Passenger Rail Agency of South Africa

ANNUAL **REPORT** 2022 | 23

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PASSENGER RAIL AGENCY OF SOUTH AFRICA

Message of appreciation

From the Chairperson

"

Our business is fundamentally all about people. Without people –, our employees, suppliers, passengers, tenants, stakeholders and the communities in which we operate, none of the achievements in the year under review could have been possible.

A special word of thanks to the PRASA employees, who despite all the challenges continued to strive to improve the position of the agency to ensure the opening of the rail corridors and for their commitment to meet head-on the challenges of this historic recovery to revitalise PRASA.

We would also like to thank the GCEO, his executive team for their wisdom and acceleration of the recovery projects.

Finally, our appreciation goes to our shareholder, the Department of Transport, business partners and suppliers for the support provided to PRASA through these tumultuous times.

PRASA looks forward to sustained recovery and we are poised to regain our position as the key driver of South Africa's public transport system, moving millions of passengers daily in an affordable manner.

"

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Abbreviations and terms

AGSA	Auditor-General of South Africa
ASIP	Annual Safety Improvement Plan
BOC	Board of Control
CCTV	Closed Circuit Television
CoCT	City of Cape Town
CRES	Corporate Real Estate Solutions
DHS	Department of Human Settlements
DoT	Department of Transport
DPWI	Department of Public Works & Infrastructure
EWP	Employee Wellness Programme
EDM	Economic Development Monitor
EM	Energy Management
EMU	Electrical Modular Unit
EPCM	Engineering, Procurement and Construction Management
ERM	Enterprise Risk Management
FY	Financial Year - 1 April 2022 to 31 March 2023
GBVF	Gender Based Violence and Femicide
GCEO	Group Chief Executive Officer
GEXCO	Group Executive Committee
GO	General Overhaul
HDA	Housing Development Agency
IA	Internal Audit
ICT	Information Communication and Technology
KZN	KwaZulu-Natal
MLPS	Main Line Passenger Services
MTEF	Medium Term Expenditure Framework
NSIP	National Station Improvement Programme
OECD	Organisation for Economic Co-operation and Development
OHTE	Overhead Traction Equipment
PCoT	Portfolio Committee on Transport
PODs	Points of Distribution
PRASA	Passenger Rail Agency of South Africa
RSFRP	Rolling Stock Fleet Renewal Programme
RSR	Railway Safety Regulator
SCM	Supply Chain Management
NT	National Treasury
SHEQ	Safety, Health and Environment Quality
SMP	Station Modernisation Programme
SMS	Safety Management System
TFR	Transnet Freight Rail
WCDHS	Western Cape Provincial Department of Human Settlements
WCDTPW	Western Cape Provincial Department of Transport and Public Works
WIP	Workplace Improvement Programme

Vision

To be a recognised provider and manufacturer of safe and reliable public passenger services and products.

Mission

Provide safe, predictable, consistent, affordable and quality service commuter rail, long-haul passenger rail and long-haul intercity bus services.

Values

The behaviour descriptors for the values are as follows:

Fairness & Integrity	We treat our customers and our colleagues the same as we would like to be treated.
Teamwork	We work together with our colleagues to achieve a common goal and recognise each other's strengths and contributions.
Service Excellence	We provide the kind of service that meets and exceeds customer expectations.
Safety	We ensure that we work safely, and our customers and colleagues are safe.
Communication	We share information with our customers and colleagues in an open and honest way.
Performance Driven	We are performance driven with the ability to venture into new areas of opportunity whilst offering a quality service to our customers.

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Legislative Mandate

The Passenger Rail Agency of South Africa (PRASA) is a schedule 3B national government business enterprise that reports to the Minister of Transport. It derives its mandate from the Legal Succession to the South African Transport Services Act (1989), as amended.

PRASA's main objectives and business are to:

- Ensure that, at the request of the National Department of Transport (DoT), rail commuter services are provided within, to and from the Republic in the public interest.
- Provide in consultation with the Department of Transport, for long-haul passenger rail and bus services within, and to and from the Republic, in terms of the principles set out in section 4 of the National Land Transport Transition Act, 2000 (Act No. 22 of 2000, as amended).

As its secondary business or mandate, PRASA shall generate income from the exploitation of its acquired assets, including real estate and property portfolio.

In addition, PRASA shall ensure due regard for key government initiatives, including social, economic and transport policy objectives, the National Development Plan and the National Land Transport Strategic Framework.

Overview of our Service Delivery Environment

The financial year (1 April 2022 to 31 March 2023) under review has seen great strides being made in the PRASA Rebuild and Recovery Programme, the Modernisation Programme with respect to rolling stock, as well as the Safety and Security Programmes. At the end of 2022/23, PRASA had recovered 17 rail service lines or sections of service lines; 12 of these are operating with the new trains or electrical modular units (EMUs). This reflects the commitment of the organisation to respond to this statement made by the Honourable President Cyril Ramaphosa, in his 2020 State of the Nation address: "A key priority of fixing commuter rail is vital to the economy and the quality of life of our people". To mitigate the impact of the lack of rail services on communities, PRASA adopted an approach to re-opening lines with limited operations as soon as minimum safety requirements are met, whilst other work will still be done, such as on signalling and telecommunications.

The task to rebuild and recover rail services after the additional destruction caused by the April 2022 floods in KwaZulu-Natal (KZN), is formidable. In addition to construction work, significant investment in security has been made. The security provided is for the protection of people and assets during construction and for this to continue as services are resumed. Special security interventions were required in Mabopane in December 2021 and in November 2022 on the Central Line Area.

An intervention has commenced to close off the commuter rail system by walling and fencing the perimeter of the rail reserve and critical infrastructure such as sub-stations, signal relay rooms and telecommunications high sites. Restoration of the vandalised signalling system is another major recovery programme that has commenced. It will increase the number of trains provided, with six lines being targeted for completion in 2023/24. These will enable PRASA to render frequent, safe and secure quality train services.

Our stakeholder management skills are being tested, and every corridor project commences with addressing community involvement and the interests of business forums, with the aim of finding a balance between the urgency of rebuilding/recovery and the interests of other parties.

The table below reflects the lines operating with electrical traction:

Province	Rail Line	Date Re-opened	Train Sets
Gauteng	Pretoria to Mabopane	17 Jan 2022	EMU
	Pretoria to Saulsville	29 Jan 2022	EMU
	Pretoria to Centurion	31 March 2023	EMU
	Pretoria to Pienaarspoort	3 Oct 2022	EMU
	DeWildt to Hercules	24 Oct 2022	EMU
	Johannesburg to Naledi	28 Nov 2022	EMU
Western Cape	Bellville to Eerste Rivier	16 Jan 2023	Yellow & Grey
	Cape Town to Simon's Town	3 Mar 2022	EMU
	Cape Town to Retreat via Athlone	3 Mar 2022	EMU
	Cape Town to Bellville via Goodwood	16 Mar 2022	Yellow & Grey
	Langa to Nyanga	23 March 2023	Yellow & Grey
	Cape Town to Bellville via Sarepta	1 Aug 2022	Yellow & Grey
	Langa to Pinelands	1 Aug 2022	Yellow & Grey
	Cape Town to Bellville via Goodwood	29 Nov 2022	EMU
	Cape Town to Bellville via Monte Vista	13 Dec 2022	EMU
KwaZulu- Natal	Umlazi to Reunion	23 Jan 2023	Yellow & Grey
	Durban to Umbogintwini	15 Aug 2022	Yellow & Grey
	Durban to Cato Ridge	7 Nov 2022	Yellow & Grey

Although several lines were re-opened in the Western Cape, there are still some illegal settlements on two lines in the Central Line corridor that must be relocated. Relocating illegal settlements is a complex process that involves costly legal intervention and intergovernmental coordination. At the end of 2022/23, two lines on the Central Line were operational, namely Langa to Cape Town via Pinelands, Langa to Bellville via Sarepta and the services beyond Langa extended to Nyanga. Reinstating services in KZN following the floods of April 2022 was achieved on three lines.

Roll-out of the Integrated Security Plan has been very successful, albeit at significant cost. The number of security incidents is declining, and the number of safety occurrences remains low, aided by the low level of services provided. Intensive work to enhance a safety culture in the organisation remains a focus.

The Rolling Stock Fleet Renewal Programme (RSFRP) remains one of the success stories for rejuvenation of commuter rail. At the end of 2022/23, 146 new train sets had been delivered by this programme.

Following its successful application to the Companies and Intellectual Property Commission, the business rescue process for Autopax got under way. An evaluation conducted by the business rescue practitioners indicated that the company's business plan is feasible and sustainable; however, this largely depends on shareholder funding and support. In order to support Autopax, the board approved a proposal for recapitalisation of buses, which is awaiting approval by the shareholder.

Mainline Passenger Services depends on repairs to Transnet's infrastructure and reliable locomotives. Since December 2021, services have remained of poor quality, mainly due to the Transnet network. The cost of leasing locomotives was costly, and combined with low occupancy levels during the year, this resulted in services being limited to high peak periods that coincided with major holiday seasons.

A highlight for PRASA is the finalisation of a co-investment in a commercial development in Cape Town, as part of the Station Redevelopment Programme. The co-investment of a 25% (R351 million) undivided share in the development of the top structure is of great significance for Intersite Investments (a subsidiary of PRASA), as this is the first co-investment to be done by the group. The top structure consists of student accommodation comprising 3,134 beds and about 7,000m^2 of retail space. The anticipated construction completion date is November 2023 and good progress has been made to date. The revenue flowing from the co-investment will be realised as from January 2024.

From an operational expenses perspective, PRASA's financial position remains precarious. While the agency is asset rich, it could be doing better in terms of financial resources. Operating revenues declined significantly (by 72%) between 2013/14 and 2019/20 (pre-COVID-19), and after the lockdown between April 2020 and June 2020 by 88%, due to destruction of assets. Operating revenue from fares collected by Metrorail is increasing as lines are re-opened for operations. As limited service is provided, the number of passengers remains low and therefore the fare revenue is also low. A significant increase is noticeable since October 2022, following the re-introduction of key lines in Gauteng and KZN.

PRASA is dependent on interest on unspent capital and revenue from Corporate Real Estate Solutions (CRES) and Autopax for most of its operational revenue. With capital spending increasing as a result of lines being re-opened, interest will be affected, which will put PRASA's operational finances on a knife-edge. A process has commenced to optimise the operating model and operations, which will improve this financial status.

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Group Overview: Governance

Message from the Chairperson of the Board

"During the year under review, great strides were made in restoring services to most of the metropolitan areas where PRASA operates. The Board has been encouraged by the improvement in train operation, the tightening of controls and progress in addressing audit issues raised by the Auditor-General of South Africa (AGSA). Significantly, the Board has addressed the issue of leadership stability and a sound recovery plan."

Nosizwe Nokwe-Macamo
Acting Chairperson, PRASA Board of Control

Continuing Challenges

Following a two-year period characterised by uncertainties due to the impact of Covid-19 pandemic, the disruption of the railway system countrywide, PRASA's performance has been marked by a sustainable improvement. Recovery of the rail infrastructure has been challenging but there is remarkable progress made. There is still much that needs to be done towards complete recovery, but the fundamentals are falling into place providing confidence that the rebuild and recovery will be achieved. Changing weather patterns impacted our operations, especially during the devastating floods in KwaZulu-Natal. These floods caused considerable damage to the infrastructure, damaging rail lines, bridges, and other critical infrastructure. PRASA teams have worked hard to recover lost ground and resume services. Our suppliers have played a critical role in speeding up the rate of recovery so that the affected lines can be returned to operation.

Stability of Leadership

In line with the Boards' role to strengthen the organisation, the appointment of the Group Chief Executive Officer (GCEO) was finalised which will bring stability to the executive team after a period of unacceptable instability. The Board welcomes the appointment of executives to key positions including those of Chief Human Capital Officer, Group Company Secretary and Chief Audit Executive and looks forward to the conclusion of this process, which will lead to management efficacy.

Recovery Strategy including Finances

A key priority during the period under review has been on the recovery and rebuilding of corridors to accelerate the reintroduction of passenger rail services throughout PRASA's network. PRASA is guided by its mission to provide safe and affordable commuter rail services in the metropolitan areas of and long- distance (inter-city) rail and bus services within the country's borders. This is in line with the PRASA primary mandate.

Priority corridors were reopened in Cape Town, Tshwane, Johannesburg, and Durban. Under intense oversight by the Board, in the year under review, PRASA successfully executed its Capex budget. This historic achievement directly links to the job creation and a positive economic impact on the supply network. This positive achievement indicates what can be achieved when there is focus on proper execution of strategy in the organisation in order to achieve the business plan. Much still needs to be done to restore the network to the level that improves financial viability and ensures increased passenger numbers.

PRASA has been engaging with the National Treasury and the Department of Transport regarding plans to fund the long-distance bus business, Autopax in line with the legislative mandate. There remains a symbiotic relationship between rail and bus transport and we must find a solution for Autopax as it is PRASA's primary mandate to provide bus services.

One of the emerging highlights is PRASA's success in its secondary mandate. There has been great progress and innovation in using the property assets to generate the agency's income, the flagship of which is the new multi-use development at the Cape Town station.

Safety and Security

Security and safety of assets, passengers, staff, and suppliers remain a major priority. The board has been satisfied with the progress made in protecting our assets and infrastructure. The board welcomes the implementation of a safety campaign that reinforces the primacy of safety and security as a non-negotiable pillar of PRASA's environment. The extension of the Safety Permit by the Railway Safety Regulator reflects the confidence that the regulator has in PRASA's ability to operate within the safety parameters of the permit.

Governance Imperatives

As a State-Owned Enterprise with a key role to play in the economic growth and delivery of a social service to South Africans, PRASA has an obligation to implement and adhere to sound governance procedures. High on the agenda since our appointment, the board has been on a relentless drive to reduce the occurrence of irregular expenditure and ensure efficient deployment of capital. To this end the board is pleased with the approved audit plan that shows how the organisation plans to move from a disclaimer of opinion in 2021/2022 to a qualified opinion in 2022/23, and to achieve an unqualified opinion in the 2023/24 audit.

We view sound governance not just as a matter of compliance but as an issue of ethical leadership. We want to bequeath South Africans with a PRASA that they can be proud of, a PRASA that has effectively eliminated the occurrence of irregular expenditure. Sound governance reflects an organisation that efficiently and effectively deploys capital. Ethical supply chain management is a key component of the culture shift the board has driven within PRASA. In the period under review, we have been seized with ensuring sound governance within PRASA and holding management to deliver on the plans contained in the approved corporate plan.

Rebuild and Recovery

Even though significant progress has been made in operational and governance measures, much still needs to be done to consolidate the organisation's rebuilding and recovery to increase the efficient delivery on the mandate and ensure adherence to the National Rail Policy by the revitalistion of the passenger rail sector through substantial investment. To this extent, capital expenditure is projected to accelerate in the MTEF ahead. Even as we commend the achievements of the period under review, our focus must be on preparing for the support PRASA will require with regard to recovery and revitalisation finance required in 2023/24. Investing in the future of passenger rail is a strategic national objective that revitalises a key national asset.

Our focus is to deliver on both the primary and the secondary mandate whilst contributing strongly to job creation, skills development, and revitalisation of the rail sector.

Forward Looking

As the Board, we will continue to set the strategic direction of the Passenger Rail Agency and ensure that the executive management team execute the strategy. It is important to execute the important projects like signalling, rolling stock renewal, depot modernisation. We are committed to discipline, transparency, independence, accountability, responsibility, fairness, and social responsibility, as advocated in the King IV Report on Corporate Governance ("King IV"). The Board is committed to building a performance driven organisation with a culture of adherence to the values of safety, fairness and integrity, service excellence, teamwork and communication. The Board has been uncompromising in its insistence that integrity is the foundational value of the organisation.

Acting Chairperson
N NOKWE-MACAMO

The Board of Control

BOARD OF CONTROL

- Audit & Risk Committee
- Safety, Health, Environmental & Quality Committee
- Governance, Social & Ethics Committee
- Finance, Capital Investment & Procurement Committee
- Human Capital & Remuneration Committee

PRASA Board of Control

The Board of Control (BOC) was appointed on 27 October 2020 and was constituted with a majority of non-executive directors appointed by the Department of Transport. The constitution of the BOC for the 2022/23 financial year was as follows:

Age: 62

Ms N. Nokwe-Macamo

Acting Chairperson
– Appointed on 13 June 2023 –

Appointed: 27 October 2020

QUALIFICATIONS
MSc (Petro-Chemical Engineering)
Diploma (Chemical Engineering)
Certificate in International Management INSEAD
Programme in Private Equity, (GIBS)/SAVCA
Strategic Investment Promotion and Competitiveness, IDA Ireland,
Certificate Programme in Finance and Accounting, WBA
Global Executive Development Programme, (GIBS)

Age: 58

Mr D. Mohuba

Appointed: 27 Oct 2020

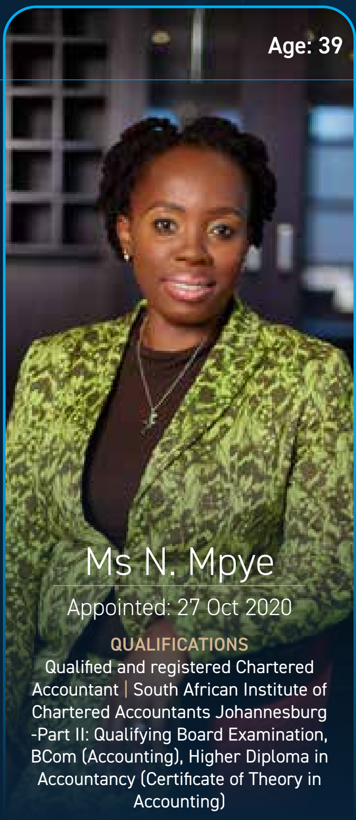
QUALIFICATIONS
Bachelor of Arts in Pedagogics, Bachelor of Education, Management, Development Programme, Executive Management Programme | Higher Education Leadership and Management, Executive, Development Programme, Master of Business Administration, Certificate in Theology, Diploma in Ministries

Age: 38

Mr M. Mukhuba

Appointed: 27 Oct 2020

QUALIFICATIONS
Bachelor of Technology in Mechanical Engineering, Postgraduate Diploma in Business Administration | Certificates: Project Management and Business Management

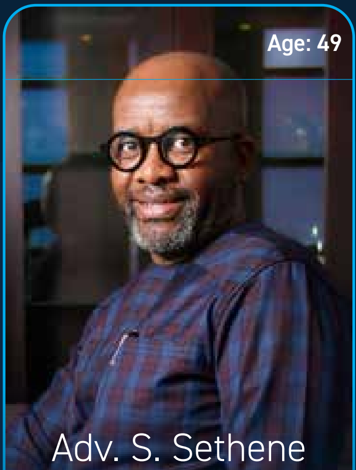


Age: 39

Ms N. Mpye

Appointed: 27 Oct 2020

QUALIFICATIONS
Qualified and registered Chartered Accountant | South African Institute of Chartered Accountants Johannesburg -Part II: Qualifying Board Examination, BCom (Accounting), Higher Diploma in Accountancy (Certificate of Theory in Accounting)



Age: 49

Adv. S. Sethene

Appointed: 27 Oct 2020

QUALIFICATIONS

B Soc Sci (Law) Hons, LLB | Certificates: Domestic Arbitration, Handling the Media, Insurance

Age: 46

Mr N. Makaepea

Appointed: 3 Jun 2021

QUALIFICATIONS

Master of Public Policy, BA Hons (Political Science), BA Hons (History) | Courses and Certificates: Rail Transport Economics and Management, Economic Regulation, Legislative Drafting, Policy Development and Management, Executive Practical Project Management

Age: 49

Adv. M. Motlogelwa

Appointed: 1 Dec 2022

QUALIFICATIONS

Bachelor of Law, LLB, Advanced Diploma in Public Administration | Courses and Certificates: Certificate Programme in Project Management | Certificates: Urban Regional Development Planning and Management

Age: 42

Ms S. Luthuli

Appointed: 1 Dec 2022

QUALIFICATIONS

B. Com Accounting, Postgraduate Diploma in Corporate Governance, conferred with a Certified Director designation by the Institute of Directors South Africa (IODSA) and served on the Board of The South Africa Gas Development Company | Courses and Certificates: Certificate in Public Management and Governance

Age: 49

Mr L. Joel

Appointed: 6 Apr 2023

QUALIFICATIONS

BA (Law), LLB | Courses and Certificates: Advanced Certificate in Legal Practice, Certificate in Legal Costs

RESIGNATIONS

Mr T. Zulu
Date of resignation:
21 February 2023

DIRECTORSHIPS OUTSIDE OF PRASA

	Other Directorships
Ms N. Nokwe-Macamo	Airports Company of South Africa, Raise Africa Investments, Legacy Africa Group, Varlolog, Mena SSG Khulisa, Raise Africa Growth Fund Holdings, Raise Africa Growth Fund, SOLH20, Rise Sail Pty
Mr D. Mohuba	Strategic Partners Africa
Mr M. Mukhuba	MMND Engineering, Mukhuba Holdings
Ms N. Mpye	National Empowerment Fund, Mpye Consulting, WameNtle Tile Farming Projects, Hollen Property Investment
Adv. M. Motlogelwa	Municipal Demarcation Board of SA
Mr L. Joel	WUI1

Board Committee Reports

Governance, Social & Ethics Committee

The committee consisted of the following members:

- Mr L. Ramatlakane
- Mr D. Mohuba
- Ms N. Mpye
- Adv. S. Sethene
- Mr T. Zulu (resigned on 21 February 2023)
- Mr M. Mukhuba
- Ms Macamo

The Governance, Social and Ethics Committee consisted of the chairpersons of the board committees and the chairpersons of the PRASA subsidiary boards. According to its terms of reference, the mandate of the Governance and Social and Ethics Committee was as follows:

1. Ensure and oversee a transparent and effective means of maintaining suitably qualified and committed board members.
2. Continually assess the board's composition.
3. Oversee the functioning of subsidiaries.
4. Perform the functions of the Social and Ethics Committee, as per Regulation 43 of the Companies Act 71 of 2008.
5. Provide oversight and reporting on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships. The Governance, Social & Ethics Committee should be seen to be progressing beyond mere compliance to contributing to the creation of value.
6. Govern the ethics of the organisation in a way that supports the establishment of an ethical culture by:

6.1. Promoting and monitoring ethical behavior of employees, board members and clients by paying attention to the following aspects:
- compliance with relevant laws
- stakeholder relationships
- employee wellness
- internal and external fraud
- communication
- confidential information
- non-compliance with prescripts
- conflict of interest
- workplace conduct
- accuracy of organisation's financial information
- collusion

6.2. Providing oversight of implementation of the Ethics Management Programme.
Monitoring PRASA's activities, taking into consideration all relevant legislature and codes of best practice in respect of good corporate citizenship, the environment, health and public safety, consumer relationships, employment and sound labour practices.

a. The 10 principles set out in the United Nations Global Compact Principles.

b. The Organisation for Economic Co-operation and Development (OECD) recommendations regarding corruption.

c. The Employment Equity Act.

d. The Broad Based Black Economic Empowerment Act.

6.3. Good corporate citizenship, including the company's:

a. Promotion of equality, prevention of unfair discrimination, and reduction of corruption.

b. Contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed.

c. Record of sponsorship, donations and charitable giving.

6.4. Consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws.

6.5. Labour and employment, including:

a. the company's standing in terms of the International Labour Organization Protocol on decent work and working conditions;

b. the company's employment relationships, and its contribution toward the educational development of its employees.

6.6. Ensuring that the following ethics management processes are in place or conducted:

a. Regular ethics risk and opportunity assessments are conducted.

b. An ethics management strategy is developed and implemented.

c. Code of ethics and conduct is developed, as well as relevant ethics policies.

d. Ethical standards are articulated and institutionalised in the organisation through processes such as training, communication, performance management, provision of safe reporting channels to report observed misconduct.

e. Ethics performance is monitored and reported to the Committee.

Audit and Risk Committee

The Audit and Risk Committee (ARC) consisted of the following members during the period under review:

- Ms N. Mpye
- Mr D. Mohuba (1 July 2022)
- Adv. S. Sethene (until 1 July 2022)
- Mr T. Zulu (resigned on 21 February 2023)
- Mr N. Makaepea (until 1 July 2022)
- Mr M. Mukhuba
- Ms S. Luthuli (1 December 2022)
- Adv. M. Motlogelwa (1 December 2022)

The committee had the following responsibilities, which were set out in its Terms of Reference:

- Oversight of Internal Audit.
- Combined Assurance.
- Governance of risk, including financial reporting risks, internal financial controls, fraud risks as it relates to financial reporting, IT risks as it relates to financial reporting, and operational risk reviews in conjunction with the SHEQ Assurance Committee.
- Compliance with laws and regulations.
- Review the effectiveness of the system for monitoring the group's compliance with laws and regulations and the results of management investigations and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.

The Committee satisfied its responsibilities for the year, in accordance with its terms of reference. Its achievements during the period under review included the following important milestones:

- Considered and recommended the 2022/23 Budget, Strategic Plan and Shareholder Compact to the board for approval.
- Reviewed and discussed the Annual Financial Statements with the AGSA, management and the board.
- Reviewed the AGSA management letter; reviewed changes made to the accounting policies and procedures; and reviewed significant adjustments arising from the audit.
- Established a task team to address the AGSA audit findings, in an endeavour to improve the audit outcome from a Disclaimer to a Qualified Audit opinion.
- Considered and approved the internal Audit Three-Year Rolling Audit Plan.
- Recommended the Secondary Mandate Investment Framework for board approval.
- Recommended the Document and Records Management Policy for board approval.
- Recommended the proposed Metrorail fare revenue increase to the board for approval and submission to the shareholder.
- Transactions totalling R12,4 billion have been recommended for condonation. The status on these items is as follows:

- Transactions to the value of R42 million have been submitted to NT and are awaiting feedback.
- Transactions to the value of R12,3 billion have not been condoned by the NT. NT response provides reasons why the transactions were not condoned and further indicates: *"According to paragraphs 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."*
- The entity resolved 7 of 9 material irregularities (MI) during the year. A further MI relating to the General Overhaul (GO) programme was resolved after year end. The MI that is still open relates to Isipingo. One more MI has now been added; this relates to Operation Ziveze. This means that two MIs with the current open MI relating to Isipingo, bring to two the total that still need to be resolved.

- Recommended 13 ICT (information, communication and technology) policies to the board for approval, i.e.:
  - Antivirus policy
  - Backup policy
  - Change control policy
  - Disaster recovery policy
  - End user policy
  - Firewalls security policy
  - Information classification policy
  - Mobile device policy
  - Network security policy
  - Password policy
  - Printing policy
  - Social media policy
  - End user policy
- Reviewed and monitored the performance of the organisation through monthly and quarterly performance reporting. The performance improved from 19% in the previous year (2021/22) to 59% in the 2022/23 financial year.

Human Capital and Remuneration Committee

The Human Capital and Remuneration Committee is appointed by the board to perform the functions set out in this charter to enable the board to achieve its responsibilities in relation to PRASA's remuneration policies, processes and procedures. The committee consisted of the following members during the period under review:

- Adv. S. Sethene (Chairperson)
- Ms N. Nokwe-Macamo
- Mr D. Mohuba
- Mr N. Makaepea (1 July 2022)
- Adv. M. Motlogelwa
- Mr L. Joel (6 April 2023)

The committee adopted its terms of reference, which sets out its responsibilities and mandate, including the following:

- Ensure the development and continual review of the framework, policies and guidelines for PRASA's human resources.
- Guide PRASA's human resources practices, succession planning for executives, and the training and development programme.
- Monitor the effective implementation of employment equity plans.
- Enhance and monitor business performance.
- Ensure PRASA's organisational development.
- Restructuring the existing organisational structure.

The committee performed its duties as per its terms of reference during the period under review. Its achievements included:

- Filling the following executive positions without an external service provider, which resulted in a cost saving for PRASA:
  - GCEO
  - Group Company Secretary
  - Chief Audit Executive
  - Group Executive Human Capital
- Approved human capital policies
- Implementation of Project Ziveze to identify and eliminate all ghost employees in the system.

Finance, Capital Investment And Procurement Committee

During the period under review, the Finance, Capital Investment and Procurement Committee (FCIP) comprised of the following members:

- Ms. N. Nokwe-Macamo (Chairperson)
- Mr T. Zulu (Resigned 21 February 2023)
- Mr N. Makaepea
- Mr X George (Resigned 14 June 2022)
- Mr. M. Mukhuba
- Adv. M. Motlogelwa

According to its ToR, the Committee is entrusted with the following responsibilities:

- Review capital and revenue investment and significant tenders.
- Provide strategic direction and oversee execution of the Capital Investment Programmes.
- Review and recommend for Board approval tenders that fall within the delegated authority of the Board.
- Review and recommend for Board approval the SCM Policy and related SOPs and Directives in place.

The Committee achieved the following important milestones during the period under review:

- Monitored the Capex budget spend and as a result, PRASA exceeded the budgeted capital spend and achieved 108%.
- Considered and recommended to the Board approval to reallocate R1 bn from ringfenced capital to other capital to ensure that there are sufficient funds to cater for all projects.

- Considered and recommended for approval by the Board the appointment of Macre Jv For GSM-R Redundancy Network Project In PRASA (GP, WC, AND KZN REGIONS)
- Considered and recommended for approval by the Board to revise development lease term from 20 years to initial lease period of 30 years, in line with the financial institutions minimum requirements to enable the developers to use the lease as a bankable instrument.
- Considered and recommended to the Board the 2022/23 Procurement Plan.
- Considered and recommended the approval by the Board to directly procure services of cooperatives for provision of station cleaning and horticulture services at selected PRASA railway stations using limited bidding process,
- Considered and recommended for approval by the Board the rolling stock retirement strategy for the old Metro rail fleet and the Fleet retirement Plan: Rolling Stock assets.
- Considered and recommended for approval by the Board the walling solution for Central Line and Mabopane corridors.
- The Committee recommended Phase 2 procurement of private security through National Treasury deviation to use ACSA Security panel.
- Considered and recommended for approval by the Board the proposed amendments to specific provision of the SCM Policy and the updated guidelines on implementing preferential procurement practice.

Safety, Health and Environment Quality Committee

The committee consisted of the following members during the period under review:

- Mr D. Mohuba (Chairperson)
- Ms N. Mpye
- Mr M. Mukhuba
- Mr N. Makaepea
- Mr L. Joel (6 April 2023)

The SHEQ Committee achieved the following during the period under review:

1. Station upgrade and branding: From April 2022 to March 2023, 213 stations attained functionality, and 68 stations were branded.
2. National cleaning campaigns were done in the regions in July 2022, and are still ongoing, to enhance ownership by the communities in the vicinity of the stations.
3. Communicating PRASA's achievements through mass media campaigns in all provinces, including building strategic relationships with community radio stations and all forms of media.
4. Oversight visits to all PRASA regions to ensure compliance and achieving targets by completing capital projects.
5. Overseeing the safety permit application process to be graded by RSR. PRASA received a 29-month safety permit approval from RSR and is working to qualify for the remaining seven months by addressing the findings of the regulator.

6. Opening of the following lines: Gauteng - Pienaarspoort – Pretoria; Naledi - Johannesburg; Pretoria - Centurion. KZN - Umlazi – Durban; Western Cape – Central line: Nyanga.
7. Developed the required policies on safety and security, marketing and communications, and many that are relevant to the committee. It championed the review of these policies to be in line with national trends, imperatives and norms.
8. Addressing and ensuring the monitoring of risks in order to safeguard insurance so that it is not revoked.
9. Reviewed the group's security strategy and structure and appointed special response and intervention teams to protect PRASA assets, infrastructure, employees, stakeholders and commuters.

The SHEQ Committee embarked on oversight visits in KZN, East London, Western Cape, Gauteng North and South to ascertain that the programme of resuming service delivery is monitored, and to inspect the status and viability of rail infrastructure. The committee has also confirmed that the findings relating to statutory compliance in the AGSA report of 2021, have been clearly identified, fully addressed and achieved.

In the financial year under review, the committee continued to prioritise service resumption, security provisions and deployments to infrastructure projects. The Station Upgrade Programme and stakeholder relations were also given special attention to ensure that the communities that are served by PRASA take ownership of the commuter facilities, in order to eradicate the problems of vandalism and theft.

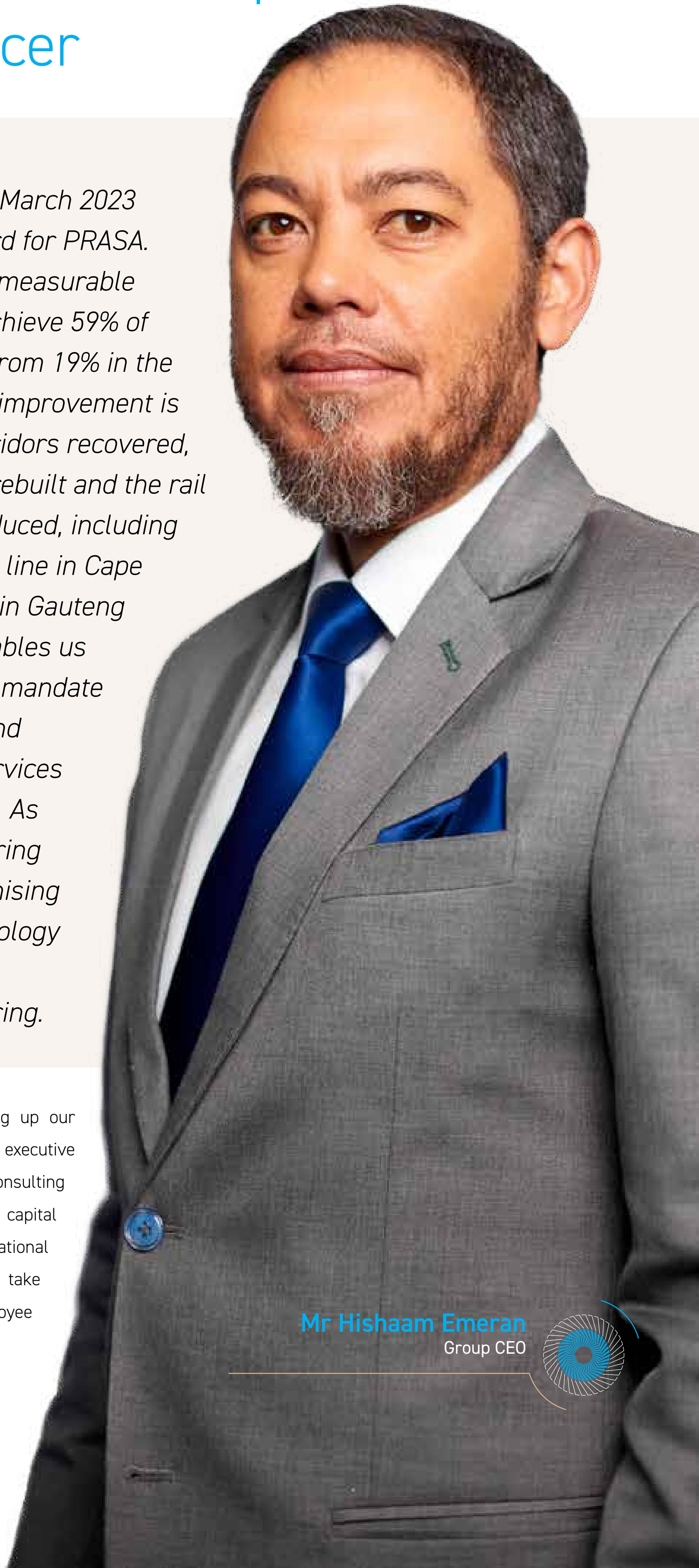
Attendance of committee meetings

	Board of Control	Governance Committee	ARC	FCIP	HC & REMCO	SHEQ
Names	Number of Meetings					
Number of meetings	19	3	10	8	5	4
Mr L. Ramatlakane	19	3	-	-	-	-
Ms N. Mpye	16	3	10	-	-	4
Mr D. Mohuba	18	3	5	-	5	4
Ms N. Nokwe-Macamo	16	3	-	8	3	-
Adv. S. Sethene	10	1	1	-	5	-
Mr. T. Zulu (resigned on 21 Feb 2023)	12	-	9	8	-	-
Mr N. Makaepea	16	-	4	-	-	1
Mr X. George (resigned on 14 Jun 2022)	1	-	-	1	-	-
Mr M. Mukhuba	19	-	10	8	-	4
Ms S. Luthuli (appointed on 1 Dec 2022)	4	-	-	-	1	-
Adv. M. Motlogelwa (appointed on 1 Dec 2022)	5	-	-	-	-	-
Mr L. Joel (appointed on 6 Apr 2023)	-	-	-	-	-	-

Message from the Group Chief Executive Officer

The financial year ending 31 March 2023 saw a significant shift forward for PRASA. We embarked on a credible, measurable turnaround, which saw us achieve 59% of our performance target, up from 19% in the previous financial year. This improvement is in the number of critical corridors recovered, the stations that have been rebuilt and the rail lines that have been reintroduced, including the first phase of the Central line in Cape Town, Naledi and Mabopane in Gauteng and others. This success enables us to better deliver on our core mandate to provide safe, consistent and affordable passenger rail services to South Africa's commuters. As we make headway in recovering capacity, we are also modernising our infrastructure and technology to improve the quality and efficiency of our service offering.

Critical to our progress has been building up our leadership teams by filling vacancies in executive positions and concluding strategic consulting appointments. Stabilising PRASA's human capital has unlocked the capacity to achieve our operational objectives. We are also continuing to take measures to resolve long outstanding employee disputes and disciplinary matters.



Mr Hishaam Emeran
Group CEO

We have made substantial progress in the reclamation of lost rail capacity. We established a War Room, composed of the most senior executives of PRASA, to steer this initiative. This forum has been exceptionally effective in defining the roadmap for recovery, employing strategies for rapid execution, and ensuring that the necessary resources are employed to achieve the goal of a fully operational rail system. As a result of the decisive leadership effected through the War Room, PRASA had recovered 18 rail lines by the end of 2022/2023. The plan is to increase the number of recovered lines to 32 by the end of 2023/2024 - an effective 80% of total capacity. The corporate plan reflects a target of 10 lines to be recovered, but indications are that this target will be exceeded. In addition: 58 stations were revitalized, 57 new train sets were delivered, and 197 existing train sets were configured.

Urban rail aids economic activity by moving millions of people to and from their places of work daily. This recovery of rail lines contributes to economic development by employing over 15,000 people and procuring billions of rands of goods and services from a broad ecosystem of vendors.

In order to achieve holistic and sustainable growth, significant improvements in safety and security have accompanied the increased capacity. RSR acknowledged the progress in renewing PRASA's operating licence for 29 months. The operating licence was previously issued for six months. This has provided PRASA with the certainty it needs to expand its operations in outstanding corridors.

The gains in operations have increased the capital expenditure. While under-spending of the capital allocation was reported in previous years, 2022/2023 saw an expenditure of R13.5 billion, more than the budgeted R12.5 billion. Projections are that capex funds will be fully utilised, as PRASA's capacity has been improved.

During the period under review, progress was made in our ability to leverage our extensive property portfolio to fulfil the secondary mandate. The new mixed-use facility at Cape Town Station is a successful blueprint for extending this model to generate more value from the existing asset base. Other developments, including social housing, will come on stream in the short to medium term. Many of these developments are public-private partnerships that allow us to bring in private expertise and investment to unlock the potential of our assets.

The economic environment in South Africa and the world has been challenging, and the macro-economic outlook remains sluggish. High inflation continues to erode the real income of working South Africans, and the unemployment crisis has gripped the country. These conditions put pressure on PRASA and its access to resources. PRASA has been resilient in the face of this onslaught of challenging circumstances, and we remain focused on extending and improving service delivery to contribute what we can to the broader national economic recovery.

The continuing challenges caused by load-shedding have affected the country's overall economic environment. Our contingency plans and sub-station use have spared our operations from the full impact of power shortages. We continue to engage with Eskom to ensure an optimum energy supply, but we are also exploring other technologies in parallel with these engagements.

Modernising our depots is a priority, and the teams in our technical division and our contractors have set their sights on completing construction work for the Depot Modernisation and Walling Programme (DMP). The modernised depots allow us to store and maintain our fleet. The DMP is linked to our Fleet Modernisation Programme, and, to date, we have received 146 EMU trains from the Gibela factory in Nigel, on the East Rand. The new fleet and the modernised depots signal the progress made on the irreversible path to modernising our assets, infrastructure and service. Linked to this significant upgrade, the Re-signalling Programme is receiving urgent attention to ensure safe and efficient train operations. There is also a broader move to bring the benefits of digitisation to the PRASA environment to modernise operations, improve passenger experience, and enhance safety and security.

After receiving a "Disclaimer" external audit opinion for the 2021/2022 financial year, an Audit Task Team was established and repositioned in the Office of the GCEO for functional reporting based on criticality. The composition is functional at the Executive level with a focus on strategic interventions (whilst operationally closing audit findings), an improved audit outcome over time (transitional and institutionalisation), and milestone and timeline-driven (accountability matrix). The Audit Task Team identified the key focus points (strategic and transversal interventions): Assets, Supply Chain Management, Commitments linked to contract management and Financial Close discipline and processes (annual/quarterly/monthly). Based on a root cause analysis, a program of critical activities and timelines was established, culminating in a substantially improved set of annual financial statements for 2022/2023 that was submitted to the AGSA for audit, and is appropriately supported by relevant schedules and portfolio of evidence

We have developed a plan for locomotives to revitalise our long-distance Mainline Passenger Services by securing locomotives and concluding our discussions with Transnet that will see the lowering of access fees to the Transnet Freight Rail (TFR) network. Providing long-haul passenger bus services is an important part of our mandate. During the year under review, progress was made in aligning the Autopax staff numbers to operational requirements and consolidating bus service and maintenance in one depot. Complete turnaround of the business requires funding to be made available by the shareholder.

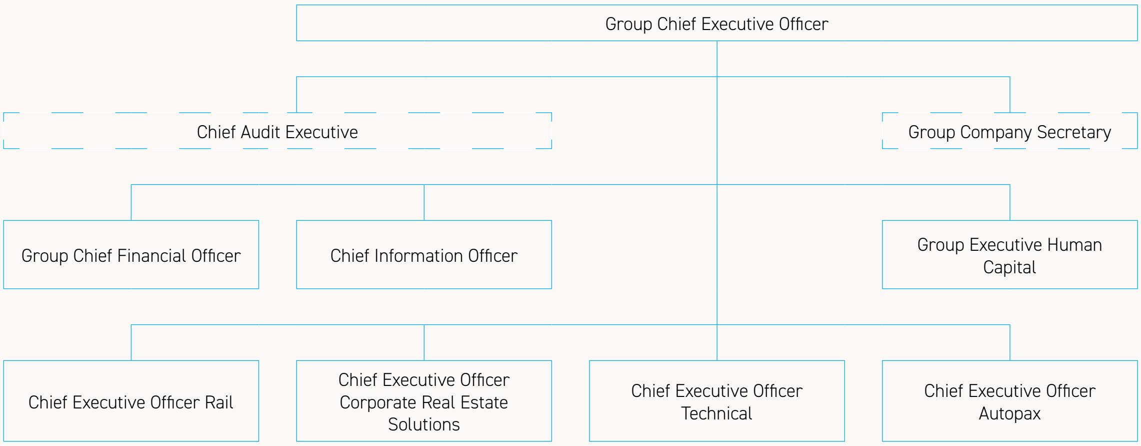
As we march forward, we are focused on recovering full service by the end of 2025/26 and achieving financial sustainability through robust financial oversight and management. We are excited about the path ahead and draw confidence from our successes.

