



PRESENTATION TO SCOPA ON PROGRESS IN IMPLEMENTING CORRECTIVE MEASURES

16 May 2023

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Overview

A cycle of continual improvement

- An achievement of **59% of the performance target** in the last FY up from 19% the previous year.
- This **improvement is in the number of critical corridors recovered**, the stations that have been rebuilt, and the lines that have been reintroduced.
- Plans are underway to **fix resignalling** and in this way run more trains, especially during peak hours.
- The establishment of the War Room has **accelerated the recovery**
- Capital spend **exceeded allocation by 8%** - R13,5bn spent vs R12,6bn allocation
- Rail Safety Permit extended by 29 Months effectively extended until **August 2025**
- **Significant decline on security occurrences** on asset related crime
- There has been a considerable **investment in capacity and skills**
- Appointments of executives is underway to address high leadership instability – **key positions are now filled**: Group CEO, Chief Human Capital, Group Company Secretary and Chief Audit Executive

Part A:

Progress in Implementing Corrective Measures

Key Objectives

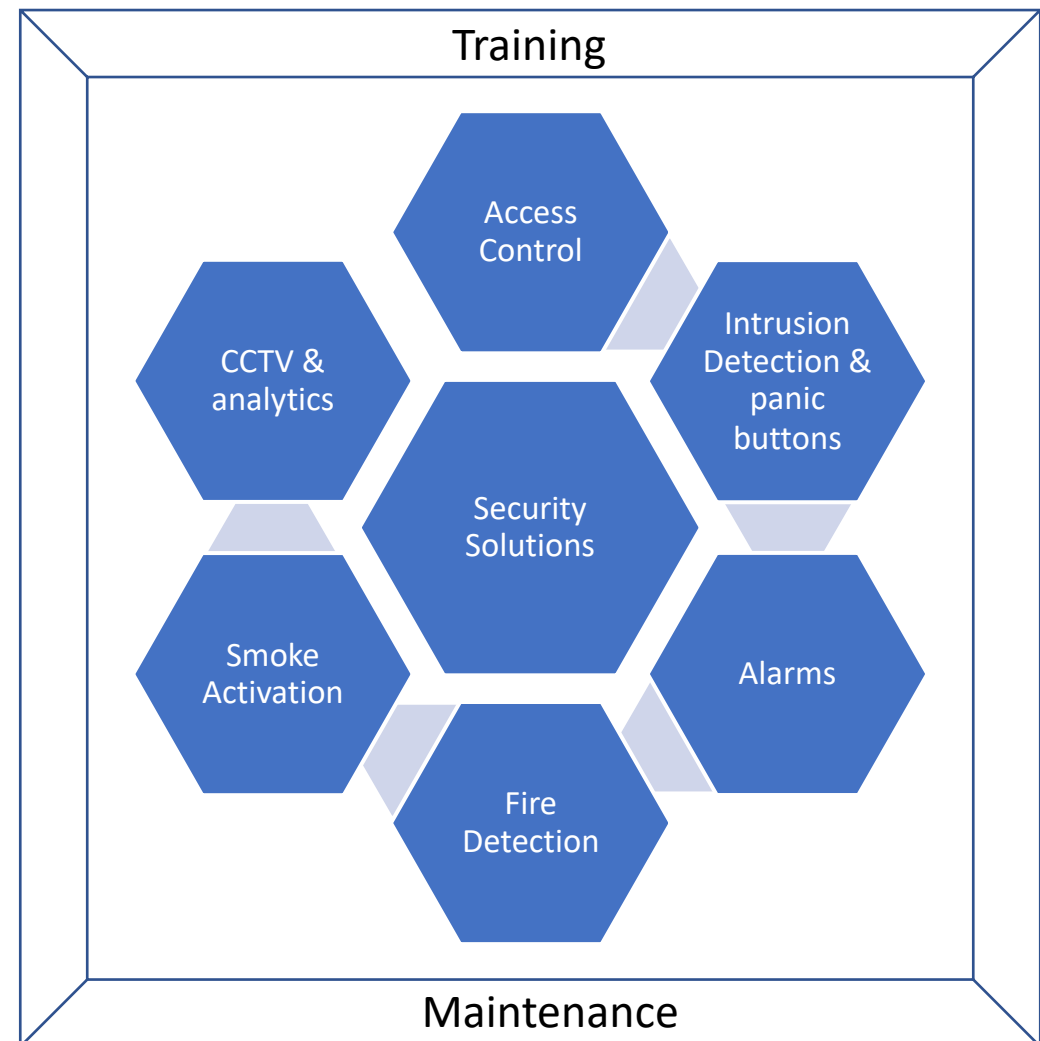
Successful Implementation of Presidential projects:

- Mabopane Project- Deployed December 2021 Intervention
- Central Line Project- Deployed October 2022 Intervention

Physical Security Deployment *through the National Treasury approved deviation for ACSA panel of service providers until March 2023*

- Phase 1 & 2 deployed: Extended until September 2023-BoC
- Phase 3 deployed: 1 May 2023 – alignment to the Business and MLPS

Security Solutions



CAPEX Projects

- Supporting the business with Electrified Service Resumption (Integrated Security Plan - Communities);
- Implementation of Protective Security Measures for Yards;
- Alignment with the Depot Modernisation Programme and the NSUP / NSIP Projects (Fencing requirements)
- Implementation of protective measures for all mission critical infrastructure through the utilisation of security technology (Fencing and Walling Projects).
- Equipping Security work force with the requisite security equipment (Bullet proof vests, firearms, security equipment and fleet)- hybrid model of internal and external deployments
- Establishing an integrated command and control security solution that will integrate security protocols into one system to ensure security efficacy
- Implement SMART Key solution and managing key control within PRASA in line with MISS & MPSS

Scope of Security Technology



Armscore C4i Deviation Projects

- ARMSCOR C4i PROJECT REQUEST:
Proposal submitted for deviation in using ARMSCOR for C4i Procurement

C4i Infrastructure

- Armscor, incl command Centre, Regional Security rooms, Command Security Vehicles and Containerised Forward Bases
- As per general composition of the C4i Infrastructure, its architecture is built on four levels.
- Top level
 - One Command Centre is representing and providing all services and applications that are available to the Prasa members of the C4i Infrastructure.
- Second Level
 - Six Regional Security Rooms positioned to build the backbone for the territories and manage the mobile Command Vehicles, Control & Security Vehicles (18) and Containerised Forward Bases

Scope of Security Technology



WP1800 Command Vehicle (e.g. Prasa Design)



WP1600 Control & Security Vehicle (e.g. Prasa Design)





Long Term Contract

- PRASA Security is finalizing the private security tender to address the medium to long term requirements for physical security- awaiting the Closing of Hlophe Ruling
- The private security tender will include the following:
 - Physical Security deployment for designated PRASA Facilities and depots;
 - Armed Security deployment for protective measures on mission critical infrastructure and perway; and
 - The utilisation of drones for a minimum of 3 patrols per shift to improve security efficacy and focused patrols for protection of mission critical infrastructure.

