

1. SECTION 10: Summary of detailed audit findings

No.	Finding	Classification					Rating			Effect of the Finding on the Organisation: 1. Cost or loss incurring. 2. Wasteful Expenditure	Consequence management & action required.
		Misstatements in annual performance	Misstatements in annual performance	Non-compliance	Internal control deficiency	Service delivery	Matters affecting	Person Required to take Corrective Action	Affected		
1	<p>Non-disclosure of current and prior year irregular and fruitless and wasteful expenditure (Corp Cof 79).</p> <p>During the audit of irregular and fruitless and wasteful expenditure, we noted that irregular and fruitless and wasteful expenditure identified and relating to the 2016/17 and prior financial years was not all disclosed in the 2016/17 financial statements as required by the PFMA.</p> <p>The 2016/17 audit of PRASA commenced in October 2016 and included regional and corporate office audits. During the duration of the audit and prior to submission of the annual financial statements a number of findings identifying irregular and fruitless and wasteful expenditure was identified.</p> <p>During the audit steering committee meetings on 1 November 2017 and 17 November 2017 and other engagements with management, the AGSA continuously highlighted to the executives that all available information, including prior year reports,</p>	X					X	Y P	BoC/AGCE O	<p>1. PRASA must put in place an adequate system for identifying and disclosing all irregular and fruitless and wasteful expenditure.</p> <p>2. AGCFO must disclose all irregular expenditure for the current year and prior year.</p>	

	<p>investigation reports and payment details should be used to determine and ensure that irregular and fruitless and wasteful expenditure that is disclosed in the adjusted annual financial statements (AFS) is complete.</p> <p>The adjusted AFS were received on the 28th of November 2017, following which we performed additional tests on the completeness of the disclosure of irregular and fruitless and wasteful expenditure and identified expenditure relating to both categories for the current and prior years that have not been disclosed. As the entity is currently undergoing a number of investigations relating to supply chain management matters and as confirmed by the Acting Group CFO and Acting Group CEO on 4 December 2017, the PRASA group did not have an adequate system for identifying and disclosing all irregular and fruitless and wasteful expenditure, there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all irregular and fruitless and wasteful expenditure had been properly recorded in notes 41 and 42 to the separate and consolidated financial statements.</p>									
2	<p>Financial sustainability of PRASA (Corp CoF 78)</p> <p>During the audit of PRASA the following was identified regarding the financial sustainability of the entity:</p> <ul style="list-style-type: none"> The entity and group has incurred a loss of R1,7 billion and R1,3 billion respectively for the year ended 31 March 2017. The accumulated loss as at 31 March 2017 is R4,4 billion for the entity and R4,5 billion at group level. 			X		X	Y	BoC/AGCE P O		<p>1.Prasa to table a plan for meeting its short-term financial commitments to sustain operations.</p> <p>2.Prasa to disclose to AG financial sustainability challenges faced by the entity and group.</p> <p>3. Establish implications for compliance to SARS</p>

	<ul style="list-style-type: none"> • Although PRASA's statement of financial position includes a balance of cash and cash equivalents of R12,3 billion (entity) it is noted that a significant portion (approximately R10,8 billion) of this balance relates to the capital subsidy received. This capital subsidy is ring-fenced for capital expenditure and cannot be utilised to fund operations. • Excluding the ring-fenced capital amounts, the entity and group is in a net liability position. • The declining financial performance is further evident in the cash outflows from operations of R2,3 billion and R2,4 billion for entity and group respectively. • The acid test ratio (liquid assets as a percentage of total current liabilities excluding the ring-fenced capital amounts) is -18.8%%. • The current ratio is -24%. • The total debt to total equity ratio is -1. • It is further noted that there was no disclosure in the annual financial statements highlighting the financial sustainability challenges faced by the entity and group. <p>There is a risk that PRASA may have difficulty meeting its short-term financial commitments to sustain operations.</p>																																		<p>regulations where stated operational cash outflows (of R2,3 billion and R2,4 billion) have been found for entity and group, respectively.</p> <p>4. Prasa to notify SARS of any implications to the above cash outflows referred to above.</p>
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	Procurement and contract management							
3	<p>Procurement and contract management - Werkmans (Corp CoF 7)</p> <p>The following information for the tender awarded to the supplier as reflected below was requested in request for information 6 – Corporate SCM on the 23rd of February 2017 and remains outstanding:</p> <ul style="list-style-type: none"> • Advertisement of the tender; • Minutes of the compulsory briefing session; • Register for the compulsory briefing session; • Closing bid register; • Unsuccessful bidders' documents • The appointment letters for the members of the Bid Specification Committee, Bid Evaluation Committee and the Bid Adjudication Committee; • Attendance register and minutes of the Bid Specification committee; • Attendance register and minutes of the Bid Evaluation committee; • Report of the Bid Evaluation committee; • Actual scoring sheets of the members of the Bid Evaluation committee; • Attendance register and minutes of the Bid Adjudication committee; • Report of the Bid Adjudication committee; • Appointment letter of successful bidder. <p>This panel was compiled by SARCC and no SCM process was followed by PRASA in the set-up of the panel. Further, there is no SCM policy followed when selecting suppliers from this panel, it is done based on the preference of the user. Therefore, the method used to select the service provider is not fair, equitable, transparent, competitive and cost</p>	X		X	L Z	CS		<p>1. Company Secretariat to furnish the AGSA with all outstanding information.</p> <p>2. Company Secretariat must present to AG a deviation that was approved by the Board with regards to the appointment of Werkmans.</p> <p>3. Terminate outsourcing of services through the SARCC Policy.</p> <p>4. Prasa EXCO to reach a compromise between the 2009 and 2016 SCM Policy.</p> <p>5. Board to approve final SCM Policy and adherence to Prasa SCM Policy be observed.</p>

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	<p>effective and does not comply with the requirements of S.51(1)(a)(iii) of the PFMA because of the following:</p> <ul style="list-style-type: none"> Not all the services providers in the list/panel were given fair chance to participate/bid as the services were confined to Werksmans Attorneys. 									
4	<p>SCM process not followed on the appointment of service provider – Neotel (Corp CoF 16)</p> <p>The following information for the purchase orders as reflected in the table below was requested in request for information 6 – Corporate SCM on the 23rd of February 2017 and was due on 28 February 2017. The following information remains outstanding:</p> <ul style="list-style-type: none"> Advertisement of the tender; Minutes of the compulsory briefing session; Register for the compulsory briefing session; Closing bid register; Successful and Unsuccessful bidders' documents The appointment letters for the members of the Bid Specification Committee, Bid Evaluation Committee and the Bid Adjudication Committee; Attendance register and Minutes of the Bid Specification committee; Attendance register and Minutes of the Bid Evaluation committee; Report of the Bid Evaluation committee; Actual scoring sheets of the members of the Bid Evaluation committee; 		X			X	C	ACIO/AGC M FO		<p>1. Disclose all the payments made to the service provider from initial stage up to date. Except for an amount of R13 504 629 was disclosed.</p> <p>2. Furnish AG with all outstanding information.</p>

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	<ul style="list-style-type: none"> Attendance register and Minutes of the Bid Adjudication committee; Report of the Bid Adjudication committee; Appointment letter of successful bidder; Contract/ service level agreement and approval of extension of contracts. Proof of payment from Inception of the contract to date (SAP Report). 									
5	<p>Appointment of service provider not fair, equitable, transparent, competitive and cost-effective, – Sekela Xabiso (Corp CoF 18)</p> <p>The following information for the purchase order as reflected in the table below was requested in request for information 11 – Corporate SCM on the 9th of March 2017 and due on 14 March 2017. The following information remains outstanding:</p> <ul style="list-style-type: none"> Approval of the contract extension Pre-approval from National Treasury in the case of a deviation The initial scope of work The scope of work for the extension The contract/service level agreement. <p>The file was submitted for audit and after careful considerations and audit assessment it was identified that the variation of the consortium contract was as a result of the poor planning because of the following:</p> <ul style="list-style-type: none"> The contract came to an end on the 31st of August 2016 therefore the procurement process was supposed to be initiated 6 months before the expiry of the contract. 		X			X	C M	ACIO		1.ACIO to provide AGSA with all outstanding information immediately for review

	<ul style="list-style-type: none"> •The contract had expired on the 31st of August 2016 therefore it could not be extended as it had already expired. •The reason for confining the services to Sekela Xabiso Consortium was that the procurement process took longer than expected which was 9 months from the date of the expiry of the initial contract which is not reasonable. •The other service providers were not given a fair chance to participate as the services were confined to Sekela Xabiso Consortium which is not in line with section 217 of the Constitution of the Republic of South Africa. •The variation of the contract is irregular and all the amounts paid to the service provider after the expiry of the contract must be disclosed in the irregular expenditure register and note to the Annual Financial Statement. 									
6	<p>Due process was not followed in the appointment of the service providers – Legal Panel (Corp CoF 32)</p> <p>The following information for the payments as reflected in the table below was requested in request for information 13 – Corporate SCM on the 19 of June 2017 and due on 21 June 2017. The following information remains outstanding:</p> <ul style="list-style-type: none"> •Advertisement of the tender; •Minutes of the compulsory briefing session; •Register for the compulsory briefing session; •Closing bid register; •The winning bidders’ submission; •The appointment letters for the members of the Bid Specification Committee, Bid Evaluation Committee and the Bid Adjudication Committee; 		X			X		ACPO/GE: Legal		<p>1.On the 1st of December 2017 the Board resolved to suspend the service of the legal panel and mandated SCM to advertise a tender for prospective service providers to serve as legal panels for PRASA.</p> <p>2.The Board mandated PRASA to utilise the services of the legal panel from the South African Civil Aviation Authority whilst the tendering process is going on.</p>

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	<ul style="list-style-type: none"> •Attendance register and minutes of the Bid Specification Committee; •Attendance register and minutes of the Bid Evaluation Committee; •Report of the Bid Evaluation Committee; •Actual scoring sheets of the members of the Bid Evaluation Committee; •Attendance register and minutes of the Bid Adjudication Committee; •Report of the Bid Adjudication Committee; •Appointment letter of successful bidder; •Contract/ service level agreement. 									
7	<p>Utilization of a Mobile Services Provider without following complete process and having an active contract in place (Corp CoF 3):</p> <p>During the audit of supply chain management at PRASA Corporate, the AGSA identified the following matters:</p> <p>1.PRASA entered into the contract with the service provider on the 13 June 2008 for a period of thirty-six (36) months; and thereafter the contract was extended on a month to month basis as per the aforementioned appointment letter quoted in the background paragraph without PRASA going out on tender to appoint a new service provider.</p> <p>2.There is no active contract or agreement between PRASA and the service provider as the last agreement expired on 31 August 2015, however PRASA is currently utilizing the service provider and making payments to the service provider without an agreement.</p>		X			X		ACIO	<p>1.The aforementioned transaction results in irregular expenditure.</p> <p>2.There is a risk that the register of irregular expenditure is not complete and the financial statements may be misstated.</p>	<p>1.Discontinue month-to-month contract with MTN.</p> <p>2.PRASA to engage Vodacom for Mobile Services based on the National Treasury Mobile services transversal contract.</p>

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	3. There is no evidence which shows that PRASA has complied with the National Treasury Instruction Note 2 of 2016/2017: Cost Containment with regards to expenses related to telephone, cellular phones and data facilities and the appointment of the service provider.								
8	<p>Service provider appointed without due process - Provision of VIP Protection Services (Corp CoF 2)</p> <p>Based on the documents submitted for inspection, during the audit of supply chain management at PRASA Corporate, the AGSA has identified that the service provider used at PRASA to render protection services was sourced through a system which is not fair, equitable, transparent, competitive and cost-effective as required by Section 217 of the Constitution of the Republic of South Africa and Section 51(1) of the Public Finance Management Act (PFMA), as the appointment was not done through a competitive process.</p> <p>The PRASA SCM policy was not adhered to when sourcing emergency security. Quotations were not obtained to ensure a competitive process.</p> <p>Furthermore, the contract was extended increasing the liability of PRASA in excess of the 10% limit.</p>		X			X			<p>1. The aforementioned transaction results in irregular expenditure.</p> <p>2. There is a risk that the register of irregular expenditure is not complete and the financial statements may be misstated</p>
9	<p>Appointment of the Travel Agent through the RFQ process instead of following the competitive bidding process and the continued use of the services of the Travel Agent after the expiry of the contract (Corp CoF 10)</p>		X			X	Matshidiso Mosholi		Prasa should re-instate the contract from National Treasury until the procurement process is finalized.

	<p>During the audit of supply chain management, the AGSA noted the following:</p> <p>1.PRASA has sourced a Travel Management Company through a Request for Quotation process when the service value was above the quotation threshold (R350 000) as per the 2014 SCM Policy which was applicable at that time. The contract was entered into with the service provider for a period of (3) months, effective from 1 June 2016 and ending 31 August 2016.</p> <p>2.There is no active contract between PRASA and the service provider as the agreement expired on 31 August 2016, however PRASA is currently utilizing the service provider and making payments to the service provider without a signed agreement.</p> <p>Management response noted however the finding remains due to the following:</p> <p>1.The amount as indicated in the finding relates to the admin fee which excludes the travel costs and passes, this was drawn from the TWF statement submitted to finance which was requested for this particular finding and which consist of only the admin fee.</p> <p>2.The reason for the appointment of the service provider for 3 months was to allow the time for PRASA to go out on a tender however this was not finalised and the variation of this contract results in irregular expenditure as other services providers were not given fair chance to participate as the services are confined to TWF which result in non-compliance with section 217 of the Constitution of the Republic of South Africa.</p>																																		<p>2.Finalise procurement process and appoint a Travel Management Agent.</p> <p>3.Capacitate Travel Management Unit with personnel understanding travel functions.</p>
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<p>10</p>	<p>Contract awarded to the bidder who did not score the highest total number of points (Corp CoF 12)</p> <p>During the audit of supply chain management at PRASA Corporate, the following was noted while reviewing quotations: The quotation was awarded to Scan Display Solutions who did not score the highest total number of points and objective criteria was not applied as required by the Preferential Procurement Regulations of 2011 and Preferential Procurement Policy Framework Act No 5 of 2000.</p> <p>Paragraph 12.8.9 of the PRASA SCM Policy, 2014 states that: “Any Variation of Contracts that amounts to extension of scope of work and/or increasing the liability of PRASA shall be limited to 10% of the value of the contract and shall be recommended by the CPO for approval by the GCEO subject to the delegation of authority of the GCEO”</p> <p>During the audit of procurement and contract management at PRASA Corporate, it was identified that there is a contract where the total payments exceeded the contract value without any evidence of approval of the extension and/or scope of work.</p> <p>The accounting authority did not take effective steps to prevent irregular and fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA.</p>			<p>X</p>			<p>X</p>			
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<p>11</p>	<p>Payments made to service providers in excess of the contract amounts (Corp CoF 13)</p> <p>Paragraph 12.8.9 of the PRASA SCM Policy, 2014 states that: “Any Variation of Contracts that amounts to extension of scope of work and/or increasing the liability of PRASA shall be limited to 10% of the value of the contract and shall be recommended by the CPO for approval by the GCEO subject to the delegation of authority of the GCEO”</p> <p>During the audit of procurement and contract management at PRASA Corporate, it was identified that there is a contract where the total payments exceeded the contract value without any evidence of approval of the extension and/or scope of work.</p>		<p>X</p>		<p>X</p>	<p>AGCEO</p>		<p>1.PRASA to recover an amount of R292 232,18 overpaid to the service provider.</p>
<p>12</p>	<p>Payment made to a supplier which is above the approved amount and for services which were not needed at PRASA for the financial year 2016/17 (Corp CoF 14)</p> <p>During the audit of procurement and contract management at PRASA Corporate, we identified the following matters:</p> <p>The Supply Chain Management division requested the approval of funds to the total value of R7 000 from the Acting Group CEO (Mr Nkosinathi Khena) to pay the service provider, Ezee-Dex Industrial Procurement Services (Pty) Ltd, for the cleansing of the supplier database. The PR Number: 10216332 was raised with the amount of R7 000 (As per the approved memorandum) however the actual payment made to the supplier is R285 000. This results in irregular expenditure.</p>		<p>X</p>		<p>X</p>	<p>AGCEO</p>		<p>PRASA Accounting Authority to recover the total amount of R285 000 paid to the service provider as follows:</p> <ol style="list-style-type: none"> 1. R278 000, an amount of overpaid to service provider. 2. An amount of R7 000 from the service provider since the cleansing project was never performed.

<p>During the 2016/17 financial year PRASA was inviting and accepting price quotations from the National Treasury Central Supplier Database (CSD), however they have paid R285 000 to the aforementioned supplier in paragraph 1 for the cleansing of the in-house supplier database which is not in use.</p> <p>The quotation from the service provider is dated 2 February 2016 and by this period the National Treasury Circular No 3 of 2015/2016 on the Central Supplier Database was already disseminated to Accounting Authorities. PRASA was aware that from the 1st of April 2016 they were required to make use of the National Treasury Central Supplier Database, however PRASA went ahead with the cleansing of the in-house supplier database even though they were aware that they were not going to use this as from 1 April 2016.</p> <p>Since the in-house supplier database was not in use in the current financial year the costs incurred could have been avoided had reasonable care been exercised.</p> <p>Management response noted and the finding remains as accepted by the management, it was further identified from the management response that the payment was made to the service provider for no service being rendered and the amount paid to the supplier was above what the Group Chief Executive Officer approved which indicates that the PRASA resources was not used efficiently. This matter must be investigated and the Accounting Authority must take appropriate steps to recover this money.</p>									
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13	<p>Extension of the service provider’s contract (Corp CoF 20)</p> <p>BACKGROUND PRASA ICT went on an open tender in July 2013 for the appointment of a service provider to rectify SAP Time Management module issues that had been inherent in the system since implementation in April 2010 for Intersite, PRASA Cres, Autopax, PRASA Corporate and PRASA Technical. The aim of the project was to resolve issues pertaining to leave configuration: •data inconsistencies and inaccuracies •leave reports and employee leave balances in the SAP system and •to allow the organisation to account accurately for the leave provision in the balance sheet.”</p> <p>During the audit of procurement and contract management at PRASA Corporate, the following was noted:</p> <p>PRASA has appointed a service provider through a confinement process by extending a contract they had with the service provider. The contract had expired 15 months before the extension. <i>It is further noted that the extension of the contract has a different scope of work from the initial contract.</i></p> <p>The extension exceeded the 10% limit provided for in the SCM policy.</p>		X		X	ACIO/ACP O		<p>1.Contract with service provider should be terminated.</p> <p>2.Proper tender process be followed for outsourcing of service provider.</p>
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<p>14</p>	<p>Non- Compliance with National Treasury SCM Instruction Note 3 of 2016/17 – Deviation from the normal bidding process without the required approval (Rail KZN CoF 4)</p> <p>The Standard Operating Procedures which read with the PRASA SCM Policy:” Acquisition Manager reviews the quotation process prior approval of the supplier and insures that there was a minimum of three suppliers”</p> <p>During the audit of supply chain management at PRASA Rail KZN, the following was noted while reviewing quotations:</p> <p>The Goods and Services were sourced through a deviation process without obtaining the prior written approval from the relevant treasury as per National Treasury Instruction Note 3 of 2016/17.</p>		<p>X</p>		<p>X</p>			
<p>15</p>	<p>The contract was awarded to the bidder who did not score the highest total number of points – Non-compliance with Preferential Procurement Regulations of 2011(Rail KZN CoF 2)</p> <p>During the audit of supply chain management at PRASA Metrorail KZN, the following was noted while reviewing quotations:</p> <p>The quotation was awarded to Imvusa Trading 1491 cc who did not score the highest total number of points and the objective criteria was not applied as required by Preferential Procurement Regulations of 2011.</p>		<p>X</p>		<p>X</p>	<p>SCM Manager</p>		<p>1. Management should rectify the correspondence to all suppliers</p> <p>2.Management should indicate clearly that material safety data sheet (MSDS) as will used for functionality.</p>

