



BRIEFING NOTE TO Scopa

PFMA
2021-22

Passenger Rail Agency of South Africa (Prasa)

2 November 2022



AUDITOR - GENERAL
SOUTH AFRICA

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1. Introduction

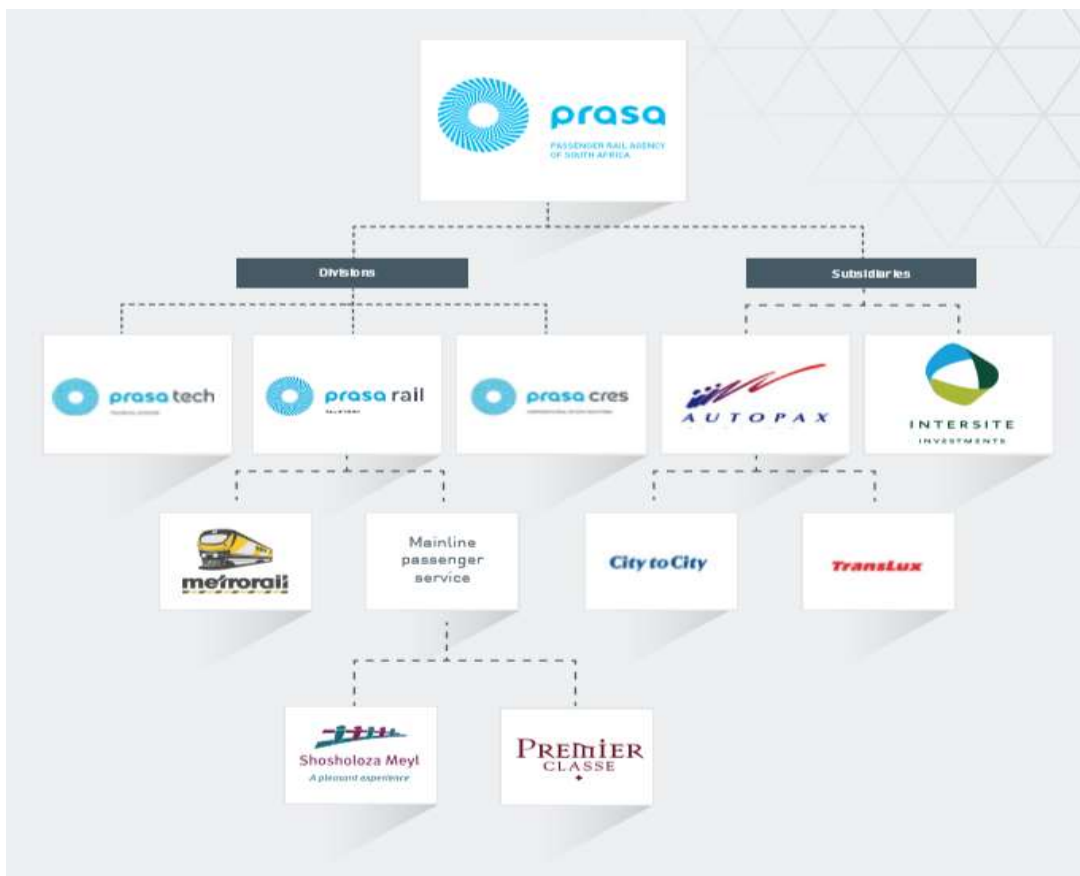
1.1 Reputation promise of the Auditor-General of South Africa

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

1.2 Purpose of document

The purpose of this briefing document is for the AGSA to brief SCOPA on the audit outcome and other findings in respect of the Prasa. The outcome includes the annual financial statements, status of compliance with legislation and reporting of performance against predetermined objectives for the 2021-22 financial year-end.

2. Organisational structure



3. Funding

Prasa received government subsidies from the Department of Transport amounting to R6,9 billion for operations and R9,7 billion for capital expenditure during the 2021-22 financial year. In addition, Prasa group generated revenue of R343 million in the form of fare revenue, operating lease rental income of R609 million, other income of R116 million and interest received of R1 billion.

4. Audit opinion history

The audit outcomes for the current period and the preceding four (4) years have been summarised below:

DESCRIPTION	2017-18	2018-19	2019-20	2020-21	2021-22
Report on the audit of the financial statements					
Audit opinions	Qualified	Disclaimed	Disclaimed	Disclaimed	Disclaimed
• Areas of qualification					
- Property, plant and equipment (assets)	X	X	X	X	X
- Irregular expenditure	X	X	X	X	X
- Fruitless and wasteful expenditure	X	X	X	X	X
- Commitments		X	X	X	X
- Unspent conditional grants and revenue from non-exchange transactions – Capital subsidy and grants amortised		X	X	X	
- Risk management		X	X	X	
- Statement of comparison of budget and actual amounts	-	X		X	
- Management representation not provided				X	
- Receivables from non-exchange transactions, subsidy received in advance, revenue from non-exchange transactions – operational subsidy and bad debts written off	X	X	X		
- Change in accounting policy – first time adoption of GRAP		X	X		
- Prior period error			X		
- Fare revenue	X	X			
- Cash flow statement		X			
Report on the audit of predetermined objectives					
• Material findings on predetermined objectives	X	X			
Report on the audit of compliance					
• Material misstatements in the submitted financial statements	X	X	X	X	X
• Procurement and contract management	X	X	X	X	X
• Expenditure management	X	X	X	X	X
• Consequence management	X	X	X	X	X

5. Overview (Executive summary)

We have included an executive summary of all key messages of the outcome components outlined above, with the detailed information contained in the relevant sections that follow in the document.