Security Plan



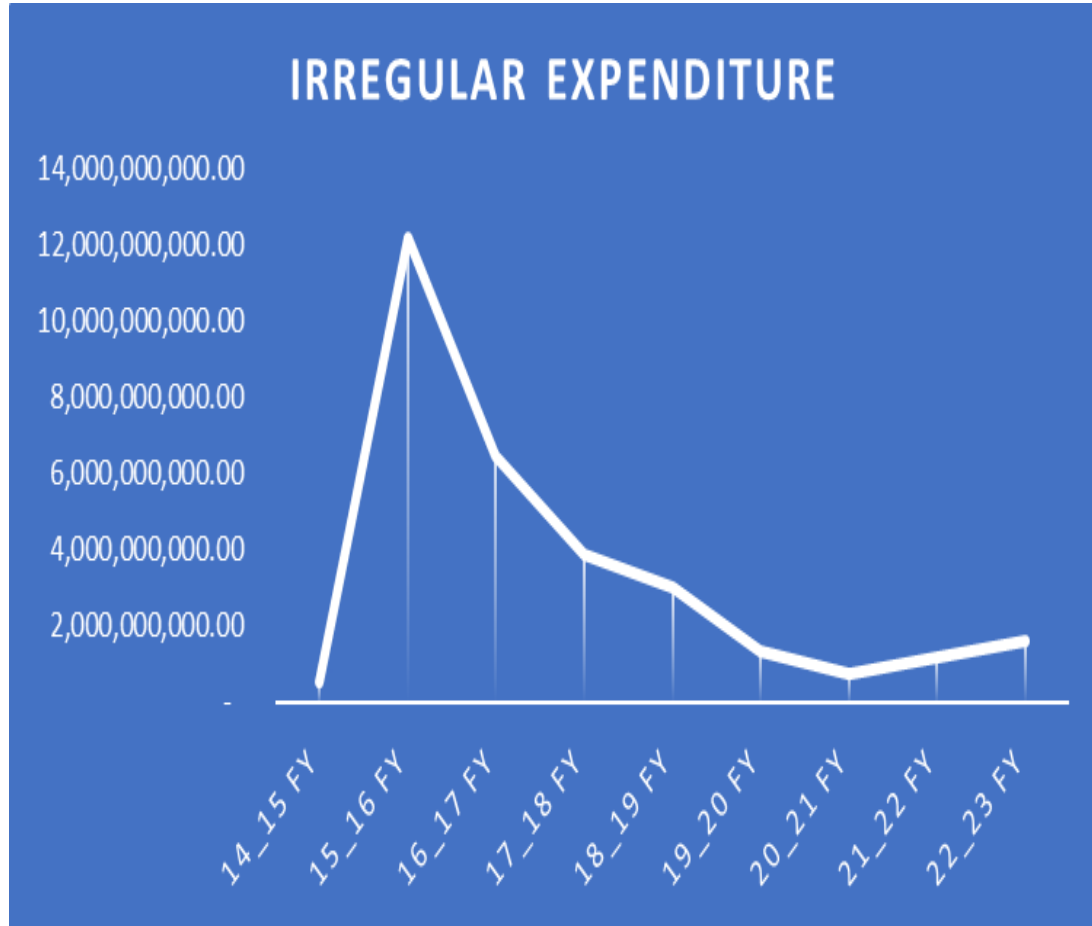
Security Plan

- PRASA Protection Services has formulated security plans that are being implemented accordingly. These plans are starting to bear fruit as the deployments and integration of the multi-disciplinary approach has reduced the theft and vandalism within PRASA by 75% and is projected to improve.
- The PRASA Protection plan outlined in this presentation has shown how we are tackling the fight against crime and corruption.
- The Protection plan has also taken care of the protection of critical infrastructure and assets within our environment.
- As shown, the integrated security approach has been a great approach to deal with the “Construction Mafia”, as working with communities and the leaders within their geographical areas has created a fight back with those whom are trying to extort. We have had huge success in the Western Cape and Kwa-Zulu Natal where the problems of extortion were rife. We have managed to deal with the issues accordingly.
- **FUNDING REMAINS A CRITICAL ISSUE WITH REGARDS TO PROTECTION SERVICES**

Balance as at FY2022/2023

DESCRIPTION	VALUE (R'000)
<u>OPENING BALANCE AS AT 1 APRIL 2022</u>	<u>30,490,435</u>
ADD: IRREGULAR EXPENDITURE CURRENT YEAR	428,602
<u>CLOSING BALANCE AS AT 31 MARCH 2023</u>	<u>30,919,037</u>
LESS: SUBMITTED TO NT FOR APPROVAL	12,350,470
LESS: SUBMITTED TO IA FOR DETERMINATION TEST	9,626,608
<u>BALANCE TO BE SUBMITTED TO IA FOR DETERMINATION TEST</u>	<u>8,941,957</u>

Downward trend



Summary

- **The irregular expenditure has been decreasing since FY16/17, with a notable decrease in FY19/20**
- However, there are increases in the subsequent years due to the **spending on those contracts previously declared irregular.**
- Majority of contracts declared irregular are multi-year contracts.
- Once the process is concluded the irregular expenditure **will be submitted to National Treasury** for condonation.
- Management is **addressing the R8.9 billion** irregular expenditure yet to be submitted for determination test.
- Internal Audit is currently conducting a determination test on **R 9.6 billion.**
- Initiatives to **enhance internal control** are in progress.

