

The background of the cover is a photograph of a railway track curving through a green, hilly landscape under a clear blue sky. Overhead power lines and poles are visible along the track. A large, semi-transparent blue circle is positioned on the left side, containing the title text. A green curved line separates the blue circle from the bottom right corner.

ANNUAL REPORT

2017/18





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Information

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| Registered name of the public entity | Railway Safety Regulator |
| Registered office address | 1 Gordon Hood Avenue, Centurion, 0157 |
| Postal address | P O Box 11202, Centurion, 0051 |
| Contact telephone numbers | 012 848 3000 |
| Website address | http://www.rsr.org.za |
| External Auditors information | Auditor-General of South Africa 300 Middel Street, Brooklyn |
| Banker's information | ABSA |
| Company Secretary | Mr Hulisani Murovhi |

Glossary of terms

| | | | |
|---------------|---|--------------|---|
| AFS | Annual Financial Statements | NDP | National Development Plan |
| APP | Annual Performance Plan | NIMS | National Information Monitoring System |
| AGSA | Auditor-General South Africa | NIOH | National Institute of Occupational Health |
| ASB | Accounting Standards Board | PFMA | Public Finance Management Act |
| CCMA | Commission for Conciliation, Mediation and Arbitration | PLTC | Provincial Level Crossing Committee |
| CEO | Chief Executive Officer | PRASA | Passenger Rail Agency of South Africa |
| COO | Chief Operations Officer | PTI | Platform -Train Interface |
| DBE | Department of Basic Education | RAF | Road Accident Fund |
| DoT | Department of Transport | RIA | Regulatory Impact Assessment |
| DPSA | Department of Public Service Administration | RSR | Railway Safety Regulator |
| EAP | Employee Assistance Programme | SABPP | South African Board of People Practices |
| ERM | Enterprise-Wide Risk Management | SADC | The Southern Africa Development Community |
| FOT | Federal Office of Transport | SANS | South African National Standard |
| FY | Financial Year | SARA | Southern African Railways Association |
| GOE | Guides to Operational Excellence | SDIX | Service Delivery Index |
| GRAP | Generally Recognised Accounting Practice | SMS | Safety Management System |
| IC | Information Communication Technology | SSP | Sector Skills Plan |
| KPI | Key Performance Indicator | TCO | Train Control Officer |
| MQS | Management Quality System | TETA | Transport, Education and Training Authority |
| MTSF | Medium-Term Strategic Framework | TFR | Transnet Freight Rail |
| NATMAP | National Transport Master Plan | TOR | Terms of Reference |



We are under no illusion about the enormity of the challenges facing the rail fraternity and the great task that awaits us all in reclaiming the glory of our railways

Chairperson's Foreword



It is a singular honour and great privilege to present to you the Railway Safety Regulator's Annual Report for the 2017/18 Financial Year. The Report lays bare the Regulator's performance for the year under review, which saw the organisation achieve 13 of the 18 annual cumulative targets set, translating into a 72% overall performance.

It would be remiss of me not to acknowledge that this performance is the lowest when compared to the performance over the past five years. While we, as the Board of the RSR, are grateful to the employees of the Regulator for their selfless efforts in achieving this kind of performance, we are under no illusion about the enormity of the challenges facing the rail fraternity and the great task that awaits us all in reclaiming the glory of our railways.

During the year, the RSR showed signs of financial distress due to lower than expected revenue collection and unexpected costs. This triggered the Board to develop a financial recovery plan in order to mitigate the ongoing cash flow risks. The development of this plan, therefore, came with a view that the long and the short term interventions contained therein would yield a positive financial turnaround.

With all the macro investments in the rail environment, the introduction of new technologies and infrastructure is inevitable. This places the Regulator at a vantage point to work closely with interested and affected stakeholders to provide guidance in mitigating the railway safety risks resulting from the introduction of new technologies into the rail system. In line with this, the RSR has conducted several technology reviews during the year under review. These include, inter alia, the system review of the Pienaarspoort-Pretoria corridor in Gauteng, as part of the trial phase of the introduction of PRASA's Electric Multiple Units (EMU) trains.

In advancing our mandate to promote and improve harmonisation and integration of the railway safety

regime in the SADC region, the RSR continues to be a member of SARA.

One of the roles played by the Regulator in SARA is to provide advice and guidance in aligning the Railway Safety Management Standards adopted by the region. The Regulator also guides and advises on the identification of the new standards to be harmonised throughout the SADC region. To this end, the RSR spearheaded the establishment of the SARA Safety and Risk Committee and was elected as the inaugural Chair of the Committee in the 2017/18 FY.

During this period, a total of 10 Railway Safety Management Standards have been harmonised and adopted as SARA Regional Standards.

These are but some of the RSR's interventions in ensuring that the zero occurrences vision gradually becomes a reality.

I wish to reiterate my earlier assertion that as the Board of the RSR, we are grateful to all the men and women under the employ of the Regulator, for diligently executing their responsibilities, no matter their rank.

I would also like to express gratitude to the RSR Board and the National Department of Transport, under the stewardship of Minister Blade Nzimande, for being torchbearers and carrying the organisation on their shoulders.

A handwritten signature in black ink, consisting of stylized letters and a dot at the end.

Dr Nomusa Zethu Qunta

CHAIRPERSON: RSR BOARD



Implementing these three strategic outcomes, which ultimately culminated in the RSR achieving a 72% overall performance

CEO's Foreword



It is with great pleasure and a sense of accomplishment that I submit the 2017/18 Annual Report of the Railway Safety Regulator. This Report is a reflection of our performance during the year under review and gives feedback about the initiatives implemented to address challenges.

In preparation for the 2017/18 FY, the Regulator saw it politic to review the 2016/17 industry railway safety performance, as reported in the 2016/17 Annual State of Safety Report. While certain operational occurrence trends continued to decrease, there was no progress in reducing the number of some types of the high-risk occurrences such as level crossings, people struck by trains, and platform-train interface occurrences. A further cause for concern was the continued identification of human factors as one of the leading root causes behind these occurrences.

To reduce the risks associated with the top five operational occurrences, as reported in the annual State of Safety Report, it was important that risk management be strengthened at both the Regulator and operator level. The RSR has subsequently invested a lot of time, resources and effort in the five priority areas, namely level crossings, people struck by trains, mainline derailments, mainline collisions between rolling stock and platform-train interface occurrences.

Subsequently, during the 2017/18 FY, the RSR's strategic outcomes were:

- Railways are safer: To mitigate risks of occurrences by designing and establishing a risk-based regulatory approach to oversee, monitor and enforce railway safety.
- Sustainable institutional growth and development: Striving for excellence by enriching governance processes and procedures; by actively promoting knowledge creation and sharing, strategic and integrated thinking and cross-sector collaboration; and by identifying and instituting relevant leadership, financial, cultural and technological enablers that support the Regulator's growth and development plans.
- Improved stakeholder service: Using the Regulator's powers to hold railway operators responsible and accountable for the safety of railway operations, RSR will be recognised as a leading safety regulator.

A lot of effort and time was invested in implementing these three strategic outcomes, which ultimately culminated in the RSR achieving a 72% overall performance. Important to highlight, however, is that the year under review was not without its challenges. Cash flow remained a cause for concern for the better part of the year and this was attributable to, among others, the following factors

- Unfunded accruals at the end of March 2017, which exceeded the outstanding receivables and available cash;
- Under-recovery of budgeted revenues, high cost of employment and contractual commitments which impacted the 2017/18 budget; and
- Under-recovery of technology review fees due to disputes raised by operators regarding the legality of the RSR claiming such fees and/or the over estimation of the number of projects to be submitted for review in the year.

To address these challenges, the management of the RSR took a frugal approach in preparing the budget for the 2018/19 FY. The approach informed the development of a recovery plan, which serves as a road map, characterised by milestones, which will guide the organisation back to financial stability. The implementation of the plan is closely monitored by management and it is my view that the plan will assist in restoring the financial health of the RSR.

I would like to take this opportunity to thank the National Department of Transport, RSR Board of Directors, RSR executive management and all staff for their efforts during the reporting period.

A handwritten signature in black ink, appearing to read 'Kgare', written over a horizontal line.

Ms Tshepo Kgare
ACTING CHIEF EXECUTIVE OFFICER



Statement of responsibility

To the best of my knowledge and belief, I confirm the following:

1. All the information and amounts disclosed in the Annual Report are consistent with the Annual Financial Statements audited by the Auditor General.
2. The Annual Report is complete, accurate and is free from any omissions.
3. The Annual Report has been prepared in accordance with the guidelines on the Annual Report as issued by National Treasury.
4. The Annual Financial Statements have been prepared in accordance with the standards applicable to the public entity.
5. The Accounting Authority is responsible for the preparation of the Annual Financial Statements and for the judgements made in this information.
6. The Accounting Authority is responsible for establishing and implementing a system of internal control that has been designed to provide reasonable assurance regarding the integrity and reliability of the performance information, the human resources information and the Annual Financial Statements.
7. The external auditors are engaged to express an independent opinion on the Annual Financial Statements.
8. In our opinion, the Annual Report fairly reflects the operations, performance information, human resources information and the financial affairs of the entity for the Financial Year ended 31 March 2018.

Yours faithfully

Ms Tshepo Kgare

ACTING CHIEF EXECUTIVE OFFICER

Dr Nomusa Zethu Qunta

CHAIRPERSON: RSR BOARD

Strategic overview

Our rail safety assurance vision

Zero Occurrences

Mission statement

To oversee and promote safe railway operations through appropriate support, monitoring and enforcement, guided by an enabling regulatory framework

Our regulatory principles

- Our focus is on the safety of people and protecting the environment and property from damage.
- We are committed to improving the safety of rail transport and ensuring that it is comparable with other leading countries.
- We ensure that all those involved in the provision of rail transport take responsibility for safety. Our safety oversight activities are organised with this objective in mind.
- We ensure that rail safety regulations and standards are relevant and effective.
- We assess the safety factors and risk controls involved in the technology audit process and in our monitoring of the operational phase by conducting audits and inspections.
- We accept risks only when, to the best of our knowledge, these risks are acceptable and cannot be reduced further by taking reasonable measures. Where conflicting interests exist, safety will be prioritised.
- We actively communicate and promote railway safety, and encourage the collaboration and participation of interested and affected persons in improving railway safety.
- We cooperate with all stakeholders that have a role to play in rail safety.
- We support conditions and decisions that allow the financial resources for safety measures to be used as effectively and economically as possible.



Values

Integrity & trust

We will instil confidence (that is belief, trust and faith) in our internal and external stakeholders through a quality driven approach, professional and efficient service delivery.



Transparency

We will openly communicate information



Innovation

We will create a conducive environment that allows for the sharing and implementation of new ideas in line with the goals of the RSR



Fairness & equity

We will ensure that we are consistent in applying policies and procedures and that we are impartial in treating all our employees by ensuring that we communicate effectively to all our employees



Speed of execution

We will make prompt decisions and take appropriate action informed by organisational priorities



Respect & diversity

We recognise and acknowledge that the RSR is a non-racial equal opportunity employer with a multinational, multi-ethnic, multi-skilled and multi-cultural people. In doing so, we remain proud of our heritage while being consciously aware of our collective diversity and cultures. We, therefore, engage with and treat each other, our customers, as well as our work, with dignity and respect.



Legislative and other mandates

Our railway safety functions are driven by legislation. We are accountable to Parliament and the public to:

- Protect the people who use, interact, or work on the railway and to ensure that rail operations do not contribute to environmental degradation. This work is fundamental in ensuring continuous improvements in railway safety; and
- Protect the interests of future rail users by working with the industry and funders in the development of future railway networks and services.

Legislative mandate

The RSR was established in terms of the National Railway Safety Regulator Act No 16 of 2002 ("the Act") as amended, to establish a national regulatory framework for South Africa and to monitor and enforce compliance in the rail sector. The primary legislative mandate of the RSR is to oversee and enforce safety performance by all railway operators in South Africa, including those of neighbouring States whose rail operations enter South Africa. In terms of the Act, all operators are primarily responsible and accountable for ensuring the safety of their railway operations.

Other legislative mandates

The RSR is a statutory organisation and primarily derives its mandate from its constitutive legislation, the National Railway Safety Regulator Act No 16 of 2002 (as amended). In addition, the RSR must comply with legislative prescripts that have an impact on RSR's business or operations, including but not limited to the:

- | | |
|---|--|
| • Occupational Health and Safety Act (OHSA), 1993 (Act No 85, 1993); | • Promotion of Access to Information Act, 2000 (Act 2, 2000); |
| • Legal Succession to the South African Transport Services Act, 1989 (Act No 9, 1989) (as amended); | • Various labour legislation, including the Labour Relations Act, 1995 (Act 66, 1995); Basic Conditions of Employment Act, 1997 (Act 75, 1997); Skills Development Act, 1998 (Act 97, 1998); Employment Equity Act, 1998 (Act 55, 1998); |
| • Public Finance Management Act, 1999 (Act No 1, 1999) (as amended); | • Protected Disclosures Act, 2000 (Act 26 of 2000); and |
| • National Environmental Management Act, 1988 (Act 107, 1988); | • Promotion of Administrative Justice Act, 2000 (Act 3 of 2000) |
| • National Disaster Management Act, 2002 (Act 57, 2002); | |

Policy mandate

The RSR as a state entity is also governed and directed by various policies developed and approved by the South African Government at varying spheres. The following are some of the policy mandates which guide the work of the RSR:

- NDP;
- NATMAP;
- The Draft National Rail Transport Policy Green Paper;
- The New Growth Path Framework;
- Various National and International policies within the Railway Sector; and
- The National Government's Strategic Outcome.

Office of the Presidency: Medium Term Strategic Framework

The MTSF is defined as a statement of intent identifying the development challenges facing South Africa. It also outlines the medium-term strategy for improving living conditions and contributions towards economic growth and prosperity. South Africa requires investment in an effective network of economic infrastructures aimed at supporting the country's medium- and long-term economic and social objectives. This economic infrastructure is a precondition for providing basic services such as electricity, water, sanitation, telecommunications and public transport, and it needs to be robust and extensive enough to meet industrial, commercial and household needs.

As expressed in our Vision and Mission Statement, the RSR is committed to contributing towards the country's medium and long-term socio-economic objectives, with specific focus on MTSF Outcome 6: *An efficient, competitive and responsive economic infrastructure network*. Therefore, the RSR's strategic intent aims to ensure that the upgrading and expansion of our rail network and fleet contributes to following:

- Improved safety management practices and accountability by all industry stakeholders;
- Compliance by the railway industry to safety regulations and Standards;
- Constructive engagements with industry and funders to encourage investments in safer and user-friendly rail technologies;
- Safe railway behaviour by those directly interacting with railways (operators, commuters, pedestrians and motorists); and
- Improved customer service.

Department of Transport Strategic Outcome-Oriented Goals

In terms of the DoT Strategic Outcome-Oriented Goal 1, which aims to ensure an efficient and integrated infrastructure network that serves as a catalyst for social and economic development, the RSR will align its strategic goals and objectives to ensure that all rail industry activities are completed with safety as the main consideration.



Our leaders

Board of directors



Mr Boy Johannes Nobunga
Deputy Chairperson



Dr Nomusa Zethu Qunta
Board Chairperson



Ms Tshepo Kgare
Acting Chief Executive Officer



Mr Andre Harrison



Mr Christiaan Johan De Vos



Ms Hilda Thamaga Thopola



Ms Masaccha Mbonambi



Major-General Michael Motihala



Mr Ngwako Makaepea



Ms Ntombizine Mbiza



Mr Tibor Szana



Major-General Willem Venter
(Retired)

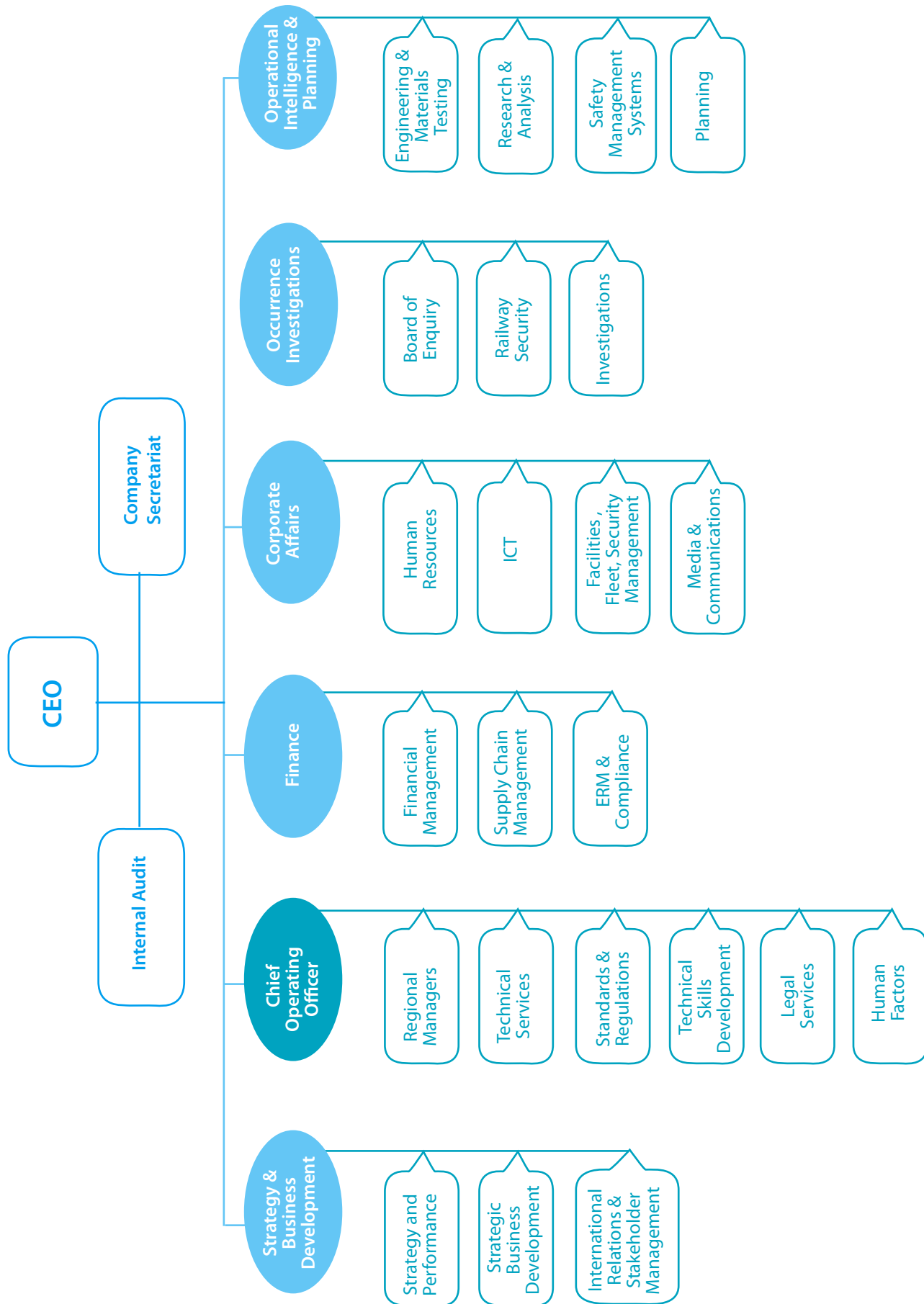


Mr Zacharia Mosothoane

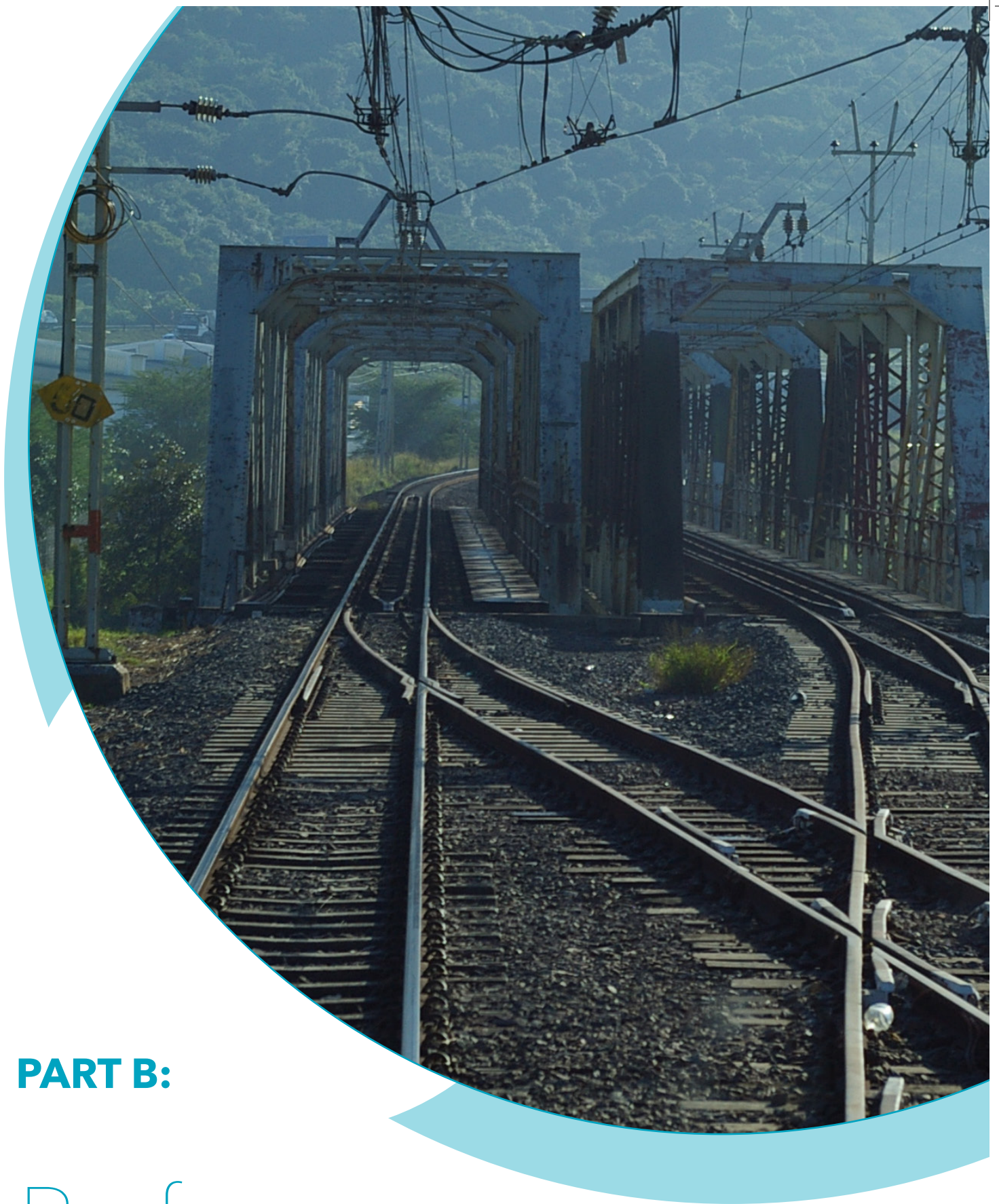


Mr Hulisani Murovhi
Company Secretary

Organisational structure







PART B:

Performance information



Introduction

For the Regulator to achieve its vision of Zero Occurrences, it was important that the rail industry and the Regulator speak and act as one by focusing on risk management in order to reduce occurrences, instead of only focusing on compliance.