- i. 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 (PPE) (assets), commitments, fruitless and wasteful expenditure and irregular expenditure. Prasa managed to resolve four areas that contributed to the basis of disclaimer in the prior year – namely accounting for capital subsidies and grants, statement of comparison of budget and actual figures, the risk management disclosure note and a signed management representation letter was provided. 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 urged the board and management to continue to prioritise the disclaimer areas and develop and monitor action plans to ensure that there is an improvement in the audit outcome of the entity going forward.
- ii. PRASA produced an annual performance report (APR) with no material findings on the usefulness and reliability of reported key performance indicators and targets on the objective scoped in for audit purposes, namely *Pillar 2: Recover Rail and Autopax performance*. However, the entity did not achieve 13 (81%) out of the 16 predetermined key performance indicators and targets that related to their core mandate. We recommended 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.
- iii. 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. Non-compliance in these areas remained unresolved, as evidenced in the audit opinion history. This is attributable to Prasa not having prioritised the effective implementation of corrective actions forthcoming from the external audit process.
- iv. Historically, Prasa did not implement appropriate consequence management which resulted in a culture of impunity towards transgressions with laws and regulations. During the year under review, some improvement has been noted in this regard and this translated in a reduction of the number of findings on procurement and contract management (particularly pertaining to compliance with the Preferential Procurement Policy Framework Act, Construction Industry Development Board Act and compliance with local content procurement requirements. The sustainability of the improvement should however be considered in light of the level of procurement in 2021-22, which was significantly lower than in previous years due to failed procurement strategies exacerbated by staff shortages in the supply chain management (SCM) department. Additionally, Prasa's need to simultaneously rebuild lines across all engineering disciplines at the same time resulted in overloaded and protracted procurement processes. Ultimately, 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.
- v. Prasa should compile and 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 (including finance, supply chain and contract management, internal audit and the asset unit), effective and efficient procurement as well as fast tracking depot and infrastructure modernisation. Although Prasa has multiple actions plans, these need to be consolidated into a comprehensive turnaround plan.



Governance and oversight

- vi. The instability at board/executive management level over the years had a detrimental impact on governance and service delivery. We noted positive progress in stabilising the board at Prasa, however the situation remained unchanged at executive management level.
- vii. The in-year vacancies on executive management level were noted as a matter requiring immediate intervention in our prior year (2020-21) audit report. The situation however remained unchanged during the financial year under review. This, in combination with severe capacity shortages – especially in terms of enough appropriately skilled individuals being appointed in critical departments such as Finance and SCM – probably constituted the single biggest root cause for the unchanged audit outcome.
- viii. As at 31 March 2022, only three of the 12 (25%) executive management positions (Chief executive officer (CEO): Technical; Executive: Strategy; and CEO: Autopax) were filled by permanent appointments whereas one position (Company Secretary) was vacant and the remaining eight (67%) positions were filled by acting incumbents as follows:
 - Group CEO
 - Group chief financial officer
 - Chief information officer
 - Group executive: Human Capital Management
 - Group executive: Legal
 - Group chief audit executive
 - CEO: Rail
 - CEO: Corporate Real Estate Solutions
- ix. We further noted that, in certain instances, the various divisions within Prasa function in isolation and this lack of coherence also contributed negatively to collective accountability towards Prasa as a whole, consequently emphasising the need for cohesive and stable leadership from executive management.
- x. Therefore, we reiterated our prior year recommendation to Prasa that the instability in executive management and capacity shortages in critical departments be addressed without further delay.

Quality of submitted annual financial statements

- xi. Prasa did not submit annual financial statements (AFS) by the legislated date, similar to the prior year. The financial statements were only submitted on 30 June 2022 – this was attributed to late finalisation of the asset verification process. Additionally, units responsible for submission of accurate, complete and timely information to enable the effective preparation of the financial statements did not adhere to requirements in certain instances. The preparation of the consolidated and separate sets of financial statements for the Prasa group hinged on one individual (Manager: Finance and Reporting), given the lack of capacity in the finance unit, which should be resolved going forward considering the volume and complexity of the Prasa group AFS. There was no comprehensive review, which included the verification of supporting records, schedules and registers, prior to submission either by internal audit (due to a lack of capacity) or by any of the other governance structures (mainly due to late submission). In this regard Prasa was urged to plan the preparation and review process of financial statements properly in 2022-23 to avoid recurrence of issues noted and to enable timely submission of quality financial statements.