<p>16</p>	<p>Goods and Services where procured through a system which is not transparent – Non-compliance with section 51 of the PFMA and section 217 of the constitution of the Republic of South Africa (Rail KZN CoF 3)</p> <p>During the audit of supply chain management at PRASA Rail KZN, the following was noted while reviewing quotations:</p> <p>The suppliers were invited to submit the bids/quotations and submitted the quotations: However, these quotations were not evaluated at the closing date and we have noted the following as a revised request for quotation which reads as follows:</p> <p>“I phoned all the quoted suppliers to revised their prices, but only Pamodzi Unique Engineering revised it prices”</p> <p>The initial quotations received were evaluated only after Pamodzi submitted the revised quotation.</p> <p>The negotiation with suppliers to submit the new/revised quotations was done telephonically and not in writing by email as stipulated in the Standard Operating Procedures (SOP) which is read together with the SCM Policy. As a result, there is no evidence that all suppliers were given a fair opportunity to revise their quotations as the negotiation was done through a system which is not transparent (telephonically) without any audit trail.</p>		<p>X</p>		<p>X</p>		<p>SCM Manager</p>		<p>1.Management to notify all prospective bidders in writing.</p>
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<p>17</p>	<p>Splitting of quotations to avoid competitive bidding (Rail WC CoF 6)</p> <p>During the audit of supply chain management at PRASA Rail WC, while reviewing quotations it was confirmed by the list of Purchase Orders that PRASA Rail Western Cape sourced services through the deliberate splitting of quotations instead of embarking on a competitive bidding process.</p> <p>Furthermore, there is no evidence that a proper needs analysis had been performed prior to the above procurement.</p> <p>Financial and performance management - Compliance monitoring</p> <p>The PRASA Rail Western Cape SCM Manager did not ensure compliance with the National Treasury Practice Note 8 of 2007/2008 and the PRASA SCM Policy, resulting in irregular expenditure.</p>		<p>X</p>		<p>X</p>	<p>Financial Manager (Acting), AFM</p>		<p>Prasa should appoint the Sourcing Managers who will oversee procurement for all user departments</p>
<p>18</p>	<p>Non-compliance with the CIDB Regulations resulting in irregular expenditure (Rail WC CoF 11)</p> <p>Tender 986/2016/CTN/INFRA</p> <p>1.Non-compliance with CIDB Act Section 22(3) and CIDB Regulation 18 – tender award not published on the CIDB website</p> <p>While performing an inspection of the CIDB website on the list of PRASA's awarded tenders, we noted that tender 986/2016/CTN/INFRA which was awarded to Mantheleding Enterprises for the repairs and maintenance of damage fence on 24 October 2016 (SLA signed date) to the value of R3 193 795.50 was still listed as not awarded. The above represents non-compliance with the CIDB Act as well as the CIDB Regulations.</p>		<p>X</p>		<p>X</p>	<p>Financial Manager (Acting), AFM</p>		<p>1.Management should introduce a procurement plan for all procurement activities.</p> <p>2.As part of the implementation of procurement, determine which items should be published at various medium including Treasury website, CIDB etc.</p>

<p>There is therefore the risk that there are more incidents of non-compliance with CIDB requirements as the list of tenders not awarded per the CIDB website has a number of tenders listed as not awarded dating as far back as 2006 (the list is for PRASA as whole, not just the WC region).</p> <p>Tender 1015/2016/CTN/INFRA During the audit of tender 1015/2016/CTN/INFRA for the "Service Contractor for the Hiring of Heavy on-track: Ballast Regulator" as well as submissions made by bidders, we noted that the nature of the work is for the maintenance of railway tracks by the Contractor with heavy duty, on-track ballast regulator/profiling machine. The nature of the work to be performed as described in the tender documents is that the contractor will use adequate number of skilled personnel and equipment to deliver the service per the contract (page 107 of 257). As such, the scope of work to be contracted for extends beyond just the hiring/leasing of equipment but rather the whole maintenance of railway tracks affected. Thus the machine will be operated by the contractor with its own employees.</p> <p>2. Non-compliance with CIDB Regulation 25(1) and the CIDB SFU 4.5.4: PRASA Rail WC did not stipulate the minimum category which the bidders must be registered at with the CIDB in order to qualify for evaluation for construction works.</p> <p>3. Non-compliance with CIDB Regulation 24 and the CIDB SFU 4.2.1.4 PRASA Rail WC did not advertise the tenders on the CIDB website as required by CIDB Regulation</p>							
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	24. As a result, the tenders were not advertised on the CIDB website for at least 10 working days before the closing date and 5 working days before any compulsory site meetings as required by the CIDB SFU 4.2.1.4.									
19	<p>Deviation for security services not signed by Group CEO and Group CPO (Rail WC CoF 12)</p> <p>During the audit of supply chain management at PRASA Rail WC region, while reviewing deviations from the competitive bidding process, we inspected the deviation memorandum submitted for the ad-hoc provision of Grade D armed security guards for the escort of train drivers and operators as well as technicians during the SATAWU strike for a period of one month (from 15 April 2016 to 15 May 2016). The memorandum was dated 16 April 2016 and signed by the user department (Protection Services) as well as the Regional Manager on the same day. The memorandum was however not signed as supported by the Group CPO as well as approved by the Group CEO.</p>		X			X		AGCPO/ AGCEO		1.AGCEO should sign off the Memorandum
20	<p>The Appointment of a Service Provider through a system which is not fair – PWC – Irregular, Fruitless and Wasteful Expenditure (Rail EC CoF 1)</p> <p>During the audit of Procurement and Contract Management at PRASA RAIL EC, the following was noted while reviewing quotations:</p> <p>1.The system used to select the preferred bidder (PWC) as per the above quoted email is not fair due to the following: (a)Functionality was not used to determine the suitable supplier and the awarded supplier (PWC)</p>		X			X				<p>The following actions should be taken:</p> <p>1.Management review- Mr. E Start 2.Recovery- Mr. Z Mayaba 3.Update registers- Mr. E Start. 4.Training- Mr. E Start</p>

	<p>was selected based on how the Region feels about the supplier as per the above quoted email.</p> <p>2.The system used to select the preferred bidder (PWC) is not stipulated in any of the South African Supply Chain Management prescripts.</p> <p>3.The selected bidder (PWC) did not submit the following documents to be eligible for the award: (a)Tax Clearance Certificate (b)B-BBEE (c)Declarations</p> <p>4.Furthermore, it was evident that the PRASA Rail EC resources were not utilised effectively as the bidder which submitted the lowest quote (KPMG) was not awarded a contract which could have saved the company the additional cost they paid on the other quotation (PWC).</p>									
21	<p>Non-compliance with CIDB and PPPFA resulting in irregular expenditure – Avumile Civil & Building, EL Electrical & Engineering Projects cc and Yale Engineering Products – Irregular, Fruitless and Wasteful Expenditure (Rail EC CoF 2,3 and 4)</p> <p>During the audit of Procurement and Contract management at PRASA RAIL EC, the following were noted while reviewing quotations:</p> <p>1.PRASA Rail EC did not stipulate the minimum category which the bidders must be registered at with the CIDB in order to qualify for evaluation for construction works which result in in non-compliance with the CIDB Regulations and SFU.</p> <p>2.PRASA Rail EC did not indicate in the invitation to submit a tender the applicable values for each weight used in the evaluation of the quotations.</p> <p>3.Furthermore, the award was not made to the bidder who scored the highest number of points</p>		X			X				<p>The following actions should be taken:</p> <ol style="list-style-type: none"> 1.Management review- Mr. E Start 2.Recovery- Mr. Z Mayaba 3.Update registers- Mr. E Start. 4.Training- Mr. E Start 5. Update Registers-Mr E Start.

	<p>and the reason for that does not fall under the specific goals as per Section 2 (d), (e) and (f) of the Preferential Procurement Policy Framework Act No 5 of 2000.</p> <p>4.Furthermore, it was evident that the PRASA Rail EC resources were not utilised effectively as the bidder which submitted the lowest quote (EL Electrical & Engineering) was not awarded a contract which could have saved the company the additional cost they paid on the other quotation (Avumile Civils &Buildings).</p> <p>Issue 2 During the audit of Procurement and Contract management at PRASA RAIL EC, the following were noted while reviewing quotations:</p> <p>1.PRASA Rail EC did not stipulate the minimum category which the bidders must be registered at with the CIDB in order to qualify for evaluation for construction works which result in in non-compliance with the CIDB Regulations and SFU.</p> <p>2.PRASA Rail EC did not indicate in the invitation to submit a tender the applicable values for each weight used in the evaluation of the quotations.</p>										
22	<p>The Appointment of a Service Provider through a system which is not fair – NMMU, REN FORM and SUNSET BROOK TRADING – Irregular, Fruitless and Wasteful Expenditure (Rail EC CoF 5,16 and 17)</p> <p>Issue 1</p> <p>During the audit of Procurement and Contract Management at PRASA RAIL EC, the following was noted while reviewing quotations:</p> <p>1.Not all the quotations were evaluated including the one from the lowest quoted bidder which was supposed to be used as comparative price of</p>		X				X				<p>The following actions should be taken:</p> <p>1.Management review- Mr. E Start</p> <p>2.Recovery- Mr. Z Mayaba</p> <p>3.Update registers- Mr. E Start.</p>

<p>lowest acceptable tender or offer (Pmin) as per the quoted regulation 5 above, which results in the entire price evaluation calculation being incorrect and resulting in the selection of the incorrect supplier (Nelson Mandela Metropolitan University).</p> <p>2.The selected supplier (Nelson Mandela Metropolitan University) have furnished PRASA Rail EC with a contradicting B-BBEE information as the CSD indicates that the supplier is on level 3 however the B-BBEE certificate submitted by the bidder indicates that the bidder is on level 8.</p> <p>3.Furthermore, it was evident that PRASA Rail EC did not utilise resources effectively as the bidder which submitted the lowest quote (HoneyGuide Facilitation Solutions) was not evaluated which could have saved the company the additional cost they paid in the other quotation (Nelson Mandela Metropolitan University).</p> <p>During the audit of Procurement and Contract Management at PRASA Rail EC, the following was noted while reviewing quotations:</p> <p>1.Not all the quotations were evaluated including the one from the lowest quoted bidder (Khudu Technologies) which was supposed to be used as comparative price of lowest acceptable tender or offer (Pmin) as per the quoted regulation 5 above, which results in the entire price evaluation calculation being incorrect and resulting in the selection of the incorrect supplier (Ren Form CC).</p> <p>2.The incorrectly selected supplier was also allocated the level 1 B-BBEE points when the supplier is on level 4 according to the supplier's B-BBEE certificate submitted for quotation.</p> <p>3.The incorrectly selected supplier (Ren Form CC) have furnished the PRASA Rail EC with</p>																																		
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	<p>contradicting B-BBEE information as the CSD indicates that the supplier is on level 3 however the B-BBEE certificate submitted by the bidder indicates that the bidder is on level 4.</p> <p>4. Furthermore, it was evident that the PRASA Rail EC did not utilise resources effectively as the bidder which submitted the lowest quote (Khudu Technologies) was not selected due to its quote not being used as the minimum price for price evaluations, which could have saved the company the additional cost they paid on the other quotation (Ren Form CC).</p> <p>5. The AGSA have identified that the buyers are applying the same principle of either not evaluating the lowest quote or not using it as the minimum price (Pmin) when calculating the points for the price, furthermore there is a trend of suppliers being allocated incorrect B-BBEE points by the buyers. It appears that this is done deliberately to favour certain suppliers.</p>																				
23	<p>Variation of contract in excess of 10% (Cres GP)</p> <p>The following extension of contract and variation order in the form of increase of scope occurred which is in excess of the 10% restriction allowed by the PRASA SCM policy.</p> <table border="1" data-bbox="277 1118 878 1319"> <thead> <tr> <th data-bbox="277 1118 376 1319">Description of service</th> <th data-bbox="383 1118 481 1319">Name of supplier</th> <th data-bbox="488 1118 577 1319">Date Approved</th> <th data-bbox="584 1118 683 1319">Amount of contract</th> <th data-bbox="689 1118 788 1319">Extension/variation order</th> <th data-bbox="795 1118 878 1319">Variation order %</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Description of service	Name of supplier	Date Approved	Amount of contract	Extension/variation order	Variation order %								X			X	ASM: SCM / Qabaka		1. Findings of the internal investigations must be communicated to Accounting Authority
Description of service	Name of supplier	Date Approved	Amount of contract	Extension/variation order	Variation order %																

<p>Automated metering, revenue management collections and billing services</p>	<p>ITRON Metering solutions South Africa (Pty) Ltd</p>	<p>24/04/2015 (For the period 01 April 2015 to 31 March 2016) and (For period 01 April 2016 to 30 September 2016)</p>	<p>7 148 608.53</p>	<p>4 093 246.80</p>	<p>57.30%</p>																											
<p>A further extension was approved on the 31st of April 2016 by the Acting SCM manager.</p> <p>Variations of contract by more than 10% is non-compliance with the SCM policy, 2014 and results in irregular expenditure</p>																																
<p>24</p>	<p>24.Procurement process not followed (Cres GP)</p>		<p>X X ASM: SCM</p>																													
<p>PRASA Cres entered into a contract with Steiner Hygiene on the 1st of January 2012, the initial contract value was R33 305.33. There was a further revised contract value on the 17th of April 2012 of R37 602.11. PRASA Cres further incurred</p>																																

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	costs exceeding R500 000 based on the contract without inviting suppliers for competitive bidding. The process followed for the appointment of the service provider and extension of contract was not fair, equitable, transparent, competitive and cost-effective.								
25	<p>Non-compliance with CIDB Regulations resulting in irregular expenditure (Cres WC)</p> <p>1.PRASA CRES WC awarded a contract to a supplier with a grading not suitable for the value of the contract.</p> <ul style="list-style-type: none"> It is noted that the amount exceeded represents an excess of 55%. The CIDB Inform PN 3 determines a reasonable amount as 15%. <p>2.PRASA CRES WC awarded a contract to a supplier (Salt river steel plates to bridge), who is not registered in the class of construction works that the project relates to.</p> <p>As the works can be classified as EB, they cannot be classified as EP. This award results in irregular expenditure which must be disclosed.</p> <p>Furthermore, the invitation required a 2EB or higher and the award was based on 2EP, resulting in a limited pool of bidders as contractors with a grading of 2EP but not 2EB (as required by the invitation) would not have submitted bids.</p>		X			X		Regional Manager WC CRES	
26	<p>Splitting of quotations to avoid competitive bidding (Cres WC)</p> <p>During the audit of supply chain management at PRASA CRES WC, while reviewing quotations it was confirmed by the list of Purchase Orders that</p>		X			X		Regional Manager WC CRES	1.Management should ensure the repeated finding on the matter is attended to and not repeated.

	<p>PRASA CRES Western Cape sourced services through the deliberate splitting of quotations instead of embarking on a competitive bidding process.</p> <p>The above matter has previously been reported in the 2015/16 audit of PRASA CRES Western Cape and is a repeat finding.</p> <p>Management have indicated that the BSC was non-existent for more than 6 months. However, it is noted that this non-compliance resulting in irregular expenditure was identified by the auditors during the previous audit cycle (2015/16) and is still continuing.</p>									
<p>27</p>	<p>Payments made with no contract in place (Cres WC)</p> <p>During the inspection of payments made to Top n Nos with regards to the contract to clean coaches at Turnaround Station (4600009137), the following inconsistencies were identified:</p> <ul style="list-style-type: none"> •Supplier had a previous contract expiring on 25 September 2016 thus the RFQ was issued on 14 September 2016 with a closing date of 19 September 2016 •The same supplier won the award and the Letter of Appointment was dated 27 September 2016 and signed on 28 September 2016 by SCM Manager. •Contract was signed on 29 September 2016 for a period from 01 October 2016 to 28 February 2017 (5 months). •Invoice dated 31 October 2016 as received from the supplier included schedules for work performed from 20 September 2016 to 31 October 2016. •Included in the above invoice was work for the previous contract between 20 and 25 September 2016 as well as work performed without any contract from 26 to 30 September 2016. 		<p>X</p>			<p>X</p>		<p>RM/SCM CRES WC</p>		<p>1.SCM to ensure going forward that proper controls are in place, ensuring that services commence after a contract has been signed, and</p> <p>2. That the End-User is well informed as well.</p>

<p>28</p>	<p>The Appointment of Contractors which are not registered in the class of construction works that the projects relate to – Concrete Palisade Fencing Clusters (Rail HO CoF 1)</p> <p>The AGSA have identified the following irregularities during the audit of Procurement and Contract Management at PRASA Metrorail Head Office:</p> <ul style="list-style-type: none"> •Two classes of CIDB construction works (GB/SQ) were used to advertised the tenders on the public media and the CIDB website when the project relates to a single class of construction work (SQ) •This has led to the appointment of service providers which are not registered in the class of construction works that the projects relate to (Concrete Palisade Fencing) and other service providers which do not have a suitable grade designation to carry out the projects. •Therefore, the above results in non-compliance with CIDB Regulation 17, CIDB Inform Practice Note #20, Section 51 of the PFMA and Section 217 of the Constitution of the Republic of South Africa as the suppliers which are registered for this class of construction work (SQ) were not awarded the contracts. <p>1. There is no evidence of GB class of contraction work on the above mentioned tenders as the Bill of Quantities submitted for audit detailed the following kind of works on section 2:</p> <ul style="list-style-type: none"> •Site Clearance (Under Bill 1) – This relate to pre-construction related works therefore it does not fall under any class of construction work. 		<p>X</p>			<p>X</p>		<p>Regional Manager WC CRES</p>		<p>Evidence of GB class of construction work linked to these tenders should be presented.</p>
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	<p>•Earthwork Site Preparation (Under Bill 2) – This falls under (CE) Civil Engineering class of construction works.</p> <p>•Heavy Duty Concrete Palisade Fence (Under Bill 3) – This falls under (SQ) specialised works</p> <p>Therefore, there is no evidence of GB class of construction work link to these tenders. The disclosure of irregular expenditure was made in the AFS.</p>									
<p>29</p>	<p>The procurement of Second Hand Rails through a system which is not fair, equitable, transparent, competitive and cost-effective – Tubular Track and Isongo Investments (Rail HO CoF 3)</p> <p>During the audit of Procurement and Contract Management at PRASA Metrorail Head Office, the following was noted while reviewing quotations:</p> <p>5.The system used to identify and appoint the service providers to supply second-hand rails is not fair, equitable, transparent, competitive and cost-effective as the service providers were directly approached and appointed.</p> <p>6.The procurement does not appear to be an emergency as the tender for the supply of rails was advertised in 2014 as per the aforementioned quoted memorandum paragraph, therefore the procurement of second-hand rails was as a result of poor planning.</p> <p>7.The AGSA could not confirm if the PRASA Metrorail resources were used effectively, efficiently and economically as the procurement was not transparent and competitive.</p>		<p>X</p>		<p>X</p>				<p>The current Acting GCPO should take effective steps to stop confinement processes.</p>	

	<p>The paragraph 12.3.6 of the 2014 PRASA SCM Policy states the following:</p> <p>“Purchases made for emergency “situations” where competitive tendering would be inappropriate is limited to the following types of situations: 12.3.6.1 Disasters (e.g. damage from cyclone, flood, fire, etc.); 12.3.6.2 System failures (including supporting items which could affect the system); and 12.3.6.3 Security risk”</p> <p>Therefore, the purchase of the second-hand rails does not fall under the definition of emergency as per the paragraph 12.3.6 of the 2014 PRASA SCM Policy and the procurement method used (Approaching Suppliers) is not in line with section 217 of the Constitution of the Republic of South Africa.</p>																																							
30	<p>The appointment of a contractor with an insufficient CIDB grading for the class of construction works that the project relates to – supply and installation of clearview fence between Jeppe and Johannesburg (Rail GP CoF 2)</p> <p>The AGSA have identified the following irregularities during the audit of Procurement and Contract Management at PRASA Metrorail Gauteng Region:</p> <ul style="list-style-type: none"> •Two classes of CIDB construction works (GB/SQ) were used to advertise the project when the project relates to a single class of construction work (SQ) •This has led to the appointment of a service provider which is not registered in the class of 		X						X			SCM Compliance Manager																												<p>1.All the payments made to these suppliers must be included in the register of irregular expenditure and be disclosed in the annual financial statements. 2.Management should analyse all procurement to determine further non-compliance resulting in irregular expenditure. 3.The End-Users and SCM Practitioners must research and receive training on CIDB legislation and regulations. 4.SCM Compliance Manager must be engaged every time</p>