In aspiring towards the vision of Zero Occurrences, the RSR has been focusing on the identified five strategic focus areas in order to have a positive impact on the levels of safety in the rail industry. These focus areas have formed the basis of the RSR's strategic objectives and interventions since 2013/14, when the RSR redirected itself towards risk reduction rather than compliance and enforcement. The selected areas are operational occurrence based, and are in line with international best practice of assessing the risk profile of operators within the railway industry. The focus areas are the following operational occurrence categories, as defined in SANS 3000: 1 2009: General:

- Category A-a: Mainline collisions between rolling stock;
- Category B-a: Mainline derailments of rolling stock;
- Category D-a: Level Crossing occurrences at authorised level crossings;
- Category E-a: People struck by trains in a main line; and
- Category H-a and H-b: Platform-train interchange occurrences.

In preparation for the 2017/18 FY, it was important to review the 2016/17 industry railway safety performance, as reported in the 2016/17 Annual State of Safety Report. Operational occurrence trends as reported during 2016/17 have continued to decrease by 5% during the 2016/17 reporting period. However, despite the general improvement, there has been no progress in reducing the number of some types of the high-risk occurrences such as level crossings, people struck by trains and platform-train interface occurrences. A further cause for concern was the continued identification of human factors as one of the leading root causes behind these occurrences.

To reduce the risks associated with the top five operational occurrences as reported in the annual State of Safety Report, it was important that risk management is strengthened at both the Regulator and operator level. The RSR, therefore, committed to safe railways and has subsequently invested a lot of time, resources and effort in the five priority areas, namely, level crossings, people struck by trains, mainline derailments, mainline collisions between rolling stock and platform-train interface occurrences.

The business model of the organisation outlines how the organisation will achieve the overall organisational strategy. This business model also incorporates the principles or the underlying philosophies of King IV and ensured that the Regulator is sustainable and practices the principles of sustainable development. During this period, focus was on strengthening internal controls, governance processes and the implementation of the Management Quality System (MQS).

The strategic outcomes for the 2017/18 Financial Year were:

- Railways are safer;
- Sustainable institutional growth and development; and
- Improved stakeholder service.

Situational analysis

Service delivery environment

The South African government remains committed to investing in the refurbishment and development of rail infrastructure in the country. In so doing, the government introduced a Nine-Point Plan in response to investments made in transport infrastructure. Rail, as a mass carrier of commuters and goods, plays a critical role in this transport infrastructure development programme.

Given the large-scale investment in rail transport, the country will move towards becoming adequately capacitated for the introduction of new railway infrastructure and technologies. This meant that the RSR had to work closely with the relevant operators to provide guidance in terms of mitigating the railway safety risks resulting from the introduction of new technologies into the rail system.

The first outcome, that is, safer railways, focused on the closure of improvement directives, especially the directives issued in our five areas of focus - level crossings, people struck by trains, mainline derailments, mainline collisions between rolling stock as well as platform-train interface occurrences. One of the preventative-phase activities identified by our business model is safety education. Safety education and awareness is an integral part of an integrated safety strategy. The effectiveness and efficiency of the execution of such strategies assist the organisation in improving safety and achieving the vision of Zero Occurrences. The section that follows provides a summary of the high-level achievements for the period under review in the three strategic outcomes:



Strategic outcome 1: Railways are safer

Goal Statement: To mitigate risks of occurrences by designing and establishing a risk-based regulatory approach to oversee, monitor and enforce railway safety

1. Technology audits

The primary intent of RSR new works or technology audits is to establish if the operator, developer or proposer of a railway project has applied his/her mind adequately to:

- define the impact of the scope of the intended action from a life cycle and systemic view;
- identify safety risks associated with the intended action;
- propose appropriate mitigating actions; and
- improve the state of safety.

Thus, the RSR audit is performed to ensure that safety requirements are addressed adequately throughout the life cycle of these changes, in pursuit of inherently safer railway systems.

The following outcomes are expected from RSR's safety assessments on new projects and technology developments:

- Risks associated with new works are clearly defined and controlled during all the life-cycle phases.
- Assurance that new technologies are introduced safely and are compatible with existing technologies.

The following audits were conducted, among others, during the 2017/18 FY;

1.1 PRASA EMU Trains and other infrastructure projects

During the 2017/18 FY, the RSR continued with the system review of the Pienaarspoort-Pretoria corridor in Gauteng, as part of the trial phase of the introduction of PRASA's Electric Multiple Units (EMU) trains. The review and assessment was primarily focussed on ensuring that the infrastructure and stations within the corridor are in a state of operational readiness for the introduction of the EMUs. During this period, approval was granted to PRASA to operate the EMUs during the afternoon and off-peak periods. Due to increasing passenger numbers, PRASA also introduced 12-car trains during the trial phase. It is expected that as soon as all the critical outstanding infrastructure-related issues have been addressed, approval will be granted for the introduction of the morning-peak trial operation. During December 2017, another milestone was reached by the PRASA modernisation programme when the operator made submissions to commence the testing and commissioning of the KwaZulu-Natal resignalling project.



Concurrent with the trial-stage operation of the PRASA EMU reviews, the RSR was also involved in the Gibela Rolling Stock Plant project reviews. During the 2017/18 FY, the RSR granted approval for the construction phase of rail-related construction activities of the Gibela plant. The project has now entered the critical phase of testing and commissioning of the rail track and the dual purpose 3kV/25kV traction substation, which is designed to provide power for both the 3kV and 25kV variants of the EMUs. The RSR railway system reviews will continue until all the railway sub-systems have been commissioned and handed over to operations. During this period, the plant had commenced the production of rolling stock units as required in terms of the current Gibela-PRASA contract.

1.2 Other major railway infrastructure projects

During the 2017/18 FY, the RSR reviewed major infrastructure projects from PRASA, Transnet and operators within the private sector. PRASA made a submission for the upgrade of the Isipingo Station to create a safer shopping environment for commuters as shops will be provided within a secured environment). Transnet made a submission to upgrade the Manganese line, which includes upgrades to the line, substations, new loops and level crossing upgrades. EXXARO Coal (Pty) Ltd Grootgeluk Mine made a submission to expand its current rail and material handling facilities due to increased traffic. These projects were approved by the RSR to enter the construction stage.

2. Occurrence investigations

2.1 Elandsfontein Station collision

On 1 June 2017, a Metro Express train from Pretoria en-route to Johannesburg, collided with a Metro train, which was moving out of the Elandsfontein yard to Leralla Station in Tembisa. It was reported that

there was cable theft at the Elandsfontein complex the night before the incident. This affected the track circuits and signals in the section between Isando and Elandsfontein. As a result of the faulty tracks and signals, abnormal working conditions were introduced. This necessitated that manual authorisation of trains be adopted.

The investigation concluded that the collision was attributed to two trains being authorised into the same section of track at the same time. The root causes were identified as poor management of the manual authorisation process and failure by personnel and supervisors on duty to observe and implement the requirements of abnormal working conditions as stipulated in the train working rules.

2.2 Geneva level crossing collision

On 4 January 2018, a Shosholoza Meyl train collided with the trailer of an articulated truck at the level crossing nearby Geneva station in Kroonstad in the Free State. The truck was hauling two trailers loaded with soya beans and the train collided with the last trailer of the truck and dragged it on the railway line for about 139m, resulting in the train derailing. The collision resulted in 21 fatalities and 260 injuries; including crew and staff. There was extensive damage to the rolling stock and infrastructure.

The preliminary investigation found that the collision was caused by the truck driver who did not comply with the rules of the road, by failing to stop the truck at the level crossing stop sign.

2.3 Geldenhuys Station rear-end collision

On 9 January 2018, two Metrorail trains collided at the Geldenhuys station. The trains were heading to Springs from Johannesburg station. The occurrence resulted in 216 injuries sustained by commuters and the train crew.



The preliminary investigation found that the TCO authorised a train into an occupied line, resulting in a rear-end collision.

3. Human Factors Mitigation Programmes

3.1 Human Factors research

“The impact of people struck by train occurrences on the psychological and physiological state of train crew and the associated support programmes at PRASA in the Gauteng region”

The objective of this study was to investigate the impact of “people struck by train” occurrences on the psychological and physiological state of PRASA train crew members in the Gauteng region where most fatalities arising from people struck by train occurrences occurred. The study confirmed that PRASA train crew members are vulnerable to short and long-term post-traumatic stress disorders after they were involved in a “people struck by train” as a result of such occurrences. While PRASA’s support programmes provide short-term medical and wellness support, there appears to be a gap in the long-term support required to address post-traumatic stress disorders. Recommendations for improving the support programmes included a review of short-and long-term risk factors and an investigation of the effectiveness of existing support programmes with the view of incorporating long-term psychological support for train crews. This will assist in ensuring that train crew wellness is improved, while programmes to reduce the number of trespassers in the railway environment are being devised and implemented.

3.2 Train control cognitive workload research

This research project investigates the cognitive demands of train control activities with the aim of proposing and piloting a method that can be used by railway operators in South Africa. This project is conducted in collaboration with PRASA, who are assisting with data collection for the project. While the research project is still on-going, the RSR will use the information to provide a piloted method for the quantification of cognitive workload for railway operators who currently have a limited understanding of the cognitive requirements of their safety related and safety critical tasks. It will further contribute to ensuring that operators quantify the cognitive workload of train control activities and use this information in making decisions that will preserve the safety of railway operations, particularly under abnormal working conditions and in areas where there are vacancies.

3.3 Mainline collisions research

This research project sets out to build on the 2016/17 project by identifying the underlying patterns and trends in human factor deficiencies that contributed to the collisions. The study further identified department-specific deficiencies in human factors management that tended to contribute to collisions. The RSR will use the information to promote a proactive risk management process that consists of the early identification and assessments of human factor related collision causes.

3.4 Human Factors research presentations

Given the prominence of human factors in occurrence causality, it is in the RSR’s interest to conduct research and



to present its research findings at conferences, as well as align with organisations such as the Ergonomics Society of South Africa (ESSA) to ensure the necessary support and knowledge pertaining to the latest developments in this discipline. During the reporting period, human factors inspectors presented research papers at various national and international conferences including the following:

- Ergonomics Society of South Africa conference (Boksburg, South Africa)
- Applied Human Factors & Ergonomics Conference (Florida, USA)
- Rail Human Factors Conference (London, UK)

The involvement of the RSR at the human factors conferences showcased the role of human factors in rail and road transport, and promoted awareness of RSR research initiatives aimed at improving railway safety. It also provided an opportunity for human factors inspectors to engage with international organisations regarding the latest best-practise human factors investigation methods, one of which was used during one of the board of inquiries (AcciMap method used in the Lynross collision investigation).

3.5 Railway safety occurrence data management and analysis

As the RSR is a data-driven and evidence-based organisation, one of the critical elements of our business model is the provision of operational intelligence to support the decision-making process. For effective decision-making and provision of railway safety oversight, the organisation requires accurate and reliable data as well as the analysis and management thereof.

To this end, the RSR requires Operators to report all reportable occurrences in the various categories as prescribed in SANS 3000-1:2009. These occurrences are reported daily on the National Information Monitoring System (NIMS) and it is further augmented by quarterly summary reports submitted by the Operators. In addition to the aforementioned data the RSR also keep track of all the findings made during RSR audits and inspections, the nature of Directives issued by the RSR, as well as the findings of occurrence investigations.

The analysis of the aforementioned data informs the RSR of emerging trends in the industry, the efficacy of the risk controls in place with the operators, and most importantly, what interventions the RSR needs to put into place to address those emerging trends. The interventions may vary from immediate and short term interventions, such as increased audits or inspections in certain areas of the Safety Management Systems of Operators or it may imply longer term interventions to be included in the RSR's Annual Performance Plan as part of the RSR's risk based approach.

The Regulator believes that integrated transport planning will assist in the reduction of certain occurrence categories, especially people struck by trains. This category of occurrences represents more than 80% of the fatalities over the last five to eight years. In an attempt to improve activities in this area, the RSR focused on engagements with municipalities and other authorities who could assist with these incidents and the achievement of the desired vision of Zero Occurrences.

Strategic outcome 2: Sustainable institutional growth and development

Goal Statement: We strive for excellence by enriching our governance processes and procedures; by actively promoting knowledge creation and sharing, strategic and integrated thinking and cross-sector collaboration; and by identifying and instituting relevant leadership, financial, cultural and technological enablers that support our growth and development plans.

1. Ensuring performance excellence

The Management Quality System (MQS) a robust, integrated and objective performance management system can evaluate the maturity level of the organisation. This system covers leadership, strategy, management systems, resources and core business processes to identify areas of strengths and weaknesses and opportunities for either improvement, or innovations, or both. The fourth phase of this programme included developing Guides for Performance Excellence that bridges the gap between the Guides for

Governance and Operations. The organisation set itself a Service Delivery Index (SDIX) score of 51 and achieved an overall SDIX score of 53 for the period under review.

2. Youth development

As part of continued capacity development for the organisation, the RSR through its comprehensive development programme, appointed six Trainee Inspectors as Junior Inspectors during the 2017/18 financial year. The appointed Junior Inspectors started with a one-year internship programme followed by a two-year training and development programme supervised by highly qualified Inspectors and Principal Inspectors.

In the 2017/18 FY, the RSR has provided financial support to 15 external students pursuing academic studies in various academic institutions across the country. The support provided by the RSR contributes significantly to the development of required skills for the betterment of the country.

3. Women empowerment

The RSR continues to contribute significantly to the national agenda of women empowerment. In the 2017/18 FY, women constituted 52% of the total staff complement. This is encouraging as the total Economic Active Population (EAP) for women is 45%. The positive trajectory for women empowerment in the railways is in line with successful contribution made by women in the sector.

4. Persons with Disabilities

The RSR continues to promote the empowerment of women and persons with disabilities through the provision of reasonable accommodation and the creation of a conducive working environment. Persons with disabilities constitute 1% of the RSR staff complement.



Strategic outcome 3: Improved stakeholder service

Goal Statement: By using the RSR's powers to hold railway operators responsible and accountable for the safety of railway operations, we will be recognised as a leading safety regulator

1. Annual Rail Safety Conference 2017

The RSR hosted its 4th Annual Rail Safety Conference in Durban, KwaZulu-Natal from 9 to 12 May 2017. Under the theme "A Railway Safety Response to a Digitised Environment", the Conference hosted local and international stakeholders in rail and other transport modes to discuss the opportunities and solutions which new technologies present. The rapid growth of technology has seen the digitisation of the railway industry, and through these developments new technologies have improved safety in rail transport tremendously. The theme addressed the impact of technology on rail safe operations and the benefits of digitisation. New technologies and developments present an opportunity for new business models that encourage transformation, but also ensure that these technologies does not compromise safety as they still have to be operated by humans. The Conference provided a platform for academics, industry experts and other rail stakeholders to identify and showcase new technologies that will bring about a decrease in fatalities in our railways.

2. Review of the Permit Fee Model

The Permit Fee Model currently used by the RSR to compute permit fees is valid for a five-year period (2014/15 – 2018/19). When the current RSR Permit

Fee Model was implemented, a decision was taken by the industry that the model will be subject to review, and if necessary, a revision after five years.

In line with the commitment made to industry, the organisation has embarked on a consultation process for the revision of the Permit Fee Model. Engagement sessions were held with Transnet, PRASA and BOC to establish their concerns with regards to the current Permit Fee Model and to agree on principles that will inform the development of the future model.

3. Education and awareness

Our initiatives aim to educate, and include profiling the RSR to its stakeholders as well as engaging them to ensure that they are informed and empowered when it comes to railway safety.

The RSR conducted and participated in various campaigns and engagements during the financial year. Some of the most significant engagements were the Limpopo Highway Bridge Opening and the Festive Season Safety Campaign in Bela Bela.

4. Focus group meetings

Focus group meetings were facilitated at the following schools in Soweto: Orlando High School, Ibhongo Secondary School, Nghunghunyani Secondary School and Vuwani Secondary School.



The purpose of the focus group sessions was to conduct an overcrowding study and to obtain insights from the community on how the current state of trains, train stations and behaviours of commuters impact on their safety.

In addition, the RSR conducted awareness campaigns in collaboration with operators as well as in support of various DoT initiatives.

5. Regional harmonisation

The RSR has been mandated to promote and improve harmonisation and integration of the railway safety regime in the SADC region.

To this end, the RSR is a member of SARA and provides advice and guidance in aligning with the adopted Railway Safety Management Standards.

The Regulator also guides and advises on the identification of the new standards to be harmonised throughout the SADC region. The RSR spearheaded the effort of establishing of the SARA Safety and Risk Committee and was elected as the inaugural Chair of the Committee in the 2017/18 FY.

During this period, a total of 10 Railway Safety Management Standards have been harmonised and adopted as SARA regional Standards.

These standards have since been adopted by SADC as harmonised standards under the SADC Standard referencing system SADCSTAN.

As a member of SARA, the RSR continues to play a leading role in making railway safety a focal point of regional railway developments and integration.

Organisational environment

Challenges

1. Organisational performance

In the 2017/18 FY, the organisation set 18 annual cumulative targets. Assessment of performance indicates that 13 of the 18 targets have been achieved.

The organisation achieved the lowest performance score in five years. Several external factors contributed to this, including the financial constraints as discussed in Section 2 on financial sustainability below.

2. Financial sustainability

The RSR Board approved the 2017/18 budget with a total revenue of R254.9 million. The main revenue streams are: the administration grant of R59.6 million (23%) from



DoT; permit fees of R143.1 million (56%) and technology review revenue of R28.8 million (11%). The expenditure budget totaled R254.9 million for the year. The main items of expenditure are salary costs of R167.1 million (65%) and rental costs of R27 million (10.6%).

The cash flow risk was high in 2017/18 due to the following main factors:

- Bank balance at the end of March 2017 was less than R1 million resulting in insufficient amount to cover accruals.
- Unfunded accruals at the end of March 2017 exceeded the outstanding receivables and available cash.
- DoT treated the R10 million funding given to the RSR in March 2017 as an advance and therefore deducted it from the 2017/18 administration grant.
- The main batch (R87 million) of permit fee revenue was only received during the month of August 2017 with minimal amounts of permit fee revenue being collected in April 2017 and July 2017 due to the timing of the expiry of operator permits.
- Under-recovery of budgeted revenues, high cost of employment (COE) and contractual commitments, which impacted the 2017/18 budget.

- Under-recovery of technology review fees due to disputes raised by operators regarding the legality of the RSR claiming such fees and/or the over estimation of the number of projects to be submitted for review in the year under review.
- Management mitigated the cash flow risks by revising the 2018/19 budget during January 2018 and through the development of a financial recovery plan.

Way forward for the RSR

The RSR developed a financial recovery plan identifying current challenges and interventions to address the challenges from a short, medium-to long term perspective. In addition, specific interventions required by the DoT were included in the financial recovery plan to systematically reduce the reliance on variable revenues. Management is confident that the successful implementation of this plan will lead the RSR to financial recovery, thereby significantly improving the possibility to meet the Regulator's mandate. A report on the plan will be developed quarterly and revised annually to determine the success of the short and medium-term initiatives and whether any adjustments are required to ensure that the targets set, in terms of reliance on variable revenue, have been reduced.