Expenditure management

- xii. Both irregular as well as fruitless and wasteful expenditure reported increased in 2021-22, despite procurement not being back to pre-covid levels and a number of non-awards of significant contracts planned for the financial year.
- xiii. Irregular expenditure continued to be caused mainly by SCM non-compliance. The key contributor to the steep rise in fruitless and wasteful expenditure was work-in-progress costs written off due to lack of capitalisation documents or any detectable underlying assets amounting to R191 million.
- xiv. Prasa's audit report has been qualified on the completeness of reported irregular and fruitless & wasteful expenditure since 2016-17. As no action was taken to revisit the previously reported figures to ensure completeness, and audit results from 2021-22 are once again indicative of a lack of preventative and detective controls in these areas, both areas again formed part of the basis for disclaimer.

Consequence management

- xv. PRASA leadership demonstrated improved commitment to taking a zero-tolerance stance against transgressors of laws, regulations and Prasa policies in 2021-22. This has, amongst others, seen the material irregularity on the locomotive matter being resolved as PRASA has taken appropriate remedial action in this regard, which included an investigation by the Special Investigating Unit (SIU) and the implementation of the recommendations emanating therefrom, and remaining matters to still be concluded pertaining to this transaction are not within the control of the entity. We have also noted an increased level of disciplinary action where such is required. With that being said, there is still a need for improvement in the timeframe in which disciplinary matters – which includes the suspension of officials – are handled and concluded. Several instances of long suspensions were noted, a matter that should be avoided as in numerous instances there is no additional capacity brought in to carry the suspended official's workload – further overburdening the already constrained human resource capacity. As consequence management is ramped up, this must be done in a manner that does not instill a culture of debilitating fear where officials are reluctant to make the decisions necessary to move Prasa forward.
- xvi. Notwithstanding the positive developments on critical and particular matters, Prasa continued to fail to investigate everyday occurrences of irregular as well as fruitless and wasteful expenditure resulting in non-compliance with the PFMA. Furthermore, we have been unable to obtain a consolidated list of all investigations that were started and are currently in progress. These are being handled by various units in Prasa, external parties and law enforcement agencies. This is a critical matter, as such a consolidated listing is necessary to enable leadership and those charged with governance to properly monitor progress and take corrective action where necessary.
- xvii. Consequence management overall is therefore still not at a satisfactory level and every effort should be made in the upcoming year to get Prasa compliant to the prescripts of the PFMA in as far as this is concerned.

Material irregularities (MIs)

- xviii. Nine MIs were identified at Prasa in 2018-19. Remedial action was issued 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 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.

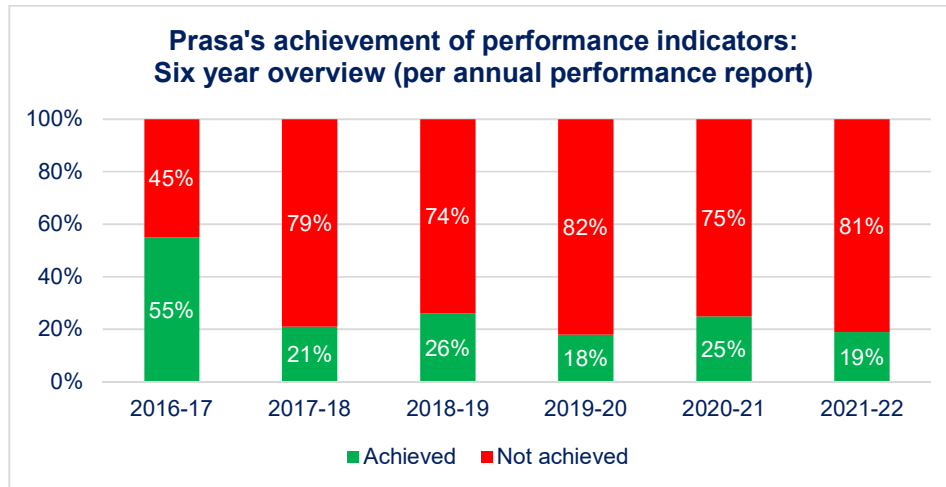
Material uncertainty regarding going concern - Autopax

- xix. Autopax, Prasa's wholly owned subsidiary, is in charge of execution of the primary mandate relating to long-haul bus services.
- xx. Due to severe prevailing financial difficulties and persistent going concern issues Autopax was placed under business rescue on 18 November 2021, a process that is ongoing.



- xxi. While the business rescue practitioners are confident that Autopax can continue into the future, the turnaround of the entity – in whichever form it will take – is hinging on additional funding being secured to enable the acquisition of a new bus fleet.
- xxii. The resolution of the funding issue with National Treasury, the Minister and other role players such as the Department of Transport should continue to receive priority attention by the board.