	<p>construction works that the project relates to (supply and installation of clearvu fence between Jeppe and Johannesburg) and which does not have a suitable grade designation to carry out the projects.</p> <p>It is noted that the amount exceeded represents an excess of 107%. The CIDB Inform PN 3 determines a reasonable amount as 15%.</p> <p>•Therefore, the above results in non-compliance with CIDB Regulation 17, CIDB Inform Practice Note #20, Section 51 of the PFMA and Section 217 of the Constitution of the Republic of South Africa as the suppliers which are registered for this class of construction work (SQ) were not awarded the contract.</p>									<p>PRASA Rail is about to go out on tender to advise and monitor compliance throughout the procurement process.</p>
<p>31</p>	<p>The procurement of Charger micro controllers, Card Magnetic and Encoder Shaft and Charger 10 System through a system which is not fair, equitable, transparent, competitive and cost-effective – Infuyo Projects (Rail GP CoF 3)</p> <p>During the audit of Procurement and Contract Management at PRASA Metrorail Head Office, the following was noted while reviewing quotations:</p> <p>1.The system used to identify and appoint the service providers to supply Charger micro controllers, Card Magnetic and Encoder Shaft and Charger 10m System is not fair, equitable, transparent, competitive and cost-effective as the service provider was directly approached and appointed.</p> <p>2.The procurement does not appear to be a valid deviation as it is not in line with the requirements of (i) emergencies or urgent cases or available from a</p>		<p>X</p>		<p>X</p>		<p>PRASA Rail GP SCM</p>		<p>1.Management should ensure compliance with the Constitution, the PFMA, National Treasury Instruction Notes and the PRASA SCM policy.</p> <p>2.All the payments made to these suppliers must be included in the registers of irregular expenditure and be disclosed in the annual financial statements.</p> <p>3.Management should analyse all procurement to determine further non-compliance resulting in irregular expenditure.</p> <p>4.The current Acting GCPO must take effective steps to stop the confinement processes.</p>	

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	<p>sole supplier. Therefore, this procurement is as a result of poor planning.</p> <p>3.The AGSA could not confirm if the PRASA Metrorail resources were used effectively, efficiently and economically as the procurement was not transparent and competitive.</p>								
32	<p>The appointment of a contractor that is not registered with CIDB – Emergency procurement for the rehabilitation of sinkhole sites in the Centurion and Pinedene areas – irregular expenditure (Rail GP CoF 12)</p> <p>The AGSA have identified the following irregularities during the audit of Procurement and Contract Management at PRASA Metrorail Gauteng Region:</p> <ul style="list-style-type: none"> •CIDB compliance requirements were not considered during the appointment process of a service provider (Geopractica Contracting (Pty) Ltd) for the rehabilitation of sinkhole sites in the Centurion and Pinedene areas •This has led to the appointment of a service provider which is not registered with the CIDB 		X			X		PRASA Rail GP SCM	
33	<p>The appointment of service providers through a system which is not fair, equitable, transparent, competitive and cost-effective (Corp CoF 42)</p> <p>Background as per the memorandum from Group Communications to Group Finance & Supply Chain Management dated 22 June 2015 which reads as follows:</p> <p>“This memorandum serves to inform the Group Finance and Supply Chain Management that the office of the Group CEO will from time to time procure Stakeholder Engagement services from</p>		X			X		SCM: Senior Management	

<p>specific event or venue rights holder for the purposes of internal and external stakeholder engagement.</p> <p>The procurement of such services largely includes the provision of hospitality services on behalf of the Passenger Rail Agency of South Africa (PRASA) at various events of national or regional importance. Through the Head Office and the Regional Office – the respective stakeholder will be identified and hosted in order of, need for engagement, merit or circumstances at the time of the event.</p> <p>Largely stakeholder engagement takes place so as to ensure the following:</p> <ul style="list-style-type: none"> •Strategic Relationship are maintained •Creation of networking platforms with either internal or external stakeholders •Reward mechanism for employees and customers at large •Brand positioning with the corporate environ <p>As such, such engagements are an extension of the values and brand of PRASA- it is over so importance that such engagements are efficiently executed. We have identified the following entities as those that can deliver to the standard accepted by the PRASA brand:</p> <ol style="list-style-type: none"> 1.BG Concerts – largest concert and theatre promoter within South Africa 2.Marc Group Limited – currently a significant rights holder within the Sports and Entertainment arena. 4.CIRCA – leading hospitality provider – for sports tournament and entertainment / hospitality. 									
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<p>5.Warwick Hospitality – leading hospitality provider – for sports tournaments and entertainment 6.Brand Events SA – leading event rights holder 7.ESP Afrika – leading event rights holder 8.And others which may be relevant</p> <p>The core objective of selective stakeholder engagement is aligned with the pursuance one of our core strategic objects: to ensure that the Passenger Rail Agency of South Africa is the number one transport service provider within the country</p> <p>Requested by: Moffet Mofokeng (Senior Manager: Group Communications) Supported by: Siphon Sithole (Chief Strategy Officer) Approved by: Dr Josephat Phungula (Group Chief Procurement Officer)”.</p> <p>During the audit communication of finding 15 was issued which reflected a limitation of scope. The above extract reflects the evidence provided by management to support the procurement process followed. The following was noted:</p> <p>8.The system used to identify and appoint the service providers for Procurement of Stakeholder Engagement Services is not fair, equitable, transparent, competitive and cost-effective as there is no evidence of a tender and evaluation process which is not in compliance with section 51 of the PFMA and section 217 of the Constitution. 9.The AGSA could not confirm if PRASA resources were used effectively, efficiently and economically as the procurement was not transparent and competitive.</p>																																		
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	<p>10.The quoted memorandum outlined the list of the service providers identified and on point 8 it is stated that “8. And others which may be relevant”. This implies that it can be any supplier in the world without complying with legislation.</p>									
<p>34</p>	<p>The appointment of a service provider where the contract price exceeded the quoted and evaluated price – irregular expenditure (Corp CoF 43)</p> <p>During the audit of Procurement and Contract Management at PRASA Corporate, the following was noted:</p> <p>1.The winning bidder submitted a price quotation of R10 620 000 and was evaluated based on this quoted price to be the highest winning bidder based on the 90/10 preferential points system.</p> <p>2.Upon the inspection of the contract it was noted that the bidder was awarded a contract which included a maintenance component which was not part of the above quoted and evaluated price.</p> <p>3.Therefore, the procurement of the maintenance component is not in line with section 51 (1) of the PFMA and section 217 of the Constitution of the Republic of South Africa as there was no separate evaluation or tender for it.</p> <p>4.Furthermore, the AGSA is unable to determine if PRASA resources were used efficiently and effectively as different price quotations were not evaluated for the procurement of maintenance to ensure that the maintenance is performed at competitive and reasonable prices.</p>		<p>X</p>			<p>X</p>		<p>Group: CPO, CFO / CEO</p>		

<p>35</p>	<p>Thales - Design, construction and implementation of new railway signalling system in Cape Town (Corp CoF 47)</p> <p>1. Background</p> <p>1.1. PRASA issued a Request for Proposal (RFP) for the design, construction and implementation of a new railway signaling system for the Cape Town area and the construction of a centralized traffic control centre in Bellville.</p> <p>1.2. PRASA required the upgrade of its signaling infrastructure to increase line capacity and enhance the safety of the commuter trains. The existing system consists of obsolete mechanical and electro-mechanical systems which will be replaced with electronic interlockings.</p> <p>1.3. The tender was advertised in the Sunday Times and City Press on 11 December 2011, with a closing date of 31 March 2012. A compulsory briefing session was held on 17 January 2012 and a compulsory site visit on 19 January 2012.</p> <p>1.4. According to the Bid Evaluation Report (BEC), the closing date for the submission of bids was extended from 31 March 2012 to 13 April 2012.</p> <p>1.5. The BEC report indicated that bid proposals were received from the following bidders:</p> <ul style="list-style-type: none"> • Actom Pty Ltd; • Ansaldo STS Pty Ltd; • Bombardier Africa Alliance Consortium; • General Electric Transportation Consortium; • Invensys Rail Dimetronic Pty Ltd; 		<p>X</p>			<p>X</p>		<p>Chief SCM Officer</p>	<p>The AGSA recommends that management:</p> <ul style="list-style-type: none"> • Ensure that the BSC (CFSC) is constituted in accordance with PRASA's SCM policy in respect of future SCM processes; • Ensure that all construction contracts are timeously advertised on the CIDB website and a record of this is maintained; • All SCM record keeping is properly maintained and safeguarded; • Proper care must be taken when the minutes and recommendations of the various committees are being documented; • Ensure that a needs assessment for projects is conducted; • Ensure that the contracts with service providers include all the relevant terms and conditions; and • Ensure that relevant bonds are in place prior to advance payments being affected.
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<ul style="list-style-type: none"> •Siemens Ltd; and •Thales Maziya Consortium. <p>1.7. Bidders that did not achieve the minimum threshold of 70% for technical evaluation were disqualified. Bombardier, Siemens and Thales were the only three bidders that met the required threshold for functionality.</p> <p>1.8. These bidders were further evaluated for B-BBEE and price. The points scored for technical, BBBEE and price were consolidated. The details thereof are outlined in table 2 below:</p> <p>1.9. The BEC recommended to the bid adjudication committee that Thales be appointed as the preferred bidder.</p> <p>1.10 According to the minutes of the Finance, Capital Investment and Procurement Committee (FCIP) meeting held on 19 July 2012, the FCIP made the following recommendation to the Board for approval:</p> <ul style="list-style-type: none"> •Thales Maziya Consortium be appointed as the preferred bidder for amount of R1 608 995 338.40 including vat; •Bombardier Africa Alliance Consortium be appointed as the reserve bidder; •Negotiation team be appointed by the GCEO to enter into negotiations with the preferred bidder. The GCEO should sign an agreement with the preferred bidder; and •Should the negotiations with the preferred bidder be unsuccessful, the negotiation team should enter into negotiations with reserve bidder and GCEO to enter into agreement with reserve bidder. 																																				
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	<p>There was no evidence to indicate that a needs assessment was conducted. Therefore, this is in contravention of PRASA's SCM policy.</p> <p>Furthermore, PRASA did not demonstrate that a proper evaluation of the project was done prior to embarking on a procurement process. This was not in line with the provisions section 51 of the PFMA.</p>																	
36	<p>Deviation from SCM process not in accordance with National Treasury requirements and tax clearance certificate not provided for bid awarded – Carma systems (Corp CoF 75)</p> <p>During the audit of procurement and contract management, the following was noted regarding the service provider.</p> <ul style="list-style-type: none"> •No clear reason was provided why the entity deviated from normal SCM processes in procuring the service •No Tax clearance certificate was provided by the service provider <table border="1" data-bbox="282 986 837 1318"> <thead> <tr> <th>Supplier</th> <th>Description</th> <th>Tender Number</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>Charm a Systems (PTY) Ltd</td> <td>Reservations and Sales system for business express</td> <td>HQ/BIM/PR 2620/2009</td> <td>R5 909 760</td> </tr> </tbody> </table> <p>Management comment on audit finding: It is critical for SCM management to ensure that all procurement processes are performed within</p>	Supplier	Description	Tender Number	Value	Charm a Systems (PTY) Ltd	Reservations and Sales system for business express	HQ/BIM/PR 2620/2009	R5 909 760	X		X		AGCEO/Bo C			1.	
Supplier	Description	Tender Number	Value															
Charm a Systems (PTY) Ltd	Reservations and Sales system for business express	HQ/BIM/PR 2620/2009	R5 909 760															

	<p>check and balances, to prevent this kind of findings.</p> <p>2.It is also noted that end-user do as they please without following proper procurement methods when acquiring goods, services and works,</p> <p>3. It has also come to Office of the Chief Procurement Officer that officials abuse the SCM system. In that note SCM will ensure that all legacy systems that were procured without proper authorization of SCM processes are transit out of the system in order to cap the irregular expenditure register.</p>										
37	<p>The Bidders have furnished the entity with false/incorrect information on B-BBEE Status Level (Rail KZN CoF 11)</p> <p>1.Tender Number DBN/CAP (RTPC) 706 Supply and Delivery of Motor Coach & Plain Trailer Brake Blocks</p> <p>The recommended bidder Global Railway Africa (Pty) Ltd have furnished PRASA with a B-BBEE Certificate which belongs to another entity (Global Investment Holdings (Pty) Ltd) certified with their own company stamp for tender evaluation. The preferential points system was not applied in respect of this award.</p> <p>2.Tender Number DBN/OPS (RTPC) 684 Control of Vegetation & Off Track (Cutting and Spraying)</p> <p>The recommended bidder SWC Vegetation Management (Pty) Ltd have furnished PRASA with a false B-BBEE sworn affidavit and confirmation of ownership where they have indicated that the company is 100% black owned and therefore are</p>		X			X					

	<p>on a B-BBEE Level 1, however upon inspection of the audited financial statements they submitted for tender we have identified that the company has a white shareholder which also received a share of dividends. Over and above this the company has indicated on their company website that “the company is recognized as a Broad Based Black Economic Empowerment Company. 51% of SWC Vegetation Management (Pty) Ltd Shareholding is held by previously disadvantaged individuals”</p> <p>The finding remains as follows:</p> <p>i) no information have been provided for audit which evidence that the supplier has provided the entity with the correct and true BBBEE certificate.</p> <p>ii) And as recommended should PRASA Rail KZN incur expenditures regarding these tenders that will result in irregular expenditures and should be included in the register of irregular expenditure.</p> <p>lii) Payments on these contracts was made in July and November 2017. This should be disclosed as irregular expenditure in the 2017/18 financial year.</p> <p>iv) The preferential points system was not applied in respect of both awards.</p>																																				
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38	<p>No evidence of executives' salary approval – HCM (Corp CoF 21)</p> <p>The following Information for HCM was requested in request for information 8 – HCM Corporate on 2 March 2017 and was due on 7 March 2017. The following information remains outstanding:</p> <table border="1" data-bbox="293 555 869 1230"> <thead> <tr> <th data-bbox="293 555 344 619">No</th> <th data-bbox="344 555 869 619">Description</th> </tr> </thead> <tbody> <tr> <td data-bbox="293 619 344 695">1</td> <td data-bbox="344 619 869 695">List of all performance agreements in place for the 2016/17 financial year</td> </tr> <tr> <td data-bbox="293 695 344 772">2</td> <td data-bbox="344 695 869 772">SAQA Reports – both summarised and final reports</td> </tr> <tr> <td data-bbox="293 772 344 815">3</td> <td data-bbox="344 772 869 815">Human Resource Plan</td> </tr> <tr> <td data-bbox="293 815 344 924">4</td> <td data-bbox="344 815 869 924">The approved salary scales for all levels of employees for the 2016/17 financial year and previous three years</td> </tr> <tr> <td data-bbox="293 924 344 967">5</td> <td data-bbox="344 924 869 967">21 point plan strategy</td> </tr> <tr> <td data-bbox="293 967 344 1010">6</td> <td data-bbox="344 967 869 1010">Staff establishment as per SAP</td> </tr> <tr> <td data-bbox="293 1010 344 1053">7</td> <td data-bbox="344 1010 869 1053">List of all the fringe benefits per employee</td> </tr> <tr> <td data-bbox="293 1053 344 1230">8</td> <td data-bbox="344 1053 869 1230"> All employment information held by PRASA for the following secondments: <ul style="list-style-type: none"> • Collins Letsoalo • Mpho Manyasha • Sikelelwa Maqaqa </td> </tr> </tbody> </table> <p>The salary scales provided were in word document with no evidence that the board approved executive salaries.</p>	No	Description	1	List of all performance agreements in place for the 2016/17 financial year	2	SAQA Reports – both summarised and final reports	3	Human Resource Plan	4	The approved salary scales for all levels of employees for the 2016/17 financial year and previous three years	5	21 point plan strategy	6	Staff establishment as per SAP	7	List of all the fringe benefits per employee	8	All employment information held by PRASA for the following secondments: <ul style="list-style-type: none"> • Collins Letsoalo • Mpho Manyasha • Sikelelwa Maqaqa 		X		X	AGE: HCM / BoC		<p>1.The initial salary on appointments of all the executives where there is no specific board approval should be disclosed as irregular as there is no approved salary scales for the executives. Failure to disclose the executive salaries as irregular will result in a modified opinion on the financial statements of PRASA.</p> <p>2.Company Secretariat to present minutes and resolution of the meeting where the Board approved executives' salaries.</p>
No	Description																									
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	<p>It should be noted that the auditors were satisfied with only the annual increase which was in a form of percentage.</p>										
<p>39</p>	<p>Non-Compliance with the PFMA and the Income Tax Act – Right of use of a motor vehicle not accounted for as Fringe Benefit (Corp CoF 40)</p> <p>1. During the audit of human capital management, a list of fringe benefits provided to employees was requested from PRASA. Management indicated that there are no fringe benefits granted to PRASA employees.</p> <p>2. A sample of PRASA vehicles was selected and a request was sent for fuel transactions and logbooks. No log books were provided for the vehicles indicated below.</p>		<p>X</p>			<p>X</p>			<p>AE: HCM</p>	<p>i) Prasa is subjected to Tax Fringe benefits as a result of the use of a company pool car.</p> <p>ii) AE: HCM failed to disclose to SARS of underpayment of the PAYE on the fringe benefits derived by affected employee; a serious breach of South African Revenue collection regulations.</p> <p>iii) Information submitted to SARS, by AE: HCM, if any is fraudulent and untrue</p>	<p>1. Management response is noted, however does not address the finding as there is no indication on how HCM is going to treat the tax effect of the fringe benefit.</p> <p>2. AE: HCM to present a plan on how HCM is going to treat the tax effect of the fringe benefit.</p> <p>The private benefits derived by the employees on the above cars must be disclosed as irregular and fruitless expenditure.</p> <p>3. SARS should further be notified of underpayment of the PAYE on the fringe benefits derived by the affected employees.</p> <p>4. A SARS debt must be recognised in that case.</p> <p>5. Failure to disclose the above tax implications to SARS might result in a reportable irregularity in terms of section 45 of Audit Profession Act as management has been</p>

									alerted of this tax noncompliance.
40	<p>Ineffective controls over the monitoring and capturing of overtime worked by employees – irregular expenditure (Corp CoF 51).</p> <p>PRASA’s Payroll Directive 7 of 2013 states the following: “4. Compliance To establish compliance with the provisions of the Act and the approval of the Director General of Labour, management is directed to ensure that:</p> <p>(2) With the exception of emergency work, all overtime is to be pre-approved (where possible) on the attached form. (3) Where approval is given AFTER the overtime was worked the reason why it was NOT pre-approved must be indicated under the remarks section. (4) A copy of the completed authorized pre - approval form is to be attached to the employee’s time card. (5) An authority number is to be given to the approval and this number is to be indicated on the time card of the persons working overtime. (10) Payroll Administrators are NOT to pay any overtime in the absence of: a. The pre-approval form being attached to the time card. b. An authority number. c. Absence of the signature of the Line Manager/Supervisor on the time card and the approval form.”</p> <p>During the audit of employee costs at PRASA Corporate, while testing overtime paid and through</p>		X				AE: HCM	<p>i)This is non-compliance with Basic Conditions of Employment Act.</p> <p>ii)Prasa does not have procedures to monitor overtime worked.</p>	<p>1.The adjustment to irregular and wasteful expenditure was made to the AFS.</p> <p>2.The Acting Executive – HCM should develop procedures to monitor overtime to be worked to ensure compliance with the Basic Conditions of Employment Act and the Payroll Directive.</p> <p>3.The Acting Executive – HCM should develop procedures to ensure actual overtime worked does not exceed pre-approved overtime to be worked.</p> <p>4.The amount paid to each employee for overtime where there was no pre-approval must be included in the register of irregular expenditure and be disclosed in the annual financial statements and other similar instances must be investigated and quantified.</p>