GROUP CEO

H. EMERAN

Group Executive Committee

PRASA: Executive Management Structure

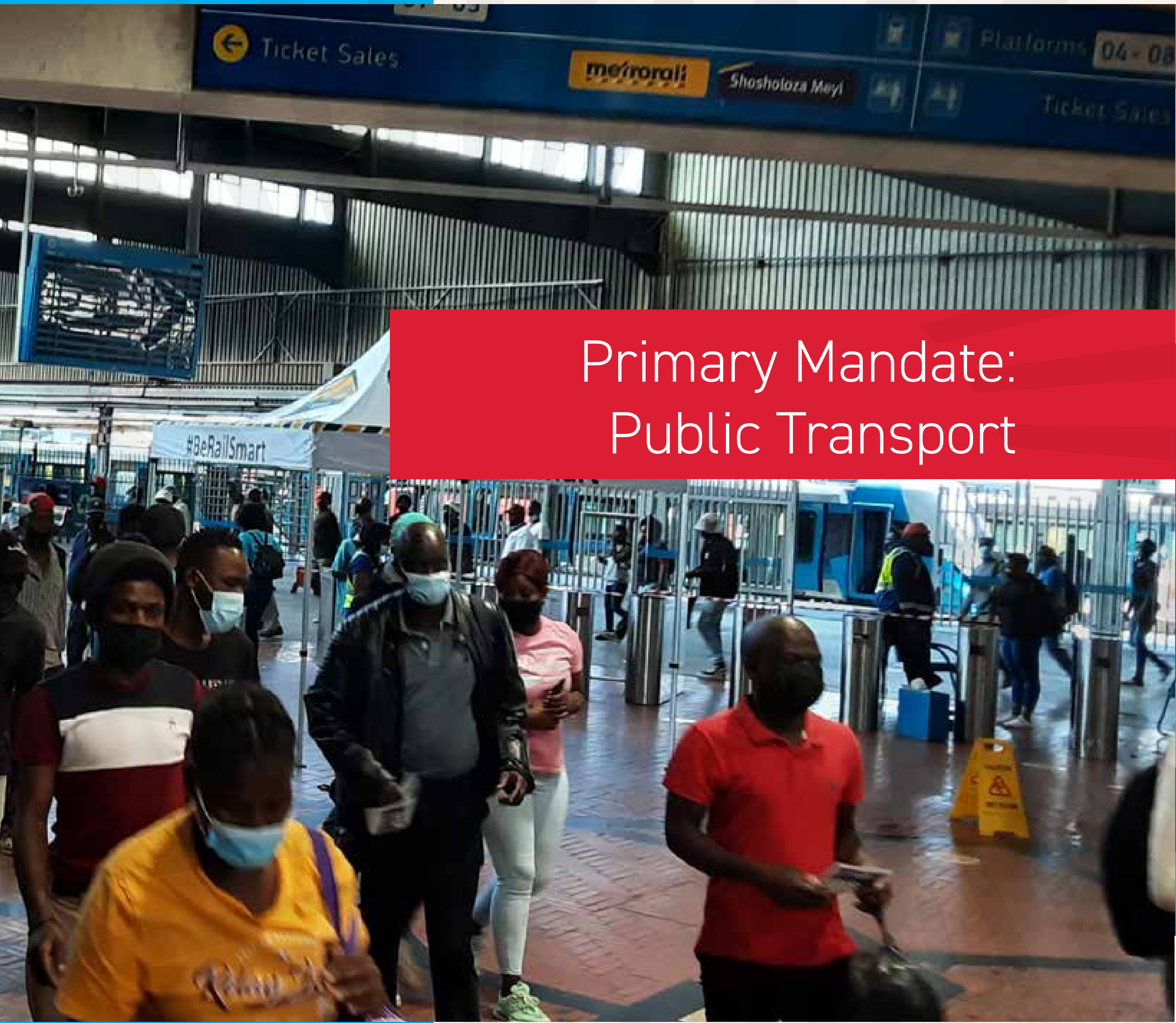


Name	Designation	Name	Designation
Mr H. Emeran	Group Chief Executive Officer	Mr N. Malefane	Acting Chief Executive Officer, PRASA Rail
Mr B. Alexander	Acting Group Chief Financial Officer	Ms A. Lindeque	Acting Chief Executive Officer, Corporate Real Estate Solutions
Ms Y. Isawa	Acting Chief Information Officer	Mr F. Marutla	Acting Chief Executive Officer, PRASA Technical
Ms N. Modibedi (Appointment date: 18 April 2023)	Group Chief Human Capital Officer	Mr N. Roesch	Chief Executive Officer, Autopax
Mr B. Zimase (Appointment date: 1 June 2023)	Chief Audit Executive	Ms L. Mthayise	Group Company Secretary

Group Executive	Race	Age	Years at PRASA as at end of FY	Highest qualification	Areas of expertise	Directorship(s)
Mr H. Emeran	Coloured	52	23	Master's in Philosophy: Transport B Tech: Civil Engineering Transportation N Dip: Civil Engineering Transportation	Rail Network Planning and Engineering, Rail Strategy and Policy, Public Transport Planning and Project Management	Intersite Investments Assets SOC Ltd.
Mr B. Alexander	White	57	11	B Com B Com (Honours) CA (SA) MBA	Corporate Finance, Strategy, Investments, Treasury, Infrastructure, Real Estate, Resources, Advisory, Public and Private Sector	Intersite Investments Assets SOC Ltd.
Ms N. Modibedi	African	45	2 months	BA Honours (Industrial Psychology), BA (Industrial Psychology), MAP MBL	Human Resources, Industrial Psychology	LG Seta (REMCO Chairperson)
Mr N. Malefane	African	49	29	Certificates in Business Management, Operations Management, Business Continuity, General Management and Management Development Programme	Train Operations, Incident Investigations, Rail Operations	None
Ms A. Lindeque	White	55	24	MSc Real Estate, Property Development, Property Management, Property Finance	Property Management, Property Development, Feasibility Studies, Property Finance & Investment	Intersite Investments Assets SOC Ltd.
Mr F. Marutla	African	51	2 years 9 months	MSc Eng (Civil & Industrial Engineering) MBL BSc Civil Engineering	Perway Engineering and Network Standards, Railway Infrastructure Maintenance, Project and Contract Management, Feasibility Studies Governance, Infrastructure and Transport Planning	Advisory Board Member: Department of Civil Engineering, University of Pretoria Advisory Board Member: Department of Civil Engineering (Technology), University of Johannesburg Ex-Officio Executive Board Member and Fellow: SAICE
Mr N. Roesch	White	62	3	B Compt. (Honours)	Transport Management, Financial Management, Operations Management	Director of Autopax Passenger Services SOC Ltd.
Ms Y. Isawa	Asian	54	8	MSc in Information Systems MBA Higher Education Diploma	ICT strategy, ICT optimisation, Enterprise Architecture, System Implementation, ICT Governance and ICT Security	None
Mr B. Zimase	African	40	1 month	CIA, CISM Post-Graduate Diploma in Risk Management, B-Degree Internal Audit Management Development Programme	Auditing, Governance, Risk Management, Financial Management, ICT Security Data Analytics	None
Ms L. Mthayise	African	48	1 month	B Juris, LLB, Chartered Secretary	Governance	None

INTEGRATED Annual Report

2022 | 2023



Primary Mandate: Public Transport

PRASA Rail

PRASA RAIL is mandated to provide a safe, reliable, predictable and affordable service to commuters within metropolitan areas and long-distance services connecting passengers to main cities and rural areas.

Metrorail

There is an operational network layout of 2,230km traversing four regions that operate commuter services, which are divided into 12 corridors and supported by 40 service lines. Metrorail operated 24 lines with limited service due to the non-availability of certain elements of the infrastructure that were severely affected by the theft and vandalism that occurred in previous years. Some of the lines operated using diesel traction, which contributed to a smaller number of train trips compared to when using electric traction.

Predictable commuter services delivery was negatively affected by some of the major incidents in the country, such as the flooding in KZN, closure of the key lines for the rebuilding programme and diesel locomotives not being available from TFR, as well as some internal operational failures.

Eastern Cape services operated for a few months from June until August 2022 as a result of lapsed term of the diesel locomotives lease. The region will in due course receive new train sets which will be operated with 25kv electric traction. The construction of the maintenance depots for both East London and Gqeberha will provide much-needed maintenance support in the state-of-the-art depot facilities.

Currently, trains are not operating and Transnet has been engaged as part of an interim solution whilst the leasing procurement process is underway at PRASA.

Service Line Recovery

In the 2022/23 financial year, 18 service lines were recovered (including those with diesel traction). Of the 18 lines, eight were recovered with EMUs in addition to the four lines recovered during 2021/22 with EMUs, while other lines were still operated with the old yellow and grey train sets.

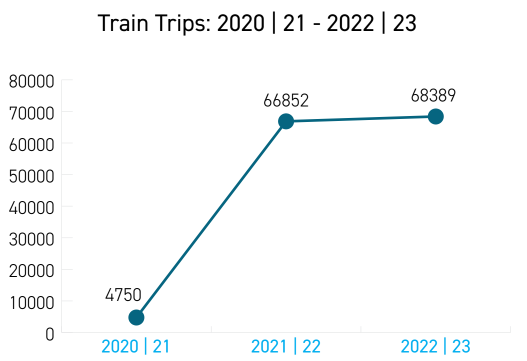
Lines operated with EMU train sets (blue trains).

REGION	LINE	TRACTION	RESUMPTION DATE
FY 2021/22			
Gauteng	Mabopane - Pretoria	Electric - EMU	17 January 2022
Gauteng	Saulsville - Pretoria	Electric - EMU	15 February 2022
Western Cape	Cape Town - Simonstown	Electric - EMU	1 March 2022
Western Cape	Cape Town - Retreat	Electric - EMU	1 March 2022
FY 2022/23			
Gauteng	Pienaarspoort - Pretoria	Electric - EMU	26 September 2022
Gauteng	De Wildt - Hercules	Electric - EMU	24 November 2022
Gauteng	Naledi - Johannesburg	Electric - EMU	28 November 2022
Western Cape	Cape Town – Bellville via Goodwood	Electric - EMU	29 November 2022
Western Cape	Cape Town – Bellville via Monte Vista	Electric - EMU	13 December 2022
Western Cape	Langa – Bellville via Sarepta	Electric - EMU	30 March 2023
Gauteng	Pretoria - Centurion	Electric - EMU	30 March 2023
Western Cape	Bellville – Eerste-Rivier	Electric - EMU	30 March 2023

Lines operated with old train sets (yellow and grey).

REGION	LINE	TRACTION	RESUMPTION DATE
FY 2022/23			
KwaZulu-Natal	Durban - Merebank	Electric - 10M	1 June 2022
KwaZulu-Natal	Merebank - Reunion	Electric - 10M	25 July 2022
KwaZulu-Natal	Reunion - Umlazi	Electric - 10M	21 November 2022
KwaZulu-Natal	Umbongintwini - Durban	Electric - 10M	27 July 2022
KwaZulu-Natal	KwaMashu - Durban	Diesel traction	6 June 2022
KwaZulu-Natal	Tongaat - Durban	Diesel traction	15 August 2022
KwaZulu-Natal	Cato Ridge - Durban	Electric - 10M	7 November 2022
Western Cape	Cape Town – Langa via Pinelands	Electric - 10M	1 July 2022
Western Cape	Langa – Bellville via Sarepta	Electric - 10M	1 July 2023
Western Cape	Langa – Nyanga	Electric - 10M	16 March 2023

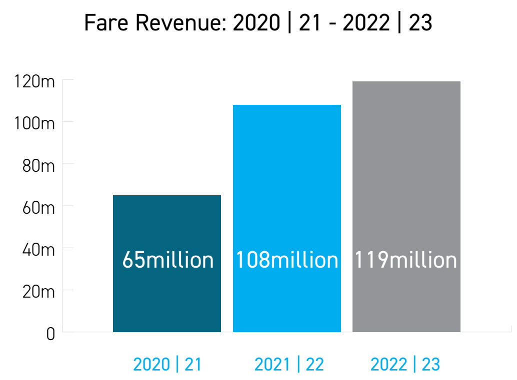
TRAIN TRIPS



For the period under review, Metrorail logged 68,389 train trips. Although the target was not achieved, a significant increase is evident compared to FY 2020/21.

The number of trips increased by 2.25% in 2022/23, i.e. from 66,852 in the previous year to 68,389.

FARE REVENUE



A gradual increase in fare revenue generated over the past three years has been noted. Metrorail generated fare revenue of R119 million in the year under review. The increase can be attributed to the resumption of services in various lines across the country. Although the set targets have not been met, fare revenue increased by R12 million compared to the previous financial year.

STATIONS

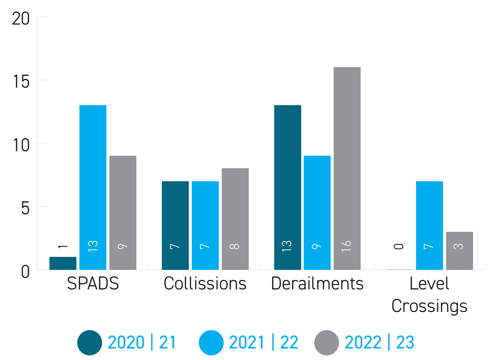
Of the 276 operational stations, 142 stations were utilised for retailing tickets, and 170 operated as stopping stations. The rest of the stations were affected by vandalism and could not be utilised for operations.

OPERATIONAL SAFETY

In relation to operational safety, 116 incidents were recorded for the year. Several passenger injuries were also observed.

A high number of derailments is as a result of the poor state of perway in the yards, as well as runaways of the old dysfunctional metro coaches which are subject to disposal were recorded. Signals Passed at Danger (SPADs) are mostly caused by non-compliance to the operating standards, and a slight decrease was observed in this area. Level crossing incidents slightly decreased due to less train traffic and the reduced risk exposure as a result thereof.

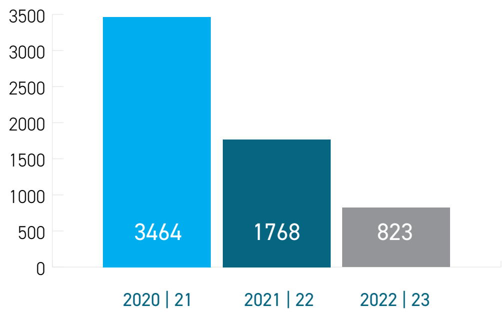
Rail Occurences: 2020 | 21 - 2022 | 23



The enforcement of the Safety Management System (SMS) has been identified as a vehicle to mitigate incidents and to enforce a culture of safety in the business.

SECURITY INCIDENTS

Security Incidents: 2020 | 21 - 2022 | 23



A total of 823 security incidents were reported in the Metrorail environment for the period under review.

A reduced number of theft and vandalism on the network infrastructure can be reported. The incidents have reduced by 53% (945) compared to the previous year. This achievement can be attributed to an effective security strategy, which is paying off.

Mainline Passenger Services

Mainline Passenger Services (MLPS) remains in a state of deterioration as the business battles to acquire reliable locomotives. Similar to the previous year, only two routes were in operation, i.e. Johannesburg to Musina and Johannesburg to East London. The table below reflects the state of MLPS.

KPA	2020/21	2021/22	2022/23
Operational Routes	4	2	2
Train Trips	99	75	39
Timekeeping	0%	0%	42%
Passenger Trips	205 000	12 023	8 014
Fare Revenue	R67m	R2.950m	R2.213m
Expenditure	R425m	R415m	R467m

In the new year, the business will conduct an intensive market study to gauge opportunities and the viability of the entity's survival.

Labour matters for PRASA Rail

Rail operations is an operational labour-intense environment responsible for 13,464 employees with a majority of the workforce based in the regions.

Employee productivity level is low in line with the size of the operations due to non-operational lines. Metrorail operates a limited service on re-instated lines whilst other lines remain non-operational.

Critical vacancies in some of the regions exist more so in the technical space. A Corridor Management strategy has been developed that is aimed at identifying operational requirements per line in a corridor. The matter concerning the rationalisation of the overall operations including staff is being examined through a productivity assessment exercise.

Outlook for 2023/24

PRASA Rail is expecting to see continued improvement in the train services being provided as more corridors (service lines) are re-instated. This will ensure a continued increase in passenger trips and therefore increase fare revenue. Train performance in terms of trains on time has improved from a low level of 63% in 2019/20 to 77% in 2022/23 and plans are in place to improve this to 80% in 2023/24.

Several lines for recovery are expected in 2023/24 with 10 lines targeted by end of December 2023. Recovery of KZN's Durban to KwaMashu line will also have a positive impact on operations. PRASA Rail will continue to focus its efforts on the Service Recovery Programme to ensure that it delivers on PRASA's primary mandate.

Autopax

Autopax's financial position has continued to improve year-on-year for the past three years. This is mainly due to actions implemented by management in line with the Autopax business plan. The improvement of the financial performance against FY 2021/22 was R161.2 million. The financial position however remains critical due to long outstanding debt, losses continuing and the age of the bus fleet. Most of the buses were not operational as a result of major mechanical breakdowns and repairs delayed over a long period due to a lack of funds.

The Autopax board approved a revised business model that will not only turn the company around but also ensure that it becomes financially self-sustainable over the medium to long term. The turnaround of the company focuses on revival and stabilisation of Autopax in the short term, ensuring financial sustainability, organic growth and diversification in the medium to long term.

Autopax continues to operate under business rescue since 18 November 2021. The business rescue practitioners published initial and revised business rescue plans on 26 June and 24 July 2023 respectively. Both these plans were voted down by creditors. The revised plan is being amended per the motion put forward by PRASA and approved by creditors:

- External creditors be paid 30c in the R1 by 30 September 2023, in full and final settlement, on the condition that,
- The planned S189 process be completed by 30 September 2023 and
- Autopax exits the business rescue process by 30 September 2023

The updated revised business rescue plan will be published within 10 days on 7 August 2023 and the creditors meeting within 10 days of the publication date. Key to finalising the rebuilding of the company is for funding to be made available by the shareholder to recapitalise the Autopax bus fleet. PRASA has further, to this extent, issued a letter of support to Autopax, expressing its commitment to ensure that Autopax is put in a position to continue as a going concern inclusive of subordinating their debt in favour of external creditors.

Implementation of the operating model approved by the Board of Directors is at an advanced stage. The following major milestones have been achieved to date:

- Funding of R80 million had been approved by the shareholder for the payment of severance packages.
- Right-sizing the staff complement is almost complete, with staff opting to take the voluntary severance packages that were offered by the company. The remaining excess staff will be dealt with through a Section 189 process that will be implemented once the business rescue plan has been approved by creditors.
- Three full operating units consolidated into one business unit. The two rationalised units will only operate as support depots going forward.
- Reduced market-related rentals negotiated by the business rescue practitioners on most of the properties rented and new rental agreements entered into.
- Most of the redundant and scrap buses sold.
- Inefficient and loss-making sales offices had been closed and third-party agents appointed to sell tickets in these areas.
- Twenty PRASA-owned and registered buses rented by Autopax were rebuilt and maintenance contracts entered into to ensure improved service delivery and the availability of busses going forward.
- The Autopax funding requirement was consolidated with that of PRASA which request is currently under consideration for recommendation by the DoT for approval by NT.

Outlook for 2023/24

Management will continue to accelerate all programmes and plans aimed at addressing performance challenges in the main, improve on the operational reliability of buses and increase bus availability within the existing financial constraints faced by the company until such time finances are made available by the shareholder to recapitalise the bus fleet. The planned budget for 2023/24 allows for completion of the fleet replacement process and finalising the staff right-sizing process. The finalisation of these two major milestones in the 2023/24 financial year will not only put the company in a profit situation for the 2025 financial year, but will also have a major impact in the quality of services rendered to our valued passengers. Once Autopax returns to profitability, it is planned to onboard a strategic investor to recover a portion of the investment made by the shareholder.

PRASA Technical

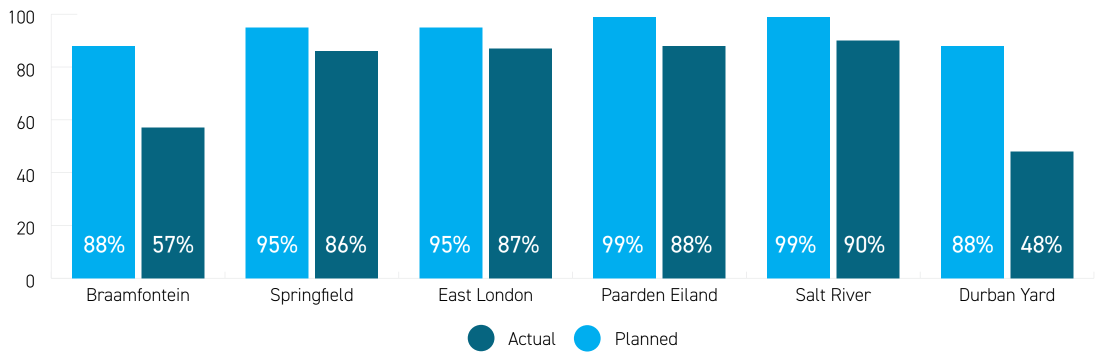
Depot Modernisation Programme

The Depot Modernisation Programme has been met with severe delays mainly due to the non-award of tenders and cancellations. The challenges for this programme are tracked closely by the project team. The stoppage of work at the Springfield, Durban and Salt River depots, which was directed by a court order, has hampered progress. It is envisaged that work will resume in Quarter 2 and Quarter 3 of FY 2023/24.

The National Depot Fencing Programme that covers fencing and walling is aimed at improving security at Rolling Stock depots and staging yards across all regions. A feasibility study recommended the installation of an intelligent fence in PRASA staging yards and maintenance depots, incorporating closed circuit television (CCTV) systems with movement and vibration sensors on the fence.

Six depots across the PRASA regions have improved security at these depots. Progress is monitored on a weekly basis and an acceleration plan has been put in place to ensure the projects are completed on schedule.

Depot Walling & Fencing Progress as at 31 March 2023



General Overhaul of Metrorail and Mainline Passenger Services

Contractors on the GO programme were appointed in June 2022, with kick-off meetings taking place during August 2022. As at the end of March 2023, 33 and 88 coaches were completed through the GO programme and other ad hoc programmes, respectively. The programme is aimed to complement the delivery and roll-out of EMUs over the short to medium term.

Train set availability

The final fleet availability at year end was 79 trainsets of the old fleet, and 118 trainsets of the EMU fleet. The trend shows that the target was achieved for the year. An increase in fleet availability can be seen in the financial year under review, compared to the previous year. The increase can be attributed to the accelerated corridor recovery approach.

Presidential Corridor Projects: Mabopane and Central Line

The target for **Mabopane Service Recovery Programme** was meant to have been completed in Quarter 3, but remains at 85%.

The completion of the **Central Line Service Recovery Programme** was met. Phase 1 was completed during 2022/23 with the reinstatement of the Langa to Pinelands service line and the Langa to Bellville via Sarepta service line in Quarter 2. The extension of Langa to Nyanga was completed in March 2023, despite work stoppages by contractors due to security challenges between the end of August 2022 and November 2022. The security environment was stabilised as a result of interventions implemented by Corporate Security. Phase 2 is ready for implementation due to the dependence of the relocation of the illegal settlements on the rail reserve, as well as criminal activity that prevents contractors from carrying out their duties in line with the set timelines.

Priority Service Lines

The 2022/23 financial year saw the completion of 11 service lines (including the three of the Central Line). Train services on these lines had resumed by the end of March 2023. However, execution of technical programmes was not without challenges, and the delays related to business forum disruption affected delivery dates on certain programmes. The engagement sessions with communities through Community Liaison Officers (CLOs) in municipal wards where projects were executed have contributed to the successful implementation of projects. Due to the high unemployment rate in the country as result of the structural nature of the economy, communities are disrupting project sites where they are of the opinion that they have not been engaged. PRASA project teams have worked closely with appointed contractors to ensure that community members are incorporated into the workforce of the contractors where the skillsets allow.

Outlook for 2023/24

PRASA is targeting to recover a minimum of 10 service lines by the end of 2023. The recovery process aims to recover two service lines by Quarter 1, two service lines by Quarter 2, six service lines by Quarter 3 and a further four service lines by Quarter 4. The scope of work entails the recovery of electrical power supply system to the trains (OHTE and sub-stations), rehabilitation of the perway network and drainage system and the restoration of the signalling and telecommunication system which are required for controlling and ensuring safe movement of trains between stations. Some of the Electrical and Perway contractors have already been appointed to commence with the network recovery work.

To minimise delays and avoid disruptions, contractors as part of proactive stakeholder engagement process, have been urged to engage communities once the contracts are signed and thus find ways to incorporate community members into their workforce. The ultimate objective is to attain a win-win outcome for PRASA, contractors and community members.

PRASA Corporate Real Estate Solutions

PRASA CRES is a property management division of the group that is responsible for managing the Rail Property Portfolio efficiently and effectively, so as to enhance customer experience and support the primary mandate.

The division is responsible for stations and workplace revitalisation, improvement, and upgrade through various funded capital programmes.

PRASA CRES Capital Programs for revitalisation, improvement and upgrade of stations and work-place facilities

PRASA CRES CAPITAL PROGRAMMES

National Station Improvement	Station Modernisation	Comercialisation & Development	Workplace Improvement	Energy Management
NSIP	SMP		WIPP	EM

Key focus areas of the PRASA CRES station programme:

- **National Station Improvement Programme (NSIP):** The programme *focuses on minor upgrades* addressing overall functional aspects of the stations with the objective of enhancing the commuter experience.
- **Station Modernisation Programme (SMP)**: The programme focuses on *major upgrades of the stations* addressing structural capacity, access and retail interventions for service excellence and revenue generation.

The Station Programme has been implemented in the following manner:

- **Phase 1:** Station recovery for basic functionality to meet requirements for passenger rail service resumption.
- **Phase 2**: Station improvement to improve the general condition, look and feel of the stations for an enhanced customer experience.
- **Phase 3**: Station modernisation to create modern, state-of-the-art stations by increasing capacity, creating commercial opportunities and making stations viable destinations and public transport interchange hubs.

Recovery of Stations

A total of 223 stations were recovered for basic operational functionality between Metrorail and Mainline Passenger Services (MLPS) since 2020/21. An additional 272 stations will be restored in line with the rail corridors planned for recovery in FY 2023/24 and FY 2024/25.

The number of stations recovered through the Station Recovery Program in 2022/23 in four regions is detailed below:

Region	Improvement	Functionality	Upgrade	Total
Western Cape	8	0	0	8
Southern Gauteng	16	0	7	23
Northern Gauteng	10	14	1	25
KwaZulu-Natal	0	2	0	2
	34	16	8	58

PROGRESS WITH REMOVING OCCUPANTS ON THE CENTRAL LINE (WESTERN CAPE)

Despite the successes recorded by the division in the period under review, the year has not been short of challenges, mainly the encroachment on the rail reserves nationally. This has been a topical issue, specifically in the Western Cape, Central Line where an unprecedented influx of dwellings in the rail reserve itself has occurred.

In March 2022, an Implementation Protocol was concluded between PRASA and key stakeholders, including the DoT, Department of Human Settlements (DHS), Department of Public Works & Infrastructure (DPWI), the Western Cape Provincial Department of Human Settlements (WCDHS), Western Cape Provincial Department of Transport and Public Works (WCDTPW), City of Cape Town Municipality (CoCT) and Housing Development Agency (HDA).

The HDA, through a Service Level Agreement (SLA) with the DoT, has been appointed as an implementing agent to facilitate the relocation of occupants on the PRASA Central Line. The SLA was signed in April 2022.

PRASA's plan together with its stakeholders is to relocate all settlements (over 5,000 households) that are located within the railway reserve. The relocation process is to take place in two phases, with Phase 1 being to relocate approximately ,1254 structures located near Langa Station. The occupied railway tracks will not be functional until the settlement is relocated. Phase 2 of the relocation process will entail the relocation of approximately 3,688 informal dwellers at Philippi Station and 253 illegal dwellers at the Khayelitsha Station. These illegal settlements compromise PRASA's ability to provide a much-needed train service to critical areas such as Khayelitsha and Kapteinsklip.

To facilitate the relocation process, PRASA applied eviction orders, with the first one lapsing on 31 July 2022, and the second on 30 November 2022. The third variation of the eviction order was filed and granted by the High Court on 29 November 2022. The exercise of eviction was granted until 30 November 2023. In terms of the Prevention of Illegal Eviction Act, the court requires that suitable alternative land be provided for the relocation of the occupants.

Funding has now been sourced for Phase 1 of the relocation and the necessary town planning in terms of the bylaws is underway, with an aim to have the land and services ready by October 2023.

Implementation of phase 1 of Operation Bhekela has resulted in the resumption of partial rail services on the Langa line portion of the Central line. The next step for Operation Bhekela is to address the occupied railway reserve at Philippi. In this area, 891 structures within the PRASA railway reserve have been identified for relocation. This process will allow the railway recovery work implementation through Philippi and post Philippi.

Efforts to mitigate the challenges at Philippi included a legal opinion on whether the rail reserve is not protected by the Rail Safety Act similar to the National Roads and hence the PIE Act will not apply. The legal opinion indicated that the Rail Safety Act does not make provision for such. PRASA will approach the Minister of Transport to effect such an update in the Rail Safety Act so that the same protection of National Roads applies to the rail reserve. Further to this PRASA is in the process of drafting a Policy together with a Standard Operating Procedure to improve governance around the illegal occupation of land and rail reserve anticipated, to be approved by the BOC in Quarter 2 of 2023/24.

NATIONAL STATION IMPROVEMENT PROGRAMME

PRASA is emerging from a devasting period of destruction and vandalism of its station facilities and properties following a period of COVID-19 and hard lockdown that occurred between 2020 and 2021. Therefore, a significant number of stations were vandalised, making them unsuitable for operations. It is for this reason that PRASA CRES is in the Station Recovery Phase to support resumption plans for the rail service in all corridors.

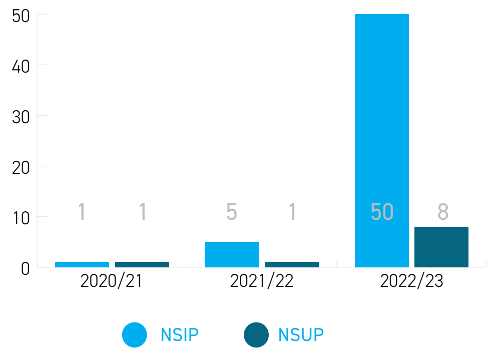
The division delivered 58 station projects during the year under review. This is a significant improvement compared to FY 2020/21 and FY 2021/22. The improvement can be attributed to an accelerated procurement strategy and execution thereof. The programme of recovering and improving stations is aligned to the PRASA programme of recovering rail corridors.

National Station Upgrade Programme

Under this programme, PRASA CRES managed to complete eight projects. The upgrade programme also supports the secondary mandate to increase revenue with a focus on development lease buy backs, co-investment in third party developments, signing development leases for land and buildings not required for operational purposes, and to commercialise vacant properties such as PRASA House in Hatfield, Pretoria. The property has been included in the ringfenced Managed Portfolio outsourced and managed by Prominent Properties, which is actively marketing the premises.

The graph below illustrates the number of projects achieved under the NSIP and NSUP programmes over a three-year period.

Number of Projects: 2020 | 21 - 2022 | 23



CLEANING AND MAINTENANCE SERVICES

Based on budgeted and procured Cleaning and Maintenance Services, daily cleaning and periodic maintenance, i.e. Level C service, was provided accordingly in all operational areas for respective regions. Due to budgetary constraints, railway corridor stations where train services have been halted or suspended could not be provided with facilities management services as these assets are not protected.

In the 2023/24 financial year, the intention is to extend facilities management services to relevant station and workplace immovable assets as closed railway corridors are re-opened.

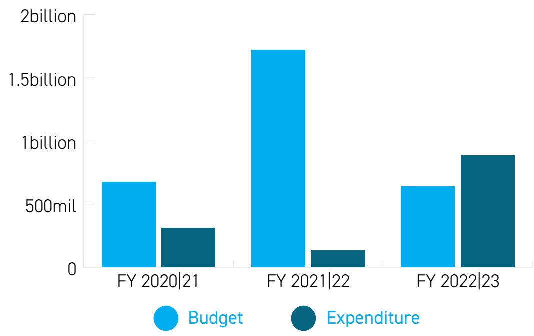
CONDITION OF STATIONS

As part of the Facilities Management value chain, a Station Condition Assessment was completed in April 2022. The report indicated that about 50% (232) of the station portfolio is in a poor condition due to vandalism and through the CRES Station improvement and upgrade programme the stations will be attended to and aligned to the rail service recovery programme. It is important to note that the facilities maintenance and cleaning programmes are mainly geared at maintaining stations that are in a good condition in super-core, core, intermediate stations, or fair-conditioned halts/small stations.

Expenditure on Capital Programmes

PRASA CRES exceeded its capital allocation expenditure by 38.2% in the period under review. This is a significant improvement compared to FY 2020/21 and 2021/2022.

PRASA CRES Capital Expenditure Trend



OUTLOOK FOR 2023/24

PRASA CRES will align the readiness of the stations with the priority corridors for the 2023/24 financial year by restoring basic functionality, modernise and rebuild 33 stations. In the priority corridors planned for service resumption in 2023/24 are 137 stations. CRES will focus on 109 stations first that require immediate attention to ensure basic functionality. Further to the rebuilding of stations, the implementation of the Co-operatives Programme remains a key deliverable. PRASA CRES aims to appoint 60 co-operatives for cleaning in the 2023/24 financial year.

To address the prevention of illegal encroachments in the rail reserve PRASA CRES will ensure the policy and procedure is in place to guide the business in managing this problematic area.

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Secondary Mandate

Property and Other Revenue Streams

The property revenue stream has been under immense pressure in all regions when compared to pre-pandemic levels. The extensive destruction of infrastructure, which resulted in a reduction in train services, has impacted the foot traffic at the stations considerably. This affects the viability and sustainability of the various shops and so affects revenue and collections negatively. Every effort is being made to retain and renew tenants. The revenue achieved against the budgeted target was -25%; however, this was an increase of 16% from the 2020/21 financial year.

The average collection rate increased from 40% at the start of the pandemic to 75% for the 2022/23 financial year. This includes any billings made to Autopax and other bus companies. Debt collectors have now been appointed for all regions to improve collections on default tenants.

The implementation of the SAP Real Estate Module is underway, which will provide Corporate Real Estate Services with the ability to improve the day-to-day management of the portfolio. The current system, Manhattan, is inadequate and outdated to provide the functions required to optimally manage the portfolio.

Advertising Portfolio

The advertising portfolio's success includes a large and dynamic property portfolio based on station types and land reserves, a large commuter base and a competitive rate card, using the following tactics:

- In-station static billboards
- In-station digital billboards
- Activations and events
- Road-side billboards

Eight media owners have been appointed to exploit approximately 476 approved advertising sites in Gauteng, KZN and the Western Cape provinces. These lease agreements will run for a period of five years.

The revenue generated during the period under review amounts to R22.3 million. Although the set target was not met, the revenue increased by R5.5 million compared to the previous financial year (2021/22).

Managed Portfolio

With the pandemic behind us and the resumption of rail services in some corridors, the managed portfolio is on the road to recovery. This is evidenced by an increase in the demand for property space, once again, under the new managing agent, Prominent Properties.

Despite the July 2021 unrest that severely affected some properties in KZN, such as the Royal Palm, where one of the key tenants (Steers) was targeted and gutted, PRASA managed to secure another national tenant through its Managing Agent, after ensuring that the property is restored when PRASA Insurance declined to honor the claim under SASRIA.

Revenue collection has now stabilised, with a 97% collection rate for all 18 properties in the portfolio's property mix of amongst others, retail, commercial, industrial, land, office and motor retail, valued at R876 million and generating more than R100 million in annual rental income.

PRICING SCHEDULE

SCHEDULE A - CURRENT PROPERTIES

No	Building	Region	Physical Address	Property Category	GLA	Annual Rentals	Property Valuation as at May 2023
1	The Bridge Shopping Centre	Gauteng	Cnr. King George & Noord Street, Joubert park, JHB.	Retail	8 688	21 539 446	64 200 000
2	Lot 421 Umgeni	KwaZulu-Natal	138 Intersite Avenue, Springfield, Durban.	Industrial	962	1 001 165	8 300 000
3	Lot 422 Umgeni	KwaZulu-Natal	134 Intersite Avenue, Springfield, Durban.	Industrial	1 391	1 781 784	14 400 000
4	17 Intersite	KwaZulu-Natal	17 Intersite Avenue, Springfield, Durban.	Industrial	13 206	11 130 396	92 400 000
5	11 Intersite	KwaZulu-Natal	11 Intersite Avenue, Springfield, Durban.	Vacant land			
6	28 Intersite	KwaZulu-Natal	28 Intersite Avenue, Springfield, Durban.	Industrial	644	1 232 654	9 200 000
7	40 Intersite	KwaZulu-Natal	40 Intersite Avenue, Springfield, Durban	Industrial	1 900	2 292 660	18 900 000
8	Dendovect	KwaZulu-Natal	90-94 Intersite Avenue, Springfield, Durban	Industrial	1 870	2 378 965	70 800 000
9	Rapiprop	KwaZulu-Natal	190 KE Masinga Road, North Beach, Durban	Motor Retail	17 869	22 433 087	155 000 000
10	Imperial	Western Cape	5 Old Marine Drive, Culemborg, Cape Town	Car Dealership	8 163	4 318 815	43 700 000
11	Detroit Plaza	Gauteng	Cnr. Pretoria Avenue & Plane Street, Kempton Park, JHB	Motor Retail	6 872	4 516 768	31 500 000
12	35 Intersite Avenue	KwaZulu-Natal	Erf 467 & 468 Springfield, Durban	Commercial	10 000	14 372 066	80 900 000
13	Eastern Blue Investment - Station Bazaar	Gauteng	43 Railway Street Germiston, JHB	Retail	9 607	18 465 085	64 000 000
14	Royal Palm	KwaZulu-Natal	2 - 6 Royal Palm Street, Springfield, Durban	Retail	893	1 843 608	23 900 000
15	Isipingo Shopping Centre	KwaZulu-Natal	Phila Ndwandwe Road, Durban	Retail	7 577	0	63 300 000
16	PRASA House Building	Gauteng	1040 Burnett Street, Hatfield, Pretoria	Office	16 457	0	134 000 000
17	Saulsville Station & Station Square Retail	Gauteng	Marievette Street, Saulsville, Pretoria	Retail	3 145	527 759	
18	Silverton Industrial Park	Gauteng	Moreletta Street, Silverton, Pretoria	Industrial	4 520	162 585	1 500 000
					134 690	107 996 843	876 000 000

The Managed Portfolio unit has taken over the management of PRASA House, Isipingo Shopping Centre, Saulsville Station Retail Centre and Silverton Industrial Park. The directive is to revitalise the properties and secure tenants or financially viable development proposals for some of these properties. Some of the successes in the current year are:

- The completion of the SASSA tenant installation project at the Saulsville Retail Square which was handed over to SASSA.
- Performance at Intersite Avenue has improved significantly with property vacancy reduced to 17% in April 2023 compared to 31% in the same period of the previous year. The reduction can be attributed to an increase in demand for space at the property.
- Refurbishments are in progress at The Bridge Shopping Centre following vandalism during the riots of July 2021. This is to ensure the retention of current tenants and to make the centre visually attractive to national retailers.
- A new tenant, Chicken Licken has been secured at the Royal Palm and the opening of the new outlet is scheduled for 1 June 2023.

Development lease buy-backs Investments and post Implementation reviews				Portfolio Annual Yield								
Development lease buy-backs	Investment made	Projected ROI based on 16-17 Budget/ Profit	Post implementation Yield	2013|14	2014|15	2015|16	2016|17	2017|18	2018|19	2019|20	2020|21	2021|22
The Bridge (SGR)	104 000 000	11%	11%	1%	17%	11%	6%	14%	15%	16%	1%	9%
Lot 421/Canon (KZNI)	8 778 000	8%	7%	1%	11%	6%	4%	9%	10%	10%	-14%	71%
Lot 422/Duratile (KZN)	12 654 000	9%	9%	1%	9%	13%	11%	9%	11%	9%	-7%	-1%
11 & 17 Intersite/Barrows (KZN)	118 389 000	7%	7%	0%	9%	9%	8%	9%	9%	8%	8%	5%
28 Interste/Barrows (KZN)	11 001 000	8%	7%	0%	9%	9%	8%	9%	9%	8%	8%	5%
40Interste/Bamous (KZN)	23 370 000	7%	7%	0%	9%	9%	8%	9%	9%	8%	8%	5%
Dendovect (KZN)	14 250 000	10%	11%	1%	20%	10%	10%	11%	10%	13%	12%	13%
Raprioroo(KZN)	150 480 000	10%	12%	0%	10%	12%	12%	11%	13%	13%	9%	9%
Detroit (SGR)	270 000 000	4%	8%	0%	3%	9%	8%	8%	10%	10%	8%	12%
Imperial (WCR)	30 780 000	8%	8%	0%	3%	9%	8%	8%	8%	10%	15%	15%
Eastern Blue (SGR)	56 000 000	16%	14%	0%	0%	0%	10%	8%	14%	12%	11%	9%
35 Intersite (KZN)	79 862 000	6%	11%	0%	0%	10%	8%	14%	12%	11%	21%	9%
225 Royal Palm (KZN)								0%	474%	92%	21%	10%
	636 564 000		Average Yield	0.3%	8.2%	7.9%	8.8%	9.3%	53.7%	18.9%	4.3%	14.1%

Development Properties

PRASA Corporate Real Estate, through Intersite, managed to co-invest 25% in the Cape Town Station Development of R1.2 billion comprising a Mixed-Use scheme made up of 7000m^2 of retail offering, and a 3200 student beds accommodation facility. Construction commenced on 1 July 2021 and has progressed to more than 61% complete. It is expected that the project will reach practical completion by October 2023.

This co-investment allocation of R351 million (VAT inclusive) is being drawn down as per the Escrow Agreement concluded over the construction period ending December 2023. To date, R170 million has been drawn, which aligns with the progress to date.

Another significant development is Goodwood Social Housing Development, which is a historic development lease signed by Intersite for Social Housing Development. The Project comprises 1,055 units split into 2 phases. The developer (DCI Community Housing NPO) has concluded the appointment of a contractor to build the first and the second phases of the development comprising 331 and 724 social housing units on the northern side of the station and the Grand West Casino, respectively. The contractor took occupation of the site on 10 October 2022 and is expected to hand over the units in November 2023. The final phase has a 7000m^2 retail component and Intersite has secured an option to co-invest in retail development.

To this end, the Division has signed 11 new development leases with minimum lease periods of 30 years for properties offered to the market through an RFP in 2019. The development proposals range between mixed use, student accommodation as well as social housing. The total third party investment is about R3 billion.

A further eight development leases offered through a Request for Proposal (RFP) in 2020 with a potential third-party investment of R2 billion and land net rentals of R23 million were evaluated and await board approval to enter 30-year lease co-investment agreements through Intersite on selected transactions, with an equity stake of up to 49.9% also considered.

The development lease buy-back for Bellstar Centre was approved in February 2023 and revenue from this transaction will accrue to PRASA as from 1 April 2023.

Commercialisation of Select PRASA Properties

Following a Request for Proposal in 2019, PRASA CRES awarded Urbane Living (Pty) Ltd the rights to lease and redevelop the Tippet Building situated at Johannesburg Park Station.

The proposal entails a conversion of the Tippet Building from offices to 189 residential units and an additional 1700m^2 of gross lettable area for ancillary uses (rooftop, storage) at an estimated capital cost of R68m (including VAT) to be developed within a period of 18 months, starting from August 2023. The scheme is expected to yield an estimated Gross Income of R18.3 million per annum from the first year of operation.

PRASA through Intersite intends to exercise its co-investment options, i.e. 49.9% undivided share (R33.4 million through Capex) in the scheme, the expected income per annum is estimated at R5.4 million over and above the land rental of R1 million per annum. The Intersite Board and the PRASA BOC approved the co-investment, and the transaction will be finalised in 2023/24.

Outlook for 2023/24

The PRASA BOC approved a land development pipeline with an investment value of approximately R3.2 billion over the MTEF. The projects will be co-funded by the private sector and through a grant allocation from Social Housing Regulatory Authority. This is in line with achieving PRASA's secondary mandate, as well as various intergovernmental socio-economic objectives.

PRASA will leverage its Information Communications and Technology (ICT) infrastructure to realise additional revenues from the leasing of PRASA's dark optic fibre as per the PRASA & Intersite Board approved mandate to commercialise PRASA's telecoms assets.

CRES and Intersite's focus on the secondary mandate will be to grow the revenue streams and opportunities by concluding development leases and identifying the development projects that lend themselves to potentially higher returns through the Intersite Special Purpose Vehicle.

INTEGRATED Annual

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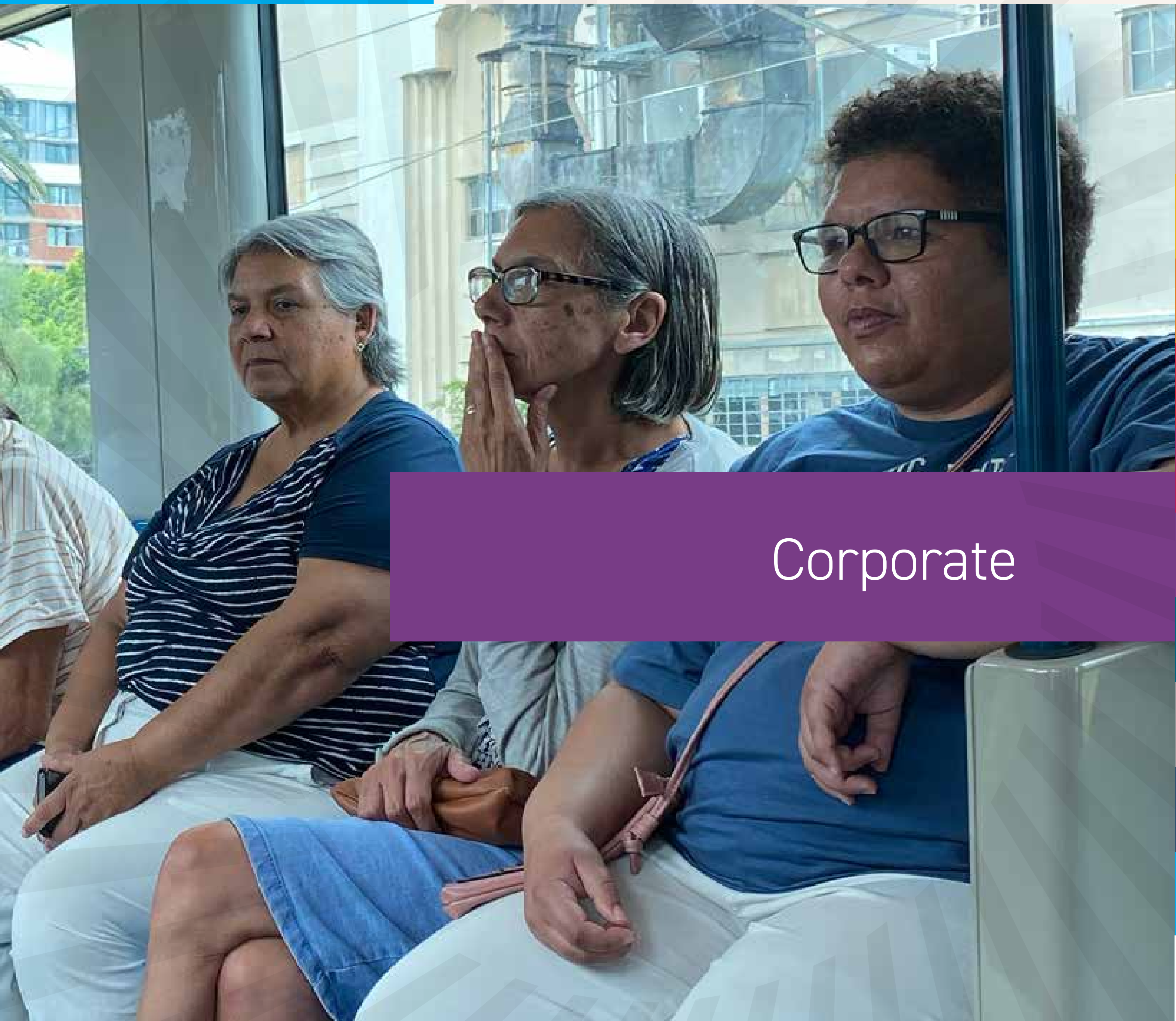
2022 | 2023



Corporate

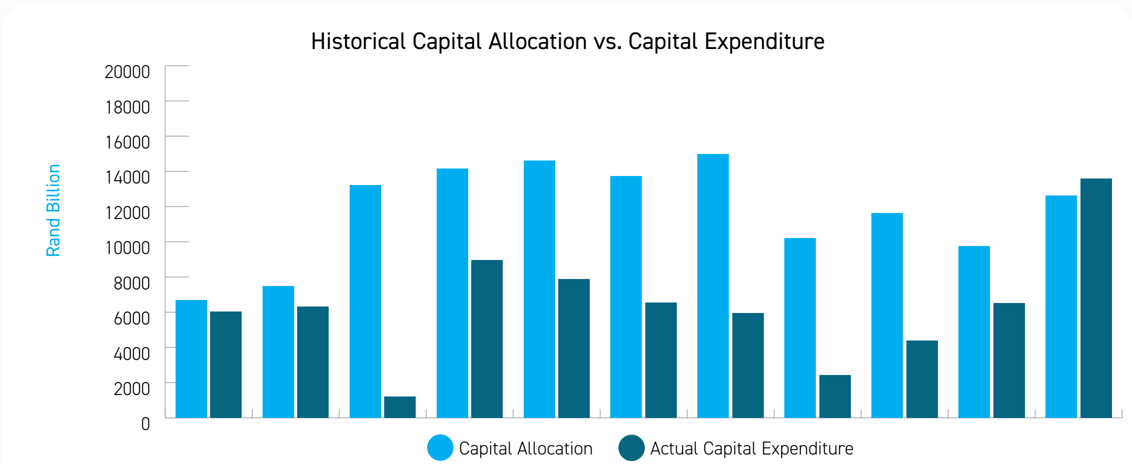
Capital Programme

OVERVIEW OF INVESTMENT FOR 2022/23

Most of the deliverables depend on funding, making funding in the coming financial year critical for the delivery of capital programmes.

