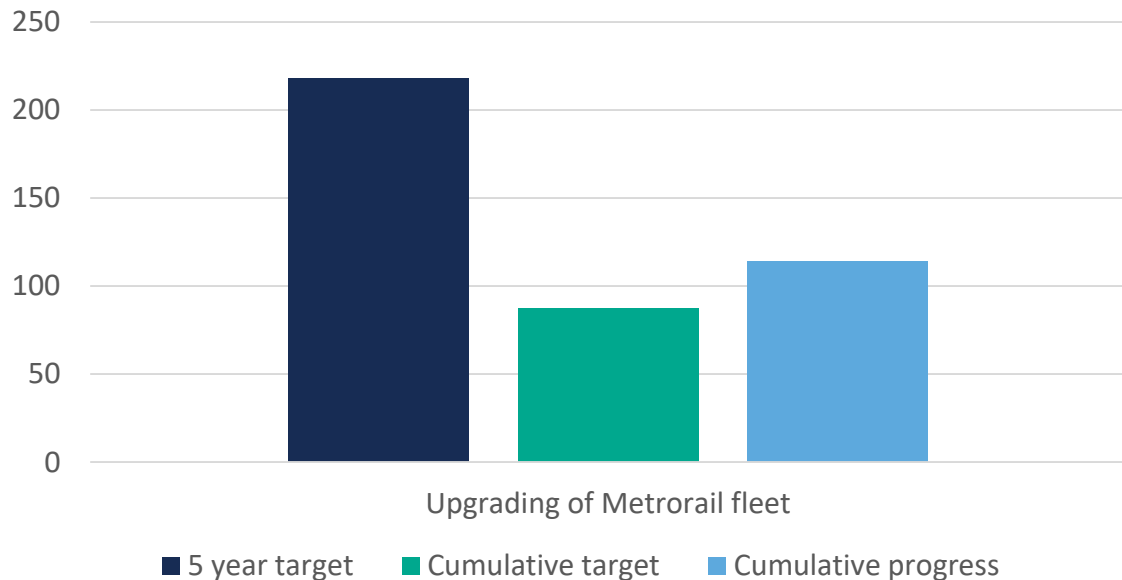
Priority 2 and 5



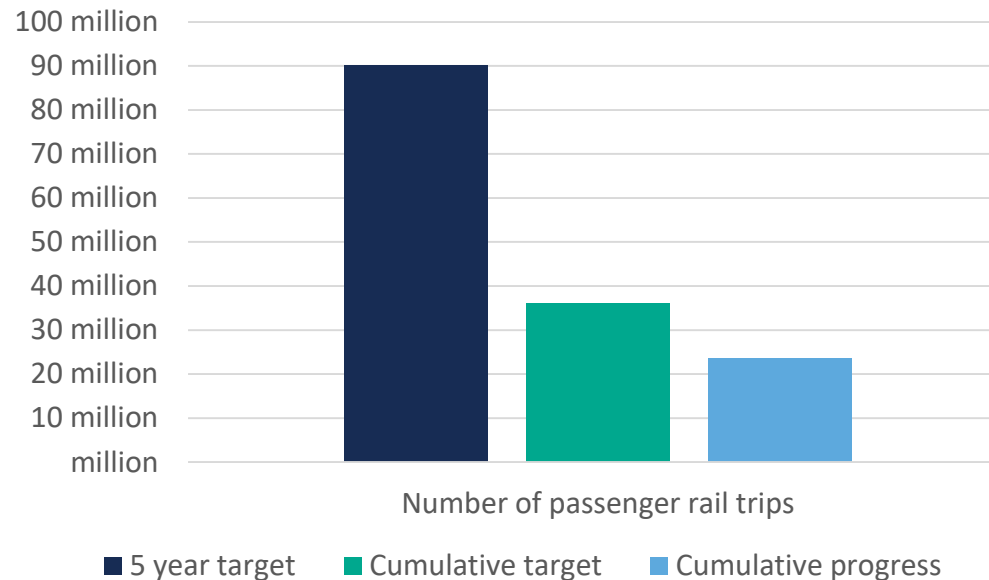
Rail achievement of 5 year MTSF targets

Priority 2 and 5

Gibela new trains



Passenger rail trips





Provincial Road Maintenance Grant (PRMG)



Free State Agriculture (FSA) has warned that the Free State province's road infrastructure is in a dire state.