Strategic outcome-oriented goals

In executing its legislative oversight mandate, the RSR performed the following duties and functions:

| STRATEGIC PILLARS | STRATEGIC OUTCOMES | GOAL STATEMENT | STRATEGIC OBJECTIVES |
|---|---|---|--|
| Triple E: Enforcement, Education and Engineering/ Human Factors | 1. Safer railways | To mitigate risks of occurrences by designing and establishing a risk-based regulatory approach to oversee, monitor and enforce railway safety | 1.1 To align the safety objectives of high risk railway operators with that of the RSR; 1.2 To bring about a reduction in level crossing occurrences; 1.3 To bring about a reduction in people struck by trains occurrences; 1.4 To bring about a reduction in mainline derailments; 1.5 To bring about a reduction in mainline collisions between rolling stock; 1.6 To bring about a reduction in platform-train interface occurrences; 1.7 To determine the effectiveness of the RSR's regulatory instruments; 1.8 To promote safe railway behaviour |
| Excellence | 2. Sustainable institutional growth and development | We strive for excellence by enriching our governance processes and procedures; by actively promoting knowledge creation and sharing, strategic and integrated thinking and cross-sector collaboration; and by identifying and instituting relevant leadership, financial, cultural and technological enablers that support our growth and development plans | 2.1 To secure an adequate operational financial base 2.2 To ensure performance excellence |
| Relevance | 3. Improved stakeholder service | By using our legitimate powers to hold railway operators responsible and accountable for the safety of railway operations, we will be recognised as a leading safety regulator | 3.1 To deliver quality oversight activities |

Performance information by programme

Strategic outcome 1: Railways are safer

Strategic Objective 1.1: To align the safety objectives of high-risk railway operators with that of the RSR

Objective Statement: In recognising and acknowledging that safe railway operations are fundamental to the safety of all persons and the environment, the RSR has committed to provide safety assurance to all sectors of society that interact with the country's national railway system in a manner consistent with human and ecosystem health and wellbeing. Safety assurance is ensured by focussing and reporting on the performance and overall effectiveness of operators' established safety risk controls

| Key performance indicator | Reporting period | No | Annual target 2017/18 | Actual performance | Reason for deviation | Action plan |
|--|------------------|-------|---|--|---|--------------|
| Number of high-risk operators for which safety performance targets are set | Quarterly | 1.1.1 | Safety Performance Agreements concluded with 10 Category A operators by 31 March 2018 | Target Exceeded: Safety Performance Agreements concluded with 12 Category A operators by 31 March 2018 | The entity was able to train more Operators on the SMS Determination than it expected to. | Not required |

Strategic Objective 1.2: To bring about a reduction in level-crossing occurrences

Objective Statement: To make railways safer by identifying the risks associated with level-crossing occurrences and to monitor and enforce compliance to the relevant norms and standards

| Key performance indicator | Reporting period | No | Annual target 2017/18 | Actual performance | Reason for deviation | Action plan |
|--|------------------|-------|---|---|--|---|
| Percentage improvement directives for level crossings due for closure in 2017/18 implemented | Quarterly | 1.2.1 | Compliance to 7 level crossing improvement directives due for closure in 2016/17 – 2017/18 by 31 March 2018 | Target not Achieved: Compliance to 6 level crossing improvement directives due for closure in 2016/17 – 2017/18 by 31 March 2018 (86 % of improvement directives for level crossings due for closure in 2017/18 implemented) | The Operator was unable to adequately budget and execute the projects relating to the Dr Moroka Level Crossing directive, which is capital and labour intensive. | The Regulator will monitor progress towards closure of this directive in the 2018/19 FY through the corrective action plans submitted by the Operator |
| Percentage of improvement directives issued and closed in 2017/18 for level crossings | Quarterly | 1.2.2 | 100 % Compliance to 60 % of all directives issued in 2017/18 by 31 March 2018 | Target Exceeded: 100 % Compliance to 87 % of all directives issued in 2017/18 by 31 March 2018 (20 Compliance letters issued against 23 improvement directives opened) | The entity placed an increased focus on the closure of directives during the latter part of the year | Not required |

| Strategic Objective 1.3: To bring about a reduction in people-struck-by-train occurrences | | | | | | |
|---|------------------|-------|---|---|--|---|
| Objective Statement: To make railways safer by identifying the risks associated with people-struck-by-train occurrences and to monitor and enforce compliance to the relevant norms and standards | | | | | | |
| Key performance indicator | Reporting period | No | Annual target 2017/18 | Actual performance | Reason for deviation | Action plan |
| Percentage improvement directives for people struck by trains due for closure in 2017/18 implemented | Quarterly | 1.3.1 | Compliance to 7 improvement directives due for closure in 2016/17 – 2017/18 for people struck by train by 31 March 2018 | Target not Achieved: Compliance to 2 improvement directives due for closure in 2016/17 – 2017/18 for people struck by train by 31 March 2018 (29 % of improvement directives for people struck by trains due for closure in 2017/18 implemented) | Operators were unable to address the directives as some involved capital projects which could not be completed during the 2017/18 FY | The open directives will be included in the 2018/19 RSR departmental Operational Plans and will be monitored for closure in the 2018/19 reporting period. |
| Percentage of improvement directives issued and closed in 2017/18 for people struck by trains | Quarterly | 1.3.2 | 100 % Compliance to 60 % of all directives issued in 2017/18 by 31 March 2018 | Target Exceeded: 100 % Compliance to 75 % of all directives issued in 2017/18 by 31 March 2018 (3 Compliance letters issued against 4 improvement directives issued) | The entity placed an increased focus on the closure of directives during the latter part of the year | Not required |



| Strategic Objective 1.4: To bring about a reduction in mainline derailments | | | | | | |
|---|------------------|-------|---|--|--|--------------|
| Objective Statement: To make railways safer by identifying the risks associated with mainline derailments and to monitor and enforce compliance to the relevant norms and standards | | | | | | |
| Key performance indicator | Reporting period | No | Annual target 2017/18 | Actual performance | Reason for deviation | Action plan |
| Percentage of improvement directives for mainline derailments due for closure in 2017/18 implemented | Quarterly | 1.4.1 | Compliance to 22 maintenance related improvement directives due for closure in 2016/17 – 2017/18 by 31 March 2018 | Target Exceeded: Compliance to 23 maintenance related improvement directives due for closure in 2016/17 – 2017/18 by 31 March 2018 (64 % of improvement directives for mainline derailments due for closure in 2017/18) | The entity placed an increased focus on the closure of directives during the latter part of the year | Not required |
| Percentage of improvement directives issued and closed in 2017/18 for mainline derailments | Quarterly | 1.4.2 | 100 % Compliance to 60 % of all directives issued in 2017/18 by 31 March 2018 | Target Exceeded: 100 % Compliance to 69 % of all Directives issued in 2017/18 by 31 March 2019 (18 Compliance letters issued 26 improvement directives issued) | The entity placed an increased focus on the closure of directives during the latter part of the year | Not required |



| Strategic Objective 1.5: To bring about a reduction in mainline collisions between rolling stock | | | | | | |
|--|------------------|-------|--|---|---|--------------|
| Objective Statement: To make railways safer by identifying the risks associated with mainline collisions between rolling stock and to monitor and enforce compliance to the relevant norms and standards | | | | | | |
| Key performance indicator | Reporting period | No | Annual target 2017/18 | Actual performance | Reason for deviation | Action plan |
| Percentage of improvement directives for mainline collisions between rolling stock due for closure in 2017/18 implemented | Quarterly | 1.5.1 | Compliance to 7 telecoms and signalling improvement directives due for closure in 2016/17 – 2017/18 by 31 March 2018 | Target Achieved: Compliance to 16 telecoms and signalling improvement directives due for closure in 2016/17 – 2017/18 by 31 March 2018 (229% of improvement directives for mainline collisions between rolling stock due for closure in 2017/18 implemented) | The entity was able to close directives that were only expected to be attended to in the 2018/19 financial year | Not required |
| Percentage of improvement directives issued and closed in 2017/18 for mainline collisions between rolling stock | Quarterly | 1.5.2 | 100 % Compliance to 50% of telecoms and signalling directives issued during 2017/18 by 31 March 2018 | Target Exceeded: 100 % Compliance to 63 % of all telecoms and signalling directives issued during 2017/18 by 31 March 2018 (12 Compliance letters issued against 19 improvement directives issued) | The entity placed an increased focus on the closure of directives during the latter part of the year | Not required |



| Strategic Objective 1.6: To bring about a reduction in PTI Occurrences | | | | | | |
|--|------------------|-------|---|--|---|--------------|
| Objective Statement: To make railways safer by identifying the risks associated with PTI occurrences and to monitor and enforce compliance to the relevant norms and standards | | | | | | |
| Key performance indicator | Reporting period | No | Annual target 2017/18 | Actual performance | Reason for deviation | Action plan |
| Percentage of improvement directives for PTIs due for closure in 2017/18 implemented | Quarterly | 1.6.1 | Compliance to 2 PTI improvement directives due for closure in 2016/17 – 2017/18 by 31 March 2018 | Target Achieved: Compliance to 4 PTI improvement directives due for closure in 2016/17 – 2017/18 by 31 March 2018 (200 % of improvement directives for PTIs due for closure in 2017/18 implemented) | The entity was able to close directives that were only expected to be attended to in the 2018/19 financial year | Not required |
| Percentage of improvement directives issued and closed in 2017/18 for PTIs | Quarterly | 1.6.2 | 100 % Compliance to 60 % of all PTI improvement directives issued during 2017/18 by 31 March 2018 | Target Exceeded: 100 % Compliance to 71 % of all PTI improvement directives issued during 2017/18 by 31 March 2018 (5 Compliance letters issued against 7 improvement directives issued) | The entity placed an increased focus on the closure of directives during the latter part of the year | Not required |



| Strategic Objective 1.7: To determine the effectiveness of the RSR's regulatory instruments | | | | | | |
|---|------------------|-------|--|---|----------------------|--------------|
| Objective Statement: To mitigate risks of occurrences by designing and implementing relevant and effective regulatory instruments | | | | | | |
| Key performance indicator | Reporting period | No | Annual target 2017/18 | Actual performance | Reason for deviation | Action plan |
| Review of the Regulatory Framework | Quarterly | 1.7.1 | Regulatory Risk Impact Assessment conducted by 31 March 2018 | Target Achieved: Regulatory Risk Impact Assessment conducted by 31 March 2018 | Not required | Not required |

| Strategic Objective 1.8: To promote safe railway behaviour | | | | | | |
|--|------------------|-------|--|--|---|--------------|
| Objective Statement: Address the lack of awareness regarding railway safety through education, communication and training initiatives within the community and among operators | | | | | | |
| Key performance indicator | Reporting period | No | Annual target 2017/18 | Actual performance | Reason for deviation | Action plan |
| Number of awareness campaigns conducted | Quarterly | 1.8.1 | 14 Railway Safety promotion initiatives conducted by 31 March 2018 | Target Exceeded: 25 Railway Safety promotion initiatives conducted | Additional requests were received from DoT to partner on safety promotion initiatives | Not required |



Strategic outcome 2:

Sustainable institutional growth and development

| Strategic Objective 2.1: To secure an adequate operational financial base | | | | | | |
|--|------------------|-------|---|---|---|---|
| Objective Statement: Ensuring revenue streams that allow for the sustained and effective execution of our legislative and strategic mandates | | | | | | |
| Key performance indicator | Reporting period | No | Annual target 2017/18 | Actual performance | Reason for deviation | Action plan |
| Percentage increase in annual Income: Expenditure ratio | Annual | 2.1.1 | Income: expenditure ratio of 1,2:1 by 31 March 2018 | Target not Achieved 1:1 (Income R280.5 million/Expenditure R279.8 million) | Under-collection of revenue together with unfunded accruals resulted in financial constraints | The RSR has compiled a financial recovery plan towards achieving greater financial sustainability. |
| Review, testing and implementation of the revised permit fee model | Quarterly | 2.1.2 | Permit Fee Model reviewed by 31 March 2018 | Target not Achieved An in-depth review took place and culminated into the development of a permit fee framework including industry inputs | Final collaboration initiatives with industry role-players could not be completed. | The revised Permit Fee Model will be completed during the 2018/19 financial year, in line with the strategic objective timeframe. |



Strategic Objective 2.2: To ensure operational excellence

Objective Statement: Sustained performance can be achieved by the effective management of the organisation through awareness of the organisation's environment, by learning, and by the appropriate application of either improvement, or innovations, or both. This requires a robust, integrated and objective performance management system, that is, a Management Quality System (MQS) that can evaluate the maturity level of the organisation – covering its leadership, strategy, management systems, resources and core business processes – to identify areas of strengths and weaknesses and opportunities for either improvement, or innovations, or both.

| Key performance indicator | Reporting period | No | Annual target 2017/18 | Actual performance | Reason for deviation | Action plan |
|--|------------------|-------|--|--|--|---|
| Year-on-year Service Delivery Index (SDIX) growth | Quarterly | 2.2.1 | RSR Service Delivery Index = 51 by 31 March 2018 | Target Exceeded: RSR Service Delivery Index = 53 | The entity was able to improve the efficiency and effectiveness of its individual performance management processes | Not required |
| Development, implementation and year-on-year % improvement in overall cultural alignment index | Quarterly | 2.2.2 | Baseline cultural alignment index score developed by 31 March 2018 | Target not Achieved: The tender process for appointment of the service provider was initiated but not completed due to lack of funds | Implementation of project not possible due to the lack of resource availability | The entity has replaced this project with change management initiatives to be conducted during the 2018/19 financial year |



Strategic outcome 3:

Improved stakeholder service

Strategic Objective 3.1: To deliver quality oversight activities

Objective Statement: By measuring stakeholder satisfaction with the way we conduct our railway safety oversight functions, that is, audits, inspections, investigations and safety promotion, we will be able to improve the image, reputation and regulatory capability of the RSR by:

- Identifying stakeholder perceptions and expectations of the RSR;
- Identifying areas of potential weaknesses in our oversight mandate and practices;
- Improving our mandatory activities in areas that mean the most to all our stakeholders (inclusive of the public); and
- Providing our stakeholders with feedback that their suggestions/responses are appreciated and their concerns are being addressed

| Key performance indicator | Reporting period | No | Annual target 2017/18 | Actual performance | Reason for deviation | Action plan |
|---|------------------|-------|---|---|----------------------|--------------|
| Developing a satisfaction index baseline and year-on-year % improvement in the stakeholder satisfaction (overall) score | Quarterly | 3.1.1 | Baseline satisfaction index with the RSR's railway safety oversight activities by 31 March 2018 | Target Achieved: Base-line satisfaction index with the RSR's railway safety oversight activities | Not required | Not required |



Social responsibility

Take a Girl Child to Work Day

On 25 May 2017, the RSR opened its doors to a total of 47 school girls as part of the annual nationwide initiative, Take a Girl Child to Work Day. Head Office hosted girls from Eersterust Secondary School (Pretoria); the Western Cape Regional Office hosted Vuyiseka Secondary School (Cape Town) and the KwaZulu-Natal Regional Office welcomed Sivananda Technical High School (Durban). The learners were told about the opportunities that are available for them in the rail industry and how these careers contribute to the development of South Africa and especially the disadvantaged communities from which they come. A series of talks were given to inspire and motivate the girls to dream big and reach their full potential by exposing them to positive role models. The girls got a chance to peek at the world of work by giving them an opportunity to interact with RSR staff.

Mandela Day

The Western Cape Regional Office visited Ikayalethemba village in Zola Township at Strand and Sizamile Old Age Home, KwaLanga at where they

donated washing machines, food parcels, blankets and pots. They also had the opportunity to play with the children from Ikayalethemba and raised awareness about rail safety.

The Gauteng Regional Office commemorated the day at the Twilight Children's Centre in Hillbrow. The centre rehabilitates homeless children and opens its doors to allow them to bath in the mornings and provides them with a hot meal a day. The Gauteng Regional Office donated clothes and groceries to the centre.

Head Office volunteered at Tumelo Home in President Park by planting a vegetable garden. The home provides shelter for the mentally handicapped from the ages of four to 57 years. The KwaZulu-Natal Region identified a crèche run by Abahlali baseMjondolo which is a movement of shack dwellers in Durban. The crèche is in the Briadene, Umngeni area. The region donated groceries and blankets, a stove and toys.

The RSR also supported the DoT at Makgafela Village in Limpopo and volunteered at Kgalushi High School where food was donated to needy families and the school was painted.





PART C:

Governance

Introduction

The RSR, is governed by the Board appointed in terms of the National Railway Safety Regulator Act No 16 of 2002 as amended (“the Act”) and reports to the Minister of Transport. The Board provides strategic guidance to achieve the railway safety mandate with which the RSR is entrusted and provides a framework for improving the corporate governance of the RSR as prescribed in the Act.

Contained in this corporate report, are the activities of the Board and those of the RSR as a whole. The report reflects the corporate governance performance of RSR in relation to Board and committee meetings/ activities, as well as the conduct of the RSR in pursuing its legislative role, mandate and obligations.

The Board

During the year under review, the Board reviewed and approved its Charter and the terms of reference of its subcommittees to ensure that they are in line with King IV and best governance practices. An independent evaluation of the performance of the Board and its subcommittees against the Charter and terms of reference for the 2016/17 FY was conducted during the period under review.

The Board is committed to good governance and practises ethical standards in discharging its mandate.

All of the non-executive directors are independent and are expected to contribute an unfettered and independent view on matters considered by the Board. Board members come with various expertise and skills that allows them to contribute significantly and add value to the functioning of the Board. They are required to execute their duties properly and to participate actively in the proceedings at Board meetings.

Board meetings are scheduled annually in advance. Special meetings are convened as and when required to address specific emerging matters.

The Board acknowledges its responsibilities to strategy, compliance with internal policies, external laws and regulations, performance management, effective risk management, transparency and effective communication, both internally and externally, by the RSR

The information needs of the Board are considered on a regular basis and directors are given access to company information, records, documents and property. The Board also have access to all members of management of the entity.