CONDONATION

- The condonation process was initiated even as losses were not incurred and value for money was achieved. The transgressions were free of fraudulent, corrupt or other criminal conduct.
- There are **six (6)** transactions totalling **R12,350, 470,906.79**, which have been recommended for condonation, and the status thereof is as follows;
 - 2.1 **Two (2)** transactions totalling **R41,928,623.49** have been submitted to National Treasury and is awaiting feedback;
 - 2.2 **Four (4)** transactions amounting to **R12,308,542,283.00** have not been condoned by National Treasury. The National Treasury (NT) response provides reasons why the transactions were not condoned and further indicate that “According to paragraph 5.7 and 5.8 of the PFMA Compliance and Reporting Framework, the accounting authority may remove irregular expenditure that was not condoned by the relevant authority.”
 - a. Engagement with NT is on-going, and the matters will be resolved within the 1st quarter of the current financial period.
- Management has increased capacity to identify and detect irregular expenditure, fast track the condonation processes and removal of the irregular expenditure from the financial statements.
- Management has instituted internal and forensic investigations for the condonation of irregular expenditure.
- Furthermore, the SUI is assisting management with investigations.



Progress

Outcome	Number of employees
Total	33
Completed	28
<u>BREAKDOWN</u>	
Dismissals	2
Resignations	2
Final written warnings	6
Written warnings	2
Not guilty	13
No action taken	2
Early retirement	1

Nature of Misconduct

No. Employee	Nature of the Misconduct	Progress
Employee 1	Unfair disqualification of bidder	Final Chairperson's ruling to be issued on 12 May 2023
Employee 2	Irregular expenditure	Disciplinary hearing to be continued on 15, 16 and 18 May 2023
Employee 3	Gross misconduct and irregular tender process	Employee found guilty on 4 out of 5 charges. Evidence in mitigation and aggravation being led from 9 to 12 May 2023
Employee 4	Unfair, non-transparent, non-competitive and not cost-effective process followed in the appointment of bidders	Awaiting Chairperson's verdict by 18 May 2023
Employee 5	Unfair, non-transparent, non-competitive and not cost-effective process followed in the appointment of bidders	The line manager of the employee found there is no prima facie misconduct in respect of the material irregularities.

Categories of Misconduct

Broad categories of Misconduct	Number of employees
Procurement related irregularities	3
Fraud, theft	7
Irregular Expenditure	2
Gross negligence	3
Misconduct, Gross misconduct	15
Honesty, Gross dishonesty	2
Under investigation	7

Number of suspensions: 39 (Management and Junior Staff)

Disciplinary Interventions

- After investigations, **suspensions are lifted** where appropriate
- **Alternative placement** where appropriate during the disciplinary process
- **Settlement agreement** where appropriate
- **Early retirement** where applicable
- **Expedited disciplinary process** through written submission instead of full disciplinary hearings
- The Presiding Officer of a disciplinary hearing is vested with powers of determining the **validity of any applications** and procedures brought by the employee
- **PRASA often conducts** a pre-hearing conference at the first sitting of the disciplinary hearing. The parties thereafter agree to the time for filing all preliminary and interlocutory applications

HCM Interventions

- Organisation Management **Data Cleanup Project**:
 - updating of organisational structures, re-alignment of departments, new and existing positions to parent organisational unit
 - **completed cleanup** of management structures of Business Units including AUTOPAX at Head Offices
 - Next phase - regional structures.
- Line Managers verify and sign off on physical employees against the payroll (monthly)
- **Stopped salaries of those who didn't comply**
- The **current SAP HCM Renewal Project** will eliminate manual processes that provide opportunities for fraudulent input of data
- Forensic investigation appointment – mid May 2023



Key Objectives

- Identification of **key focus points** (strategic and transversal interventions).
- Linking the key focus points with **root cause analysis**
- Review, enforcement and/or **implementation of key controls** related to Leadership, Governance and Financial Management.
- **Identification of key resource requirements** ie. Optimal resources with the appropriate and relevant skills and technology enablers.
- Key **milestones with timelines** aligned with accountability matrix.
- **Establishment of a monitoring, reporting and accountability process.**



Property, Plant and Equipment – Activity plan and status

- Phase 2: **Siemens procurement process concluded**, and contract signed on 19/01/2023 (target of 18/01/2023).
- Conditional assessment template **workshop with regional engineering teams** held on 02/02/2023 (target of 31/01/2023). Further focused sessions were held during week of 06/02/2023.
- **SAP Asset data submitted** to Siemens on 02/02/2023 for asset register as at 31/01/2023. Siemens have analysed data into various data subsets and criteria for the verification process.
- **Dry run for SMeyl and Braamfontein depot undertaken** on 10/02/2023. Prasa Cres facilities planned undertaken on 14/02/2023.
- **Dry run debrief undertaken** on 15/02/2023, informing sign-off prior to field verification.

Audit Improvement Plan

- Physical **verification started** on 20/02/2023 (target of 01/02/2023) with the aim to conclude by 31/03/2023.
- Based on the 6 weeks of physical verification of high value assets (ended 31/03/2023):
 - EC completed and team moved to GP (Leasehold and RS coverage at 90%).
 - EC completed and team moved to GP (Leasehold at 96% and RS coverage at 79%).
 - KZN in progress (Network at 84% of high value, Leasehold at 75% and RS 92%)
 - WC in progress (Network at 57% of high value and RS 69%)
 - GP in progress (Network at 66% of high value, Network WIP at 55% and RS 74%)
- **Finalised back-office template structure** process and “automated” upload process (target date 24/03/2023), therefore migration of Siemens asset verification results into asset registers have been updated for above sampled items (30/04/2023).
- Movable and minor asset verification – **target completion by divisions/BU’s by 31/03/2023.**

Outstanding items towards preparation of Annual financial statements:

- Movable and minor **asset verification** – Corporate Asset team and divisional finance teams verifying process data and outstanding items in SAP environment.
- **Assessment of conditional assessment results** – combined Siemens sampled items and internal verification towards finalisation of accounting entries by 31/05/2023 (impairment/useful lives).
- **Asset reconciliation** between SAP Asset registers/modules to Trial Balance initiated and tested for February 2023. The March 2023 balances will be finalised by 12/05/2023, thereafter variances identified and being investigated for explanation/processing with a **target date of 19/05/2023**.

Commitments – Activity plan and status

- Subsequent to the Gibela MSA indexation terms for 2021 and 2022 which have been outstanding for almost two years have been concluded on 13 March 2022 (documentation is signed), the project teams concluded the calculations for 2023 on 29 March 2023 (documentation signed).
- **The TSSSA indexation terms** for 2022 and 2023 **were also concluded** on 29 March 2023 (documentation signed).
- **Commitment calculations** for the above have been provided to the AGSA for review prior to finalisation for the AFS.
- The **digitisation of the portfolio of evidence** for material contracts towards readiness for the external audit is being facilitated. The digitisation of remaining contracts will be undertaken subsequently.
- The commitments related to these material contracts will be extracted based on the database created.