Impact

- Underspending and delays will result in abrasion of the road surface and structure resulting in the emergence of potholes, which translates into increased travel time, cost escalations and road safety challenges. This negatively impacts on the economy and quality of general road infrastructure, e.g. in the Free State the agricultural sector plays a key role in the food security and economy and poor quality roads affects the delivery of produce from farms to refineries and ultimately the consumer markets.

Cause

- The underfunding relating to PRMG is as a result of the Provincial Treasury not matching the grant allocation as required due to other competing provincial priorities the also demand funding such as the equitable share.
- Poor contract and project management of PRMG projects in the provinces have resulted in delays of delivery on infrastructure projects resulting in alternative routes being utilised and affected by heavy freight.

Recommendations to AO/AA

- The departments should enhance the internal monitoring mechanisms to ensure strict adherence to the grant conditions, and that any control deficiencies around compliance monitoring are addressed expediently.

We reviewed the **planning documents** to verify alignment to **service delivery mandates**, and audited **expenditure** and **procurement and project management** where it was scoped in at the provinces.

We assessed **compliance with DORA conditions** by the transferring department (DoT) and grant recipients (provincial departments), which includes the effectiveness of **monitoring and oversight** as well as reporting.

Transferred by DoT = R11,94 billion while funds spent by Provincial departments = R10,97 billion

The department should ensure that the provinces and are held accountable where there is non-performance in line with the agreed plans

Overpayment resulting in fruitless and wasteful expenditure: A cost management finding was noted where an overpayment was made to the contractor amounting to R13,15 mil. The contractor has in the meantime entered into business rescue resulting in a low likelihood of the recovery of the overpayment.

PRMG grant not used in accordance with DORA conditions: PRMG grant was not used for PRMG projects, but was instead used for Upgrade and construction of new assets

Poor project management and delays:

- Five projects were put on hold due to the termination of contractors and related legal action. This is mainly due to ineffective contract management for poor performance by the contractors which took a long time to resolve. This resulted in losses and escalated costs. (Free state)
- Two projects namely, the rehabilitation of road near Douglas and the upgrade to surfaced road near Magobing, were finalised late. This was due to community unrest relating to employment opportunities. (Northern Cape).





PRASA, SANRAL and DOT



Responsibilities

PRASA

- Rail infrastructure recovery (inclusive of electrical substations, passenger rail stations); and reconstruction of the Illovo Bridge (bridge design and construction)

SANRAL

- Repairs to roads: Where communities are cut off from economic and social services
- Repairs to alternative routes to national roads where damages are forcing road users to use tolled roads e.g. oThongathi Toll and Umvoti Toll and repairs to routes which could lead to total collapse of specific portions of the route.
- Repairs to routes (major arterials) and roads where flood damages are causing major traffic congestions/ bottlenecks.
- Repairs to work of a capex nature i.e. Significant structural changes
- Repairs to works of routine/maintenance nature

Audit scope

We assessed SCM processes for procurement of Property, plant and equipment (construction of infrastructure, etc.), conflict of interest testing on awarded bids and Contract/ project management and payment verification.

We also assessed asset management of capital projects.

Key observations

Generally, the reconstruction of transport infrastructure takes longer to complete due to a number of successive activities that have to be completed before actual reconstructive work can commence. Some work has already been completed, such as the restoration of PRASA's Reunion station in KZN as well as the embankment between Reunion and Merebank – resultantly **PRASA** was able to extend the service between Durban and Merebank to Isipingo effective 25 July 2022. Additionally, PRASA's internal teams have performed clean-up work that became necessary after severe mud slides.

Similarly, at **SANRAL**, immediate interventions to restore mobility have been undertaken, these include amongst others, make safe measures to prevent further damages, clearing of debris and diversion of ongoing traffic. Furthermore, mobility has been restored on the N2 and N3 highway with some restrictions in sections with major failures.

Notwithstanding these activities, we noted that the progress in the implementation of the flood relief for transport (**SANRAL and PRASA**) is slow when compared to the implementation plan. This is mainly as a result of delays encountered in the approval for budget reprioritisation requests and the related changes in implementation plans.

Recommendations

The accounting authority of these entities are recommended to closely monitor the implementation plan to ensure timeous restoration of the infrastructure at the right quality and in a cost-effective manner. The accounting officer of the department and executive authority are recommended to continue exercising oversight to ensure adherence to the implementation plan.