Board Committees

The Board established its Committees with various performance functions to assist it in the execution of its responsibilities. The reports and recommendations of the Committees to the Board ensures transparency and full disclosure of Committee and business related activities. Each Committee operates within the terms of reference which sets out the membership composition, roles, responsibilities, delegated authority and the requirements for convening meetings. Committee meeting agendas, papers and minutes are made available to all members of the Board on request. Adhoc Committees may also be established from time to time to consider and deal with specific matters. The Committees provide an efficient and proactive space for the processing of information before Board meetings. Of critical importance is the fact that all Committees have enhanced their performance to optimal levels and that the available human resources in terms of Board members were utilised effectively and efficiently during the year under review.

| NAME | APPOINTMENT DATE |
|---|------------------------------------|
| Dr Nomusa Zethu Qunta | 01 November 2016 |
| Johannes Nobunga | 01 November 2016 |
| Masaccha Mbonambi | 01 November 2016 (Re-appointment) |
| Andre Harrison | 01 November 2016 (Re-appointment) |
| Ntombizine Mbiza | 01 November 2016 (Re-appointment) |
| Tibor Szana | 01 November 2016 (Re-appointment) |
| Christiaan de Vos | 01 November 2016 |
| Zacharia Mosothaone | 01 November 2016 |
| Hilda Thopola | 01 November 2016 |
| Ngwako Makaepea | 01 November 2016 |
| Major-General Michael Motlhala | 01 November 2016 |
| Major-General Willem Venter (retired) | 01 November 2016 (Re-appointment) |
| Ex Officio Member: Nkululeko Poya (CEO) | 29 September 2016 (Re-appointment) |

Board meetings

The following table depicts Board Meetings which took place for the period under review. Five Board meetings were planned as well as special meetings, which are listed below:

| NAME | 26/04/17 | 29/05/17 | 26/07/17 | 08/08/17 | 31/10/17 | 24/11/17 | 24/01/18 | 25/01/18 | 19/02/18 | 15/03/18 |
|---------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Dr Nomusa Zethu Qunta | P | P | P | P | P | P | P | P | P | P |
| Johannes Nobunga | P | A | P | P | A | P | P | P | A | P |
| Masaccha Mbonambi | P | P | P | P | P | P | P | P | A | P |
| Andre Harrison | P | P | P | P | P | P | P | P | P | P |
| Ntombizine Mbiza | P | P | P | P | P | P | P | P | P | P |
| Tibor Szana | A | P | A | A | P | A | P | A | P | A |
| Christiaan de Vos | P | P | P | P | P | P | P | P | P | P |
| Zacharia Mosothaone | P | P | P | A | P | A | P | A | P | A |
| Hilda Thopola | P | P | P | P | P | P | P | P | P | A |
| Ngwako Makaepea | A | P | P | P | P | P | P | P | P | A |
| Major-General Michael Motlhala | P | A | P | P | P | P | A | A | A | A |
| Major-General Willem Venter (retired) | P | P | P | P | P | P | P | P | P | P |
| Nkululeko Poya ¹ | P | P | P | P | P | P | N/A | N/A | N/A | N/A |
| Tshepo Kgare ² | N/A | N/A | N/A | N/A | N/A | N/A | P | P | P | P |

Legend: P – Present, A – Apology

¹ Nkululeko Poya, CEO, placed on precautionary suspension on 27 November 2017

² Tshepo Kgare appointed as Acting CEO on 30 November 2017

Other Board activities

| NAME | 09/05/17 ARSC | 02/08/17 Board Strat Plan | 03/09/17 Board Strat Plan | 04/09/17 AGM | 23/11/17 Board Strat Plan |
|--|------------------|---------------------------------|---------------------------------|-----------------|---------------------------------|
| Dr Nomusa Zethu Qunta | P | P | P | P | P |
| Johannes Nobunga | A | P | P | P | P |
| Masaccha Mbonambi | A | A | A | P | P |
| Andre Harrison | P | P | P | P | P |
| Ntombizine Mbiza | P | P | P | P | P |
| Tibor Szana | A | A | A | P | A |
| Christiaan de Vos | P | P | P | P | P |
| Zacharia Mosothaone | A | P | A | P | A |
| Hilda Thopola | P | | P | P | P |
| Ngwako Makaepa | A | P | P | P | A |
| Major-General Michael Motlhala | A | A | P | P | A |
| Major-General Willem Venter (retired) | A | P | P | P | P |
| Nkululeko Poya | P | P | P | P | P |

Legend: P = Present, A = Apology



Board Committees

Audit and Risk Committee

| MEMBERS | 24/04/17 | 04/05/17 | 15/05/17 | 20/07/17 | 01/08/17 | 28/09/17 | 19/10/17 | 22/11/18 | 18/01/18 |
|----------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Ameen Amod | P | P | P | P | P | P | P | P | P |
| Desiree Nage | P | P | P | P | P | P | P | P | P |
| Ntombizine Mbiza | P | P | P | P | P | P | P | P | P |
| Andre Harrison | P | P | P | P | P | P | P | P | P |
| Reshoketswe Ralebepa | P | P | P | P | P | P | P | P | P |

Railway Safety Committee

| MEMBERS | 12/04/2017 | 12/07/2017 | 13/10/2017 | 12/12/2017 | 15/02/2018 |
|---------------------------------------|------------|------------|------------|------------|------------|
| Zacharia Mosothoane | P | P | P | P | P |
| Hilda Thopola | P | P | P | P | P |
| Chris de Vos | P | P | P | P | P |
| Major-General Willem Venter (retired) | P | P | P | P | P |
| Major-General Michael Motlhala | A | P | A | P | A |
| Tibor Szana | A | A | A | A | A |
| Ngwako Makaepa | A | P | P | P | P |
| Nkululeko Poya ¹ | P | P | A | N/A | N/A |
| Tshepo Kgare ² | N/A | N/A | N/A | N/A | P |

¹ Nkululeko Poya, CEO, placed on precautionary suspension on 27 November 2017

² Tshepo Kgare appointed as Acting CEO on 30 November 2017

Human Resources and Remuneration Committee

| MEMBERS | 12/04/2017 | 13/07/2017 | 18/10/2017 | 19/01/2018 | 14/02/2018 |
|-----------------------------|------------|------------|------------|------------|------------|
| Masaccha Mbonambi | P | P | P | P | P |
| Hilda Thopola | P | P | P | P | P |
| Chris de Vos | P | P | P | P | P |
| Andre Harrison | P | P | P | P | P |
| Ntombizine Mbiza | P | P | P | P | P |
| Nkululeko Poya ¹ | P | P | P | N/A | N/A |
| Tshepo Kgare ² | N/A | N/A | N/A | P | P |

¹ Nkululeko Poya, CEO, placed on precautionary suspension on 27 November 2017

² Tshepo Kgare appointed as Acting CEO on 30 November 2017





Report of the Audit and Risk Committee

Responsibility of the Audit and Risk Committee

The Audit and Risk Committee reports that it has complied with its responsibilities arising from Section 51 (1) (a) (ii) of the Public Finance Management Act (PFMA) and Treasury Regulations 27.1. The Audit and Risk Committee also reports that it has adopted formal terms of reference, the Audit and Risk Committee Charter, and has regulated its affairs and discharged all of its responsibilities in compliance with this charter.

Integrated Risk Management

The Board is responsible for entrenching RSR-wide risk management governance through effective leadership. Management accounts to the Board for the effective integration of risk management into the daily operations and for the implementation and monitoring of the risk management process.

The Committee considers all risk matters and provides advice and guidance on the overall risk management system, with particular attention on the risks that have been measured as above acceptable tolerance levels. The Audit and Risk Committee independently monitors the effectiveness of the risk management system and reports to the Board accordingly.

The RSR has implemented an integrated internal risk management strategy through which risks and opportunities are identified on an ongoing basis. This strategy is underpinned by the following principles:

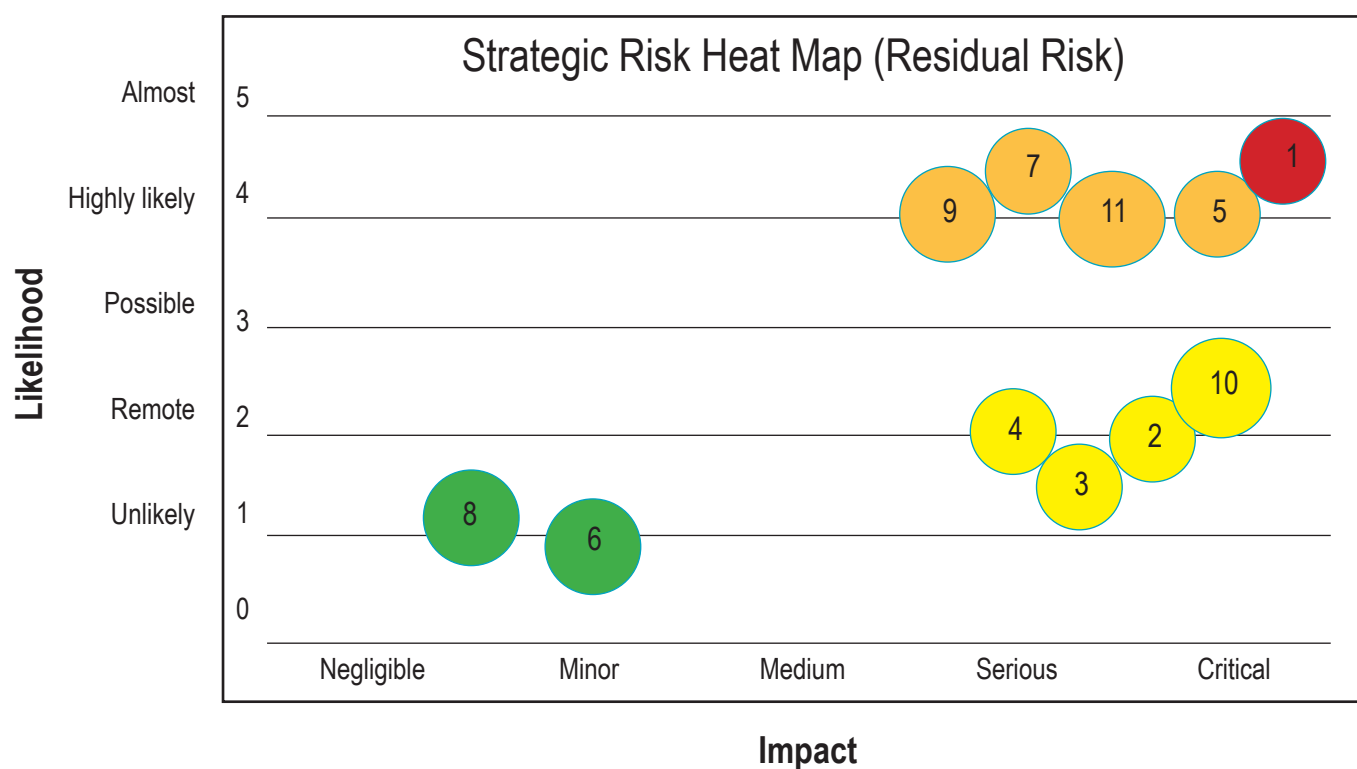
- A strong and solid risk culture is a critical pillar of good governance;
- Consideration of real and potential risks in decision making processes;
- The acceptance that risk management is mandatory;
- Continuously monitoring of the risk exposure as impacted by the changing internal and external environment;
- Acceptance that accountability for risk management cannot be deferred or shifted; and
- The importance of maintaining appropriate balance between risk and control.

Governance and Risk Management

The Audit and Risk Committee is responsible for the oversight of the risk management function. Management has designed and implemented controls to manage the risk faced by the RSR. The Risk Management Unit reports to the Audit and Risk Committee on RSR's management of risks, and has advised management on a continual basis on the best risk management practices. This would include monitoring of progress made on the implementation of future mitigation strategies to provide assurance that RSR is effectively managing its risks. The Committee has reviewed the strategic and operational risk registers, considered new and emerging risks, and has satisfied itself of the risk mitigating measures employed to ensure risks are within tolerable levels.

The RSR ensures progress in the management of risks through its risk monitoring activities. It is committed to improving its risk performance on an ongoing basis, where high risk areas are targeted, through focused resources and effort.

Top Strategic Risks



| | | | |
|---|---|----|--|
| 1 | Insufficient cash flow | 7 | Loss of key personnel |
| 2 | Regulatory capture | 8 | Inadequate stakeholder buy in and support |
| 3 | Inaccurate and incomplete safety information | 9 | Rapid technological advancements |
| 4 | Non-alignment of RSR and operator risk reduction strategy | 10 | Loss of public confidence in the RSR and the rail system |
| 5 | Financial sustainability | 11 | Labour relations disputes |
| 6 | Loss of critical data | | |

Fraud and Corruption Prevention Strategy

The RSR has implemented a Fraud and Corruption Prevention Strategy as part of the overall governance strategy. The effectiveness of the Fraud and Corruption Prevention Strategy is monitored on an ongoing basis. Management is responsible for the prevention of incidents and occurrences of fraud and corruption, and does this through the design, implementation and monitoring of a sound system of internal control. A risk assessment with specific focus on fraud and corruption is conducted annually and monitoring and reporting is done continually. Education and awareness of potential incidents of fraud and corruption is conducted on a regular basis.

The effectiveness of internal control

The system of controls within the RSR is designed to provide reasonable assurance that assets are safeguarded and that liabilities and working capital are properly managed in line with the PFMA and the protocol on corporate governance. This is achieved by a risk-based internal audit plan, Internal Audit assessing the adequacy of controls mitigating the risks and the Audit and Risk Committee monitoring the implementation of corrective actions.

From our review of the reports of the Internal Auditors, the Audit Report on the review of the Annual Financial Statements and the Management Report of the Auditor-General South Africa, we can conclude that the system of internal control as applied over financial and non-financial matters and enterprise risk management at the RSR is satisfactory.


The Committee has noted management's commitment to address the lack of control effectiveness, where they exist. The Committee will be monitoring management's progress in resolving these issues on a regular basis.

Internal Audit

The Internal Audit function is managed through a co-source model under the direction of the Chief Audit Executive. We are satisfied that the internal audit function has operated effectively. It has addressed the risks pertinent to the RSR in its audit reviews and has assisted the RSR with value adding services to ensure that both financial and operational objectives are achieved.

The Internal Audit plan initially comprised of 22 planned audit reviews, with a provision made for one ad hoc project. This plan was revised mid-year due to unforeseen resource constraints, resulting in six audit reviews being dropped from the initial plan. Five of these were cancelled and one was deferred for inclusion in





the audit plan for the next financial year. The revised plan therefore comprised of 16 planned audit reviews, which were all conducted, i.e. 100% implementation.

The following internal audit work was completed during the year under review:

- i. Audit of Performance Information (2 quarterly reviews);
- ii. Revenue Management and Receivables;
- iii. Quarterly Financial Statement Review (one Quarterly review conducted);
- iv. Review of Annual AFS;
- v. SCM – Procurement including contracts (2 quarterly reviews);
- vi. Employee Performance Management;
- vii. Information, Communication and Technology (ICT);
- viii. Compliance Management;
- ix. Safety Permits Management / Administration;
- x. Follow- up Audit on:
 - a. RSR Management Letter issued by the Auditor General; and
 - b. Internal Audit findings;
- xi. Budget and Expenditure Management;
- xii. Asset Management;
- xiii. BOI and Occurrence Investigation Management; and
- xiv. The effectiveness of RSR Directives and Prohibitions including Penalty Management: All Regions.

No ad-hoc audit reviews were either requested by stakeholders or initiated by the Internal Audit team.

Governance process

The Audit and Risk Committee is also responsible for monitoring governance and compliance with the RSR Code of Conduct. Further, the Committee's responsibility is to ensure that all calls to the RSR Whistle-blowing Hotline, as administered by the external independent service provider, are followed up. On the basis of the information provided when a call is received, an investigation is initiated.

ICT governance

ICT Governance remains a key focus of the Audit and Risk Committee on behalf of the RSR Board. The General Manager: ICT is responsible for executing the ICT Governance Strategy. The Committee provided oversight on the ICT governance and reported accordingly to the Board during the period under review.

Quarterly report

The Chief Executive Officer presented quarterly financial and performance information for review by the Audit and Risk Committee and the Committee was satisfied with the content and quality thereof. All the reports were submitted on time to the Executive Authority and National Treasury.

Evaluation of Financial Statements

The Audit and Risk Committee has:

- reviewed and discussed the audited Annual Financial Statements to be included in the Annual Report with the AGSA and the Chief Executive Officer;
- reviewed the AGSA's Management Report and Management's response thereto;
- reviewed accounting policies and practices as reported in the Annual Financial Statements;
- reviewed the RSR's processes for compliance with legal and regulatory provisions;
- reviewed the information on predetermined objectives as reported in the Annual Report;
- reviewed adjustments resulting from the audit of the RSR; and
- reviewed, and where appropriate, recommended changes to the Annual Financial Statements as presented by the RSR Management for the year ending 31 March 2018.

Report of the Auditor-General South Africa

The Audit and Risk Committee has on a quarterly basis reviewed the RSR's implementation plan for audit issues raised in the prior year. The Audit and Risk Committee has met with the AGSA to ensure that there are no unresolved issues that emanated from the regulatory audit. Corrective actions on the detailed findings raised by the AGSA will continue to be monitored by the Audit and Risk Committee on a quarterly basis.

The Audit and Risk Committee concurs and accepts the conclusions of the AGSA on the Annual Financial Statements and is of the opinion that the audited Annual Financial statements be accepted and read together with the report of the AGSA.

Appreciation

The Audit Committee wishes to acknowledge the dedication and work performed by the Chief Executive Officer, Management and Officials of the RSR. The Audit Committee wishes to express its appreciation to Management, the AGSA and the Internal Audit Unit for the co-operation and information they have provided to enable us to discharge our responsibilities.



Mr Ameen Amod
CD (SA), B.Comm, MBA, CIA, CGAP, CRMA
**CHAIRPERSON OF THE AUDIT AND RISK
COMMITTEE**

Conflict of interest

The RSR is guided by its Code of Conduct/Ethics approved by the Board in June 2016. In order to uphold the highest ethical standards and norms, a certain professional behaviour is expected of every employee and all employees are expected to:

- Take personal responsibility for their actions and should comply with legal obligations, policies and procedures;
- Act honestly and in good faith;
- Perform their duties conscientiously and in the best interests of the RSR; and
- Exercise reasonable care and diligence in performance of their duties;

The RSR is, therefore, guided by the Code of Conduct/Ethics in dealing with misconduct or non-compliance to the abovementioned required behaviours.

Code of Conduct and Ethics

The purpose of the RSR's Code of Conduct and Ethics is to:

- Establish standards that would promote and encourage ethical behaviour and decision making by all RSR employees, Board members and stakeholders;
- Ensure that ethics and desirable business conduct are clearly communicated as an integral part of the RSR's corporate identity, culture and purpose;

- Ensure that a good ethical foundation informs RSR's policies, procedures, practices, conduct and business processes; and
- Relay a clear message that failure to live up to the desired ethics and conduct could undermine RSR's objectives, and will not be tolerated.

The RSR deems contravention of this Code as a serious matter and all who violates this Code or similar policies will be subject to discipline, which may include termination of service. Discipline may also be imposed for conduct that is considered unethical or improper even if the conduct is not specifically covered in the Code. In all cases and the extent where applicable, RSR's Employee Relations Policy, Disciplinary Code and Procedure and the National Railway Safety Regulator Act No 16 of 2002, as amended, will be followed. Contraventions may also lead to civil or criminal legal action.

Of importance is that approval of any action not compliant with the Code must be sought in advance and may be granted only by the CEO in consultation with the Board. Only the Board may grant waivers of this Code for directors and executive officers of the RSR. When a waiver is granted, the Board shall ensure that appropriate controls are in place to protect the RSR and its stakeholders.





Health, safety and environment

The management of Occupational Health and Safety risks, and the implementation of internal controls remains an integral part of the RSR's governance principles and accountability functions. This remains one of the RSR's principal values with the aim of achieving zero incidents for employees, while executing the regulatory mandate of overseeing safe railway operations in South Africa. The RSR continues to lead by example in matters relating to occupational health and safety, thereby prioritising the management of health and safety of its employees, contractors, visitors, and any other stakeholder that may come into contact with the Regulator's activities.

In an endeavour to ensure effective compliance to the Occupational Health and Safety Act No 85 of 1993, and related legislative requirements, the RSR achieved the following during 2017/18:

OHS Committee/Governance structures

The RSR has established Occupational Health and Safety Committee structures throughout the RSR. All employees appointed to these committees in terms of the OHS Act and related legislation, executed their functions in accordance with the legislative requirements and their appointments thereof. The functions executed by the OHS appointees included among others the monthly inspection of the RSR offices and all other facilities for the RSR, submission of the inspection reports, and participation in the committee meetings and activities.

Policy development and implementation

To fulfil its legal and moral obligations for the provision of a safe work environment, the RSR has developed and

implemented occupational health and safety policies during the year under review. These policies are aimed at providing guidance and facilitation of compliance to the applicable legislation, and include the following:

Occupational Health and Safety Policy

The policy was implemented and effectively monitored to ensure continued compliance to OHS matters and related legislative requirements.

Personal Protective Equipment Guidelines

In striving to ensure provision of effective and relevant PPE to the RSR personnel where required, the PPE guidelines were developed and approved. This led to the appropriate PPE being issued to the employees in line with the identified risk exposures.

Management of Injuries and Diseases Policy and Guidelines

During the year under review, a policy for the management of injuries and diseases was developed to ensure uniform application and management of occupational injuries and diseases.

Further to the development of this policy, all employees were familiarised with the provisions of the legislation governing the compensation for occupational injuries and diseases to ensure appropriate application thereof.

All reportable cases of injuries on duty were duly reported to the applicable statutory bodies and internal investigations conducted for corrective action and to prevent recurrence.

Substance Abuse Policy and Alcohol Testing Procedure

The Substance Abuse Policy was developed and implemented in support of the General Safety Regulations to the Occupational Health and Safety Act No. 85 of 1993 as amended, and in alignment with one of our regulatory tools, the Human Factors Management Standard, SANS 3000-4: 2011 which requires that the railway operators manage the use of substances in the workplace. The implementation of this policy, therefore, enables the RSR as a regulator to lead by example.

To give effect to this policy, alcohol tests were conducted randomly on RSR personnel, visitors and contractors during the year under review.

Smoking Policy

To promote good health practices and support national health strategies to reduce illnesses attributable to tobacco smoking and to ensure the provision of a safe work environment, the RSR continues to monitor compliance to the Smoking Policy. During the year under review, there was full compliance to the provisions of the Smoking Policy. To ensure compliance, the message is further emphasised by conducting safety briefings for all visitors to the RSR Head Office and Regional Offices.

Emergency preparedness

During the year under review, the RSR emergency plan was tested through emergency simulation exercises, which were conducted at all offices, to test the effectiveness of the emergency plans and procedures.

Compliance audits

To guide operational excellence, compliance audits were conducted at all RSR administrative offices to assess the level of compliance to minimum requirements of the Occupational Health and Safety Act No 85 of 1993 as amended. Table 2 below, presents the level of compliance for each of the RSR offices:

Table 2: Compliance level for each RSR Offices

| Region | Level of compliance 16/17 | Level of compliance 17/18 |
|-------------------------|------------------------------|------------------------------|
| Head Office (Centurion) | 92% | 95% |
| Western Cape | 68% | 91% |
| KwaZulu-Natal | 68% | 81% |
| Gauteng | 73% | 86% |

There were improvements in the level of compliance at all the RSR administrative offices. Continuous monitoring is conducted to ensure full compliance to the Occupational Health and Safety Act No 85 of 1993, as amended.





PART D:

Human Resource Management

Introduction

Strategic positioning of the Human Resources has become a critical aspect in the attainment of the business objectives for the RSR in its endeavour to regulate safety within the railway sector. This has prompted the Regulator through various HR policies, processes and procedures to galvanise the attraction and retention of the required talent that will effectively contribute towards the mandate of the Regulator. The role of HR within the Regulator has evolved from a pure administrative function to becoming a strategic pillar that contributes to the effective and efficient operation of the organisation through the provision of HR governance tools such as policies and procedures developed with alignment to the relevant legislative prescripts.