CAPITAL BUDGET AND EXPENDITURE

2022-23 Capital expenditure performance is the highest in the last 10 financial years. In 2012/13 PRASA was able to spend 90% of the budget, i.e. R6.7 billion. The budget for 2022/23 was nearly double that, at R12.618 billion.



	2012|13	2013|14	2014|15	2015|16	2016|17	2017|18	2018|19	2019|20	2020|21	2021|22	2022|23
CAPITAL ALLOCATION	6 701 106	7 481 110	13 219 489	14 155 885	14 608 601	13 720 669	14 982 605	10 209 621	11 619 981	9 746 209	12 618 474
ACTUAL CAPITAL EXPENDITURE	6 041 588	6 328 848	12 019 040	8 969 945	7 871 169	6 542 438	5 951 348	2 414 202	4 380 911	6 516 945	13 582 168

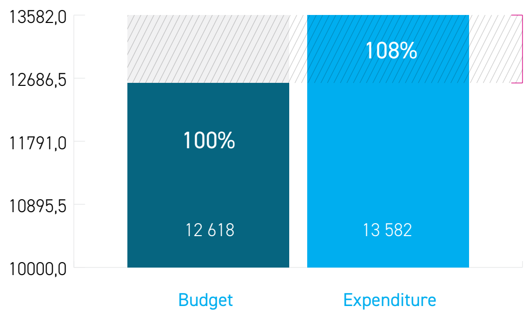
The total Capex Allocation by the DoT to PRASA for the financial year 2022/23 was R12.618 billion.

The allocated budget is used largely to invest in two categories: Ringfenced projects and Other Capital Programmes.

- The **Ringfenced budget** is spread according to different categories namely: RSFRP, Signaling and Telecommunications Programme (re-signalling), General Overhaul of Metrorail Coaches, Refurbishment of Mainline Passenger Services Coaches and Other Capital Programmes.
- **Other Capital Programmes budget** category covers programmes that span across the entire PRASA. These programmes include infrastructure recovery, infrastructure upgrades, facilities, station upgrade and modernisation, fencing and depot modernisation and asset protection, fleet replacement and all ICT related projects.

In addition to the above focus areas, PRASA utilises the allocated funding for job creation through its suppliers and contractors with specific focus on the youth, women and people with a disability.

Expenditure vs Budget (FY 2022 | 23)



At the end of FY 2022/23, PRASA recorded total expenditure of R13.5 billion, which is 108% of the R12.618 billion. The top five programmes that contributed to this performance are:

- RSFRP (R8.2 billion)
- Corridor Rebuild (R1.8 billion)
- General Overhaul (R0.532 billion)
- Signaling and Telecommunications (R0.625 billion)
- Information and Communications Technology Systems (R0.437 billion).

Rolling stock is one of the focus areas of the PRASA current rail system to ensure the sustainability of the operations during the period of modernisation, whilst also revitalising the infrastructure.

The Capital Programme actual expenditure and performance against the allocation from the shareholder are shown in the table below.

Year end expenditure against capital allocation

	2022/23		
Capital Programme	Allocation	Expenditure	% Variance
	(R'000)	(R'000)	
RSFRP* (specific and exclusive)	6 801 794	8 175 036	20%
Signaling and Telecommunications	935 846	624 897	-33%
General Overhaul of Metrorail Coaches*	1 400 589	515 688	-63%
Refurbishment of Shosholoza Meyl Coaches	78 974	17 000	-78%
Other	3 401 271	4 249 548	25%
Total Budget	**12 618 474**	**13 582 168**	**8%**

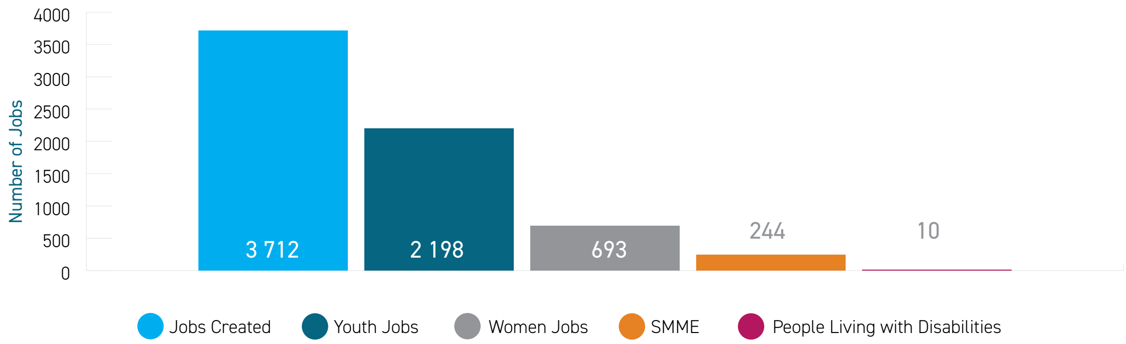
JOB CREATION AND SKILLS DEVELOPMENT

The mega projects undertaken by PRASA are expected to create approximately 1,500 direct and 8,000 indirect jobs over a 10-year period. PRASA has utilised its capital programme as a platform to create jobs through suppliers and contractors as per the government mandate. The priorities in terms of job creation are youth, females and people living with a disability. As at the end of Quarter 4,3712 jobs that were created (2,198 youth, 693 women, 244 SMMEs and 10 people living with a disability). The majority of the jobs (1,130) came from the RSFRP (Gibela Contract).

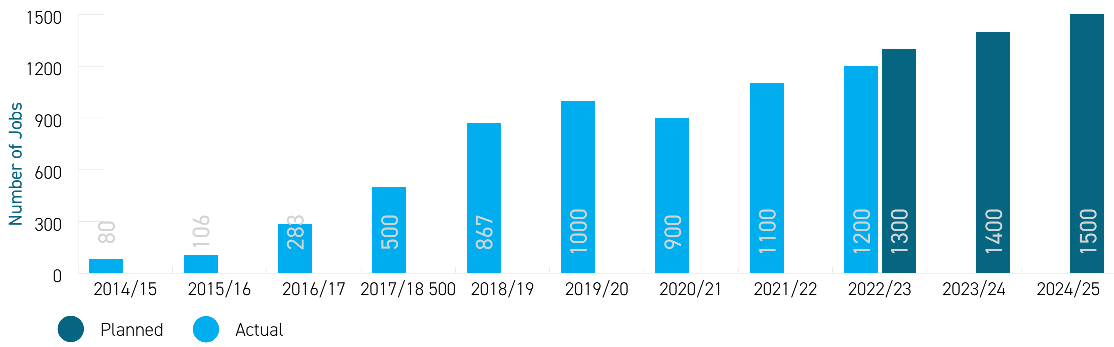
The jobs created are not accumulative they fluctuate according to the projects that are in the implementation stage. For the period under review, jobs were created by the following six programmes:

- KZN Recovery Programme
- Mabopane Line Recovery and Central Line
- Central Line Recovery
- Capital Intervention Programme
- Depot Modernisation – High-tech Fencing and Security
- General Overhaul of Metrorail Coaches

Job Stats End March 2023



Gibela Jobs Created - Headcount



OUTLOOK FOR INVESTMENT 2023/24

PRASA has been allocated a Capex Budget of R12.9 billion for FY 2023/24, which is slightly higher than the 2022/23 allocation of R12.6 billion. The capital projects in execution for FY 2023/24 amount to approximately R17 billion, with the project duration varying from 1 month to 60 months. Execution of some of these projects will extend into FY 2024/25 and FY 2025/26.

A number of projects are planned for the ensuing financial year (699 in total), categorized, as indicated in the table below.

Division/Business Unit	Number of Projects	%
PRASA Technical	253	36%
PRASA CRES	379	54%
Strategic Asset Development	16	2.28%
Security	6	0.85%
Information and Communication Technology	40	5.72%
Autopax	4	0.57%
Fleet Management	1	0.14%

To minimise the challenges experienced in the performance of capital projects, the following action will be implemented on a continuous basis:

- Clustering of programmes into corridors for purposes of segregation of responsibility and for ease of prioritisation and focus.
- The Projects Online tool will be implemented to ensure standardisation in project management and reporting.
- Actions in execution:
- Programme Managers to oversee corridors appointed and allocated additional Project Managers for the close monitoring of the projects.
- A Rebuilding Programme Unit has been established to ensure integration, sequencing and seamless delivery.
- To accelerate project implementation, various SCM Improvements have been realised. These include the appointment of procurement committees, review of the RFQ threshold to R5 million, off-site bid evaluation committees have been set up on high-value and critical projects, and an Engineering, Procurement and Construction Management (EPCM) service provider has been appointed to augment PRASA's capacity and accelerate the delivery of mega projects.
- Stakeholder management will continue to play a vital role in the planning and execution of priority corridors and capital programmes to mitigate community unrest and land invasion.
- To further capacitate PRASA in resourcing the capital programme, Transnet has been engaged to provide interventions in different areas of work, such as Technical Support, Condition Assessment, Rehabilitation and Network Maintenance.

Overview of Mega Projects

ROLLING STOCK FLEET RENEWAL PROGRAMME

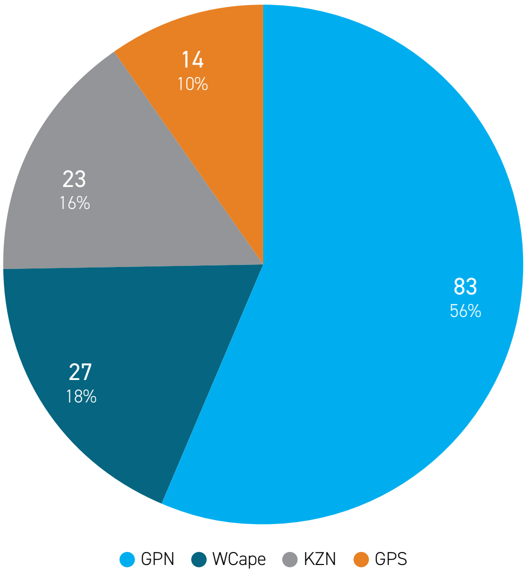
The RSFRP continues its delivery and a record of 57 train sets were delivered for 2022/23 bringing the total number of new EMUs to 148 by the end of March 2023. The fleet is allocated to various regions for operations. The delivery schedules should ideally be supported by an equally effective maintenance and storage regime for PRASA and its publics to realise the overall positive impact of this programme.

The graph below depicts the rate of delivery of EMU sets from Gibela for FY2022/23.

Once the 148 new trains are delivered, they will be allocated to the regions as follows:

- Gauteng = 65% (97 sets)
- Western Cape = 18% (28 sets)
- KwaZulu-Natal = 16% (23 sets)

New Gibela Train Allocation for FY 2022 | 23



RE-SIGNALLING PROGRAMME

Over the past eight years, PRASA has embarked on the modernisation of the signalling system to address the issues of reliability and safety attributed to equipment obsolescence.

Gauteng Region, which was at about 98% re-signalled has over the past six years experienced theft and vandalism of the new signalling system. Western Cape Region was at about 70% re-signalled and has over the past four years experienced theft and vandalism of the new signalling system. KZN had its contract terminated with only 20% re-signalled. The region has also experienced theft over the past four years.

The table below Illustrates the current corridor availability of the signalling system in key priority corridors.

	NETWORK AVAILABILITY
SERVICE LINES	SIGNALS
Mabopane – Pretoria	80%
De Wildt – Pretoria	80%
Pienaarspoort – Pretoria	0%
Saulsville – Pretoria	40%
Cape Town – Simonstown (Wynberg)	53.3%
Cape Town – Retreat (Athlone)	53.3%
Naledi – Johannesburg	25%
Leralla – Johannesburg	0%
Durban – Umlazi	61%
Durban – KwaMashu (Bridge City)	14%
Pretoria – Centurion	0%
Centurion – Johannesburg	0%
Cape Town – Bellville (Sarepta)	0%
Cape Town – Khayelitsha (Chris Hani)	30%
Cape Town – Kapteinsklip	0%
Daveyton – Dunswart – Germiston	0%
Vereeniging – George Goch via Midway	0%
Kwesine – Germiston	0%
Kelso (Winklespruit) – Durban	50%
Cape Town – Bellville (Goodwood)	30%
Cape Town – Eerste Rivier – Strand	0%
Crossmoor – Durban	30%
Springs – Germiston	0%
Randfontein – Johannesburg	0%
De Wildt – Hercules – Belle Ombre	0%
Pinetown – Durban	35%
Eerste Rivier – Muldersvlei	50%
Mabopane – Pienaarspoort (via Capital Park)	50%
New Canada – Houtheuwel	0%

80% – 100% ● 50% – 79% ● 0% – 49% ●

The recent condition assessment done on both the signalling and telecom system equipment clearly indicates the impact that vandalism has on system availability across all regions. The current status necessitates an accelerated approach to the recovery of signals, as well as a future-focused view of signalling systems.

To this end, the second contract for re-signalling in the Gauteng region is set to end in early 2022/23, whilst the contract for re-signalling in Western Cape closed with the de-scoping of the Central Line installations as a result of the illegal settlements on the line and their safety implications. However, procurement has begun for the completion of signalling work on this corridor (covering three rail lines) and a decision is expected by March 2023.

Several signalling projects are in the pipeline:

- KZN PRASA train control system design and construction
- Gauteng and Western Cape optical transmission network design and construction
- National GSM-R redundancy network design and construction
- National electronic authorisation system design and construction
- Gauteng and Western Cape PRASA train control system design and construction
- National GSM-R operational portable handheld radios supply and maintenance

The specifications for these tenders require strong local economic development targets and stringent performance management regimes, including self-assessment mechanisms and penalties.

An estimated 1,000 new jobs are expected to be created across the signalling and telecommunications programme over the lifespan of the projects.

PRASAs efforts will benefit the industry through:

- Job creation.
- The implementation of leading, world-class technology adapted to local requirements.
- The development and training of local resources on world-class systems and operations, thereby increasing local skills capacity.
- Financial stimulus to localised small, medium and micro enterprises and communities.
- The export of knowledge and equipment to other countries, especially on the rest of the continent.

GAUTENG SIGNAL RE-INSTATEMENT PROGRAMME

<table>
<tr><th></th><th colspan="4">2023 | 24</th><th colspan="4">2024 | 25</th><th colspan="4">2025 | 26</th></tr>
<tr><th></th><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th></tr>
<tr><td>Saulsville - Pretoria (will cover Mabopane - Pretoria)</td><td></td><td></td><td>●</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Pienaarspoort - Pretoria (Capital Park - Belle Ombre)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>●</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Pretoria - Kaalfontein</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>●</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Leralla - Pretoria</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>●</td><td>●</td><td></td><td></td><td></td></tr>
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WESTERN CAPE SIGNAL RE-INSTATEMENT PROGRAMME

	2023 | 24				2024 | 25				2025 | 26			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Cape Town - Simons Town (Wynberg)			●									
Cape Town - Deep River (Athlone)				●								
Cape Town - Belville (Mutual)					●							
Bellville - Eerste River - Strand (Mulderslei)						●						
Cape Town - Belville (Sarepta)							●					
Cape Town - ChrisHani (Kapteinskip)							●					

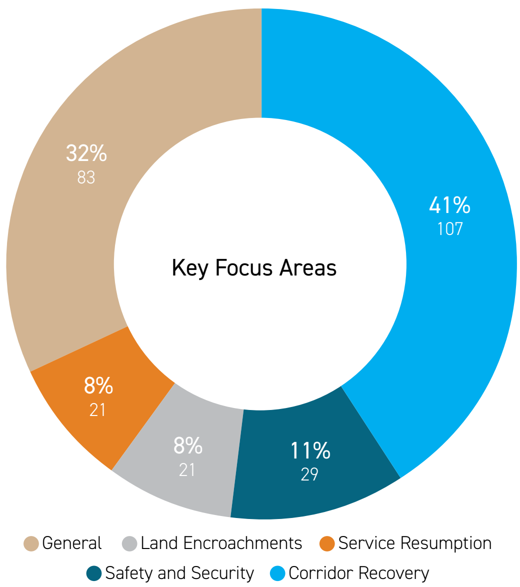
KWAZULU-NATAL SIGNAL RE-INSTATEMENT PROGRAMME

	2023 | 24				2024 | 25				2025 | 26			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Durban - Umlazi			●									
Durban (KwaMashu)				●								
Reunion (Kelso)						●						
Durban (Pinetown)					●	●						

Stakeholder Management

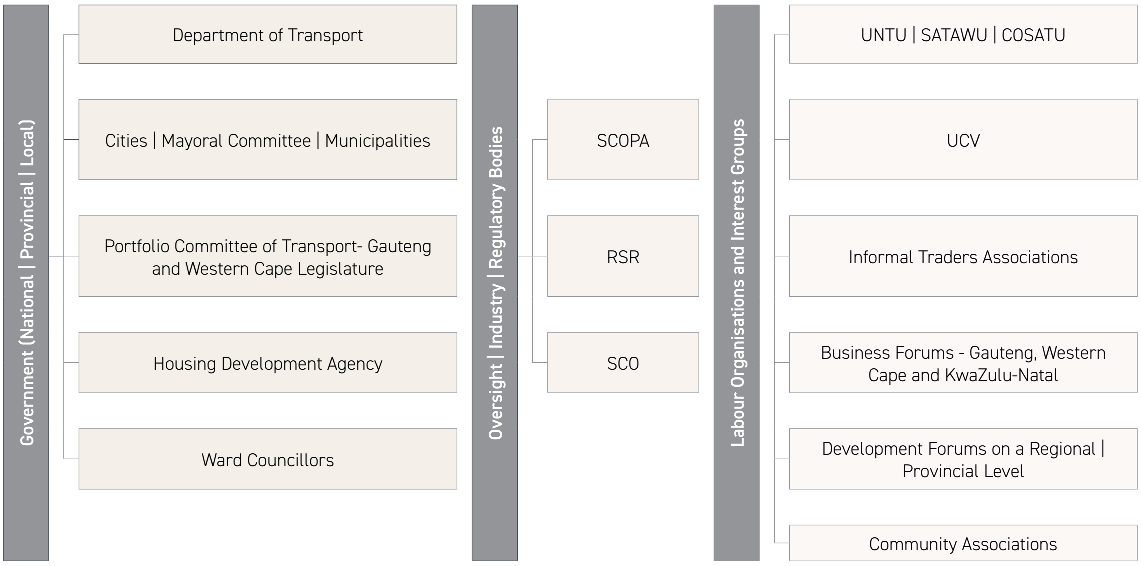
With key priority corridors identified, and with the aim of supporting and creating awareness of PRASA's Rebuild Programme, the stakeholder management efforts were focused on:

- corridor/line recovery initiatives
- service resumption
- land encroachments
- safety and security
- general issues

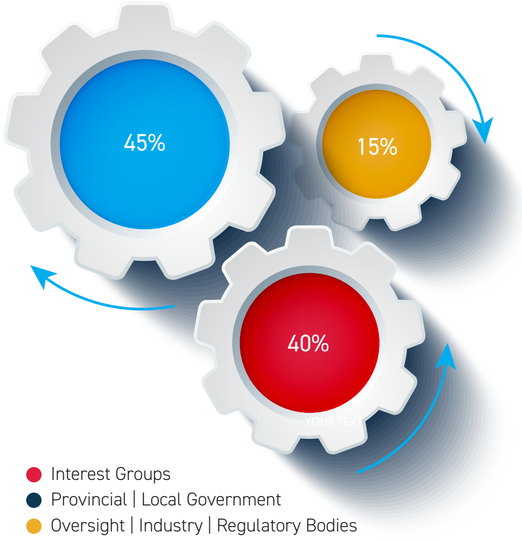


Stakeholder Landscape

PRASA's stakeholder landscape comprised predominantly of stakeholder groups such as government, oversight bodies, industry/regulatory bodies, labour organisations and interest groups, as detailed below.



The figure below shows the stakeholders that PRASA communicated with most frequently.



STAKEHOLDER RELATIONSHIP TOUCHPOINTS

The stakeholder management function conducted an average of 261 engagements/touch-points pertaining to the key focus areas identified, in the context of:

- Keeping the shareholder, oversight bodies, and other key stakeholders informed of PRASA developments that affect commuters and customers.
- Creating awareness, understanding, support and buy-in from key stakeholders regarding PRASA's efforts/initiatives.
- Initiating partnerships that will improve the conditions of and empower PRASA communities/ beneficiaries.

	Touch-points:				
Key Focus Areas:	Q1	Q2	Q3	Q4	Discussion Scope:
107 Corridor Recovery engagements/touchpoints:	16	36	24	31	• PRASA Rebuild Programme. • Work packages and community/local business economic opportunities. • Project scope and timelines. • Stoppage of projects due to the perception of exclusion of communities from economic/job opportunities. • Project hijacking/demands from construction mafia. • PRASA's slow recovery of corridors and delivery of train services.
29 Theft and Vandalism engagements/touchpoints:	7	5	10	7	• Security Deployment at Stations and Project Sites.
21 Land Encroachments engagements/touchpoints:	6	9	3	3	• Identification of land for the relocation of informal settlements encroaching on PRASA's railway lines.
21 Resumption of Services engagements/touchpoints:	3	8	7	3	• PRASA's slow recovery of corridors and delivery of train services. • Service resumption and timelines for priority corridors/key lines. • Increase in train services. • PRASA's fare increases.
83 General engagements/ touchpoints:	16	29	23	15	• Informal Traders Policy. • PRASA's fare increase. • Joint safety campaigns.

STAKEHOLDER MANAGEMENT EMERGING RISKS

Through the various robust stakeholder engagements/touch-points, there were three prevalent key risks that emerged, as detailed below.

1 Erosion of faith and trust amongst stakeholders

Due to:

- PRASA's slow recovery of Corridors and delivery of train services.
- Poor state of PRASA's service provision/ non- delivery on our mandate.
- Rigid application of procurement processesat the exclusion of other stakeholders.

2 Threats of work stoppages

Due to:

- The exclusion of communities from job/ business opportunities
- Project Hijacking/ demands from construction mafia
- Non-payment of contractors/suppliers including community workers

3 Threat to the safety and security of PRASA Projects/Stakeholder colleagues

Due to:

- The lack of understanding
- Buy-in and adoption of stakeholder management protocols
- Perception of exclusion of stakeholders from economic opportunities

Outlook 2022/23

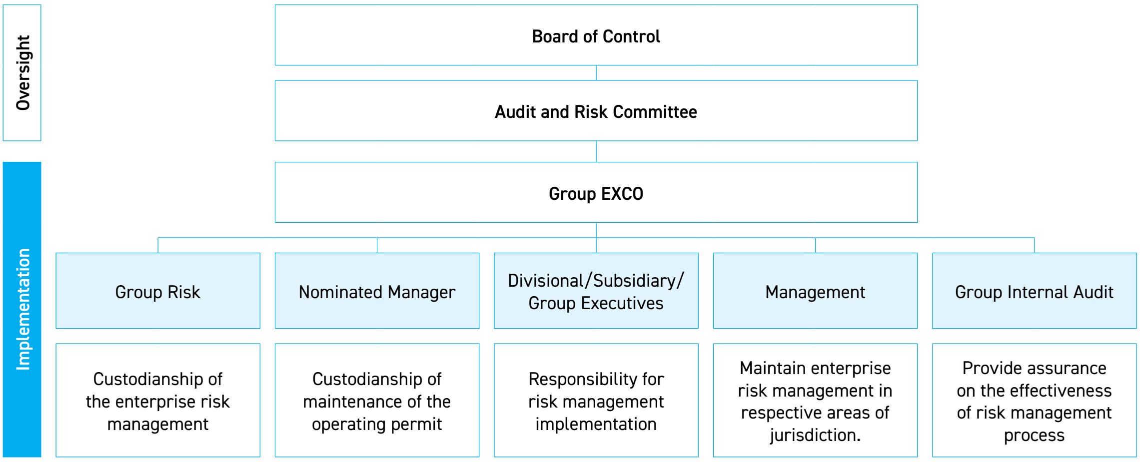
Stakeholder Management efforts will be focused on the following key areas:

- Facilitate the adoption of a Stakeholder Management Internal Protocol/Process flow for integrating Stakeholder Management Initiatives regarding the Rebuild Programme.
- Finalise the Informal Traders Policy Commuters Survey and the revision and re-submission, adoption and roll-out of the Informal Traders Policy and SOP.
- Facilitate/support United Commuter Voice in establishing an inclusive, representative commuter organisation nationally.
- Foster alignment with and encourage support for PRASA's Rebuild Programme projects with relevant local government departments, municipalities, state-owned enterprises, and rail industry bodies.
- Establish partnerships with local municipalities to improve conditions for communities and empower community beneficiaries through initiatives linked to PRASA's Rebuild Programme.

Risk Management

PRASA has adopted an integrated enterprise-wide approach requiring that all risks and opportunities that could affect the organisation in achieving its objectives are considered in a structured and systematic risk management process that aligns strategy, risk and performance. In this regard, the implementation of enterprise risk management (ERM) at PRASA is based on ISO 31000:2018, Risk Management: Guidelines, which was issued by the International Organisation for Standardisation, and the King IV Report on Governance for South Africa 2016, issued by the Institute of Directors in Southern Africa. Pursuant to its responsibility on the governance of risk, the BOC has approved a PRASA Risk Policy and ERM Framework.

The governance structures depicted below are maintained at the organisation.



Pursuant to the PRASA Risk Policy and ERM Framework, management has developed, and the BOC has approved a Risk Management Strategy for implementation by management.

Enterprise risk management objectives

The ERM objectives at PRASA are contained in the risk policy and ERM framework. They are:

- To inculcate an appropriate risk culture to support decision making at PRASA.
- To optimise PRASA's risk management efforts.
- To ensure that the risk management arrangements are based on generally accepted risk management practices that enhance value for all stakeholders including the regulatory bodies.
- To ensure that there is consistent application of risk management methodologies and practices throughout PRASA.
- To ensure achievement of continual improvement in ERM.

Enterprise risks and mitigation measures

During the period under review, the enterprise/key risks facing PRASA that were identified and the mitigation measures that were put in place to manage these were as follows:

Risk Description	Mitigation Measure	Status of Implementation
Financial sustainability and working capital constraints	• Finalise the funding model. • Address revenue leakages. • Implement cost containment and revenue enhancement initiatives.	• Engagements on Opex funding requirements are ongoing with NT through the DoT. • The debt owed to Transnet was settled on 31 March 2023, with a significant focus on managing the debt situation going forward
Loss or suspension of the operating permit	• Maintain an integrated safety management system (SMS). • Address the state of infrastructure. • Maintain effective security plan.	• An integrated SMS is in place. • RSR has issued PRASA with a 19-month operating permit.
Skills and capacity to deliver on the mandate	• Finalise and implement operating model. • Undertake skills audit and address the skills gap. • Outsource to other SOEs and third-party service providers.	• An EPCM contractor has been appointed for a period of three years. • Fixed term contract workers have been appointed in key areas. • PRASA continues to engage Transnet (RNC) to create capacity in the recovery of the corridors.
Encroachment into the rail infrastructure and rail reserves.	• Implement and maintain responsive stakeholder management plan.	• The resettlement of illegal occupants along parts of the Central Line, following favourable court ruling has experienced various challenges and, in that respect, the risk of not achieving the removal by 1 November 2022 has materialised. An extension has been sought and granted to November 2023. • An interim solution, code-named Operation Bhekela, is being implemented to allow for the recovery of some parts of the Central Line corridor.

Risk Description	Mitigation Measure	Status of Implementation
Theft, vandalism and destruction of the infrastructure	• Implementing effective security plan • Rehabilitation and modernisation of the infrastructure • Walling project implementation.	• Physical security deployments and interventions through third-party service providers on the Presidential and 16 Priority Corridors has been concluded. • The walling project, as approved by the BOC, is being implemented in high-risk corridors.
Non-compliance with the prescripts of the PFMA and NT Regulations	• Maintain an effective compliance management programme.	• A compliance management programme is in place. • Group Compliance maintains and monitors a regulatory (Compliance and Policy) dashboard. The dashboard indicates non-compliance with some key legislations including the PFMA.
Litigation	• Implement focused legal strategy to address contingent liabilities and related matters.	• PRASA litigation strategy is informed by individual cases and circumstances, and each case is subjected to the assessment of the prospects of success prior to a decision to defend or not.
Ineffective asset management	• Finalise the physical asset verification exercise per station and update the asset register. • Implement and embed the asset management life-cycle principles. • Assign accountability and responsibility for asset management at appropriate levels. • Implement an appropriate asset management system.	• An Asset Management Policy, based on asset management lifecycle has been approved and is being implemented. • Physical asset verification process with the assistance of a third-party service provider has been implemented. • An Asset Management Plan has been developed and its implementation is monitored through the PRASA Audit Task Team, which meets every two weeks and reports to the Audit and Risk Committee (ARC) monthly.
Going concern status of Autopax	• Approve and implement Autopax short-term strategy. • Develop and implement a medium to long-term strategy for Autopax. • Effectively implement recommendations from the Industry Expert appointed to advise the Minister on the future business model of Autopax.	• Autopax has been placed in business rescue and the process of funding has yet to be finalised.
Adverse impact of COVID-19	• Developed and implemented the service resumption plan. • Established a COVID Task Team and Steering Committee to monitor and manage COVID related issues.	• Plans to mitigate the impact of COVID-19 were implemented and monitored on an ongoing basis throughout the business and at COVID Steering Committee.
Fraud and corruption	• Effectively implement the Fraud and Corruption Prevention Plan • Maintain anonymous fraud and corruption reporting whistleblowing mechanism and awareness thereon. • Strengthen investigative capacity at the organisation and the ability to respond decisively to incidents of fraud, corruption and malfeasance.	• PRASA has concluded another Secondment Agreement with the Special Investigating Unit (SIU). • Fraud risk register is in place. • PRASA maintained an anonymous whistle-blowing hotline and incidents of alleged theft, fraud, corruption, unethical behaviour, and misconduct as reported through the hotline are investigated by Corporate Security.
Reputational risk	• Implement effective stakeholder management plan. • Restore governance. • Improve organisational performance. • Implement sustained PRASA branding campaigns.	• A Communications, Media and Marketing Strategy that responds to the challenges that PRASA faces, has been developed, and is being subjected to due governance approval. • The focus from Stakeholder Management is to support projects on corridor recovery and addressing encroachments on rail reserves and PRASA network and infrastructure. A Stakeholder Management Framework is being finalised.
Inadequate risk culture	• Re-establish and capacitate risk management at PRASA. • Maintain and implement appropriate risk management policies. • Strengthen advocacy and support on risk management value proposition throughout the organisation. • Training and awareness to key internal stakeholders.	• A three-year risk strategy was approved by the BOC and is being implemented.

Risk Description	Mitigation Measure	Status of Implementation
Insufficient portfolio, programme and project management capacity and capability to deliver on the Modernisation Programme.	• Capacitate the Enterprise Project Management Office (EPMO). • Develop framework for Compliance with Framework for Infrastructure Delivery and Procurement Management (FIDPM). • Appoint a Panel of Project and Engineering management resources to support PRASA with the roll-out of the Capital Programme, transferring project management skills and creating a catalogue of critical projects for acceleration. • Appoint a panel of professional service providers [panel of experts] for the resources and capacity / capabilities required.	• A War Room to drive the Corridor Recovery Programme has been established. • Capacitation of the War Room and the Corridor Recovery Programme, in accordance with its approved Framework is constantly reviewed and acted upon. • An EPCM contractor has been appointed.
Ineffective operating model	• Revise operating model - structure, roles and responsibilities, strategic alignment.	• The Board of Control has approved the proposed Operating Model. • A reviewed high-level Organisational Structure, which is based on the Operating Model and comments by the University of Stellenbosch, has been developed for final approval and implementation.

Planned future focus areas and emerging risks

PRASA is implementing a rigorous recovery and rebuild programme on various corridors that have been vandalised in accordance with the Shareholder Compact with the Minister of Transport. A War Room has been established to manage this corridor recovery programme. The intimate management of the contractors, who have been appointed in various corridors and project disciplines, has highlighted the capacity and capability challenges amongst the contractors and the industry at large to manage and execute at the scale and complexity of this recovery programme. The Corridor Recovery team has instituted weekly meetings with the contractors which serve as a platform to timely intervene and assist contractors where possible including with the engagements with suppliers.

The heightened prominence of the business forums and community socio-economic issues continue to have adverse impact on the implementation of the recovery programmes.

In some instances, Eskom has delayed providing the points of distribution (PODs) for various reasons. PODs in the most parts of the next corridors to be recovered, especially in Gauteng, have been vandalised. Given the experience with Eskom and the number of PODs to be provided, PRASA is likely to encounter delays in the recovery of these corridors. The Corridor Rebuild team is cognisant of this issue and continue to engage Eskom to provide its schedule and align the same to PRASA's one.

Operational Safety

The development and effective implementation of the risk-based SMS by PRASA is critical for the improvement of PRASA's operational safety and security performance. The SMS provides a framework for employees, supervisors, managers at every level, passengers, other interfacing operators and contractors to follow the chosen PRASA pathway to building a 'safety culture' and mindset across the organisation. The 10 key elements of the SMS focus on:

- Structures, policies, procedures
- Human factors management
- Contractor management
- Safety standards for engineering and operational systems
- Safety interface management
- Audits and compliance assessment
- Risk management
- Preventative action
- Occurrence management
- Corrective action.

PRASA has allocated time and resources to ensure that employees, including supervisors and managers at all levels at PRASA, are trained on all aspects of the SMS, and that they have a thorough understanding of their roles and responsibilities as far as safety is concerned.

Rail Safety Permit

RSR has issued PRASA with a Safety Permit that will expire on 31 August 2025. This permit places a huge responsibility on PRASA Leadership to ensure that the organisation maintains an effective SMS and the Annual Safety Improvement Plan (ASIP). The PRASA leadership has adopted a zero-tolerance stance on all safety and security occurrences and is placing an emphasis on safety performance improvement that is monitored through the different governance structures at the depot, regional, divisional, corporate and board levels. The PRASA board has committed to ensuring a year-on-year reduction in safety and security occurrences and has resolved to hold Executives accountable for safety performance. The performance contracts of the GCEO and the Group EXCO members include Safety Performance as one of the key performance indicators.

Outlook for 2023/24

The assumption made in setting the 2023/24 safety targets, is that the train kilometres figure will gradually increase to a level closer to the 2019/20 financial year, as more operational lines are recovered and added to expand the train service. This increase in service is associated with the potential increase in the number of safety occurrences. PRASA is committed to the risk mitigating interventions that will keep our safety occurrences as low as reasonably possible.

PRASA's leadership team is committed to ensuring continuous improvement in safety performance through FY 2023/24 by, for example:

- Ensuring a learning organisation through standardised safety communication, norms and learning.
- Ensuring continuous improvement and maturity in the safety/security health environment and monitoring and control of quality risks.
- Ensuring employee participation, involvement, passion, excitement and ownership of PRASA's safety culture.

The PRASA GCEO has launched the *Asiphephe* (Let us be Safe) Safety Campaign for the 2023/24 financial year as PRASA`s commitment to improve safety performance and management in line with the legal and regulatory requirements to ensure the safety and security of the employees, passengers, contractors, communities around our operations and PRASA assets for FY 2023/24 and beyond.

Security

PRASA views its security function as a critical enabler for service recovery. There is a great need to equip and resource the function to respond to the operational security challenges and threats. In this regard, the security strategy is focused on the following interventions:

- phased in approach to security deployment
- technology
- collaboration with the security cluster and communities
- commuter protection
- skills development.

Progress on Security Strategy

SECURITY DEPLOYMENT

PRASA Security achieved the deployment of phase 1 in June 2022 with a total deployment of 1590 security officers for Gauteng, Eastern Cape and KZN. Phase 2 deployment was achieved in August 2022 with a total deployment of 1,273 security officers for Gauteng and KZN.

Implementation of phase 3 was achieved in May 2023, with the security complement totalling 1,455. Contracts for phases 1-2 have since been extended and will terminate at the end of September 2023, with security contracts approved for phase 3. An open tender process commenced at the beginning of July 2023 to replace the long-term security contracts that will end on 30 September 2023. The necessary contingency plans are being put in place to ensure the finalisation of the process before 30 September 2023.

In addition to the phased deployment, two Presidential projects for Mabopane and Central Line that dealt with evictions, relocation and clean-up operations in the operational tunnel were implemented:

- The Mabopane Presidential project has been concluded resulting in successful recovery of service from Mabopane to Pretoria and Ga-Rankuwa to Winternest Test Corridor. The security interventions assisted PRASA to obtain its license to operate the corridor.
- The Central Line presidential project is still in process and phase 1 a-b of the corridor being successfully completed from Langa via Sarepta to Bellville and 1c from Nyanga to Langa has also been completed. Phase 2a is in process subject to the finalisation of a variation that has been submitted.

SECURITY TECHNOLOGY

PRASA Security is in the process of finalising its security technology specification that will address early warning and defensive security technologies for mission-critical assets (sub-stations, relay rooms and high sites) and critical facilities such as warehouses. The department envisage making a submission for BSC by mid-August 2023 with the aim to embark on an open tender process by the end of August 2023.

In addition to the E-Security project, the department is also engaged in discussion with ARMSCOR to assist in the procurement of service providers for the following:

- Firearms, ammunition, maintenance of firearms as well as training.
- C4iSTAR solution inclusive of armoured response vehicles, armoured command and control vehicles, and armoured forward bases. The C projects with its value chain propositions are aimed at ensuring intelligence-driven security operations and ensuring that security is in the proximity of the assets that must be protected.

COLLABORATION WITH THE SECURITY CLUSTER

The collaboration with Security Cluster is ongoing and PRASA Security is engaged in various security operations with the various stakeholders. These operations are essential in ensuring that PRASA Security harness additional security capacity by engaging in joint operations with law enforcement.

COMMUNITY ALIGNMENT & INITIATIVES

PRASA Security ensures community alignment in the implementation of all security-related programmes. These initiatives include the support of local businesses and the employment of members from the local communities.

PRASA has in this regard and through various security programmes ensured the direct employment of 6,477 through the phased deployment for phases 1-2 and 3.

An additional 1354 jobs for security officers and 350 jobs for labourers were created on the Central Presidential project.

COMMUTER PROTECTION

The implementation of phases 1 and 2 during the 2022/23 financial year greatly assisted PRASA Security in responding to operational security requirements and ensuring a positive outcome on crime combatting interventions. In this regard, PRASA Security achieved a 75% reduction in crime for the 2022/23 financial year.

SKILLS DEVELOPMENT

PRASA Security conducted functional training to ensure operational compliance for PSIRA and Certificate of Competency (COC) for the carrying of firearms. The training conducted for the review period ensured compliance with the PSIRA and Firearms Control Act, Act 60 of 2000.

The department included training as part of its drive of modernising security in all the projects that are being implemented to ensure the upskilling of staff to match the implementation of new projects and ensure operational readiness for the handing over of projects to PRASA. Other critical support departments such as ICT and Telecoms have also been included in the training programme for the technology projects.

The department will also embark on change management programmes for all security projects to ensure that staff are conscientised on the benefits that the programmes have for security efficacy including provision of a safe work environment for security personnel.

Human Capital Management

Key achievements through creating capacity to execute Human Capital Management:

- Finalisation of the National Skills Audit contract and the project commenced in December 2022 with the identification of an existing set of skills and knowledge required in the organisation.
- Approval of the Talent Management Strategy by the Group Executive Committee (GEXCO).
- The contract for providing security background checks and Executive Search services was concluded for 12 months, starting in January 2023.
- The Job Profiling and Grading Project Plan was presented to the GEXCO and all job profiles for GEXCO positions, General Managers reporting directly to GCEO positions were drafted and four job profiling committees (JPC) were established and are functional.
- A total of 5,438 employees received training in various skills during FY 2022/23. The focus was on compliance-related training to ensure that the PRASA operating license processes are complied with and ensuring compliance with other legislation.
- The re-accreditation process of various training centres in the Western Cape, KZN and Gauteng regions commenced and all processes as per Transport Education Training Authority (TETA) requirements were addressed and submitted to TETA. The training facilities will ensure that PRASA is capacitated to train employees in critical skills.

Employee Wellness and Health

The focus of the Employee Wellness Programme (EWP) was firstly on Human Capital Management Governance and Compliance Improvement, with the following achievements being recorded:

- The Incapacity Policy was reviewed, revised, approved and published.
- The Hybrid Work Policy was developed, approved and implemented.
- The Risk Pool, Application of Sick Leave, EWP Formal Referral, EWP Informal Referral and EWP Rehabilitation Standard Operating Procedures (SOPs) were developed, approved and published.
- The Integrated Health and Wellness and Substance Abuse Policies were reviewed, revised and are awaiting approval.
- The Filling of Risk Pool Vacancies Process was developed, approved and implemented.

The second area of focus was the centralisation of the EWP support functions through shared services:

- All EWP SOPs implemented were streamlined and standardised as EWP practices nationally.
- PRASA EWP formed partnerships and internally within PRASA to allow for integrated health and wellness offerings for PRASA employees nationally.
- One of the major milestones in this aspect of Health and Wellness was the implementation and monitoring of the Out of Roster Report, managed jointly by EWP, Risk, Occupational Health, and line management to actively manage, support and reduce the number of employees that are out of roster and not performing in their designated positions due to ill health, incapacity or other related issues.

Whilst PRASA did not have an external EWP Contract in place, the EWP team provided employees with access points to identified community providers and stakeholders to assist employees with their psycho-social needs.

Employment Equity

PRASA EE TARGETS FOR 2019-2023

Demographic	EE Actual %	Target
Race equity (AIC)	95.81%	54.80%
Gender equity (females)	36.83%	39.08%
People with a disability	0.92%	4.00%
Race equity (AIC) at management level	91.78%	88.05%
Gender equity (females) at management level	40.05%	60.20%
Youth equity	17.08%	

Race equity is at 95.8%, an increase of 0.5% compared to 95.3% in the previous year. Females constitute 36.83% of the workforce, which is a decrease of 7.67% on the 44.5% recorded in the previous financial year. The percentage of females in management increased from 38% in the previous year to 40.05% (an increase of 2.05%).

PRASA's contribution to youth employment (i.e. employees between 18 and 35 years of age) is at 17.08%, and 0.92% of the workforce is classified as people with a disability.

PRASA Staff Complement

The headcount is 15,805 and the turnover rate is approximately 5.7%. This shows a decrease over the years due to natural attrition. The 286 exits during the financial year under review were due to the retrenchments at Autopax. Reviews of the structures and profiles are still being done, in line with the operational plan, with the aim of reaching optimal staffing levels and cost.

Employee Relations

Grievance cases: 77 cases were brought forward from FY2021/22 to FY2022/23. Employee Relations (ER) recorded 146 new grievance cases in FY2022/23, finalised 144 cases and carried forward 79 cases into FY2022/23.

The suspensions brought forward to FY2022/23 were 37 and 66 new suspensions were recorded in the FY2022/23, 65 were finalised and 38 were carried forward into FY2022/23.

The number of disciplinary hearings brought forward from FY2021/22 to FY2022/23 was 188. A further 287 new disciplinary hearings were recorded in the FY2022/23.

The CCMA cases brought forward from FY2021/22 to FY2022/23 included 52 active cases. 123 new disputes were recorded in the FY2022/23, and 113 cases were finalised, 62 carried forward into FY2022/23.

Twenty-five new Labour Court matters were recorded in FY2022/23. 15 cases were finalised and 74 were carried over into the FY2022/23.

Progress on the investigations into major irregularities by the Special Investigations Unit were as follows:

	Number of employees
Total Cases	**33**
Completed Cases	**31**
OUTCOME OF COMPLETED CASES	
Dismissals	3
Resignations	2
Final written warnings	6
Written warnings	2
Not guilty	15
No action taken	2
Early retirement	1

Addressing Gender Based Violence and Femicide

The DoT required PRASA to develop and manage a Gender Based Violence and Femicide (GBVF) Programme aligned with the National Strategic Framework. In response, PRASA developed a GBVF strategy to guide the organisation forward. Progress was made in the development of the strategy and the proposed initiatives that meet the industry norm. The

PRASA GBVF strategy was aligned to the National Strategic Programme (NSP) made up of six pillars and PRASA's GBVF Plan subscribed to these pillars to ensure compliance and alignment. The PRASA GBVF Strategic Plan was led by a GBVF Steering Committee comprised of a multi-disciplinary team of both internal PRASA employees and external stakeholders. Jointly the team convened at an agreed frequency to ensure that PRASA met its goals contained in the PRASA GBVF Strategy and Programme. The EWP provides ongoing correspondence on different topics relating to GBVF sent out monthly. In addition, EWP continues to share community access points for employees affected and impacted by GBVF to get appropriate support and assistance.