Material irregularities



Implementation of material irregularity (MI) process

MI process implemented at:

- For 2021-22 **ACSA, RAF, SANRAL** and **PRASA** were selected for MI implementation in the transport portfolio.
- For 2022-23 **DoT, SAMSA** and **RTIA** will be phased in for MI implementation.

means any **non-compliance** with, or **contravention** of, legislation, fraud, theft or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit 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 **accounting officer / authority** does not appropriately deal with material irregularities, our expanded mandate allows us to:



Identified MIs – next steps and responsibilities

1 AO/AA is dealing with MI

AO/AA... implements the committed actions to address the MI and improves controls to prevent recurrence
AGSA... follows up in the next audit if actions were implemented and if outcomes were reasonable. If not, can include recommendations in audit report on how the MI should be addressed by a specific date

2 MI is referred to a public body

AO/AA... cooperates with public body and implements any remedial actions / recommendations made. Improves controls to prevent recurrence
AGSA... provides information on MI to public body, monitors progress with investigation and follows up in audits on implementation of any remedial actions/ recommendations

3 Recommendation included in audit report

AO/AA... implements the recommendations by the date stipulated in the audit report and improves controls to prevent recurrence
AGSA... follows up by stipulated date if recommendations were implemented and if outcomes were reasonable. If not, issues remedial action to AO/AA that must be implemented by a specific date

4 Remedial action issued

AO/AA... implements the remedial action by the date stipulated in the audit report and improves controls to prevent recurrence
AGSA ... follows up whether the remedial actions have been implemented. If not, issues a notice of intention to issue a certificate of debt (CoD) to the AO/AA. Request a written submission on reasons not to issue CoD within 20 working days

Executive and oversight

Executive... monitors progress and supports AO/AA in addressing the MI and improving controls
Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes

Executive and oversight

Executive... supports public body investigation and the AO/AA in improving controls. If responsible for public body, monitors progress with investigation
Oversight... monitors progress with investigation and calls public body to account for undue delays in Investigation.

Executive and oversight

Executive... monitors progress and supports AO/AA in implementing recommendations and improving controls
Oversight... request action plan or implementation, monitors progress and calls AO/AA to account for actions taken and outcomes

Executive and oversight

Executive... monitors progress and supports AO/AA in implementing remedial action and improving controls
Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes

Notified	MI description	Status of MI	Status description
17-Jul-19	Unfair procurement process for the purchase of locomotives	Resolved	On 15 September 2021, we notified the accounting authority of the remedial action to address the material irregularity, which had to be implemented by 15 December 2021. PRASA responded on 2 February 2022. We concluded, at the time, that appropriate actions were being taken to address the material irregularity. Given that these actions were still in progress, we requested a status update report by 13 July 2022. This was submitted by the accounting authority on 18 July 2022. We considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity. We will however continue to monitor the actions and the impact thereof during subsequent annual audits.
17-Jul-19	Competitive bidding process not followed in the appointment of general overhaul and upgrade contractors	Appropriate actions being taken – implementation being monitored	The accounting authority requested an investigation by the SIU into the matter, which was approved by the president on 13 August 2019 [proclamation R51 of 2019 (GG 42670 dated 30 August 2019)]. This investigation is still in progress.
17-Jul-19	Unfair procurement process followed in the appointment of the signalling contractor	Appropriate actions being taken – implementation being monitored	The SIU investigation (through secondment agreement) established that the key role players who participated in the procurement process have either been dismissed or have resigned from Prasa and therefore no internal consequence management can be implemented against them. Notwithstanding this, Prasa committed it would still report the matter to South African Police Service accordingly. We will follow up the implementation of the planned action during our next audit.