The good governance approach adopted in the development of relevant HR governance tools has significantly contributed in the attraction, nurturing and retention of the required talent for the implementation and attainment of the RSR mandate. Through continuous HR intervention and innovation, the RSR is on a positive trajectory in relation to the establishment of a conducive working environment and distinct organisational culture of excellence.

The role of HR has been strategically significant in relation to the empowerment of women taking into consideration that females constitute 52% of the total RSR population. This is deemed positive given the fact that the Economic Active Population of South Africa for females stands at 45%. Positive strides have been made through relevant policy positions of the RSR to promote the empowerment of females in the railway sector.

In the 17/18 FY the following policies have been enhanced in line with relevant legislative prescripts and in the effort of continuous improvement and for promotion of a conducive work environment:

| | |
|---------------------------------|--|
| Leave Policy: | The Policy was approved by the Board in May 2017 and regulates the granting of leave of absence in the RSR guided by the Basic Conditions of Employment Act. |
| Acting Allowance Policy: | The Policy was approved by the Board in May 2017 provides a uniform legal standard to regulate the appointment of appropriately skilled and experienced staff in acting positions to discharge the duties of another employee who is absent at an extended period of time. |

As a strategic partner to business, HR continuous to render required support and service to enable business in the undertaking of the strategic imperatives. The support and service rendered by HR to business particularly through the retention of required talent, promotion of female empowerment and the creation of a conducive environment through applicable policies, has significantly contributed towards the attainment of the set performance targets and the overall RSR mandate.

Personnel cost by programme/activity/objective

| Department/Region | Total expenditure for the entity | Personnel expenditure | Personnel exp. as a % of total exp. | No. of employees | Average personnel cost per employee |
|---------------------------------|----------------------------------|-----------------------|-------------------------------------|------------------|-------------------------------------|
| Office of the CEO | 18 961 843 | 12 354 040 | 4% | 11 | 1 123 095 |
| Strategy & Business Development | 10 629 225 | 10 242 742 | 4% | 8 | 1 280 343 |
| OIP | 8 993 070 | 8 124 109 | 3% | 8 | 1 015 514 |
| Investigations | 9 023 923 | 2 190 882 | 1% | 2 | 1 095 441 |
| Operations (COO) | 18 724 674 | 8 093 111 | 3% | 6 | 1 348 852 |
| Corporate Affairs | 34 172 169 | 7 200 855 | 3% | 13 | 553 912 |
| Finance | 38 369 561 | 6 219 262 | 2% | 6 | 1 036 544 |
| Eastern Cape | 6 005 211 | 5 262 784 | 2% | 7 | 751 826 |
| Western Cape | 19 244 208 | 12 867 091 | 5% | 24 | 536 129 |
| Gauteng | 86 522 365 | 72 530 157 | 26% | 104 | 697 405 |
| KwaZulu-Natal | 21 568 673 | 10 495 666 | 4% | 21 | 499 794 |
| Mpumalanga | 7 791 817 | 7 127 068 | 3% | 7 | 1 018 153 |
| Total | 280 006 738 | 162 707 767 | 58% | 217 | 749 805 |

Personnel cost by salary band

| Level | Personnel Expenditure | % of personnel exp. to total personnel cost | No. of employees | Average personnel cost per employee |
|--------------------------|-----------------------|---|------------------|-------------------------------------|
| Top management | 3 785 314 | 2% | 1 | 3 785 314 |
| Senior management | 25 595 078 | 16% | 16 | 1 599 692 |
| Professionally qualified | 95 251 503 | 59% | 93 | 1 024 210 |
| Skilled | 31 223 359 | 19% | 65 | 480 359 |
| Semi-skilled | 5 661 544 | 3% | 33 | 171 562 |
| Unskilled | 1 190 969 | 1% | 9 | 132 330 |
| TOTAL | 162 707 767 | 100% | 217 | 749 805 |

Performance rewards

| Performance rewards | | | |
|------------------------|---------------------|-----------------------|--|
| Level | Performance rewards | Personnel expenditure | % of performance rewards to total personnel cost |
| Top management | 0 | 3 785 314 | 0% |
| Senior management | 0 | 25 595 078 | 0% |
| Professional qualified | 0 | 95 251 503 | 0% |
| Skilled | 0 | 31 223 359 | 0% |
| Semi-skilled | 0 | 5 661 544 | 0% |
| Unskilled | 0 | 1 190 969 | 0% |
| TOTAL | 0 | 162 707 767 | 0% |

Training Costs

| Programme | Training expenditure (R) | No. of employees trained | Avg training cost per employee (R) |
|----------------------|--------------------------|--------------------------|------------------------------------|
| Internship programme | 0 | 0 | 0 |
| Staff training | 278 699 | 47 | 5 930 |
| Bursaries | 156 444 | 5 | 31 289 |
| TOTAL | 435 143 | 52 | 8 368 |

Employment and vacancies

| Department | Number of posts 2017/18 staff plan | Number of posts filled | Vacancy rate |
|---------------------------------------|------------------------------------|------------------------|--------------|
| Office Of the CEO | 13 | 13 | 0% |
| Strategy and Business Development | 12 | 10 | 17% |
| Chief Operations Officer | 115 | 107 | 7% |
| Regulation and Governance (Legal) | 7 | 5 | 29% |
| Finance | 15 | 14 | 7% |
| Corporate Affairs | 45 | 41 | 9% |
| Occurrence Investigations | 16 | 14 | 13% |
| Operational Intelligence and Planning | 20 | 13 | 35% |
| TOTAL | 243 | 217 | 11% |

Employment changes

| Salary band | Employment at beginning of the period | Appointments | Terminations | Employment at end of the period |
|---|---------------------------------------|--------------|--------------|---------------------------------|
| Top Management/Executives (F1-F5) | 1 | 0 | 0 | 1 |
| Senior management (E1-E5) | 13 | 2 | 2 | 13 |
| Professionally qualified and experienced specialists/mid-management (D1-D5) | 89 | 4 | 6 | 87 |
| Skilled technical and academically qualified/junior management/ supervisors/ foremen/ superintendents (C1-C5) | 64 | 2 | 5 | 61 |
| Semi-skilled and discretionary decision- making (B1-B5) | 25 | 8 | 5 | 28 |
| Unskilled & defined decision-making (A1-A3) | 10 | 0 | 1 | 9 |
| TOTAL | 202 | 16 | 19 | 199 |

Both internal and external recruitment methods are used. RSR employees are given an opportunity to apply for vacancies as consistent with the applicable policies. As a result of decentralisation, posts have either been filled through the transfer of staff to the region in a different department or through job enrichment.



Reasons for staff leaving

| Reason | Number | % of total no. of staff leaving |
|--------------------|-----------|---------------------------------|
| Resignation | 8 | 42% |
| Retirement | 2 | 11% |
| Dismissal | 0 | 0% |
| Death | 2 | 11% |
| Expiry of contract | 7 | 37% |
| Total | 19 | 100% |

Labour Relations: Misconduct and disciplinary action

| Nature of disciplinary action | Number |
|-------------------------------|--------|
| Verbal warning | 0 |
| Written warning | 0 |
| Final written warning | 5 |
| Dismissal | 0 |

NB: Two misconduct cases have been concluded, but are awaiting confirmation of the sanctions. One of the cases was chaired by an external chairperson who provided a recommendation for consideration by the RSR, while the other was chaired by an internal chairperson. The cases have not been included in the table above as sanctions have yet to be finalised.

Equity target and Employment Equity status

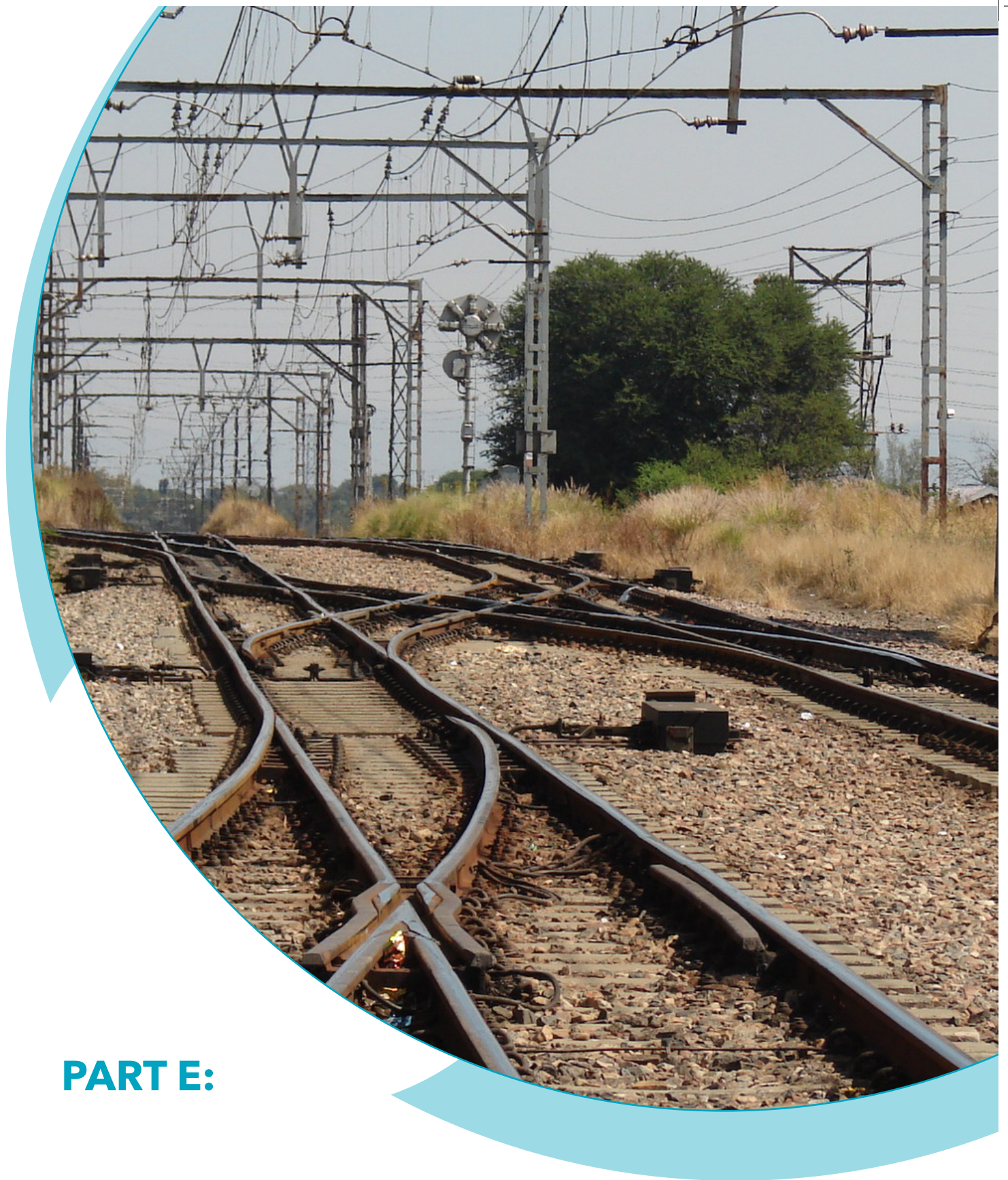
| Levels | Male | | | | | | | | | | Female | | | | | | | | | |
|------------------------|-----------|-----------|----------|----------|----------|----------|-----------|----------|-----------|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | African | | Coloured | | Indian | | White | | African | | Coloured | | Indian | | White | | | | | |
| | | | | | | | | | | | | | | | | | | | | |
| | Current | Target | Current | Target | Current | Target | Current | Target | Current | Target | Current | Target | Current | Target | Current | Target | Current | Target | Current | Target |
| Top management | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Senior management | 7 | 9 | 0 | 1 | 0 | 0 | 2 | 1 | 3 | 5 | 1 | 3 | 1 | 1 | 0 | 1 | 0 | 0 | 1 | 1 |
| Professional qualified | 46 | 45 | 2 | 2 | 1 | 1 | 9 | 8 | 28 | 26 | 2 | 2 | 0 | 0 | 3 | 0 | 3 | 0 | 3 | 3 |
| Skilled | 20 | 19 | 0 | 2 | 0 | 1 | 0 | 0 | 43 | 39 | 3 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| Semi-skilled | 8 | 8 | 0 | 3 | 0 | 1 | 0 | 0 | 9 | 8 | 0 | 0 | 0 | 1 | 1 | 0 | 1 | 1 | 1 | 1 |
| Unskilled | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 7 | 7 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| TOTAL | 83 | 82 | 2 | 8 | 1 | 3 | 11 | 9 | 90 | 85 | 7 | 9 | 1 | 2 | 4 | 7 | 4 | 7 | 7 | 7 |

Disabled staff

| Levels | Male | | Female | |
|------------------------|----------|----------|----------|----------|
| | Current | Target | Current | Target |
| Top management | 0 | 0 | 0 | 0 |
| Senior management | 1 | 1 | 0 | 1 |
| Professional qualified | 0 | 2 | 0 | 2 |
| Skilled | 0 | 0 | 0 | 0 |
| Semi-skilled | 0 | 1 | 1 | 1 |
| Unskilled | 0 | 0 | 0 | 0 |
| TOTAL | 1 | 4 | 1 | 4 |

Labour stakeholder engagements

The RSR has signed a Recognition Agreement with the National Transport Movement (NTM) in September 2017. The parties committed to advance economic development, social justice, labour peace and democratisation of the workplace by promoting sound labour relations through consultation and negotiations.



PART E:

Financial information

Highlights



Catering reduced by 59% to
R364 631 thousand (2016/17: R879 034)



Printing reduced by 82% to
R120 585 (2016/17: R654 145)



Consultancy reduced by 25% to
R21.3 million (2016/17: R28.4 million)



Travel - Local reduced by 53%
to R4 million (2016/17: R8.5 million)



Placement fees reduced by 76% to
R321 740 (2016/17: R1.3 million)

Financial overview

The financial statements were prepared as required by the standards of Generally Recognised Accounting Practice (GRAP) and incorporate responsible disclosures in line with accounting practices of the RSR.

Matters for noting relating to revenue

The RSR requested an increase in its operational grant from the DoT due to under collection of budgeted revenues during the third quarter of the financial year. The under collection was as a result of the decline in Technology Audit revenue as well as other budgeted revenues.

The RSR had not experienced collection nor projection issues related to Technology Audits and, therefore, included it in the overall budget. However, some operators challenged the fees to be paid as well as the legality of the regulated Gazette. Furthermore, operators failed to submit technical designs as anticipated because of delays in the implementation of major projects, thereby affecting projected cash flows for the financial year. The decline in revenue equated to 61% (R23.4 million) of the overall revenue of the RSR in the 2017/18 FY, compared to the 2016/17 FY in which Technology Audits equated to 24% (R59.8 million) of the total revenue.

Of the receivables outstanding at year end, a total amount of R15.6 million was impaired at year-end of which R8.7 million related to Technology Audits and R6.9 million to other revenue categories.

No significant growth in revenues are expected over the medium-term. The RSR had developed a Financial Recovery Plan in order to stabilise the finances of the organisation. The Plan was approved by the Board and submitted to the DoT and National Treasury. The elements of the Financial Recovery Plan will be highlighted under "Future Outlook" below.

Revenue

The total revenue generated for the year amounted to R280.5 million which grew by 12%, compared to R251 million in the previous reporting period. The increase in revenue was mainly due to the increase in permit fees, interest received, as well as the additional operational grant received from the DoT, due to the challenges experienced by the RSR.

Permit fees amounted to R150.4 million, which increased by 17% compared to R128.8 million reported in the previous year. The interest received amounted to R2.5 million, which grew by 39% compared to R1.8 million in the previous year due to investments made in the call deposit account approved by the National Treasury.

The Technology Audit revenue was R23.4 million, which significantly decreased by 61%, compared to R59.8 million reported in the 2016/17 FY (R50.3 million 2015/16).

Expenditure

The total expenditure incurred for the year amounted to R280 million, which grew by 9% compared to R256.9 million in the previous year.

The most noticeable increases were debt impairment of R16.3 million, which grew by 308% compared to R4 million in the previous year due to collectibility issues. Depreciation and amortisation was R11.4 million, which grew by 18% compared to R9.7 million in the previous year because of the full-term depreciation of activation costs initiated during the 2016/17 FY.

Employee costs amounted to R162.7 million, which grew by 5% compared to R155.6 million in the previous year. Office rental amounted to R27.5 million, which grew by 46% compared to R18.8 million in the previous year. The significant increase was as a result of the occupation of regional offices in Gauteng and full-term rental costs for regional offices occupied during the 2016/17 FY.

Cost containment

General expenditure amounted to R88.5 million, which grew by only 1.8% compared to R86.9 million in the previous year. The reductions can be attributed to initiatives implemented during the year as a result of under collection of revenue and cost containment targets. The following year-on-year reductions were realised:

- Catering – 59% reduction
- Placement fees – 76% reduction
- Printing and stationery – 82% reduction
- Travel local – 53% reduction
- Travel international – 20% reduction
- Professional fees – 25% reduction

Cash flow

The cash flow statement indicates net cash inflows from operating activities amounting to R17.2 million compared to R15.5 million in the previous year. The overall net increase in cash and cash equivalents amounted to R10 million compared to a net decrease of R967 653 in the previous year.

Other improved financial indicators

- The debtor's collection period was 6.9 days (2017: 13.5 days);
- Creditors as a percentage of cash and cash equivalents has significantly improved compared to the previous year.

- The net asset position achieved was R756 969 (2017: R226 244) (total assets exceeded total liabilities); and
- A surplus of R530 725 was reported compared to a deficit of R5.9 million in the previous year.

Going concern

The Annual Financial Statements were prepared on a going-concern basis, though the RSR experienced cash flow shortages during the year as a result of lower than expected revenue collections and unexpected costs. A Financial Recovery Plan was developed to mitigate future going-concern risks. Quarterly progress reports are sent to DoT for monitoring purposes.

Irregular, fruitless and wasteful expenditure

The RSR experienced an increase in irregular expenditure during 2017/18 (R14.8 million) when compared to the 2016/17 FY (R2.7 million). The increase in irregular expenditure was as a result of increased controls that were put in place in the SCM environment in order to detect irregular expenditure and as a result of forensic investigations that have been conducted by the organisation.

It is important to note that some of the irregular expenditure emanate from prior years but were discovered during the 2017/18 FY. Fruitless expenditure also saw an increase from 2016/17 (R605 591) to 2017/18 (R9.5 million). These range from interest charged by service providers for payments not made within 30 days and penalties from SARS due to the cash flow constraints experienced by



the RSR. During the course of the forensic investigation, services paid for items not delivered, relating to an office lease and a contract that was signed exclusive of VAT while the bid was submitted inclusive of VAT, were identified.

Condonation processes and/or consequence management will be implemented pending the finalisation of pending investigations.

Future outlook

The decline in the RSR's revenue streams necessitated management to formulate measures to stabilise the financially distressed state of the organisation. To this end, a Financial Recovery Plan was developed. The Plan has specific targeted interventions and timeframes in order to transform the RSR's financial position. The interventions include, but are not limited to:

- Reducing the cost of employment (CoE) to 60% of the fixed revenue, which is currently at 68%;
- Reviewing the organisational structure to ensure a workforce that is fit for purpose; and
- Entering into negotiations with suppliers in order to reduce expenditure.

To this end, much effort has been expended on the interventions to meet the timeframes indicated in the Plan. Management is confident that the interventions will be successful and place the RSR in a sustainable position over the medium-term.





Annual Financial Statements

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Board's responsibilities and approval

The Board is required by the Public Finance Management 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 RSR as at the end of the financial year and the results of its operations and cash flows for the period that ended. The External Auditors are engaged to express an independent opinion on the Financial Statements and were given unrestricted access to all financial records and related data.

The Audited 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 Audited Annual Financial Statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Board acknowledges that they are ultimately responsible for the system of internal financial control established by the RSR and place considerable importance on maintaining a strong control environment. To enable the Board to meet these responsibilities, it sets standards for internal control aimed at reducing the risk of misstatement or errors 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 RSR and all employees are required to maintain

the highest ethical standards in ensuring the RSR's business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the RSR is on identifying, assessing, managing and monitoring all known forms of risk across the RSR. While operating risk cannot be fully eliminated, the RSR 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 Audited Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or errors.

The Board has reviewed the RSR's cash-flow forecast for the year to 31 March 2019. In light of the review and the current financial position, the Board will continue to monitor and assess the adequacy of the financial resources in order to fund operations. Though the Board is primarily responsible for the financial affairs of the RSR, they are supported by the RSR's Internal and External Auditors.

The External Auditors are responsible for independently reviewing and reporting on the RSR's Audited Annual Financial Statements. The financial statements have been examined by the entity's External Auditors and their report is presented on page 74.

The Audited Annual Financial Statements set out on pages 78 to 121, which have been prepared on the going concern basis, were approved by the Board on 30 July 2018 and were signed on its behalf by:



Ms Tshepo Kgare
ACTING CHIEF EXECUTIVE OFFICER



Dr. Nomusa Zethu Qunta
CHAIRPERSON: RSR BOARD

Auditor-General's Report

Report of the Auditor-General to Parliament on the Railway Safety Regulator

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Railway Safety Regulator set out on pages 78 to 121, which comprise the statement of financial position as at 31 March 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Railway Safety Regulator as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act, 1999 (Act no. 1 of 1999) (PFMA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other matters

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

Financial recovery plan

7. The RSR has begun implementing a financial recovery plan 2018/19 – 2019/20, on how to address current financial challenges from a short, medium and long term perspective. The Department of Transport has also directed the RSR to undertake certain interventions in order to assist in this recovery.