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



- xxiii. Prasa only achieved three (19%) out of the total 16 predetermined performance indicators across all objectives for the 2021-22 financial year. The major root cause for non-performance was failures on the procurement front with planned contracts not having been awarded and in certain instances awards that were cancelled. Cognisance is taken of certain circumstances beyond Prasa’s control – which included the continued impact of covid-19, civil unrest in July 2021, the Numsa strike in October 2021 and the delay in relocation of informal settlements in the Western Cape which is dependent on the conclusion of overarching governmental processes.
- xxiv. Nevertheless, even when taking into account the aforementioned factors, Prasa’s performance was at an unacceptable level and the second lowest it’s been in the past six years. To this effect, procurement planning must be improved to effectively cater to the multi-disciplinary environment and the supply chain and contract management units must be stabilised with enough appropriately skilled personnel.
- xxv. Positive movements towards achieving these outstanding targets have been reported after year-end however ongoing monitoring and oversight is required to ensure that Prasa achieves its predetermined objectives to enable the requisite level of service delivery in the foreseeable future.

Service delivery objectives

- xxvi. The transport sector, including Prasa, is a fundamental role player in the economic recovery plan. To this extent, passenger rail transport should enable communities to access employment opportunities. Consequently, Prasa’s ability to provide an effective and efficient transport system to commuters and passengers is pivotal for economic growth, and for alleviating poverty and unemployment.
- xxvii. 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). While Prasa’s strategy and annual performance plan were aligned to government’s priorities as outlined in the MTSF and the NDP, its progress to enable the achievement of MTSF interventions and targets – relating to the rolling out of new stock to various priority corridors, modernisation of the existing rail network and system and the upgrading of the Metrorail fleet – is behind schedule. Unless these programmes are expedited this will have a negative impact on the lived experiences of citizens.



Infrastructure

- xxviii. Significant underspending of capital budgets has a negative impact on the delivery of infrastructure, ultimately affecting service delivery. Only 35% of the capital budget of Prasa was spent during the year under review (R6,5 billion out of budget of R18,4 billion). The main reason for the underspending was delays in procurement processes.
- xxix. Prasa has entered into a contract with the Gibela Rail Consortium 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 underutilised and stockpiled due to Prasa's inability to bring the new trains into operation. The underutilisation is due to slow infrastructure development to accommodate these new trains. Prasa should therefore ensure that the rail infrastructure development is aligned to the production of new trains to ensure optimal utilisation of the new fleet. Presently the trains are deployed on the Cape Town to Simon's Town; Cape Town to Retreat; Saulsville to Pretoria; Pretoria to Mabopane; and Pretoria to Pienaarspoort corridors.
- xxx. Prasa has also 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, among others, due to capacity constraints within the project management team responsible for this project. The overall management of the project, including the contract management responsibilities for the Manufacturing and Supply Agreement (MSA) and the Technical Spares Supply Support Agreement (TSSSA) is vested in three Prasa employees. The project manager is supported by a project manager representative on a temporary basis and supported by one other employee. The responsibilities include the monitoring, project and contract management of the MSA, the TSSSA together with the ED initiatives contained in these agreements. Prasa was therefore urged to prioritise the capacitation of the project management division to ensure that there is adequate monitoring and that the ED obligations are adhered to.
- xxxi. Prasa's infrastructure is a target for 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 however still have a negative impact on service delivery. Prasa should thus continue to collaborate with Transnet and the law enforcement agencies on security management to mitigate the vandalism of the rail infrastructure.

Impact on the citizens

- xxxii. 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.
- xxxiii. Increased transport costs for citizens, as they take more expensive alternative forms of transport, result in less expendable income for other necessities.
- xxxiv. 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.
- xxxv. Negative impact on people being able to easily and affordably access work opportunities.



6. Report on the audit of the financial statements

The basis for the disclaimer opinion was as detailed below:

6.1 Property, plant and equipment

I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for property, plant and equipment PPE in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) - GRAP 17, Property, plant and equipment. This was due to significant control deficiencies in the asset management processes, the inadequate state of accounting records and the non-submission of information in support of reported balances. In addition, management did not review the residual values and useful lives of PPE at the reporting date as required by GRAP 17. Furthermore, I was unable to obtain sufficient appropriate audit evidence that management had performed a comprehensive impairment assessment for PPE at the reporting date as required by GRAP 21, Impairment of non-cash-generating assets. I was unable to confirm these assets by alternative means.

Consequently, I was unable to determine whether any adjustments were necessary to the net carrying value of PPE stated at R42,9 billion (2020-21: R37,7 billion) and R42,9 billion (2020-21: R37,8 billion); depreciation and amortisation stated at R2,5 billion (2020-21: R2,9 billion) and R2,5 billion (2020-21: R2,9 billion); the impairment loss stated at R222,3 million (2020-21: R1,4 billion) and R38,2 million (2020-21: R1,2 billion); the loss on disposal of assets stated at R57,1 million (2020-21: R1,5 billion) and R76,1 million (2020-21: R1,5 billion) and its related notes to the financial statements for the controlling entity and the economic entity, respectively, as it was impracticable to do so. Additionally, there was an impact on disclosure notes 35 and 36, which relate to prior year errors.

6.2 Commitments

I was unable to obtain sufficient appropriate audit evidence for commitments, as I was unable to confirm that the assumptions used by management in calculating these commitments were reasonable and justifiable given the non-submission of sufficient appropriate audit evidence in support thereof. I was unable to confirm these commitments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to capital and operational commitments stated at R139,4 billion (2020-21: R91,9 billion) in note 31 to the financial statements for the controlling entity and the economic entity.