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	<p>the inspection of the files provided for the selected employees who took overtime in the period under review, the following exceptions were noted:</p> <p>2. Written authorisation (pre-approval) for the overtime worked was not provided for testing for the listed 20 employees.</p>										
41	<p>Accommodation expenditure not in compliance with cost containment prescripts (Corp CoF 1)</p> <p>The PRASA Cost Containment communique, 14 February 2014 - "Travel and Subsistence" Paragraph 12: "Domestic hotel accommodation may not exceed an amount of R1300 per night (including breakfast, dinner and parking)."</p> <p>During the audit of operating expenditure, it was noted that the transactions below were not in compliance with the National Treasury instruction 01 of 2013/2014. The following serves as examples:</p> <p>1. Invoice 174621/75282 for Garden Court Hatfield for Mdekazi Luvuyo The invoice indicates date of arrival of 22/06/2016 and date of departure of 24/06/2016. The invoice revealed that R1 400 was charged per night which exceeded the R1 300 limited as required by the National Treasury Instruction and the PRASA communique.</p> <p>2. Invoice 359358/94311 for Garden Court Sandton for Matya Lindelo</p>		X		X			ACPO		<p>The expenditure is disclosed as irregular expenditure. This impacts on the effectiveness of steps taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA.</p>	<p>Management must ensure that:</p> <ul style="list-style-type: none"> i) Analyse all accommodation expenses to determine further non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique • Compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique ii) Condone, enforce and communicate the revised National Treasury Instruction Notes 2 and 3 to all PRASA officials. iii) To obtain evidence that the travel supplier has compared various accommodation rates prior to deciding on a hotel for all travel after 1 November 2016. Where this was not

	<p>The invoice indicates date of arrival of 21/06/2016 and date of departure of 24/06/2016. The invoice revealed that R1 454 was charged per night which exceeded the R1 300 limited as required by the National Treasury Instruction and the PRASA communique.</p> <p>3.Invoice 39186/10439 for Protea Hotel Marriott for Dladla Philiswa Tara The invoice indicates date of arrival of 14/08/2016 and date of departure of 15/08/2016. The invoice revealed that noted that R1 400 was charged per night which exceeded the R1 300 limited as required by the National Treasury Instruction and the PRASA communique.</p> <p>4.Invoice 149TOBB02ZP for City Lodge Newtown for Reddy Devlin The invoice indicates date of arrival of 23/08/2016 and date of departure of 25/08/2016. The invoice revealed that R1 400 was charged per night which exceeded the R1 300 limited as required by the National Treasury Instruction and the PRASA communique.</p>										<p>done, irregular expenditure must be disclosed.</p> <p>iv)Prasa should capacitate Travel Management Unit with personnel that understand the travelling functions</p>
42	<p>Accommodation expenditure not in compliance with cost containment prescripts (Corp CoF 1.2)</p>		X			X			ACPO		<p>Management must ensure that:</p> <p>i).Analyse all accommodation expenses to determine further non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <ul style="list-style-type: none"> •Compliance with the National Treasury Instruction

										<p>1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique ii)Condone, enforce and communicate the revised National Treasury Instruction Notes 2 and 3 to all PRASA officials. iii)To obtain evidence that the travel supplier has compared various accommodation rates prior to deciding on a hotel for all travel after 1 November 2016. Where this was not done, irregular expenditure must be disclosed. iv)To capacitate Travel Management Unit with personnel that understand the travelling functions</p>
43	<p>Accommodation expenditure not in compliance with cost containment prescripts (Corp CoF 1.3)</p> <p>The PRASA Cost Containment communique, 14 February 2014 - "Travel and Subsistence" Paragraph 12: "Domestic hotel accommodation may not exceed an amount of R1300 per night (including breakfast, dinner and parking)."</p> <p>During the audit of operating expenditure, it was noted that the transactions below were not in compliance with the National Treasury instruction 01 of 2013/2014. The following serves as examples:</p>		X			X		ACPO		<p>i)Analyse all accommodation expenses to determine further non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique ii)Compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique iii)Condone, enforce and communicate the revised</p>

	<p>5.Invoice 52726/24403 for Protea Fire and Ice for Mokate Mamsy dated 27/06/2016</p> <p>The invoice revealed that R1 400 was charged per night which exceeded the R1 300 limited as required by the National Treasury Instruction and the PRASA communique.</p> <p>6.Invoice 328481/134113 for Garden Court Marine Parade for Molosi Joseph dated 29/06/2016</p> <p>The invoice revealed that R1 400 was charged per night which exceeded the R1 300 limited as required by the National Treasury Instruction and the PRASA communique.</p> <p>The above non-compliance with National Treasury Instruction 01 results in irregular expenditure.</p>									<p>National Treasury Instruction Notes 2 and 3 to all PRASA officials.</p> <p>iv)To obtain evidence that the travel supplier has compared various accommodation rates prior to deciding on a hotel for all travel after 1 November 2016. Where this was not done, irregular expenditure must be disclosed.</p> <p>v)To capacitate Travel Management Unit with personnel that understand travelling functions</p>
44	<p>Accommodation expenditure not in compliance with cost containment prescripts (Corp CoF 1.4)</p> <p>Section 55 of the PFMA states the following regarding the annual report and financial statements:</p> <p>“(1) The accounting authority for a public entity—</p> <p>(a) must keep full and proper records of the financial affairs of the public entity;</p> <p>(b) prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity;</p> <p>National Treasury Instruction 01 of 2013/2014 related to Costs Containment:</p>		X				X	ACPO	<p>There is a risk that further instances of non-compliance with the National Treasury Instruction 1 of 2013/14 and the PRASA Communique exist which may not have been identified, resulting in a misstatement of irregular expenditure disclosed.</p>	<p>Management must ensure that:</p> <p>i)Analyse all accommodation expenses to determine further non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <p>•Compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <p>ii)Condone, enforce and communicate the revised National Treasury Instruction</p>

	<p>Paragraph 4.5 relating to Travel and Subsistence states the following: “Domestic travel accommodation may not exceed one thousand three hundred rand (R1300) per night per person (including dinner, breakfast and parking)”</p> <p>During the audit of operating expenditure at PRASA Rail EC, while reviewing accommodation expenditure non-compliance with the National Treasury Instruction 1 of 2013/2014 and the PRASA Cost Containment communique were identified.</p>									<p>Notes 2 and 3 to all PRASA officials. iii)To obtain evidence that the travel supplier has compared various accommodation rates prior to deciding on a hotel for all travel after 1 November 2016. Where this was not done, irregular expenditure must be disclosed. iv)To capacitate Travel Management Unit with personnel that understand the travelling functions</p>
45	<p>Catering expenditure not in compliance with cost containment prescripts Catering expenses – Irregular Expenditure (Corp CoF 1.5)</p> <p>Section 55 of the PFMA states the following regarding the annual report and financial statements:</p> <p>“(1) The accounting authority for a public entity— (a) must keep full and proper records of the financial affairs of the public entity; (b) prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity;</p> <p>Section 57 of the Public Finance Management Act (PFMA) states the following:</p>		X			X		ACPO	<p>During the audit of operating expenditure at PRASA Rail EC, while reviewing catering expenditure non-compliance with the National Treasury Instruction 01 of 2013/14 and the PRASA Cost Containment communique were identified. Expenditure was incurred for catering without the required approval.</p>	<p>i)Management should analyse all catering expenses to determine further non-compliance with the PFMA, National Treasury Instruction Note 1 of 2013/2014 and the PRASA Communique ii)Management should update the irregular expenditure register for all expenditure incurred where there has been non-compliance with the PFMA, National Treasury Instruction Note 1 of 2013/2014 and the PRASA Communique iii)Management should ensure compliance with the National Treasury Instruction Note 1 of 2013/2014 and the PRASA Communique</p>

	<p>“An official in a public entity— (a) must ensure that the system of financial management and internal control established for that public entity is carried out within the area of responsibility of that official; (b) is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official’s area of responsibility; (c) must take effective and appropriate steps to prevent, within that official’s area of responsibility, any irregular expenditure and fruitless and wasteful expenditure and any under collection of revenue due”</p> <p>The PRASA Cost Containment communique, dated 14 February 2014, states the following in paragraph 19 regarding external related to catering and events: “No catering expenditure is to be incurred for internal meetings, unless approved by the Board of Control.”</p> <p>During the audit of operating expenditure at PRASA Rail EC, while reviewing catering expenditure non-compliance with the National Treasury Instruction 01 of 2013/14 and the PRASA Cost Containment communique were identified. Expenditure was incurred for catering without the required approval.</p>																																				<p>iv)Management should communicate the revised National Treasury Instruction Notes 2 and 3 to all PRASA officials.</p>
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<p>46</p>	<p>Accommodation and travel expenditure not in compliance with cost containment prescripts (Corp CoF 1.6)</p> <p>Section 55 of the PFMA states the following regarding the annual report and financial statements:</p> <p>“(1) The accounting authority for a public entity— (a) must keep full and proper records of the financial affairs of the public entity; (b) prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity;</p> <p>Section 51(1)(b)(ii) of the Public Finance Management Act states the following: “An accounting authority for a public entity must take effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity.”</p> <p>Section 57 of the Public Finance Management Act (PFMA) states the following: “An official in a public entity— (a) must ensure that the system of financial management and internal control established for that public entity is carried out within the area of responsibility of that official; (b) is responsible for the effective, efficient, economical and transparent use of financial and</p>		<p>X</p>					<p>ACPO</p>	<p>During the audit of operating expenditure at PRASA Rail EC, while reviewing travel expenditure non-compliance with the National Treasury Instruction No. 03 of 2016/2017: Cost Containment Measures related to Travel and Subsistence was identified. There is no evidence that the travel management company used by PRASA, Travel With Flair (TWF) had obtained the best fare of the day for flights or compared various accommodation rates, as required by the National Treasury Instruction No. 03 of 2016/2017: Cost Containment Measures related to Travel and Subsistence</p>	<p>Management must ensure that: i)Analyse all accommodation expenses to determine further non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique •Compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique ii)Condone, enforce and communicate the revised National Treasury Instruction Notes 2 and 3 to all PRASA officials. iii)To obtain evidence that the travel supplier has compared various accommodation rates prior to deciding on a hotel for all travel after 1 November 2016. Where this was not done, irregular expenditure must be disclosed. iv)To capacitate Travel Management Unit with personnel that understand the travelling functions</p>
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<p>other resources within that official's area of responsibility; (c) must take effective and appropriate steps to prevent, within that official's area of responsibility, any irregular expenditure and fruitless and wasteful expenditure and any under collection of revenue due”</p> <p>Section 217 of the Constitution of the Republic of South Africa states the following: “When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective”</p> <p>National Treasury Instruction No. 03 of 2016/2017: Cost Containment Measures related to Travel and Subsistence states the following:</p> <p>“Domestic air travel upfront discounted fares 5.4. The National Treasury has negotiated with South African Airways (SAA) and Comair/British Airways (BA) for upfront discounted air fares for government employees travelling domestically on official business. The Domestic Air Travel Fares are attached as Annexure A and will be regularly reviewed by the National Treasury.</p> <p>5.5. Employees of departments, constitutional institutions and public entities must implement the best-fare-of-the-day by making use of the negotiated discounted rates with SAA and BA. These agreements are not exclusive agreements and, before confirming a booking, accounting officers and accounting authorities must ensure</p>									
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<p>that their appointed Travel Management Companies (TMCs) or persons making their bookings, whichever applicable, compare the rates of SAA and BA with other airlines servicing the specific routes, including the low cost carriers.</p> <p>5.6. In order to make full use of the corporate discount with SAA and BA, departments, constitutional institutions and public entities must instruct their appointed TMCs or persons making their bookings for domestic airline tickets, to book against the following relevant deal codes assigned to Government:</p> <p>(a) SAA Government deal code: CK3282 (b) BA Government deal code: Deal code per department (Annexure B)</p> <p>Engagement of Travel Management Companies 5.34. Accounting officers and accounting authorities must ensure that the following are contained in the contracts with their appointed Travel Management Company (TMC):</p> <p>(a) Travel Management Companies are not allowed to receive rebates, overrides and any volume driven target incentives earned for government business. These payments and the practice of overrides must be discontinued for government business when this Treasury Instruction takes effect.</p> <p>(b) Travel Management Companies or persons effecting bookings on behalf of departments, constitutional institutions and public entities are required to compare various accommodation facility rates before confirming a booking as the principles of competitiveness and cost effectiveness must always be maintained.”</p>																																				
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47	<p>Accommodation and travel expenditure not in compliance with cost containment prescripts (Corp CoF 1.7)</p> <p>The PRASA Cost Containment communique, dated 14 February 2014, states the following in various paragraphs:</p> <p>“12. Domestic hotel accommodation may not exceed an amount of R1300 per night (including breakfast, dinner and parking). The National Treasury may periodically review this amount.</p> <p>14. All employees must hire vehicles from category which is not higher than Group B or equivalent class.</p> <p>15. The Board of Control may approve where a different group of vehicle is required for a particular terrain or to cater for special needs for an employee.</p> <p>20. Employees may not incur expenses on alcoholic beverages.”</p>		X			X	Prasa Rail Regional Manager, (WC)	<p>During the audit of operating expenditure at PRASA Rail WC, while reviewing subsistence and travel a number of instances of non-compliance with the National Treasury Instructions 2 and 3 of 2016 2017 and the PRASA Cost Containment communique were identified.</p> <p>ii) There is a risk that further instances of non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique exist which may not have been identified, resulting in a misstatement of irregular expenditure disclosed.</p>	<p>Management must ensure that:</p> <p>i)Analyse all accommodation expenses to determine further non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <p>•Compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <p>ii)Condone, enforce and communicate the revised National Treasury Instruction Notes 2 and 3 to all PRASA officials.</p> <p>iii)To obtain evidence that the travel supplier has compared various accommodation rates prior to deciding on a hotel for all travel after 1 November 2016. Where this was not done, irregular expenditure must be disclosed.</p> <p>iv)To capacitate Travel Management Unit with personnel that understand the travelling functions.</p>
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										iii) It is further noted that there is no evidence that the travel supplier (Travel With Flair) have compared various accommodation rates as required by the Instruction Note, which would result in all accommodation since 1 November 2016 being irregular.	
48	<p>Non-compliance with the Cost Containment Measures and PRASA Cost Containment communique – Irregular Expenditure in Rail HO (Corp CoF 1.8)</p> <p>The PRASA Cost Containment communique, dated 14 February 2014, states the following in various paragraphs:</p> <p>“14. All employees must hire vehicles from category which is not higher than Group B or equivalent class.</p> <p>15. The Board of Control may approve where a different group of vehicle is required for a particular terrain or to cater for special needs for an employee.”</p>			X				X	ACPO	<p>During the audit of operating expenditure at PRASA Rail HO, while reviewing subsistence and travel, non-compliance with the National Treasury Instruction 1 of 2013/2014 and the PRASA Cost Containment communique were identified.</p>	<p>•Management should analyse all car hire expenses to determine further non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <p>•Management should update the irregular expenditure register for all expenditure incurred where there has been non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p>

											<ul style="list-style-type: none"> •Management should ensure compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique •Management should communicate the revised National Treasury Instruction Notes 2 and 3 to all PRASA officials.
49	<p>Non-compliance with the Cost Containment Measures and PRASA Cost Containment communique – Irregular Expenditure in Rail GP (Corp CoF 1.9)</p> <p>Section 55 of the PFMA states the following regarding the annual report and financial statements: “(1) The accounting authority for a public entity— (a) must keep full and proper records of the financial affairs of the public entity; (b) prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity;</p> <p>National Treasury Instruction 01 of 2013/2014 related to Costs Containment: Paragraph 4.5 relating to Travel and Subsistence states the following: “Domestic travel accommodation may not exceed one thousand three hundred rand (R1300) per</p>		X				X				<p>During the audit of operating expenditure at PRASA Rail GP, while reviewing subsistence and travel non-compliance with the National Treasury Instruction 1 of 2016 2017 and the PRASA Cost Containment communique were identified.</p>

	<p>night per person (including dinner, breakfast and parking)”</p> <p>The PRASA Cost Containment communique, dated 14 February 2014, states the following: “12. Domestic hotel accommodation may not exceed an amount of R1300 per night (including breakfast, dinner and parking). The National Treasury may periodically review this amount.”</p>									
50	<p>Accommodation and travel expenditure not in compliance with cost containment prescripts (Rail WC CoF 20)</p> <p>Section 55 of the PFMA states the following regarding the annual report and financial statements: “(1) The accounting authority for a public entity— (a) must keep full and proper records of the financial affairs of the public entity; (b) prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity;</p> <p>National Treasury Instruction 01 of 2013/2014 related to Costs Containment: Paragraph 4.5 relating to Travel and Subsistence states the following: “Domestic travel accommodation may not exceed one thousand three hundred rand (R1300) per night per person (including dinner, breakfast and parking)”</p>		X			X		ACPO/Pra sa Rail Regional Manager, (WC)	<p>During the audit of operating expenditure at PRASA Rail WC, while reviewing subsistence and travel a number of instances of non-compliance with the National Treasury Instructions 2 and 3 of 2016 2017 and the PRASA Cost Containment communique were identified.</p> <p>ii) The above non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instructions 2 and 3 of 2016 2017 results in irregular expenditure.</p>	<p>Management must ensure that:</p> <p>i)Analyse all accommodation expenses to determine further non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <p>•Compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <p>ii)Condone, enforce and communicate the revised National Treasury Instruction Notes 2 and 3 to all PRASA officials.</p> <p>iii)To obtain evidence that the travel supplier has compared various accommodation rates prior to deciding on a hotel for all travel after 1 November 2016. Where this was not</p>

<p>National Treasury Instruction No 2 of 2016 2017 Cost Containment Measures states the following related to alcohol expenses: “4.18 Expenditure on alcoholic beverages may not be included in the accommodation or subsistence costs of employees of departments, constitutional institutions or public entities or by persons appointed in terms of section 12A of the Public Service Act, 1994.</p> <p>National Treasury Instruction No 3 of 2016 2017 Cost Containment related to travel and subsistence (effective 1 November 2016) states the following in various paragraphs: “5.16. Accounting officers and accounting authorities must ensure that accommodation and subsistence expenditure is in accordance with the maximum allowable rates set out in the Domestic Accommodation Rate Grid enclosed as Annexure C to this Treasury Instruction. The National Treasury will regularly review the rates contained in the enclosed Annexure C.</p> <p>The PRASA Cost Containment communique, dated 14 February 2014, states the following in various paragraphs: “12. Domestic hotel accommodation may not exceed an amount of R1300 per night (including breakfast, dinner and parking). The National Treasury may periodically review this amount.</p> <p>14. All employees must hire vehicles from category which is not higher than Group B or equivalent class.</p> <p>15. The Board of Control may approve where a different group of vehicle is required for a particular</p>						<p>iii) The risk exist that irregular expenditure as disclosed in the annual financial statements may be understated.</p> <p>There is a risk that further instances of non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique exist which may not have been identified, resulting in a misstatement of irregular expenditure disclosed.</p>	<p>done, irregular expenditure must be disclosed. iv)To capacitate Travel Management Unit with personnel that understand the travelling functions</p>
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	<p>terrain or to cater for special needs for an employee.</p> <p>20. Employees may not incur expenses on alcoholic beverages.”</p>									
51	Catering expenditure not in compliance with cost containment prescripts (Rail WC CoF 7)		X			X				
52	Accommodation expenditure not in compliance with cost containment prescripts (Rail EC CoF 7)		X			X	ACPO			<p>Management must ensure that:</p> <p>i)Analyse all accommodation expenses to determine further non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <p>•Compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <p>ii)Condone, enforce and communicate the revised National Treasury Instruction Notes 2 and 3 to all PRASA officials.</p> <p>iii)To obtain evidence that the travel supplier has compared various accommodation rates prior to deciding on a hotel for all travel after 1 November 2016. Where this was not done, irregular expenditure must be disclosed.</p>

											iv)To capacitate Travel Management Unit with personnel that understand the travelling functions
53	Catering expenditure not in compliance with cost containment prescripts – Catering expenses – Irregular Expenditure (Rail EC CoF 8)			X							
54	Accommodation and travel expenditure not in compliance with cost containment prescripts (Rail EC CoF 12)			X				X	ACPO		<p>Management must ensure that:</p> <p>i)Analyse all accommodation expenses to determine further non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <ul style="list-style-type: none"> •Compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique <p>ii)Condone, enforce and communicate the revised National Treasury Instruction Notes 2 and 3 to all PRASA officials.</p> <p>iii)To obtain evidence that the travel supplier has compared various accommodation rates prior to deciding on a hotel for all travel after 1 November 2016. Where this was not</p>

										done, irregular expenditure must be disclosed. iv)To capacitate Travel Management Unit with personnel that understand the travelling functions
	Fruitless and wasteful expenditure									
55	Cancelled accommodation resulting in fruitless and wasteful expenditure (Cres GP)		X			X		ACPO		<p>Management must ensure that:</p> <p>i)Analyse all accommodation expenses to determine further non-compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <p>•Compliance with the National Treasury Instruction 1 of 2013/14 and the National Treasury Instruction Notes 2 and 3 of 2016/2017 and the PRASA Communique</p> <p>ii)Condone, enforce and communicate the revised National Treasury Instruction Notes 2 and 3 to all PRASA officials.</p> <p>iii)To obtain evidence that the travel supplier has compared various accommodation rates prior to deciding on a hotel for all travel after 1 November 2016. Where this was not done, irregular expenditure must be disclosed.</p>