Leadership

8. The Chief Executive Officer was placed on precautionary suspension in November 2017. An investigation commissioned by the Minister of Transport was still underway at year-end.

Responsibilities of the accounting authority

9. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
10. In preparing the financial statements, the accounting authority is responsible for assessing the Railway Safety Regulator'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 accounting authority either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

Auditor-General's responsibilities for the audit of the financial statements

11. My objectives are to obtain reasonable assurance about whether the 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.

Auditor-General's Report

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 financial statements.

12. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
14. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
15. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2018:

| Objectives | Pages in annual performance report |
|---|------------------------------------|
| 1.1 To align the safety objectives of high risk railway operators' with that of the RSR | 31 |
| 1.2 To bring about a reduction in level crossing occurrences | 31 |
| 1.3 To bring about a reduction in people struck by trains occurrences | 32 |
| 1.4 To bring about a reduction in mainline derailments | 33 |
| 1.5 To bring about a reduction in mainline collisions between rolling stock | 34 |
| 1.6 To bring about a reduction in PTI Occurrences | 35 |
| 1.7 To determine the effectiveness of the RSR's regulatory instruments | 36 |
| 1.8 To promote safe railway behaviour | 36 |

16. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not raise any material findings on the usefulness and reliability of the reported performance information for any of the objectives.

Auditor-General's Report

Other matter

18. I draw attention to the matter below.

Achievement of planned targets

19. Refer to the annual performance report on pages 31 to 39 for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of numerous targets.

Report on the audit of compliance with legislation

Introduction and scope

20. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
21. The material findings on compliance with specific matters in key legislations are as follows:

Expenditure management

22. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R14 769 004 as disclosed in note 32 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA.
23. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R9 496 983, as disclosed in note 31 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA.

Other information

24. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
25. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

26. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.
27. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

28. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in opinion, and the findings on compliance with legislation included in this report.

Financial and performance management

29. Management did not review and monitor compliance with applicable laws and regulations, in order to prevent and/ or detect irregular and fruitless and wasteful expenditure.

Other reports

30. I draw attention to the following engagement conducted that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
31. There is currently an investigation underway commissioned by the Minister of Transport.

Auditor-General

Pretoria
31 July 2018



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure - Auditor-General's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the 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 by the accounting authority
 - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Railway Safety Regulator's ability 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 financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the 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 continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. 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.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

Statement of Financial Position at 31 March 2018

| Figures in Rand | Note(s) | 2018 | 2017 Restated ¹ |
|---|---------|-------------------|-------------------------------|
| Assets | | | |
| Current Assets | | | |
| Receivables from exchange transactions ¹ | 3 | 4 061 063 | 10 831 520 |
| Cash and cash equivalents | 4 | 10 326 446 | 300 040 |
| | | 14 387 509 | 11 131 560 |
| Non-Current Assets | | | |
| Property, plant and equipment ¹ | 5 | 26 821 580 | 26 572 203 |
| Intangible assets | 6 | 7 038 023 | 10 965 630 |
| | | 33 859 603 | 37 537 833 |
| Total Assets | | 48 247 112 | 48 669 393 |
| Liabilities | | | |
| Current Liabilities | | | |
| Finance lease obligation | 7 | 11 415 | 375 721 |
| Payables from exchange transactions ¹ | 8 | 45 516 015 | 45 714 598 |
| Provisions | 9 | 1 907 197 | 2 332 198 |
| | | 47 434 627 | 48 422 517 |
| Non-Current Liabilities | | | |
| Finance lease obligation | 7 | 55 516 | 20 633 |
| Total Liabilities | | 47 490 143 | 48 443 150 |
| Net Assets | | 756 969 | 226 243 |

¹ Refer to note 27 for prior year errors.

Statement of Financial Performance for the year ended 31 March 2018

| Figures in Rand | Note(s) | 2018 | 2017 Restated ¹ |
|---|---------|----------------------|-------------------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Safety permit fees ¹ | 10 | 150 431 759 | 128 782 308 |
| Interest received | 11 | 2 527 806 | 1 852 568 |
| Other Revenue | | 1 324 548 | - |
| Technical awareness workshops | | 1 837 640 | 2 959 988 |
| Technology audits ¹ | 15 | 23 386 229 | 59 833 726 |
| Total revenue from exchange transactions | | 179 507 982 | 193 428 590 |
| Revenue from non-exchange transactions | | | |
| Administration grant | 12 | 87 864 000 | 55 987 000 |
| Penalties | 14 | 12 271 333 | 500 000 |
| Other income | 13 | 894 148 | 1 104 648 |
| Total revenue from non-exchange transactions | | 101 029 481 | 57 591 648 |
| Total revenue | | 280 537 463 | 251 020 238 |
| Expenditure | | | |
| Employee related costs ¹ | 16 | (162 707 767) | (155 604 541) |
| Depreciation and amortisation ¹ | 17 | (11 362 674) | (9 733 576) |
| Loss on disposal of assets | | (323 559) | (316 150) |
| Finance costs | 18 | (805 371) | (410 527) |
| Debt impairment | 19 | (16 304 615) | (3 968 063) |
| General expenses | 20 | (88 502 752) | (86 899 335) |
| Total expenditure | | (280 006 738) | (256 932 192) |
| Surplus / (deficit) for the year | | 530 725 | (5 911 954) |

¹ Refer to note 27 for prior year errors.

Statement of Changes in Net Assets for the year ended 31 March 2018

| Figures in Rand | Note(s) | Accumulated surplus | Total net assets |
|---|---------|---------------------|------------------|
| Balance at 01 April 2016 | | 6 138 197 | 6 138 197 |
| Surplus for the year | | (5 911 954) | (5 911 954) |
| Total changes | | (5 911 954) | (5 911 954) |
| Opening balance as previously reported | | 8 674 017 | 8 674 017 |
| Prior year error ¹ | 27 | (8 447 773) | (8 447 773) |
| Balance at 01 April 2017 as restated | | 226 244 | 226 244 |
| Surplus for the year | | 530 725 | 530 725 |
| Total changes | | 530 725 | 530 725 |
| Balance at 31 March 2018 | | 756 969 | 756 969 |

Cash Flow Statement for the year ended 31 March 2018

| Figures in Rand | Note(s) | 2018 | 2017 Restated ¹ |
|--|-----------|----------------------|-------------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Revenue: permits, penalties, technology audit and technical workshop | | 180 517 079 | 192 651 713 |
| Administration grant | | 77 864 000 | 55 987 000 |
| Income received in advance - administration grant | | - | 10 000 000 |
| Interest income | | 2 096 959 | 1 074 016 |
| Other income received | | 236 283 | 701 761 |
| | | 260 714 321 | 260 414 490 |
| Payments | | | |
| Employee costs | | (166 894 212) | (159 469 030) |
| Suppliers | | (75 795 466) | (85 014 685) |
| Finance costs | | (805 371) | (410 527) |
| | | (243 495 049) | (244 894 242) |
| Net cash flows from operating activities | 22 | 17 219 272 | 15 520 248 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 5 | (6 950 560) | (16 116 538) |
| Proceeds from sale of asset | | 87 117 | 90 310 |
| Net cash flows from investing activities | | (6 863 443) | (16 026 228) |
| Cash flows from financing activities | | | |
| Finance lease payments | | (329 423) | (461 673) |
| Net increase/(decrease) in cash and cash equivalents | | 10 026 406 | (967 653) |
| Cash and cash equivalents at the beginning of the year | | 300 040 | 1 267 693 |
| Cash and cash equivalents at the end of the year | 4 | 10 326 446 | 300 040 |

¹ Refer to note 27 for prior year error.

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved Budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Note |
|---|----------------------|-------------|----------------------|------------------------------------|--|------|
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Safety permit fees | 143 100 000 | - | 143 100 000 | 143 709 232 | 609 232 | |
| Application fees | 8 045 400 | - | 8 045 400 | 6 722 527 | (1 322 873) | 34 |
| Interest received | 1 570 000 | - | 1 570 000 | 2 527 806 | 957 806 | 34 |
| Other Revenue | 10 642 156 | - | 10 642 156 | 1 324 548 | (9 317 608) | 34 |
| Technical awareness workshops | 3 171 150 | - | 3 171 150 | 1 837 640 | (1 333 510) | 34 |
| Technology audits | 28 800 000 | - | 28 800 000 | 23 386 229 | (5 413 771) | 34 |
| Total revenue from exchange transactions | 195 328 706 | - | 195 328 706 | 179 507 982 | (15 820 724) | |
| Revenue from non-exchange transactions | | | | | | |
| Transfer revenue | | | | | | |
| Administration grant | 59 564 000 | - | 59 564 000 | 87 864 000 | 28 300 000 | 34 |
| Penalties | - | - | - | 12 271 333 | 12 271 333 | 34 |
| Other income | - | - | - | 894 148 | 894 148 | 34 |
| Total revenue from non-exchange transactions | 59 564 000 | - | 59 564 000 | 101 029 481 | 41 465 481 | |
| Total revenue | 254 892 706 | - | 254 892 706 | 280 537 463 | 25 644 757 | |
| Expenditure | | | | | | |
| Employee cost | (167 134 952) | 2 487 239 | (164 647 713) | (162 707 767) | 1 939 946 | |
| Non - Executive Directors | (4 000 000) | 702 800 | (3 297 200) | (2 419 350) | 877 850 | 34 |
| Depreciation and amortisation | - | - | - | (11 362 674) | (11 362 674) | 34 |
| Loss on disposal of assets | - | - | - | (323 559) | (323 559) | 34 |
| Finance costs | - | - | - | (805 371) | (805 371) | 34 |
| Office rental and vehicles | (26 908 716) | 7 527 078 | (19 381 638) | (27 554 709) | (8 173 071) | 34 |
| Lease payment - Vehicles | (3 883 500) | - | (3 883 500) | (4 452 776) | (569 276) | 34 |
| Debt Impairment | - | - | - | (16 304 615) | (16 304 615) | 34 |
| External audit fee | (1 700 000) | - | (1 700 000) | (2 140 223) | (440 223) | 34 |
| Consulting and professional fees | (18 137 128) | 5 115 981 | (13 021 147) | (21 278 777) | (8 257 630) | 34 |
| General expenses | (32 128 410) | (9 293 436) | (41 421 846) | (30 656 917) | 10 764 929 | 34 |
| Capital expenditure | (1 000 000) | (6 539 662) | (7 539 662) | - | 7 539 662 | 34 |
| Total expenditure | (254 892 706) | - | (254 892 706) | (280 006 738) | (25 114 032) | |
| Surplus | - | - | - | 530 725 | 530 725 | |

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved Budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Note |
|---|-----------------|-------------|--------------|------------------------------------|--|------|
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement Reconciliation Basis difference | - | - | - | 530 725 | 530 725 | |
| Capital expenditure | | | | (6 950 558) | | |
| Actual Amount in the Statement of Financial Performance | | | | (6 419 833) | | |

Accounting Policies

1. Presentation of Financial Statements

The 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 55 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. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

Comparative information

When the presentation or classification of items in the Annual Financial Statement is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where the accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly.

Significant accounting judgements and estimates

In preparing the Annual Financial Statements, management is required to make estimates and assumptions that affect the amounts presented in the Annual Financial Statements and related disclosures. Use of available information and application of judgement is inherent in the formation of estimates. Significant judgements include the following:

Budget variance

Variance of 10% or more between budget and actual amounts are regarded as material. All material differences are explained.

Useful life assessment

In determining the useful life and residual values of each property, plant and equipment and intangible assets, management took into consideration the nature of each asset type and the usage of assets.

These accounting policies are consistent with the previous period.

1.1 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 RSR; 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.

Accounting Policies

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.

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.

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.

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

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

| Item | Depreciation method | Average useful life |
|------------------------|---------------------|---------------------|
| Furniture and fixtures | Straight line | 10 - 20 years |
| Motor vehicles | Straight line | 12 - 15 years |
| Office equipment | Straight line | 6 - 18 years |
| IT equipment | Straight line | 6 - 10 years |
| Leasehold improvements | Straight line | 5 years |
| Leased assets | Straight line | 5 years |

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 RSR. 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 RSR assesses at each reporting date whether there is any indication that the RSR 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 RSR 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.

Assets which the RSR holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Accounting Policies

The RSR separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements.

The RSR discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 6).

1.2 Intangible assets

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 RSR or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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 RSR; and
- the cost or fair value of the asset can be measured reliably.

The RSR 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.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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.

Internally generated goodwill is not recognised as an intangible asset.

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

Accounting Policies

| Item | Depreciation method | Average useful life |
|-------------------|---------------------|---------------------|
| Computer software | Straight line | 3- 5 years |

The RSR discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 6).

1.3 Financial instruments

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

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.

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

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 guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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.

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

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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

Accounting Policies

Initial recognition

RSR recognises a financial asset or a financial liability in its statement of financial position when the RSR becomes a party to the contractual provisions of the instrument. RSR recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Subsequent measurement of financial assets and financial liabilities

RSR measures all financial assets and financial liabilities after initial recognition amortised.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

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.

Impairment and uncollectibility of financial assets

RSR assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is 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.

1.4 Taxation

Income Tax

RSR has obtained income tax exemption from the Commissioner of the South African Revenue Services under Section 10(i) (cA) (1) of the Income Tax Act, 1962 as amended.

Value Added Tax

RSR is exempt from the Value Added Tax.

1.5 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 - 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.

Accounting Policies

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

The present value of the lease is considered to amount to “substantially all of the fair value” when it exceeds 95% of the fair value of the leased assets.

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.

1.6 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 RSR; or
- the number of production or similar units expected to be obtained from the asset by the RSR.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

1.7 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.

Accounting Policies

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 RSR; or
- the number of production or similar units expected to be obtained from the asset by the RSR.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash generating assets, are as follows:

Identification

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

The RSR 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 RSR estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test 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:

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 RSR 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.

Reversal of an impairment loss

The RSR assess 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 RSR 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.

Accounting Policies

1.8 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the RSR recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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 RSR measure 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 reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the RSR has a present legal or constructive obligation to make such payments as a

result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

1.9 Provisions and contingencies

Provisions are recognised when:

- the RSR 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 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 RSR 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.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 24.

Where a fee is received by the RSR for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the RSR considers that an outflow of economic resources is probable, an RSR recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.10 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 RSR 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.

Revenue comprises of:

Safety permit application and permit fee

Revenue arising from permit fees as published in the Government Gazette by the Minister of Transport on an annual basis is recognised on an accrual basis, when economic benefit is probable. This is presented in the statement of financial performance.

Technical awareness workshops

Revenue from technical awareness is recognised when candidates register for technical awareness workshops. Interest received

Interest received comprise of interest charged on late operator's payments and favourable bank balances. Interest income is recognised using the effective interest rate.

Technology audits

RSR conducts technology audits and recovers costs in accordance with section 17(1) (bB) of the National Railway Safety Regulator Act of 2002, (Act No.16 of 2002) as amended.

When the outcome of the technology review transaction can be estimated reliably, revenue will be recognised by reference to the stage of completion of the transaction at reporting date. Stage of completion will be determined using the life cycle phases as indicated in the published Gazette.

1.11 Revenue from non-exchange transactions

Non-exchange transaction are defined as transactions where RSR receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transaction is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount. Revenue from administration grant is considered to be revenue from non-exchange transactions.

Revenue from non-exchange transactions is recognised when there is reasonable assurance that the amount will be received and the value thereof can be reliably measured.

Fines and Penalties

Revenue from fines and penalties is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to RSR; and
- the amount of the revenue can be measured reliably.

This comprise of revenue arising from penalties charged as a result of failure by operators to comply with any provisions of the National Railway Safety Regulator Act of 2002, (Act No. 16 of 2002) as amended, the regulations and the standards that inhibit or prevent the Regulator's ability to perform its mandate.

Unconditional Grant

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to RSR,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

RSR recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. Transferred assets are measured at their fair value as at the date of acquisition.

Accounting Policies

To the extent that an asset has not been recognised, a deferred income will be recognised as a liability. The deferred income will be transferred to revenue as and when the conditions attached to the grant are satisfied.

1.12 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 of financial performance.

1.13 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.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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.

1.14 Budget information

RSR are 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 RSR shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017-04-01 to 2018-03-31.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are not 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.

1.15 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.

Accounting Policies

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 RSR, including those charged with the governance of the RSR in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the RSR.

The RSR 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 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 entity is exempt from the disclosures in accordance with the above, the 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 financial statements.

1.16 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The RSR will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The RSR 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

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The RSR has not applied the following standards and interpretations, which have been published and are mandatory for the RSR's accounting periods beginning on or after 01 April 2018 or later periods:

- | | | | |
|---|--------------------------|---------------|--|
| • | GRAP 20: Related parties | 01 April 2019 | Unlikely there will be a material impact |
|---|--------------------------|---------------|--|

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the RSR's accounting periods beginning on or after 01 April 2018 or later periods but are not relevant to its operations:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|--|---|--|
| • GRAP 18 (as amended 2016): Segment Reporting | 01 April 2019 | Unlikely there will be a material impact |

3. Receivables from exchange transactions

| | | |
|-----------------------------------|------------------|-------------------|
| Trade debtors | 19 212 367 | 9 927 790 |
| Prepayments | 366 561 | 562 065 |
| Deposits | 40 950 | 50 211 |
| Staff debt | 60 880 | 291 454 |
| Impairment allowance ¹ | (15 619 695) | - |
| | 4 061 063 | 10 831 520 |

¹ Refer to note 19

Reconciliation of allowance for impairment:

| | | |
|--|---------------------|----------|
| Opening balance | - | - |
| Decrease in allowance recognised in surplus or deficit | (15 619 695) | - |
| Amounts written off | - | - |
| Amounts recovered | - | - |
| Closing balance | (15 619 695) | - |

Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---------------------------------------|-------------------|----------------|
| 4. Cash and cash equivalents | | |
| Cash and cash equivalents consist of: | | |
| Cash on hand | 4 940 | 9 000 |
| Bank balances | 10 298 766 | 251 180 |
| Short-term deposits | 22 740 | 39 860 |
| | 10 326 446 | 300 040 |

5. Property, plant and equipment

| | 2018 | | | 2017 | | |
|------------------------|--------------------|---|-------------------|---------------------|---|-------------------|
| | Cost/ valuation | Accumulated depreciation and accumulated Impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated Impairment | Carrying value |
| Furniture and fixtures | 5 323 160 | (2 011 247) | 3 311 913 | 5 503 413 | (1 360 490) | 4 142 923 |
| Motor vehicles | 165 239 | (152 585) | 12 654 | 165 239 | (138 980) | 26 259 |
| Office equipment | 856 974 | (447 927) | 409 047 | 938 728 | (446 646) | 492 082 |
| IT equipment | 6 092 302 | (3 661 878) | 2 430 424 | 6 617 534 | (3 156 085) | 3 461 449 |
| Leasehold improvements | 25 150 967 | (11 643 848) | 13 507 119 | 24 191 993 | (6 259 361) | 17 932 632 |
| Leased assets | 794 494 | (594 629) | 199 865 | 815 879 | (355 418) | 460 461 |
| Work in progress | 6 950 558 | - | 6 950 558 | 56 397 | - | 56 397 |
| Total | 45 333 694 | (18 512 114) | 26 821 580 | 38 289 183 | (11 716 980) | 26 572 203 |

Reconciliation of property, plant and equipment - 2018

| | Opening Balance | Additions | Disposals | Depreciation | Impairment loss ¹ | Total |
|------------------------|--------------------|------------------|------------------|--------------------|---------------------------------|-------------------|
| Furniture and fixtures | 4 142 923 | 73 158 | (92 633) | (294 229) | (517 306) | 3 311 913 |
| Motor vehicles | 26 259 | - | - | (13 605) | - | 12 654 |
| Office equipment | 492 082 | 7 790 | (8 190) | (82 581) | (54) | 409 047 |
| IT equipment | 3 461 449 | 40 136 | (193 363) | (877 798) | - | 2 430 424 |
| Leasehold improvements | 17 932 632 | 958 974 | - | (5 384 487) | - | 13 507 119 |
| Leased assets | 460 461 | 36 774 | (32 363) | (265 007) | - | 199 865 |
| Work in progress | 56 397 | 6 894 161 | - | - | - | 6 950 558 |
| Total | 26 572 203 | 8 010 993 | (326 549) | (6 917 707) | (517 360) | 26 821 580 |

¹ The receivable service amount was based on the fair value less cost to sell. The fair value less cost to sell was zero due to the fact that upon requesting quotations, there were no interested buyers.