Financial Close – Activity plan and status

- The **resource skills gap and structure** within Group Finance **has been finalised** with recruitment processes initiated for the critical skills. Financial reporting resources (two) have been secured via a RFQ process with the resources having started on 18 April 2023, in order to assist with year-end and financial statements preparations.
- Furthermore, a **compliance and internal controls function is being established** within the Group Finance structure and the resource has started on 11 April 2023. The initial focus of the resource would be on the Irregular, Fruitless and Wasteful expenditure analysis and disclosures for the financial statement preparations.
- The **monthly discipline for financial close** across divisions and business units **has been implemented** again for the year end March 2023. Since the identification of material balance sheet items being consolidated (by CFO's) for monthly reconciliations, clearing and sign-off at divisional or business unit level, there is some improvement to enhance monthly close, which will continue to be institutionalised.

Part B:

Progress in Implementing the Capital Programme and Expenditure

Recovered Corridors: EMUs (new fleet)

1. Pretoria – Mabopane *
2. Pretoria – Saulsville *
3. Pretoria – Pienaarspoort
4. De Wildt - Hercules
5. Johannesburg – Naledi
6. Pretoria – Centurion
7. Cape Town – Simon’s Town (Fishhoek) *
8. Cape Town – Retreat via Athlone *
9. Cape Town – Bellville via Goodwood
10. Cape Town – Bellville via Monte Vista
11. Cape Town – Bellville via Sarepta
12. Bellville – Eerste Rivier
13. Durban – Cato Ridge

* 2021/22



Recovered corridors (Old Fleet)

Electric Services

- Langa to Pinelands
- Cape Town – Langa – Nyanga
- Durban – Umbogintwini (off-peak with new fleet)
- Durban – Umlazi

Diesel Services:

- Durban – Tongaat
- Durban - Kwa Mashu



Progress on Capital Programme and Expenditure

- General Overhaul Programme commenced with 33 GO coaches completed and 96 coaches from Adhoc heavy maintenance.



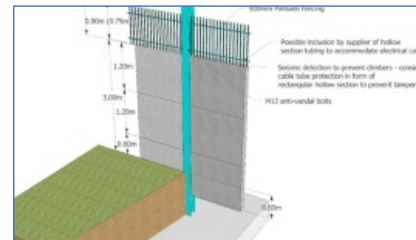
Progress on Capital Programme and Expenditure

Depot Modernisation

Depot Modernisation Programme



National Depot Fencing



Western Cape

- Salt River Depot
- Paarden Eiland Depot

Gauteng

- Wolmerton Depot
- Braamfontein Depot
- Benrose Depot

KwaZulu-Natal

- Durban Yard
- Springfield Depot

Depot Walling

Projects scope of works

The Scope of Works includes the implementation of the new Perimeter Walling and Integrated Security Management System (ISMS) at various rolling stock depots depot:

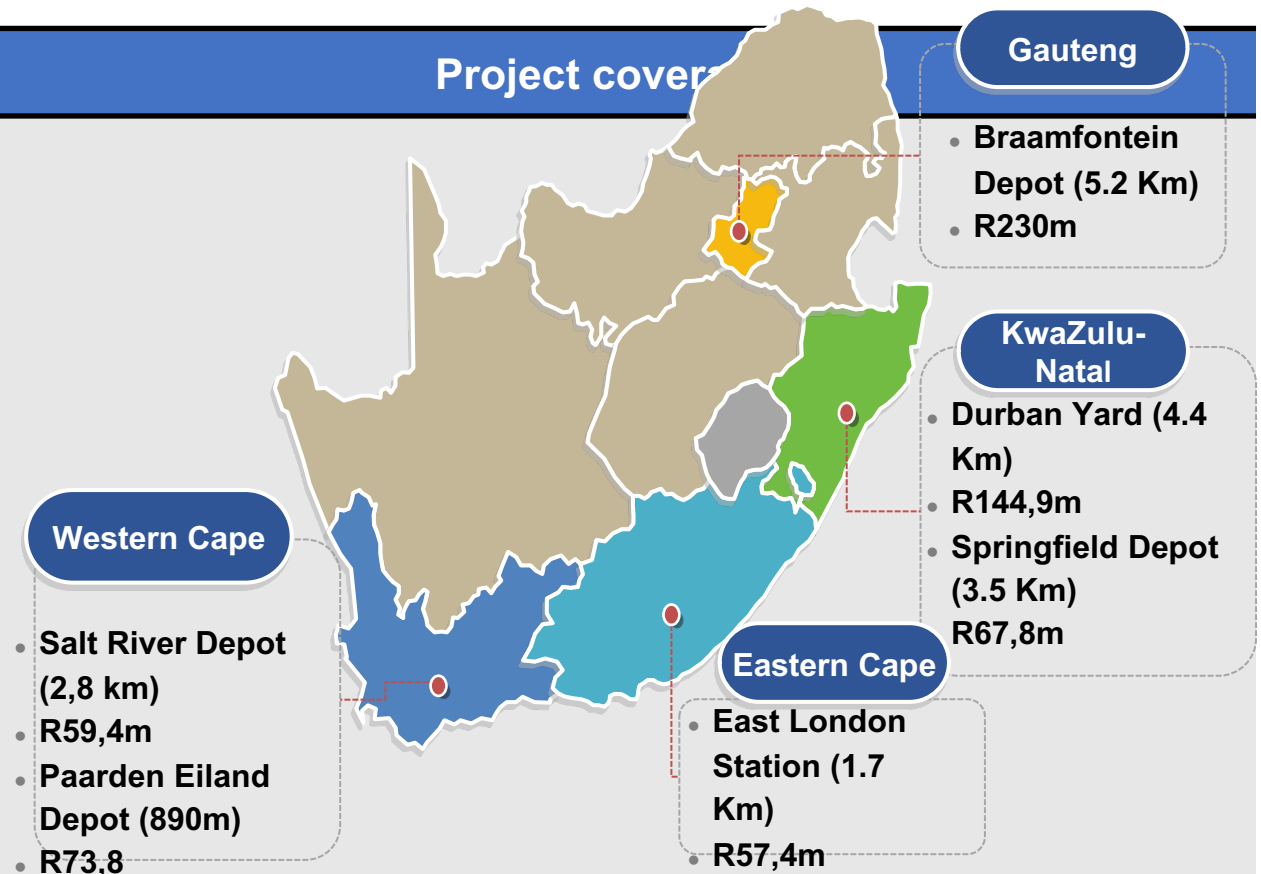
Civil & Structures:

- ✓ Patrol roads
- ✓ Level crossings
- ✓ Civil Works
- ✓ Precast concrete wall

Electrical & Electronics

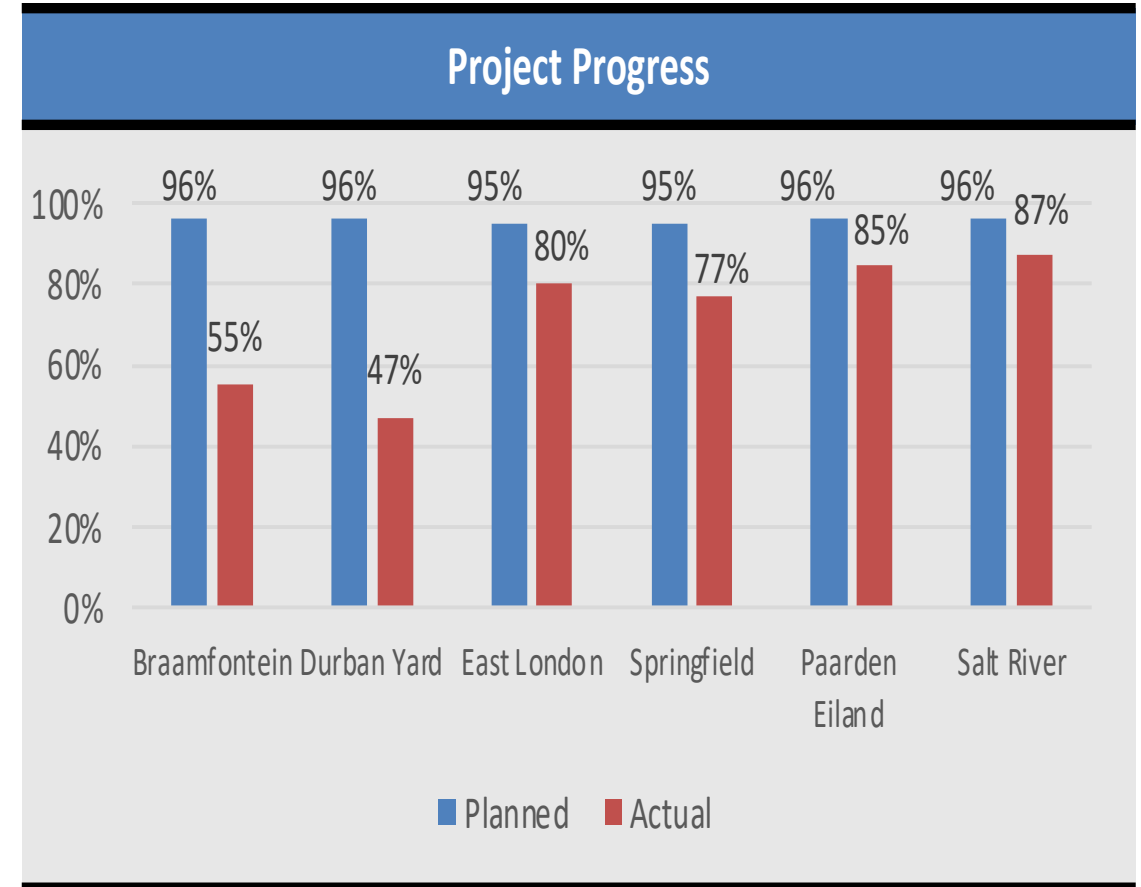
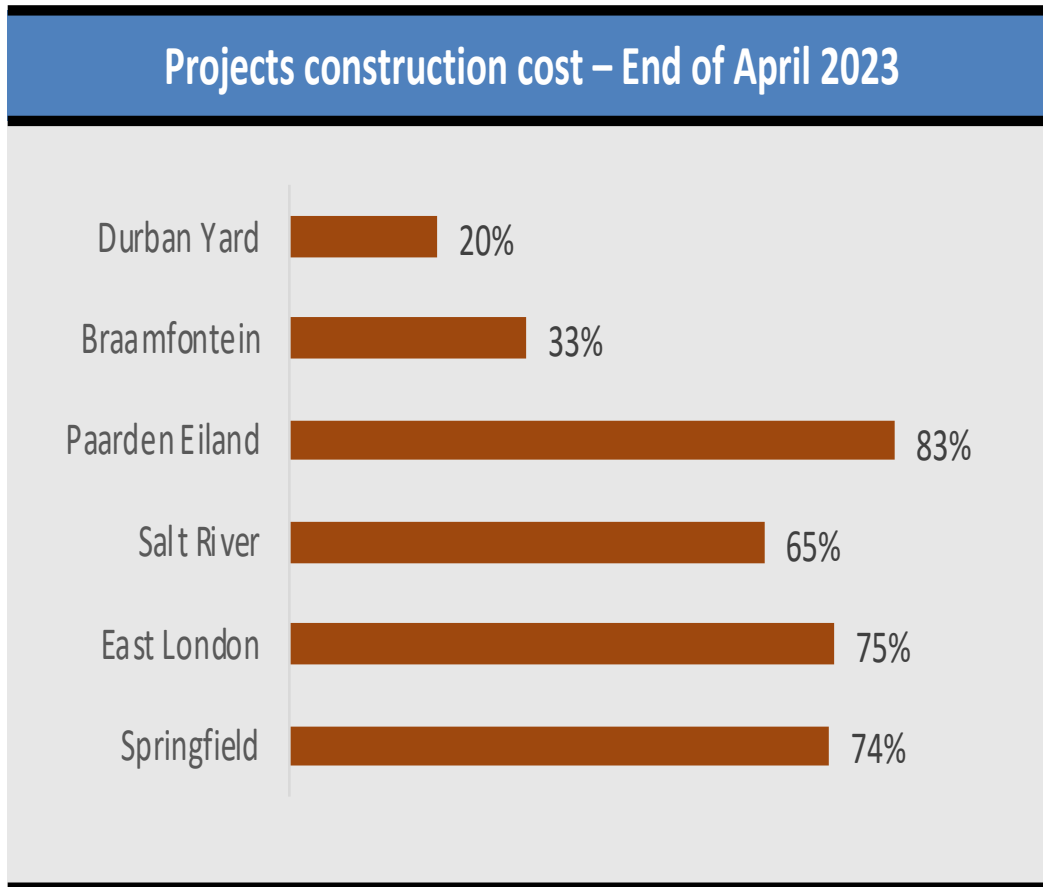
- ✓ Lighting
- ✓ Cameras
- ✓ Seismic Detection
- ✓ Biometric Access
- ✓ Boom Gates
- ✓ Spike Barriers