Learning and Development

All PRASA entities, besides Autopax, submitted the 2021/2022 Annual Training Report (ATR) and 2022/2023 Workplace Skills Plan (WSP) to TETA and these were approved by TETA. The commitment was to train 2,210 employees, and this target was exceeded by 146% as 5,438 employees received recognised training in FY 2022/23. During this period, PRASA also received almost R13.5 million in rebates from TETA for both discretionary and mandatory grants.

PRASA also supported 306 employees with part-time bursaries, and 56% of the recipients of these bursaries were women. During the financial year, 71 individuals were engaged as trainees, i.e. interns, apprentices or trainees at a national level. Of the 71 engagements, 59% were women.

Outlook for 2023/24

The focus areas for the Learning and Development department for 2023/24 will be:

- Ongoing implementation of the National Skills Audit, as per the project plan, to ensure that employees are matched to the right positions and are fully utilised.
- Continuous review of the structures and job profiles to align with the approved Operating Model.
- Ensure that processes are in place to build capacity and plan for succession for critical positions in the organisation.
- Shift the focus from recruitment to talent acquisition and proactively recruit as per the requirements of the Operating Model and approved structures.
- Implement a performance management process at all employee levels.
- Offer internships and learnerships to contribute to youth development.
- Focus on the career development of employees to address the skills shortages and close equity gaps.
- Review of policies (i.e. acting, recruitment).

Procurement and Empowerment

The BBBEE Act exists to facilitate the transfer of the control of management and control of economic resources in all sectors of the economy (including the transport sector) of the country to historically disadvantaged individuals. PRASA is therefore committed to the empowerment of Black suppliers. A total of R16 billion was spent on procurement of goods and services during FY 2022/2023. Furthermore, a BBBEE recognition level of 107.91% was achieved against the 60% target expected of Transport Sector SOEs (Department of Transport, 2009). It is also evident from the statistics given below, that the PRASA is a predominantly black empowering entity.

The entity also exceeded the target for **Black Suppliers** (BS) and **Black Women Owned** (BWO) Suppliers.

PRASA BBBEE PERFORMANCE FOR FY 2022/2023

B-BBEE Classification	Spending in 2022/23 (per recognition level)	Achievement against target	DoT SOE targets	Public sector codes
Empowering Suppliers	R17,659,254,143.42	107.91%	60%	80%
Black Suppliers	R5,303,610 461.09	32.41%	9%	40%
Black Woman Owned	R2,214,631,971.28	13.53%	6%	12%
Qualifying Small Enterprise	R1,515,110,468.82	9.60%	15%	15%
Exempted Micro Enterprise	R847,503,253.66	5.18%	15%	15%

EMPOWERMENT REPORT: 2022/2023

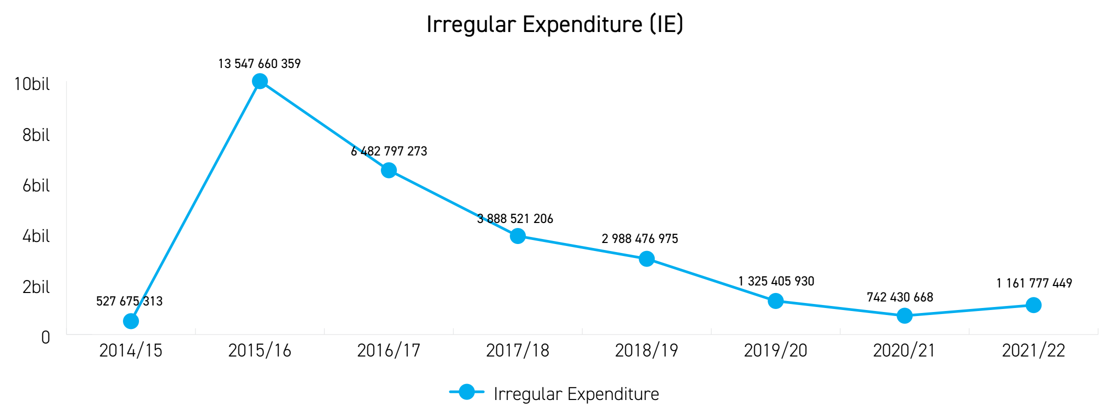
The table above shows that PRASA missed the BBBEE targets for exempt micro enterprises (EME) and qualifying small enterprises (QSE). This is attributed to large payments made during 2022/2023 to the rolling stock vendor, Gibela Rail Transport Consortium - a generic supplier with a 34% black shareholding.

It is also important to mention that PRASA is in the final stages of automating the vendor master file to include military veterans, youth, people living in rural areas and suppliers with a disability. A report on these categories (better known as designated groups) will be available in the second quarter of 2023/24.

Irregular expenditure has been decreasing since FY 2016/17, with a significant drop seen in FY 2019/20. However, the increase in 2020/21 was due to the spending on the contracts previously declared irregular. Most contracts declared irregular are multi-year contracts, hence the increase in this regard.

Management is addressing the R8.9 billion irregular expenditure yet to be submitted for determination tests. Internal Audit is currently conducting a determination test on R9.6 billion. Once the process is concluded, the irregular expenditure will be submitted to the NT for condonation. Initiatives to enhance internal controls are being implemented.

IRREGULAR EXPENDITURE



The graph shows a downward trend in recent years.

IRREGULAR EXPENDITURE BALANCE: 2022/23

DESCRIPTION	VALUE (R'000)
Opening balance as at 1 April 2022	30,752,127
Add: irregular expenditure in current year	3,813,872
Closing balance as at 31 March 2023	**34,565,999**
Less: submitted to NT for approval	12,350,470
Less: submitted to Internal Audit (IA) for a determination test	9,626,608
Balance to be submitted to IA for determination testing	**12,588,921**

Irregular Expenditure and Fruitless and Wasteful Expenditure

1. Irregular Expenditure and Fruitless and Wasteful Expenditure

	2022/23	2021/22
Description	R'000	R'000
Irregular Expenditure	3 813 872	3 315 718
Fruitless and wasteful expenditure	179 077	302 162
Closing balance	**3 992 949**	**3 617 880**

2. Irregular Expenditure

A. RECONCILIATION OF IRREGULAR EXPENDITURE

	2022/2023	2021/2022	2020/2021
Description	R'000	R'000	R'000
Opening balance	30 752 127	27 436 409	27 276 393
Prior Period Errors			
As Restated	**30 752 127**	**27 436 409**	**27 276 393**
Add: Irregular expenditure confirmed	3 813 872	3 315 718	160 016
Less: Irregular expenditure condoned	-	-	-
Less: Irregular expenditure not condoned and removed	-	-	-
Less: Irregular expenditure recoverable	-	-	-
Less: Irregular expenditure not recovered and written off	-	-	-
Closing balance	**34 565 999**	**30 752 127**	**27 436 409**

Management underwent a rigorous process of improving the current process of ensuring completeness and accuracy of irregular expenditure. As a result of this process, the 2021/22 irregular expenditure was restated accordingly.

B. RECONCILING NOTES TO THE ANNUAL FINANCIAL STATEMENT DISCLOSURE

	2022/2023	2021/2022
Description	R'000	R'000
Irregular expenditure that was under assessment in 2021/2022	-	-
Irregular expenditure that relates to 2021/22 and identified in 2022/23	-	-
Irregular expenditure for the current year	3 813 872	3 315 718
Total	**3 813 872**	**3 315 718**

C. DETAILS OF CURRENT AND PREVIOUS YEAR IRREGULAR EXPENDITURE (UNDER ASSESSMENT, DETERMINATION, AND INVESTIGATION)

	2022/2023	2021/2022
Description	R'000	R'000
Irregular expenditure under assessment	3 813 872	3 315 718
Irregular expenditure under determination	-	-
Irregular expenditure under investigation	-	-
Total	**3 813 872**	**3 315 718**

D. DETAILS OF CURRENT AND PREVIOUS YEAR IRREGULAR EXPENDITURE CONDONED

	2022/2023	2021/2022
Description	R'000	R'000
Irregular expenditure condoned	-	-
Total	-	-

There was a post balance sheet event wherein R12 billion of irregular expenditure was condoned by the PRASA Board of Control. The approval was granted in August 2023.

Where Irregular, Fruitless and Wasteful Expenditure has been identified, without a specific individual being found to be responsible based on investigations, the necessary condonation is being sought. In a number of instances, where no steps were taken towards consequence management, PRASA Management has started the process towards investigation, which will lead to consequence management.

E. DETAILS OF CURRENT AND PREVIOUS YEAR IRREGULAR EXPENDITURE REMOVED - (NOT CONDONED)

	2022/2023	2021/2022
Description	R'000	R'000
Irregular expenditure NOT condoned and removed	-	-
Total	-	-

F. DETAILS OF CURRENT AND PREVIOUS YEAR IRREGULAR EXPENDITURE RECOVERABLE

	2022/2023	2021/2022
Description	R'000	R'000
Irregular expenditure recovered	-	-
Total	-	-

G. DETAILS OF CURRENT AND PREVIOUS YEAR IRREGULAR EXPENDITURE NOT RECOVERABLE AND WRITTEN OFF (IRRECOVERABLE)

	2022/2023	2021/2022
Description	R'000	R'000
Irregular expenditure written off	-	-
Total	-	-

Additional disclosure relating to Inter-Institutional Arrangements

H. DETAILS OF NON-COMPLIANCE CASES WHERE AN INSTITUTION IS INVOLVED IN AN INTER-INSTITUTIONAL ARRANGEMENT (WHERE SUCH INSTITUTION **IS NOT** RESPONSIBLE FOR THE NON-COMPLIANCE)

PRASA is not involved in any inter-institutional arrangements

I. DETAILS OF CURRENT AND PREVIOUS YEAR DISCIPLINARY OR CRIMINAL STEPS TAKEN AS A RESULT OF IRREGULAR EXPENDITURE

Disciplinary steps taken
In the 2022/23 financial year PRASA completed 33 disciplinary actions relating materila irregularities, of which 4 employees were dismissed as of July 2023, which includes 2 Senior Managers. Three(3) Senior Managers resigned pending disciplinary. PRASA is currently in the process of instituting cost recovery, where applicable.

3. Fruitless and Wasteful Expenditure

RECONCILIATION OF FRUITLESS AND WASTEFUL EXPENDITURE

	2022/2023	2021/2022
Description	**R'000**	**R'000**
Opening balance	687 178	385 016
Add: Fruitless and wasteful expenditure confirmed	194 799	302 162
Less: Fruitless and wasteful expenditure written off	-	-
Less: Fruitless and wasteful expenditure recoverable	15 722	-
Closing balance	**866 255**	**687 178**

Management underwent a rigorous process of improving the current process of ensuring completeness and accuracy of irregular expenditure. As a result of this process, the 2021/22 fruitless and wastefull expenditure was restated accordingly.

PRASA experienced a Cyber Security Attack - Phishing where the loss exposure was R30 568 830,00. A criminal case was opened and an amount of R15 721 813.00 was successfully recovered. PRASA is still in the process of recovering the remaining balance. The matter is still under police investigation.

4. Reconciling notes

RECONCILING NOTES TO THE ANNUAL FINANCIAL STATEMENT DISCLOSURE

	2022/2023	2021/2022
Description	**R'000**	**R'000**
Fruitless and wasteful expenditure for the current year	179 077	302 162
Total	**179 077**	**302 162**

On 24 October 2023, PRASA identified that an employee of PRASA embezzled R34,524,247.30 of which R9,547,500 was returned by the employee on 24 October 2023 following questioning by management. The remaining total loss to be recovered is R24,976,747.30 of which R21,270, 492.00 (included in the current year balance) and R3,706,255.30 relates to 2022/23 and 2023/24 financial years respectively. A criminal case and criminal proceedings are instituted against the employee to recover the proceeds of crime. On 17 November 2023, a disciplinary hearing was held and the employee has since been dismissed from PRASA. Additionally, an urgent application to freeze the assets of the dismissed employee was also lodged at the High Court and awarded successfully to PRASA.

The balance of the fruitless and wastefull expenditure relates to loss suffered due to long suspensions.

	2022/23	2021/22
Description	**R'000**	**R'000**
Irregular Expenditure	3 813 872	3 315 718
Fruitless and wasteful expenditure	156 384	302 162
Closing balance	**3 970 256**	**3 617 880**

Legal, Compliance and Insurance

Legal Services

PRASA's legal costs emanating from insurance, litigation, contracting and contract management issues of capital programmes are high, and these are not the agency's only concerning legal matters.

PRASA's legal costs emanating from insurance, litigation, contracting and contract management issues remain high, and this is primarily attributed to four main factors:

- Lack of contract management on projects (leading to significant litigation and breach of agreements).
- Requests for external legal opinions.
- Lack of internal capacity in the department (which necessitates the assistance of external law firms to service the entire group).
- Legacy third-party insurance claims emanating from all the train accidents experienced by PRASA in the past (which takes a long time to be resolved by the courts).

A cost-saving practice has been enforced as an ongoing process. Invoices received from attorneys for services rendered are analysed line by line to check for any discrepancies or overcharging on fees. Other invoices are discounted after engagements with the relevant firms of attorneys.

Where necessary, the Bill of Costs is taxed. Furthermore, legal opinions are prepared to assess the merits of our cases, which assist in reducing costs by avoiding unnecessary litigation. The Department utilises the services of internal resources to engage in out-of-court settlement negotiations. Where the organisation has won a case and is awarded legal costs, these legal costs are recovered.

Insurance

The absence of a short-term insurance broker has impacted negatively on the insurance programme over the years, from both a premium and a policy structure perspective, in that PRASA became a price-taker rather than a price-setter. However, PRASA successfully awarded a three-year contract for short-term insurance at the end of Q4, effective 1 April 2023.

To date, the annual insurance premium has been reduced from R548 million in FY 2022/23 to R421 million, realising a saving of approximately R120 million.

Whilst third-party liability claims remain the biggest driver of insurance costs, PRASA successfully defended 17 third-party claims with an average claim value of R5,3 million per claim in the 2022/23 period. In addition, liability claims emanating from injuries sustained by commuters in PRASA's operating environment continue to increase insurance costs, i.e. settlements and associated legal costs incurred for defending claims.

The regulatory environment governing the insurance industry posed a challenge in that PRASA could not negotiate new terms and conditions, nor explore new markets; therefore, the only option left for PRASA was to extend insurance cover on the insurer's terms, resulting in astronomical premiums.

FOCUS AREAS FOR 2023/24

PRASA's insurance programme will be driven by a risk-based approach with appropriate levels of risk appetite, tolerance and capacity.

The Insurance Programme consists of various insurance cover aspects, with the main components being:

- Third Party Liability
- Assets All Risks
- Motor Fleet.

The Assets All Risks component includes facilities (stations, offices and buildings), rolling stock (trains) and rail network infrastructure. This is the focus of the review and restructuring from an insurance cover perspective, the objective being to counter the ever-increasing premium.

The review and restructuring will be based on frequent surveys and risk assessments at major stations and depots, as per the Corridor Recovery and Rebuild Programme, together with the associated deployment of new trains (EMUs).

Outlook for 2023/24

The influx of new trains together with the recovery of corridors have a heightened effect on PRASA's risk exposure, but a mid-term review of the current insurance structure is envisaged to take place around October 2023.

Though liability claims have a long-tail effect, it is anticipated that a reduced number of new claims are to be lodged because of the national lockdown due to the COVID-19 pandemic, followed by the incremental resumption of services.

The insurance market is expected to reflect heightened volatility because of global disasters recorded over recent years, which may translate into increased insurance premiums and rigid terms.

Compliance

The year under review represented yet another building block in the project of PRASA seeking and endeavoring to be a good corporate citizen. This was positioned by PRASA developing certain key policies, including Stakeholder Management, review and streamlining procurement policies in line with government policies including for the first time, the development of the preferential procurement policies.

The business contended with various changes and new legislation and regulations applicable to PRASA. No less than 13 changes and additional legislation and regulations during the year, including the replacement of the Preferential Procurement Regulations 2017 by the Preferential Procurement Regulations 2022.

The regulatory environment poses challenges that require PRASA to always be on the lookout and develop, review and monitor the implementation of business processes aligned with the changes.

KEY SUCCESSES:

1. Strengthening governance

   In February 2022, the Policy Development and Approval was approved. This strengthens the process of developing policies and ensures that PRASA policies are uniform and follow a common and established process for their development and approval. In addition, a three-year review cycle for policies was established. PRASA is currently in the process of reviewing all policies to meet the deadline. Thus far, 71 new-generation policies have been developed, together with103 related standard operating procedures. We expect all the policies to be reviewed and updated by the end of 2023/24.

2. Embedding a Compliance Culture and Resourcing the Compliance Function

   With the current recruitment, the objective is to create a shared service that will enable business-focus compliance, i.e. allocating compliance functionaries to the key strategic business. This will enable professionalising the compliance function as a discipline, i.e. recruitment of professional compliance practitioners/training of current compliance functionaries and will see compliance functionaries as members of compliance professional bodies.

PRIORITIES FOR 2023/24:

1. Assurance Reports

   With the additional capacity, the compliance functionaries will be enabled to provide 'independent' assurance reports on compliance matters, working together with Internal Audit, this will enable combined assurance.

2. Compliance Controls

   Compliance Functionaries will facilitate the embedment of the required compliance controls for key legislation/operations identified in the division/region/department.

3. Compliance Tracker

   Tracker programmes will target remediation of findings on non-compliance with laws aligned with audit findings and will facilitate and oversee the implementation of Contract Management together with SCM. This is a critical step for SCM processes and governance, document management and contract review.

4. Digitising Compliance Processes
   With the assistance of ICT, the Compliance Unit intends to roll out:

   - An ICT process for recording, remediation and tracking of Irregular and Fruitless and Wasteful expenditure. This tool will enable electronic processing and finalisation of these processes. The prototype has been developed.
   - ICT-based compliance procedures. The specifications have been drawn up to enable the process of procurement to start.

Outlook for 2023/24

From a regulatory perspective, PRASA is anticipating the following key changes:

- The introduction of The Public Procurement Bill in Parliament.
- The endorsement of The Economic Regulation of Transport Bill by the National Council of Provinces and assent by the President, together with the related draft regulations.
- Parliamentary approval of the Railway Safety Regulator Bill and assent by the President.
- Introduction of the Occupational Health and Safety Amendment Bill, 2020 in Parliament.

PRIVACY PROTECTION

The Information Regulator has established the Enforcement Committee and given the wide data breaches, such as cyber-attacks or ransomware incidents, which appear to have become widespread in South Africa, it is anticipated that the Information Regulator will be monitoring and enforcing protection measures under the Protection of Personal Information Act.

CYBERCRIME

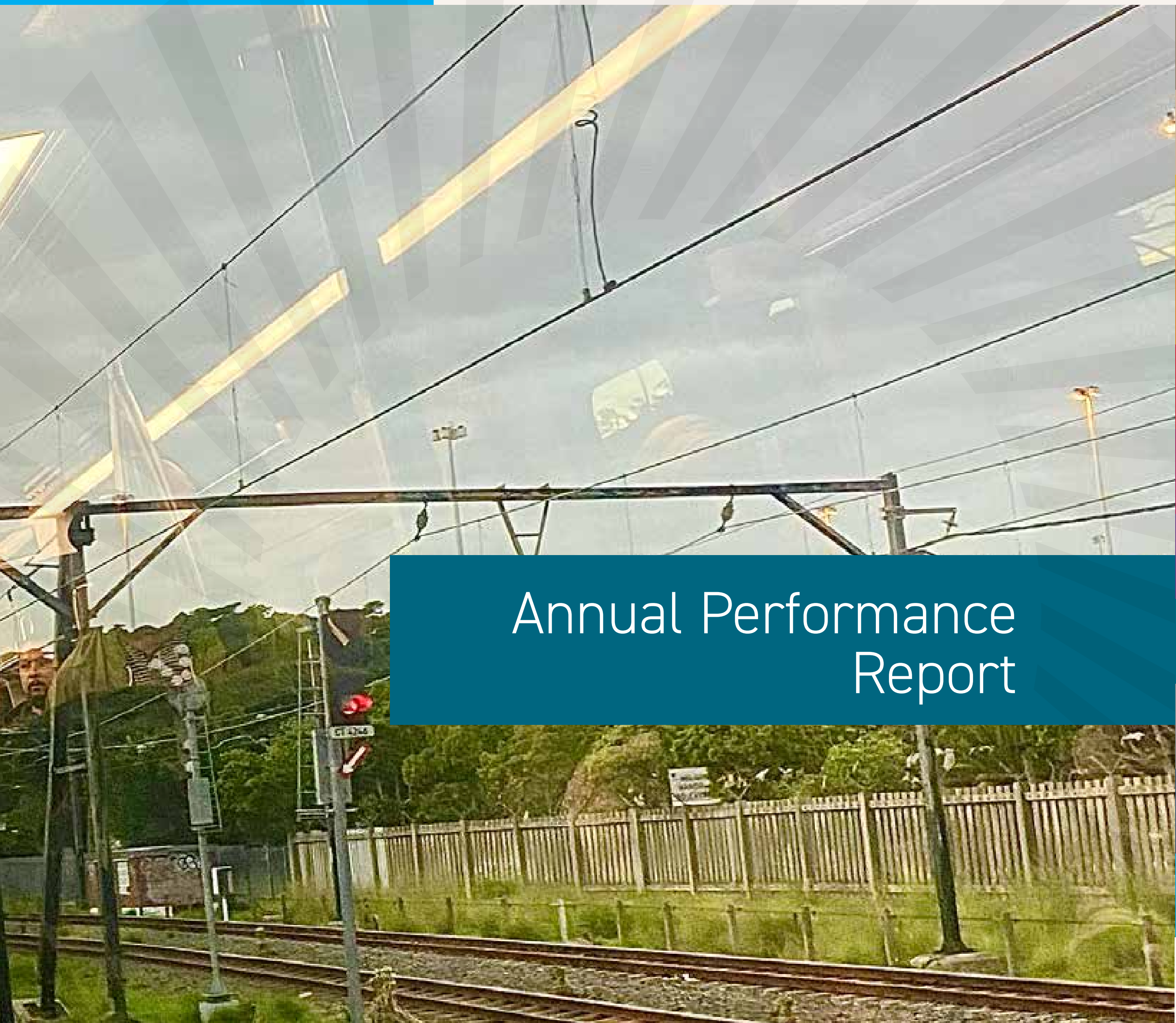
With the Cybercrimes Act 19 of 2020 having been passed into law, it is anticipated that the balance of the sections in the Cybercrimes Act 19 of 2020 will be proclaimed and the related regulations published.

ENVIRONMENT LAWS AMENDMENT

The proclamation of the National Environmental Laws Amendment Act, 2 of 2022 is expected to introduce a shift in environmental compliance.

INTEGRATED Annual Report

2022 | 2023



Annual Performance Report

1. Performance Review

PRASA's performance, in the financial year 2022/23, named the "Year of Action" improved significantly from a low level of performance of 19% of 2021/22 to **59%** or 10 of 17 performance indicator targets achieved. The entity built on the learnings of 2021/22, to improve execution of the commuter rail major Rebuild and Recovery programme. The organisation has improved its delivery on this programme to restore rail infrastructure and stations that contributes to the Department of Transport's "road to rail" strategy.

To mitigate the impact of lack of rail services on communities, PRASA has adopted an approach to reopen lines with limited or partial operations as soon as minimum safety requirements are met. This covers rebuilding, especially in Gauteng, as well as recovery of rail lines in KwaZulu-Natal following the devastating floods in April 2022. At the end of 2022/23 PRASA has recovered 15 rail service lines or sections of service lines and 12 of these are in operation with the new trains or Electrical Modular Units (EMUs).

The Rolling Stock Fleet Renewal Programme continues its delivery and a record of 57 train sets were delivered for 2022/23 bringing the total number of new EMUs to 146 by end March 2023. The refurbishment and upgrade of the old yellow and grey fleet kicked off again in 2022/23 and despite a late start, exceeded the 100 coaches targeted on Metrorail for the financial year. These two programmes then resulted in the target of correctly configured train sets being achieved for the financial year.

Work with the Railway Safety Regulator (RSR) on achieving a "No Objection" notification for resumption of services where new EMUs are deployed or new infrastructure designs are implemented (rebuilding), have improved our relations. Our safety and security occurrences remain at a low level and with the implementation of our Safety Management System we have been issued with a safety permit for the next 29 months effectively giving PRASA a 3-year safety permit since the date of the previous safety permit.

A few of the strategic interventions of PRASA to improve performance were:

a. The coordinated program through the Weekly War Room Corridor Rebuilding Program assisted with alignment and coordination of all elements of corridor recovery.
b. The decision by the Board of Control to increase the RFQ threshold from R1million to R5million was a major breakthrough in a number of recovery projects as SCM processes were now quicker to enable PRASA CRES to revitalise functionality at stations.
c. Increasing capacity in PRASA Technical and PRASA CRES to enable project execution from procurement to project management.
d. Additional security interventions where needed to protect project teams and assets.

The improvements in the execution of the Rebuild and Recovery programme (infrastructure and stations) as well as modernisation of rolling stock in the main has resulted in PRASA exceeding spending of capital allocation of R12,6bn by 8% for the financial year that presents a significant improvement on previous years.

2. Addressing Shareholder Requirements Over The MTEF Period

2.1. Alignment with the deliverables of the Minister of Transport's compact

Several areas in the minister's compact require PRASA to achieve performance targets in terms of its mandate, specifically the primary mandate. The ministerial outcomes applicable to PRASA's primary mandate are:

- Increased access to affordable and reliable transport.
- Industrialisation, localisation and exports.

These outcomes cover the following capital programmes of PRASA: the rolling stock fleet renewal programme, the station revitalisation and modernisation programme, the resignalling programme, the general overhaul programme for Metrorail and MLPS, rebuilding the Western Cape Central Line, restoring the Mabopane to Pretoria service in Gauteng, and rebuilding corridors in order of set business priorities.

In addition, the operational side of the primary mandate includes the safety and security of passengers, employees and assets, the maintenance of the rolling stock (train sets) required to improve the overall performance of rail and increase the number of passengers on our rail and bus services.

2.2. Performance Constraints

PRASA's performance plan was set within an uncertain environment, that the organisation had to effectively mitigate during the financial year. Some of these were:

- The security of recovered corridors for the financial year was based on the use of additional external security personnel. Though PRASA requires its contractors on capital projects to provide security for the duration of the contract, PRASA has to deploy security to ensure the infrastructure remains intact with no further vandalization and theft. In several instances PRASA had to deploy special intervention units to ensure rebuilding work on lines can continue. This was done for the Mabopane line in 2021/22 and on the Central Line in the Western Cape in 2022/23 following work stoppages between end of August 2022 and October 2022. The costs for this are not fully provided for in the allocation of operational funding for 2022/23. To this end where security costs are part of the Rebuild and Recovery programme this is covered from the capital programme. PRASA has had several meetings with the Department of Transport and National Treasury as costs for security have increased significantly since 2020 to protect people, employees and assets.
- Work stoppages due to Criminal Project Hijacks and Community Disruptions are an on-going problem in execution of projects. Communities and community forum demands for portions of these projects result in delays. The station construction projects in the Central Line of Cape Town were stopped for about 3 months due to criminals and gangsters attempting to hijack these projects and placing the lives of contractors and PRASA employees at risk.
- Market shortages of microchips and semiconductors, which affects signalling, rolling stock programmes and IT was a constraint during the year. On the new rolling stock (new trains) programme, alternative suppliers for specific components were found that resulted in some delays during the year for full acceptance of sets for PRASA. This was resolved during the year. On the signaling side the contracts for re-instatement of signaling for 4 lines in Western Cape, lead times were negotiated with the supplier and for 2 lines in Gauteng, equipment from installed sites not vandalised will be used for these lines. The work is to be completed in 2023/24.
- The removal of illegal settlements between Langa and Philippi in Western Cape requires several government entities to play their roles in completing the implementation protocol so that the Housing Development Agency may commence. Delays outside of PRASA's control will continue to affect the ability to make progress in this regard. PRASA will aim to minimise the impact of these delays by opening sections of the line before the illegal settlements are removed. To this end two of the four service lines are in operation at the end of 2022/23 namely Langa to Pinelands; Cape Town – Langa – Bellville via Sarepta as well as extention of the section beyond Langa to Nyanga, the station before Phillipi where the illegal settlements are. Relocating illegal settlements remains a complex process that involves costly legal intervention and intergovernmental coordination.

3. Performance of the 2022/23 Financial Year

Summary: Annual Performance 2022/23

A	Status of the project phase(s) for the Western Cape Central line re-signalling
B	Level of implementation complete on the security plan for the financial year
C	Localisation in rolling stock expansion as per Gibela MSA
D	Number of passenger trips per financial year
E	Level of operations on the Mabopane line as per the deadline
F	Status of contracts, commencement & construction on the depot modernisation programme
G	General overhauls of MLPS coaches completed

1	Number of additional service lines in operations with minimum or full standards of operation
2	General overhauls of Metrorail coaches completed
3	Level of operations on the Central Line or sections of the Central line as per the deadline
4	Number of security occurrences reported to RSR (categories 1 - 9) per financial year
5	Number of safety occurrences reported to RSR (categories A-L) per financial year
6	Status of the project phase(s) for the KZN re-signalling contract
7	Number of stations revitalised by improving functionality, rebuild or commercialisation
8	Number of correctly configured operational trainsets (incl. new EMUs, GOs, repairs & maintenance)
9	Number of service lines or sections of a service line with operations - part or full with new EMUs
10	Number of EMU train sets provisionally accepted

3.1. The performance summary for year-end

Despite the difficult environment, PRASA made great strides in execution in the 2022/23 financial year. On the recovery plan, it became very clear in the previous financial year that PRASA must accelerate rebuilding and recovery of its rail network and the floods in KwaZulu-Natal at the start of the 2022/23 financial year put further pressure on the programme.

The status of the annual performance covering April 2022 to March 2023 are 10 out of 17 or 59% indicators achieved with 7 or 41% indicators not achieved.

3.2. Performance per indicator

3.2.1. Number of EMU Trainsets provisionally accepted per annum with annual target of 40 EMU train sets.

For the first time since commencement of the MSA, GIBELA has met its contractual obligations through cumulative achievement of 146 new trains provisionally accepted by PRASA by the end of FY2022/2023. For the year under review 57 new trains were provisionally accepted.

3.2.2. General overhauls of Metrorail coaches completed per annum including heavy outsourced maintenance with annual targets of Metrorail: Heavy maintenance – 88 coaches; GO – 12 coaches.

The total commuter rail coaches refurbished at the end of the year is 88 from the Heavy Maintenance portion of the contracts and GO refurbishments that are more intensive work was 33. In Western Cape 24 coaches were complete for GO refurbishment and 9 coaches for Gauteng.

3.2.3. General overhauls of MLPS coaches completed per annum including heavy outsourced maintenance with annual targets of MLPS: Heavy maintenance and MLPS 20 coaches.

No coaches were completed for MLPS and PRASA opted to prioritise Metrorail as part of the Rebuilding and Recovery.

The programme has however commenced and the status of completion of these coaches released to contractors by year-end were as follows:

Region	Number of coaches released to contractors	Status of level of work done (stripping)	% of work completed
Western Cape	8	100%	0%
Eastern Cape	9	100%	0%
Gauteng	2	100%	0%
KwaZulu Natal	None		

3.2.4. Number of additional service lines in operations with new EMU's with annual target of 7 service lines with operation with new EMUs.

The second aim for the financial year 2022/23 was to commence services with EMU's for 7 sections/lines with minimum services. The target was exceeded by 1 service line introduced that resulted in 8 sections/lines in operation with new EMUs and these are:

1. Pretoria to Pienaarspoort – 26 September 2022
2. DeWildt to Hercules - 24 October 2022
3. Johannesburg to Naledi - 28 November 2022
4. Cape Town to Bellville via Goodwood - 29 November 2022
5. Cape Town to Bellville via Monte Vista – 13 December 2022
6. Langa to Bellville via Sarepta – 29 March 2023
7. Pretoria to Centurion - 31 March 2023
8. Bellville to Eerste Rivier – 23 March 2023

3.2.5. Number of correctly configured operational train sets (including new EMUs, GO's, repairs and maintenance) non-cumulative with the annual target of 194 correctly configured operational train sets incl. 90 EMU's.

The number of correctly configured operational train sets was 197 against a 194 target. There was improvement in both the number of old fleet train sets (from 68 to 79) due to various interventions and fruition of recovery programs, and improvement on the new fleet (from 65 to 118 new train sets operationally available).

3.2.6. Number of stations revitalised through improving functionality, rebuild or commercialisation with annual target of 58 stations.

A very clear acceleration plan and aggressive monitoring system was put in place through weekly coordination from Quarter 3 to achieve delivery. A total of 58 station projects was completed covering revitalisation through functionality recovery and improvements, upgrades and commercialisation at stations.

Region	Improvement	Functionality	Upgrades	Total
Western Cape	8	0	0	8
Southern Gauteng	16	0	7	23
Northern Gauteng	10	14	1	25
KwaZulu-Natal	0	2	0	2
	34	16	8	58

3.2.7. Status of the project phase(s) for the Western Cape Central Line re-signalling contract with annual targets of the completion of the Central Line re-signalling (subject to removal of the illegal settlements).

Central Line removal of illegal settlements along the PRASA servitude has been delayed and ongoing interactions with the Intergovernmental departments: Department of Human Settlements, Department of Transport, City of Cape Town and Provincial Government remains ongoing. The biggest stumbling block was the funding for the acquisition of alternative land and the provision of services, which has now been resolved for phase 1. PRASA has appointed a Town Planner who is in the process of submitting a section 69 application for the rezoning of the land.

3.2.8. Status of the project phase(s) for the KZN re-signalling contract with annual targets of the completion of evaluation & adjudication for KZN re-signalling.

The evaluation and bid adjudication process was completed for KZN re-signalling.

3.2.9. Level of implementation complete on the security plan for the financial year with annual target of 80% Implementation of the security plan.

The security plan reached 66% completion, largely due to physical deployments that continued during the year as rebuilding and recovery of corridors are completed and services re-introduced. The Judge Hlope ruling that prohibited PRASA from going on an open tender for long term security contracts was resolved paving the way for the tender to be issued early 2023/24.

Several tenders were issued to the market for security technology and equipment. The processes for specifications took some time and one of the tenders for firearms were non-responsive requiring a different approach. The same supplier for specialised vehicles and control rooms as per transversal contract will be used. Equipment such as bulletproof vests were awarded, and delivery completed. Other technology tenders are in the market and estimated completion is the second half of 2023/24.

3.2.10. Localisation in programme of rolling stock expansion and upgrade with annual target of manufacturing and Supply Agreement (MSA) level of local content at 50%.

The local content percentage could not be confirmed and verified. The requirement is that the percentage achievement be verified by an independent Economic Development Monitor (EDM). PRASA had not been able to appoint the EDM during 2022/23 and therefore the indicator is not achieved.

It is expected that an EDM service provider to assess and audit the localisation level will be appointed by the end of Quarter 1 2023/24.

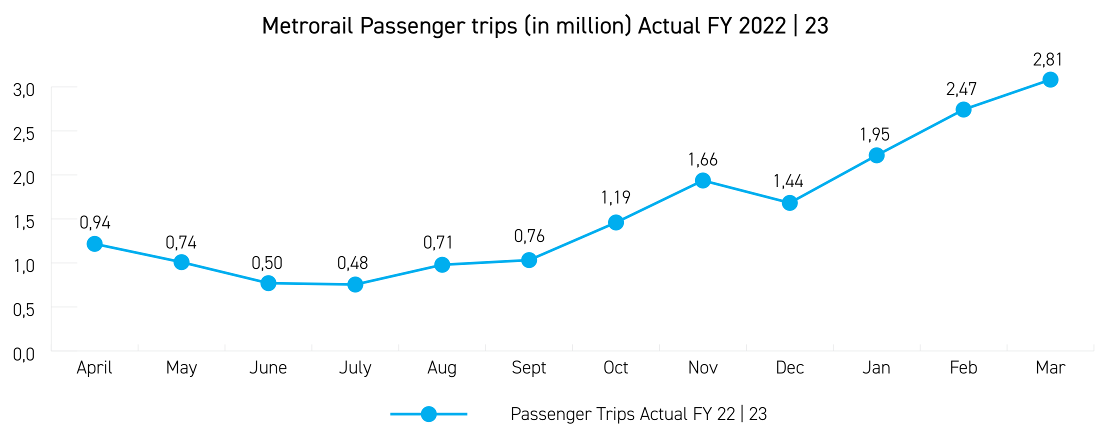
3.2.11. Number of passenger trips per financial year with annual target of 26,08 million passenger trips.

The planned target of 26.08 million passenger trips could not be achieved and has shown a variance of 40% against the target. We managed to achieve 16 million passenger trips at the year end.

All service lines operated limited services due to non-availability of signalling system in certain sections of the network.

Passenger trips started picking up from November 2022 to March 2023, as lines get re-introduced as is evident in the figure below:

Figure 1: Passenger trips – 2022/23 movements



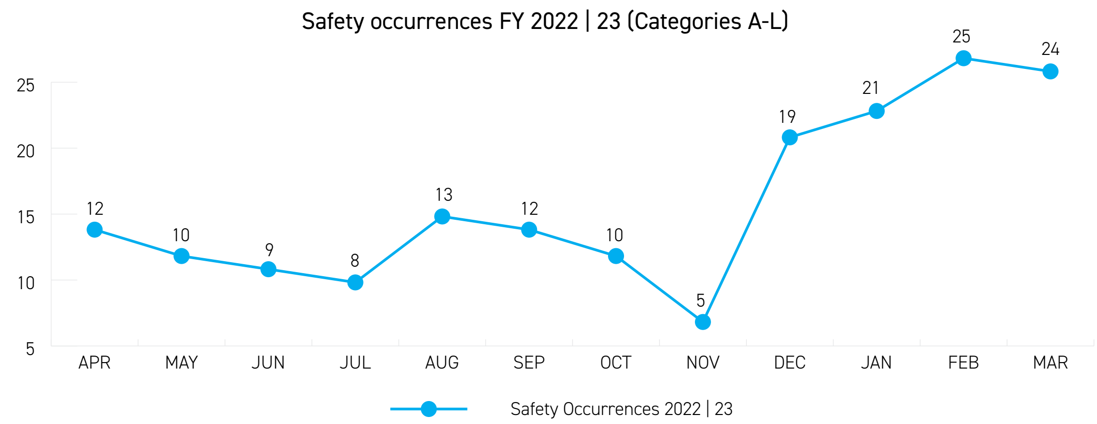
Passenger trips in 2022/23 were severely impacted by the KZN floods of April 2022 as this is the region in 2021/22 that contributed 61% of passenger trips. Gauteng passenger numbers were affected by the closure of lines for the Rebuild and Recovery, however significant increases are seen once services resume, although still not at levels prior to 2020/21 as limited train services are provided. Due to the inability to secure diesel locomotives for the Eastern Cape, services in this region remain suspended at year-end.

3.2.12. Number of safety occurrences reported to RSR (categories A-L) per financial year with annual target of less than 1 083 occurrences (A – L category) reported to RSR.

For the year ended March 2023, 168 A-L occurrences were reported and were below the limits set for the year. The number of occurrences reported for the year were as follows:

The trend in safety occurrences for the financial year were as follows and show increases in occurrences as the volume of train services is increasing with the resumption of services on rail service lines.

Figure 2: Safety occurrences (Categories A-L) – 2022/23

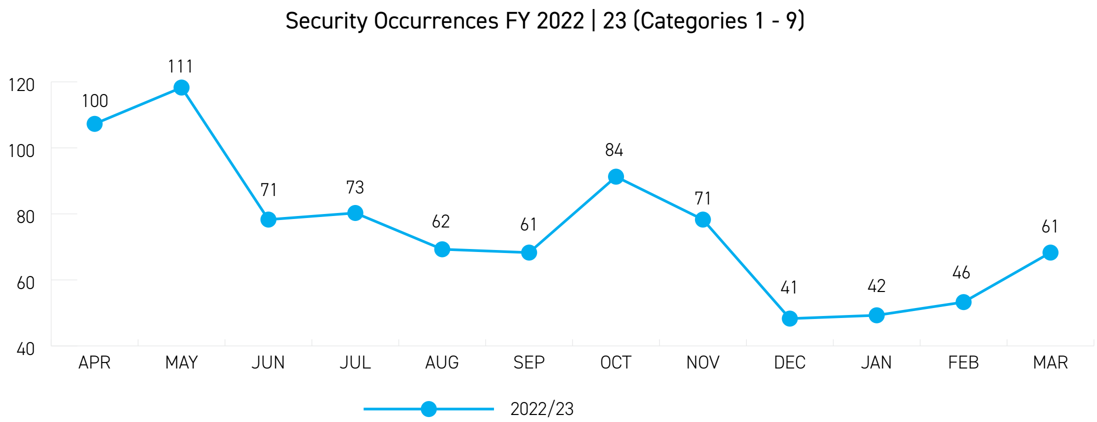


3.2.13. Number of security occurrences reported to RSR (categories 1 – 9) per financial year with annual target of less than 2 970 occurrences (1 – 9 categories) reported to RSR.

The annual reported security occurrences (category 1-9) are 823 which is below the target or less than the 2970 limit set.

The figure below reflects the year ended security occurrences (1-9 categories) trends. The level of incidents against assets remain on a declining trend though in a volatile and unstable environment fraught with crime.

Figure 3: Security occurrences (Categories 1 - 9) – 2022/23



3.2.14. Level of operations on the Mabopane line as per the deadline with annual target to commence operating a service with signalling in Quarter 3.

The signaling contract to re-instate vandalised signaling was not concluded. Work continued of walling for all critical infrastructure e.g. substations and signal relay rooms, and good progress has been made.

The signaling contractor, Siemens as original equipment manufacturer, has been appointed to carry out the works. The contracting stage is being finalised. The duration for the project once contracted is 10 months.

3.2.15. Level of operations on the Central Line or sections of the Central Line as per the deadline with annual target of reopening of the Cape Town to Bellville via Sarepta with minimum level of standards by Q2 and extending the services beyond Langa to Nyanga.

Two service lines were introduced at the start of quarter 3 namely Langa to Pinelands and Cape Town to Bellville via Sarepta. The extension of the line post Langa to Nyanga was completed for resumption of the service on 23 March 2023 for full day services.

The work on this corridor was delayed between end August 2022 to 14 November 2022 as a result of criminality that resulted in contractors stopping work to ensure safety of their staff. An additional security intervention by PRASA security commenced at the start of November 2022 to ensure contractors could resume work. The teams were able to recover time to complete the line and the station rehabilitation for Bonteheuwel and Nyanga by year-end.

3.2.16. Number of additional service lines in operations with minimum or full standards of operation with annual target of 7 more service lines reopened with minimum electrical services or completed for full services with signaling.

The target planned for the year 2022/23 was to introduce 7 sections/lines with minimum services. We have exceeded the planned target by adding 1 more line that resulted in 8 sections/lines introduced with minimum electrical services as outlined below:

Sections/Line introduced:

1. Pretoria to Pienaarspoort – 26 September 2022
2. DeWildt to Hercules – 24 October 2022
3. Johannesburg- Naledi – 28 November 2022
4. Durban to Cato Ridge – 07 November 2022
5. Durban to Umbogintwini – 15 August 2022
6. Durban to Umlazi – 23 January 2023
7. Bellville to Eerste Rivier – 16 January 2023
8. Pretoria to Centurion – 31 March 2023

No lines were opened with signaling reinstated. This programme will be executed in 2023/24 to 2025/26.

3.2.17. Depot modernisation programme with annual target of 4 depot contracts to commence.

The status on depots modernisation is that the Paarden Eiland Depot tender was advertised on the 29th of March 2023 after it was cancelled late last year; Wolmerton turnkey tenders are awaiting re-evaluations; Braamfontein tender closed on the 31st of August 2022 and tender evaluation has not started by the end of March 2023. The court order against the award of Salt River, Durban and Springfield depot designs, remains unresolved.

4. Performance Against Pre-Determined Objectives

Summary of achieved/partial/unachieved annual indicators in the 2022/23 financial year

PRASA achieved 10 of the 17 annual performance indicators as per the table below:

Status	Indicators
Achieved indicators	168 versus anticipated 1083 Safety Occurrences reported to RSR. 823 against 2970 expected security occurrence reported to RSR. 57 new EMUs vs 40 sets targeted. 8 of 7 service lines re-introduced with corridor rebuilding and recovery programme. 8 of 7 lines in operation with new EMUs. 2 sections of Central Line introduced in Quarter 2 and line extended from Langa to Nyanga. 195 of 194 train sets correctly configured. Metrorail GO and Ad-Hoc programme 121 out of 100 (Ad-Hoc 88; GO 33). KZN re-signaling contract – bid adjudication completed. 58 of 58 station revitalisation programme completed.
Partially achieved indicators	None
Not achieved	Passenger trips below target by 40%. Signaling for the full Mabopane line was not completed. No depot modernisation tenders awarded. No coaches for MLPS completed in GO Programme. Contract for installation of signalling not commenced and removal of illegal settlements remain unresolved. Security roll-out plan below target by 14%. Localisation of GIBELA Manufacturing and Supply Agreement.

The table below depicts the actual status of all 17 indicators, covering the outcomes of the Minister of Transport under each pillar/objective of PRASA.

			2021/22	2022/23			
Outcome of Minister	PRASA Pillar/ Objective	Performance indicator	Audited performance 2021/22	Planned Annual Target	Actual achievement 2022/23	Variance against target	Reasons for deviation
New rolling stock	Pillar 2: Modernisation of infrastructure, rolling stock and stations	Number of EMU train sets provisionally accepted per year	33	40	57	43%	Not Applicable
General overhauls of Metrorail and MLPS coaches	Pillar 1: Rebuilding corridors for consistently good services with passengers at the centre	General overhauls (GO) of Metrorail coaches completed per year, including heavy outsourced maintenance	0 coaches	Total 100 Metrorail coaches (Heavy maintenance – 88 coaches and GO – 12 coaches)	121 Metrorail coaches (Heavy maintenance 88 coaches and 33 GO coaches)	21%	Not Applicable
General overhauls of Metrorail and MLPS coaches	Pillar 1: Rebuilding corridors for consistently good services with passengers at the centre	General overhauls (GO) MLPS coaches completed per year, including heavy outsourced maintenance	0 coaches	Total 20 MLPS coaches (Heavy maintenance –20 coaches and GO – 0 coaches)	0 MLPS coaches	-100%	Metrorail coaches were prioritised for 2022/23.