Notes to the Annual Financial Statements

Reconciliation of property, plant and equipment - 2017

| | Opening Balance | Additions | Disposals | Depreciation | Total |
|------------------------|-------------------|-------------------|------------------|--------------------|-------------------|
| Furniture and fixtures | 4 227 553 | 779 497 | (368 643) | (495 484) | 4 142 923 |
| Motor vehicles | 40 175 | - | - | (13 916) | 26 259 |
| Office equipment | 348 466 | 195 636 | (3 968) | (48 052) | 492 082 |
| IT equipment | 4 449 474 | 15 539 | (94 021) | (909 543) | 3 461 449 |
| Leasehold improvements | 3 655 227 | 18 058 994 | - | (3 781 589) | 17 932 632 |
| Leased assets | 800 169 | 101 017 | (185 597) | (255 128) | 460 461 |
| Work in progress | - | 56 397 | - | - | 56 397 |
| | 13 521 064 | 19 207 080 | (652 229) | (5 503 712) | 26 572 203 |

6. Intangible assets

| | 2018 | | | 2017 | | |
|-------------------|--------------------|---|-------------------|---------------------|---|-------------------|
| | Cost/ valuation | Accumulated depreciation and accumulated Impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated Impairment | Carrying value |
| Computer software | 19 615 865 | (12 577 842) | 7 038 023 | 20 966 171 | (10 000 541) | 10 965 630 |

Reconciliation of intangible assets - 2018

| | Opening Balance | Additions | Disposals | Amortisation | Total |
|-------------------|-----------------|-----------|-----------|--------------|-----------|
| Computer software | 10 965 630 | - | 3 | (3 927 610) | 7 038 023 |

The cost of the software was fully depreciated and the assets were written off.

Reconciliation of intangible assets - 2017

| | Opening Balance | Additions | Amortisation | Total |
|-------------------|-----------------|-----------|--------------|------------|
| Computer software | 15 195 495 | - | (4 229 865) | 10 965 630 |

Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|--|---------------|----------------|
| 7. Finance lease obligation | | |
| Minimum lease payments due | | |
| - within one year | 41 476 | 401 188 |
| - in second to fifth year inclusive | 11 760 | 21 317 |
| | 53 236 | 422 505 |
| less: future finance charges | (2 957) | (26 151) |
| Present value of minimum lease payments | 50 279 | 396 354 |
| Non-current liabilities | 55 516 | 20 633 |
| Current liabilities | 11 415 | 375 721 |
| | 66 931 | 396 354 |

The leased assets consists of tablets for the approved RSR staff, inspectors, executive management and non - executive directors. These assets are leased for a period of two years. The ownership will pass to RSR at the end of the lease period.

8. Payables from exchange transactions

| | | |
|------------------------------|-------------------|-------------------|
| Trade payables | 20 180 353 | 7 654 788 |
| Payments received in advance | 9 025 092 | 18 174 569 |
| Other payables and accruals | 6 254 659 | 11 582 611 |
| Accrued leave pay | 5 358 742 | 4 647 405 |
| Operating lease payables | 4 147 579 | 3 107 771 |
| 13th Cheque accrual | 549 590 | 547 454 |
| | 45 516 015 | 45 714 598 |

9. Provisions

Reconciliation of provisions - 2018

| | Opening Balance | Additions | Utilised during the | Reversed during the year | Total |
|--------------------------------------|------------------|------------------|---------------------|--------------------------|------------------|
| Performance Bonuses | 2 332 189 | - | - | (2 332 189) | - |
| Provisions for back pay ¹ | - | 1 907 197 | - | - | 1 907 197 |
| | 2 332 189 | 1 907 197 | | (2 332 189) | 1 907 197 |

¹ Regrading was performed for certain staff members during the 2017/18 financial year of which implementation was deferred to the 2018/19 year. The outflow which was expected in the 2018/19 year is uncertain due to the investigation of possible non compliance identified by the Board.

Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

Reconciliation of provisions - 2017

| | Opening Balance | Additions | Utilised during the | Reversed during the year | Total |
|---------------------|-----------------|-----------|---------------------|--------------------------|-----------|
| Performance Bonuses | 2 449 046 | 2 332 189 | (2 449 046) | - | 2 332 189 |

10. Safety permit fees

| | | |
|--------------------|--------------------|--------------------|
| Safety permit fees | 143 709 232 | 122 751 153 |
| Application fees | 6 722 527 | 6 031 155 |
| | 150 431 759 | 128 782 308 |

11. Interest received

| | | |
|-------------------------------------|------------------|------------------|
| Interest earned on bank balances | 2 096 959 | 1 061 724 |
| Interest earned on debtor's balance | 430 847 | 790 844 |
| | 2 527 806 | 1 852 568 |

12. Administration grant

| | | |
|---|-------------------|-------------------|
| Administration grant | 59 564 000 | 55 987 000 |
| Increased operational grant | 24 300 000 | - |
| Additional operational grant (investigations) | 4 000 000 | - |
| | 87 864 000 | 55 987 000 |

13. Other income

| | | |
|-------------------|----------------|------------------|
| Teta grant | - | 453 600 |
| Recoveries | 807 031 | 546 938 |
| Laptop recoveries | 87 117 | 94 310 |
| Tender income | - | 9 800 |
| | 894 148 | 1 104 648 |

Other income relate to additional revenue generated.

Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

14. Penalties¹

| | | |
|-----------|------------|---------|
| Penalties | 12 271 333 | 500 000 |
|-----------|------------|---------|

¹ Year on year increase due to up take in the number of contraventions issued and enforcement by the RSR. The penalty amounts were impaired (refer to note 19) due to impairment indicators identified at year end.

15. Technology audits

| | | |
|-------------------------------------|-------------------|-------------------|
| Technology reviews | 22 767 929 | 59 521 726 |
| Application fees-technology reviews | 618 300 | 312 000 |
| | 23 386 229 | 59 833 726 |

Technology review revenues were impaired (refer to note 19) due to impairment indicators identified at year end. Year on year reduction in this revenue line is due to the reduction of large projects compared to the prior year.

16. Employee related costs

| | | |
|-------------------------------------|--------------------|--------------------|
| Salaries | 93 357 997 | 88 440 158 |
| Performance Bonus | - | 2 332 189 |
| Medical aid - company contributions | 7 503 556 | 6 883 991 |
| Unemployment Insurance Fund | 712 414 | 668 758 |
| Other payroll levies | 56 633 | - |
| Leave pay provision charge | 711 337 | 727 282 |
| Pension fund contributions | 16 341 812 | 14 827 562 |
| Leave paid out | 235 159 | 306 993 |
| 13th Cheque | 1 208 990 | 1 165 447 |
| Acting allowances | 235 835 | 516 472 |
| Internship programme | - | 405 000 |
| Temporary personnel | 5 160 | 38 983 |
| South African Revenue Service | 42 338 874 | 39 291 706 |
| | 162 707 767 | 155 604 541 |

Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|--|-------------------|------------------|
| 17. Depreciation and amortisation | | |
| Depreciation | 7 435 067 | 5 503 711 |
| Amortisation Intangible Assets | 3 927 607 | 4 229 865 |
| | 11 362 674 | 9 733 576 |

18. Finance costs

| | | |
|--|---------|---------|
| Interest on late payments ¹ | 805 371 | 410 527 |
|--|---------|---------|

¹ An amount of R783 218 relates to a penalty charged for a late payment of PAYE to SARS. The remaining amount of R21 528 was for interest charged on late payment.

19. Debt impairment

| | | |
|---------------------------------------|-------------------|------------------|
| Allowance for impairment ¹ | 15 619 695 | - |
| Bad debts written off | 684 920 | 3 968 063 |
| | 16 304 615 | 3 968 063 |

¹ The debts impairment relates to the impairment provision for Technology Reviews (R8.8million) Penalties (R5.6 million) and Technical awareness workshop (R1.3 million).

Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|--|-------------------|-------------------|
| 20. General expenses | | |
| External Audit fees | 2 140 223 | 1 434 570 |
| Bank charges | 83 597 | 75 690 |
| Cleaning and hygiene services | 41 552 | 84 959 |
| Computer expenses | 1 385 415 | 1 952 428 |
| Personnel motivation values alignment | - | 14 510 |
| Catering - refreshments | 364 631 | 879 034 |
| Gifts | 5 990 | 262 793 |
| Insurance | 212 584 | 240 012 |
| Conferences and seminars | 2 591 322 | 1 764 713 |
| Railway safety outreach and awareness | 7 545 728 | 4 961 421 |
| Placement fees | 321 740 | 1 347 711 |
| Postage and courier | 104 227 | 190 034 |
| Printing and stationery | 120 585 | 654 145 |
| Protective clothing | 381 269 | 41 425 |
| Repairs and maintenance | 97 139 | 99 641 |
| Subscriptions and membership fees | 332 540 | 552 137 |
| Telephone and data | 5 768 251 | 3 607 445 |
| Training | 1 489 037 | 963 226 |
| Travel - local | 4 005 887 | 8 455 562 |
| Travel - international | 2 743 311 | 3 416 820 |
| Municipal services | 1 924 896 | 2 202 253 |
| Lease payment - Vehicles | 4 463 243 | 3 418 962 |
| Equipment rental | 11 668 | 293 751 |
| Corporate stationery | 209 885 | 17 311 |
| Office rental and services | 27 554 709 | 18 799 000 |
| Workmen's compensation | 213 197 | 166 658 |
| Affiliation fees | 21 234 | 44 423 |
| Library and literature | 349 554 | 724 479 |
| Non - Executive Directors Remuneration | 2 419 350 | 1 878 201 |
| Professional fees | 21 278 777 | 28 356 021 |
| Relocation cost | 321 211 | - |
| | 88 502 752 | 86 899 335 |

Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|-------------------|-------------------|
| 21. Auditors' remuneration | | |
| External Audit fees | 2 140 223 | 1 434 570 |
| 22. Cash generated from operations | | |
| Surplus (deficit) | 530 725 | (5 911 954) |
| Adjustments for: | | |
| Depreciation and amortisation | 11 362 674 | 9 733 576 |
| Interest income | (2 527 806) | (1 618 199) |
| Finance costs | 805 371 | 329 187 |
| Asset write off | 323 559 | 316 150 |
| Debt impairment | 16 304 615 | 3 968 063 |
| Movements in provisions | - | (116 848) |
| Other non - cash items | (10 509 798) | (2 300 608) |
| Changes in working capital: | | |
| Receivables from exchange transactions | (9 969 497) | (4 540 308) |
| Prepayments | (199 056) | (562 065) |
| Payables from exchange transactions | 11 098 485 | 16 223 254 |
| | 17 219 272 | 15 520 248 |
| 23. Commitments | | |
| Authorised operational expenditure | | |
| Total operational commitments | | |
| Professional fees ¹ | 5 964 927 | 4 269 462 |
| Communications ² | 7 435 792 | 10 726 356 |
| | 13 400 719 | 14 995 818 |

¹ Included in the contractual commitments are contracts in place by the end of the financial year.

² Included in communication commitments is the Telkom contract. RSR has a contract with Telkom for telephone and tablets.

Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|--|--------------------|--------------------|
| Operating leases - as lessee (expense) | | |
| Minimum lease payments due | | |
| - within one year | | |
| Building - Centurion | 3 673 182 | 9 033 507 |
| Building - Furniture and ICT equipment - Cape Town | 5 998 316 | 5 455 190 |
| Building - Furniture and ICT equipment - Durban | 11 115 620 | 10 109 140 |
| Building - Gauteng | 13 295 411 | 62 739 |
| Building - Port Elizabeth | 182 724 | - |
| Vehicle - Fleet | 3 251 465 | 3 374 688 |
| - in second to fifth year inclusive | | |
| Building - Centurion | 1 836 591 | 4 700 890 |
| Building - Furniture and ICT equipment - Cape Town | 16 739 979 | 22 540 571 |
| Building - Furniture and ICT equipment - Durban | 31 021 246 | 41 770 458 |
| Building - Gauteng | 61 272 155 | - |
| Building - Port Elizabeth | 15 227 | - |
| Vehicle - Fleet | 1 083 822 | 4 945 312 |
| | 149 485 738 | 101 992 495 |

Operating lease payments represent rentals payable by the RSR for its office properties. Leases are negotiated for an average term of five years and rental periods are fixed for an average of five years. No contingent rent is payable.

Contract amount disclosed include VAT at 15% .

Notes to the Annual Financial Statements

| Operating lease commitments | Start period | End period | Contract period | Total contract amount |
|--|-----------------|-------------------|-----------------|-----------------------|
| Building - Centurion | 01 January 2018 | 31 September 2019 | 21 | 6 372 172 |
| Vehicle - Fleet | 30 June 2014 | 30 June 2019 | 60 | 14 857 278 |
| Building - Furniture and ICT equipment - Durban | 01 January 2016 | 31 December 2020 | 60 | 65 071 405 |
| Building - Furniture and ICT equipment - Cape Town | 01 January 2016 | 31 December 2020 | 60 | 38 573 505 |
| Regional offices rental - Gauteng | 01 January 2018 | 30 December 2023 | 60 | 76 556 768 |
| Building - Port Elizabeth | 01 May 2017 | 30 April 2019 | 24 | 453 848 |
| | | | | 201 884 976 |

Contract amount disclosed will be affected by the 1% VAT increase from 1 April 2018.

24. Contingencies

Contingent Liabilities

1. Employee position down grade

The employee has lodged a job downgrading and career regression dispute against the employer. A claim of impairment of professional progress and economic detriment against the employer was lodged at the CCMA. The Commissioner presiding over the dispute has instructed the employer to resolve the dispute internally. In the unlikely event that the employee is successful the financial implication is estimated at R146 083.

2. Termination of employee contract

Following the termination of the contract of employment of a former employee, the party referred the dispute to the CCMA for unfair dismissal and requested reinstatement. The employer is intending to defend the case. In the event that the employee is successful a possible retrospective payment since termination is estimated at R550 628.

Notes to the Annual Financial Statements

25. Related parties

Relationships

| | |
|---------------------------|--|
| Executive Authority | Honourable Minister of Transport: Dr. BE Nzimande (MP) |
| Controlling entity | National Department of Transport |
| Members of key management | Nkululeko Poya - Chief Executive Officer ¹ Thanduxolo Fumbatha - Chief Operating Officer Tshepo Kgare - Executive Manager: Operational Intelligence and Planning ² Samuel Nxazonke - Executive Manager: Corporate Affairs ¹ Isaac Shai - Executive Manager: Legal Solly Kekana - Executive Manager: Occurrence Investigations ¹ Renaire Huntley - Executive Manager: Strategy and Business Development Regardt Gouws - Chief Financial Officer Hulisani Murovhi - Company Secretary Maria Kekana - Acting Chief Audit Executive Herman Bruwer - Acting Executive Manager: Office of the Chief Executive Officer Mmuso Selaledi - Chief Risk Officer |

¹ On precautionary suspension

² Acting Chief Executive Officer

Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

Related party balances

National Department of Transport

| | | |
|----------------------|------------|------------|
| Administration grant | 87 864 000 | 55 987 000 |
|----------------------|------------|------------|

PRASA

| | | |
|---|------------|------------|
| Permit fees | 27 872 508 | 26 294 596 |
| Technology audits | 8 982 163 | 18 624 138 |
| Technical awareness workshops | 137 900 | 811 200 |
| Penalties | 11 000 000 | - |
| Annual Railway Safety Conference (ARSC) | 50 000 | - |

| Amounts owed by key management | Opening balance | Loans advanced | Loans repaid | Closing balance |
|--------------------------------|-----------------|----------------|-----------------|-----------------|
| N Poya ¹ | - | 22 153 | (19 844) | 2 309 |
| S Nxazonke | 34 679 | - | (32 621) | 2 058 |
| | 34 679 | 22 153 | (52 465) | 4 367 |

¹ Recoveries for personal expenses incurred.

Notes to the Annual Financial Statements

Remuneration of management

Executive management

2018

| Name | Basic Salary | Medical aid and pension | Allowance | Total |
|--|-------------------|-------------------------|----------------|-------------------|
| N A Poya Chief Executive Office ¹ | 3 522 993 | 86 292 | 174 243 | 3 783 528 |
| T Kgare - Executive Manager: Operational Intelligence and Planning (Acting Chief Executive Officer) ² | 1 277 689 | 26 122 | - | 1 303 811 |
| S Kekana- Executive Manager: Occurrence and Investigation | 1 460 444 | 181 658 | 136 540 | 1 778 642 |
| R Gouws - Chief Financial Officer ³ | 1 396 112 | 118 109 | 120 | 1 514 341 |
| I Shai - Executive Manager: Legal | 1 903 884 | 209 608 | - | 2 113 492 |
| S Nxazonke - Executive Manager: Corporate Affairs | 2 067 625 | 93 628 | 1 320 | 2 162 573 |
| RS Huntley - Executive Manager: Strategy and Business Development | 1 748 649 | 194 737 | 5 110 | 1 948 496 |
| H Murovhi - Company Secretary | 1 660 805 | 32 246 | - | 1 693 051 |
| O Masogo - Chief Audit Executive ⁴ | 866 993 | 103 771 | - | 970 764 |
| TH Fumbata- Chief Operating Officer | 1 908 512 | 54 365 | 123 204 | 2 086 081 |
| M Kekana - Acting Chief Audit Executive ⁵ | 1 356 432 | 215 861 | 600 | 1 572 893 |
| B Bruwer - Acting Executive Manager: Office of the Chief Executive Officer ⁶ | 1 420 097 | - | - | 1 420 097 |
| M Selaledi - Chief Risk Officer | 1 309 727 | 110 234 | 480 | 1 420 441 |
| | 21 899 962 | 1 426 631 | 441 617 | 23 768 210 |

¹ On precautionary suspension effective 27 November 2017

² Acting CEO from 30 November 2017, was on unpaid leave for six months

³ Appointed on 1 May 2017

⁴ Resigned in November 2017

⁵ Appointed Acting Chief Audit Executive from 6 December 2017

⁶ Appointed Acting Executive Manager: Office of the Chief Executive Office 6 December 2017

Notes to the Annual Financial Statements

2017

| Name | Basic Salary | Bonuses and performance related payments | Medical aid and pension | Allowance | Total |
|---|-------------------|--|-------------------------|----------------|-------------------|
| N A Poya Chief Executive Officer | 3 276 260 | 230 010 | 77 766 | 72 621 | 3 656 657 |
| S Kekana - Executive Manager: Occurrence and Investigation ¹ | 1 247 029 | - | 159 921 | 3 988 | 1 410 938 |
| B Qweshia - Acting Chief Financial Officer ² | 1 549 756 | 84 418 | 141 367 | 1 785 | 1 777 326 |
| I Shai - Executive Manager: Legal | 1 598 563 | 105 561 | 178 975 | 1 785 | 1 884 884 |
| S Nxazonke - Executive Manager: Corporate Affairs | 1 707 758 | - | 84 374 | 5 955 | 1 798 087 |
| RS Huntley - Executive Manager: Office of the Chief Executive Officer | 1 650 760 | 116 596 | 179 562 | 48 125 | 1 995 043 |
| H Murovhi - Company Secretary | 1 549 021 | 101 935 | 25 169 | 1 785 | 1 677 910 |
| PC Moabelo - Chief Information Officer ³ | 997 904 | - | 18 788 | 2 121 | 1 018 813 |
| O Masogo - Chief Audit Executive | 1 193 186 | - | 146 528 | 2 385 | 1 342 099 |
| T Kgare - Executive Manager: Operational Intelligence and Planning ⁴ | 2 068 815 | - | 39 776 | 23 819 | 2 132 410 |
| TH Fumbata - Chief Operating Officer ⁵ | 1 781 389 | 127 042 | 49 732 | 56 540 | 2 014 703 |
| J Rakgoale ⁶ | 465 483 | - | 61 743 | - | 527 226 |
| | 19 085 924 | 765 562 | 1 163 701 | 220 909 | 21 236 096 |

¹ Rotated to Executive Manager: Occurrence Investigation from 01 November 2016

² Acting Chief Financial Officer, 20 January 2016. Basic salary include acting allowance

³ Resigned, 31 October 2016

⁴ Rotated to Executive Manager: Operational Intelligence and Planning from 01 November 2016

⁵ Rotated to Chief Operating Officer from 01 November 2016

⁶ Acting Chief Information Officer, from 01 December 2016. Basic salary include acting allowance

Notes to the Annual Financial Statements

26. Members' emoluments

Board members

2018

| | Emoluments | Allowance | Total |
|--|------------------|----------------|------------------|
| Dr. Nomusa Zethu Qunta (Chairperson) | 301 155 | 6 638 | 307 793 |
| Mr. Boy Jones Nobunga (Deputy Chairperson) | 83 521 | 39 518 | 123 039 |
| Mr. Christian Johan de Vos | 195 785 | 20 610 | 216 395 |
| Mr. Andre Harrison | 342 326 | 8 646 | 350 972 |
| Mr. Ngwako Makaepa ¹ | - | - | - |
| Major-General Michael Monash Motlhala ³ | - | - | - |
| Mr. Zacharia Ntate Mosothoane | 79 022 | 3 000 | 82 022 |
| Ms. Masaccha Mbonambi | 90 873 | 11 469 | 102 342 |
| Ms. Ntombizine Mbiza | 277 954 | 8 001 | 285 955 |
| Mr. Tibor Szana ² | - | - | - |
| Ms. Hilda Thamaga Thopola | 128 400 | 3 000 | 131 400 |
| Major-General (retired) Willem Venter | 136 603 | 56 398 | 193 001 |
| | 1 635 639 | 157 280 | 1 792 919 |

¹ Delegate from the National Department of Transport - not remunerated

² Delegate from the National Department of Labour - not remunerated

³ Delegate from South African Police Service - not remunerated

Notes to the Annual Financial Statements

2017

| | Emoluments | Allowance | Total |
|---|------------------|----------------|------------------|
| Mr. Thembelihle Msibi (Chairperson) ¹ | 57 608 | 3 500 | 61 108 |
| Dr. Nomusa Zethu Qunta (Chairperson) ² | 73 826 | 2 500 | 76 326 |
| Mr. Bongani Mahlalela (Deputy Chairperson) ¹ | - | - | - |
| Mr. Boy Jones Nobunga (Deputy Chairperson) ² | 63 215 | 29 682 | 92 897 |
| Mr. Christian Johan de Vos ² | 55 436 | 8 420 | 63 856 |
| Mr. Andre Harrison ³ | 208 565 | 8 490 | 217 055 |
| Mr. Ngwako Makaepa ⁴ | - | - | - |
| Major-General Michael Monash Motihala ⁶ | - | - | - |
| Mr. Zacharia Ntate Mosothoane ² | 33 456 | 1 250 | 34 706 |
| Ms. Masaccha Mbonambi ³ | 100 694 | 8 439 | 109 133 |
| Ms. Ntombizine Mbiza ³ | 175 284 | 10 839 | 186 123 |
| Mr. Tibor Szana ⁵ | - | - | - |
| Ms. Hilda Thamaga Thopola ² | 36 375 | 1 250 | 37 625 |
| Major-General (retired) Willem Venter ³ | 102 326 | 14 844 | 117 170 |
| Ms. Jane Barrett ¹ | 57 706 | 3 512 | 61 218 |
| Mr. Norman Baloyi ¹ | 48 162 | 1 750 | 49 912 |
| Dr. Natalie Skeepers ¹ | 71 305 | 6 074 | 77 379 |
| Mr. Herry Masindi ¹ | 70 713 | 1 750 | 72 463 |
| | 1 154 671 | 102 300 | 1 256 971 |

¹ Term of office ended 31 October 2016

² New Board members appointed 01 November 2016

³ Term of office ended 31 October 2016, reappointed as a Board member, 01 November 2016

⁴ Delegate from the National Department of Transport - not remunerated

⁵ Delegate from the National Department of Labour - not remunerated

⁶ Delegate from South African Police Service - not remunerated

Notes to the Annual Financial Statements

Non-executive

2018

| | Audit and risk committee fee claim | Cellphone and expenses claim | Total |
|---|------------------------------------|------------------------------|----------------|
| Mr. Ameen Amod (Independent Chairperson) | 228 766 | 3 000 | 231 766 |
| Ms. Desiree Nage (Independent Member) | 212 894 | 6 594 | 219 488 |
| Ms. Reshoketswe Ralebepa (Independent Member) | 172 138 | 3 000 | 175 138 |
| | 613 798 | 12 594 | 626 392 |

Refer to the governance section for the breakdown of the number of meetings attended.