6.3 Irregular expenditure

Section 55(2)(b)(i) of the Public Finance Management Act 1 of 1999 (PFMA) requires the disclosure of the particulars of all irregular expenditure that had occurred during the financial year in the financial statements. The group did not have an adequate system for identifying and disclosing all irregular expenditure and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all such expenditure had been properly recorded in the financial statements. Consequently, I was unable to determine the full extent of the adjustment necessary to the balance of irregular expenditure stated at R29,1 billion (2020-21: R28 billion) for the controlling entity and R30,5 billion (2020-21: R29,3 billion) for the economic entity respectively, in note 42 to the financial statements.

6.4 Fruitless and wasteful expenditure

Section 55(2)(b)(i) of the PFMA requires the disclosure of the particulars of all fruitless and wasteful expenditure that had occurred during the financial year in the financial statements. The group did not have an adequate system for identifying and disclosing all fruitless and wasteful expenditure and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all such expenditure had been properly recorded in the financial statements. Consequently, I was unable to determine the full extent of the adjustment necessary to the balance of fruitless and wasteful expenditure stated at R659,2 million (2020-21: R385 million) for the controlling entity and R746,3 million (2020-21: R467 million) for the economic entity respectively, in note 41 to the financial statements.



7. Report on the audit of the annual performance report

No material findings were included in the audit report of Prasa on its annual performance report for the 2021-22 financial year-end.

Key matter for noting:

Several targets (81%) that are core to the service delivery mandate of the entity were not achieved. Whilst there were certain matters beyond the control of Prasa, as highlighted earlier in this document, we consider it important to draw attention to the achievement of key indicators as follows:

Indicator	Planned	Achievement	Reason for non/under achievement
Full electrical train service reintroduced between Mabopane and Pretoria	Quarter3	Achieved. Full Electrical service with new train sets re-introduced. (100%)	Not applicable – achieved.
Full electrical train service reintroduced between Cape Town, Kapteinsklip & Chris Hani	Quarter3	Not achieved (0%)	Relocation of illegal settlements not completed.
Number of Metrorail passenger trips for 2021/22	69 million	16,69 million (16%)	Delay in the recovery of lines (corridors).
Number of MLPS passengers for 2021/22	183 000	10 786 (6%)	Unavailability of locomotives; Status of TFR network.
Number of Autopax passengers for 2021/22	1.95 million	0,80 million (41%)	Divisionalisation strategy and funding unsuccessful.
Number of new train sets provisionally accepted for 2021/22	44	33 (75%)	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 (58%)	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 (31%)	Illegal settlements not relocated and contract cancelled by contractor.
Depot fencing for depots and yards completed in 2021/22	7 sites	0 (0%)	Procurement evaluation to award were ineffective.
EMU capacity in depots completed for 2021/22	186	0 (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 (0%)	No contracts awarded by end March 2022
Number of MLPS Coaches refurbished for 2021/22	10	0 (0%)	No contracts awarded by end March 2022
Number of train sets in service (Non-cumulative)	193	63 (33%)	Failure of procurement strategies and time required for allocation of coaches to panel of contractors.
National station improvement and upgrade projects completed for 2021/22	43	7 (16%)	Procurement strategy unsuccessful
Number of safety occurrences for specified categories reported for 2021/22	748	247 (Achieved with a decline of 67% in occurrences)	Not applicable – achieved. Less occurrences than the maximum acceptable level
Number of security occurrences per RSR categories 1-9 reported for 2021/22	4 258	1 705 (Achieved with a decline of 60% in occurrences)	Not applicable – achieved. Less occurrences than the maximum acceptable level

8. Report on the audit of compliance with legislation

The following material findings were included in the audit report of Prasa on its non-compliance for the 2021-22 financial year end.

Finding	Root cause	Recommendation
Annual financial statements		
Financial statements were not submitted for auditing within the prescribed period after the end of financial year, as required by section 55(1)(c)(i) of the PFMA.	The various processes to account for property, plant and equipment in the annual financial statements were not concluded timeously.	The financial statement preparation and review processes must be properly planned well in advance (taking into account all inputs required) with relevant timelines being set, monitored and adhered to. This will allow for submission within the legislative deadline.
The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statements were corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer of opinion.	<p>Units responsible for submission of accurate, complete and timely information to enable the effective preparation of the financial statements did not adhere to requirements in certain instances.</p> <p>The preparation of the consolidated and separate sets of financial statements for the Prasa group hinged on one individual (Manager: Finance and Reporting), given the lack of capacity in the finance unit.</p> <p>There was no comprehensive review, which included the verification of supporting records, schedules and registers, prior to submission either by internal audit (due to a lack of capacity) or by any of the other governance structures (mainly due to late submission).</p>	<p>All Prasa officials responsible for submitting information required for inclusion in annual financial statements must be informed about requirements and timelines for submission, they must be held accountable for such submissions.</p> <p>The finance unit must be properly capacitated which should include a team of appropriately skilled individuals that will participate in the preparation of the financial statements, considering the volume and complexity of the Prasa group AFS.</p> <p>Proper planning for financial statement submission timelines (referred to above) must include sufficient time for comprehensive reviews by all requisite parties.</p> <p>The internal audit unit must be capacitated to enable detailed reviews of the financial statements (including verification of underlying supporting documentation, prior to submission.</p>