			2021/22	2022/23			
Outcome of Minister	**PRASA Pillar/ Objective**	**Performance indicator**	**Audited performance 2021/22**	**Planned Annual Target**	**Actual achievement 2022/23**	**Variance against target**	**Reasons for deviation**
Rollout of new EMUs	Pillar 2: Modernisation of infrastructure, rolling stock and stations	Service lines or sections of a service line with operations in part or full with new EMUs	New	7 service lines with operation with new EMUs	8 sections/ lines introduced with minimum services operated with new EMU's	14%	Not Applicable
Operational configured train sets	Pillar 1: Rebuilding corridors for consistently good services with passengers at the centre	Number of correctly configured operational train sets, including new EMUs, general overhauls, heavy repairs and maintenance	63 correctly configured operational train sets (Yellow Fleet only)	194 (including 90 EMUs)	197 correctly configured train sets with 118 new EMU's	2%	Not Applicable
Revitalisation and rebuild/ modernisation of stations	Pillar 2: Modernisation of infrastructure, rolling stock and stations	Number of stations revitalised through improving functionality, rebuilding or commercialisation	7	58	58	0%	Not Applicable
Rail signalling improvement programme	Pillar 2: Modernisation of infrastructure, rolling stock and stations	Status of the project phase(s) for the Western Cape Central Line resignalling and KwaZulu-Natal resignalling contract	New	Western Cape: Completion of the Central Line resignalling programme (subject to the removal of illegal settlements)	Completion of Central Line signalling not completed	Not Achieved	Contract for installation of signalling not commenced and removal of illegal settlements remain unresolved
Rail signalling improvement programme	Pillar 2: Modernisation of infrastructure, rolling stock and stations		New	KwaZulu-Natal: Complete the evaluation and adjudication for the resignalling programme	Evaluation and Bid adjudication completed	0%	Not Applicable
Secure and protect rolling stock and rail infrastructure to prevent vandalism	Pillar 3: Enhancing operational and workplace safety and security, covering assets and people	Level of implementation complete on the security plan	New	80% implementation of the security plan for: supporting technology for security (CCTV, access control and e-guarding); upgrading control rooms; and insourced train security	66%	-14%	Procurement from specification to award were ineffective.
Localisation in programme of rolling stock expansion and upgrade	Pillar 2: Modernisation of infrastructure, rolling stock and stations	Localisation in programme of rolling stock expansion as per the Gibela manufacturing and supply agreement	New	Manufacturing and supply agreement level of local content at 50%	No confirmation and verification of localisation percentage achieved.	-100%	Independent Economic Development Monitor not appointed
Rail passenger trips	Pillar 1: Rebuilding corridors for consistently good services with passengers at the centre	Number of passenger trips per year	16,69 million	26.08 million	15.62 million	-40%	Destruction of assets as result of the floods of April 2022 in KZN as well as closure of lines in Gauteng to allow safe reconstruction of these lines.
Safety occurrences	Pillar 3: Enhancing operational and workplace safety and security, covering assets and people	Number of safety occurrences reported to the Railway Safety Regulator (categories A to L) per year	247 safety occurrences reported to RSR for categories A to L	Fewer than 1083	168 safety occurrences reported to RSR for categories A to L	-84%	Achieved with a decline of 84% in occurrences

			2021/22	2022/23			
Outcome of Minister	PRASA Pillar/ Objective	Performance indicator	Audited performance 2021/22	Planned Annual Target	Actual achievement 2022/23	Variance against target	Reasons for deviation
Security occurrences	Pillar 3: Enhancing operational and workplace safety and security, covering assets and people	Number of security occurrences reported to the Railway Safety Regulator (categories 1 to 9) per year	1705 security occurrences reported to RSR for categories 1 - 9	Fewer than 2970	823 security occurrences reported to the RSR for categories 1 – 9	-72%	Achieved with a decline of 72% in occurrences
Presidential line recovery: Mabopane to Pretoria	Pillar 1: Rebuilding corridors for consistently good services with passengers at the centre	Level of operations on the Mabopane line as per the deadline	Resumption of service between Pretoria and Mabopane with new EMU's on 17 January 2022.	Commence operating a service with signalling in Q3	Signaling for the full Mabopane line was not completed and number of trains remain the same as January 2022	-100%	Signaling contract for re-instatement of signals vandalised not completed.
Presidential line recovery: Central Line	Pillar 1: Rebuilding corridors for consistently good services with passengers at the centre	Level of operations on the Central Line or sections of the Central Line as per the deadline	No service introduced.	Reopening of the Cape Town to Bellville via Sarepta line with minimum level of standards by Q2, and extending the services beyond Langa to Nyanga	2 Lines (Langa to Pinelands and Cape Town to Bellville via Sarepta) introduced in July 2022 and the extension from Langa to Nyanga completed in March 2023	0%	Not Applicable
Metrorail corridor recovery	Pillar 1: Rebuilding corridors for consistently good services with passengers at the centre	Number of additional service lines in operation with minimum or full standards	New	7 more service lines reopened with minimum electrical services or completed for full services with signalling.	8 Sections/lines introduced	14%	Not Applicable
Depot modernisation programme	Pillar 2: Modernisation of infrastructure, rolling stock and stations	Status of depot contracts, whether turnkey or consulting (designs)	0	4 depot contracts commence	No contracts commenced	-100%	Non-award of tenders and court order against award of Salt River, Durban and Springfield depot designs.

The variance against the target reflects the following: 7 targets were exceeded, 3 were achieved as expected, 0 were partially achieved, and 7 were not achieved.

INTEGRATED Annual Report

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Statement of the Audit & Risk Committee

Statement Of The Audit & Risk Committee

The Audit & Risk Committee reports that it regulated its affairs in compliance with the adopted Audit and Risk Committee Terms of Reference and has discharged its responsibilities into the control environment and the following recommendations to address matters affecting PRASA Audit outcome. The above will continue to receive focused attention in compliance with terms of reference. In the conduct of its duties the committee had *inter alia* performed the following activities.

COMPLIANCE - According to governance, all minutes are approved and signed. Certain areas of non-compliance with legislative and regulatory requirements relating to procurement were noted by the Committee.

CORPORATE GOVERNANCE - During the financial year under review, the Committee did not raise any issue of non-compliance with applicable corporate governance principles.

EFFECTIVE INTERNAL CONTROL – from the reports from internal auditors, management, and the report on the Audit of the financial statement from the Auditor general South Africa, there were matters reported that indicate material deficiencies in the system of internal control. The Audit committee noted with concern the control environment relating:

- Strengthening the control environment with proper oversight by governance structures.
- Remaining executive management positions should be filled with appropriately skilled and experienced personnel.
- Develop and implement audit action plan that is root cause focused with specific remedial action to address the audit findings.
- Monitor performance and consequence management especially around supply chain and contract management.
- Implement disciplined financial reporting process underpinned by solid accounting and financial reporting, management knowledge including training of all officials on the accounting framework requirement.
- The internal controls assessment for the year provided reasonable assurance that the entity would achieve its performance objectives.
- We noted issues raised on ICT and detail as per the AGSA report.
- SCM issues raised in AGSA report.

RISK MANAGEMENT - According to its terms of reference, the Committee have reviewed the risk management framework and monitor the risk mitigation strategies. The Committee assessed the enterprise-wide risk management processes, and the Committee was thus satisfied with the adequacy.

PERFORMANCE MANAGEMENT - The information on the performance against predetermined objectives indicates that the organization improved on the achievement of its objectives. The quarterly reports that were due during the committee tenure were submitted in accordance with the PFMA and Treasury Regulations for the year under review.

EVALUATION OF THE FINANCIAL STATEMENTS - The Audit & Risk Committee performed the following functions in relation to the financial statements included in the Annual Report:

- reviewed and discussed the annual financial statements with the AGSA, management and the Board;
- reviewed the AGSA management letter;
- reviewed changes in the accounting policies and procedures;
- reviewed significant adjustment arising from the audit.

The current Audit & Risk Committee concurs and accepts the conclusions of the AGSA on the annual financial statements and is of the opinion that the audited financial statements be accepted and read together with the report of the AGSA.

ARC Chairperson

MS. N MPYE

Review by the Acting Group Chief Financial Officer

Addressing audit opinion matters

PRASA has received a disclaimer of opinion on its Annual Financial Statements (AFS) from the AGSA for a number of years. The disclaimers stemmed from systemic matters that had not been addressed. However, PRASA has made significant strides in addressing many of these material matters, as detailed below.

Property, plant and equipment (PPE)

OLD ROLLING STOCK (YELLOW TRAINS)

The value of old rolling stock in use was not determined, neither was the residual value or the useful life of these assets determined accurately. PRASA has undertaken a detailed review of all old rolling stock and classified the stock into various categories. A valuation for each category was determined based on whether the rolling stock could be used or would be required for use. This approach has determined an accurate value for the old rolling stock and has seen a write-down of R3.8 billion in the current financial year.

NEW ROLLING STOCK (BLUE TRAINS)

The new rolling stock values have been determined accurately. This has arisen as a result of finalising long outstanding indexation calculations with the supplier. This matter is significant, as it affects the value of the assets in the balance sheet and informs the value disclosed in the commitments note.

NETWORK ASSETS AND FACILITIES AND LEASEHOLD ASSETS

The existence and complete construction of these assets have provided problems for many years. This has been addressed by undertaking various verification processes internally and the use of external experts to verify the internal verification process. This has resulted in these assets being accurately recorded in the accounting systems of PRASA with no differences between the asset registers and the AFS. The updated asset registers include suitable location identifiers and condition assessments that address issues previously raised by the AGSA.

ASSETS UNDER CONSTRUCTION

A complete review of all assets under construction has been undertaken. Where items could not be supported or verified through the verification process, items were impaired or written off. Signalling was a major contributor to the asset under construction balance and these items have been capitalised and impaired where impacted by vandalism.

Commitments

The major concern regarding the commitments note was the uncertainty arising from not concluding the indexation discussions with the supplier. These have been completed for both the Manufacturing Supply Agreement (MSA) and Technical Support and Spares Supply Agreement (TSSSA). This means that the current calculations for the commitments are based on actual numbers rather than estimates. The full revised calculations have been provided, including all relevant information.

Prior period errors

All prior period errors are supported by detailed calculations and evidence to support the action taken.

Irregular, fruitless and wasteful expenditure (IFWE)

IFWE has been a material issue for PRASA and other SOEs, as the AGSA determined that there were no adequate systems in place to ensure completeness of IFWE disclosed in the AFS. PRASA has put additional resources in place to address this matter. The resources are a mix of new internal structures and appointments, as well as the use of external resources. The focus was on establishing a clear process to the satisfaction of the AGSA, and on reviewing previous populations to limit the potential for a material misstatement. To this end, PRASA has reviewed the populations over the last two years as disclosed in the AFS, to ensure there is no material misstatement.

Accomplishments during the year

Assets

The significant interventions implemented to complete and upload the asset registers following the various internal and external verification processes has resulted in PRASA now having detailed and accurate records for its asset registers and the AFS. This is a significant step in the path to arriving at an improved audit outcome. The verification processes have also led to PRASA impairing and writing off R9.4 billion worth of assets. R3.8 billion related to the write-down of old rolling stock, with the balance of R5.6 billion being related to physical assets that no longer exist due to theft or vandalism.

Reduction of debt

PRASA received an allocation that enabled it to settle R2 billion worth of creditors at year end, which had been long outstanding. This has impacted its sustainability going forward significantly.

Cash management

PRASA has managed to live within its operational cash allocations and interest earnings for the year. This is a significant step that starts to address the continuous decline in its financial position.

Capital programme

This is the first year that PRASA has spent more capital than it has been allocated. This is to be celebrated and underlines PRASA bringing in additional skills and capacity to roll out its extensive rebuild program.

IFWE

The establishment of a function and resources to deal with IFWE is a major step forward in addressing this significant matter.

Accounting resources

PRASA has brought in resources and external service providers to address the significant under investment in this vital area in prior years. This was previously a significant contributor to poor audit opinions and findings.

Looking to the future

PRASA is a vital economic enabler that needs to be adequately resourced to take its rightful position in the transport value chain in South Africa. To this end, changes need to be made at the entity to arrive at the goal of a fit-for-purpose organisation. This will be underpinned by three key activities:

- Reconfiguring the operating model to provide clear and simple functions focused on the primary mandate, secondary mandate and capital program.
- Rationalisation of operations and costs to live within its annual operational and capital budget allocations. PRASA has survived on interest income to close the funding gap, but this will disappear as the capital program continues to ramp up. It is therefore a business imperative.

The cost of security has more than doubled as PRASA focuses on protecting its assets, people and passengers. This is a result of extraneous matters not related to running rail and a funding allocation is required to cover these costs whilst technology cost-saving interventions are being implemented.


02
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SECURITY

INTEGRATED Annual Report

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Passenger Rail Agency of South Africa

Report of the auditor-general

Report of the auditor-general to Parliament on the Passenger Rail Agency of South Africa

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the Passenger Rail Agency of South Africa (Prasa) and its subsidiaries (the group) set out on pages 117 to 208, which comprise the consolidated and separate statement of financial position as at 31 March 2023, consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 31 March 2023 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA).

Basis for qualified opinion

PRIOR YEAR ADJUSTMENTS - ERROR 8

3. I was unable to obtain sufficient appropriate audit evidence for the restatement made in the prior-year adjustments of property, plant and equipment. As described in note 38 (error 8) to the financial statements, the restatement was made to derecognise assets where such assets could no longer be verified, capitalised costs could not be identified to relate to a specific asset, or the assets were lost due to vandalism and theft. These asset were capitalised in financial years up until, and including, the financial year ended 31 March 2021, but it could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the prior-year adjustments (error 8) stated at R3,4 billion in the consolidated and separate financial statements.

COMMITMENTS

4. Prasa did not maintain accurate records of the contractual information used to determine and disclose commitments, as required by GRAP 1, *Presentation of financial statements,* and GRAP 17, *Property, plant and equipment,* respectively. Consequently, commitments, as disclosed in note 31 to the financial statements, were overstated by R1,2 billion (2022: R3 billion) in the consolidated and separate financial statements.

PROPERTY, PLANT AND EQUIPMENT

5. Prasa has extensive property, plant and equipment under construction, which include delayed or halted projects. Contrary to the requirements of GRAP 17, *Property, plant and equipment,* the following information was not disclosed in the accompanying financial statements for the group:
   - Property, plant and equipment under construction that is taking a significantly longer period of time to complete than expected, including reasons for any delays.

- Property, plant and equipment under construction where construction was halted either during the current or previous reporting periods as well as the reasons therefore and any impairment losses recognised as a result.

I have not included the omitted information in this auditor's report as it was impracticable to do so.

Context for opinion

6. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the consolidated and separate financial statements section of my report.
7. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants* (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

MATERIAL IMPAIRMENT OF LOAN TO CONTROLLED ENTITY

10. As disclosed in note 4 to the financial statements for the controlling entity, the amount loaned to Autopax Passenger Services (SOC) Ltd, a wholly owned subsidiary of Prasa, amounted to R307 million. The total balance outstanding as at 31 March 2023 was R1,7 billion, the total amount of which was impaired.

MATERIAL IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

11. As disclosed in note 25 to the financial statements, material losses of R9,4 billion was recognised as a result of the impairment of property, plant and equipment.

MATERIAL LOSSES THROUGH CRIMINAL CONDUCT

12. As disclosed in notes 41 and 42, respectively, to the financial statements, material losses were incurred as a result of criminal conduct as follows:
    - R14,8 million was incurred as a result of cybersecurity attack.
    - R21,2 million was embezzled by an employee of the organisation who was subsequently dismissed.

Other matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

NATIONAL TREASURY INSTRUCTION NOTE NO. 4 OF 2022-23: PFMA COMPLIANCE AND REPORTING FRAMEWORK

14. On 23 December 2022 National Treasury issued Instruction Note No. 4: PFMA Compliance and Reporting Framework of 2022-23 in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA, which came into effect on 3 January 2023. The PFMA Compliance and Reporting Framework also addresses the disclosure of unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure. Among the effects of this framework is that irregular and fruitless and wasteful expenditure incurred in previous financial years and not addressed is no longer disclosed in the disclosure notes of the annual financial statements, only the current year and prior year figures are disclosed in note 42 to the financial statements. The movements in respect of irregular expenditure and fruitless and wasteful expenditure are no longer disclosed in the notes to the annual financial statements of the group. The disclosure of these movements (e.g. condoned, recoverable, removed, written off, under assessment, under determination and under investigation) are now required to be included as part of other information in the

annual report of the auditees. I do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

15. The accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the Standards of GRAP and the requirements of the PFMA; and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
16. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

RESPONSIBILITIES OF THE AUDITOR-GENERAL FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

17. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
18. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

19. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected objectives presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.
20. I selected the following objectives presented in the annual performance report for the year ended 31 March 2023 for auditing. I selected objectives that measure the public entity's performance on its primary mandated functions and that are of significant national, community or public interest.

Objective	Page numbers	Purpose
PILLAR 1 - Rebuilding corridors for consistently good services with passengers at the centre	85 - 87	Construction, repair and replacement of infrastructure on rail corridors per priority list.
PILLAR 2 - Modernisation of infrastructure, rolling stock and stations	85 - 87	Station revitalisation and modernisation, rolling stock fleet renewal programme, resignalling and depot modernisation.
PILLAR 3 - Enhancing operational and workplace safety and security, covering assets and people	86 - 87	Ensuring safety and security of passengers, employees and assets.

21. I evaluated the reported performance information for the selected objectives against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the public entity's planning and delivery on its mandate and objectives.

22. I performed procedures to test whether:
    - the indicators used for planning and reporting on performance can be linked directly to the public entity's mandate and the achievement of its planned objectives
    - the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
    - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
    - the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
    - the reported performance information is presented in the annual performance report in the prescribed manner
    - there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets.

23. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

24. I did not identify any material findings on the reported performance information for the selected objectives.

Other matters

25. I draw attention to the matters below.

ACHIEVEMENT OF PLANNED TARGETS

26. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievements.

27. The public entity plays a key role in delivering services to South Africans. The tables that follow provide information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The reasons for any underachievement of targets are included in the annual performance report on pages 78 to 87.

PILLAR 1 - REBUILDING CORRIDORS FOR CONSISTENTLY GOOD SERVICES WITH PASSENGERS AT THE CENTRE

Targets achieved: 57%

Budget spent: 77%

Key service delivery indicator not achieved	Planned target	Reported achievement
General overhauls (GO) MLPS coaches completed per year, including heavy outsourced maintenance	Total 20 MLPS coaches (Heavy maintenance -20 coaches and GO - 0 coaches)	0 MLPS coaches
Number of passenger trips per year	26 080 000	15 620 000
Level of operations on the Mabopane line as per the deadline	Commence operating a service with signalling in Q3	Signalling for the full Mabopane line was not completed and number of trains remain the same as January 2022

PILLAR 2 - MODERNISATION OF INFRASTRUCTURE, ROLLING STOCK AND STATIONS

Targets achieved: 57%

Budget spent: 110%

Key service delivery indicator not achieved	Planned target	Reported achievement
Status of the project phase(s) for the Western Cape Central Line resignalling and KwaZulu- Natal resignalling contract	Western Cape: Completion of the Central Line resignalling programme (subject to the removal of illegal settlements)	Completion of Central Line signalling not completed
Localisation in programme of rolling stock expansion as per the Gibela manufacturing and supply agreement	Manufacturing and supply agreement level of local content at 50%	No confirmation and verification of localisation percentage achieved.
Status of depot contracts, whether turnkey or consulting (designs)	4 depot contracts commence	No contracts commenced

PILLAR 3 - ENHANCING OPERATIONAL AND WORKPLACE SAFETY AND SECURITY, COVERING ASSETS AND PEOPLE

Targets achieved: 67%

Budget spent: 102%

Key service delivery indicator not achieved	Planned target	Reported achievement
Level of implementation complete on the security plan	80% implementation of the security plan for: supporting technology for security (CCTV, access control and e-guarding); upgrading control rooms; and insourced train security	66%

MATERIAL MISSTATEMENTS

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for *Pillar 2 - Modernisation of infrastructure, rolling stock and stations* and *Pillar 3 - Enhancing operational and workplace safety and security, covering assets and people.* Management subsequently corrected all the misstatements and I did not include any material findings in this report.

Report on compliance with legislation

29. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting authority is responsible for the public entity's compliance with legislation.
30. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
31. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the public entity, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
32. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

ANNUAL FINANCIAL STATEMENTS

33. 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.
34. 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 expenditure, liabilities 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 qualified opinion.

PROCUREMENT AND CONTRACT MANAGEMENT

35. Some of the contracts and quotations were awarded to bidders based on pre-qualification criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of the 2017 Preferential Procurement Regulation 4(1) and 4(2). This non compliance was identified in the procurement processes for the General Overhaul (GO) program.

EXPENDITURE MANAGEMENT

36. Effective and appropriate steps were not taken to prevent irregular expenditure, as disclosed in note 42 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by non-compliance with laws and regulations pertaining to procurement and contract management.
37. Effective steps were not taken to prevent fruitless and wasteful expenditure, as disclosed in note 42 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the fruitless and wasteful expenditure was caused by penalties and interest due to late payments.

CONSEQUENCE MANAGEMENT

38. 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 not all investigations into irregular expenditure were not performed.
39. 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 not all investigations into fruitless and wasteful expenditure were not performed.

Other information in the annual report

40. The accounting authority is responsible for the other information included in the annual report. The other information referred to does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported on in this auditor's report.
41. My opinion on the consolidated and separate financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
42. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. The other information I obtained prior to the date of this auditor's report are the *Service Delivery Environment* report, *Group Overview: Governance* report, Corporate report and the *Statement of the Audit & Risk Committee.*
44. If based on my work I have performed, I concluded that there is a material misstatement in this other information, I am required to report this fact.
45. Particulars of irregular, fruitless and wasteful expenditure balances included in the annual report are materially inconsistent with audit evidence obtained during the audit. This is due to Prasa not having revisited the irregular and fruitless and wasteful expenditure incurred in financial years prior to 31 March 2021, to ensure the completeness thereof, in light of previous audit qualifications stretching as far back as the financial year ended 31 March 2017.

Internal control deficiencies

46. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
47. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on compliance with legislation included in this report.
48. Inadequate and insufficient controls over information security management and information technology (IT) systems to ensure the reliability of the systems and the availability, accuracy and protection of information relating to user access management, programme change control and IT service continuity. The controls in place were insufficient to effectively mitigate against the risks of potential irregularities and/or fraudulent activities being perpetrated in the IT environment.
49. Management did not perform effective monitoring and reporting on infrastructure under construction that were delayed or halted to enable corrective action where necessary, consequently it resulted in non-adherence to the disclosure requirements of GRAP 17, *Property, plant and equipment.*
50. Vacancies in senior management (in some instances attributable to protracted suspensions of officials that are still occupying these positions) as well as continued capacity constraints in terms of numbers and skills in critical units - such as ICT, asset management, finance, supply chain & contract management and the legal department - hampered the effective functioning of the internal control environment that is meant to facilitate accurate financial reporting on an ongoing basis, compliance with laws and regulations and prevention of irregularities, including fraud.
51. Management did not effectively monitor the implementation of standardised accounting processes, pertaining to contract management, as well as daily and monthly processing and reconciling of expenditure transactions by officials. The implications thereof was a material misstatement of commitments as well as material non-compliance with laws and regulations.
52. Poor demand and procurement planning resulted in the inadequate development of bid specifications, consequently this caused non-compliance with laws and regulations during the bid evaluation process resulting in irregular expenditure. In a number of instances this was detected through pro-active external probity reviews, which resulted in non-awards. Additionally, procurement processes were not being conducted with the requisite agility due to capacity constraints and enhanced levels of procurement necessitated by the infrastructure rebuilding programme. These factors had a negative impact on the overall performance of the entity.
53. Lack of appropriate and timely consequence management by management and leadership, upon detection of non-compliance with laws and regulations, thus officials were not effectively deterred from committing transgressions, which included the incurrence of irregular, fruitless and wasteful expenditure.

Material irregularities

54. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

Material irregularities identified during the audit

55. The material irregularities identified are as follows:

SUSPECTED FRAUD RELATING TO "GHOST" EMPLOYEES

56. During the audit of the financial year ended 31 March 2021, data analytics and subsequent substantive procedures were performed on Prasa's employee database and employee related costs. Exceptions were identified which were potentially indicative of fictitious ("ghost") employees. At the time, Prasa responded to indicate that the entity was in the process of physically verifying all employees on the payroll as part of Project Ziveze (show yourself)

57. My audit for the financial year ended 31 March 2022 included further audit procedures to address the risk of potential "ghost" employees, also taking into consideration that the ongoing Project Ziveze at the time indicated that a number of officials on the Prasa employee database could not be physically verified. Due to Prasa's inability to provide critical documentation and the fact that the officials in question could not be physically verified as their employment was terminated during the 2021-22 financial year, a reasonable possibility of misrepresentation existed, resulting in suspected fraud that warrants further investigation. The suspected fraud is likely to result in a material financial loss for the Prasa, due to suspected payments made to fictitious ("ghost") employees for no value in return.
58. The accounting authority was notified of the material irregularity on 9 July 2023 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting authority initially responded on 18 August 2023 and then provided the last additional information on 8 September 2023 detailing the actions already taken and the planned actions to address the material irregularity. Based on the responses from the accounting authority and supporting evidence the actions listed below were taken to address the material irregularity or are in process to address the material irregularity.
59. Preliminary internal investigations were completed in May 2023, which prompted the need for an independent forensic investigation. To that effect, an independent company was appointed on 17 May 2023 to probe HCM Processes and Systems, this investigation is still in progress at the time of this report. This matter is also to form part of a proposed new Special Investigating Unit (SIU) investigation, for which the proclamation approval is pending. Investigations are aimed at ensuring that those that misrepresented themselves or caused financial loss to Prasa are held to account and where possible, monies are recovered and returned to the public entity.
60. Several actions are in progress to improve the human capital internal control environment, to be implemented and embedded by the end of the 2023-24 financial year. These include updated standardised forms for on- and offboarding of employees, the clean-up of the SAP employee database, segregation of critical HC related functions, multi-level approval on the SAP system, digitisation of all individual employee files and monthly payroll verification across the whole public entity.
61. Additionally, a complete overhaul of the ICT security system is underway to ensure only those duly authorised can have traceable access to the SAP and other information systems within Prasa. This is informed by a comprehensive Information and Communications Technology (ICT) project plan, which includes a complete SAP Configuration and Security Review and the rectification of identified vulnerabilities within SAP environment. The target date for completion of this work is 31 March 2024. ICT is also awaiting the approval of the Security Information Event Management and Security Operations Centre bid to be awarded, which would provide PRASA with near real-time security event monitoring. PRASA went to market with this tender in November 2022 and it has yet to be awarded.
62. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions are in progress to address the material irregularity. I will follow up on finalisation of these actions during my next audit.

PAYMENTS MADE FOR NO VALUE RECEIVED - ISIPINGO RETAIL DEVELOPMENT CONSTRUCTION PROJECT

63. Between 2017 and 2018 standing time, with resultant contract price adjustments, were incurred with regard to the construction of the new retail development at the existing Isipingo Station under the National Station Upgrade programme.
64. The principal agent (PA), and Prasa officials involved in this project, failed to advise Prasa that the site should not be handed over to the contractor while there were still serious unresolved challenges such as access to the land that belong to Transnet and that the required approvals from the eThekwini Municipality were still outstanding.
65. Prasa and its PA did not carry out their duties to properly plan for the project, as the Project Manager and the PA did not consult with all relevant stakeholders prior to commencement of the construction work, nor was all requisite approvals obtained. This indicates that, from

the initiation of the project, there was poor planning and internal control breakdowns which cascaded into overruns for the project. Had Prasa and its PA effected sound financial management and internal control the monies expended on variation order seven could have been avoided.

66. The officials in Prasa and its PA did not ensure that the system of financial management and internal controls established for Prasa is carried out within the area of responsibility of that official as required by section 57(a) of the PFMA.

67. This non-compliance with section 57(a) of the PFMA is likely to result in a material financial loss of R19,3 million for Prasa, given the potential recovery of the loss through the ongoing arbitration process.

68. An investigation into this matter was performed as part of Prasa's secondment agreement with the SIU, which was entered into on 11 September 2020, and the investigation was concluded on 17 March 2021. The investigation concluded that the PA and professional team on the construction project must be held accountable for non-performance and recommended disciplinary action against Prasa officials identified to be responsible.

69. The PA initially submitted a claim against Prasa, Prasa however responded through a counter claim to hold the PA, and the consortium of consultants who were contracted by Prasa to act as professionals, liable for the loss. Arbitration proceedings are underway at the time of this report.

70. The accounting authority was notified of the material irregularity on 14 October 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting authority responded on 11 November 2022, detailing the actions already taken and the planned actions to address the material irregularity. Based on the responses from the accounting authority and supporting evidence the actions listed below were taken to address the material irregularity or are in process to address the material irregularity.

71. The six Prasa officials, who were identified by the investigation to have been involved in the irregularity, were charged with gross misconduct and subsequently suspended. Disciplinary processes were concluded for four officials - final written warnings were issued for two officials; one was acquitted and one official resigned before he could be charged. Proceedings for the remaining two officials are still in progress.

72. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions are in progress to address the material irregularity. I will follow up on finalisation of these actions during my next audit.

Status of previously reported material irregularities

COMPETITIVE BIDDING PROCESS NOT FOLLOWED IN THE APPOINTMENT OF GENERAL OVERHAUL AND UPGRADE CONTRACTORS

73. A competitive bidding process was not followed for the initial appointment of suppliers to provide general overhaul and upgrade services and for the subsequent extensions of the contracts, in contravention of the requirements of section 51(1)(a)(iii) of the PFMA which requires a fair, equitable, transparent and competitive procurement process. The extensions from 1 April 2014 to 31 March 2019 did not include any extension contract values. This was done despite the supply chain management policy at the time of the extension, prohibiting the awards of contracts for periods longer than three years.

74. Since the transition from South African Rail Commuter Corporation Limited (SARCC) to Prasa in 2008, a competitive bidding process has not been followed. Over time, various suppliers were added to the list of contractors from the SARCC, including some added through a "confinement" process which was also found to be non-compliant with section 51(1)(a)(iii) of the PFMA and had been reported on in previous audit reports.

75. These contractors continued to render services and significant irregular expenditure continued to be disclosed in respect of these services. Cumulative payments made in respect of these contractors exceeded R2,8 billion. A material financial loss is likely, as Prasa has not secured market-related prices by way of a competitive bidding process since 2008.

76. The accounting authority was notified of the material irregularity on 17 July 2019 and in the response to the notification, the accounting authority committed to

initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 15 September 2021.

77. The SIU investigation, through the secondment agreement, established that the officials implicated in the procurement of the general overhaul tender were no longer employed at Prasa and therefore no disciplinary processes were recommended. This matter also forms part of the SIU investigation under proclamation R51 of 2019, approved by the president on 13 August 2019, that is still in progress. On 8 December 2022, the SIU - as part of its investigation under the proclamation - referred evidence against six former Group Chief Executive Officers to the National Prosecuting Authority for contravention of the PFMA. The SIU, on 20 July 2023, also confirmed that no recovery of losses is possible in relation to this irregular expenditure due to the matter reaching prescription.

78. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity.

UNFAIR PROCUREMENT PROCESS FOLLOWED IN THE APPOINTMENT OF THE SIGNALLING CONTRACTOR

79. A R1,8 billion COf!tract for the design, construction and implementation of a new railway signalling system in the Western Cape, considered a key project, was awarded in July 2012. Non-compliance matters identified in this regard included the following:

80. The closing date of the tender was extended from 31 March 2012 to 13 April 2012. However, there was insufficient, appropriate evidence to indicate that the revised tender closing date was communicated to all potential bidders, in contravention of section 51(1)(a)(iii) of the PFMA.

81. Prasa failed to maintain a register of the bid submissions received in contravention of section 51(1)(a)(iii) of the PFMA and Prasa's supply chain management policy at the time of the award.

82. A 10% mobilisation fee (advance payment) of R186,4 million was paid to the contractor in August 2013, while the signed contract did not include a provision for an advance payment guarantee to Prasa despite this being listed as an advance payment condition in the Briefing Note 007 issued in respect of the Request for Proposal (RFP) on 23 March 2012. No evidence was provided that the contractor had provided the advance payment guarantee, resulting in a contravention of section 51(1)(a)(iii) of the PFMA.

83. The amount recommended by the Finance, Capital, Investment and Procurement Committee (FCIP) for approval was R1,6 billion, while the contract was awarded at R1,8 billion. No evidence was provided to justify the difference in amounts of R255,7 million.

84. The non-compliance is likely to result in a material financial loss as a fair and transparent process was not followed in the appointment of the contractor. There was also no justification for the difference of R255,7 million between the contract value and the value recommended by the FCIP.

85. The accounting authority was notified of the material irregularity on 17 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 31 August 2021.

86. The SIU investigation 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 at the conclusion of the 2021-22 audit that it would still re'port the matter to South African Police Service (SAPS) accordingly. Prasa subsequently attempted to register a case with the SAPS, however due to a lack of documentary evidence was unable to do so.

87. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity.

COMPETITIVE BIDDING PROCESS NOT FOLLOWED IN THE AWARD RELATING TO THE PROVISION OF BUS SERVICES IN THE WESTERN CAPE

88. A competitive bidding process was not followed for the appointment of a supplier to provide bus services in the Western Cape since 2005, in contravention of the requirements of section 51(1)(a)(iii) of the PFMA which requires a fair, equitable, transparent and competitive procurement process. Prasa continued to use this supplier on the basis of this 2005 contract, without testing the market and despite the 2009 and 2014 supply chain management policies prohibiting the awards of contracts for periods longer than three years.
89. A material financial loss is likely, as Prasa has not secured market-related prices by way of a competitive bidding process since 2005.
90. The accounting authority was notified of the material irregularity on 18 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 16 September 2021.
91. The investigation confirmed the non-compliance and Prasa halted the use of the contract in line with the recommendations of the investigation report. Furthermore, one employee was charged in relation to this matter and was dismissed in June 2023.
92. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity.

COMPETITIVE BIDDING PROCESS NOT FOLLOWED IN THE AWARD RELATING TO THE PROVISION OF SURVEILLANCE SERVICES (DRONES)

93. In February 2018, a deviation in terms of treasury regulation 16A.6.6 for the provision of surveillance services (drones) to the value of R3,2 million was approved for a period of six months.
94. The regulation used as a basis to deviate from the competitive bidding process does not apply to Prasa as a schedule 3B entity and the contracts were extended without obtaining the required approvals, resulting in a contravention of section 51(1)(a)(iii) of the PFMA.
95. A material financial loss is likely, as Prasa has not secured market-related prices by way of a competitive bidding process and the contract has been extended without obtaining the required approvals.
96. The accounting authority was notified of the material irregularity on 18 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 8 September 2021.
97. 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 was implemented, this resulted in the acquittal of two officials after disciplinary proceedings found that there was no prima facie misconduct and the dismissal of the remaining official in June 2023.
98. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity.

COMPETITIVE BIDDING PROCESS NOT FOLLOWED IN THE AWARD RELATING TO THE PROVISION OF SECURITY SERVICES

99. In February 2018, a deviation in terms of treasury regulation 16A.6.6 for the provision of security services to the value of R9,3 million was approved for a period of six months.
100. The regulation used as a basis to deviate from the competitive bidding process does not apply to Prasa as a schedule 3B entity and the contracts were extended without obtaining the required approvals, resulting in a contravention of section 51(1)(a)(iii) of the PFMA.
101. A material financial loss is likely, as Prasa has not secured market-related prices by way of a competitive bidding process and the contract has been extended without obtaining the required approvals.
102. The accounting authority was notified of the material irregularity on 18 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 15 September 2021.
103. 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 was implemented, this resulted in the acquittal of two officials after disciplinary proceedings found that there was no prima facie misconduct and the dismissal of the remaining official in June 2023.
104. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity.

UNCOMPETITIVE PROCESS FOLLOWED IN THE AWARDS RELATING TO THE REPAIR, SUPPLY AND DELIVERY OF SIGNALLING EQUIPMENT ON THE BASIS OF AN "EMERGENCY" DEVIATION

105. In July 2018, three deviations to the value of R7,5 million were approved on the basis of emergencies with contracts to the value of R11 million concluded in September 2018 with the same supplier for the repair, supply and delivery of signalling equipment.
106. The basis for the deviation did not meet the requirements of National Treasury SCM Instruction Note 3 of 2016/17 as it could have been avoided had proper planning been done and there was no evidence of additional approvals for the difference between the award amount and the amount approved for the deviation, resulting in a contravention of section 51(1)(a)(iii) of the PFMA.
107. A material financial loss is likely, as Prasa has not secured market-related prices by way of a competitive bidding process and the award price exceeded the deviation approval amount by R3,5 million.
108. The accounting authority was notified of the material irregularity on 18 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 17 September 2021.
109. The investigation confirmed the non-compliance and identified officials that were responsible. Disciplinary action against the four implicated officials has been concluded and resulted in one official resigning prior to conclusion of the disciplinary process, one official having been acquitted, one official having been dismissed and the remaining official having been placed on suspension without pay for two months.
110. I considered the representations made and the

substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity.

UNFAIR AWARD FOR THE CONTROL OF VEGETATION

111. The supplier that scored the highest points was initially awarded the contract for the control of vegetation to the value of R2,8 million in February 2018; however, there was no documented justification for why this award was cancelled and another supplier, that did not score the highest points in terms of the PPPFA and its regulations, was awarded the contract of R5,2 million in August 2018 in contravention of section 51(1)(a)(iii) of the PFMA.
112. A material financial loss is likely, as the award of R5,2 million is significantly higher than the price tendered by the supplier with the highest points that was initially awarded the contract.
113. The accounting authority was notified of the material irregularity on 11 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 15 September 2021.
114. 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 was implemented and disciplinary action concluded. In this regard three officials were acquitted and three received final written warnings.
115. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity.

UNCOMPETITIVE PROCESS FOLLOWED IN THE AWARD RELATING TO THE REPAIR AND REPLACEMENT OF SIGNALLING EQUIPMENT ON THE BASIS OF AN “EMERGENCY” DEVIATION

116. In May 2018, a deviation to the value of R3 million was approved on the basis of an emergency, with a contract to the value of R5,1 million concluded in July 2018 with a supplier for the repair and replacement of signalling equipment.
117. The basis for the deviation does not meet the requirements of National Treasury SCM Instruction Note 3 of 2016/17 as it could have been avoided had proper planning been done and there was no evidence of additional approvals for the difference between the award amount and the amount approved for the deviation, resulting in a contravention of section 51(1)(a)(iii) of the PFMA.
118. A material financial loss is likely, as Prasa has not secured market-related prices by way of a competitive bidding process and the award price exceeded the deviation approval amount by R2,1 million.
119. The accounting authority was notified of the material irregularity on 18 July 2019 and in the response to the notification, the accounting authority committed to initiating an independent investigation into this material irregularity. There was a delay in the commencement of the investigation due to the changes in the accounting authority of Prasa. The SIU was requested to assist with the finalisation of the investigation into the material irregularity through the secondment of SIU resources to Prasa for a period of six months, with an option to extend. An agreement to this effect was signed on 11 September 2020 and the investigation concluded on 8 September 2021.
120. The investigation confirmed the non-compliance and identified officials that were responsible. Disciplinary action against the three implicated officials has been concluded and resulted in one official resigning prior to conclusion of the disciplinary process, one official having received a final written warning and the remaining official having been dismissed.
121. I considered the representations made and the substantiating documents provided and have concluded

that appropriate actions have been taken to address the material irregularity.

Other reports

122. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.
123. The Directorate for Priority Crime Investigation (DPCI) 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 and has not been finalised.
124. The SIU, under proclamation no. R51 of 2019, is investigating the alleged serious maladministration, improper and unlawful conduct by Prasa officials and unlawful appropriation or expenditure of public money or property which took place between 1 January 2010 and the date of the proclamation, 30 August 2019. This investigation is ongoing and the SIU has not yet issued a final report in this regard.
125. Prasa procured the services of an independent digital forensic service provider to assist with an investigation into alleged fraudulent activity, following an alleged cyber breach during the financial year under review. This investigation was concluded on 31 May 2023 and pointed to critical weaknesses in the Prasa cybersecurity environment. Management is in the process of addressing the findings of the report as part of its ITC project plan, to be fully implemented by 31 March 2024.
126. Prasa appointed independent forensic companies during the year under review to probe the following areas of concern:
    - Finance, including the SAP system and standard operating procedures as well as loading of payments. This investigation aims to address processing of payments, security risks around the lack of encryption of files, incorrect payments to service providers and potential fraud.
    - Supply Chain Management, including delays in the procurement value chain, potential syndication, multiple irregular appointments due to flawed processes, multiple non-awards and potential collusion.

These investigations were in progress at the time of this report.

Auditor-General

Pretoria

8 December 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

PROFESSIONAL JUDGEMENT AND PROFESSIONAL SCEPTICISM

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with selected requirements in key legislation.