2017

| | Audit and risk committee fee claim | Adhoc Committee fee claim | Cellphone and expenses claim | Total |
|---|------------------------------------|---------------------------|------------------------------|----------------|
| Mr. Ameen Amod (Independent Chairperson) | 103 944 | 87 479 | 3 000 | 194 423 |
| Ms. Desiree Nage (Independent Member) | 113 821 | 152 827 | 8 588 | 275 236 |
| Ms. Reshoketswe Ralebepa (Independent Member) | 56 963 | 91 603 | 3 000 | 151 566 |
| | 274 728 | 331 909 | 14 588 | 621 225 |

27. Prior period errors

1. Overstatement of revenue

In the 2016/17 financial year, invoices were raised for technology audits, technical workshops, permits and application fees. In the current year, some invoices that relate to the previous financial year were reversed. This resulted in revenue for 2016/17 being overstated. Further, interest relating to these invoices was reversed. The correction of the error(s) were accounted for retrospectively.

2. Correction of depreciation

In the current year, a depreciation correction was made as a result of the understatement of depreciation due to reassessment of asset useful life in 2016/17 financial year. This correction was accounted for retrospectively.

Notes to the Annual Financial Statements

Statement of financial position

| | As previously reported | Correction of error | Restated |
|--|------------------------|---------------------|--------------------|
| Receivables from exchange transactions | 11 000 045 | (168 525) | 10 831 520 |
| Payables from exchange transactions | (37 771 055) | (7 943 543) | (45 714 598) |
| Property plant and equipment | 26 907 909 | (335 705) | 26 572 204 |
| | 136 899 | (8 447 773) | (8 310 874) |

Statement of financial performance

| | As previously reported | Correction of error | Restated |
|---|------------------------|---------------------|--------------------|
| Revenue - Safety permits and application fees | 129 385 380 | (603 073) | 128 782 307 |
| Revenue - Technology Audit | 67 341 726 | (7 508 000) | 59 833 726 |
| Depreciation | (5 168 006) | (335 705) | (5 503 711) |
| Employee cost | 155 605 536 | (995) | 155 604 541 |
| | 347 164 636 | (8 447 773) | 338 716 863 |

28. Risk management

Financial risk management

RSR manages its net assets to ensure that it will be able to continue as a going concern, while meeting its overall objectives. Funding is obtained primarily from grants and the administration of permit fees. The strategy is consistent with that applied in prior years.

From its use of financial instruments, RSR has exposure to the following risks:

Credit Risk

Liquidity Risk

Market Risk

This note presents information about RSR's exposure to each of the above risks. Further quantitative disclosures are included throughout these financial statements. The Board has the overall responsibility for the development and oversight of RSR's risk management framework. The Board has established the Audit and Risk Committee which is responsible for the oversight on the development and monitoring RSR's risk management policies.

Notes to the Annual Financial Statements

RSR's risk management policies are established to identify and analyse the risks faced by RSR to set appropriate risk limits and controls and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in RSR's activities. RSR through its training and management standards and procedures aims to develop a disciplined and effective control environment in which all employees understand their roles and obligations. The Audit and Risk Committee oversees how management monitors compliance with RSR's risk policies and procedures, and review the adequacy of the risk management framework in relation to the risk faced by RSR. The Audit and Risk Committee is assisted in its oversight role by the Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures; the results of which are reported to the Audit and Risk Committee.

Debtors are assessed at year end for recoverability and the necessary provision for write off will be raised if deemed material

Liquidity risk

Liquidity risk is the risk that RSR will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk is considered medium due to difficulties experienced in meeting commitments as they fall due. A recapitalisation amount of R24 million was received from the National Department of Transport which assisted in maintaining the liquidity risk at medium and further backed by RSR's conservative funding structure and its ability to generate cash from permit fees. Management monitors rolling forecast of RSR's cash and cash equivalents on the basis of the expected cash flows. RSR engages with the rail operators on a continuous basis to ensure that it has the cash flows to meet the expected payments as they fall due .

As at 31 March 2018, current liabilities exceeded current assets.

Credit risk

The risk that a counterparty will not meet its obligations under financial instruments, leading to a financial loss. RSR is exposed

to credit risk from its operating activities, primarily for trade receivables. RSR's maximum exposure to credit risk as at 2018 was R4 061 063 (2017: R10 831 520).

Market risk

Market risk is the risk that changes in market prices such as interest rates, will affect RSR's income or the value of its holdings of financial instruments. The objectives of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return. RSR is then exposed to one primary type of market risk namely, interest risk.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rate. RSR's exposure to the risk of changes in market rates is limited to cash and cash equivalents that have floating interest rates which is negligible for the RSR.

Cash and cash equivalent

RSR only deposit cash with major banks with high quality credit standing. RSR, therefore, does not consider there to be any significant exposure to credit risk.

RSR utilised ABSA bank, for daily transactions which has a Baa2 rating as well as the reserve bank for investment purposes

Financial assets and Liabilities

RSR's principle financial assets are accounts receivables and cash and cash equivalents. At 31 March 2018, the carrying amounts of cash, accounts receivables and accounts payables approximated their fair values, due to the short term maturities of these assets and liabilities. The net fair value of the assets and liabilities of the RSR are stated below:

Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|--|-------------------|-------------------|
| Assets | | |
| Receivables from exchange transactions | 4 061 063 | 10 831 520 |
| Cash and cash equivalents | 10 326 446 | 300 040 |
| | 14 387 509 | 11 131 560 |
| Liabilities | | |
| Payables from exchange transactions | 45 516 015 | 45 714 598 |

29. Going concern

The Annual Financial Statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The entity experienced severe cash shortfalls during the year due to lower than expected revenue collections and unexpected costs. As part of mitigating the resulting risks, the entity prepared a financial recovery plan in order to obtain additional grant funding from the National Department of Transport (DoT) in order to fund its operations.

Going concern indicators are still expected to persist in the next financial year however the entity is confident that the interventions in its financial recovery plan and the support from DoT will adequately mitigate any future going concern risks.

30. Events after the reporting date

Non - adjusting:

A significant event has occurred after the reporting date of 31 March 2018 and before the last date of authorisation of the Annual Financial Statements, which is 31 July 2018, whereby the RSR has cancelled a significant contract, on 14 June 2018, relating to the leasing of regional office accommodation as disclosed in note 23 of the Annual Financial Statements.

An estimate of the financial effect of this event cannot be reliably estimated due to the fact that the RSR would still require office accommodation for these regions and due to the fact that the matter is not yet finalised as the supplier called for arbitration on the matter.

Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|------------------|----------------|
| 31. Fruitless and wasteful expenditure | | |
| Opening balance | 612 801 | 7 209 |
| Expenditure incurred during the year ¹ | 9 496 983 | 605 592 |
| Amount recovered | (362 650) | - |
| Amounts written off | (107 232) | - |
| | 9 639 902 | 612 801 |

¹ Investigations are underway to ascertain the possibilities of recouping funds incurred from internal stakeholders and/or suppliers.

Fruitless and wasteful expenditure breakdown

| | | |
|--|------------------|----------------|
| Interest on late payments to suppliers | 17 306 | 47 536 |
| Penalty on cancellation of contract | 118 387 | - |
| Penalty on late payments to SARS | 780 812 | 362 650 |
| Non delivery of services paid for | 2 963 843 | 195 406 |
| Legal services obtained which were not required | 153 321 | - |
| Contract signed exclusive of VAT whereas the bid submitted was inclusive of VAT of turn key office lease | 5 463 314 | - |
| | 9 496 983 | 605 592 |

32. Irregular expenditure

| | | |
|---|-------------------|------------------|
| Opening balance | 2 679 467 | 1 751 085 |
| Add: Irregular Expenditure - current year | 12 004 593 | 487 332 |
| Add: Irregular Expenditure - prior year discovered current year | 2 713 331 | 967 637 |
| Less: Amounts condoned | (2 628 387) | (526 587) |
| | 14 769 004 | 2 679 467 |

Notes to the Annual Financial Statements

| Details of irregular expenditure - current year (2018) | Status ¹ | Total |
|--|---------------------|-------------------|
| Over-expenditure on a contract without approval for software license fees | Under investigation | 24 829 |
| Over-expenditure on a contract without approval for marketing related services | Under investigation | 1 576 400 |
| Non compliance to SCM processes in sourcing services for the facilitation of a commuter engagement forum and media support | Under investigation | 130 000 |
| Approval for legal services not obtained from the delegated authority and not following proper procurement processes | Under investigation | 847 229 |
| Approval for extension of fleet contract not obtained from the delegated authority | Under investigation | 2 039 829 |
| Over-expenditure on a contract without approval for furniture removal services | Under investigation | 18 829 |
| Deviation approval for bursaries not obtained from the delegated authority, including related expenditure | Under investigation | 21 402 |
| Contract amount exceeded by 15% without obtaining approval from the relevant delegated authority for lease of building and related expenditure | Under investigation | 6 544 565 |
| Entertainment or personal expenditure incurred in contravention of NT guidelines | Under investigation | 128 173 |
| Contract amount exceeded by 15% without obtaining approval from the relevant delegated authority for risk assessment services | Under investigation | 423 337 |
| Vehicle allowances allocated in contravention of approved policy | Under investigation | 250 000 |
| | | 12 004 593 |

¹ Draft investigation reports near completion to ensure appropriate consequence management is applied

Notes to the Annual Financial Statements

| Details of Irregular Expenditure - Prior year discovered in the current year (2016 -2015) | Status¹ | Total |
|--|---------------------------|------------------|
| Non compliance to supply chain processes in sourcing services of an HR firm to conduct audit of HR related policies in May 2014. | Under investigation | 89 200 |
| Non compliance to supply chain processes in sourcing services for staff coaching | Under investigation | 145 000 |
| Non compliance to supply chain processes in sourcing services for facilitation of strategic sessions | Under investigation | 61 537 |
| Non compliance to supply chain processes in sourcing services of a service provider to supply emergency response guidebooks | Under investigation | 684 |
| Non compliance to supply chain processes in sourcing services of an HR firm to conduct a disciplinary hearing | Under investigation | 22 823 |
| Variation of contract for forensic services over the stipulated 15% threshold | Under investigation | 24 000 |
| Over-expenditure on a purchase order without approval to conduct job evaluations | Under investigation | 14 250 |
| Approval for travel not obtained | Under investigation | 275 928 |
| Approval for legal services not obtained from the delegated authority | Under investigation | 91 196 |
| Approval for extension of fleet contract not obtained from the delegated authority | Under investigation | 1 387 659 |
| Deviation approval for bursaries not obtained from the delegated authority, including related expenditure | Under investigation | 97 020 |
| Entertainment or personal expenditure incurred in contravention of NT instructions | Under investigation | 6 034 |
| Procurement process followed for provisioning of training services were not fair, equitable, transparent, competitive and cost effective | Under investigation | 498 000 |
| | | 2 713 331 |

¹ Draft investigation reports near completion to ensure appropriate consequence management is applied.

| Details of irregular expenditure condoned | Condoned by the Board | |
|---|-------------------------------------|------------------|
| Expenditure incurred outside of approved contract amount relating to software licenses for digitisation of operator records | Condoned by the Board (29 May 2017) | 1 545 035 |
| Expenditure incurred without following SCM processes for the supply of ICT services | Condoned by the Board (29 May 2017) | 647 100 |
| International Travel not approved by delegated authority | Condoned by the Board (29 May 2017) | 436 252 |
| | | 2 628 387 |

Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---------------------------------|-------------------|-------------------|
| 33. Professional fees | | |
| Internal Audit | 661 786 | 564 035 |
| Regulations and Governance | 3 639 441 | 2 959 760 |
| Board of Enquiry | 4 002 090 | 501 902 |
| Business Consultants | 1 996 239 | 8 755 727 |
| Risk Management | 2 636 160 | 403 616 |
| Research | 2 995 920 | 355 885 |
| Board Support | 575 700 | 330 973 |
| ICT Support and Improvement | 559 241 | 5 831 174 |
| Security Systems | 402 589 | 262 682 |
| HR Training and Development | 3 520 025 | 547 729 |
| Operations Support ¹ | - | 7 269 261 |
| Finance Support | 289 586 | 573 277 |
| | 21 278 777 | 28 356 021 |

¹ Reduced due to nature of expenditure that related to Governance and Consultants.

Notes to the Annual Financial Statements

34. Budget differences

Revenue Movements

- **Application Fees - R1 322 873**
The under generation of revenue is due to budgeted amounts which incorrectly included temporary safety permits received in the prior year. Another contributing factor was a number of operators who elected single permits.
- **Interest received - R957 806**
Large operators paid permit fees earlier than expected resulting in the organisation holding positive cash balances for longer.
- **Other Revenue - R9 317 608**
In an attempt to increase revenue, the entity provides rail related support to SADC countries. This being a new revenue stream, the anticipated uptake did not yield the expected revenue resulting in the under generation of revenue.
- **Technical awareness workshops - R1 333 510**
The under generation of revenue is due to the operator training numbers which did not take up as expected.
- **Technology audits - R5 413 771**
The under generation of revenue is due to large operators experiencing unexpected delays in initiating procurement and executing rail projects. The entity experienced year on year decline due to the reduction of new projects.
- **Administration grant - R28 300 000**
The entity received an additional operational grant of R24.3 million for recapitalisation purposes as well as R4 million for expenditure related to the establishment of a Board of Inquiry and other investigations.
- **Penalties**
The entity did not budget for penalties. During the year, additional regulatory effort has resulted in the year on year increase in collection of penalty revenue.
- **Other income**
The entity did not budget for amounts received for SARS refunds, bonus recoveries, laptop recoveries and conference hosted.

Expenditure Movements

- **Non - Executive Directors - R877 850**
The R4 million budget projected that the hourly rates for the Board members would increase in the 2017/18. The new rates requested have not been approved by the National Treasury in the 2017/18 FY hence the saving on the Board remuneration.
- **Depreciation and Amortisation - R11 362 674**
This is a non cash item which is not budgeted for.
- **Loss on disposal of assets - R323 559**
This is a non cash item which is not budgeted for.

Notes to the Annual Financial Statements

- **Finance cost - R805 371**

Finance cost are as results of interest levied on late payment of account this item is not budget for.

- **Office rental - R8 173 071**

The original budget of R26.9 million did not make adequate provision for activation costs for the new Gauteng Office and the extension of the Head Office lease, which management made a priority. In order to provide adequate funding for activation costs the budget were shifted during the year to capital expenditure. The over expenditure is therefore as a result of management's under estimation of anticipated costs related to the offices.

- **Vehicle lease rental - R569 276**

The over expenditure is as a result of charges on excess kilometers travelled per month.

- **Debt impairment - R16 304 615**

This is a non cash item which is not budgeted for.

- **Consulting and professional fees - R8 257 630**

The over expenditure is as a result of contractual obligations entered into but not budgeted for.

- **External audit fee - R440 223**

The over expenditure is as a result of overlapping of the 2016/17 audit fees into the 2017/18 financial year.

- **General expenses - R10 764 929**

The savings were realised as a result of cost containment measures implemented during the year, in particular travel related expenses.

- **Capital Expenditure**

The original budget of R1 million was adjusted by R6.5 million resulting to a revised budget of R7.5 million as this did not make adequate provision for office rental lease hold improvements. The actual expenditure incurred has been capitalised in the statement of financial position amounting to R6.9 million. The under expenditure is as a result of ICT related equipment that were originally budgeted for, but not procured.

Board members qualifications

| Names | Qualifications |
|---------------------------------------|--|
| Dr Nomusa Zethu Qunta | PHD (WITS), MBA (University of Oxford Brookes), MCom (UP), BCom Hons (UP), B Admin (UNIZULU), Certificate: Public Sector Corporate Governance (UNISA) |
| Mr Boy Johannes Nobunga | BCom Hons (UWC), Advanced Diploma: Economic Policy (UWC), Diploma: Public Relations (IAC), Certificate: Economics and Public Finance (UNISA) |
| Ms Tshepo Kgare | Post Graduate Diploma in Traffic and Transportation (Nottingham Trent University, UK), Diploma in Road Safety (Lund University, Sweden), NDip: Civil Engineering (Vaal Triangle Technikon), Certificate: Risk Management (UCT) |
| Ms Ntombizine Mbiza | LLB: University of Middelsex (UK), BA: International Relations (UNISA) |
| Ms Masaccha Mbonambi | BCom Hons (UKZN) with articles, Bachelor Degree: Accounting (UKZN), Certificate: Board Governance (Corporate Governance and King III) (UJ), Certificate: Risk Management (UCT) |
| Mr Andre Harrison | MBA (UCT), Bachelor of Philosophy: Knowledge Management (Stellenbosch), NDip for Technicians (CPUT), Certificate: Logistics Management (UP) |
| Major-General Willem Venter (Retired) | Masters in Public Administration (UP-cum laude), B Law (UNISA-cum laude), BProc (UNISA-cum laude), NDip: Police Administration, NH Cert: Police Administration, Member of Golden Key International Honour Society, Executive Public Management Development Programme (UP-cum laude), Certificate in Public Relations (PRISA) |
| Mr Tibor Szana | NH Dip: Mechanical Engineering (CPUT), Executive Development Programme (PALAMA) |
| Mr Ngwako Makaepea | Master of Management in Public Policy (Wits), BA Honours (Political Science) (UP), BA Honours (History) UP), BA, (Univen) |
| Mr Zacharia Mosothoane | Dip: Transportation Management (UJ) |
| Major-General Monash Michael Motthala | BTech: Policing (TUT), NDip: Policing (UNISA), NDip: Police Administration |
| Mr Christiaan Johan De Vos | Adv Dip: Labour Law (UJ), Dip: Conciliation and Mediation (CCMA), Cert: Labour Relations (UP), Cert: Labour Relations for Trade Union Officials (UP) |
| Ms Hilda Thamaga Thopola | Masters: Pubic Health in Occupational Hygiene (WITS), HDip: Environmental Health (TUT), HDip: Occupational Health and Safety Management (POTCH), Dip: Environmental Health, Cert: Environmental Law, Total Quality Management (UNISA), Senior Management Development in Business Administration (USB) |
| Mr Hulisani Murovhi | Masters: Public Development and Management (WITS), BProc (UWC), HDip Tax (UJ), Dip Corporate Law (UJ), ICSA Programme in Strategic Management and Corporate Governance (UNISA), Certificate Programme in Compliance Management (UJ), Admitted Attorney |

NOTES



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