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												iv)To capacitate Travel Management Unit with personnel that understand the travelling functions
56	Cancelled tender resulting in fruitless and wasteful expenditure - SCM - (Cres WC)			X				X				
57	Understatement – Impairment of WIP assets and fruitless and wasteful expenditure (Tech CoF 4)			X				X				
58	Understatement – Impairment of WIP assets and fruitless and wasteful expenditure (CRES HO CoF 16)			X				X				
59	Non-Compliance with the PFMA and the PRASA Remuneration Policy and Philosophy - Company Secretary - HCM- (Corp CoF 25) Responsibility allowance paid – non-compliance with the PFMA and the PRASA Remuneration Policy and Philosophy. During the audit of executive remuneration at PRASA the following was noted: i) Mr Lindikaya Zide took.the responsibility of Company Secretary at Intersite and Autopax on the following dates 1 August 2014 to 31 October 2015 and 1 November 2014 to 31 August 2015 respectively. ii) The heading of the memorandum referred to above reflects the title “acting allowance” however the detail refers to “responsibility”. iii) Based on the audit evidence provided, the Company Secretary continued to receive an allowance after 31 October 2015 when he was no longer responsible for these positions. iv) Based on the evidence provided, the Company Secretary was still receiving a monthly allowance of R27 584.21 as at 31 December 2016. The total allowance received from 1 April 2016 to 31 December 2016 amounts to R248 257.89.			X				X	L Z BOC & AGCEO	1.Overpayment for the periods 1. Nov 2015 to March 2015 R173 921.05 2.April 2016 to December 2016 R 248 257.89	i)Overpayment amounts to be repaid to PRASA and BOC to decide if there is a need for any further action. ii)The Company Secretary continued to receive payments beyond the acting period and did not disclose or make any arrangement for repayment since the Audit Findings	

	<p>v) Based on the above the Company Secretary received an allowance for periods where additional responsibilities were no longer applicable and the costs could have been avoided had reasonable care been exercised. This is non-compliance with Section 57 of the PFMA and results in fruitless and wasteful expenditure.</p> <p>vi) This further indicates a risk of overstatement of employee costs at Group level as the amount paid relates to the subsidiaries.</p> <p>vii) The additional 12% should have been recovered from the subsidiary.</p> <p>viii) Management response is noted; however, it does not address the finding. The amount paid to PRASA Company secretary while he was no longer acting or taking additional responsibilities at subsidiaries remains as fruitless and wasteful.</p>									
60	<p>Non-Compliance with the PFMA and Mobile phone policy – Cellphone allowance (Corp CoF 34)</p> <p>Non-compliance with section 51 of the PFMA – Mobile Phone Policy not approved by the Accounting Authority resulting in irregular and fruitless expenditure</p> <p>ii) During the audit of cell phone allowance, the following was identified regarding the mobile phone policy:</p> <ul style="list-style-type: none"> • Employees are receiving cell phone allowances in terms of the mobile phone policy which has not been approved. • Management did not ensure that PRASA mobile phone policy is reviewed and approved by the Board as required by section 51 of the PFMA. <p>iii) It was further identified that BN Khumalo - (GM: HCM) received a cell phone allowance above the limit as per the unapproved policy.</p>		X			X	B	CM/YP K		BK to repay amounts exceeded in use of company cell phone between April 2016 to March 2017

61	<p>Non-Compliance with the PFMA – COO Salary (Corp CoF 41)</p> <p>During the audit of key personnel disclosure, the following was noted regarding the salary of Mr Nathi Khena (COO):</p> <p>i) Mr Khena’s last day of reporting to work was on 12 July 2016. Mr Khena’s employment was terminated on 18 November 2016.</p> <p>ii) Mr Khena was reinstated on 06 December 2016.</p> <p>iii) Mr Khena was paid in full for July 2016, August 2016, September 2016 and October 2016.</p> <p>iv) Mr Khena was further allowed his pro rata bonus and leave encashment on termination, however this was set-off against the salaries he received from July to October 2016 as his absence from work was treated as unpaid leave. As a result, the leave encashment and pro-rata bonus of R331 141.77 have not yet been paid to him. Mr Khena was paid in full for July 2016, August 2016, September 2016 and October 2016. Mr Khena was further allowed his pro rata bonus and leave encashment on termination, however this was set-off against the salaries he received from July to October 2016 as his absence from work was treated as unpaid leave. As a result, the leave encashment and pro-rata bonus of R331 141.77 have not yet been paid to him. The total salary paid to Mr Khena for this period is as follows:</p> <table border="1" data-bbox="275 1141 884 1324"> <thead> <tr> <th>Month</th> <th>Description</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Jul-16</td> <td>Salary</td> <td>R 229 491.86</td> </tr> <tr> <td>Aug-16</td> <td>Salary</td> <td>R 229 491.86</td> </tr> <tr> <td>Sep-16</td> <td>Salary</td> <td>R 229 491.86</td> </tr> <tr> <td>Oct-16</td> <td>Salary</td> <td>R 229 491.86</td> </tr> <tr> <td>Total</td> <td></td> <td>R 917 967.44</td> </tr> </tbody> </table> <p>Based on the audit work performed sufficient appropriate audit evidence was not provided to</p>	Month	Description	Amount	Jul-16	Salary	R 229 491.86	Aug-16	Salary	R 229 491.86	Sep-16	Salary	R 229 491.86	Oct-16	Salary	R 229 491.86	Total		R 917 967.44	X		X	N	GE: HCM/ K AGCFO	<p>1. Unqualified payments from July 2016 to October 2016.</p> <p>2. pro-rata and leave encasements set off from ‘unqualified’ salaries that he received from July 2016 to October 2016.</p>	<p>i) Management should recover monies paid to Mr Khena from August 2016, September 2016 and October 2016.</p> <p>ii) A pro-rata portion paid from July should also be recovered from Mr Khena.</p>
Month	Description	Amount																								
Jul-16	Salary	R 229 491.86																								
Aug-16	Salary	R 229 491.86																								
Sep-16	Salary	R 229 491.86																								
Oct-16	Salary	R 229 491.86																								
Total		R 917 967.44																								

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	confirm that the Disciplinary Code and Grievance Procedure was followed in the above matter									
	IRREGULAR EXPENDITURE DISCLOSURE NOTE									
62	Difference between the final amount per prior year AFS and corresponding amounts per current year AFS (Corp CoF 57): During the audit of irregular expenditure, it was noted that the corresponding amount disclosed in the annual financial statement note 42 did not agree to the amount in the prior year signed annual financial statements.		X			X	Y P	AGCFO		1.Furnish AG with adjusted statements
	HUMAN CAPITAL MANAGEMENT									
63	<p>Non-Compliance with the PFMA and the PRASA Remuneration Policy and Philosophy – irregular and fruitless expenditure (Corp CoF 23)</p> <p>Background of the PRASA employee (P Munthali.</p> <p>i) The employee was appointed as the Chief Information Officer (CIO) on the 19th of December 2008 by the former SARCC CEO, with effect from the 1st of April 2009.</p> <p>ii) On the 16th of March 2012 the employee was transferred from the position of the CIO to the position of Group Chief Risk Officer at PRASA, with effect from the 1st of April 2012. This was a lateral transfer.</p> <p>iii) On the 29th of November 2012 the employee was appointed as the Group Executive: Business Development, with effect from the 1st of December 2012 through a Board Resolution. The Board Resolution was supported with the letter of the appointment by the GCEO. This was a lateral appointment as a result of restructuring.</p> <p>iv) On the 17th of December 2013 the employee was appointed as the Acting Group Executive: HCM with effect from the 1st of January 2014. The</p>		X			X	P M	AGCFO/A GE:HCM		<p>i)The AGCFO should ascertain if the monies paid to Ms Munthali as 'acting allowances' are still continuing.</p> <p>ii) Monies (i.e. 12% of R2 915 848 of annual package paid to Ms Munthali as 'Acting allowances' from May 2015 to September 2016:</p> <ul style="list-style-type: none"> as the Acting Group Executive: CIO with effect from May 2015 to July 2015; as the Acting Group Executive: HCM with effect from the 27th of July 2015 to 31 August 2016: as well as iv) Acting Group Executive: HCM from September 2016 to date should be recovered.

<p>letter of appointment indicated that “An acting allowance of 12% of your current package will be paid to you after an acting period of 30 days or more.”</p> <p>v) On the 31st of July 2014 the employee was appointed as the Chief Executive Officer: PRASA Development Foundation at an annual package of R2 600 000 by the GCEO, with effect from the 1st of August 2014.</p> <p>vi) On the 21st of May 2015 the employee was appointed as the Acting Group Executive: CIO by the GCEO, with effect from the 21st of May 2015. The letter of appointment indicated that “An acting allowance of 12% of your current package will be paid to you after an acting period of 30 days or more.”</p> <p>vii) On the 27th of July 2015 the employee was appointed as the Acting Group Executive: HCM by the Acting GCEO, with effect from the 27th of July 2015. The letter of appointment indicated that “An acting allowance of 12% of your current package will be paid to you after an acting period of 30 days or more.”</p> <p>viii) On the 16th of September 2016 the employee was appointed as the Acting Group Executive: HCM by the Acting GCEO, with effect from the 16th of September 2016. The letter of appointment indicated that the appointment is subject to the PRASA policies relevant to acting positions. The employee current package is R2 915 848 after the 2016/2017 annual increase, with effect from the 1st of April 2016. During the 2014/15 audit CoF 27 related to the CEO PRASA Development Foundation and included in the final management report.</p> <p>The auditor’s conclusion reads as follows: “ Management’s comments noted.</p> <p>i) The signed Board minutes or Resolution relating to the appointment of the CEO have not been provided as evidence of the approval of the</p>								<ul style="list-style-type: none"> • The employee did not act in a higher grade as required by the policy in order to qualify for acting allowance. • The employee's permanent position was an executive position, and the acting position was in an executive position or lower. As a result, the employee did not qualify for an acting allowance
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	<p>position. The appointment is therefore considered irregular and additional amounts paid for the position of CEO Development Foundation must be recognised as irregular expenditure in the financial statements.”</p> <p>NB//i) The employee did not act in a higher grade as required by the policy in order to qualify for acting allowance. The employee’s permanent position was an executive position, and the acting position was in an executive position or lower. As a result, the employee did not qualify for an acting allowance resulting in non-compliance for the following cases. ii) The appointment as i) the Acting Group Executive: HCM with effect from the 1st of January 2014; ii) The appointment as the Acting Group Executive: CIO with effect from the 21st of May 2015; iii) The appointment as the Acting Group Executive: HCM with effect from the 27th of July 2015. iv) The appointment as v) the Acting Group Executive: HCM with effect from the 16th of September 2016.</p> <p>The finding remains as management failed to provide evidence to support that the development foundation is operational. We further inspected the cost center for the foundation to assess the nature of costs incurred by the foundation to assess whether the foundation is functional. It was noted that the only cost incurred under the foundation cost centre is salaries. The irregular and fruitless and wasteful expenditure on the acting/responsibility allowance is disclosed. The accounting authority did not take effective steps to prevent irregular and fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA.</p>																																		
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64	<p>Non-Compliance with the PFMA and the PRASA Remuneration Policy and Philosophy - Executive (Corp CoF 24)</p> <p>Audit Findings: Non-compliance in the appointment of the Chief Audit Executive.</p> <p>i) During the audit of executives, the following was noted regarding the appointment of the Chief Audit Executive (CAE):</p> <p>ii) The CAE was appointed on 1 August 2012 by the Acting Group Chief Executive Officer (Tiro Holele).</p> <p>iii) Although the memorandum refers to the position being advertised internally, no evidence of the advert could be provided. An advert is required as per the PRASA Recruitment and Selection Policy.</p> <p>iv) Furthermore, there is no evidence that an interview process was followed as required by the PRASA Recruitment and Selection Policy.</p> <p>v) The CAE position was again advertised on 9 March 2014, however Mr Zaman had already been employed permanently in this position from the 1st of August 2012. Mr Zaman was one of the applicants and he was then appointed on the 1st of August 2014 by the Group Chief Executive Officer (Lucky Montana).</p> <p>vi) The post to which the CAE was appointed was not vacant at the time of appointment and no evidence of an interview process could be provided for audit. Subsequent to this appointment Mr Zaman's salary was adjusted/increased by the former CEO (Lucky Montana).</p> <p>vii) No evidence could be provided to confirm that the salary adjustment was approved by the Remuneration Committee, as required by paragraph 9 of PRASA Remuneration Policy and Philosophy.</p> <p>viii) Furthermore, the AGSA was unable to confirm the salary to the approved salary scales of PRASA as the scales provided do not provide reliable</p>	X		X	R	AGCEO/ Z AGE: HCM		<ol style="list-style-type: none"> 1. The response given by Management does not justify why the employee was moved from a salary of R1 850 000 to R2 400 000 while still on the same post. As such a difference of R550 000 needs to be recovered from Mr Zaman. 2. Both Mr Zaman's salaries were not approved by the Board which does not comply with the policy.
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	evidence as we are unable to confirm that they have been approved by the Board.									
65	<p>Non-compliance with the PFMA, Public Service Act and PRASA remuneration policy on DOT seconded employees (Corp CoF 29)</p> <p>During the audit of key personnel remuneration disclosure, it was identified that the previous AGCEO was remunerated R4 024 000 as reflected in note 27 to the financial statement. Based on evaluation of the above the following was noted.</p> <p>The chairperson stated that the AGCEO be remunerated the annualised salary rate applicable to the position and in accordance to the applicable policy.</p> <p>PRASA has not provided salary scales approved by a Board of Control and therefore the AGSA is unable to confirm annualised salary rates.</p> <p>The applicable policy cannot be confirmed.</p> <p>The Remuneration Policy and Philosophy states that “The acting in high grade allowance will be at 12% of the acting employee’s Total Guaranteed Package.” The Minister stated that the seconded employees rank, salary and seniority remain unchanged and therefore he was not acting in a higher grade.</p> <p>The Remuneration Policy and Philosophy, paragraph 10.4.12 refers to the “secondment policy”. As communicated in CoF 6, issued 9 March</p>	X	X			X	AGCFO/A GCEO/CS		<ol style="list-style-type: none"> 1. No supporting evidence for the salary that was approved by the Board in rand value was given to the AG. 2. No delegation from the Minister to the DG for the approval of secondments was provided. 3. The Minister’s letter stated that Mr. Letsoalo salary will remain unchanged. <p>Mr Letsoalo should be notified to pay back the additional monies paid to him whilst he was the AGCEO of Prasa</p>	

	<p>2017, a signed version of this policy was not provided audit.</p> <p>The Acting Group Executive: HCM requested the Acting Director General to pay the AGCEO an annual salary of R5 986 140.07 as per the board approval. The AGSA was not provided the Board approval for this amount as required by the PRASA Remuneration Policy and Philosophy.</p> <p>The Minister's letter stated that Mr. Letsoalo salary will remain unchanged. Based on the above this requirement of the Minister was not complied with.</p> <p>This results in non-compliance with the PRASA Remuneration Policy and Philosophy and the instructions from the Minister of Transport as evidence was not provided to substantiate that the additional remuneration was approved by the delegated Board resulting in irregular expenditure. Furthermore, if the instruction from the Minister had been adhered to the additional costs could have been avoided had reasonable care been exercised resulting in fruitless and wasteful expenditure.</p> <p>There is a risk that the register for irregular and fruitless expenditure is not complete and the financial statements may be misstated as a result.</p>										
66	<p>Non-Compliance with the PFMA and the PRASA Remuneration Policy and Philosophy – Executive remuneration (Corp CoF 30):</p> <p>Background as per the Memorandum from the Acting Group Executive: HCM on 28 November 2016 titled “Motivation: Salary adjustment for</p>		X			X	P	S	AGCEO/ AGE: HCM	<p>1. Salary unlawfully adjusted by R500 709.44 without the Board's approval.</p> <p>2. An amount of R333 806.29 paid as backdate payment was paid</p>	<p>1.The remuneration of the executive was not approved by the Board as required by the policy.2. Though it was said to have been approved by the Remuneration Committee, the remuneration committee is not the board as</p>

<p>the Group Executive: Strategic asset development”</p> <p>“1. Purpose</p> <p>To request the Acting Group Chief Executive Officer to approve:</p> <p>a) The salary adjustment of R500,709.44 for the Group Executive: Strategic Asset Development, Mr Piet Sebola with effect from 2016.</p> <p>b) The payment of Mr. Piet Sebola’s backdated amount R333 806.29 (41,725.78*8) which is the salary differential from April to November.</p> <p>2. Background</p> <p>A job profile review and grading exercise (Annexure A, Annexure B) was undertaken in 2013 for fifteen (15) Group Executive positions. The exercise revealed that; compared with market data there were discrepancies with three Group Executive salary packages including the one for the Group Executive Strategic Development at a differential of R25,001 pa (2 131 435 – 2 105 999). All the other salary packages were found to be in line with their respective job levels.”</p> <p>The above memorandum was recommended by the Acting Group Executive: HCM, Pearl Munthali, supported by the Acting Group Chief Financial Officer, Yvonne Page. The memorandum was</p>						<p>to Piet Sebola as a salary differential from April 2016 to November 2016.</p>	<p>defined in the Legal Succession Act, the approval was supposed to have been recommended to the board after the remuneration committee.</p> <ul style="list-style-type: none"> • Mr Sebola should be notified of the irregular increase of his salary package. As such: • Mr Sebola should be notified to payback R500 709.36. • Furthermore, Mr Sebola should be notified to payback the backdated amount of R333 806.29 which was the salary difference from April to November 2016.
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<p>approved by the Acting Group Chief Executive Officer, Collins Letsoalo.</p> <p>A letter of confirmation was issued on 09 February 2017 to Mr Piet Sebola by the Acting Group Chief Executive Officer, Collins Letsoalo.</p> <p>The letter reads as follows:</p> <p><i>“I have pleasure in advising you that it has been decided to review your current salary, with effect from 01 April 2016, subsequent to market related remuneration review of the position and the results thereof.</i></p> <p><i>Your remuneration will now be R3 004 256.64 per annum, Total Cost to Company...</i></p> <p>During the audit of key personnel disclosure, the following was noted regarding the salary adjustment:</p> <ul style="list-style-type: none"> • The annual salary was increased from R2 503 547 to R3 004 256.64 on 09 February 2017. • The amount of R500 709.36 was paid to Mr Piet Sebola of which R417 257.80 (R41,725.78*10) was backdated. • The remuneration of the executive was not approved by the Board as required by the policy. <p>The salary adjustment results in non-compliance with the PRASA Remuneration Policy and Philosophy and Section 57 of the PFMA resulting</p>																																		
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	<p>in irregular expenditure as it was not approved by the Board. The amount paid could have been avoided had the Remuneration Policy and Philosophy been adhered to resulting in fruitless and wasteful expenditure.</p> <p>There is a risk that irregular and fruitless and wasteful expenditure may be understated in the financial statements.</p>																																				
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67	<p>Overtime hours worked above the 80 hours a month / 20 hours per week as per the Ministerial determination in terms of Section 50 of the BCEA (Rail KZN CoF 10).</p> <p>“Extent of the variation <i>That the weekly overtime limitation of 10 hours per week may be exceeded by not more than 10 hours per week.”</i></p> <p>“Conditions on which determination is granted: <i>(b) That the overtime worked in excess of 10 hours per week, be remunerated at 1.75 the ordinary hourly rate.”</i></p> <p>During the audit of HCM at the PRASA Metrorail KZN region, it was noted that employees had worked in excess of 80 hours per month (20 hours per week). The above represents non-compliance with the Basic Conditions of Employment Act read in conjunction with the Ministerial determination and the amount paid over and above the 80 hours allowed per the ministerial determination will result in irregular expenditure.</p>		X			X			PRASA KZN Manager	Rail HCM	1. Develop procedures to monitor compliance with the Basic Conditions of Employment Act
68	Overtime hours worked not pre-approved (Rail EC CoF 11)		X			X					
69	Ineffective controls over the monitoring and capturing of overtime worked by employees – irregular expenditure (Rail HO CoF 15)		X			X					
70	Ineffective controls over the monitoring and capturing of overtime worked by employees – irregular expenditure (Rail GP CoF 18)		X			X					
PROPERTY, PLANT AND EQUIPMENT											
71	Value for money not received for capital expenditure incurred on WIP (Rail EC CoF 24)	X				X					