Finding	Root cause	Recommendation
Expenditure management		
<p>Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for the disclaimer of opinion the full extent of the irregular expenditure could not be quantified. The majority of the irregular expenditure disclosed in the financial statements was caused by non-compliance with supply chain related laws and regulations.</p>	<p>Lack of number of sufficiently skilled individuals in the SCM unit. Officials on suspension or dismissed during the year under review in the SCM unit was not replaced by appropriately skilled individuals that could effectively manage the procurement workload.</p>	<p>Adequate capacitation of the SCM unit with appropriately skilled individuals with a proper understanding of legislative requirements and the business of Prasa.</p>
<p>Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for disclaimer of opinion the full extent of the fruitless and wasteful expenditure could not be quantified. The majority of the fruitless and wasteful expenditure disclosed in the financial statements was caused by historical work-in-progress costs written off as it could not be attributed to any particular asset.</p>	<p>Lack of oversight by executive management to ensure the SCM policy requirements are enforced and effectively monitored resulting in a number of non-compliance findings and a slow response by SCM management in addressing the ongoing deficiencies over non-compliance with laws, regulations and Prasa policies together with inadequate consequence management relating to transgressions.</p>	<p>Management should develop and implement a proper system to prevent, detect and report on non-compliance in accordance with relevant National Treasury guidance and frameworks.</p> <p>Strict monitoring of compliance and immediate investigation of detected instances of irregular and fruitless and wasteful expenditure as well as disciplinary action if such is required.</p> <p>All irregular and fruitless and wasteful expenditure should be disclosed in the register and ultimately the financial statements.</p>
Procurement and contract management		
<p>I was unable to obtain sufficient appropriate audit evidence that goods, works and services were procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA. A similar limitation was also reported in the prior year.</p>	<p>Lack of number of sufficiently skilled individuals in the SCM unit. Officials on suspension or dismissed during the year under review in the SCM unit was not replaced by appropriately skilled individuals that could effectively manage the procurement workload.</p> <p>Lack of proper records management system pertaining to SCM resulting in an inability to retrieve and submit documentation for audit purposes.</p>	<p>Adequate capacitation of the SCM unit with appropriately skilled individuals with a proper understanding of legislative requirements and the business of Prasa.</p> <p>Proper procurement planning must be conducted to allow for sufficient time to adhere to all relevant processes.</p> <p>Implementation of a standardised records management system pertaining to SCM which allows for easy retrieval of documentation as and when required.</p>



Finding	Root cause	Recommendation
Consequence management		
<p>I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA. This was because investigations into irregular expenditure were not performed.</p>	<p>There is a slow response by senior management in ensuring all reported instances of irregular and fruitless and wasteful expenditure is investigated and enforcing compliance with the approved disciplinary processes and addressing the ongoing non-compliance previously reported.</p>	<p>Sufficient human resource capacity must be ensured to perform investigations into irregular and fruitless and wasteful expenditure.</p>
<p>I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure as required by section 51(1)(e)(iii) of the PFMA. This was because investigations into fruitless and wasteful expenditure were not performed.</p>	<p>Lack of internal capacity at Prasa to perform these compulsory investigations into irregular and fruitless and wasteful expenditure.</p>	<p>All reported irregular and fruitless and wasteful expenditure must be investigated in accordance with the requirements of the PFMA.</p> <p>The respective senior managers should ensure that the approved disciplinary procedures are effectively implemented.</p> <p>The board must exercise oversight regarding the corrective action address this ongoing deficiency.</p>

9. Material irregularities

The amendments to the Public Audit Act (PAA) and the MI Regulations issued in terms of the PAA became effective on 1 April 2019.

The amendments introduced the concept of an MI. As per the definition in the PAA, an MI 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 PAA 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.

The key amendments to the PAA mandate the auditor-general (AG) to:

- refer suspected MIs to relevant public bodies for investigation. If appropriate, the recipient public body can take remedial or other forms of action within such body’s enabling law.
- make recommendations in the auditor’s report on steps to be taken to address MIs and suspected MIs, if it was not referred to a public body for investigation.
- issue binding remedial action if the recommendations in the auditor’s report are not implemented, which must, in the event that a financial loss had been suffered, include a directive to quantify and recover the loss from the responsible person. Failure to adhere to the remedial action could lead to a certificate of debt in the name of the responsible accounting officer or accounting authority, following the completion of a defined administrative process.



The following material irregularities were identified and reported to the board of control (BOC) in the 2018-19 audit cycle and the detail below includes the status at reporting date and evaluation of action taken to address these matters:

MI description	Status of MI	Status description
Unfair procurement process for the purchase of locomotives	Resolved	<p>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.</p> <p>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.</p> <p>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. Should further actions required stall at any point the MI will be brought back into the audit report.</p>
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.
Unfair procurement process followed in the appointment of the signalling contractor	Appropriate actions being taken – implementation being monitored	<p>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.</p> <p>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.</p>
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.
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.