Notified	MI description	Status of MI	Status description
18-Jul-19	Competitive bidding process not followed in the award relating to the provision of bus services in the Western Cape	Appropriate actions being taken – implementation being monitored	The investigation was performed by the SIU through a secondment agreement. The investigation confirmed the non-compliance and Prasa has implemented the recommended cancellation of the contract. Furthermore, one employee has been charged in relation to this matter and remains on suspension pending the conclusion of disciplinary proceedings. We will follow up on the finalisation of the disciplinary steps during our next audit.
18-Jul-19	Competitive bidding process not followed in the award relating to the provision of surveillance services (drones)	Appropriate actions being taken – implementation being monitored	The investigation was performed by the SIU through a secondment agreement. The investigation confirmed the non-compliance and identified officials that were responsible for the breakdown of internal controls and consequently the non-compliance. The recommendation of the investigation report to take disciplinary action against the responsible officials is in progress, with one employee on suspension pending the finalisation of disciplinary proceedings and the remaining two officials still to be charged. We will follow up on the finalisation of the disciplinary steps during our next audit.
18-Jul-19	Uncompetitive process followed in the awards relating to the repair, supply and delivery of signalling equipment on the basis of an “emergency” deviation	Appropriate actions being taken – implementation being monitored	The investigation was performed by the SIU through a secondment agreement. The investigation confirmed the non-compliance and identified officials that were responsible. Disciplinary action against the four implicated officials has resulted in one official resigning prior to conclusion of the disciplinary process, one official having been acquitted and one official dismissed. The remaining official is still under suspension pending the conclusion of the disciplinary proceedings. We will follow up on finalisation of the disciplinary steps during our next audit.



Notified	MI description	Status of MI	Status description
11-Jul-19	Unfair award for the control of vegetation	Appropriate actions being taken – implementation being monitored	The investigation was performed by the SIU through a secondment agreement. The investigation confirmed the non-compliance and identified officials that were responsible for the breakdown of internal controls and consequently the non-compliance. The recommendation of the investigation report to take disciplinary action against the responsible officials is in progress. In this regard two officials were acquitted, three received final written warnings and one is still undergoing disciplinary proceedings. We will follow up on the finalisation of the disciplinary steps during our next audit.
18-Jul-19	Uncompetitive process followed in the award relating to the repair and replacement of signalling equipment on the basis of an “emergency” deviation	Appropriate actions being taken – implementation being monitored	The investigation was performed by the SIU through a secondment agreement. The investigation confirmed the non-compliance and identified officials that were responsible. Disciplinary action against the three implicated officials has resulted in one official resigning prior to conclusion of the disciplinary process and one official having been dismissed. The remaining official is still under suspension pending the conclusion of the disciplinary proceedings. We will follow up on finalisation of the disciplinary steps during our next audit.
18-Jul-19	Competitive bidding process not followed in the award relating to the provision of security services	Appropriate actions being taken – implementation being monitored	The investigation was performed by the SIU through a secondment agreement. The investigation confirmed the non-compliance and identified officials that were responsible for the breakdown of internal controls and consequently the non-compliance. The recommendation of the investigation report to take disciplinary action against the responsible officials is in progress, with one employee on suspension pending the finalisation of disciplinary proceedings and the remaining two officials still to be charged. We will follow up on the finalisation of the disciplinary steps during our next audit.