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72	Complete assets included in WIP and not capitalised (Corp CoF 28)	X					X			
CAPITAL COMMITMENTS										
73	Capital Commitments – differences between the AFS and the schedule of capital commitments provided for audit (Corp CoF 35)	X					X			
74	Capital Commitments – Difference between the capital commitments as per the commitments register and capital commitments as per the auditor's recalculation (Corp CoF 59)	X					X			
CONTINGENT LIABILITIES										
75	Contingent Liabilities – differences between the AFS and the schedule of contingent liabilities provided for audit (Corp CoF 58)	X					X			
76	Contingent Liabilities – Differences between the AFS and the supporting documents provided for audit (Corp CoF 60)	X					X			
CONTINGENT ASSETS										
77	Difference between the annual financial statement and the schedule provided for audit (Corp CoF 49)	X					X			
78	Misstatements in the amounts disclosed as contingent assets in the financial statements (Corp CoF 61)	X					X			
INTERIM FINANCIAL STATEMENTS		X					X			
79	Deficiencies identified in the interim financial statements submitted of audit (Corp CoF 9)	X					X	AGCFO		1.Furnish the AG with adjusted statements
PRE-DETERMINED OBJECTIVES										
80	Objectives: Securing business of the future – Performance indicator overstated (Corp CoF 72)	X					X			1.
81	Objective: Running the business – Reported indicators misstated (Rail KZN CoF 1)	X					X			
82	Objective: Running the business – Reported indicators misstated (Rail KZN CoF 17)	X					X			

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83	Objective: Running the business – Reported information not complete (Rail WC CoF 2)	X					X		
84	Objective: Running the business – Reported indicators misstated (Rail WC CoF 3)	X					X		
85	Objective: Running the business – Reported indicators misstated (Rail WC CoF 1)	X					X		
86	Objective: Running the business – Reported indicators misstated (Rail WC CoF 8)	X					X		
87	Objective: Running the business – Misstatement in the reported information - Inconsistencies in reported information (Rail WC CoF 21)	X					X		
88	Objective: Running the business – Reported indicators misstated (Rail EC CoF 13)	X					X		
89	Objective: Running the business – Reported indicator misstated (Rail EC CoF 25)	X					X		
90	Objective: Running the business – Reported indicator misstated (Rail EC CoF 29)	X					X		
91	Objective: Running the business – Reported indicator misstated (Rail EC CoF 30)	X					X		
92	Objective: Running the business – Understatement of injuries and fatalities indicator in the performance report (Rail GP CoF 6)	X					X		
93	Objective: Running the business – Overstatement of injuries and fatalities indicator in the performance report (Rail GP CoF 7)	X					X		
94	Objective: Running the business – Understatement of crime indicators in the performance report (Rail GP CoF 8)	X					X		
95	Objective: Running the business – Misstatement of crimes indicators in the performance report (Rail GP CoF 9)	X					X		
96	Objective: Running the business – Reported indicators misstated (Rail GP CoF 19)	X					X		

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COMPLIANCE												
97	Instability in the Board of Control (BoC) and BoC not appropriately constituted (Corp CoF 70)								X	BoC	DoT	DoT, as the Shareholder should appoint a permanent Board
98	Lack of consequence management for persons who are liable for irregular and fruitless and wasteful expenditure incurred (Corp CoF 64)								X		BoC/AGCEO	
Anex B												
PROCUREMENT AND CONTRACT MANAGEMENT												
99	Non – compliance with CIDB requirements – minimum category which the bidders must be registered not stipulated – Non-compliance with CIDB Regulation 25(1) and the CIDB SFU 4.5.4 (Rail WC CoF 5)								X			
100	Non-compliance with the PRASA SCM policy – appointment of Tender Committee members (Rail WC CoF 10)								X			
101	Tender awarded at a value higher than available and confirmed budget (Rail WC CoF 10)								X			
102	Works procured through the quotations process – CIDB requirements not met (Cres GP)								X			
103	Unfair disqualification – part 1 and 2 (Cres GP)								X			
104	BSC Chairperson not the SCM official per the SCM policy (Cres WC CoF 4)								X			
105	Inconsistencies in bid documents (Cres WC CoF 4)								X			
106	The unbundling of fencing projects into smaller contracts which did not support the industry development by developing registered contractors- Fence Clusters (Rail HO CoF 2)								X			
107	Non-compliance –Submission of the procurement plan to National Treasury (Corp CoF 44)								X			

108	<p>Gibela head lease agreement - Non-compliance with Section 11.10.3 of PRASA's SCM policy (Corp CoF 46)</p> <p>i) The AGSA noted that the Manufacturing and Supply Agreement (MSA) entered into between PRASA and Gibela makes provision for the sub-lease (Gibela leasing to a third-party) with specific conditions but it is silent about the head-lease (leasing of the factory site). Based on the review of the procurement documentation, the AGSA established that PRASA entered into a head-lease agreement for a period of 20 years, which is in excess of the prescribed contracting period for lease agreements.</p> <p>ii) There is also no evidence that head-lease was approved by the PRASA Board, despite the fact that PRASA is incurring the majority of the costs for the rental of the factory site amounting to R78 900 per month and only recovering a monthly rental of R14 085 from Gibela (through a sub-lease agreement).</p> <p>iii) The AGSA notes that part of the factory site (extension 7) has been proclaimed as township effective from October 2017, however this is post signing of the head-lease agreement and this could not have been factored when the rental amount was determined.</p>		X					X	PS	GE: SD	<p>1. PS should furnish the AG with the Board approval and/or approved deviation for the head-lease period of 20 years as the SCM policy only provides for a period of three years.</p> <p>2. Mr Sebola should also clarify to the Board why PRASA would pay for the full R78 900 while extension 8 and the remaining even of extension 7 are not in use.</p> <p>3. Proofs of payment should be presented to and verified by the Audit Committee</p>

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	PROPERTY, PLANT AND EQUIPMENT										
109	Movable assets - Assets capitalised at incorrect values (Rail KZN CoF 5)	X							X		
110	Movable assets - Existence of the asset could not be confirmed as the asset was not tagged (Rail KZN CoF 5)	X							X		
111	Movable assets - Assets identified to be damaged (Rail KZN CoF 5)	X							X		
112	Completeness of the asset register – Moveable assets and Workshop Equipment (Rail KZN CoF 5)	X							X		
113	Movable assets - Late capitalisation of asset additions (KZN CoF 6)	X							X		
114	Moveable assets - Capitalised workshop assets not removed from the WIP register (Rail KZN CoF 13)	X							X		
115	Complete assets in use accounted for as work in progress for moveable assets and workshop equipment (Rail KZN CoF 14)	X							X		
116	Movable assets - Assets not verified (Rail KZN CoF 15)	X							X		
117	Movable assets - Assets capitalised at the incorrect cost (Rail KZN CoF 16)	X							X		
118	Movable assets - Late capitalisation of asset additions (Rail WC CoF 9)	X							X		
119	Complete assets in use accounted for as work in progress (Rail WC CoF 13)	X							X		
120	Movable assets - Late capitalization, damaged assets and useful lives of printers (Rail WC CoF 15)	X							X		
121	Maintenance expenditure incurred accounted for as work in progress asset (Rail WC CoF 16)	X							X		

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122	Movable assets - Existence of the asset could not be confirmed as the asset was not tagged (Rail WC CoF 18)	X						X		
123	Movable assets - Assets identified to be damaged (Rail WC CoF 18)	X						X		
124	Movable assets - Existence of the asset could not be verified (Rail WC CoF 18)	X						X		
125	Completeness of the asset register – Moveable assets and Workshop Equipment (Rail WC CoF 18)	X						X		
126	Workshop Equipment acquired and asset not in use (Rail WC CoF 19)	X						X		
127	Accuracy of amounts capitalized to WIP Assets (Rail WC CoF 22)	X						X		
128	Late capitalisation of asset - Movable assets (Rail EC CoF 6)	X						X		
129	Completeness of the asset register – Moveable assets (Rail EC CoF 14)	X						X		
130	130. Existence of assets could not be verified – Moveable assets (Rail EC CoF 15)	X						X		
131	Complete assets in use accounted for as work in progress – movable assets (Rail EC CoF 19)	X						X		
132	Movable assets and WIP - Assets identified to be damaged not impaired (Rail EC CoF 20)	X						X		
133	NSIP Assets identified to be damaged as a result of vandalism (Rail EC CoF 23)	X						X		
134	Accuracy of amounts capitalized to WIP Assets (Rail EC CoF 27)	X						X		
135	Movable assets - Assets register not complete (Tech CoF 1)	X						X		
136	Completeness of the asset register (Rail GP CoF 10)	X						X		
137	Existence of assets could not be verified (Rail GP CoF 11)	X						X		
138	Late capitalisation of assets (Rail HO CoF 10)	X						X		
139	Late impairment of assets – prior period error (Rail HO CoF 11)	X						X		

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140	Late capitalisation of assets (MLPS CoF 3)	X						X		
141	Moveable assets - Property Plant and Equipment – Workshop equipment - Accumulated depreciation, depreciation and book value are misstated (Rail HO CoF 18)	X						X		
142	Movable assets - Property Plant and Equipment - Assets fully depreciated and useful lives not reviewed (Rail HO CoF 19)	X						X		If the situation was
143	Moveable assets - Asset register is not complete (Corp CoF 66)	X						X		
144	Differences between the Statement of comprehensive income and the notes to the Annual Financial Statements – Comparatives (Corp CoF 67)	X						X		GCFO to clarify
145	Immoveable and moveable Depreciation incorrectly calculated.(Corp CoF 68)	X						X		
146	Accuracy of amounts capitalized to WIP Assets (CRES HO CoF 13)	X						X		
147	Completed assets accounted for as work in progress (WIP) (CRES HO CoF 14)	X						X		
148	Understatement – Impairment of WIP assets and overstatement of WIP (CRES HO CoF 15)	X						X		
149	Moveable assets - Asset register is not complete (Rail HO CoF 20)	X						X		
	INVESTMENT PROPERTY									
150	Differences between the AFS and the supporting schedules provided for audit (Corp CoF 48)	X						X		
	OPERATING LEASE RECEIVABLE AND DEFERRED INCOME									
151	Differences in the calculation of the market values of property(Corp CoF 81)	X						X		
	INVENTORY									

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152	Existence of inventory could not be verified (MLPS CoF 5)	X						X		
153	Physical Count sheets not submitted (MLPS CoF 6)	X						X		
154	Physical Inventory Count Findings (MLPS CoF 7)	X						X		
155	Physical Inventory Count Findings (Rail GP CoF 14)	X						X		
156	Physical Inventory Count Findings (Rail WC CoF 23)	X						X		
	TRADE AND OTHER RECEIVABLES									
157	Trade and other receivables – Misstatements in the Trade and other receivables note disclosed on the AFS (Corp CoF 71)	X						X		
	TRADE AND OTHER PAYABLES									
158	Trade and Other Payables – Accruals overstated (Rail GP CoF 20)	X						X		
159	Trade and Other Payables – Trade and other payables are understated (Rail GP CoF 21)	X						X		
	REVENUE									
160	Shortages – Shortages not recovered or cleared timeously (Rail WC CoF 4)	X						X		
161	Cancellations – End of shift receipts recorded as cancellations on the shift journal	X						X		
	OPERATING EXPENDITURE									
162	Expenditure recorded in the incorrect period – prior period error (Rail EC CoF 18)	X						X		
163	Expenditure recorded in the incorrect period – prior period error (Rail HO CoF 5)	X						X		
164	Expenditure recorded in the incorrect period – prior period error (MLPS CoF 2)	X						X		
	HUMAN CAPITAL MANAGEMENT									
165	Appointments (Rail KZN CoF 7) Paragraph 1.2 of the PRASA Recruitment and Selection Policy states the following:				X			X	notes that the appointed candidate had a higher qualification.	i)Management should ensure understanding of the Recruitment and Selection policy.

<p>“Employment of staff includes the processes of recruitment, selection and employment. These processes should be based on the best practices and be characterized by fairness, transparency and complying with legal requirements.”</p> <p>Paragraph 3.10 of the PRASA Recruitment and Selection Policy states the following: “A person should be suitably qualified for a job as a result of a combination or all of the following criteria: Relevant formal qualifications; Relevant prior learning; Relevant experience; Capacity to acquire, within a reasonable time, the ability to do the job as per the job requirements; and/or Valid licences where applicable; Professional registrations where applicable.”</p> <p>Paragraph 6.2 of the PRASA Recruitment and Selection Policy states the following: “The manager must also submit a job requisition form to the Human Resources Department which must detail: 6.2.6 The inherent and essential requirements of the job.”</p> <p>Paragraph 12.1 of the PRASA Recruitment and Selection Policy states the following: “The following information must be contained in all advertisements, irrespective of the media in which the advertisements are placed, or whether advertisements are internal or external: 12.1.4 The inherent requirements of the job.</p>		<p>The finding will remain however, as the advert had more restrictive requirements which may have resulted in other candidates not applying for the post</p>	<p>ii) Management should ensure compliance with the Recruitment and Selection policy when making appointments</p>
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	<p>12.1.5 Skills, Knowledge and attributes required for the job.”</p> <p>Paragraph 14.2 of the PRASA Recruitment and Selection Policy states the following: “Selection criteria must be objective, and relate to the inherent requirement of the job and the future needs of the organization. The line manager and the Human Resource Department will determine the criteria according to: 14.2.1 The specific competencies, skills and abilities required for satisfactory performance in the job. 14.2.4 The number of people on the shortlist should be restricted to those who show in their applications that they clearly meet the minimum requirements which are: 14.2.4.1 All the skills, knowledge, competencies and abilities identified in the job/role description that the potential candidate must possess at the time of hire, or which the candidate would be able to acquire in a reasonable time. 14.2.4.2 All the qualifying criteria for the position</p> <p>During the audit, it was noted that an appointment was made in a position for which the candidate did not possess the minimum requirements</p>									
166	<p>Non-compliance with the Recruitment and Selection policy (Rail KZN CoF 8)</p> <p>Paragraph 3.7 of recruitment and selection policy states:</p>			X			X	HR Manager	During the audit of human resource it was noted that conversion of fixed term	Management response is noted and the non-compliance shall remain due to the following: •The deviation from the policy was not approved by the

<p>“all recruitment and selection practices should be consistent, equitable, transparent and in line with the requirements of procedural and substantive fairness.”</p> <p>Paragraph 4.12 of recruitment and selection policy states: “recruitment and selection means a planned process used to fill a vacancy with a competent person or to effect an appointment.”</p> <p>Paragraph 4.15 of recruitment and selection policy states: “vacancy means an existing or newly created position that does not have an incumbent formally appointed to the position.”</p> <p>Paragraph 8.2 of recruitment and selection policy states: “internal recruitment whilst exposure or the opportunity to act in a position dot guarantee an automatic appointment, the acting employee should automatically qualify for the short-list upon application.”</p> <p>Paragraph 6.1 of recruitment and selection policy states: “When a vacancy occurs or a new position has been created that has not been filled, the line manager within whose delegated authority the post falls must confirm with the human resource department that the position is approved on the structure and that adequate financing for the post exist.”</p> <p>Paragraph 6.2 of recruitment and selection policy states:</p>																<p>contract employees to permanent was done on 01 September 2016.</p> <p>One example is employee M.M Mkhwanazi, who was appointed as a fixed contract employee on 15 September 2014. The employee was appointed permanently on 01 September 2016 through a bargaining agreement with the trade union.</p>	<p>Group Chief Executive Office (GCEO) whose responsibility is to ensure all employees comply with policies and therefore approve relevant deviations.</p> <ul style="list-style-type: none"> •The fact that Rail executives approved the deviation does not take away the non-compliance with the policy, as only the GCEO can approve deviations. •The policy requires a job requisition for all positions before they are filled. The budget referred above was not present when the audit was performance. <p><i>The finding will remain in the management report as the deviation was not approved by the GCEO.</i></p>
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	<p>“The manager must also submit a job requisition form to the human resource department which must detail: 6.2.1 The grade or the level of the job (if this is known); 6.2.2 The title of the position; 6.2.3 The motivation for filling the position; 6.2.4 The descending and ascending reporting structure; 6.2.5 The inherent and essential requirements of the job.”</p>																																						
167	<p>Acting appointments and acting period is not in accordance the Remuneration and Benefits Policy and Philosophy (Rail KZN CoF 12)</p> <p>Section 55 of the PFMA states the following regarding the annual report and financial statements: “(1) The accounting authority for a public entity— (a) must keep full and proper records of the financial affairs of the public entity; (b) prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity</p> <p>Paragraph 10.4.9 of the Remuneration policy and Philosophy states the following: “Short Term Acting – When an employee acts in a position where the responsible employee is temporary on defined leave less than 3 months.</p>																																						

•Management has not addressed first part of the finding and thus the finding can be accepted to be correct and factual.
 •The second part of the findings, management based on the disagreement on the fact that the acting period were not consecutive, however the policy does not make mention of whether the acting period should be consecutive or not. Furthermore, based on the inspection of the acting intervals, these periods were broken down merely to circumvent the requirements of the policy.

	<p>Long Term Acting – is when an employee acts in a vacancy position on a higher grade for a minimum of 3 months and a maximum of 6 months. An approval must be sought for an exception to the 6 months rule, for example: in a case where is a legal matter, absence due to ill health or other exceptional cases that may require extended acted period.</p> <p>Acting approval – An acting appointment should be requested in writing by the line manager and approved by Human Capital Executive (HCE) or Manager. Request to acting extensions that are longer than 6 months must be approved by the Group Chief Executive Officer (GCEO), Group HCE, CEO of divisions and subsidiaries and the Divisional Executive Manager: HCM or Regional Manager.”</p> <p>Employees were acting in higher grade positions during the current year, however the Remuneration Policy and Philosophy was not adhered to in the appointment of the acting employees. The following serve as examples of such instances:</p>									
168	<p>Appointments – Non-compliance with the Recruitment and Selection policy (Rail KZN CoF 18)</p> <p>Paragraph 1.2 of the PRASA Recruitment and Selection Policy states the following: “Employment of staff includes the processes of recruitment, selection and employment. These processes should be based on the best</p>			X			X	HR Executive:KZN	The above appointments result in non-compliance with the PRASA Recruitment and Selection Policy, resulting in a risk of legal	<ul style="list-style-type: none"> •Management should ensure understanding of the Recruitment and Selection policy. •Management should ensure compliance with the Recruitment and Selection policy when making appointments.