MI description	Status of MI	Status description
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.
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.
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.
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.



10. Status of internal controls

Status of internal controls

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

Legend Drivers	Good	Causing Concern	Intervention required
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The Prasa audit outcomes and assessment of internal controls as indicated above is clearly evident of an entity that has a multitude of significant issues including a weakened internal control environment. These control deficiencies must be attended to as a matter of urgency with some intervention necessitating the implementation of basic controls and measures that start at a root level to improve the audit outcome. The overall control deficiencies as summarised on the audit report were as follows:

- Instability in executive management persisted during 2021-22 with most positions being filled by acting incumbents. Consequently, oversight responsibility relating to financial reporting and compliance with laws and regulations was not discharged effectively.
- Critical staff shortages in terms of numbers and appropriate skills in key units – including, but not limited to, finance, asset management, supply chain and contract management, internal audit and information technology – hampered the effective execution of financial management, prevention of non-compliance with prevailing laws and regulations and most critically the execution of Prasa’s mandate.
- Ineffective monitoring and enforcement of adherence to human resource management policies and procedures, especially in relation to recruitment and appointment of employees.
- Poor procurement planning and failed procurement strategies resulted in prevailing levels of low capital spending and major projects falling behind schedule, negatively impacting on infrastructure recovery and modernisation initiatives.
- Significant deficiencies were identified in the information technology and record-keeping systems of the entity. Complete, relevant, and accurate information was not readily accessible and available to support internal decision making as well as financial reporting.
- The public entity did not develop a comprehensive and effective turnaround strategy aimed at resolving the root causes that resulted in historical poor audit outcomes and performance.

11. Other reports/Investigations

In addition to the investigations relating to material irregularities, we draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in Prasa's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of our opinion on the financial statements or our findings on the reported performance information or compliance with legislation.

- The forensic investigation by the National Treasury instituted in accordance with the remedial action recommended by the Public Protector in her August 2015 report is still in progress. The final outcome of these investigations may also have an impact on PRASA's subsidiaries.
- The Directorate for Priority Crime Investigation (DCPI) is currently investigating cases reported by Prasa in terms of the Prevention and Combating of Corrupt Activities Act 12 of 2004 (Precca). The investigation has been ongoing since 2016. The outcome of this investigation may also have an impact on Prasa's subsidiaries.
- During the year under review an investigation was initiated into allegations relating to fictitious "ghost" employees and possible fraudulent and irregular payments connected thereto. This investigation was in progress at the date of this report.

Furthermore, there are numerous internal investigations that are currently being conducted within Prasa. Unfortunately, no consolidated record of such investigations could be availed for audit purposes. This is a matter of concern as – in the absence of a listing of investigations and the current status thereof - it is not clear how the progress of these investigations and the implementation of recommended actions in terms of completed investigations are tracked and monitored, in a manner that can be considered complete, by those charged with governance.

12. Irregular and Fruitless and wasteful expenditure

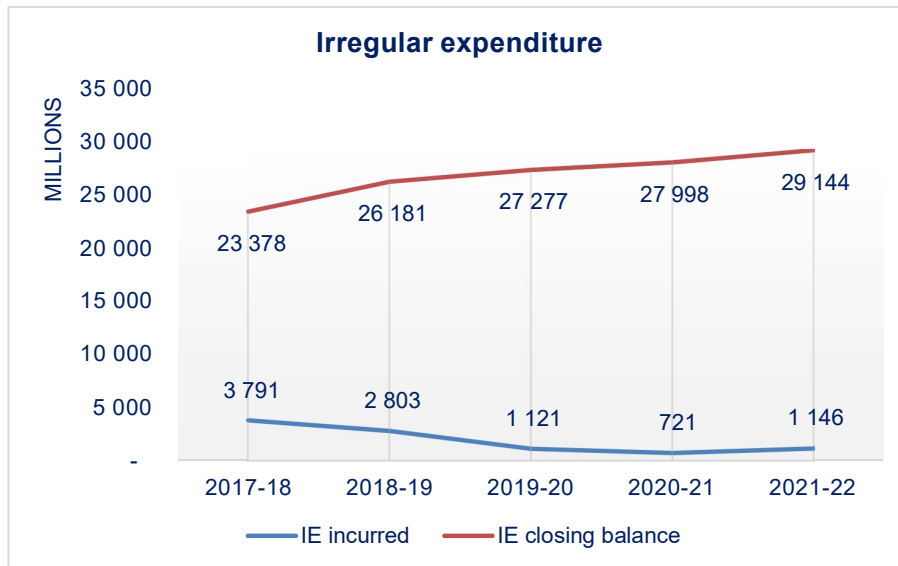
Prasa's audit report has been modified on the complete reporting of irregular and fruitless & wasteful expenditure since 2016-17. As no action was taken to revisit the previously reported expenditure figures to ensure completeness, and audit results from 2021-22 are once again indicative of a lack of preventative and detective controls in these areas, the situation remains unresolved.