FINANCIAL STATEMENTS

In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the public entity and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease operating as a going concern
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation - selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Public Finance Management Act No.1 of 1999 (PFMA)	Section 50(3); 51(1)(a)(iii); 51(1)(a)(iv); 51(1)(b)(i); 51(1)(b)(ii); 51(1)(e)(iii); 52(b); 53(4); 54(2)(c); 54(2)(d); 55(1)(a); 55(1)(b); 55(1)(c)(i); 56; 57(b); 57(d) & 66(3)(b)
Treasury Regulations for departments, trading entities, constitutional institutions and public entities (TR)	Treasury Regulation 29.1.1; 29.1.1(a); 29.1.1(c); 29.2.1; 29.2.2; 29.3.1; 31.1.2(c); 31.2.5; 31.2.7(a); 33.1.1 & 33.1.3
Companies Act No.71 of 2008	Section 45(2); 45(3)(a)(ii); 45(3)(b)(i); 45(3)(b)(ii); 45(4); 46(1)(a); 46(1)(b); 46(1)(c); 112(2)(a) & 129(7)
Prevention and Combating of Corrupt Activities Act No.12 of 2004 (PRECCA)	Section 34(1)
Construction Industry Development Board Act No.38 of 2000 (CIDB)	Section 18(1); 22(3)
CIDB Regulations	CIDB regulation 17; 25(1); 25 (5) & 25(7A)
PPPFA	Section 1(i); 2.1(a); 2.1(b); 2.1(f)
PPR 2017	Paragraph 4.1; 4.2; 5.1; 5.3; 5.6; 5.7; 6.1; 6.2; 6.3; 6.5; 6.6; 6.8; 7.1; 7.2; 7.3; 7.5; 7.6; 7.8; 8.2; 8.5; 9.1; 9.2; 10.1; 10.2; 11.1; 11.2; 12.1 & 12.2
PPR 2022	Paragraph 3.1; 4.1; 4.2; 4.3; 4.4; 5.1; 5.2; 5.3 & 5.4
NT SCM Instruction Note 03 2021/22	Paragraph 4.1; 4.2; 4.2 (b); 4.3; 4.4; 4.4 (c);4.4(d); 4.6 & 5.4
NT SCM Instruction 4A of 2016/17	Paragraph 6
NT SCM Instruction Note 03 2019/20	Paragraph Par 5.5.1(iv); 5.5.1(x)
NT SCM Instruction Note 11 2020/21	Paragraph 3.1; 3.4 (a); 3.4(b); 3.9: 6.1;6.2;6.7
PFMA SCM instruction 08 of 2022/23	Paragraph 3.2; 4.3.2; 4.3.3
Competition Act	Section 4(1)(b)(ii)
NT instruction note 4 of 2015/16	Paragraph 3.4
Second amendment of NTI 05 of 2020/21	Paragraph 4.8; 4.9 ; 5.1 ; 5.3
Erratum NTI 5 of 202/21	Paragraph 1
Erratum NTI 5 of 202/21	Paragraph 2
NT instruction note 5 of 2020/21	Paragraph 5.1 and 5.3

Passenger Rail Agency of South Africa

Audited Annual Financial Statements

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	Schedule 3B National Government Business Enterprise
Nature of business and principal activities	PRASA is a Schedule 3B National Government Business Enterprise reporting to the Minister of Transport. It derives its mandate from the Legal Succession to the South African Transport Services Act (1989), as amended. PRASA's main objective and business is to ensure, in consultation with the Department of Transport, that rail commuter services, and long-haul passenger rail and bus services, are provided within, to and from South Africa in the public interest. This objective is set out in terms of the principles in section 4 of the National Land Transport Act (2009).
Registered office	PRASA House 1040 Burnett Street Hatfield Pretoria 2017
Controlling entity	Passenger Rail Agency of South Africa
Economic entity	Passenger Rail Agency of South Africa

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The reports and statements set out below comprise the annual financial statements presented to the parliament:

Abbreviations

PRASA	Passenger Rail Agency of South Africa
Autopax	Autopax Passenger Services (SOC) Ltd
Intersite	Intersite Asset Investments (SOC) Ltd
GRAP	Generally Recognised Accounting Practice
PFMA	Public Finance Management Act
Economic entity entities (PRASA Group)	Economic entity Means a group of entities comprising a controlling entity and one or more controlled entities (PRASA Group)
Controlling entity	An entity that has one or more controlled entities (PRASA)

Accounting Authority's Responsibilities and Approval

The board is required by the Public Finance Management Act (Act 1 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the board to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The board acknowledge that they are ultimately responsible for the system of internal financial control established by the economic entity and place considerable importance on maintaining a strong control environment. To enable the board to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the economic entity and all employees are required to maintain the highest ethical standards in ensuring the economic entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the economic entity is on identifying, assessing, managing and monitoring all known forms of risk across the economic entity. While operating risk cannot be fully eliminated, the economic entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The board is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The board has reviewed the economic entity's cash flow forecast for the year to 31 March 2024 and, in the light of this review and the current financial position, they are satisfied that the economic entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 117 - 208, which have been prepared on the going concern basis, were approved by the board on 07 December 2023 and were signed on its behalf by:

Acting Chairperson
N NOKWE-MACAMO

Johannesburg

Statement of Financial Position as at 31 March 2023

		Economic entity		Controlling entity	
		2023	2022	2023	2022
Figures in Rand thousand	Note(s)		Restated*		Restated*
Assets					
Current Assets					
Inventories	3	465 478	480 741	449 883	466 863
Receivables from exchange transactions	5	922 446	595 125	945 589	587 759
VAT receivable	6	4 530	-	3 034	-
Prepayments	7	895 376	751 836	891 961	748 096
Cash and cash equivalents	8	23 065 935	24 638 570	23 008 485	24 618 218
		25 353 765	**26 466 272**	**25 298 952**	**26 420 936**
Non-Current Assets					
Investment property	9	4 453 336	4 351 343	4 291 205	4 351 343
Property, plant and equipment	10	42 855 154	41 685 089	42 803 879	41 645 010
Intangible assets	11	257 397	199 180	257 397	199 180
Operating lease asset	12	2 309 105	2 348 371	2 303 730	2 343 460
Prepayments	7	5 744 496	6 710 952	5 744 496	6 710 952
Other financial assets	13	165 734	-	-	-
		55 785 222	**55 294 935**	**55 400 707**	**55 249 945**
Total Assets		81 138 987	81 761 207	80 699 659	81 670 881
Liabilities					
Current Liabilities					
Payables from exchange transactions	14	8 790 309	5 534 249	8 553 856	5 271 950
VAT payable	15	-	1 832	-	1 775
Employee benefit obligation	16	635	699	635	699
Provisions	17	514 111	339 182	496 881	258 813
		9 305 055	**5 875 962**	**9 051 372**	**5 533 237**
Non-Current Liabilities					
Operating lease liability	12	1 178 388	1 298 712	1 178 388	1 298 712
Employee benefit obligation	16	4 396	5 019	4 170	4 785
Provisions	17	957 382	1 320 279	957 382	1 320 279
		2 140 166	**2 624 010**	**2 139 940**	**2 623 776**
Total Liabilities		**11 445 221**	**8 499 972**	**11 191 312**	**8 157 013**
Net Assets		69 693 766	73 261 235	69 508 347	73 513 868
Share capital	18	4 248 258	4 248 258	4 248 258	4 248 258
Accumulated surplus		65 445 508	69 012 977	65 260 089	69 265 610
Total Net Assets		69 693 766	73 261 235	69 508 347	73 513 868

* See Note 38

Statement of Financial Performance

Figures in Rand thousand	Note(s)	Economic entity 2023	Economic entity 2022 Restated*	Controlling entity 2023	Controlling entity 2022 Restated*
Revenue					
Revenue from exchange transactions					
Fare revenue		380 223	343 382	118 639	108 453
Operating lease rental income	19	616 006	496 243	620 332	530 155
Other income		191 541	116 269	180 768	92 083
Interest received	20	1 652 506	1 005 149	1 651 248	1 004 919
Actuarial gains	16	482	669	481	677
Gain on foreign exchange		34 284	-	34 284	-
Total revenue from exchange transactions		2 875 042	1 961 712	2 605 752	1 736 287
Revenue from non-exchange transactions					
Transfer revenue					
Government subsidy	21	19 858 542	16 859 785	19 507 428	16 859 785
Total revenue	22	22 733 584	18 821 497	22 113 180	18 596 072
Expenditure					
Employee related costs	23	(6 016 544)	(5 876 538)	(5 795 234)	(5 541 547)
Depreciation and amortisation	24	(4 819 326)	(2 196 281)	(4 810 545)	(2 189 942)
Impairment loss	25	(9 357 301)	(38 240)	(9 663 981)	(222 293)
Finance costs	26	(65 376)	(42 678)	(65 084)	(39 919)
Loss on disposal of assets		(294 223)	(76 105)	(297 920)	(57 075)
Fair value adjustments	27	(94 171)	(138 293)	(94 171)	(138 293)
Repairs and maintenance		(729 117)	(556 104)	(703 641)	(539 116)
General expenses	28	(4 942 629)	(3 623 070)	(4 687 834)	(3 423 940)
Total expenditure		**(26 318 687)**	**(12 547 309)**	**(26 118 410)**	**(12 152 125)**
(Deficit) surplus for the year		(3 585 103)	6 274 188	(4 005 230)	6 443 947
Attributable to:					
Surplus (deficit) from operational activities		(14 123 578)	(3 472 120)	(14 192 591)	(3 302 361)
Capital grant received ringfenced for infrastructure		10 538 475	9 746 308	10 187 361	9 746 308
		(3 585 103)	6 274 188	(4 005 230)	6 443 947

* See Note 38

Statement of Changes in Net Assets

Figures in Rand thousand	Share capital	Accumulated surplus/deficit	Total net assets
Economic entity			
Opening balance as previously reported	4 248 258	64 428 564	68 676 822
Adjustments			
Prior year adjustments 38	-	(1 689 775)	(1 689 775)
Balance at 01 April 2021 as restated*	**4 248 258**	**62 738 789**	**66 987 047**
Changes in net assets			
Surplus for the year	-	6 274 188	6 274 188
Total changes	**-**	**6 274 188**	**6 274 188**
Restated* Balance at 01 April 2022	4 248 258	69 005 462	73 253 720
Changes in net assets			
Change in useful life	-	25 149	25 149
Net income (losses) recognised directly in net assets	**-**	**25 149**	**25 149**
Deficit for the year	**-**	**(3 585 103)**	**(3 585 103)**
Total recognised income and expenses for the year	**-**	**(3 559 954)**	**(3 559 954)**
Total changes	**-**	**(3 559 954)**	**(3 559 954)**
Balance at 31 March 2023	4 248 258	65 445 508	69 693 766
Note(s)	18		
Controlling entity			
Opening balance as previously reported	4 248 258	64 537 211	68 785 469
Adjustments			
Prior year adjustments 38	-	(1 715 548)	(1 715 548)
Balance at 01 April 2021 as restated*	**4 248 258**	**62 821 663**	**67 069 921**
Changes in net assets			
Surplus for the year	-	6 443 947	6 443 947
Total changes	**-**	**6 443 947**	**6 443 947**
Restated* Balance at 01 April 2022	**4 248 258**	**69 265 319**	**73 513 577**
Changes in net assets			
Deficit for the year	-	(4 005 230)	(4 005 230)
Total changes	**-**	**(4 005 230)**	**(4 005 230)**
Balance at 31 March 2023	4 248 258	65 260 089	69 508 347
Note(s)	18		

* See Note 38

Cash Flow Statement

		Economic entity		Controlling entity	
		2023	2022	2023	2022
Figures in Rand thousand	Note(s)		Restated*		Restated*
Cash flows from operating activities					
Receipts					
Sale of goods and services		972 896	1 462 240	536 995	1 209 956
Grants		19 858 542	16 859 785	19 507 428	16 859 785
Interest income		1 652 506	1 005 149	1 651 248	1 004 919
		22 483 944	**19 327 174**	**21 695 671**	**19 074 660**
Payments					
Employee costs		(6 016 544)	(5 876 935)	(5 795 933)	(5 541 914)
Suppliers		(2 016 925)	(2 893 572)	(1 340 729)	(2 737 131)
Finance costs		(64 854)	(42 116)	(64 583)	(39 378)
		(8 098 323)	**(8 812 623)**	**(7 201 245)**	**(8 318 423)**
Net cash flows from operating activities	29	14 385 621	10 514 551	14 494 426	10 756 237
Cash flows from investing activities					
Purchase of property, plant and equipment	10	(15 609 975)	(7 918 121)	(15 600 396)	(7 945 200)
Proceeds from sale of property, plant and equipment	10	14 290	29 900	4 043	-
Purchase of investment property	9	(276 758)	(309 474)	(114 627)	(309 474)
Purchase of intangible assets	11	(85 813)	(604)	(85 813)	(589)
Loans advanced to controlled entities		-	-	(307 366)	(198 084)
Net cash flows from investing activities		(15 958 256)	(8 198 299)	(16 104 159)	(8 453 347)
Net increase/(decrease) in cash and cash equivalents		**(1 572 635)**	**2 316 252**	**(1 609 733)**	**2 302 890**
Cash and cash equivalents at the beginning of the year		24 638 570	22 322 318	24 618 218	22 315 328
Cash and cash equivalents at the end of the year	8	23 065 935	24 638 570	23 008 485	24 618 218

* See Note 38

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand thousand						
ECONOMIC ENTITY						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Fare revenue	655 548	-	**655 548**	380 223	**(275 325)**	43
Operating lease rental income	736 726	-	**736 726**	616 006	**(120 720)**	43
Other income	98 684	-	**98 684**	191 541	**92 857**	43
Gain on foreign exchange	-	-	**-**	34 284	**34 284**	
Interest received - investment	828 416	-	**828 416**	1 652 506	**824 090**	43
Actuarial gain	-	-	**-**	482	**482**	43
Total revenue from exchange transactions	2 319 374	-	2 319 374	2 875 042	555 668	
Revenue from non-exchange transactions						
Transfer revenue						
Government subsidy	19 858 541	-	**19 858 541**	19 858 542	**1**	43
Total revenue	22 177 915	-	22 177 915	22 733 584	555 669	
Expenditure						
Employee related cost	(5 873 365)	-	**(5 873 365)**	(6 016 544)	**(143 179)**	43
Depreciation and amortisation costs	(2 899 028)		**(2 899 028)**	(4 819 326)	**(1 920 298)**	43
Impairment loss	(59)	-	**(59)**	(9 357 242)	**(9 357 242)**	43
Finance costs	-	-	**-**	(65 376)	**(65 376)**	43
Fair value adjustments	-		**-**	(94 171)	**(94 171)**	
Repairs and maintenance	(841 878)	-	**(841 878)**	(729 117)	**112 761**	43
Loss on retirement of assets	-	-	**-**	(294 223)	**(294 223)**	
General expenses	(5 004 726)	-	**(5 004 726)**	(4 942 629)	**62 097**	
Total expenditure	**(14 619 056)**	**-**	**(14 619 056)**	**(26 318 687)**	**(11 699 631)**	
Surplus/(Deficit) for the year	**7 558 859**	**-**	**7 558 859**	**(3 585 103)**	**(11 143 962)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	7 558 859	-	7 558 859	(3 585 103)	(11 143 962)	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand thousand						
CONTROLLING ENTITY						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Fare revenue	**300 279**	-	**300 279**	118 639	**(181 640)**	43
Operating lease rental income	**736 726**	-	**736 726**	620 332	**(116 394)**	43
Other income	**59 559**	-	**59 559**	180 768	**121 209**	43
Gain on foreign exchange	**-**	-	**-**	34 284	**34 284**	
Interest received - investment	**828 416**	-	**828 416**	1 651 248	**822 832**	43
Actuarial gain	**-**	-	**-**	481	**481**	43
Total revenue from exchange transactions	1 924 980	-	1 924 980	2 605 752	680 772	
Revenue from non-exchange transactions						
Transfer revenue						
Government subsidy	19 858 541	-	**19 858 541**	19 507 428	**(351 113)**	43
Total revenue	21 783 521	-	21 783 521	22 113 180	329 659	
Expenditure						
Employee related cost	(5 721 872)	-	**(5 721 872)**	(5 795 234)	**(73 362)**	43
Depreciation and amortisation costs	(2 875 997)	-	**(2 875 997)**	(4 810 545)	**(1 934 548)**	43
Impairment loss	(59)	-	**(59)**	(9 663 981)	**(9 663 922)**	43
Finance costs	-	-	**-**	(65 084)	**(65 084)**	43
Fair value adjustment	-	-	**-**	(94 171)	**(94 171)**	
Loss on retirement of assets	-	-	**-**	(297 920)	**(297 920)**	
Repairs and maintenance	(757 454)	-	**(757 454)**	(703 641)	**53 813**	43
General expenses	(4 707 302)	-	**(4 707 302)**	(4 687 834)	**19 468**	
Total expenditure	**(14 062 684)**	**-**	**(14 062 684)**	**(26 118 410)**	**(12 055 726)**	
Surplus/(Deficit) for the year	**7 720 837**	**-**	**7 720 837**	**(4 005 230)**	**(11 726 067)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	7 720 837	-	7 720 837	(4 005 230)	(11 726 067)	

* See Note 38

Accounting Policies

		Economic entity		Controlling entity	
		2023	2022	2023	2022
Figures in Rand thousand	Note(s)				

1. Presentation of Financial Statements

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

1.1. BASIS OF PREPARATION

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.2. PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the economic entity.

All values are rounded to the nearest thousand Rands unless otherwise stated.

1.3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared based on the expectation that the economic entity will continue to operate as a going concern for at least the next 12 months.

1.4. OFFSETTING

Assets and liabilities, as well as revenue and expenses, are offset and the net amount is reported in the financial statements when there is a legally enforceable right to offset the recognised amount, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.5. MATERIALITY

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.6. INTERESTS IN OTHER ENTITIES

Consolidated financial statements

Benefits are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non- financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.

Binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.

Consolidated annual financial statements are the annual financial statements of an economic entity in which the assets, liabilities, net assets, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

Accounting Policies

1.6 INTERESTS IN OTHER ENTITIES (CONTINUED)

An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

A controlled entity is an entity that is controlled by another entity. A controlling entity is an entity that controls one or more entities.

A decision maker is an entity with decision making rights that is either a principal or an agent for other parties.

An economic entity is a controlling entity and its controlled entities.

An investment entity is an entity that obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services, has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis.

A non-controlling interest is the net assets in a controlled entity not attributable, directly or indirectly, to a controlling entity.

Power consists of existing rights that give the current ability to direct the relevant activities of another entity.

Protective rights are rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

Relevant activities are activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.

Removal rights are rights to deprive the decision maker of its decision making authority.

Presentation of consolidated financial statements

The entity as controlling entity presents consolidated annual financial statements.

1.7. SEPARATE FINANCIAL STATEMENTS

Consolidated financial statements are the financial statements of the economic entity in which the assets, liabilities, net assets, revenue, expenses and cash flows of the entity as a controlling entity, and its controlled entities, are presented as those of a single economic entity.

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets includes its share of changes in the investee's net assets that have not been recognised in the investee's surplus or deficit.

An investment entity is an entity that obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services, that has the purpose of investing funds solely for returns from capital appreciation, investment revenue, and which measures and evaluates the performance of substantially all of its investments on a fair value basis.

Separate financial statements are those presented by the entity, in which the entity could elect to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with the GRAP Standard on Financial Instruments or using the equity method as described in the accounting policies on Investments in Associates and Joint Ventures.

In the entity's separate financial statements, investments in controlled entities are carried at cost.

1.8. CONSOLIDATION

Basis of consolidation

The consolidated annual financial statements incorporate the annual financial statements of the controlling entity and all controlled entities, which are controlled by the controlling entity.

Consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The revenue and expenses of a controlled entity are included in the consolidated annual financial statements from the transfer date or acquisition date as defined in the Standards of GRAP on transfer of functions between entities under common control or transfer of functions between entities not under common control. The revenue and expenses of the controlled entity are based on the values of the assets and liabilities recognised in the controlling entity's annual financial statements at the acquisition date.

The annual financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated annual financial statements are prepared as of the same date.

All intra-entity transactions, balances, revenues, and expenses are eliminated in full on consolidation.

1.9. SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Significant judgements include the following:

Other judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

Trade receivables and/or loans and receivables

The economic entity assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing of tangible and intangible assets

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value- in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of intangible and tangible assets.

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of intangible and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Accounting Policies

1.9 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The economic entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the economic entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 16.

1.10. INVESTMENT PROPERTY

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the economic entity, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Accounting Policies

1.10 INVESTMENT PROPERTY (CONTINUED)

The economic entity separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 9).

The economic entity discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 9).

1.11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the economic entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Rolling stock - Undercarriages	Straight-line	33 - 40 years
Rolling stock - Components	Straight-line	10 - 40 years
Network assets	Straight-line	5 - 149 years
Movable & workshop equipment	Straight-line	3 - 10 years

Accounting Policies

1.11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Item	Depreciation method	Average useful life
Facilities & leasehold improvements	Straight-line	5 - 50 years
Busses & vehicles	Straight-line	5 - 7 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the economic entity. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The economic entity assesses at each reporting date whether there is any indication that the economic entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the economic entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The economic entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

The economic entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

1.12. INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary asset without physical substance. An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the economic entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the economic entity; and
- the cost or fair value of the asset can be measured reliably.

The economic entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are initially measured at cost.

1.12 INTANGIBLE ASSETS (CONTINUED)

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Copyright	Straight-line	20 years
Software	Straight-line	1 - 10 years

The economic entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised.

Accounting Policies

1.13. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.
- A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Accounting Policies

1.13 FINANCIAL INSTRUMENTS (CONTINUED)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans to controlled entities	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Investments in controlled entities	Financial asset measured at cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

Gains and losses

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Accounting Policies

1.13 FINANCIAL INSTRUMENTS (CONTINUED)

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets are impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting. The entity derecognises a financial asset only when

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Accounting Policies

1.13 FINANCIAL INSTRUMENTS (CONTINUED)

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.14. PREPAYMENT

Payments made in advance to suppliers prior to and during construction of assets are capitalised as prepayments under long- term assets. The amount for assets expected to be delivered in the following financial year, will be reclassified to current assets. Once construction of the assets is complete and delivered to PRASA, and meets the entity's quality standards, the prepayment is derecognised and transferred to property, plant and equipment.

1.15. LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The economic entity recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the economic entity's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Accounting Policies

1.15 LEASES (CONTINUED)

Operating lease income

Revenue from property management activities is recognised as income on a straight-line-basis over the lease term, unless another systematic basis is more representative of the time pattern in which the usage from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. Recoveries of operating costs (for example, rates and taxes, water and electricity) are recognised as income, as the costs are charged to lessees and are also included in revenue.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

1.16. INVENTORIES

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are at their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the economic entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the economic entity.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.17. CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are available on demand.

Bank overdrafts which are repayable on demand forms an integral part of the entity's cash management activities, and as such are included as a component of cash and cash equivalents.

1.18. IMPAIRMENT OF CASH-GENERATING ASSETS

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation/amortisation.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation/amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use. Useful life is either:

- the period of time over which an asset is expected to be used by the economic entity; or
- the number of production or similar units expected to be obtained from the asset by the economic entity.

Designation

At initial recognition, the economic entity designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of an economic entity's objective of using the asset.

The economic entity designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the economic entity expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the economic entity designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash- generating assets, rather than this accounting policy.

Accounting Policies

1.18 IMPAIRMENT OF CASH-GENERATING ASSETS (CONTINUED)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The economic entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the economic entity also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Fair value and value in use

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the economic entity applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the economic entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation/amortisation charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The economic entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation/amortisation charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.18 IMPAIRMENT OF CASH-GENERATING ASSETS (CONTINUED)

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.19. IMPAIRMENT OF NON-CASH-GENERATING ASSETS

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation/amortisation.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation/amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the economic entity; or
- the number of production or similar units expected to be obtained from the asset by the economic entity.

Designation

At initial recognition, the economic entity designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of an economic entity's objective of using the asset.

The economic entity designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

Accounting Policies

1.19 IMPAIRMENT OF NON-CASH-GENERATING ASSETS (CONTINUED)

The economic entity designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the economic entity expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the economic entity designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The economic entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction/replication of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the economic entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the economic entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation/amortisation charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.19 IMPAIRMENT OF NON-CASH-GENERATING ASSETS (CONTINUED)

Reversal of an impairment loss

The economic entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the economic entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation/amortisation charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.20. SHARE CAPITAL

An equity instrument is any contract that evidences a residual interest in the assets of an economic entity after deducting all of its liabilities.

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

1.21. EMPLOYEE BENEFITS

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

The economic entity recognises the expected cost of short-term employee benefits in the form of compensated absences as follows:

a. In the case of accumulating compensated absences, when the employees render services that increase their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur.
b. The economic entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

Accounting Policies

1.21 EMPLOYEE BENEFITS (CONTINUED)

Defined contribution plans

Under the defined contribution structures, fixed contributions payable by the economic entity and members are accumulated to provide retirement benefits through a provident fund. The economic entity has no legal or constructive obligation to pay any further contributions other than these fixed contributions. Contributions to any defined contribution plan are expensed as incurred.Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Defined benefit plans

The economic entity operates the following defined benefit plans:

- Transport Pension Fund: PRASA sub fund; and
- Post-employment medical aid fund

The Transport Pension Fund is in respect of pension benefits upon retirement of employees, the assets of which are held in separate trustee fund administered by Metropolitan Health Group (Pty) Ltd. Employees of the economic entity also participate in the Transmed Medical Scheme administered by Metropolitan Health Group (Pty) Ltd. These funds are valued by professional independent actuaries.

The benefit cost and obligations under the defined benefit fund are determined using the projected unit credit method on an annual basis. The benefit costs are recognised in the statement of financial performance. Any actuarial gains or losses are recognised in the statement of financial performance in the period in which they arise. The economic entity's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and any unrecognised past-service cost and the fair value of any plan assets are deducted.

The discount rate is the yield at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension fund liability. Past service cost is recognised immediately to the extent that the benefits have already vested, and are otherwise amortised on a straight-line basis over the average period until the amended benefits become vested. The amount recognised in the statement of financial position represents the present value of the defined benefit obligation less the fair value of the plan assets; less unrecognised past service cost. Any resulting asset is limited to the present value of available refunds and reductions in future contributions to the plan.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it has demonstrated a commitment to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

1.22. PROVISIONS AND CONTINGENCIES

Provisions are recognised when:

- the economic entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

1.22 PROVISIONS AND CONTINGENCIES (CONTINUED)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the economic entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability is:

- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

1.23. COMMITMENTS

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.24. REVENUE FROM EXCHANGE TRANSACTIONS

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement
Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.24 REVENUE FROM EXCHANGE TRANSACTIONS (CONTINUED)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight-line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Fare revenue

Revenue from the rendering of passenger services is recognised in the statement of financial performance in the period the service is rendered. It comprises of transport services to train and bus commuters, for passenger and long distance journeys, rendered during the period.

1.25. REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Accounting Policies

1.25 REVENUE FROM NON-EXCHANGE TRANSACTIONS (CONTINUED)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.26. INVESTMENT INCOME

Investment income is recognised on a time-proportion basis using the effective interest method for financial instrument.

1.27. COMPARATIVE FIGURES

Prior period comparative information has been presented in the current financial year. Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.28. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement financial performance.

1.29. IRREGULAR EXPENDITURE

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including

a. this Act; or
b. the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
c. any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Accounting Policies

1.30. BUDGET INFORMATION

The economic entity is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by economic entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2022/04/01 to 2023/03/31.

The budget for the economic entity includes Passenger Rail Agency of South Africa, Autopax Passenger Services (SOC) Ltd and Intersite Asset Investment (SOC) Ltd approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

1.31. RELATED PARTIES

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the economic entity, including those charged with the governance of the economic entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the economic entity.

The economic entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the economic entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the economic entity is exempt from the disclosures in accordance with the above, the economic entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.32. EVENTS AFTER REPORTING DATE

The economic entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The economic entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
Figures in Rand thousand				

2. New standards and interpretations

2.1. STANDARDS AND INTERPRETATIONS ISSUED, BUT NOT YET EFFECTIVE

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 April 2023 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 25 (as revised): Employee Benefits	01 April 2023	Unlikely there will be a material impact
• iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	01 April 2023	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2023	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments assessed	01 April 2025	Impact is currently being assessed
• iGRAP 21: The Effect of Past Decisions on Materiality material impact	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements material impact	01 April 2023	Unlikely there will be a material impact

3. Inventories

Consumables	465 478	480 741	449 883	466 863

Inventory pledged as security

None of the inventory is pledged as security for liabilities. During the year R710 million (2022: R556 million) worth of material was recognised in the statement of financial performance.

In addition, during 2023, inventory of R24 million (2022: R40 million) was written down to net realisable value. The amount is included in the statement of financial performance in the 'general expenses' line item.

4. Loans to (from) controlled entities

Controlled entities				
Autopax Passenger Services (SOC) Ltd	-	-	-	-
Autopax was a subsidiary throughout the year. The interest in the deficit of the subsidiary amounted to R215 million (2022: Deficit R368 million). The investment and loan have been impaired to nil.				
Loan impairment				
Cumulative loan granted and expenses paid	-	-	1 665 819	1 358 391
Cumulative impairment of loan in subsidiaries	-	-	(1 665 819)	(1 358 391)
	-	-	-	-

In the current reporting period, Autopax received funds from the controlling entity for operations of R307 million (2022: R198 million). The amount was impaired to nil (for impairment expense, refer to note 25) as Autopax is experiencing cash flow constraints due to poor operational performance and the amount may not be recoverable. There are no repayment terms and conditions for the loan.

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
Figures in Rand thousand				

5. Receivables from exchange transactions

Trade receivables ^	288 961	56 741	281 406	51 950
Prepayments	101 164	11 453	101 164	11 453
Deposits	9 716	7 063	8 570	5 942
Operating lease straight lining asset	155 629	172 936	155 629	172 936
Other receivables - Swifambo *	366 975	346 931	366 975	346 931
Other receivables	1	1	31 845	(1 453)
	922 446	595 125	945 589	587 759

The entity expects payment from customers for goods and services rendered within 30 days from date of invoice. The carrying amount of receivables from exchange transactions approximate fair value as the effect of discounting is immaterial.

Certain receivables and payables from exchange transaction between Transnet and the entity were offset in the 31 March 2022 period.

^ Included in trade receivables are balances for managed portfolio tenant debtors and Transnet billing in respect of train control officers.

Receivables are shown net of impairment losses to R3 billion (2022: R2.9 billion). Included in trade receivables are train control services rendered, traction recovery and electricity charges to Transnet. The prepayment amount consists of advance payments for insurance premiums, licence fees and municipal rates prepayments in Kwazulu-Natal.

* PRASA entered into a contractual agreement with Swifambo Rail Leasing (SRL), on 25 March 2013, to construct and supply new locomotives from Vossloh Spain which were to be utilised for Mainline Passenger Services. The expenditure would be incurred for a period of 5 years. Risk and rewards of ownership would pass to PRASA upon delivery of the locomotives, and after PRASA satisfied itself that all quality parameters are met. Thirteen locomotives were delivered to PRASA during the 2014/15 and 2015/16 financial years. No locomotives were delivered subsequently as during a forensic investigation it became apparent that the contract between SRL and PRASA never came into existence as conditions precedent were not timely fulfilled. Furthermore the investigation revealed irregularities including unlawfulness. The court ruled in favour of PRASA to set aside the contract. The matter was taken on appeal, first to the Supreme Court of Appeal (SCA) and that court confirmed the order of the High Court. Swifambo applied for leave to appeal the decision of the SCA at the Constitutional Court. On 2 May 2019 the Constitutional Court dismissed the Swifambo's application for leave to appeal on the basis that there were no prospects of success. This is now the end of this matter and the order of the High Court stands and Swifambo should pay back the money claimed by PRASA in connection with the contract between the parties.

The receivable relating to Swifambo was impaired to the current estimated potential recoverable value in the prior financial year. This value was based on initial evidence from the liquidator of Swifambo. However, on 28 October 2020, the liquidator halted the sale of the remaining Swifambo locomotives due to a potential commercial settlement being reached between PRASA, Vossloh/Stadler and the liquidators of Swifambo. The impact of any potential settlement has not been determined as yet and will only be concluded once a binding agreement has been reached. This potential settlement will impact on the receivable recognised and recoverable amounts currently reflected in the accounts of PRASA.

Allowance for impairment

The economic entity's trade receivables are stated after allowance for impairment based on management's assessment of the creditworthiness of the respective debtors.

Reconciliation of allowance for impairment of receivables from exchange transactions:

Opening balance	(2 978 723)	(2 605 919)	(3 250 273)	(2 843 699)
Allowance for impairment	78 627	(372 804)	(59 198)	(406 574)
	(2 900 096)	(2 978 723)	(3 309 471)	(3 250 273)

None of the receivables from exchange transactions are pledged as security for liabilities.

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
Figures in Rand thousand				

6. VAT receivable

VAT	4 530	-	3 034	-

PRASA levies VAT on non commuter services including leasing of commercial space. Input VAT is claimed on an apportionment basis using the turnover-based method.

7. Prepayments

Economic entity

2023	Rolling stock	Licences	Other	Total
Balance at the beginning of the year	7 459 048	3 714	26	7 462 788
Transfer to Property Plant and Equipment	(820 028)	-	-	(820 028)
Transfer to inventory	(2 562)	-	-	(2 562)
Payments	-	5 389	1 958	7 347
Allocations	-	(5 884)	(1 789)	(7 673)
Subtotal	**6 636 458**	**3 219**	**195**	**6 639 872**
Short term - portion	(891 962)	(3 219)	(195)	(895 376)
	5 744 496	-	-	5 744 496

2022	Rolling stock	Licences	Other	Total
Balance at the beginning of the year	7 907 221	6 492	458	7 914 171
Transfer to Property Plant and Equipment	(445 980)	-	-	(445 980)
Transfer to inventory	(2 193)	-	-	(2 193)
Payments	-	7 145	7 502	14 647
Allocations	-	(9 923)	(7 934)	(17 857)
Subtotal	**7 459 048**	**3 714**	**26**	**7 462 788**
Short term - portion	(748 096)	(3 714)	(26)	(751 836)
	6 710 952	-	-	6 710 952

Controlling entity

2023	Rolling stock	Total
Balance at the beginning of the year	7 459 048	7 459 048
Transfer to Property Plant and Equipment	(820 028)	(820 028)
Transfer to inventory	(2 563)	(2 563)
Payments Allocations	-	-
	-	-
Subtotal	**6 636 457**	**6 636 457**
Short term - portion	(891 961)	(891 961)
	5 744 496	5 744 496

Notes to the Annual Financial Statements

7. Prepayments (continued)

2022	Rolling stock	Total
Balance at the beginning of the year	7 951 087	7 951 087
Transfer to Property Plant and Equipment	(489 846)	(489 846)
Transfer to inventory	(2 193)	(2 193)
Subtotal	**7 459 048**	**7 459 048**
Short term - portion	(748 096)	(748 096)
	6 710 952	6 710 952

On the 14th of October 2013, PRASA entered into an agreement with the Gibela Rail Transport Consortium (Gibela) for the design, supply and manufacture of 600 new trains. The financial agreement was approved and gazetted by the Minister of Finance on the 16th of April 2014. The contractual terms of the Agreement stipulate that the risks and rewards of ownership will pass to PRASA upon delivery of the rolling stock and after PRASA satisfies itself that all quality parameters are met. PRASA has received 146 trains in total with 57 trains (2022: 31 trains) received during the 2022/23 financial year. The short-term portion of the prepayment is based on the number of trains anticipated in the following financial year. 62 trains will be delivered according to the delivery schedule, during the 2023/24 financial year.

Prepaid licence fees relate to licence fees paid during the financial year. The validity term of twelve months extends beyond the financial year end.

Prepaid property rental relates to property rental for April 2023 settled prior to year end 31 March 2023.

8. Cash and cash equivalents

Cash and cash equivalents consist of:				
Bank balances	2 497 387	115 493	2 439 937	95 141
Short-term deposits	20 515 250	24 472 494	20 515 250	24 472 494
Tenant deposits held in Trust	53 298	50 583	53 298	50 583
	23 065 935	24 638 570	23 008 485	24 618 218

Tenant deposits are held in a Trust account with ABSA bank. Interest earned on these deposits amounts to R2.7 million (2022: R 1.1 million) and is included in the tenant deposit held in Trust. Call deposits earn interest at an average rate of 6.39% (2022: 5.10%) per annum.

9. Investment property

Cost/Valuation	4 453 336	4 351 343	4 291 205	4 351 343

Reconciliation of investment property - Economic entity - 2023

	Opening balance	Acquisitions	Fair value adjustments	Total
Land and buildings	4 351 343	276 758	(174 765)	4 453 336

Reconciliation of investment property - Economic entity - 2022

	Opening balance	Additions	Fair value adjustments	Total
Land and buildings	4 129 939	309 474	(88 070)	4 351 343

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

9. Investment property (continued)

Reconciliation of investment property - Controlling entity - 2023

	Opening balance	Acquisitions	Fair value adjustments	Total
Land and buildings	4 351 343	114 627	(174 765)	4 291 205

Reconciliation of investment property - Controlling entity - 2022

	Opening balance	Additions	Fair value adjustments	Total
Land and buildings	4 129 939	309 474	(88 070)	4 351 343

Investment property in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of Investment property				
Land and buildings - Cost	357 646	344 963	357 646	344 963

A register containing the information required by Regulation 25(3) of the Companies Regulations, (2011) is available for inspection at the registered office of the entity.

Details of valuation

Investment property consists of commercial properties situated in KwaZulu-Natal, Western Cape, Gauteng and Eastern Cape. The properties comprise commercial properties rented out to third parties under operating leases ranging from 1 month to 50 years.

The fair market valuation of the investment property was professionally determined by an independent valuer, Knight Frank Valuers (2022: Knight Frank Valuers). The capitalisation of net income method as well as comparable sales method was used.

The valuers are members of the Institute of valuers, and have the appropriate qualifications and experience in the valuation of properties in the relevant locations.

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	342 771	274 437	342 771	274 437

From Investment property that generated rental revenue

Direct operating expenses (excluding repairs and maintenance)	(143 827)	(167 393)	(143 827)	(167 393)
Repairs and maintenance	(21 142)	(12 529)	(21 142)	(12 529)
	(164 969)	(179 922)	(164 969)	(179 922)

* See Note 38

Notes to the Annual Financial Statements

Figures in Rand thousand

10. Property, plant and equipment

	2023			2022		
Economic entity	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 224 746	(10 709)	1 214 037	1 228 353	(10 709)	1 217 644
Facilities and leasehold	10 013 161	(5 468 608)	4 544 553	9 922 130	(4 691 127)	5 231 003
Buses and vehicles	919 040	(827 353)	91 687	1 024 234	(920 005)	104 229
Network assets	13 529 608	(6 733 031)	6 796 577	13 136 472	(1 575 750)	11 560 722
Rolling stock	40 027 131	(17 167 418)	22 859 713	30 980 928	(13 200 513)	17 780 415
Movables and workshop equipment	1 055 589	(800 707)	254 882	945 379	(716 906)	228 473
Facilities and leasehold improvements: Assets under construction	1 462 856	-	1 462 856	2 275 325	-	2 275 325
Rolling stock: Assets under construction	1 692 136	-	1 692 136	244 010	-	244 010
Movables and workshop equipment: Assets under construction	563 002	-	563 002	65 989	-	65 989
Buses and vehicles: Assets under construction	34 102	-	34 102	10 082	-	10 082
Network assets: Assets under construction	3 341 609	-	3 341 609	2 967 197	-	2 967 197
Total	73 862 980	(31 007 826)	42 855 154	62 800 099	(21 115 010)	41 685 089

Notes to the Annual Financial Statements

Figures in Rand thousand

10. Property, plant and equipment (continued)

Controlling entity	2023 Cost	2023 Accumulated depreciation and accumulated impairment	2023 Carrying value	2022 Cost	2022 Accumulated depreciation and accumulated impairment	2022 Carrying value
Land	1 224 346	(10 709)	1 213 637	1 227 953	(10 709)	1 217 244
Facilities and leasehold	10 011 192	(5 467 182)	4 544 010	9 920 060	(4 689 646)	5 230 414
Buses and vehicles	552 495	(489 438)	63 057	524 233	(455 960)	68 273
Network assets	13 529 608	(6 733 031)	6 796 577	13 136 472	(1 575 750)	11 560 722
Rolling stock	40 027 131	(17 167 418)	22 859 713	30 980 928	(13 200 513)	17 780 415
Movables and workshop equipment	1 046 687	(813 507)	233 180	935 060	(709 721)	225 339
Facilities and leasehold: Assets under construction	1 462 856	-	1 462 856	2 275 325	-	2 275 325
Rolling stock: Assets under construction	1 692 136	-	1 692 136	244 010	-	244 010
Movables and workshop equipment: Assets under construction	563 002	-	563 002	65 989	-	65 989
Buses and vehicles: Assets under construction	34 102	-	34 102	10 082	-	10 082
Network assets: Assets under construction	3 341 609	-	3 341 609	2 967 197	-	2 967 197
Total	73 485 164	(30 681 285)	42 803 879	62 287 309	(20 642 299)	41 645 010

Notes to the Annual Financial Statements

Figures in Rand thousand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Economic entity - 2023

	Opening balance	Additions	Capitalisation	Retirement	Transfers	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	1 217 644	56	-	(3 663)	-	-	-	-	-	1 214 037
Facilities and leasehold	5 231 003	152 447	-	(22 163)	-	-	(466 369)	(350 365)	-	4 544 553
Buses and vehicles	104 229	28 681	-	(6 322)	-	-	(34 216)	(4 601)	3 916	91 687
Network assets	11 560 722	576 080	-	(111 260)	-	-	(3 009 227)	(2 219 738)	-	6 796 577
Rolling stock	17 780 415	10 145 668	-	(168 386)	-	-	(1 132 337)	(3 765 647)	-	22 859 713
Movables and workshop equipment	228 473	119 234	-	(367)	-	25 149	(117 607)	-	-	254 882
Facilities and leasehold: Assets under construction	2 275 325	1 213 872	(156 965)	-	(76 583)	(528)	-	(1 792 265)	-	1 462 856
Rolling stock: Assets under construction	244 010	11 862 920	(10 414 794)	-	-	-	-	-	-	1 692 136
Movables and workshop equipment: Assets under construction	65 989	650 853	(146 180)	-	(7 660)	-	-	-	-	563 002
Buses and vehicles: Assets under construction	10 082	66 729	(42 709)	-	-	-	-	-	-	34 102
Network assets: Assets under construction	2 967 197	2 508 563	(905 944)	-	-	391	-	(1 228 598)	-	3 341 609
	41 685 089	27 325 103	(11 666 592)	(312 161)	(84 243)	25 012	(4 759 756)	(9 361 214)	3 916	42 855 154

Figures in Rand thousand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Economic entity - 2022

	Opening balance	Additions	Capitalisation	Retirement	Transfers	Write off	Depreciation	Impairment loss	Impairment reversal	Total
Land	1 217 644	-	-	-	-	-	-	-	-	1 217 644
Facilities and leasehold	5 718 248	255 522	-	(75 306)	1 368	-	(697 790)	-	28 961	5 231 003
Buses and vehicles	111 694	22 285	-	21 127	-	-	(36 845)	(16 091)	2 059	104 229
Network assets	11 036 588	939 314	-	(68 582)	12 627	-	(353 212)	(6 013)	-	11 560 722
Rolling stock	14 180 405	4 897 363	-	(27 453)	3 162	-	(1 225 906)	(47 156)	-	17 780 415
Movables and workshop equipment	235 041	22 325	-	(2 400)	2	-	(26 495)	-	-	228 473
Facilities and leasehold improvements: Assets under construction	2 271 533	458 347	(382 993)	481	-	(72 043)	-	-	-	2 275 325
Rolling stock: Assets under construction	70 220	5 521 788	(5 347 998)	-	-	-	-	-	-	244 010
Movables and workshop equipment: Assets under construction	18 342	65 553	(13 596)	-	(4 310)	-	-	-	-	65 989
Buses and vehicles: Assets under construction	8 007	55 760	(53 685)	-	-	-	-	-	-	10 082
Network assets: Assets under construction	5 374 874	2 081 578	(4 488 864)	(391)	-	-	-	-	-	2 967 197
	40 242 596	14 319 835	(10 287 136)	(152 524)	12 849	(72 043)	(2 340 248)	(69 260)	31 020	41 685 089

Notes to the Annual Financial Statements

Figures in Rand thousand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 2023

	Opening balance	Additions	Capitalisation	Retirement	Tranfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	1 217 244	56	-	(3 663)	-	-	-	-	1 213 637
Facilities and leasehold	5 230 414	152 386	-	(22 139)	-	-	(466 286)	(350 365)	4 544 010
Buses and vehicles	68 273	28 682	-	-	-	-	(33 898)	-	63 057
Network assets	11 560 722	576 080	-	(111 260)	-	-	(3 009 227)	(2 219 738)	6 796 577
Rolling stock	17 780 415	10 145 668	-	(168 386)	-	-	(1 132 335)	(3 765 649)	22 859 713
Movables and workshop equipment	225 339	117 235	-	(165)	-	-	(109 229)	-	233 180
Facilities and leasehold improvements: Assets under construction	2 275 325	1 213 872	(156 965)	-	(76 583)	(528)	-	(1 792 265)	1 462 856
Rolling stock: Assets under construction	244 010	11 862 920	(10 414 794)	-	-	-	-	-	1 692 136
Movables and workshop equipment: Assets under construction	65 989	650 853	(146 180)	-	(7 660)	-	-	-	563 002
Buses and vehicles: Assets under construction	10 082	66 729	(42 709)	-	-	-	-	-	34 102
Network assets: Assets under construction	2 967 197	2 508 563	(905 944)	-	-	391	-	(1 228 598)	3 341 609
	41 645 010	27 323 044	(11 666 592)	(305 613)	(84 243)	(137)	(4 750 975)	(9 356 615)	42 803 879

Figures in Rand thousand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 2022

	Opening balance	Additions	Capitalisation	Retirement	Transfers	Write off	Depreciation	Impairment loss	Impairment reversal	Total
Land	1 217 244	-	-	-	-	-	-	-	-	1 217 244
Facilities and leasehold improvements	5 089 470	255 522	-	(75 290)	1 368	-	(69 617)	-	28 961	5 230 414
Buses and vehicles	11 429	22 285	-	69 361	-	-	(34 802)	-	-	68 273
Network assets	11 036 588	939 315	-	(68 582)	12 627	-	(353 213)	(6 013)	-	11 560 722
Rolling stock	14 157 857	4 897 362	-	(27 453)	3 162	-	(1 203 357)	(47 156)	-	17 780 415
Movables and workshop equipment	229 063	20 555	-	(1 703)	-	-	(22 576)	-	-	225 339
Facilities and leasehold improvements: Assets under construction	2 271 533	458 347	(382 993)	481	-	(72 043)	-	-	-	2 275 325
Rolling stock: Assets under construction	70 220	5 521 788	(5 347 998)	-	-	-	-	-	-	244 010
Movables and workshop equipment: Assets under construction	18 342	65 553	(13 596)	-	(4 310)	-	-	-	-	65 989
Buses and vehicles: Assets under construction	8 007	55 760	(53 685)	-	-	-	-	-	-	10 082
Network assets: Assets under construction	5 374 874	2 081 578	(4 488 864)	(391)	-	-	-	-	-	2 967 197
	39 484 627	14 318 065	(10 287 136)	(103 577)	12 847	(72 043)	(1 683 565)	(53 169)	28 961	41 645 010

Pledged as security

There are no assets pledged as security.

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

10. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

	Economic entity 2023	Economic entity 2022 Restated*	Controlling entity 2023	Controlling entity 2022 Restated*
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance				
Contracted services	707 974	543 575	682 498	526 587

* See Note 38

Notes to the Annual Financial Statements

Figures in Rand thousand

11. Intangible assets

Economic entity	2023 Cost	2023 Accumulated amortisation and accumulated impairment	2023 Carrying value	2022 Cost	2022 Accumulated amortisation and accumulated impairment	2022 Carrying value
Copyright	14 171	(10 635)	3 536	14 171	(9 928)	4 243
Software	647 666	(436 711)	210 955	587 917	(409 823)	178 094
Intangible assets: under development	42 906	-	42 906	16 843	-	16 843
Total	704 743	(447 346)	257 397	618 931	(419 751)	199 180

Controlling entity	2023 Cost	2023 Accumulated amortisation and accumulated impairment	2023 Carrying value	2022 Cost	2022 Accumulated amortisation and accumulated impairment	2022 Carrying value
Copyright	14 171	(10 635)	3 536	14 171	(9 928)	4 243
Software	646 985	(436 030)	210 955	587 236	(409 142)	178 094
Intangible assets: under development	42 906	-	42 906	16 843	-	16 843
Total	704 062	(446 665)	257 397	618 250	(419 070)	199 180

Notes to the Annual Financial Statements

Figures in Rand thousand

11. Intangible assets (continued)

Reconciliation of intangible assets - Economic entity - 2023

	Opening balance	Additions	Capitalise	Transfers	Amortisation	Total
Copyright	4 243	-	-	-	(707)	3 536
Software	178 094	21 081	-	38 668	(26 888)	210 955
Intangible assets: under development	16 843	-	(59 749)	85 812	-	42 906
	199 180	21 081	(59 749)	124 480	(27 595)	257 397

Reconciliation of intangible assets - Economic entity - 2022

	Opening balance	Additions through transfer of functions/ mergers	Transfers	Amortisation	Total
Copyright	4 950	-	-	(707)	4 243
Software	200 205	(1 477)	-	(20 634)	178 094
Intangible assets: under development	14 958	-	1 885	-	16 843
	220 113	(1 477)	1 885	(21 341)	199 180

Reconciliation of intangible assets - Controlling entity - 2023

	Opening balance	Additions	Capitalise	Transfers	Amortisation	Total
Copyright	4 243	-	-	-	(707)	3 536
Software	178 094	21 081	-	38 668	(26 888)	210 955
Intangible assets: under development	16 843	-	(59 749)	85 812	-	42 906
	199 180	21 081	(59 749)	124 480	(27 595)	257 397

Notes to the Annual Financial Statements

Figures in Rand thousand

11. Intangible assets (continued)

Reconciliation of intangible assets - Controlling entity - 2022

	Opening balance	Additions through transfer of functions/ mergers	Transfers	Amortisation	Total
Copyright	4 950	-	-	(707)	4 243
Software	200 024	(1 476)	-	(20 454)	178 094
Intangible assets: under development	14 958	-	1 885	-	16 843
	219 932	(1 476)	1 885	(21 161)	199 180

Intangible assets in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of Intangible assets				
Software	42 906	16 843	42 906	16 843

Carrying value of Intangible assets that is taking a significantly longer period of time to complete than expected				
Software	11 867	16 843	11 867	16 843

The total contract value is R59 million with outstanding amounts not paid yet of R47 million with R12 million already being paid.