<p>practices and be characterized by fairness, transparency and complying with legal requirements.”</p> <p>Paragraph 3.7 of recruitment and selection policy states: “all recruitment and selection practices should be consistent, equitable, transparent and in line with the requirements of procedural and substantive fairness.”</p> <p>Paragraph 3.10 of the PRASA Recruitment and Selection Policy states the following: “A person should be suitably qualified for a job as a result of a combination or all of the following criteria: Relevant formal qualifications; Relevant prior learning; Relevant experience; Capacity to acquire, within a reasonable time, the ability to do the job as per the job requirements; and/or Valid licenses where applicable; Professional registrations where applicable.”</p> <p>Paragraph 4.12 of recruitment and selection policy states: “recruitment and selection means a planned process used to fill a vacancy with a competent person or to effect an appointment.”</p> <p>Paragraph 4.15 of recruitment and selection policy states: “vacancy means an existing or newly created position that does not have an incumbent formally appointed to the position.”</p>															<p>action being taken against the entity.</p> <p>ii) Appointments where the appointees did not meet minimum requirements</p> <p>During the audit of Human Capital Management, it was noted that appointments were made in positions for which the candidate did not possess the minimum requirements.</p>	<p>•Management should evaluate the entire population of appointments and ensure that all appointments are in accordance with the policy.</p>
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<p>Paragraph 6.1 of recruitment and selection policy states: “When a vacancy occurs or a new position has been created that has not been filled, the line manager within whose delegated authority the post falls must confirm with the human resource department that the position is approved on the structure and that adequate financing for the post exist.”</p> <p>Paragraph 6.2 of the PRASA Recruitment and Selection Policy states the following: “The manager must also submit a job requisition form to the Human Resources Department which must detail: 6.2.6 The inherent and essential requirements of the job.”</p> <p>Paragraph 12.1 of the PRASA Recruitment and Selection Policy states the following: “The following information must be contained in all advertisements, irrespective of the media in which the advertisements are placed, or whether advertisements are internal or external: 12.1.4 The inherent requirements of the job. 12.1.5 Skills, Knowledge and attributes required for the job.”</p> <p>Paragraph 14.2 of the PRASA Recruitment and Selection Policy states the following: “Selection criteria must be objective, and relate to the inherent requirement of the job and the future needs of the organization. The line manager and the Human Resource</p>																																						
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<p>Department will determine the criteria according to:</p> <p>14.2.1 The specific competencies, skills and abilities required for satisfactory performance in the job.</p> <p>14.2.4 The number of people on the shortlist should be restricted to those who show in their applications that they clearly meet the minimum requirements which are:</p> <p>14.2.4.1 All the skills, knowledge, competencies and abilities identified in the job/role description that the potential candidate must possess at the time of hire, or which the candidate would be able to acquire in a reasonable time.</p> <p>14.2.4.2 All the qualifying criteria for the position</p> <p>During the audit of Human Capital Management, it was noted that appointments were made in positions where the process per the policy was not followed. There was no evidence of the following:</p> <ul style="list-style-type: none"> •Whether the entity's structure allowed for these appointments; •Whether there was budget available; •A job requisition; •Minimum requirements to fill the position; •An advertisement for the positions, as required by the policy; •Application of the appointees for the position; •Evaluation of the competency of the appointees. 																																					
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169	<p>Leave transactions not captured (Rail EC CoF 9)</p> <p>PRASA's Leave Agreement – Junior Officials states the following:</p> <p>“Absence due to Illness/Sickness</p> <p>8.1. That the 45 calendar days over a three year cycle to be reduced to, 32 working days for a 5 day worker and 39 days for a 6 day worker, over a 3 year cycle”.</p> <p>8.2. Ordinary absenteeism due to sickness will be covered by the 32 days (for 5 days worker) and 39 days (for 6 days worker), except hospitalization that is regarded as additional sick leave (Other absences due to periods of recuperation directly related to the period of hospitalization will be considered on merit)”</p> <p>8.3. Metrorail will not pay an employee in terms of 8.1, if the said employee has been absent for more than two or on more than two occasions (1day) during an eight week period and, on request by the employer, does not produce a medical certificate stating that he/she was unable to work for the duration of his/her absence on account of sickness or injury”</p>				X				X		<p>The risk exists that the employee leave balances are not accurate due to non-capture of leave transactions. As a result, there is a further risk that the leave provision may be overstated, resulting in a misstatement on the financial statements.</p>	<p>During the audit of Human Capital Management, while reviewing leave at PRASA Rail EC region, it was noted that</p> <p>i)the leave transactions listed below have not been captured.</p> <p>li)We inspected the leave report provided and noted that the leave transactions are not reflecting on the employee's leave transactions on SAP.</p> <p>lii)Leave days should be deducted from annual leave days for the employee who failed to submit a sick note. This was not done.</p>
170	<p>Appointments – Non-compliance with the Recruitment and Selection policy (Rail EC CoF 10)</p> <p>Paragraph 6.2 of the PRASA Recruitment and Selection Policy states the following:</p>				X				X			

<p>“The manager must also submit a job requisition form to the Human Resources Department which must detail: 6.2.6 The inherent and essential requirements of the job.”</p> <p>Paragraph 12.1 of the PRASA Recruitment and Selection Policy states the following: “The following information must be contained in all advertisements, irrespective of the media in which the advertisements are placed, or whether advertisements are internal or external: 12.1.4 The inherent requirements of the job. 12.1.5 Skills, Knowledge and attributes required for the job.”</p> <p>Paragraph 14.2 of the PRASA Recruitment and Selection Policy states the following: “Selection criteria must be objective, and relate to the inherent requirement of the job and the future needs of the organization. The line manager and the Human Resource Department will determine the criteria according to: 14.2.1 The specific competencies, skills and abilities required for satisfactory performance in the job. 14.2.4 The number of people on the shortlist should be restricted to those who show in their applications that they clearly meet the minimum requirements which are: 14.2.4.1 All the skills, knowledge, competencies and abilities identified in the job/role description that the potential candidate must possess at the time of hire, or which the</p>																																						
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	<p>candidate would be able to acquire in a reasonable time. 14.2.4.2 All the qualifying criteria for the position</p> <p>Appointments without following process</p> <p>During the audit of Human Capital Management, it was noted that appointments were made in positions where the process per the policy was not followed. There was no evidence of the following:</p> <ul style="list-style-type: none"> •A job requisition; •Minimum requirements to fill the position; •An advertisement for the positions, as required by the policy; •Application of the appointees for the position; •Evaluation of the competency of the appointees. 									
171	<p>Acting period is not in accordance with the Remuneration and Benefits Policy and Philosophy (Rail EC CoF 21)</p> <p>Paragraph 10.4.9 of the Remuneration policy and Philosophy states the following: “Short Term Acting – When an employee acts in a position where the responsible employee is temporary on defined leave less than 3 months. Long Term Acting – is when an employee acts in a vacancy position on a higher grade for a minimum of 3 months and a maximum of 6</p>			X			X	AE:HCM		<p>Employees were acting in higher grade positions during the current year, however the Remuneration Policy and Philosophy was not adhered to regarding the period of the acting employee.</p> <p>ii)To enhance recruitment related compliance report, a monthly report of staff movements including new hires/terminations/suspens</p>

	<p>months. An approval must be sought for an exception to the 6 months rule, for example: in a case where is a legal matter, absence due to ill health or other exceptional cases that may require extended acted period.</p> <p>Acting approval – An acting appointment should be requested in writing by the line manager and approved by Human Capital Executive (HCE) or Manager. Request to acting extensions that are longer than 6 months must be approved by the Group Chief Executive Officer (GCEO), Group HCE, CEO of divisions and subsidiaries and the Divisional Executive Manager: HCM or Regional Manager.”</p>									<p><i>ions/acting etc. encompassing manner of appointment and progress mustl be devised and tabled to the Regional Manager/ REXCO.</i></p>
172	<p>Suspensions – Extensions beyond 30 days not authorised (Rail EC CoF 28)</p> <p>The PRASA Disciplinary Code and Grievance Procedure states the following: “4.1.4 When an employee is suspended pending an investigation, the investigation shall be concluded within a reasonable time, to ensure that employees are not suspended for longer periods. (The Employee Relations Department shall ensure that the hearing is held as soon as practically possible). The Metrorail Disciplinary Code and Procedure Agreement made and entered into between Metrorail, UASA, SATAWU and UTATU (Labour) states the following: “11.1 The company shall have the right to suspend an employee with pay prior to the determination of disciplinary action where, in the opinion of Management, an offence by an employee is regarded as serious, and/or that the continued presence of the employee at the</p>			X			X	AE:HCM	<p>i)This results in wasteful of state resources as the suspended employee gets paid whilst away from work.</p> <p>ii)At Prasa employees get suspended for a period of even 5 full years with pay.</p>	<p>Management responsible for these suspensions should be investigated as they fail to comply with Disciplinary Code and Grievance Procedures.</p>

	Company's premises may prejudice the interests of the Company, the employee, other employees or hamper an investigation. The suspension period should not exceed a maximum of thirty (30) calendar days or the period of disciplinary process. If this period is to be exceeded permission therefore must be obtained from the CEO."								
173	<p>Appointments and acting period is not in accordance the Remuneration and Benefits Policy and Philosophy (Rail HO CoF 7)</p> <p>Paragraph 10.4.9 of the Remuneration policy and Philosophy states the following: "Short Term Acting – When an employee acts in a position where the responsible employee is temporary on defined leave less than 3 months. Long Term Acting – is when an employee acts in a vacancy position on a higher grade for a minimum of 3 months and a maximum of 6 months. An approval must be sought for an exception to the 6 months rule, for example: in a case where is a legal matter, absence due to ill health or other exceptional cases that may require extended acted period. Acting approval – An acting appointment should be requested in writing by the line manager and approved by Human Capital Executive (HCE) or Manager. Request to acting extensions that are longer than 6 months must be approved by the Group Chief Executive Officer (GCEO), Group HCE, CEO of divisions and subsidiaries and the Divisional Executive Manager: HCM or Regional Manager."</p>			X		X	AE: HCM	<p>i)As a result of multiple appointments and acting periods not in accordance with the Remuneration and Benefits Policy and Philosophy, Prasa spends 82% of its budget on OPEX than on CAPEX</p> <p>ii)Prasa human capital continues to display mismanagement and non-complies to the remuneration policy and philosophy of PRASA.</p> <p>ii)This has multiple ripple</p>	<p>i) Management should ensure that employees that are groomed to rotate for positions they don't act for more than 6 months.</p> <p>iii) Management needs to have control measures in place to ensure that the HCM function at the regions is monitored on a regular basis.</p> <p>iv) iii)Management needs to implement measures to ensure that deficiencies in internal controls are addressed.</p>

	<p>Employees were acting in higher grade positions during the current year, however the Remuneration Policy and Philosophy was not adhered to in the appointment of the acting employees. The following serve as examples of such instances:</p> <p>Acting appointment extensions without approval by the delegated official</p> <p>The following employee have been acting for a period in excess of that allowed by the policy in the current year as listed below and the approval of the appointment extension was not done in terms of the policy.</p>								<p>effects on the entity's and group's operational budget.</p>	
174	<p>Ineffective controls over the monitoring and capturing of leave worked by employees (Rail HO CoF 13)</p> <p>Paragraph 1.3 of the Leave Policy for Junior Employees states the following: "Of the total leave earned, 10 days in the case of 5 day workers and 12 days in the case of 6 day workers, are regarded as compulsory leave which on request of the employee must be taken consecutively, whilst the remainder may either be taken, encashed or accumulated as set out under"</p> <p>Paragraph 5.2.2 of the Leave Policy for Management states the following: "Employees are required to take 15 consecutive days of statutory leave per leave cycle. This leave is to be taken no later than six (6) months after the completion of the current leave cycle failing which the employee must go</p>			X			X	AE:HCM	<p>i)There is a risk that leave balances on the system may be inaccurate, resulting in the employee being allowed to take leave in excess of what is available, and possibly resulting in a misstatement of leave provision on the annual financial statements.</p>	<p>i). Management needs to implement measures to ensure that deficiencies in internal controls are addressed. ii). The HCM Manager should ensure that all leave transactions are captured on SAP. iii). Reports should be drawn subsequent to capturing to check that captured transactions are reflected on the system. iv). Management should analyse the leave provision to determine whether the provision may be misstated. v). Management should consider enhancing the controls in place for document management to ensure that</p>

	<p>on forced leave at the end of the 18 months Annual Leave cycle.” Leave transactions were captured in an untimely manner e.g. The leave was approved on 3 May 2016 however and was only captured onto the SAP system on 1 July 2016.</p> <p>There is a risk that leave balances on the system may be inaccurate, resulting in the employee being allowed to take leave in excess of what is available, and possibly resulting in a misstatement of the leave provision on the annual financial statements.</p> <p>ii) 2. Through inspection of the leave taken by the employee below on the SAP System, it was noted that the employee did not take the required minimum of 10 annual leave days in the period under review, as required by the policy. The employee only took 5 days annual leave in the period under review.</p>									documents are not misplaced or lost.
175	<p>Ineffective controls in place over the leave encashment process (Rail Ho CoF 14)</p> <p>Paragraph 1.3 of the Leave Policy for Junior Employees states the following: “Of the total leave earned, 10 days in the case of 5 day workers and 12 days in the case of 6 day workers, are regarded as compulsory leave which on request of the employee must be taken consecutively, whilst the remainder may either be taken, encashed or accumulated as set out under”</p> <p>The Leave Policy for Management states the following:</p>			X			X	AE: HCM	i)Through the performance of a recalculation of the amounts paid to employees for the encashment of leave for long service, normal circumstances or for leave encashment upon termination of employment, no evidence of a documented and	Issue 1 and 2: i)Management at Rail Head Office is not the custodian of Policies and the SAP blueprint and system. ii)Management at the PRASA Rail Head Office should communicate/escalate all internal control deficiencies identified to the PRASA Corporate Office to assist in ensuring that PRASA policies are updated adequately and that risks are adequately identified and managed

	<p>“5.3 Accumulation and encashment of Leave (applicable to Occasional Leave ONLY) 5.3.1 The maximum number of days that may be accumulated is 15 working days. 5.3.2 Occasional Leave may be encashed at the current remuneration after an individual shall have taken his/her fifteen (15) Annual Leave days, bearing in mind that a certain number of days can be accumulated in accordance with paragraph 5.3.1, subject to approval and affordability.</p> <p>5.4 Termination 5.4.1 Employees who leave the service of the Company will receive the following payment in lieu of leave: •Accumulated leave earned”</p> <p>Section 1 of the PFMA defines fruitless and wasteful expenditure as: “Fruitless and Wasteful expenditure is expenditure made in vain and would have been avoided had reasonable care been exercised”</p>															<p>approved method of calculation for the encashment of leave could be noted on the leave policy.</p> <p>ii)In addition, through the review of the Human Capital Management Business Blueprint and the Human Capital Management Supplementary Business Blueprint (as per below), it was noted that the documents had not been approved.</p> <p>There is a risk that an overpayment has been made when paying out leave encashments, resulting in fruitless and</p>	<p>effectively throughout PRASA.</p> <p>Issue 3: Leave Encashment Application Forms were provided after testing had been concluded for employees 20024463 and 20024528 respectively. No evidence of the Leave Audits/verification of available leave for encashment was for the terminated employees. (20101871 and 20101872) Issue 4:</p>
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										wasteful expenditure		
176	<p>Suspensions – Extensions beyond 30 days not authorised (Rail HO CoF 16)</p> <p>The PRASA Disciplinary Code and Grievance Procedure states the following: “4.1.4 When an employee is suspended pending an investigation, the investigation shall be concluded within a reasonable time, to ensure that employees are not suspended for longer periods. (The Employee Relations Department shall ensure that the hearing is held as soon as practically possible).</p> <p>The Metrorail Disciplinary Code and Procedure Agreement made and entered into between Metrorail, UASA, SATAWU and UTATU (Labour) states the following: “11.1 The company shall have the right to suspend an employee with pay prior to the determination of disciplinary action where, in the opinion of Management, an offence by an employee is regarded as serious, and/or that the continued presence of the employee at the Company’s premises may prejudice the interests of the Company, the employee, other employees or hamper an investigation. The suspension period should not exceed a maximum of thirty (30) calendar days or the period of disciplinary process. If this period is to be exceeded permission therefore must be obtained from the CEO.” During the audit of HCM at PRASA Rail Head Office, through the inspection of suspension files for the selected sample of suspended employees, the following exceptions were</p>			X					X	AE:HCM	<p>During the audit of HCM at PRASA Rail Head Office, through the inspection of suspension files for the selected sample of suspended employees, the following exceptions were noted with regard to the Employee Relations Policy: i) Disciplinary Code and Grievance Procedure approved on 5 June 2008: ii)No evidence of review and updates have been noted since the date of approval of the Employee Relations Disciplinary Code and</p>	<p>i)Management at Rail Head Office is not the custodian of the Employee Relations Policy: Disciplinary Code and Grievance Procedure and the Metrorail Disciplinary Code and Procedure Agreement management at the PRASA Rail Head Office should communicate/escalate all internal control deficiencies identified to the PRASA Corporate Office to assist in ensuring that PRASA policies are updated adequately and that risks are adequately identified and managed effectively throughout PRASA.</p> <p>ii)Management should ensure that the monitoring of the suspension process is done effectively as the ineffective monitoring of the suspension process by management may result in prolonged suspensions and the following: •Salaries paid to employees with no work being performed; •Increased responsibilities for current employees;</p>

	<p>noted with regard to the Employee Relations Policy: Disciplinary Code and Grievance Procedure approved on 5 June 2008:</p> <ul style="list-style-type: none"> •No evidence of review and updates have been noted since the date of approval of the Employee Relations Policy: Disciplinary Code and Grievance Procedure approved on 5 June 2008; and •The policy does not indicate the maximum length of a suspension period the corresponding investigations where necessary. •It was noted that there were suspensions which exceeded the maximum of 30 days with no evidence of authorisation for the extension from the CEO as required. 															<p>Grievance Procedure approved on 5 June 2008; and</p> <p>iii)The policy does not indicate the maximum length of a suspension period the corresponding investigations where necessary.</p> <p>iv)It was noted that there were suspensions which exceeded the maximum of 30 days with no evidence of authorisation for the extension from the CEO as required.</p>	<p>•Increased costs related to responsibility and acting allowances;</p> <p>•Non-achievement of quarterly and annual targets due to staff shortages; and</p> <p>•Low staff morale as a result of active staff being over-worked.</p>
177	<p>Limitation of Scope – Supporting documents not provided for audit (Rail GP CoF 4)</p> <p>Paragraph 6 of the PRASA Recruitment and Selection policy states the following: “6.1 When a vacancy occurs or a new position is created that has not been filled the line Manager within whose delegated authority the post falls must confirm with the Human Resource Department that the position is</p>								X						X AE:HCM	<p>i)The file was not submitted.</p> <p>ii)During the audit of Human Capital Management at PRASA Metrorail Gauteng Region, while auditing</p>	

	<p>approved on the Structure and that adequate financing of the post exists.</p> <p>6.2 The manager must also submit the job requisition form to the Human Resource department which must detail:</p> <ul style="list-style-type: none"> •The grade or the level of the job (if this is known) •The title of the position •The motivation for filling the position •The descending and ascending reporting structures •The inherent and essential requirements of the job” 								<p>appointments for the period 1 April 2016 – 31 March 2017, it was noted that requisition forms were not completed prior to the appointment of employees and the organisation structure for the advertised position was not filed.</p>	
178	<p>Non-compliance with the Recruitment and Selection Policy – Requisition forms and organization structure not submitted (Rail GP CoF 5)</p> <p>Paragraph 6 of the PRASA Recruitment and Selection policy states the following: “6.1 When a vacancy occurs or a new position is created that has not been filled the line Manager within whose delegated authority the post falls must confirm with the Human Resource Department that the position is approved on the Structure and that adequate financing of the post exists.</p> <p>6.2 The manager must also submit the job requisition form to the Human Resource department which must detail:</p> <ul style="list-style-type: none"> •The grade or the level of the job (if this is known) 			X			X	AE:HCM	<p>i)Auditors were not provided with the with Requisition forms and the structure was not in the recruitment file.</p> <p>ii)Leave transactions were not captured on the SAP.</p> <p>iii) There is a risk that leave balances on the system may be inaccurate, resulting in the</p>	<p>i) AE:HCM needs to provide AG with Requisition forms.</p> <p>ii) Provide evidence that leave transactions are captured on the SAP.</p> <p>iii) AE:HCM to provide updated evidence on available leave days for employees.</p> <p>iv) Update Annual Financial Statements to reflect the above remedies.</p>