To resolve this matter, and comply with legislative requirements, Prasa would have to analyse expenditure incurred as far back as 2016-17 to determine whether all irregular and fruitless and wasteful expenditure have been completely reported. To this extent we have recommended that Prasa determines the practicability of performing such a comprehensive exercise and once this is done engage National Treasury on any aspects of impracticability to reach concurrence on how to effectively deal with the matter.

The figures reported below are based on reporting by Prasa in their annual financial statements, as noted above we have not been able to determine the completeness thereof.

12.1 Irregular expenditure

The following depicts the five-year trend of Prasa's irregular expenditure:



Reasons for irregular expenditure

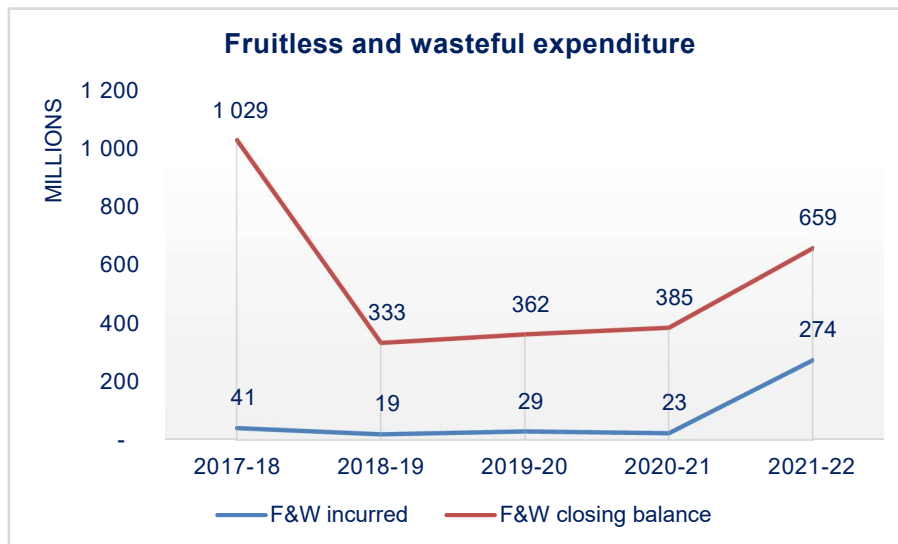
Reported irregular expenditure increased from R721 million in 2020-21 to R1 146 million in 2021-22. The irregular expenditure was mostly as a result of contravention of supply chain management prescripts. The current year irregular expenditure consisted of the following:

- Procurement not in line with Prasa SCM Policy and PPPFA: R941 million
- Purchase of goods and services through splitting of quotes instead of a tendering process: R88 million
- Competitive bidding method not followed for the appointment of the supplier, contravening the SCM Policy: R65 million
- Overspending on a contract prior to obtaining approval from delegated official: R34 million
- Non-compliance with the Prasa Remuneration Policy: R17 million
- Other SCM related non-compliance: R1 million

Sufficient, appropriate audit evidence could not be provided that investigations were carried out for instances of irregular expenditure reported in the 2020-21 financial year.

12.2 Fruitless and wasteful expenditure

The following depicts the five-year trend of Prasa's fruitless and wasteful expenditure:



Reasons for fruitless and wasteful expenditure

Reported fruitless and wasteful expenditure increased by R251 million from the prior year (R23 million in 2020-21 vs. R274 million in 2021-22).

As noted in the executive summary, the key contributor to the steep rise in fruitless and wasteful expenditure was work-in-progress costs written off due to lack of capitalisation documents or any detectable underlying assets amounting to R191 million. The remaining balance consists of mainly of penalties and interest (R83 million).

Sufficient, appropriate audit evidence could not be provided that investigations were carried out for instances of fruitless and wasteful expenditure reported in the 2020-21 financial year.

13. Key recommendations to the committee

We request and recommend that the committee consider the following actions to be implemented as part of the role oversight can play in facilitating an improvement in the financial and performance management, as well as the status of compliance to improve audit outcomes, thereby ensuring good governance and administration of public funds.

The committee is recommended to follow up the matters highlighted below with the executive authority and the Prasa board:

- Development, implementation and monitoring of a comprehensive turnaround plan to improve the audit outcomes and service delivery.
- The board to urgently stabilise the executive management of Prasa by filling vacant positions with permanent appointments.
- The infrastructure modernisation 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.
- The board should capacitate 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, under the direction of the board, should compile a list of all completed investigations where consequence management is still in progress as well as all ongoing investigations to enable proper monitoring in this area. This list should include both internal investigations and those that are being performed by external bodies such as law enforcement agencies. Where possible finalisation of investigations should be expedited to allow for implementation of corrective actions.
- The development and implementation of a proper procurement plan, which takes into account the risk of delays and the impact thereof on delivery of infrastructure. The plan should address relevant measures to mitigate projects delays due to failed procurement strategies.
- Progress should be provided on the steps taken to investigate all reported irregular and fruitless and wasteful expenditure and the implementation of consequence management in respect of implicated officials.
- The Prasa board should report on status of remaining actions that must be taken to address the material irregularities previously reported by the AGSA.