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

12. Operating lease asset (liability)

Development lease receivable	2 303 730	2 343 460	2 303 730	2 343 460
Lease rentals on operating lease	5 375	4 911	-	-
Development lease liability	(1 178 388)	(1 298 712)	(1 178 388)	(1 298 712)
	1 130 717	1 049 659	1 125 342	1 044 748
Non-current assets	2 309 105	2 348 371	2 303 730	2 343 460
Non-current liabilities	(1 178 388)	(1 298 712)	(1 178 388)	(1 298 712)
	1 130 717	1 049 659	1 125 342	1 044 748

PRASA entered into development leases with private parties. These arrangements entail the construction of infrastructure on PRASA's land at their own cost for use by these parties over the lease period. The private party has the right of use of the PRASA land throughout the development lease. At the end of the lease period, the right to the use of the land and the infrastructure reverts to PRASA.

The risks and rewards associated with owning the land do not pass to the lessee at any stage of this arrangement. The land is recognised as Investment property as the land is used for commercial purposes.

The residual interest relating to the infrastructure constructed by the private party is measured at the net present value of the estimated gross residual value of the infrastructure at the end of the lease and is recognised as a receivable.

The fair market valuation of the land was professionally determined by an independent valuer, Knight Frank Valuers (2022: Knight Frank Valuers). The capitalisation of net income method as well as comparable sales method was used.

13. Other financial assets

Eris Property Group escrow	165 734	-	-	-

During April 2022, Intersite Asset Investments received capital grant funding amounting to R351 million from PRASA Group for a 25% co-investment opportunity into Cape Town Station redevelopment.

The 25% undivided share relates to the development of the top structure, consisting of student accommodation to the tune of 3,134 beds and 7,020m² of retail.

The process was finalised in the 1st quarter of 2022/23 and the anticipated completion of construction is November 2023. The investment of R351 million (incl. VAT) was paid into an escrow account and the developer (Eris Property Group) will draw down from the account as work progresses.

Interest accrued on the escrow account belongs to Eris Property Group. The balance on the escrow account is R166 million.

14. Payables from exchange transactions

Trade payables	2 421 711	1 588 170	2 391 948	1 560 723
Income received in advance	18 243	22 126	18 243	22 126
Retention	297 472	425 961	297 472	425 961
Accrued leave pay	540 079	548 172	532 610	534 818
Operating lease payables	-	17	-	-
Deposits received	57 123	53 284	57 123	53 284
Other payables^	367 883	733 965	272 166	607 413
Accruals*	5 087 798	2 162 554	4 984 294	2 067 625
	8 790 309	5 534 249	8 553 856	5 271 950

* See Note 38

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

14. Other financial assets (continued)

The entity is required to settle is obligations for goods and services received within 30 days from date of invoice. The carrying amount of payables from exchange transactions approximate fair value as the effect of discounting is immaterial. Payables from exchange transactions are interest bearing if settled after 30 days from date of invoice. Income received in advance and retentions are non interest bearing and are settled in terms of the contract agreement.

Certain receivables and payables from exchange transaction between Transnet and the entity were offset for the first time during the 2022 financial year due to a legally enforceable right.

^ Included in other payables are creditors for Transnet, Eskom and payroll vendors.

* Included in this balance are accruals for capital expenditure, utilities and municipal services, 13th cheque and Worksmen's Compensation.

15. VAT Payable

VAT payable	-	1 832	-	1 775

PRASA levies VAT on non commuter services including leasing of commercial property. Input VAT is claimed on an apportionment basis using the turnover-based method.

16. Employee benefit obligation

Defined benefit plan

Employees of the economic entity participate in the Transmed Medical Scheme administered by Metropolitan Health Group (Pty) Ltd.

Post retirement medical aid plan

The terms of the post-retirement medical scheme are summarised below:

- The entity subsidises some employees for a fixed amount of R213 per month in retirement. The amount is fixed irrespective of the number of dependents on the medical scheme and will not increase in future. Employees of the entity retiring after 31 March 2012 are not eligible for the post retirement medical aid subsidy. In addition, dependants of employees, who die in service after 31 March 2012, are no longer eligible for a post-employment medical aid subsidy.
- Dependants of eligible continuation members receive the subsidy after the death of the principal member.
- The actuarial projection method used to value the fund is the Projected Unit Credit method. The valuation was done by Old Mutual Corporate Consultants (2022: Old Mutual Corporate Consultants).

* See Note 38

Notes to the Annual Financial Statements

16. Employee benefit obligation (continued)

Net expense recognised in the statement of financial performance

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*
Accrued liability at the beginning of the year	5 718	6 220	5 484	5 987
Benefits paid	(727)	(785)	(699)	(757)
Expenses recognised in the statement of comprehensive income				
Interest expense	522	562	501	541
Actuarial (gain)/loss	(482)	(279)	(481)	(287)
	5 031	5 718	4 805	5 484
Current liability	635	699	635	699
Non-current liability	4 396	5 019	4 170	4 785
	5 031	5 718	4 805	5 484

Principal actuarial assumptions at the reporting date:

	Economic entity		Controlling entity	
	2023	2022	2023	2022
Discount rate per annum	10.01%	9.80%	10.01%	9.80%
Age of spouse	Retired members: husbands 4 years older than wives	Retired members: husbands 4 years older than wives	Retired members: husbands 4 years older than wives	Retired members: husbands 4 years older than wives
Post retirement mortality assumption	In accordance with PA90, rated down 2 years plus 1% improvement per annum (from base year of 2006). No explicit assumption was made about additional mortality or health care costs due to AIDS.	In accordance with PA90, rated down 2 years plus 1% improvement per annum (from base year of 2006). No explicit assumption was made about additional mortality or health care costs due to AIDS.	In accordance with PA90, rated down 2 years plus 1% improvement per annum (from base year of 2006). No explicit assumption was made about additional mortality or health care costs due to AIDS.	In accordance with PA90, rated down 2 years plus 1% improvement per annum (from base year of 2006). No explicit assumption was made about additional mortality or health care costs due to AIDS.

Sensitivity result

Should the discount rate decrease by 1% the accrued liability will be R5.1 million (2022: R6.1 million); should the discount rate increase by 1% the accrued liability will be R4.5 million (2022: R5.4 million) for the economic entity.

The post retirement medical plan exposes the economic entity to actuarial risks, such as longevity risk, interest rate risk and market (investment) risks.

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

16. Employee benefit obligation (continued)

Defined benefit plan assets

The economic entity operates a defined benefit fund administered by Metropolitan Retirement Fund Administrators. The assets of the funds are held separate from those of the economic entity. The fund was actuarially valued by Old Mutual Corporate Consultants, an independent company (2022: Old Mutual Corporate Consultants).

A member with at least 10 years pensionable service is entitled to the following benefits on attaining the minimum retirement age:

- An annual pension equal to: (Average pensionable salary) x (pensionable service) x (accrual factor of 1)
- Plus a gratuity equal to: (1/3) x (1) x (gratuity factor)

A member with less than 10 years of pensionable service is entitled to gratuity equal to twice the member's own contribution without interest, on attaining the age limit.

The rules do not permit late retirement after the attainment of the age limit.

Fair value of plan assets	1 536 963	1 379 732	1 536 963	1 379 732
Total present value of obligations	(624 555)	(528 403)	(624 555)	(528 403)
Surplus	912 408	851 329	912 408	851 329
Less: Amount not recognised	(912 408)	(851 329)	(912 408)	(851 329)
	-	-	-	-

The fair value of the fund assets exceed the present value of obligations by R912 million (2022: R851 million) at the end of the financial year. The surplus in the fund is recognised in the statement of financial position to the extent that the surplus amount is apportioned to PRASA by Trustees. There has been no apportionment to PRASA and therefore no amount has been recognised in the statement of financial position.

Movement in the fair value of plan assets				
Fair value of plan assets at the beginning of the year	1 379 732	1 263 990	1 379 732	1 263 990
Interest income on assets	131 752	119 490	131 752	119 490
Member contribution	73	104	73	104
Company contribution	252	163	252	163
Benefits paid	(72 594)	(66 049)	(72 594)	(66 049)
Net return on assets	97 822	62 034	97 822	62 034
Fair value of plan assets at the end of the year	1 537 037	1 379 732	1 537 037	1 379 732

The fair value of plan assets consist of:				
Cash	162 926	161 429	162 926	161 429
Equity	288 963	246 972	288 963	246 972
Bonds	696 278	658 132	696 278	658 132
Property	67 630	60 708	67 630	60 708
International equities	321 241	252 491	321 241	252 491
Fair value of plan assets at the end of the year	1 537 038	1 379 732	1 537 038	1 379 732

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

16. Employee benefit obligation (continued)

Movement in the present value of defined benefit obligation				
Present value of defined benefit obligations at the beginning of the year	(528 403)	(543 975)	(528 403)	(543 975)
Interest cost	(48 331)	(49 667)	(48 331)	(49 667)
Past and current service cost	(385)	(536)	(385)	(536)
Member contributions	(73)	(104)	(73)	(104)
Benefits paid	72 594	66 049	72 594	66 049
Actuarial loss	(119 957)	(170)	(119 957)	(170)
Present value of defined benefit obligation at the end of the year	(624 555)	(528 403)	(624 555)	(528 403)

Expenses recognised in statement of financial performance				
Past and current service costs	(385)	(536)	(385)	(536)
Net interest on net defined benefit asset	(10)	(18)	(10)	(18)
Actuarial gain	(215)	(390)	(215)	(390)
Expenses recognised in statement of financial performance	(610)	(944)	(610)	(944)

These expenses are recognised in operating expenses.

The principal actuarial assumptions used were as follows:

Discount rate	10.10%	9.80%	10.10%	9.80%
Inflation rate	5.20%	5.70%	5.20%	5.70%
Salary increase rate	6.20%	6.70%	6.20%	6.70%
Pension increase allowance	4.30%	4.30%	4.30%	4.30%

The defined benefit obligation exposes the economic entity to actuarial risks, such as longevity risk, interest rate risk and market (investment) risks.

* See Note 38

Notes to the Annual Financial Statements

17. Provisions

Reconciliation of provisions - Economic entity - 2023

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provisions for claims*	1 579 092	94 302	-	(219 131)	1 454 263
Provision for Port Elizabeth sales office upgrade	118	-	-	(118)	-
Restructuring provision	80 251	-	(61 779)	(1 242)	17 230
	1 659 461	94 302	(61 779)	(220 491)	1 471 493

Reconciliation of provisions - Economic entity - 2022

	Opening Balance	Additions	Reversed during the year	Total
Provision for claims*	1 717 241	143 307	(281 456)	1 579 092
Provision for Port Elizabeth sales office upgrade	113	5	-	118
Provision for Polokwane bus rank	240	52	(292)	-
Provision for water	530	-	(530)	-
Provision for licence fees	2 904	1 903	(4 807)	-
Provision for security services	59	-	(59)	-
Provision for drivers accommodation and shuttling	362	-	(362)	-
Restructuring provision	45 028	35 223	-	80 251
	1 766 477	180 490	(287 506)	1 659 461

Reconciliation of provisions - Controlling entity - 2023

	Opening Balance	Additions	Reversed during the year	Total
Provision for claims*	1 579 092	94 302	(219 131)	1 454 263

Reconciliation of provisions - Controlling entity - 2022

	Opening Balance	Additions	Reversed during the year	Total
Provision for claims*	1 717 241	143 307	(281 456)	1 579 092

Non-current liabilities	957 382	1 320 279	957 382	1 320 279
Current liabilities	514 111	339 182	496 881	258 813
	1 471 493	1 659 461	1 454 263	1 579 092

Notes to the Annual Financial Statements

17. Provisions (continued)

Provision for claims

* The amount shown comprises the gross provision in respect of certain claims brought against the economic entity by commuters in respect of accidents which occurred in the current and previous financial years. It is not expected that the outcome will give rise to significant claims over and above the amounts provided for.

The Chain Ladder method was applied in calculating the development factors for PRASA liability losses as at 31 March 2023. Ultimately these factors will be used to estimate the level of reserves required. The Chain Ladder method is a calculation approach used to estimate outstanding claims (Incurred But Not Reported (IBNR)) and future claim payments as required), whereby the weighted average of past claim development is projected into the future with adjustments to development patterns where applicable. The projection is based on the ratios of cumulative past claims, paid and incurred, for successive years of development. The method can be applied to past claims data with either explicit or implicit allowance for claims inflation. Based on the stability in the average claim values, the implicit adjustment was retained. The actuarial valuation was performed by Kunene Makopo Risk Solutions (2022: AON), an independent Company.

A discount rate of 7.90% (2022: 7.90%) was used to discount future estimated payments. Each year was discounted to represent today's value. In addition to adjustments to the incurred claim patterns as derived from prior years' reporting patterns, the discounting model attempts to allow for further uncertainties in the timing of claim payments for up to 17 years into the future. The derived development and settlement factors were applied to these outstanding losses to project a future settlement pattern, and then based on the total settlement pattern, a discounting cash flow model was developed.

Provision for Port Elizabeth sales office upgrade

The Port Elizabeth leased sales offices was renovated and altered to provide ablution facilities. Autopax has a contractual obligation on termination of the lease to repair the sales office to the original condition before the renovation. The provision has been increased with the average inflation rate for the past financial year.

Restructuring provision

2022: The Autopax Board of Directors approved a new operating model during March 2021 that included amongst others the right sizing of staff numbers. Section 189 notices of the Labour Relations Act were served on representative trade unions and affected parties to commence with consultations in this regard. Approximately 340 employees are affected and the estimated cost of the termination benefits was R45 million for the year ended 31 March 2021. The committee was established and is chaired by a CCMA Commissioner with the legislated consultation period ending 16 June 2021. The planned time for implementation was end of June 2021.The outstanding items being the approval of the voluntary severance packages, funding and payment thereof.

During 2021 the implementation did not take place as envisaged. The revised termination benefit was calculated and increased by R35 million to R80 million in total as an additional 199 employees were identified by the business rescue practitioners based on the current number of buses in operation.

2023: Following shareholder rightsizing approval and funding, 286 employees took up voluntarily severance packages at a cost of R53,9 million.The reduction however is not sufficient as the company still remains with excess staff of some 148 to achieve its turnaround plan towards financial self sustainability. As a result, the company re-issued a section 189 notice on the 4th of May 2023 to deal with the remaining 148 excess staff. The estimated cost of the termination benefit (severance and notice pay) is R17,2 million as calculated based on the industry collective agreement with labour that defines the composition thereof. The planned implementation to be completed soonest after the approval of the business rescue plan by creditors.

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

18. Share capital

Authorised				
Ordinary shares of R1 each	4 248 258	4 248 258	4 248 258	4 248 258

There were no movements in the share capital of the entity (2022: None). The shares are 100% (2022: 100%) owned by the Government.

Issued				
Ordinary	4 248 258	4 248 258	4 248 258	4 248 258

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

19. Operating leases

Operating lease income				
Operating lease income	616 006	496 243	620 332	530 155

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

Not later than one year	121 118	153 069	121 118	153 069
Later than one year and not later than five years	314 267	364 722	314 267	364 722
Later than five years	718 456	1 096 025	718 456	1 096 025
	1 153 841	1 613 816	1 153 841	1 613 816

Description of the economic entity as lessor's significant leasing arrangements

Short-term commercial and residential operating leases

The economic entity has entered into a number of short-term commercial and residential operating leases in respect of certain land and buildings with third parties. The average term of these leases are between 3 and 5 years with no option to purchase. In a few older lease agreements, renewal options are available for a short-term period. These are only applicable if they have complied with all terms and conditions of the original lease, and on renewal, lease rentals are subjected to escalation. Newer lease agreements have no renewal options but have rights of first refusal should the economic entity decide to continue leasing the properties on expiry of the lease. Lease agreements generally contain a clause that they may be cancelled at the option of the lessor after giving sufficient notice to the lessee, should the lease arrangements conflict with commuter services.

Development leases - Operating leases with leasehold improvements

The economic entity has entered into a number of operating leases with third parties for the lease of land. In terms of the agreements, the lessee is obliged to effect leasehold improvements on the premises which revert to the lessor on termination of the lease without any compensation. Lease rentals charged for the land are market-related and determined with reference to independent property valuations. The nature and extent of the leasehold improvements are agreed by the lessor and lessee and incorporated into the lease agreement. The terms of the leases are generally between 30 and 50 years. Some of the leases have rental reviews renegotiated every 5 years whilst most of the leases use a turnover clause to determine the lease rental. These leasehold improvements are affected and financed by the lessees, who have exclusive rights of use of the top structure for the duration of the lease. Many of these top structures are financed through bonds by the lessees' and the financiers have step in rights in the case of default by the lessee. The land lease is recognised at market value under investment property and the top structure is recognised in full at market value as an operating lease asset. The unexpired portion of the lease is recognised at market value as an operating lease liability. The operating lease asset and liability offset against each other to ensure that PRASA only recognises the value accretion to it during the period of the lease.

Intersite has entered into an operating lease agreement with a private party. The arrangement entails the leasing of dark fibre infrastructure over a lease period of 15 years with an option to renew. The infrastructure is owned by the holding company, PRASA and leased to Intersite via an operating lease agreement for commercialisation purposes. The private party has the use of the said asset and at the end of the leased period the rights to the asset reverts to the PRASA. The risk and rewards of owning the infrastructure does not pass to the private party at any stage of this arrangement.

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

19. Operating leases (continued)

Operating lease expenses

The future minimum lease payments payable under non-cancellable operating leases are as follows:

Not later than one year	1 054	2 066	-	947
Later than one year and not later than five years	4 891	9 348	-	4 734
Later than five years	2 345	8 963	-	5 286
	8 290	20 377	-	10 967

Autopax entered into lease arrangements for buildings. Buildings are leased for administrative and operational purposes and these include sales offices and technical facilities. Lease terms are between 1 and 5 years with escalation rates ranging from 6% to 10%. There is no purchase option at the end of the lease term.

The economic entity entered into a development lease agreement with Ekurhuleni Municipality on 1 December 2014 for land on which the Gibela factory is constructed. The lease is for a period of 20 years. The first 2 years of the rental will be at zero value. The next 36 months thereafter will be for an amount of R78.9 thousand per month. After year 5, the lease will be reviewed and agreed upon for the next 5 years until year 10. Thereafter the rentals and annual escalation rates will be reviewed every 5 years based on market values.

20. Investment revenue

Interest revenue				
Bank	1 648 796	999 887	1 647 538	999 657
Interest charged on trade and other receivables	3 710	5 262	3 710	5 262
	1 652 506	1 005 149	1 651 248	1 004 919

Call deposits earn interest at an average of 6.39% (2022: 5.10%) per annum.

21. Government subsidy

Operating and capital grants	**19 858 542**	**16 859 785**	**19 507 428**	**16 859 785**

22. Total revenue

Actuarial gains	482	669	481	677
Fare revenue	380 223	343 382	118 639	108 453
Gain on exchange differences	34 284	-	34 284	-
Government subsidy	19 858 542	16 859 785	19 507 428	16 859 785
Interest received	1 652 506	1 005 149	1 651 248	1 004 919
Operating lease rental income	616 006	496 243	620 332	530 155
Other income	191 541	116 269	180 768	92 083
	22 733 584	18 821 497	22 113 180	18 596 072

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

22. Total revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Actuarial gains	482	669	481	677
Fare revenue	380 223	343 382	118 639	108 453
Gain on exchange differences	34 284	-	34 284	-
Interest received	1 652 506	1 005 149	1 651 248	1 004 919
Operating lease rental income	616 006	496 243	620 332	530 155
Other income	191 541	116 269	180 768	92 083
	2 875 042	1 961 712	2 605 752	1 736 287

The amount included in revenue arising from non- exchange transactions is as follows:

Government subsidy	19 858 542	16 859 785	19 507 428	16 859 785

NATURE AND TYPE OF REVENUE

Fare revenue

Fare revenue comprises ticket sales to train and bus commuters for passenger and cargo and short and long distance journeys.

Government subsidy

The operational subsidy is received annually to fund PRASA's operations. The following Medium Term Expenditure Framework allocations have been made in respect of future years:

- 2024: R7.5 billion
- 2025: R7.8 billion
- 2026: R8.3 billion

23. Employee related costs

Basic	5 881 167	5 744 694	5 677 748	5 432 957
Allowance	101 606	100 036	93 108	88 576
Overtime payments	33 771	31 808	24 378	20 014
	6 016 544	5 876 538	5 795 234	5 541 547

24. Depreciation and amortisation

Property, plant and equipment	4 791 730	2 174 940	4 782 949	2 168 781
Intangible assets	27 596	21 341	27 596	21 161
	4 819 326	2 196 281	4 810 545	2 189 942

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

25. Impairment loss

Impairments				
Property, plant and equipment	9 357 301	38 240	9 356 615	24 209
Autopax Passenger Services (SOC) Ltd	-	-	307 366	198 084
Autopax received funds from PRASA of R307 million (2022: R198 million). The amount was impaired to nil as Autopax is experiencing cash flow constraints due to poor operational performance and the amount may not be recoverable.				
	9 357 301	38 240	9 663 981	222 293

26. Finance costs

Trade and other payables	64 830	42 110	64 561	39 375
Bank	24	6	22	3
Interest on post retirement benefits	522	562	501	541
	65 376	42 678	65 084	39 919

Payables from exchange transactions are interest bearing if settled after 30 days from date of invoice and the incurred interest is due to late payments to suppliers.

27. Fair value adjustments

Investment property (Fair value model)	(94 171)	(138 293)	(94 171)	(138 293)

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

28. General expenses

Auditors remuneration	61 945	38 646	59 071	34 935
Auxilary transport	2 089	6 096	2 091	8 674
Bank charges	5 754	5 461	4 110	3 999
Commission paid	10 333	9 462	10	12
Community development and training	61 369	97 325	61 369	97 325
Computer expenses	159 021	125 634	158 938	125 463
Consulting and professional fees	17 244	12 825	4 710	16 701
Energy expenses	686 114	681 065	561 050	576 844
Fines and penalties	-	321	-	321
Haulage fees	4 721	5 578	4 721	5 578
Health and risk	14 225	11 469	12 466	9 385
Insurance	820 770	509 985	818 397	503 468
Legal fees	129 376	95 513	128 154	95 184
Licence and transport certificate fees	5 781	10 094	38	18
Managed portfolio expenses	73 403	85 848	73 403	85 848
Management fees on external services	5 467	5 523	5 467	5 523
Marketing	5 656	1 675	5 601	1 472
Material expense	36 729	55 120	23 404	37 995
Municipal charges	460 277	357 453	456 155	352 644
Operating lease expense	233 595	204 027	219 130	187 475
Other expenses	1 110 257	568 095	1 065 374	556 238
Printing	9 962	7 129	9 928	7 121
RSR rail safety licence fees	34 352	41 446	34 352	41 446
Security	949 569	613 433	942 540	605 245
Telephone and fax	16 008	51 818	15 279	50 823
Training	3 428	3 760	3 218	3 760
Travel and accommodation - staff	6 781	8 537	319	737
Travel expense	18 403	9 732	18 539	9 706
	4 942 629	3 623 070	4 687 834	3 423 940

29. Cash flows from operating activities

(Deficit) surplus	(3 585 103)	6 274 188	(4 005 230)	6 443 947
Adjustments for:				
Depreciation and amortisation	4 819 326	2 196 281	4 810 545	2 189 942
Loss on disposal of asset and liabilities	294 223	76 105	297 920	57 075
Fair value adjustments	94 171	138 293	94 171	138 293
Impairment deficit	9 357 301	38 240	9 663 981	222 293
Movements in operating lease assets	(464)	(105 570)	-	(104 824)
Movements in retirement benefit assets and liabilities	(205)	167	(198)	174
Movements in provisions	(187 968)	(107 016)	(124 829)	(138 149)
Accrual gains/(loss)	(482)	(669)	(481)	(677)
Impairment of receivable from exchange transactions	(78 627)	372 804	59 198	406 574
Investment property capitalised	-	389 334	-	389 334
Prior period error	-	-	(291)	-
Changes in working capital:				
Inventories	15 263	(21 685)	16 980	(24 976)
Receivables from exchange transactions	(248 694)	506 346	(417 028)	479 265
Prepayments	822 916	495 249	822 591	492 039
Payables from exchange transactions	3 256 060	252 202	3 281 906	195 512
VAT	(6 362)	10 282	(4 809)	10 415
Other financial assets	(165 734)	-	-	-
	14 385 621	10 514 551	14 494 426	10 756 237

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

30. Gibela commitments

Authorised capital expenditure contracted but not yet provided for

New rolling stock				
Gibela commitments previously presented as other commitments (note 31)	89 689 017	67 432 149	89 689 017	67 432 149
Prior period error	-	30 795 958	-	30 795 958
	89 689 017	98 228 107	89 689 017	98 228 107

Authorised operational expenditure contracted but not yet provided for

Rolling stock maintenance				
Gibela commitments previously presented as other commitments (note 31)	14 666 289	16 542 119	14 666 289	16 542 119
Prior period error	-	(1 533 002)	-	(1 533 002)
	14 666 289	15 009 117	14 666 289	15 009 117

Prior period error

Management finalised and signed-off long outstanding indexation agreements during March 2023. This allowed management to adjust assumptions and recalculated the capital commitment balance for the prior year of the rolling stock to be delivered and corrected the disclosure retrospectively.

Additionally, management drafted an EMU rollout plan with revised estimates for kilometres to be travelled per train per annum. Management utlised this information and recalculated the services commitment balance (TSSSA) for the prior year of the rolling stock to be delivered and corrected the disclosure retrospectively.

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

31. Other commitments

Authorised capital expenditure

Contracted but expenditure not yet provided for				
• Signals and telecommunications	34 278	2 541 324	34 278	2 541 324
• Other capital programmes	5 486 689	4 370 608	5 486 689	4 370 608
	5 520 967	6 911 932	5 520 967	6 911 932

Authorised operational expenditure

Contracted but expenditure not yet provided for				
• Services	1 512 059	1 329 931	1 512 059	1 329 931

Total commitments

Total commitments				
Authorised capital expenditure	5 520 967	6 911 932	5 520 967	6 911 932
Authorised operational expenditure	1 512 059	1 329 931	1 512 059	1 329 931
	7 033 026	8 241 863	7 033 026	8 241 863

This committed expenditure mainly relates to plant and equipment and will be financed by available government subsidies.

Prior period error

Authorised capital expenditure				
Balance as previously reported	-	70 685 509	-	70 685 509
Gibela commitments presented separately (note 30)	-	(67 432 149)	-	(67 432 149)
Prior period error	-	3 658 572	-	3 658 572
	-	6 911 932	-	6 911 932
Authorised operating expenditure				
Balance as previously reported	-	68 754 655	-	68 754 655
Gibela commitments presented separately (note 30)	-	(16 542 119)	-	(16 542 119)
Prior period error	-	(50 882 605)	-	(50 882 605)
	-	1 329 931	-	1 329 931

32. General overhaul commitments

Capital expenditure				
General overhaul	351 175	-	351 175	-

The general overhaul (GO) contracts do not specify the applicable contract value. The work is allocated to the suppliers based on the actual demand, this demand is based on the assessment of the coaches. Therefore, the commitment amount does not respresent an actual value of work contracted but not yet provided.

The commitment amount is based on an estimated initial allocation, less the expenditure for the year. The initial allocation, which represents the work to be performed by the appointed contractor, is based on estimates made from pervious work per coach. This initial allocation forms the obligation of work to be performed by each contractor, and based on this assertion, the contract value for the GO contract will be amended to reflect this value, less the expenditure for the year to arrive at the estimated commitment at the reporting date.

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

33. Contingencies

Contingent liabilities				
Opening balance	5 207 117	3 302 015	5 092 489	3 182 071
Contingent liabilities raised during the year	97 262	2 015 462	89 823	2 010 163
Contingent liabilities settled/decreased during the year	(1 498 456)	(154 002)	(1 495 198)	(143 387)
Prior period error	-	43 642	-	43 642
	3 805 923	5 207 117	3 687 114	5 092 489

1. Prodigy Business Services.	24 624	24 624	24 624	24 624
2. Labour disputes.	110 548	426 678	100 025	420 336
3. Rail & Road Assessing Services - For alleged failure to pay for services rendered. Application was launched for dismissal of action.	3 450	3 450	3 450	3 450
4. Various insurance claims - For personal injuries as well as legal and other matters which may result in a possible loss in future.	36 400	36 000	36 400	36 000
5. Tiro Projects - For alleged failure to pay for professional services rendered.	2 370	2 370	2 370	2 370
6. T2 Tech - For alleged unlawful termination of contract.	17 377	17 377	17 377	17 377
7. National Force Security (Liquidated).	8 552	8 552	8 552	8 552
8. Madisha & Associates - For alleged breach of contract.	6 774	6 774	6 774	6 774
9. Koor Dinadar Moti Quantity Services.	478	478	478	478
10. Sbahle Safety consultants - For alleged failure to pay for services rendered.	9 096	9 096	9 096	9 096
11. Rasakanya Builders CC - For alleged failure to pay for cleaning services rendered.	2 442	2 442	2 442	2 442
12. Siyaya Rail Solutions - For alleged failure to pay for professional services rendered.	21 626	21 626	21 626	21 626
13. Siyaya db Consulting Engineers - For alleged failure to pay for services rendered.	15 319	15 319	15 319	15 319
14. Vision Africa as part of MMQS-MACE (Pty) Ltd - For alleged work done.*	14 528	14 528	14 528	14 528
15. Siyangena - Claim for interest.^	-	93 463	-	93 463
16. Siyangena - Claim for services rendered.^	1 080 901	1 080 901	1 080 901	1 080 901
17. Siyangena - Claim for services rendered.^	897 479	897 479	897 479	897 479
18. David Underwood/Sharpline Graphics - Claim for breach of contract.	6 884	6 884	6 884	6 884
19. Mtiya Dynamics - Claim for services alleged rendered.	1 995	1 995	1 995	1 995
20. Thales Maziya - For alleged claim for fees and penalties in respect of signalling systems project.	-	961 446	-	961 446
21. Sebenza Shipping and Forwarding vs PRASA - For alleged services rendered.	6 218	6 218	6 218	6 218
22. Fabor Engineering Products (Pty) Ltd vs PRASA - for alleged services rendered.	233	233	233	233
23. Nkambule and Associates vs PRASA - For alleged services rendered.	43 341	43 341	43 341	43 341
24. Superway Constructions vs PRASA - For alleged services rendered.	2 903	2 903	2 903	2 903
25. Phaahlana Mahlako Investments - For alleged services rendered.	1 164	1 164	1 164	1 164

* See Note 38

Notes to the Annual Financial Statements

33. Contingencies (continued)

	Economic entity 2023	Economic entity 2022 Restated*	Controlling entity 2023	Controlling entity 2022 Restated*
26. Boyisa Trading Enterprise - For alleged services rendered.	208	208	208	208
27. Nkuna Building Construction.	229	229	229	229
28. Siemens - Deyal damages claim - Claim 4.	-	53 864	-	53 864
29. APM v PRASA - Claim for defamation.	5 000	5 000	5 000	5 000
30. Mbita Consulting services - Claim for services rendered.	16 506	16 506	16 506	16 506
31. Diko Van Der Merwe t/a DPV Quantity Surveyors.	2 621	2 621	2 621	2 621
32. Diko Van Der Merwe t/a DPV Quantity Surveyors.	3 236	3 236	3 236	3 236
33. Otcon Construction (Oteo 4Phase JV) - For alleged services rendered.	6 986	6 986	6 986	6 986
34. Tshireletso Business Enterprises - Construction contract.	4 054	4 054	4 054	4 054
35. MMQS - MACE - Professionals.	12 688	12 688	12 688	12 688
36. Kwikspace Modular Building (Pty) Ltd - Claim against Enza Construction for outstanding rentals/PRASA cited as party.	755	755	755	755
37. Indonsa Consortium - For alleged delays on construction costs.	5 025	5 025	5 025	5 025
38. Focus (InCab Signalling) - For alleged failure to pay for services rendered.	22 076	22 076	22 076	22 076
39. Mangi and Ngwazi Investments - For alleged services rendered.	10 403	10 403	10 403	10 403
40. Espafrika Proprietary Limited.	15 219	15 219	15 219	15 219
41. Vidual Investments Proprietary Limited.	2 169	2 169	2 169	2 169
42. Strauss Daly Inc - For alleged services rendered.	4 762	4 762	4 762	4 762
43. On Demand Investments- Claim based on Lease agreement.	2 507	2 507	2 507	2 507
44. Bila Contractors - For alleged breach of contract.	45 157	45 157	45 157	45 157
45. Nkambule & Associates - Claim for professional services rendered.	3 279	3 279	3 279	3 279
46. Siemens - Alleged claim for ETCS trial system implemented by Siemens	39 092	39 092	39 092	39 092
47. Naledi Rail - For alleged services rendered.	43 420	43 420	43 420	43 420
48. Vusa Isizwe Security - For alleged services rendered.	90 120	90 120	90 120	90 120
49. Sinqobile Equestrian Security - For alleged services rendered.	24 505	24 505	24 505	24 505
50. Bombardier - Claim 1 - 6 for alleged services rendered.	457 638	457 638	457 638	457 638
51. Bombardier - Claim 2 for storage.	7 433	7 433	7 433	7 433
52. Bombardier - Claim 3 - Indemnity arising from the defendant's unjustified call on the performance bond.	129 933	129 933	129 933	129 933
53. Bombardier - Claim 4 - Demobilisation costs.	9 839	9 839	9 839	9 839
54. Bombardier - Claim 5 - DAB Decision claim.	13 613	13 613	13 613	13 613
55. Bombardier - Claim 6 - Arbitration award claim.	77 808	77 808	77 808	77 808
56. Siyaya DB - in liquidation - For alleged services rendered.	15 372	15 372	15 372	15 372
57. Siyaya DB - For alleged services rendered.	8 096	8 096	8 096	8 096
58. Siyaya DB - For alleged services rendered.	7 098	7 098	7 098	7 098
59. Royal Security Services - For alleged unpaid services.	16 863	16 863	16 863	16 863
60. Insingizi Security Services - For alleged unpaid services.	6 255	6 255	6 255	6 255

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

33. Contingencies (continued)

61. Futuris Guarding Security - For alleged unpaid services.	7 791	7 791	7 791	7 791
62. Sinqobile Equestrian Security.	4 724	4 724	4 724	4 724
63. Sechaba Security - For alleged unpaid invoices.	3 447	3 447	3 447	3 447
64. Changing Tides Security - For alleged unpaid invoices.	20 462	20 462	20 462	20 462
65. Supreme Security Services - Alleged claim for unpaid invoices.	30 174	30 174	30 174	30 174
66. R1 Security Services - For alleged unpaid services.	18 909	18 909	18 909	18 909
67. Vimtsiree Investments.	27 454	27 454	27 454	27 454
68. Royal Security - Recovery of unpaid increases.	48 618	48 618	48 618	48 618
69. Application to rescind the judgment wrongly taken against PRASA instead of PRASA Provident Fund.	1 700	1 700	1 700	1 700
70. Garry Donavan Wallace No & others (High Goal Security Liquidators) - For alleged shortfall of invoice payment based on PSIRA Rates.	13 559	13 559	13 559	13 559
71. WOT- For alleged unpaid idle time.	1 460	1 460	1 460	1 460
72. Khuthele - For alleged services rendered and not paid for: Germiston Station.	2 813	2 813	2 813	2 813
73. Khuthele - For alleged services rendered and not for - Vereeniging Station.	7 492	7 492	7 492	7 492
74. Selina Sokoko - For alleged damages suffered due to PRASA submitting an incorrect report to Parliament regarding her exit from entity.	9 000	9 000	9 000	9 000
75. Altron Nexus - For alleged claim for supply of equipments not paid for.	4 827	4 827	4 827	4 827
76. Class A - claim for alleged services rendered.	18	18	18	18
77. Valuecorp - For alleged claim from failure to pay for forensic investigation.	3 572	3 572	3 572	3 572
78. Combined Transport Services - For alleged claim for bus service rendered.	8 014	8 014	-	-
79. APM - For alleged loss of business.	68 763	68 763	-	-
80. Mbita Consulting services - For services rendered.	15 044	15 044	-	-
81. K Somaru/Lakehaven Transport/Autopax - For alleged unpaid services rendered.	1 802	1 802	-	-
82. Vinesh Naidoo - alleged claim for unpaid services rendered/Autopax	1 265	1 265	-	-
83. SAMPRA - alleged claim for music playing in buses and not paid for/Autopax.	399	399	-	-
84. Transnet - For alleged rent for diesel.	3 049	3 049	-	-
85. Michel Mashile - Amount held in attorneys trust for rent owed to services provider for Hazyview offices.	1 700	1 700	-	-
86. Tito Transport - alleged claim for bus services rendered to Autopax.	7 775	7 775	-	-
87. Gemini Moon - Travel agency claiming for services rendered to Autopax.	475	475	-	-
88. Andile Woolfred Phewa.	800	-	800	-
89. Danile M. Zitha.	500	-	500	-
90. Dwane Holloway.	400	-	400	-
91. Jonfords Developments.	435	-	435	-
92. Leketi Attorneys.	150	-	150	-
93. MEM Consulting (Pty) Ltd.	460	-	460	-
94. Mlungisi Ndzimande.	3 400	-	3 400	-
95. Mokete M. Ezekiel.	2 000	-	2 000	-
96. Sfiso Buthelezi/Dr Bridgette Gasa and 3 others.	234	-	234	-
97. Sibusiso Joseph Dude.	4 400	-	4 400	-

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

33. Contingencies (continued)

98. Tholakele Upington Gubudela.	10 000	-	10 000	-
99. Unahina Business Solutions (Pty) Ltd.	224	-	224	-
100. Unahina Business Solutions (Pty) Ltd.	306	-	306	-
101. Nissan-Claim for vehicles purchased by PRASA.	17 855	17 855	17 855	17 855
102. Toyota-Claim for vehicle purchased by PRASA.	17 422	17 422	17 422	17 422
103. Delca Systems - Claims for professional services allegedly rendered.	8 364	8 364	8 364	8 364
	3 805 923	5 207 117	3 687 114	5 092 489

The matters listed in the note are matters in respect of which the counterparty mentioned has commenced legal proceedings either in court or through alternative dispute resolution, for example, arbitration proceedings. There is uncertainty relating to outcome, amount and the timing of the outflow, a final determination in this regard will be made by the presiding officer of the court or the arbitral forum as the case may be. In the event that PRASA is successful in its defence on any of the matters listed in this note, PRASA may be reimbursed for part of the legal costs it incurred in defending the matter in question.

^ On 8 October 2020 a full bench of the Gauteng High Court ordered that the agreements concluded between PRASA and Siyangena Technologies (Pty) Limited ("Siyangena") be reviewed and set aside. The court also found that the arbitration agreements contained in these agreements are similarly and specifically reviewed and set aside. This decision therefore suspends any claims that Siyangena have lodged by way of arbitration against PRASA. In accordance with the court order, an engineer is to be appointed within 30 days by the parties or by the court, where the parties do not reach agreement, to assess the work that has been done by Siyangena and indicate whether there is a deficit or excess in the payments already made by PRASA. In the event that the engineer finds that there is an excess, Siyangena will be obliged to pay this excess and if she/he finds a deficit, PRASA will be obliged to make good on the deficit. Siyangena has appealed the Gauteng High Court decision and PRASA must await the conclusion of the appeal process before effecting any adjustments to amounts contained in its work-in-progress and contingent liabilities.

Prior period error

During the analysis of the 2023 cases against PRASA, three claims were identified relating to the 2022 financial year which were not disclosed. The comparative list was updated with these claims.

As previously stated	-	5 163 475	-	5 048 847
Restatement	-	43 642	-	43 642
	-	5 207 117	-	5 092 489

Contingent assets

	Economic entity	Controlling entity
2023		
Opening balance	**167 156**	**112 258**
1. Non-payment of professional services rendered to Government departments, and other third parties.	48 967	48 967
2. Monies paid to Mazwe Financial Services micro-lender in respect of loans to employees.	28 941	28 941
3. Claims against employees for being absent from work, employed on basis of misrepresentation and for services not rendered.	32 775	32 775
4. Compass Insurance-Claim against an insurer of a contractor in respect of the non-performance of a contractor that has since been liquidated.	14 740	14 740
	125 423	125 423

* See Note 38

Notes to the Annual Financial Statements

	Economic entity 2023	Economic entity 2022 Restated*	Controlling entity 2023	Controlling entity 2022 Restated*

33. Contingencies (continued)

2022	Economic entity	Controlling entity
Opening balance	**167 156**	**112 258**
1. Non-payment of professional services rendered to Government departments, and other third parties.	90 700	35 802
2. Monies paid to Mazwe Financial Services micro-lender in respect of loans to employees.	28 941	28 941
3. Claims against employees for being absent from work, employed on basis of misrepresentation and for services not rendered.	32 775	32 775
4. Compass Insurance-Claim against an insurer of a contractor in respect of the non-performance of a contractor that has since been liquidated.	14 740	14 740
	167 156	112 258

The matters above are under litigation and have been recognised as contingent assets. Their existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of PRASA.

34. Interest in other entities

Investment in controlled entities

Name of company	% holding 2023	% holding 2022	Carrying amount 2023	Carrying amount 2022
Intersite Asset Investments (SOC) Ltd "Intersite"	100%	100%	-	-
Autopax Passenger Services (SOC) Ltd "Autopax"	100%	100%	-	-
			-	-

The carrying amounts of controlled entities are shown net of impairment losses.

Intersite Asset Investments (SOC) Ltd

Intersite was a subsidiary throughout the year. The interest in the surplus of the subsidiary amounted to R333 million (2022: R4 million). The investment has been impaired to nil.

Country of incorporation: South Africa.

Principal activity: Property and asset investment vehicle for the economic entity. Authorised share capital

4 000 ordinary shares of R1 each

Issued share capital

375 ordinary shares of R1 each (2022: 375)

Autopax Passenger Services (SOC) Ltd

Autopax was a subsidiary throughout the year. The interest in the deficit of the subsidiary amounted to R207 million (2022: deficit R368 million). The investment has been impaired to nil.

Country of incorporation: South Africa

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

34. Interest in other entities (continued)

Principal activity: Passenger bus services

Authorised share capital

800 000 000 ordinary shares of R1 each

Issued share capital

601 863 850 ordinary shares of R1 each (2022: 601 863 850)

Related party transactions with subsidiaries

During the year, the entity entered into transactions with its wholly-owned subsidiaries, Intersite and Autopax. All transactions with the above are concluded on an arm's length basis.

Related party transactions are included under related party note 35.

* See Note 38

35. Related parties

Relationships

Members of key management	Refer to members' report note 35
Ultimate controlling entity	Passenger Rail Agency of South Africa
Controlling entity	Passenger Rail Agency of South Africa
Subsidiaries	Intersite Asset Investment SOC Ltd
	Autopax Passenger Services SOC Ltd

Sphere of Government

The economic entity is a Schedule 3B Public Entity in terms of the Public Finance Management Act, 1999 (Act No 1 of 1999). It therefore has a significant number of related parties, including other State-owned entities, Government departments and all other entities within the national sphere of Government. The economic entity used the database maintained by National Treasury to identify related parties. A list of all related parties is available on the National Treasury website at www.treasury.gov.za. Transactions with related parties are concluded on an arm's length basis.

The entity has a related party relationship with its subsidiaries Autopax and Intersite, as well as with its directors and senior executives (key management).

Transactions with related entities

Services rendered to related parties comprise principally transportation (rail and road) services. Services purchased from related parties comprised principally energy, telecommunications, information technology, transportation and property related services.

During the year, the entity entered into transactions with its wholly-owned subsidiaries, Intersite and Autopax. All transactions with the above are concluded on an arm's length basis.

The following is a summary of transactions with related parties during the year and balances due at year-end:

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*
Related party balances				
Receivables from exchange transactions				
Intersite			702	1 187
Autopax			283 822	270 689
Impairment			(283 822)	(271 876)
Payables from exchange transactions				
Autopax			2 236	2 179
Loans - owing by related parties				
Autopax			1 665 818	1 358 391
Impairment			(1 665 818)	(1 358 391)

Autopax received R307 million (2022: R198 million) funding from the controlling entity for operations. Funding of R1 358 million received in previous financial years has been impaired to nil as Autopax is experiencing cash flow constraints due to poor operational performance and the amount might not be recoverable.

In addition, the controlling entity impaired receivables from exchange transactions in subsidiaries of R283 million in 2023 (2022: R270 million) The amount might not be recoverable as subsidiaries are experiencing cash flow constraints due to poor operational performance.