Project coverage



Progress on Capital Programme and Expenditure

Depot Walling



Signalling Projects

Western Cape Central Area:
Planning, Design, Supply
Railway Signalling System

Commencement of
Project:
May 2023

KZN Train control system:
Design and Construct

Commencement of
Project:
June 2023

Gauteng & Western Cape:
Optical Transmission Network
Design & Construction

Commencement of
Project:
June 2023

Gauteng & Western Cape: Train
Control System Design &
Construction

Commencement
of Project:
Quarter 2, 23/24

National: Electronic Authorisation
System Design & Construction

Commencement
of Project:
Quarter 2, 23/24

National: GSM-R Redundancy
Network Design and Construction

Commencement
of Project:
June 2023

Station Modernisation

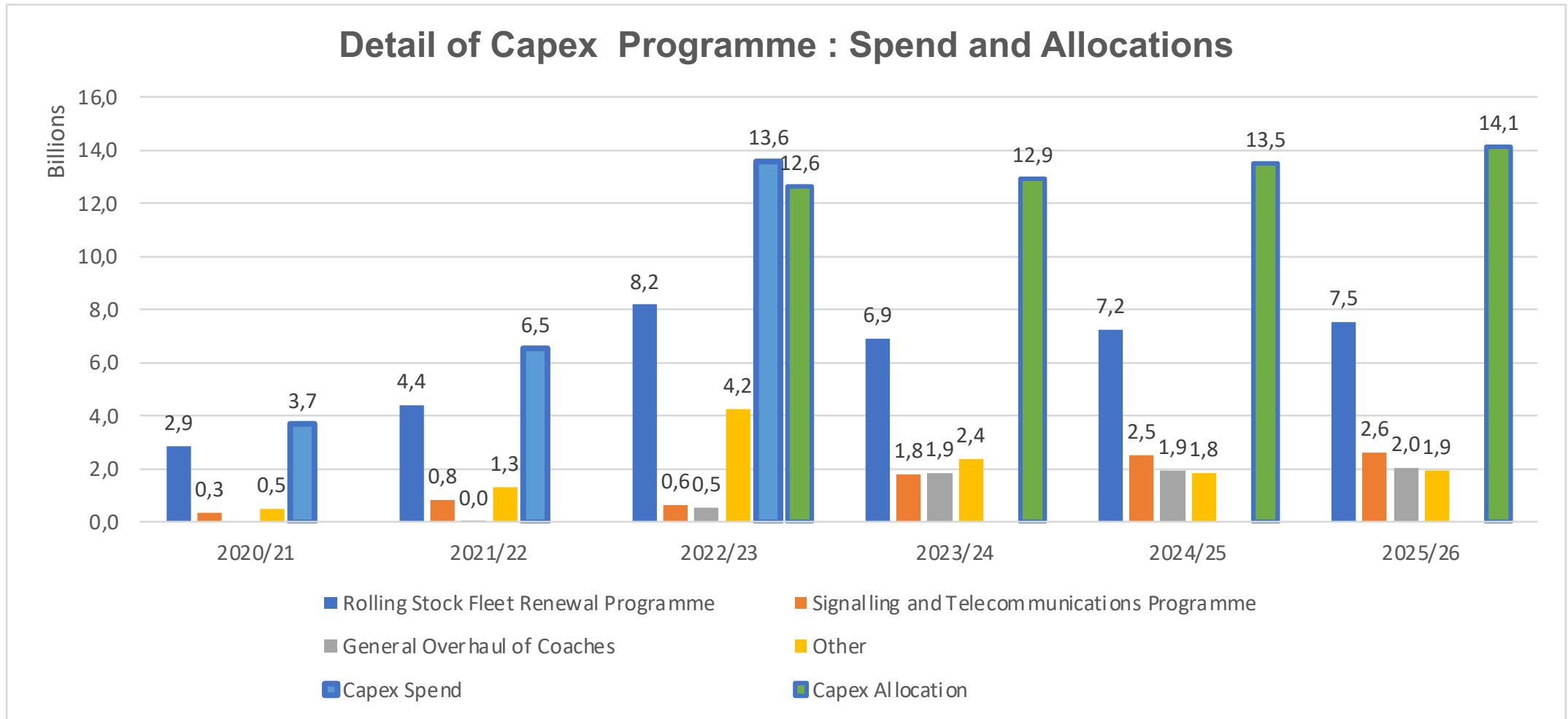
REGION	CORRIDOR	STATIONS	ANNUAL
SOUTHERN GAUTENG REGION			6
	LERALLA -TO - JHB	3	
	NALEDI -TO - JHB	1	
	DAYVETON - DUNSWART - GERMISTON	1	
	RANDFONTEIN - JOHANNESBURG	1	
NORTHERN GAUTENG REGION			1
	PRETORIA - TO - MABOPANE	1	
KWAZULU NATAL REGION			20
	DURBAN - UMLAZI	12	
	DURBAN - KWAMASHU	8	
WESTERN CAPE REGION			6
	CENTRAL LINE	6	
ANNUAL 2023/24			33