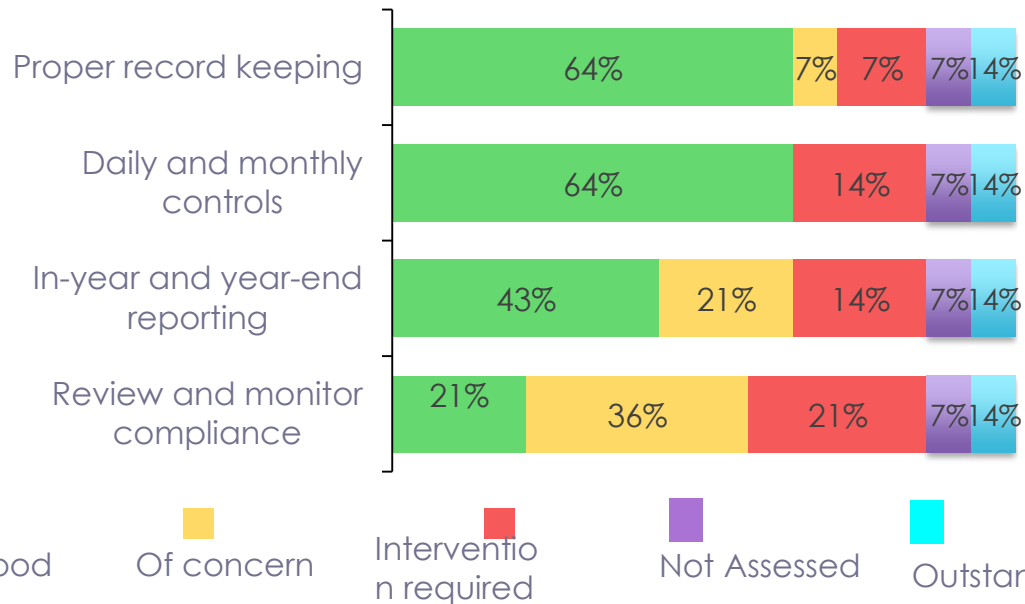




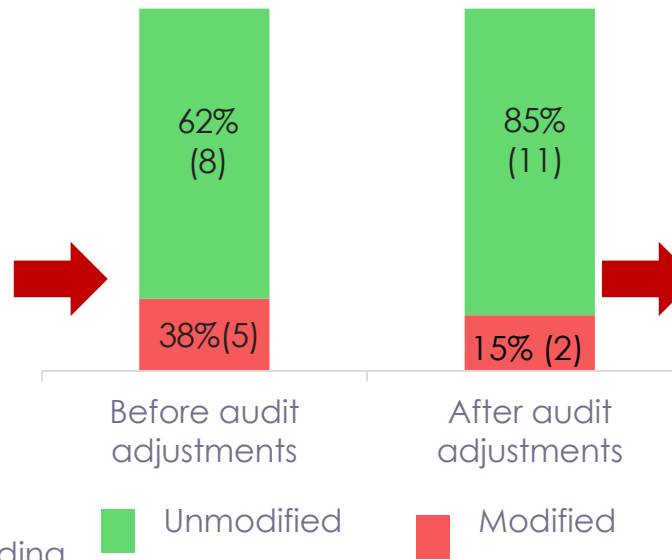
Financial management and compliance



Financial management controls



Impact on quality of financial statements submitted for auditing



Main qualification areas

- The financial statements of PRASA will be disclaimed on the basis of material misstatements in following areas: Property, plant and equipment (assets); Capital grant reserve; Cash flow statement; Commitments; Prior period errors; Risk management; Fruitless and wasteful expenditure; Irregular expenditure and the Statement of comparison of budget and actual amounts.

Impact

Quality of financial statements submitted for audit

Financial statements submitted without errors - Eight auditees (DOT, RTMC, DLCA, Ports regulator, SACAA, RSR, CBRTA, and ACSA) submitted financial statements that were free of material misstatements. This is a significant improvement in the internal control environment relating to the review of annual financial statements. ACSA, DOT and RTMC improved from the prior year as they had not material misstatements in the current year.

Quality of final submission after audit - Three auditees (SAMSA, ATNS and SANRAL) submitted annual financial statements that contained material misstatements which had to be adjusted to receive an unqualified opinion. These auditees did not have adequate review processes in place to detect material misstatements prior to submission.

Compliance with key legislation



2021-22



● No material findings ● Material findings

MOVEMENTS FROM PREVIOUS YEAR:

1 ↑ 0 ↓

FROM FIRST YEAR OF ADMINISTRATION:

4 ↑ 2 ↓

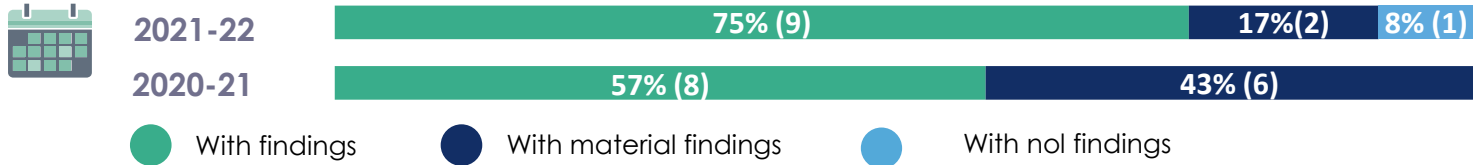
Most common areas of non-compliance	DOT	SAMSA	SANRAL	PRASA
Procurement and contract management	X	X	X	X
Quality of financial statements	X	X	X	X
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure		X	X	X
Effecting consequences	X	X	X	X

X Previous year's finding addressed X New finding identified in 2021-22 X Repeat finding