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

35. Related parties (continued)

Related party transactions

Services rendered to related parties				
Autopax			2 236	18 516
Services rendered from related parties				
Intersite			-	8 666
Autopax			374	3 736

REMUNERATION OF MANAGEMENT

Board members

2023	Fees for services as director	Total
PRASA		
Mr X George*	-	-
Ms S Luthuli	52	52
Mr N Makaepea	-	-
Mr D Mohuba	509	509
Adv M Motlogelwa	78	78
Ms N Mpye	576	576
Mr M Mukhuba	423	423
Ms N Nokwe-Macamo	510	510
Mr L Ramatlakane (Chairperson)	1 227	1 227
Adv S Sethene	542	542
Mr T Zulu*	-	-
Intersite		
Mr B Alexander*	-	-
Mr H Emeran*	-	-
Ms S Luthuli	17	17
Mr N Makaepea*	-	-
Mr D Mohuba	38	38
Ms N Mpye (ARC Chairperson)	260	260
Mr M Mukhuba (Chairperson)	219	219
Adv S Sethene	71	71
Mr T Zulu*	-	-
Autopax		
Ms S Luthuli (Chairperson)	37	37
Mr N Makaepea*	-	-
Mr D Mohuba	38	38
Adv M Motlogelwa	59	59
Ms N Mpye (ARC Chairperson)	261	261
Mr M Mukhuba	50	50
Mr N Roesch* (CEO)	-	-
Adv S Sethene	13	13
Ms T Tsautse*	-	-
Mr T Zulu* (Chairperson)	-	-
	4 980	4 980

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

35. Related parties (continued)

PRASA	
Mr X George	(Till June 2022)
Ms S Luthuli	(From December 2022)
Mr N Makaepea	(From October 2020)
Mr D Mohuba	(From October 2020)
Mr TN Mpye	(From October 2020)
Mr M Mukhuba	(From October 2020)
Adv M Motlogelwa	(From February 2023)
Ms N Nokwe-Macamo	(From October 2020)
Mr L Ramatlakane (Chairperson)	(From October 2020)
Adv S Sethene	(Till July 2022)
Mr T Zulu	(Till February 2023)

Intersite	
Mr B Alexander	(From March 2020)
Mr H Emeran	(From December 2022
Ms S Luthuli (ARC member)	(From December 2022)
Mr N Makaepea	(Till July 2022)
Mr D Mohuba (ARC member)	(From July 2022)
Ms N Mpye (ARC Chairperson)	(From Novermber 2020)
Mr M Mukhuba (Chairperson)	(From December 2020)
Adv S Sethene (ARC member)	(Till July 2022)
Mr T Zulu*	(Till February 2023)

Autopax	
Ms S Luthuli (Chairperson)	(From February 2023)
Mr N Makaepea (ARC member)	(Till July 2022)
Mr D Mohuba (ARC member)	(From July 2022)
Adv M Motlogelwa	(From December 2022)
Ms N Mpye	(From July 2022)
Ms N Mpye (ARC Chairperson)	(From December 2020)
Mr M Mukhuba	(From December 2020)
Adv S Sethene (ARC member)	(From December 2020)
Ms T Tsautse*	(From October 2021)
Mr T Zulu (Chairperson)*	(Till February 2023)

*Non-remunerated appointment

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

35. Related parties (continued)

2022	Fees for services as director	Total
PRASA		
Mr X George*	-	-
Mr M Makaepea*	-	-
Mr D Mohuba	526	526
Ms N Mpye	565	565
Mr M Mukhuba	439	439
Ms N Nokwe-Macamo	509	509
Mr L Ramatlakane (Chairperson)	1 232	1 232
Adv S Sethene	542	542
Mr T Zulu*	-	-
Intersite		
Mr B Alexander*	-	-
Mr M Makaepea*	-	-
Mr W Mathebula* (Chairperson)	-	-
Ms N Mpye (ARC Chairperson)	129	129
Mr M Mukhuba	262	262
Adv S Sethene	50	50
Mr T Zulu*	-	-
Autopax		
Mr N Makaepea*	-	-
Ms N Mpye	130	130
Mr M Mukhuba	50	50
Ms N Nokwe-Macamo (Chairperson)	91	91
Ms N Roesch* (CEO)	-	-
Adv S Sethene	50	50
Mr S Simelane*	-	-
Ms T Tsautse*	-	-
Mr T Zulu* (Chairperson)	-	-
	4 575	4 575

PRASA	
Mr X George*	(From November 2020)
Mr N Makaepea*	(From October 2020)
Mr D Mohuba	(From October 2020)
Mr TN Mpye	(From October 2020)
Mr M Mukhuba	(From October 2020)
Ms N Nokwe-Macamo	(From October 2020)
Mr L Ramatlakane (Chairperson)	(From October 2020)
Adv S Sethene	(From November 2020)
Mr T Zulu*	(From August 2021)

Intersite	
Mr B Alexander	(From March 2020)
Mr N Makaepea* (ARC member)	(From January 2022)
Mr W Mathebula (Chairperson)	(Till January 2021)
Ms N Mpye (ARC Chairperson)	(From November 2020)
Mr M Mukhuba (Chairperson)	(From December 2020)
Adv S Sethene (ARC member)	(From November 2020)
Mr T Zulu*	(From December 2020)

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

35. Related parties (continued)

Autopax	
Mr N Makaepea (ARC member)	(From June 2021)
Ms N Mpye (ARC Chairperson)	(From December 2020)
Mr D Mukhuba (ARC member)	(From December 2020)
Ms N Nokwe-Macamo (Chairperson)	(Till August 2021)
Mr Roesch* (CEO)	(From September 2020)
Adv S Sethene (ARC member)	(From December 2020)
Ms S Simelane	(Till October 2021)
Ms T Tsautse*	(From October 2021)
Mr T Zulu (Chairperson)*	(From August 2021)

*Non-remunerated appointment

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

35. Related parties (continued)

Management class: Executive management

2023	Salary	Retirement contributions	Other benefits received	Total
Name				
Mr B Alexander (AGCFO)	3 048	229	31	3 308
Mr M Baltac (Strategic Asset Development)	2 236	-	25	2 261
Mr C Camane (Advisor)	1 403	-	15	1 418
Mr V Dlamini (Advisor)	1 261	-	14	1 275
Ms Y February (ACIO)	830	70	9	909
Ms L Fosu (GCFO)	3 286	301	35	3 622
Mr K Govender (Advisor)	3 230	-	35	3 265
Mr H Hishaam (AGCEO)	1 584	179	17	1 780
Mr H Hishaam (CEO - PRASA TECH)	1 037	128	11	1 176
Adv J Hlongwane (Advisor)	449	-	5	454
Mr T Holele*	2 965	-	31	2 996
Mr E Khan	724	43	7	774
Mr N Khena*	2 831	260	30	3 121
Ms N Kondowe (AGCHO)	841	66	9	916
Ms D Le Roux (AGHCM)	932	72	9	1 013
Ms A Lindeque (ACEO PRASA Cres)	2 297	242	25	2 564
Mr J Mahlangu (ACAE)	1 386	153	16	1 555
Mr N Malefane (ACEO - PRASA RAIL)	1 659	-	17	1 676
Mr F Marutla (ACEO - PRASA TECH)	1 203	88	13	1 304
Mr C Mathonsi (Acting Executive Manager - MLPS)	1 058	79	12	1 149
Mr D Mphelo (AGCEO)	1 189	96	12	1 297
Mr D Mphelo (CIO)	1 474	135	15	1 624
Mr T Mukwevho (ACPO)	971	79	10	1 060
Ms P Munthali #	3 273	-	34	3 307
Ms M Ngoye (Group Legal and Risk)	2 998	359	32	3 389
Mr A Papadopulo	2 131	-	24	2 155
Mr A Rehman	907	72	10	989
Ms T Tsautse (AGL&R)	1 756	-	19	1 775
Ms L Venter (AGHCM)	966	83	10	1 059
	49 925	2 734	532	53 191

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

35. Related parties (continued)

Mr D Mphelo (AGCEO)	(Till August 2022)
Mr H Hishaam (AGCEO)	(From September 2022)
Ms N Kondowe (AGCHO)	(Till August 2022)
Ms L Venter (AGHCM)	(From September 2022)
Ms D Le Roux (AGHCM)	(From September 2022)
Mr B Alexander (AGCFO)	(From February 2022)
Ms Y February (ACIO)	(From November 2022)
Ms A Lindeque (ACEO - PRASA CRES)	(From December 2021)
Mr F Marutla (ACEO - PRASA TECH)	(From September 2022)
Mr H Hishaam (CEO PRASA TECH)	(Till August 2022)
Ms T Tsautse (AGL&R)	(Till October 2022)
Mr T Mukwevho (ACPO)	(Till September 2022)
Mr A Rehman	(From October 2022)
Mr E Khan	(Till June 2022)
Mr C Camane (Advisor)	(From October 2022)
Mr V Dlamini (Advisor)	(From October 2022)
Mr K Govender (Advisor)	(From May 2022)
Adv J Hlongwane (Advisor)	(From February 2023)

* The members are suspended from 1 April 2021. From this date they no longer participate in EXCO related matters.
# The member is suspended from 12 June 2019. From this date they no longer participate in EXCO related matters.

2022 Name	Salary	Retirement contributions	Other benefits received	Total
Mr B Alexander (AGCFO)	427	38	4	469
Mr M Baltac	2 400	82	25	2 507
Ms N Damasane (CEO - PRASA RAIL)	2 846	33	28	2 907
Mr H Emeran (CEO - PRASA TECH)	2 489	308	27	2 824
Ms Y February (AGCIO)	812	70	9	891
Ms L Fosu (GCFO)	3 286	301	35	3 622
Mr T Holele*	2 831	260	30	3 121
Mr E Khan	3 273	-	34	3 307
Mr N Khena*	2 831	300	30	3 161
Ms N Kondowe (AGE - HCM)	1 372	105	15	1 492
Ms A Lindeque (ACEO - PRASA CRES)	742	81	8	831
Ms A Lubbe	906	101	9	1 016
Ms T Mabija (GE - HCM)	992	78	10	1 080
Ms N Madikizela (CEO - PRASA CRES)	1 888	170	20	2 078
Mr J Mahlangu (AGCIA)	577	63	7	647
Mr N Malefane (ACEO - PRASA RAIL)	1 303	-	13	1 316
Ms N Mareko	2 592	236	27	2 855
Mr M Marutla (ACEO - PRASA TECH)	439	37	5	481
Mr M Mathonsi	89	6	1	96
Mr Z Matthews (GCEO)	3 898	325	43	4 266
Ms K Mpane	1 935	30	8	1 973
Mr D Mphelo (AGCEO)	959	77	10	1 046
Mr D Mphelo (GCIO and ACEO PRASA TECH)	1 516	135	16	1 667
Ms P Munthali #	2 965	-	31	2 996
Ms M Ngoye (GE - Legal)	2 965	359	32	3 356
Mr A Papadopulo	1 579	-	18	1 597

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

35. Related parties (continued)

2022 Name	Salary	Retirement contributions	Other benefits received	Total
Mr T Rakau	1 460	16	14	1 490
Ms T Tsautse (AGE - Legal)	1 388	-	15	1 403
Mr A Zaman (CAE)	5 085	-	22	5 107
	55 845	3 211	546	59 602

Mr Z Matthews (GCEO)	(Till November 2021)
Mr D Mphelo (AGCEO)	(From December 2021)
Ms L Fosu (GCFO)	(Till February 2022)
Ms N Damasane (CEO - PRASA RAIL)	(Till April 2021)
Mr N Malefane (ACEO - PRASA RAIL)	(From May 2021)
Mr A Zaman (CAE)	(Till October 2021)
Mr J Mahlangu (AGCIA)	(From November 2021)
Ms T Mabija (GE - HCM)	(Till July 2021)
Ms N Kondowe (AGE - HCM)	(From August 2021)
Mr D Mphelo (GCIO and ACEO - PRASA TECH)	(Till October 2021)
Ms Y February (AGCIO)	(From November 2021)
Ms M Ngoye (GE - Legal)	(Till October 2021)
Ms T Tsautse (AGE - Legal)	(From November 2021)
Ms A Lindeque (ACEO - PRASA CRES)	(From December 2021)
Ms N Damasane (CEO - PRASA RAIL)	(Till April 2021)
Mr N Malefane (ACEO - PRASA RAIL)	(From May 2021)
Ms A Lubbe	(Till October 2021)
Mr A Papadopulo	(From June 2021)
Ms K Mpane	(Till May 2021)
Mr T Rakau	(Till April 2021)

* The members are suspended from 1 April 2021. From this date they no longer participate in EXCO related matters.

\# The member is suspended from 12 June 2019. From this date they no longer participate in EXCO related matters.

36. Other related parties

The following is a summary of transactions with related parties during the year and balances due at year-end:

	Economic entity 2023	Economic entity 2022 Restated*	Controlling entity 2023	Controlling entity 2022 Restated*
Services rendered to related parties				
Major public entities	124 446	8 142	124 446	8 142
Other public entities	12 102	39 923	12 102	39 923
	136 548	48 065	136 548	48 065
Services received from related parties				
Major public entities	(785 724)	(729 540)	(785 724)	(723 540)
Other public entities	(1 130 338)	(595 615)	(1 127 897)	(594 812)
	(1 916 062)	(1 325 155)	(1 913 621)	(1 318 352)
Net amounts due to related parties				
Major public entities	(1 366 460)	(19 849)	(1 366 460)	(19 849)
Other public entities	(86 905)	128 598	(64 815)	148 248
	(1 453 365)	108 749	(1 431 275)	128 399

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

36. Other related parties (continued)

The following is a summary of transactions with related parties during the year and balances due at year-end:

The majority of transactions with Major public entities are with Transnet and Eskom.

The majority of Other public entities transactions are with South African Revenue Services.

Transactions with related entities

Services rendered to related parties comprise principally transportation (rail and road) services. Services purchased from related parties comprised principally energy, telecommunications, information technology, transportation and property related services.

37. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are disclosed in the prior period adjustment note 38.

38. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

Economic entity - 2022	As previously reported	Correction of error	Restated
Assets			
Inventories	480 741	-	480 741
Receivables from exchange transaction	670 809	(75 684)	595 125
Prepayment	751 836	-	751 836
Cash and cash equivalents	24 641 598	(3 028)	24 638 570
Investment property	4 401 180	(49 837)	4 351 343
Property, plant and equipment	42 939 153	(1 254 064)	41 685 089
Intangible assets	204 665	(5 485)	199 180
Operating lease asset	2 244 701	103 670	2 348 371
Prepayment (Non-current)	6 710 952	-	6 710 952
Liabilities			
Payables from exchange transactions	(5 497 479)	(36 770)	(5 534 249)
VAT payable	(1 831)	(1)	(1 832)
Employee benefit obligation	(727)	28	(699)
Provisions	(339 182)	-	(339 182)
Operating lease liability	(1 316 902)	18 190	(1 298 712)
Employee benefit obligation (Non-current)	(4 991)	(28)	(5 019)
Provisions (Non-current)	(1 320 279)	-	(1 320 279)
Net assets			
Share capital	(4 248 258)	-	(4 248 258)
Accumulated surplus on 1 April 2021	(64 428 564)	1 689 775	(62 738 789)
Net (surplus)/deficit for the year	(5 887 422)	(386 766)	(6 274 188)
	-	-	-

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

38. Prior-year adjustments (continued)

Controlling entity - 2022	As previously reported	Correction of error	Restated
Assets			
Inventory	466 863	-	466 863
Receivables from exchange transactions	662 578	(74 819)	587 759
Prepayments	748 096	-	748 096
Cash and cash equivalents	24 621 246	(3 028)	24 618 218
Investment property	4 401 180	(49 837)	4 351 343
Property, plant and equipment	42 899 072	(1 254 062)	41 645 010
Intangible assets	204 665	(5 485)	199 180
Operating lease asset	2 239 790	103 670	2 343 460
Prepayment	6 710 952	-	6 710 952
Liabilities			
Payables from exchange transactions	(5 237 366)	(34 584)	(5 271 950)
VAT payable	(1 775)	-	(1 775)
Employee benefit obligation (current)	(699)	-	(699)
Provisions (current)	(258 813)	-	(258 813)
Operating lease liability	(1 316 902)	18 190	(1 298 712)
Employee benefit obligation	(4 785)	-	(4 785)
Provisions	(1 320 279)	-	(1 320 279)
Net assets			
Share capital	(4 248 258)	-	(4 248 258)
Accumulated surplus on 1 April 2021	(64 537 206)	1 715 543	(62 821 663)
Net (surplus)/deficit for the year	(6 028 359)	(415 588)	(6 443 947)
	-	-	-

Statement of financial performance

Economic entity - 2022	As previously reported	Correction of error	Restated
Revenue			
Fare revenue	(343 382)	-	(343 382)
Operating lease rental income	(608 821)	112 578	(496 243)
Other income	(116 279)	10	(116 269)
Interest received	(1 005 903)	754	(1 005 149)
Actuarial gains	(669)	-	(669)
Government subsidy	(16 669 462)	(190 323)	(16 859 785)
Expenses			
Employee related cost	5 876 544	(6)	5 876 538
Depreciation and amortisation	2 479 794	(285 513)	2 194 281
Impairment loss	38 239	1	38 240
Finance cost	40 405	2 273	42 678
Fair value adjustment	316 550	(178 257)	138 293
Loss on disposal of asset	76 103	2	76 105
Repairs and maintenance	410 839	145 265	556 104
General expense	3 618 620	4 450	3 623 070
Deficit for the year	(5 887 422)	(388 766)	(6 276 188)

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
		Restated*		Restated*

38. Prior-year adjustments (continued)

Controlling entity - 2022	As previously reported	Correction of error	Restated
Revenue	-	-	-
Fare revenue	(108 453)	-	(108 453)
Operating lease rental income	(625 064)	94 909	(530 155)
Other income	(92 083)	-	(92 083)
Interest received	(1 007 946)	3 027	(1 004 919)
Actuarial gains	(677)	-	(677)
Government subsidy	(16 669 462)	(190 323)	(16 859 785)
Expenses	-	-	-
Employee related costs	5 541 553	(6)	5 541 547
Depreciation and amortisation	2 473 455	(283 513)	2 189 942
Impairment loss	222 292	1	222 293
Finance costs	39 919	-	39 919
Fair value adjustments	316 550	(178 257)	138 293
Loss on disposal of assets	57 075	-	57 075
Repairs and maintenance	393 851	145 265	539 116
General expenses	3 430 631	(6 691)	3 423 940
Deficit for the year	(6 028 359)	(415 588)	(6 443 947)

Errors

The following prior period errors adjustments occurred:

Error 1

Correction of intercompany balances.

Statement of Financial Position

Receivables from exchange transactions	-	**(94 909)**	-	**(94 909)**

Statement of Financial Performance

Operating lease rental income	-	**94 909**	-	**94 909**

Error 2

Investment income not accounted for in the financial year ended 31 March 2022.

Statement of Financial Position

Accumulated surplus balance on 1 April 2021	-	-	-	(5 819)
Receivables from exchange transactions	-	-	-	5 819
	-	-	-	-

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

38. Prior-year adjustments (continued)

Error 3

Correction of interest recognised on cash and cash equivalents.

Statement of Financial Position

Correction of interest recognised on cash and cash equivalents	-	(3 028)	-	(3 028)

Statement of Financial Performance

Interest income	-	3 028	-	3 028

Error 4

Reclassification of Mabopane Concourse assets from property, plant and equipment and PRASA house to property, plant and equipment.

Statement of Financial Position

Accumulated surplus balance on 1 April 2021	-	33 623	-	33 623
Investment property	-	28 763	-	28 763
Property, plant and equipment	-	78 131	-	78 131
Operating lease liability	-	43 260	-	43 260
	-	183 777	-	183 777

Statement of Financial Performance

Depreciation and amortisation	-	(5 520)	-	(5 520)
Fair value adjustments	-	(178 257)	-	(178 257)
	-	(183 777)	-	(183 777)

Error 5

Account for the capitalisation of assets in the correct reporting period.

Statement of Financial Position

Accumulated surplus balance on 1 April 2021	-	(2 873 613)	-	(2 873 613)
Investment property	-	356 446	-	356 446
Investment property - assets under construction	-	(356 446)	-	(356 446)
Property, plant and equipment	-	5 526 437	-	5 526 437
Property, plant and equipment - assets under construction	-	(2 255 987)	-	(2 255 987)
	-	396 837	-	396 837

Statement of Financial Performance

Government grants and subsidies	-	(190 323)	-	(190 323)
Depreciation and amortisation	-	(206 853)	-	(206 853)
General expenses	-	339	-	339
	-	(396 837)	-	(396 837)

* See Note 38

Notes to the Annual Financial Statements

38. Prior-year adjustments (continued)

Error 6

Account for amortisation on intangible assets capitalised in earlier period.

Statement of Financial Position

	Economic entity 2023	Economic entity 2022 Restated*	Controlling entity 2023	Controlling entity 2022 Restated*
Accumulated surplus balance on 1 April 2021	-	2 240	-	2 240
Intangible assets	-	(3 598)	-	(3 598)
	-	(1 358)	-	(1 358)

Statement of Financial Performance

	Economic entity 2023	Economic entity 2022 Restated*	Controlling entity 2023	Controlling entity 2022 Restated*
Depreciation and amortisation	-	1 358	-	1 358
General expenses	-	-	-	339
	-	1 358	-	1 697

Error 7

Reversal of excess amortisation recognised on cost adjustments.

Statement of Financial Position

	Economic entity 2023	Economic entity 2022 Restated*	Controlling entity 2023	Controlling entity 2022 Restated*
Accumulated surplus balance on 1 April 2021	-	(40 204)	-	(40 204)
Intangible assets	-	40 204	-	40 204
	-	-	-	-

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

38. Prior-year adjustments (continued)

Error 8

Expense costs incurred on projects that are not capital in nature (R1,084,753 million). In addition, expense costs incurred on projects where the assets could not be verified, costs could not be identified to relate to a specific asset, or the assets were vandalised or lost due to theft (R3,359,691 million).

Statement of financial position

Accumulated surplus balance on 1 April 2021 (not capital)	-	1 084 753	-	1 084 753
Accumulated surplus balance on 1 April 2021	-	3 359 691	-	3 359 691
Intangibles	-	(42 090)	-	(42 090)
Property, plant and equipment	-	(4 402 354)	-	(4 402 354)
	-	-	-	-

Error 9

Recognise assets and account for depreciation on these assets in the correct reporting period.

Statement of financial position

Accumulated surplus balance on 1 April 2021	-	(7 385)	-	(7 385)
Property, plant and equipment	-	112 144	-	112 144
	-	104 759	-	104 759

Statement of financial performance

Impairment loss/reversal	-	1	-	1
Depreciation and amortisation	-	(104 759)	-	(104 759)
	-	(104 758)	-	(104 758)

Error 10

Raise accruals for the 2022 financial year not previously recorded.

Statement of financial position

Accumulated surplus balance on 1 April 2021	-	1	-	1
Payables from exchange	-	(53 241)	-	(53 241)
	-	(53 240)	-	(53 240)

Statement of financial performance

Employee related costs	-	(6)	-	(6)
General expenses	-	53 246	-	53 246
	-	53 240	-	53 240

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

38. Prior-year adjustments (continued)

Error 11

Correct trade payables overstated in prior years.

Statement of financial position

Accumulated surplus balance on 1 April 2021	-	(16 474)	-	(16 474)
Payables from exchange	-	16 474	-	16 474
	-	-	-	-

Error 12

Recognise credit due by supplier for cash in transit fee.

Statement of financial position

Accumulated surplus balance on 1 April 2021	-	(9 826)	-	(9 826)
Receivables from exchange transactions	-	16 450	-	16 450
	-	6 624	-	6 624

Statement of financial performance

General expenses	-	(6 624)	-	(6 624)

Error 13

Recognise the allowance for impairment in the correct financial year.

Statement of financial position

Accumulated surplus balance on 1 April 2021	-	(91 613)	-	(91 613)

Statement of financial performance

General expenses	-	91 613	-	91 613

Error 14

Elimination of inter group transactions not previously eliminated.

Statement of financial position

Accumulated surplus balance on 1 April 2021	-	(31 592)	-	-
Receivables from exchange transactions	-	2 776	-	-
Property, plant and equipment	-	(945)	-	-
	-	(29 761)	-	-

Statement of financial performance

Operating lease rental income	-	17 669	-	-
Other income	-	10	-	-
Interest income	-	(2 273)	-	-
Depreciation and amortisation	-	945	-	-
Finance costs	-	2 273	-	-
General expenses	-	11 137	-	-
	-	29 761	-	-

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022 Restated*	2023	2022 Restated*

38. Prior-year adjustments (continued)

Error note 15

Correct the classification of a property. The property was incorrectly classified and accounted for under the investment property managed portfolio. It is now correctly classified and accounted for under the development lease portfolio.

Statement of financial position

Investment property	-	(78 600)	-	(78 600)
Operating lease asset	-	103 670	-	103 670
Operating lease liability	-	(25 070)	-	(25 070)
	-	-	-	-

Error note 16

For some sub-assets, the asset system did not calculate depreciation. In 2023 the system was corrected and outstanding depreciation was calculated. However, some errors were still identified. Some assets still had no depreciation, some assets the depreciation was calculated incorrectly and any depreciation was recognised in 2023 instead of correcting the opening balance on 1 April 2022.

Statement of financial position

Accumulated surplus balance on 1 April 2021	-	280 174	-	280 174
Property, plant and equipment	-	(311 490)	-	(311 490)
	-	(31 316)	-	(31 316)

Statement of financial performance

Depreciation and amortisation	-	31 316	-	31 316

Error 17

Correct the classification of the intercompany account from payables to receivables as it has a debit balance.

Receivables from exchange transactions	-	-	-	(2 179)
Payables from exchange transactions	-	-	-	2 179
	-	-	-	-

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
Figures in Rand thousand				

39. Risk management

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Economic entity. The economic entity has adopted a policy of only dealing with creditworthy parties. The economic entity performs ITC checks on tenants before contracts are entered into. Tenants are required to pay deposits, provide guarantees or sureties based on their risk profile.

Financial assets, which potentially subject the economic entity to credit risk, consist principally of, receivables from exchange transactions and cash and cash equivalents. The economic entity's cash and cash equivalents are placed with high credit quality financial institutions.

Concentrations of credit risk with respect to receivables from exchange transactions are due to leases with Government entities or tenants under operating lease agreements. Where relevant, the economic entity has policies in place to ensure that transactions only take place with customers with an appropriate credit history.

Maximum exposure to credit risk

There has been no significant change during the financial year, or since the end of the financial year, to the economic entity's exposure to credit risk, the approach to measurement or the objectives, policies and processes for managing this risk.

The economic entity's exposure to credit risk consists of prepayments, receivables from exchange transactions and cash and cash equivalents. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the economic entity's maximum exposure to credit risk:

Receivables from exchange transactions	922 446	595 125	945 589	587 759
Cash and cash equivalents	23 065 935	24 638 570	23 008 485	24 618 218
	23 988 381	25 233 695	23 954 074	25 205 977

Economic entity 2023	Neither past due nor impaired	Past due but not impaired	Impaired	Carrying value
Receivables from exchange transactions	374 190	548 256	2 900 096	3 822 542
Receivables from exchange transactions - impaired	-	-	(2 900 096)	(2 900 096)
Cash and cash equivalents	23 065 935	-	-	23 065 935
	23 440 125	548 256	-	23 988 381

The bank deposits and bank balances, receivables and payables approximate their fair value due to the short-term nature of these instruments. Receivables from exchange transactions are impaired based on the age of the debtor and inability of the entity to recover the assets.

2022	Neither past due nor impaired	Past due but not impaired	Impaired	Carrying value
Receivables from exchange transactions	8 558	586 567	2 978 723	3 573 848
Receivables from exchange transactions - impaired	-	-	(2 978 723)	(2 978 723)
Cash and cash equivalents	24 638 570	-	-	24 638 570
	24 647 128	586 567	-	25 233 695

The bank deposits and bank balances, receivables and payables approximate their fair value due to the short-term nature of these instruments. Receivables from exchange transactions are impaired based on the age of the debtor and inability of the entity to recover the assets.

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand thousand	2023	2022	2023	2022

39. Risk management (continued)

Controlling entity 2023	Neither past due nor impaired	Past due but not impaired	Impaired	Carrying value
Receivables from exchange transactions	-	945 589	3 309 471	4 255 060
Receivables from exchange transactions - impaired	-	-	(3 309 471)	(3 309 471)
Cash and cash equivalents	23 008 485	-	-	23 008 485
	23 008 485	945 589	-	23 954 074

The bank deposits and bank balances, receivables and payables approximate their fair value due to the short-term nature of these instruments. Receivables from exchange transactions are impaired based on the age of the debtor and inability of the entity to recover the assets.

2022	Neither past due nor impaired	Past due but not impaired	Impaired	Carrying value
Receivables from exchange transactions	6 365	581 394	3 250 273	3 838 032
Receivables from exchange transactions - impaired	-	-	(3 250 273)	(3 250 273)
Cash and cash equivalents	24 618 218	-	-	24 618 218
	24 624 583	581 394	-	25 205 977

The bank deposits and bank balances, receivables and payables approximate their fair value due to the short-term nature of these instruments. Receivables from exchange transactions are impaired based on the age of the debtor and inability of the entity to recover the assets.

Credit risk of financial assets carried at amortised cost

The credit risk of trade and other receivables from exchange transactions are initially determined with reference to credit ratings obtained from external credit ratings agencies for customers included in the balance. Customers are categorised into the following:

Low risk - Customers included in this category have evidenced no defaults or breaches in the contractual repayments. Normally only one month deposit is required for these customers.

Medium risk - Customers included in this category are prone to late payments, but seldomly default on the entire balance owing. Normally 2 to 5 months deposit is required for these customers.

High risk - Customers included in this balance includes customers that frequently default on their outstanding balances and breach contract. Normally 6 months deposit is required for these customers.

Tenant receivables comprise of hawkers, residential and commercial tenants in the following percentages:

Hawkers	- %	- %	- %	- %
Residential	4.00 %	4.00 %	4.00 %	4.00 %
Commercial	96.00 %	96.00 %	96.00 %	96.00 %
	100.00 %	100.00 %	100.00 %	100.00 %

Commercial tenants are deemed to be low risk compared to residential tenants. However, during the last few years we have been negatively impacted due to poor economic conditions in the property market.

Collateral

For all tenant receivables collateral is held in the form of tenant deposits, guarantees or sureties based on the risk profile of the respective tenant.

* See Note 38

Notes to the Annual Financial Statements

Figures in Rand thousand	Economic entity 2023	Economic entity 2022	Controlling entity 2023	Controlling entity 2022

39. Risk management (continued)

Financial assets that are past due but not impaired

The tenant trade receivables are tenants who have entered into rental contracts. All tenants prepay amounts. Therefore, if a tenant has not paid, the amount is past due. The following represents information on the credit quality of trade receivables that are past due but not impaired.

Financial assets that are past due and impaired

Receivables from exchange transactions are impaired based on the age of the debtor and inability of the entity to recover the assets.

Aged analysis of financial assets that are past due but not impaired:

	Economic entity 2023	Economic entity 2022	Controlling entity 2023	Controlling entity 2022
Receivables from exchange transactions				
30 days past due	(92 664)	182 894	280 380	183 966
31 to 60 days past due	32 595	52 429	60 225	50 487
61 to 90 days and over past due	608 325	351 244	604 984	346 941
	548 256	586 567	945 589	581 394

Liquidity risk

Liquidity risk is the risk that the economic entity will not be able to meet its financial obligations as they fall due. The economic entity is on continuing engagements with our Shareholder and National Treasury. The economic entity maintains sufficient cash resources to fund its capital program via cash allocations from Government on a monthly basis, in order to act as an agent for Government in the provision of rail commuter services. The economic entity also manages liquidity risk through an on-going review of future commitments. Liquidity risk is measured on a monthly basis in terms of current and quick ratios.

The economic entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or reputational damage. This is achieved by using cash flow forecasts.

The Group is experiencing cash flow constraints as a result of poor performance and is not able to honour its obligation as and when they become due, even though the current ratio has improved from 4.55 in the 2022 financial year to 3.20 in the 2023 financial year. Most of the cash available is ringfenced for capital projects and not available to defray operational expenses.

The economic entity receives a guaranteed subsidy from National Treasury through the Medium Term Expenditure Framework allocation process to fund all current and future obligations.

The economic entity's exposure to liquidity risk consists of payables from exchange transactions. The carrying amount of financial liabilities recorded in the financial statements:

Non-derivative financial liabilities

* See Note 38

Notes to the Annual Financial Statements

Figures in Rand thousand	Economic entity 2023	Economic entity 2022	Controlling entity 2023	Controlling entity 2022

39. Risk management (continued)

Payables from exchange transactions	8 790 309	5 534 249	8 553 856	5 271 950

The below maturity analysis details the economic entity's remaining contractual maturity for its financial liabilities. The below analysis has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the economic entity can be required to pay. The analysis includes both estimated interest and principal cash flows.

The entity is required to settle it obligations for goods and services received, within 30 days from date of invoice. The carrying amount of payables from exchange transactions approximate fair value as the effect of discounting is immaterial. Payables from exchange transactions are interest bearing if settled after 30 days from date of invoice. Income received in advance and retentions are non interest bearing and are settled in terms of the contract agreement.

Maturity analysis

Payables from exchange transactions				
1 to 6 months	8 790 309	5 534 249	8 553 856	5 271 950

MARKET RISK

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The economic entity's income and operating cash flows are substantially independent of changes in market interest rates. However, the value of post employment assets and obligations will be affected when there are fluctuations in market interest rates.

SENSITIVITY ANALYSIS

Employee obligations

The results of the valuation are sensitive to the assumptions used. The valuation are based on a number of assumptions. The value of the liability could turn out to be overstated or understated, depending on the extent to which actual experience differs from the assumptions adopted. Refer to note 16.

Financial assets

As at 31 March 2023, if the weighted average interest rate at that date had been 100 basis points higher, with all other variables held constant, the fair-value impact on the statement of financial performance would have been (2022: R235 million), with the opposite effect if the interest rate had been 100 basis points lower. The sensitivity analysis is performed by adding opening and closing balances for cash and cash equivalents and dividing the resultant amount by 2 to get the average amount and then applying the interest rate for year and the average interest rate plus 100 basis points to the average balance to determined the impact of 1% movement in interest rates.

Financial liabilities

Changes in the interest rate as at 31 March 2023 would have had no impact on the statement of financial performance, as all borrowings are at a fixed interest rate.

Foreign exchange currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This would arise mainly as a result of import capital and operational expenditure programmes where goods are imported from, and services provided in foreign countries and thus are exposed to currency fluctuations.

* See Note 38

	Economic entity		Controlling entity	
Figures in Rand thousand	2023	2022	2023	2022

39. Risk management (continued)

Capital management

The economic entity's capital consists of share capital. Capital and operational subsidies are received through the Medium Term Expenditure Framework. Capital subsidy is accounted for in terms of GRAP 23 Revenue from Non-exchange Transactions.

The primary objective of managing the Entity's capital is to ensure that there is sufficient cash available to support the Entity's funding requirements, including capital expenditure, so that the Entity remains financially sound. This is done by means of the cost coverage ratio.

Categories of financial instruments

Financial instruments consist mainly of receivables from exchange transactions, cash and cash equivalents and payables from exchange transactions. Prepayments, receivables and payables from exchange transactions approximate their fair value due to the short-term nature of these instruments.

The fair values together with the carrying amounts have been determined by using available market information and are presented in the Statement of Financial Position.

Fair Value of financial Instruments carried at amortised costs

Economic entity 2023	Carrying amount	Fair value	Interest income/ (expense)
Assets			
Receivables from exchange transactions	922 446	922 446	-
Cash and cash equivalents	23 065 935	23 065 935	-
	23 988 381	23 988 381	-

The entity expects payment from customers for goods and services rendered within 30 days from date of invoice. The carrying amount of receivables from exchange transactions approximate fair value as the effect of discounting is immaterial.

	Carrying amount	Fair value	Interest income/ (expense)
Liabilities			
Payables from exchange transactions	8 790 309	8 790 309	-

The entity is required to settle is obligations for goods and services received within 30 days from date of invoice. The carrying amount of payables from exchange transactions approximate fair value as the effect of discounting is immaterial. Payables from exchange transactions are interest bearing if settled after 30 days from date of invoice. Income received in advance and retentions are non interest bearing and are settled in terms of the contract agreement.

2022	Carrying amount	Fair value	Interest income/ (expense)
Assets			
Receivables from exchange transactions	595 125	595 125	-
Cash and cash equivalents	24 638 570	24 638 570	-
	25 233 695	25 233 695	-

The entity expects payment from customers for goods and services rendered within 30 days from date of invoice. The carrying amount of receivables from exchange transactions approximate fair value as the effect of discounting is immaterial.

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
Figures in Rand thousand				

39. Risk management (continued)

	Carrying value	Fair value	Interest income/ (expense)
Liabilities			
Payables from exchange transactions	5 534 429	5 534 429	-

The entity is required to settle is obligations for goods and services received within 30 days from date of invoice. The carrying amount of payables from exchange transactions approximate fair value as the effect of discounting is immaterial. Payables from exchange transactions are interest bearing if settled after 30 days from date of invoice. Income received in advance and retentions are non interest bearing and are settled in terms of the contract agreement.

Controlling entity 2023	Carrying value	Fair value	Interest income/ (expense)
Assets			
Receivables from exchange transactions	945 589	945 589	-
Cash and cash equivalents	23 008 485	23 008 485	-
	23 954 074	23 954 074	-

The entity expects payment from customers for goods and services rendered within 30 days from date of invoice. The carrying amount of receivables from exchange transactions approximate fair value as the effect of discounting is immaterial.

	Carrying value	Fair value	Interest income/ (expense)
Liabilities			
Payables from exchange transactions	8 553 856	8 553 856	-

The entity is required to settle is obligations for goods and services received within 30 days from date of invoice. The carrying amount of payables from exchange transactions approximate fair value as the effect of discounting is immaterial. Payables from exchange transactions are interest bearing if settled after 30 days from date of invoice. Income received in advance and retentions are non interest bearing and are settled in terms of the contract agreement.

2022	Carrying value	Fair value	Interest income/ (expense)
Assets			
Receivables from exchange transactions	587 759	857 759	-
Cash and cash equivalents	24 618 218	24 618 218	-
	25 205 977	25 475 977	-

The entity expects payment from customers for goods and services rendered within 30 days from date of invoice. The carrying amount of receivables from exchange transactions approximate fair value as the effect of discounting is immaterial.

	Carrying value	Fair value	Interest income/ (expense)
Liabilities			
Payables from exchange transactions	5 271 950	5 271 950	-

The entity is required to settle is obligations for goods and services received within 30 days from date of invoice. The carrying amount of payables from exchange transactions approximate fair value as the effect of discounting is immaterial. Payables from exchange transactions are interest bearing if settled after 30 days from date of invoice. Income received in advance and retentions are non interest bearing and are settled in terms of the contract agreement.

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
Figures in Rand thousand				

39. Risk management (continued)

Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This would arise mainly as a result of import capital and operational expenditure programmes where goods are imported from, and services provided in foreign countries and thus are exposed to currency fluctuations.

The entity does not manage direct exposure to foreign currency risk as funds for the CAPEX programme including the rolling fleet renewal programme, are fully guaranteed by National Treasury. Therefore the entity does not recognise the impact of changes in the foreign currency exchange in the statement of financial performance.

The economic entity reviews its foreign currency exposure, including commitments on an ongoing basis. The entity expects its foreign exchange contracts to hedge foreign exchange exposure.

40. Going concern

PRASA as a schedule 3B public entity is substantially funded by Government. PRASA's operating environment has changed significantly over the last number of years due to lockdowns and vandalism across its network. This has resulted in PRASA undertaking a rebuild program rather than just a modernisation program.

The vandalism of the network has significantly impacted on the external revenue generation of PRASA from fare revenue and rental incomes. This situation would normally provide for a going concern event, but in PRASA's case it has seen a significant reduction in its variable costs as a result of the significant decrease in activity. This together with the Department of Transport's continued support through its operational subsidy has meant that the entity can continue as a going concern.

The continued commitment by Government to revitalise and rebuild the rail environment further cements the role that PRASA will play into the future in executing its institutional function. PRASA is a vital economic enabler and in order to execute its mandate, the following strategic objectives are being implemented:

Pillar 1 – Acceleration of service recovery through infrastructure rebuild and recovery.

Pillar 2 – Enhance and embed a culture of safety in the organisation.

Pillar 3 – Modernise assets to enable future operations.

Pillar 4 – Achieve financial sustainability.

Pillar 5 – Enable transitioning to a digital organisation.

Pillar 6 – Ensure operational excellence in all support areas of the business.

Pillar 7 – Address external stakeholders' needs

PRASA is in further discussions with its shareholder to address its long outstanding debts. Based on the above strategic objectives, the continued support from the Department of Transport and the significant role PRASA has to play in the economy, management has a reasonable expectation that PRASA will continue as a going concern for the foreseeable future, and this is the basis upon which the annual financial statements have been prepared.

PRASA issued a letter of support to Autopax, expressing its commitment to ensure Autopax is put in a position to continue as a going concern pending the outcome of the business rescue process and the funding request made to the Department of Transport. PRASA has approved funding for the operations and retrenchment packages as an interim measure until discussions with National Treasury has been completed.

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
Figures in Rand thousand				

41. Events after the reporting date

Board composition

On 01 April 2023, Mr H Emeran was appointed as GCEO.
On 30 May 2023, the Minister released Mr Ramatlakane as Chair of the PRASA Board.
On 12 June 2023, the Minister appointed N Nokwe-Macamo as Acting Chair of PRASA BoC.

Fruitless and wasteful expenditure

On 24 October 2023, PRASA identified that an employee of PRASA embezzled R34.5 million of which R9,5 million was returned by the employee on 24 October 2023 following questioning by management. The remaining total loss to be recovered is of R24.9 million of which R21,2 million (included in note 42 for the current year) and R3.7 million relates to 2022/23 and 2023/24 financial years respectively. A criminal case and criminal proceedings are instituted against the employee to recover the proceeds of crime. On 17 November 2023, a disciplinary hearing was held and the employee has since been dismissed from PRASA. Additionally, an urgent application to freeze the assets of the dismissed employee was also lodged at the High Court and awarded successfully to PRASA. The matter is currently under legal.

Contingencies

On 1 August 2023 the Constitutional Court of South Africa handed down an order in which Siyangena's leave to appeal was refused with costs. The parties were ordered to appoint an engineer to evaluate the work undertaken by Siyangena. PRASA and Siyangena have engaged with the Engineering Counsel of South Africa to seek an engineer with suitable criteria to undertake the work. The parties are in the process of finalising this appointment after requesting an extension on the appointment of a suitable engineer. No adjustment was made to the contigencies disclosed in note 33 for the event on 1 August 2023.

42. Irregular and Fruitless and Wasteful expenditure

Irregular expenditure - current year	3 833 736	3 337 294	3 813 872	3 315 718
Fruitless and Wasteful expenditure - current year	180 327	307 380	179 077	302 162
Total	4 014 063	3 644 674	3 992 949	3 617 880

Irregular expenditure reported in the prior year was restated due to changes in the reporting framework. National Treasury no. 4 of 2022/2023 states that Irregular expenditure is recorded in the annual financial statements disclosure when incurred and confirmed. This relates to Irregular expenditure incurred in the current financial year, with a one financial year comparative analysis. Irregular expenditure for the previous financial year (comparative amounts) must be recognised in the period in which they occurred. National Treasury does not require entities to report on the cumulative balance, however the analysis for previous financial years must be recorded in the register and dealt with in terms of its recovery process. No disciplinary cases were completed in the current year nor in the prior year.

The asset verification exercise necessitated that assets under construction be written off (see details in note 10). The write-off of assets under construction relates to assets which could not be confirmed as in existence during the verification and have not been capitalised nor had additional expenditure in over three prior financial periods. The related assets are against very old work breakdown structures with no future budgeted expenditure thus casting doubt that the entity intends to pursue the project any further. The remainder of the write-offs relate to theft and vandalism of assets outside the entity's control.

Amounts of material losses through criminal conduct Incident description

Cybersecurity attack - Phishing	14 847	-	14 847	-

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
Figures in Rand thousand				

43. Budget differences

DIFFERENCES BETWEEN BUDGET AND ACTUAL AMOUNTS BASIS OF PREPARATION AND PRESENTATION

ECONOMIC ENTITY

Fare revenue

PRASA Rail fare revenue is below budget due to infrastructure vandalism and natural disaster exacerbated by the removal of security and this became worsened during the COVID-19 pandemic hard lockdown. The KwaZulu Natal operations were also worsened by the floods in April 2022. The train service in the Eastern Cape remained suspended during the financial year. As a result the Metrorail services are operating limited service while the infrastructure rehabilitation work is being performed on the lines as part of the service recovery. On the recovered lines, the Gauteng Pienaarspoort, Saulsville and Naledi to Johannesburg lines are showing high demand and such are performing well, albeit still below budget because not all train stops or stations are operational along the open lines. The Mainline Passenger Service (MLPS) was operating in two routes only which are Johannesburg to East London & Johannesburg to Musina because other lines are proving to be more costly than running them.

Operating lease rental income

Some of the tenants requested PRASA for a rent reprieve during lockdown periods and some tenants vacated the lettable space. This had an impact on future rentals. Revenue continues to be under immense pressure in all regions to improve to pre- pandemic levels. Every effort is being made to retain and/renew tenants. However, the impact on the retail sector at the stations together with the reduction in train services have had a negative effect on revenue and collections. This has considerably impacted the foot traffic at the stations thus impacting the viability and sustainability of the various shops. Progress has been made in recovering some lines in the various regions. Some corridors have limited services. This will assist with resumption of services, improving the footprint and revenue.

Park Station has now completed the implementation of the new bus billing system whereby bus companies pay on entry into Park Station including Autopax. This will be assisting to prevent any increase in the debtor's books for any bus billing as money is received upon entry.

Other income

Other income is above the budget due to the sale of scrap, TETA Recoveries, insurance recovered for liability claims, overtime costs recovered from Transnet in respect of Train Control Operation (TCO) recoveries and Intersite VAT recovery.

Interest received - investment

The positive variance is due to an increase in cash reserves as a result of cash transfers from the fiscus. More cash was invested than initially anticipated.

Actuarial gain

A positive variance was as a result of the valuation performed by the Actuaries.

Government subsidy

The positive variance is due to the change in the accounting treatment for capital subsidy. The subsidy is now being recognised in the statement of financial performance in full instead of being accounted for as deferred income in the statement of financial position. The decrease is due to capitalisation of technical overheads.

Employee related costs

Employment costs reflect a negative variance due to a back pay accrual resulting from a court case by labour for the past two years recognised in the month of March 2023.

Depreciation and amortisation

The increase in depreciation is due to the increase in capitalisation of new assets in particular Infrastructure and Gibela Rolling Stock.

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
Figures in Rand thousand				

43. Budget differences (continued)

Impairment loss

The increase in impairment loss on property, plant and equipment is due to condition assessment performed on Stations and Infrastructure assets resulting in high number of vandalised assets identified/reversal of impairment not anticipated.

Finance costs

Finance costs increased due to interest incurred on late payments of suppliers as a result of cash constraints.

Repairs and maintenance

Repairs and maintenance is below budget due to reduced usage of infrastructure and rolling stock as a result of reduced services.

* See Note 38

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
	2023	2022	2023	2022
Figures in Rand thousand				

43. Budget differences (continued)

CONTROLLING ENTITY

Fare revenue

PRASA Rail fare revenue is below budget due to infrastructure vandalism and natural disaster exacerbated by the removal of security and this became worsened during the COVID-19 pandemic hard lockdown. The KwaZulu Natal operations were also worsened by the floods in April 2022. The train service in the Eastern Cape remained suspended during the financial year. As a result the Metrorail services are operating limited service while the infrastructure rehabilitation work is being performed on the lines as part of the service recovery. On the recovered lines, the Gauteng Pienaarspoort, Saulsville and Naledi to Johannesburg lines are showing high demand and such are performing well, albeit still below budget because not all train stops or stations are operational along the open lines. The Mainline Passenger Service (MLPS) was operating in two routes only which are Johannesburg to East London & Johannesburg to Musina because other lines are proving to be more costly than running them.

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Figures in Rand thousand				

43. Budget differences (continued)

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* See Note 38

NOTES

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