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	<ul style="list-style-type: none"> •The title of the position •The motivation for filling the position •The descending and ascending reporting structures •The inherent and essential requirements of the job” 									employee being allowed to take leave in excess of what is available, and possibly resulting in a misstatement of the leave provision on the annual financial statements.	
179	Ineffective controls over the monitoring and capturing of leave worked by employees (Rail GP CoF 15)			X					X		
180	Suspensions – Extensions beyond 30 days not authorised (Rail GP CoF 17)			X					X		
181	Ineffective controls in place over the leave encashment process (Rail GP CoF 16)			X					X		
182	Performance management – performance agreements (Corp CoF 27)			X					X		
183	Organisational structure (Corp CoF 37)			X					X		
184	Suspensions – Long suspensions (Corp CoF 53)			X					X		
185	Acting appointments and acting period is not in accordance the Remuneration and Benefits Policy and Philosophy (Corp CoF 54)			X					X		
186	Ineffective controls in place over the leave encashment process (Corp CoF 55)			X					X		
187	Ineffective controls over the monitoring and capturing of leave worked by employees (Corp CoF 56)			X					X		
188	Non-compliance with the Recruitment and Selection policy (Corp CoF 73)								X	3	
	OPERATING LEASE EXPENSES										

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189	Operating lease expense – Differences between the AFS and the supporting documents provided for audit (Corp CoF 74)	X					X		3	
	ACTUARIAL GAINS/LOSSES									
190	Change in accounting policy and prior period error (Corp CoF 50)	X					X		1	
	PERSONNEL COSTS AND DIRECTORS EMOLUMENTS									
191	<p>Key personnel disclosure note – Differences between key personnel note and payslips of executives (Corp CoF 77)</p> <p>Compensation includes all employee benefits (as defined in IAS 19 Employee Benefits) including employee benefits to which IFRS 2 Share-based Payment applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity.</p> <p>Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.”</p> <p>During the audit of Key personnel disclosure, the following issues were identified:</p> <p><i>1.Disclosure of an employee who is not a key personnel as defined</i></p>	X					X	GCFO	<p><i>1.Disclosure of an employee who is not a key personnel as defined</i></p> <p>i)It was identified that V Dlamini, (Spokesperson) , R429 000 was disclosed as part of the key personnel even though his position in the entity does not meet the requirements in terms of IAS 24.1</p> <p>ii) The compensation of key executives as per the</p>	<p>i)Prasa should review AFS to include corrected key personnel notes.</p> <p>ii)Employee identified as a key personnel when in actual not a key personnel should be removed from key personnel note</p>

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	It was identified that the employee listed below was disclosed as part of the key personnel even though his position in the entity does not meet the requirements in terms of IAS 24.									disclosure note and the payslips did not agree.	
	EVENTS AFTER REPORTING DATE (SUBSEQUENT EVENTS)										
192	<p>Differences between amount disclosed in the AFS and the supporting documents (Corp CoF 69)</p> <p>Section 51(1)(a)(i) of the Public Finance Management Act (PFMA) states the following: "An accounting authority for a public entity must ensure that that public entity has and maintains—effective, efficient and transparent systems of financial and risk management and internal control;</p> <p>Section 55(1) of the PFMA states the following: "55. Annual report and financial statements. — (1) The accounting authority for a public entity— (a) must keep full and proper records of the financial affairs of the public entity; (b) prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognized accounting practice for that public entity;"</p> <p>IAS 10 Paragraph 21 states the following: "If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each</p>	X						X	<p>During the audit of subsequent events at PRASA Corporate, it was noted that the amounts disclosed in the annual financial statements Note 40 relating to subsequent events did not agree to the supporting evidence provided for audit.</p>	The AFS have been adjusted	

	material category of non-adjusting event after the reporting period: (a) the nature of the event; and (b) an estimate of its financial effect, or a statement that such an estimate cannot be made."									
	DISCLOSURES									
193	<p>Disclosures (Prepayment and fruitless and wasteful expenditure) relating to the transactions entered into with Swifambo (Corp CoF 62)</p> <p>The National Treasury guideline on fruitless and wasteful expenditure notes the following:</p> <p>"21. Fruitless and wasteful expenditure incurred during the financial year and any criminal or disciplinary steps taken as the result thereof must be disclosed in the notes to the annual financial statements of the institution.</p> <p>23. Fruitless and wasteful expenditure is recognized as expenditure in the Statement of Financial Performance according to the nature of the payment, e.g. payment for travel and subsistence and not as a separate line item on the face of the Statement of Financial Performance."</p> <p>All monies paid will be claimed back, as there is a possibility of Voslooh appealing the matter, the accounting as a prepayment will stay as there is no certainty at this point in time that monies will be recovered the total amount paid has been disclosed as a contingent asset."</p>	X					X	AGCFO	i)"Locomotives - not shown in prior year"	<p>i)The entity disclosed a commitment relating to Swifambo however there is an existing court ruling which ruled that the contract with Swifambo is invalid.</p> <p>ii)There was no existing commitment between Prasa and Swifambo.</p> <p>iii)All monies paid to Swifambo must be recovered in full.</p>

GOVERNANCE														
194	<p>Declaration of interest not submitted by suppliers, member of accounting authority and employees (Corp CoF 80)</p> <p>Section 50(3) (a) and (b) of the Public Finance Management Act (PFMA) 1 of 1999 states: A member of an accounting authority must— “(a) disclose to the accounting authority any direct or indirect personal or private business interest that that member or any spouse, partner or close family member may have in any matter before the accounting authority; and (b) withdraw from the proceedings of the accounting authority when that matter is considered, unless the accounting authority decides that the member’s direct or indirect interest in the matter is trivial or irrelevant.” During the audit of supply chain management, we noted that there was a member of the accounting authority that did not declare their interest as required.</p> <p>The illustration below provides details:</p> <table border="1"> <thead> <tr> <th>Name of member</th> <th>Position within the entity</th> </tr> </thead> <tbody> <tr> <td>PS Popo Molefe</td> <td>Chairperson of the Board</td> </tr> </tbody> </table> <p>Upon discussion with the Acting CPO it was noted that all PRASA employees were required to complete an annual declaration of interest with exception of SCM officials who are required to complete declarations twice a year.</p>	Name of member	Position within the entity	PS Popo Molefe	Chairperson of the Board				X				X ACPO	<p>Employees and Service Providers have contravened PFMA stipulations</p> <p>i)Declarations of interests particularly by Prasa employees should be checked up against Prasa’s service providers.</p> <p>ii)Immediate investigations and disciplinary measures should be undertaken towards employees found to have failed to disclose their associations with Prasa service providers. Particularly those service providers with active tenders.</p> <p>iii)Audit should follow up in the next audit cycle</p>
Name of member	Position within the entity													
PS Popo Molefe	Chairperson of the Board													

<p>During the testing of supply chain management, it was noted that there were a number of employees who did not complete their annual declarations, the list of the employees is contained in the table below and further the related suppliers did not declare their connection as well:</p>																			
Name of employee	Position within the entity	Suppliers																	
SD Siphesihle Thwala	Eng Engineer	Mjantshi Engineering Consultance																	
ES Enos Ngutshane	Adm General Manager - Snr	Enlightened Security Force, Karabo-Nhlamolo Projects																	
TN Thamsanqa Sithole	Adm Manager - Snr	Mbita Consultir Services CC																	
M Masabatha Mthwecu	Adm Manager - Snr	Karabo-Nhlamolo Projects																	
T Tembela Kulu	Adm General Manager - Snr	Kwantu Delight (PTY) LTD																	
NA Nongabisa ya Mareko	Adm Executive Manager	Mbokodo Rail (PTY) LTD																	
MM Mfanimpela	Adm General	Pilato Technologies (PTY) LTD																	

	KS Kgositsile Mokobe	OPS Porter	Sivuyile Cleaning and Multipurpose										
	SD Siphesihle Thwala	Eng Engineer	Mjantshi Engineering Consultance										
	FO Fhatuwani Mulaudzi	SHQ Investigati ng Officer	Maedza Construction & Porjects										
	MJ Madimetsa Ledwaba	Eng Vehicle Builder - Snr	Ledwaba Projects										
195	CORPORATE GOVERNANCE- POLICIES AND PROCEDURES (Corp CoF 6)					X			X	BoC Company Secretariat /	<p>i)Prasa has no existing, adopted Policy Framework. This puts the organisation in serious jeopardy as Executives may deliberately commit to irregular and conflicting commitments in the name of 'not having directive Policy Framework' to follow.</p> <p>ii) The absence of adopted policies significantly</p>	<p>i)All policies must be signed as approved and dated by the Chairperson of the Board.</p> <p>ii)Signed policies must be provided for audit purposes. Should signed policies not be available PRASA must provide minutes of Board meetings where these were approved.</p> <p>iii)Policies should be reviewed on a periodic basis to ensure they are in line with legislative requirements and changes in the entity environment.</p> <p>iv)The Chief Risk Executive should maintain a policy register in order to keep track of policies that are approved as well as those under review</p>	
	Audit Finding Section 51(1)(a)(i) of the Public Finance Management Act (PFMA) states: "An accounting authority of a public entity - must ensure that the public entity has and maintains effective, efficient and transparent systems of the financial and risk management and internal control". Section 51(1)(b)(ii) of the PFMA states: "An accounting authority for a public entity - must take effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity". Section 55 of the PFMA states the following regarding the annual report and financial statements: "(1) The accounting authority for a public entity—												

	<p>(a) must keep full and proper records of the financial affairs of the public entity; (b) prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity. During the audit the following matters were identified: 1. Policies are not signed as evidence of approval by the Board</p> <p>The following policies have not been signed as evidence of approval by the Chairperson of the Board. The policies include policies approved by previous Board's. The following serves as examples:</p> <table border="1" data-bbox="277 863 790 1390"> <thead> <tr> <th>No</th> <th>Name of Policy</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Code of Conduct and Ethics</td> </tr> <tr> <td>2</td> <td>Disciplinary Code</td> </tr> <tr> <td>3</td> <td>Employee Transfer</td> </tr> <tr> <td>4</td> <td>Termination of Employment</td> </tr> <tr> <td>5</td> <td>Disability Management</td> </tr> <tr> <td>6</td> <td>Secondment</td> </tr> <tr> <td>7</td> <td>Succession Planning</td> </tr> <tr> <td>8</td> <td>Enterprise Risk Management Policy</td> </tr> <tr> <td>9</td> <td>Whistle Blowing policy</td> </tr> <tr> <td>10</td> <td>Accounts receivable policy and procedure manual</td> </tr> </tbody> </table>	No	Name of Policy	1	Code of Conduct and Ethics	2	Disciplinary Code	3	Employee Transfer	4	Termination of Employment	5	Disability Management	6	Secondment	7	Succession Planning	8	Enterprise Risk Management Policy	9	Whistle Blowing policy	10	Accounts receivable policy and procedure manual															<p>hinders investigative audit performances. lii) The absence of policies opened room for corruption and irregular expenditure within the organisation.</p> <p>Management EXCO should approve to recommend organisational policies.</p> <p>The Terms of Reference are still not approved for recommendation to the BoC.</p>	<p>and those that need to be revised. v)The effective date of policies should allow time for training and communication prior to implementation.</p> <p>vi)Standard operating procedures should be developed for all controls within the entity. These should be approved and signed by the delegated official in a timely manner.</p> <p>vii)Directives should be approved in a timely manner. These should be approved and signed by the delegated official.</p> <p>viii)PRASA must develop a policy for Infrastructure procurement and delivery management as required by National Treasury Instruction 4 of 2015/16.</p> <p>ix)Moreover, an audit of approved policies should have been performed by the AGSA.</p> <p>x)The Chief Risk Executive should see to it that this matter is followed up during future audits.</p>
No	Name of Policy																																						
1	Code of Conduct and Ethics																																						
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<p>2. Policies not reviewed regularly</p> <p>Based on the audit work performed it has been noted that only the supply chain management policy has been recently reviewed. The remainder of the policies listed above, have not been reviewed during the previous three (3) years.</p> <p>There is a risk that the policies are outdated in terms of legislative and entity requirements</p> <p>i)The risk exists that employees are applying policies not approved by the Board.</p> <p>ii)Unsigned/unapproved policies will lead to the controls not being implemented, thus rendering the desired controls ineffective.</p> <p>iii)Should an employee not adhere to processes PRASA may not be able to hold such employees accountable.</p> <p>iv)Should employees not adhere to the internal control principles that are intended to be governing the operations of the entity, this could lead to amongst other things non-compliance with legislation.</p> <p>v) The AGSA is unable to verify that the transactions to which these policies relate are in compliance with those approved by the PRASA Board. This is a repeat audit finding which has not been addressed.</p> <p>vi) There is a risk that the policies are outdated in terms of legislative and entity requirements.</p> <p>vii) PRASA does not have a policy register in order to maintain control over approved policies.</p>																																					
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	<p>This is a repeat audit finding which has not been addressed.</p> <p>viii) The risk exists that policies are approved and effective immediately however they are not implemented by the entity resulting in non-compliance.</p> <p>3. No policy register maintained</p> <p>Based on the audit work performed it has been noted that PRASA does not have a policy register in order to maintain control over approved policies.</p> <p>This is a repeat audit finding which has not been addressed.</p> <p>4. Implementation of policies</p> <p>During the audit, the AGSA was informed that the revised PRASA SCM policy was approved on 29 March 2016. The policy is not dated and therefore the minutes of the meeting, where the policy was approved, was requested as evidence to support approval. This remains outstanding.</p> <p>The approved policy states that it is effective from the date of approval. Therefore, the policy became effective of 29 March 2016.</p> <p>The policy was however only communicated to the entity on 19 August 2016.</p> <p>The risk exists that policies are approved and effective immediately however they are not implemented by the entity resulting in non-compliance.</p>																																						
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<p>5. Standard operating procedures Standard operating procedures for supply chain management have been developed together with the bid committee charters. These standard operating procedures supporting the policy was only approved on 31 October 2016. Standard operating procedures for PRASA Performance Reporting 2016/17 process have been developed however, these have to date not yet been approved. The procedures support the quarterly and annual performance reporting against the indicators and targets reflected in the Corporate Plan.</p> <p>The risk exists that when the policy was communicated to the entity, implementation was not effective as the procedures were not available to guide the employees.</p> <p>6. Standard operating procedures not developed</p> <p>ix)Based on the planning work performed we have noted that PRASA does not have any documented standard operating procedures, except for supply chain management and performance information. The risk exists that there are no documented controls in place and therefore the employees do not understand what is required.</p> <p>7. Directives – supply chain management</p> <p>Based on the audit work performed it has been noted that the supply chain management Directives which supports the approved supply</p>																																						
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<p>chain management policy has not yet been approved by the by the previous two acting Group Chief Executive Officers (GCEOs).</p> <p>The risk exists that there are no approved directives, which provide detail instructions in support of the policy, in place and therefore the employees do not understand what is required. Standard operating procedures for PRASA Performance Reporting 2016/17 process have been developed however, these have to date not yet been approved. The procedures support the quarterly and annual performance reporting against the indicators and targets reflected in the Corporate Plan.</p> <p>8. Standard for Infrastructure Procurement and Delivery Management</p> <p>National Treasury Instruction note 4 of 2015/16, effective 1 July 2016, paragraph 3.1: “Accounting officers and accounting authorities must, in the planning, design, procurement or execution of infrastructure project, - (a)Implement the National Treasury Standard for Infrastructure Procurement and Delivery Management, as contained in Annexure A; and (b)Develop a suitable supply chain management policy for infrastructure procurement and delivery management.” Based on the audit work performed we have noted that to date PRASA has not developed a policy related to infrastructure procurement and delivery management. The risk exists that National Treasury Instruction 4 of 2015/16 may not be adhered to resulting in non-compliance.</p>																																					
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196	<p>Audit committee not properly constituted (Corp CoF 8)</p> <p>Audit Finding</p> <p>In terms of section 51(1) of the Public Finance Management Act (PFMA) 1 of 1999: “An accounting authority for a public entity—</p> <p>a) must ensure that that public entity has and maintains—</p> <p>(ii) a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77...”</p> <p>Section 77 of the PFMA: “An audit committee—</p> <p>a) must consist of at least three persons...”</p> <p>Chapter 2, Paragraph 2.6 of King Code of Governance Principles’ (King III), Role and function of the board: “The board should ensure that the company has an effective and independent audit committee”</p> <p>Chapter 3 of King Code of Governance Principles (King III):</p> <p>“3.1 The board should ensure that the company has an effective and independent audit committee</p> <p>3.1.1. Listed and state-owned companies must establish an audit committee.</p> <p>3.1.4. The audit committee should meet as often as is necessary to fulfil its functions but at least twice a year.</p>		X		X	<p>There was an absolute contravention of the stipulations of the PFMA (section 77) as well as King Code of Governance Principles 111, Chapter 3:3.2.2).</p> <p>ii)The BoC Chairperson was ill-advised by the Company Secretariat when subsequently approving the Audit Committee’s Terms of Reference.</p> <p>iii)The ineffectiveness of the BoC together with Board Committees had an adverse effect on amongst others the following:</p> <p>i)Approval and implementation</p>	<p>i)Prasa Board was dissolved in March 2017 and the interim Board resumed its responsibilities in October 2017. This in left a huge vacuum in as far as governance of the entity is concerned as matters requiring approval for recommendations by Board Committees could not be adopted due the absence of the Board.</p> <p>ii)Audit Committee remained inoperative since the resignation of the member from National Treasury in November 2016.</p> <p>iii)The Board should ensure that an independent and suitably qualified audit committee is appointed as per section 77 of the PFMA.</p> <p>iv)The board should ensure that the appointed audit committee complies with King Code of Governance Principles.</p> <p>v)The Board should ensure that the audit committee, terms of reference are in line with the PFMA.</p>
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	<p>3.1.5. The audit committee should meet with internal and external auditors at least once a year without management being present.</p> <p>3.2 Audit committee members should be suitably skilled and experienced independent non-executive directors</p> <p>3.2.2. The audit committee should consist of at least three members.</p> <p>3.2.7. The board must fill any vacancies on the audit committee.</p>																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						
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	<p>1.Signed Human Resource committee minutes for 2016/17 2.Signed Safety and Remuneration committee minutes for 2016/17 3.Signed Exco minutes for 2016/17 4.Signed Annual General Meeting minutes for 2016/17 5.Signed Governance committee meeting minutes for 2016/17 6.Signed Board minutes for 2016/17 (Only received post AGM meeting with the minister) 7.Signed terms of reference for the Governance committee 8.Signed terms of reference for Human Resource committee 9.Signed terms of reference for the Safety and Health committee 10.Signed terms of reference for EXCO</p>									
198	<p>Limitation of scope – Assessments (Corp CoF 5)</p> <p>Audit finding Section 15(1) of the Public Audit Act, states that: “When performing an audit referred to in section 11, the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to— (a) any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee; (b) any of the assets of or under the control of the auditee; or (c) any staff member or representative of the auditee.”</p>			X			X	Company Secretariat	For the period under review there was neither Board nor Committee assessment, because of the Governance challenges experienced at Board level, amongst others the Board having been dissolved and reinstated and the Board not being properly constituted due	The Company Secretary should ensure that: i)The requested information is provided for audit purposes. ii)The 2015/16 final assessments of the Board, Audit and Risk Committee and Internal Audit must be provided for audit should the 2016/17 assessments still be in progress. iii)However, the interim Board has been appointed and a review of the Governance Framework that will ensure that the Board and its Committees are regularly assessed in line with the

Final Management report of PRASA 16/17

	The following assessments were requested on 20 October 2016 and the Company Secretary failed to provide it for audit. Several follow ups have been made in this regard.									to the resignations of the Board Members that left the Board with four (4) Members.	Shareholders Compact and Best Practice.
	PUBLIC PRIVATE PARTNERSHIPS										
199	Development leases not accounted for as Public Private Partnership's (PPPs) (CoF 4 – Corp 2015-16)	X						X		2	
	INFORMATION SYSTEMS AUDIT										
200	Communication of Information Systems Audit Findings (Corp CoF 38)				X			X		3	
Ann C											
	REVENUE										
201	Non-Compliance with the Real Estate Management Leasing Procedure Manual (Cres GP)				X			X		2	
	PROPERTY, PLANT AND EQUIPMENT										
202	Assets register not complete – movable assets (Cres GP)	X						X		3	
	INVENTORY										
203	Physical Inventory Count Findings (Rail KZN CoF 19)				X			X		3	

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