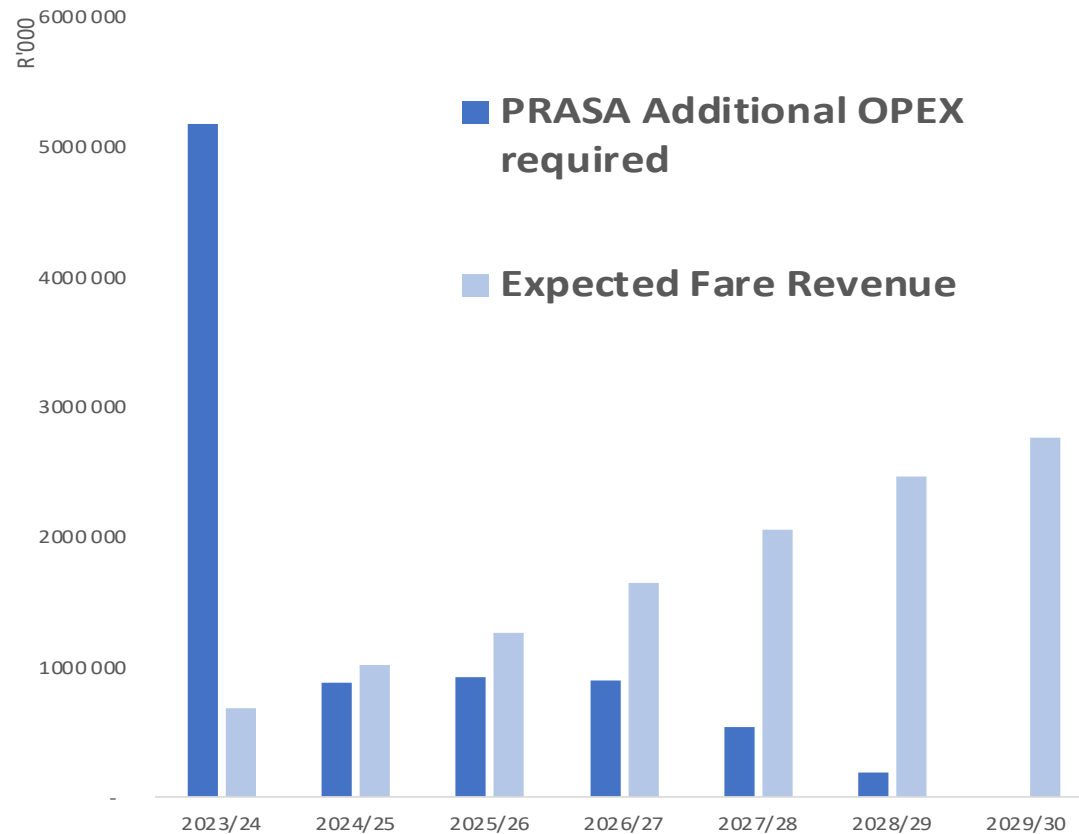
- In addition, work on restoring functionality and making improvements on stations continues in line with Rebuild and Recovery Programme

Progress on Capital Programme and Expenditure

Capital Previous 3 years and MTEF allocations



Support from Fiscus required



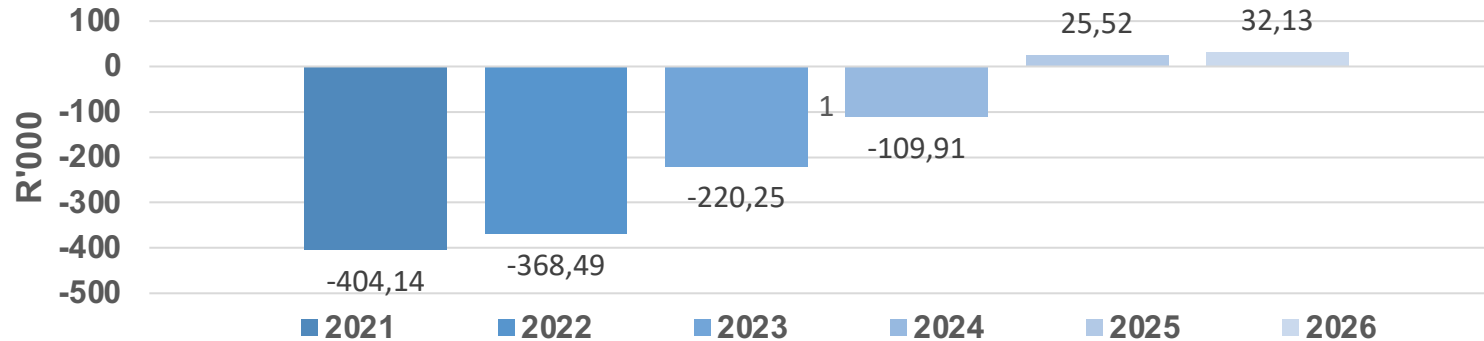
Summary

- PRASA is in a **rebuilding phase**, and significant progress is being made.
- Capital **expenditure is on track** and poised to accelerate in the years ahead.
- However, this investment presents short to medium-term **challenges to operate and protect**.
- For the next six years, PRASA needs support in this regard, with **debt finance and other outstanding costs** needed in 2023/24.
- Submissions of PRASA funding requirements** with the NDoT and the NT. Discussions **are ongoing**.
- A **reallocation within the CAPEX** program (earmarked to “other”) is required

Progress on Capital Programme and Expenditure

Support for Autopax Passenger Services Soc Ltd

Profitability Trend



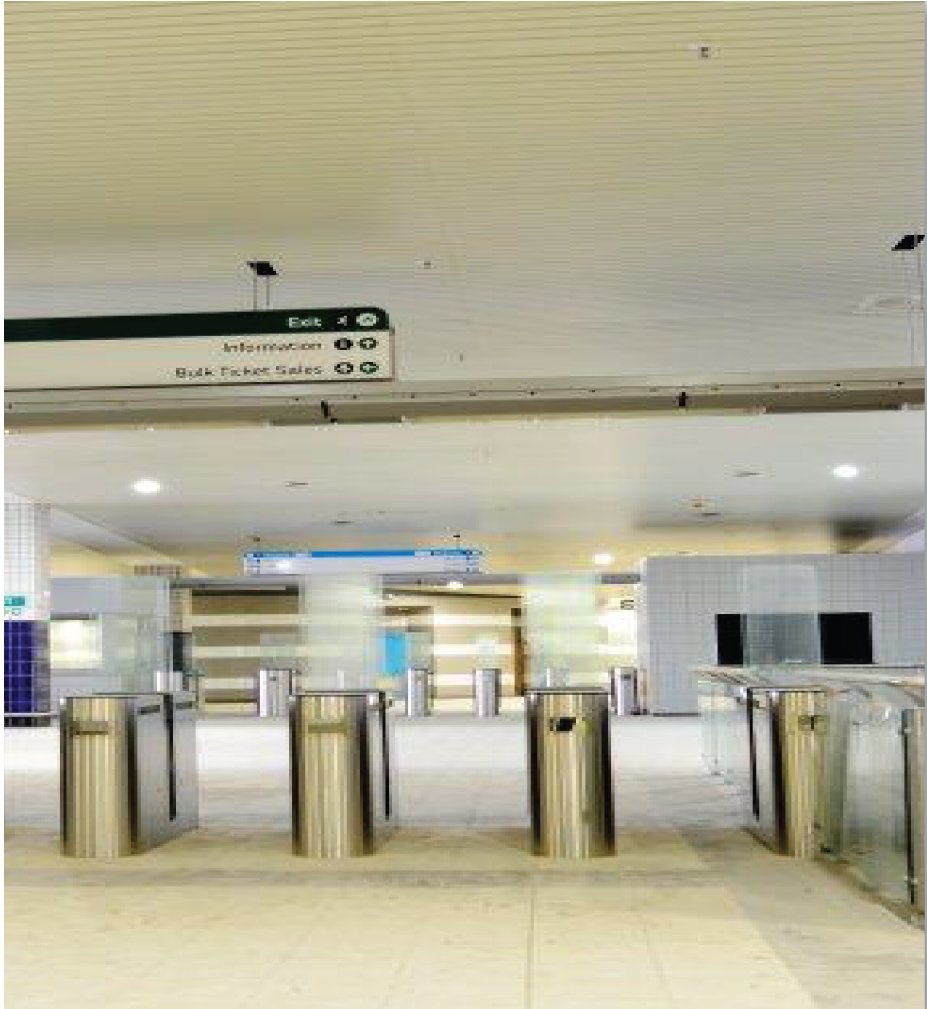
Funding Requirement to achieve projected results:

- Requirement to resolve historical debt (Inter company and external settlement of creditors anticipated to be 30 cent in rand) R 550.7 million (Before)
- Interim funding required for operations R 87.4 million
- Capital funds required to rebuild Autopax R 738.5 million
- *Note: Funding for staff rightsizing of R 80 million was approved*

Planned for Autopax to be taken out of Business Rescue before the end of July 2023

Part C: Update on strategic matters

Status of Siyangena Tender



Summary

- The contract came to an end as of the 31st June 2019.
- The project has been subjected to a protracted legal process for more than three (3) years and consequently
- The service provider has not been paid with interest charges claimed by contractor of more than R300 million rand.
- PRASA won the matter in court and an Independent Contractor was to be appointed to conduct an analysis of the work done.
- Siyangena has filed an application for leave to appeal at the Constitutional Court (“Con Court”) and PRASA is awaiting the decision in this regard . This therefore puts the operation of the Supreme Court of Appeal judgment in abeyance until the Con Court renders its decision.

Skills Development - There are various skills development initiatives in place within the organisation:

- **PRASA is an accredited training provider** with TETA and participates as follows:
 - Annually **PRASA complies with TETA processes** and submits the required Workplace Skills Plans (WSP) and Annual Training Reports (ATR) to TETA. Currently the organisation is busy with the 2023/2024 submissions to TETA.
 - In terms of the 2022/2023 WSP and ATR submissions to TETA, **PRASA has trained 4 944 employees** against a target of 2 210, which is well over 223% achievement.
 - The business also participates in the TETA and SASSETA discretionary grant programmes. Some PRASA employees are currently (while others have in the past) participated in **leadership development programmes** offerings via TETA.
 - There are training departments that focus on training initiatives within the Technical Departments (Centres of Technology), Train Operations, Protection Services as well as within Human Capital Management. There are established training centres in Johannesburg, Tshwane, Cape Town, East London and Durban.
 - The business has sponsored over 300 employees nationally with part-time bursaries, although current financial position has halted this.
 - PRASA also employs trainee engineers, apprentices as well as trainees in Train Operations.

Skills Development

For the first time the organisation is undertaking a national skills audit with an appointed service provider.

- The planned **completion date for the project is May 2024**
- This project will **provide** PRASA with a **skills matrix**; an understanding the current skills base; developmental opportunities for employees; and recommendations on future skills development initiatives
- PRASA has also had a **partnership with the University of Stellenbosch** via the Rail Chair
- Currently PRASA provides employees with an **online skills development platform**, an offering from Bookboon



Update on Police case on the Signalling contract

- PRECCA obliges those in authority to report cases of suspected fraud and corruption to law enforcement. However, on the matter of Thales-Maziya this was not the case as confirmed by the SIU (based on information at hand).
- The AGSA was informed of this in a letter written to them on 09 June 2022. Subsequent to the question being raised at SCOPA, the SIU responded in writing on the 24 April 2023.

Stadler update

- PRASA is **pursuing a Commercial Agreement to receive locomotives** in realising value following the liquidation of Swifambo Rail.
- In finalising the commercial agreement, a **Tripartite structure was established** comprising PRASA, Liquidators (Tshwane Trust) and Stadler Rail (they have bought the locomotives business of Voslooh who were the partner of liquidated Swifambo).
- Towards pursuing finalization of the Agreement, there are precedent steps to be fulfilled and this has been mainly around **satisfying requisite legal matters**. Tripartite attorneys are finalising the matter.
- The legal parties are thrashing out the finer details although draft commercial agreement is in place.
- Previously PRASA submitted deviation request to NT, and they advised PRASA to **process this within their mandate**.
- The legal team has further proposed a **revised submission to National Treasury** in line with Section 217 and Section 79 of the PFMA.
- However, **PRASA is engaging the lawyers** who assisted Transnet on pursuing almost similar agreement on the 1064 locomotives. This will strengthen the resubmission to NT.
- Due to the immediate business requirements PRASA is exploring **leasing options for the six locomotives** currently in the country whilst balance of the 17 to form the commercial agreement is being finalised.

Lifestyle Audits

- PRASA has engaged the Special Investigations Unit (SIU) to assist PRASA with Lifestyle Audits.
- The above will be performed through a Secondment Agreement between PRASA and SIU
- The first phase of the Lifestyle Audits will including the following audits:
 - All members of PRASA Group Executive Committee,
 - All EXCO members in the business units (PRASA Rail, PRASA Tech, PRASA Cres & Autopax) these will include PRASA regions
 - Senior Management in Corporate Office departments (Human Capital Management, ICT, Supply Chain Management, Finance) and
 - All employees in SCM department from regions, business units and corporate office (these constitutes the bulk of the lifestyle audits
- Lifestyle Audits to commence beginning of June 2023.

Litigation Management

- PRASA continues to be **inundated with writs of attachments** and warrants of execution on litigation matters related to security matters (non – payment of invoices) and 3rd party claims/ personal liability claims (which are managed by our insurance department).
- Significant to note:
 - PRASA has filed an application to review and set aside the Judge Hlophe judgment which had the debilitating effect of preventing PRASA from terminating the security contracts of service providers providing work in the Western Cape.
 - The **initial date** granted by the Registrar of the Western Cape for the hearing of the review application is the **15 of September 2023**.
 - PRASA further awaits judgment on the application for leave to appeal the SCA judgment in favour of PRASA by Siyangena.
 - The **Naledi Rail litigation is finalised** as the parties entered into an out of court settlement and which settlement was made an order of court. Naledi Rail proceeded to withdraw the application.
 - With regards to the Competition Commission complaint referral (by bus operators) containing allegations of anti-competitive behaviour by PRASA and Autopax; a draft proposal for settlement currently being reviewed.

9108 Pretoria

Thank You

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