Procurement and payments

Status of compliance with legislation on procurement and contract management

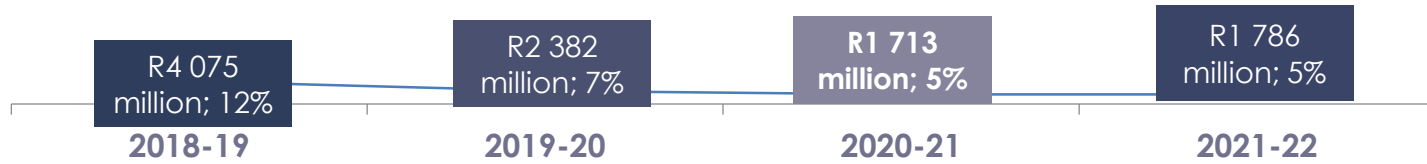


MOVEMENTS FROM PREVIOUS YEAR:
3 ↑ 1 ↓

Details of procurement findings	SAMSA	PRASA	SANRAL	RTMC	DOT
Uncompetitive and unfair procurement processes	X	X		X	X
Contract extensions without proper approval		X	X		
Prohibited awards to other state officials					
Limitations on audit of awards selected for testing		X			
Non-compliance with Preferential Procurement Regulations		X		X	



Annual irregular expenditure



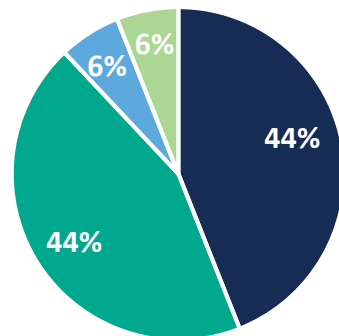
Top contributors

- R1 161 million PRASA
- R487 m million SANRAL
- R49 million ACSA
- RR47 million RTMC
- R29 m million SAMSA

Root causes: The lack of adequate compliance monitoring and enforcement together with the lack of consequence management were identified as the transversal root causes for incurring Irregular Expenditure at the biggest contributors. There is also a slow response by management in addressing prior year control deficiencies and implementing auditors' recommendations.
Irregular expenditure under assessment: R87,5 million

Impact of irregular expenditure incurred

Irregular Expenditure



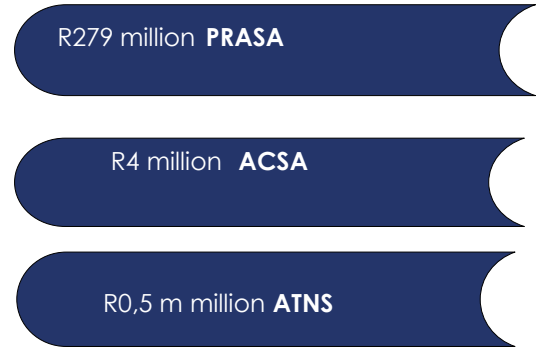
■ Competitive ■ Transparent ■ Equitable ■ Fair



Fruitless and wasteful expenditure



Top contributors

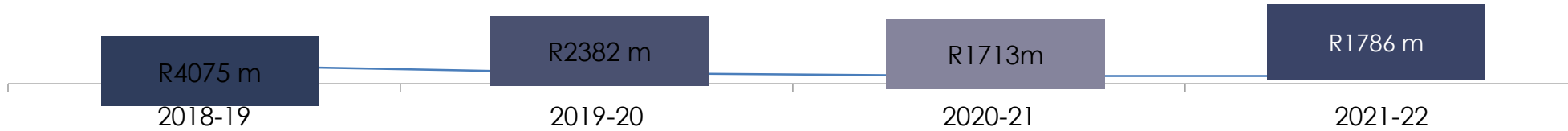


Nature of the fruitless and wasteful expenditure

- PRASA was the largest contributor - fruitless and wasteful expenditure amounting to R279 million identified in the current year. The FWE mainly related to R190 million for work-in-progress costs written off due to lack of capitalisation documents and R86 million related to interest and penalties.
- ACSA (R4 million) – Interest on late payments



Closing balance of irregular expenditure continues to increase



Top contributors to irregular expenditure not dealt with constitute 95% of R3 962 million

- R1 934 m SANRAL
- R535 m SAMSA
- R442 m ACSA
- R435m SANRAL
- R302 m DLCA



How have auditees dealt with irregular expenditure

	Money recovered or in process of recovery	Nil million
	Condoned	R203 million
	Written off	Nil million
	Not dealt with	R3 962 million



Reasons for IE not dealt with:

- In most instances the auditee is awaiting the conclusion of investigations/determination assessments.



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