



TRANSPORT MINISTRY
REPUBLIC OF SOUTH AFRICA

SPEAKING NOTE OF THE MINISTER ON THE OCCASION OF THE SCOPA HEARING ON THE PRASA ANNUAL REPORT AND FINANCIAL STATEMENTS HELD ON 29 MARCH 2022 AT 09H00

Chairperson of the Standing Committee on Public Accounts, Mr Mkhuleko Hlengwa

Deputy Minister, Ms Sindisiwe Chikunga

Members of SCOPA

Chairperson of PRASA, Mr Leonard Ramatlakane

Members of the PRASA Board

Acting Director-General, Mr Mthunzi Madiya

Acting Group Chief Executive Officer of PRASA, Mr David Mphelo

Deputy Director-General: Rail Transport, Mr Ngwako Makaepa

The Annual Report of the Passenger Rail Agency of South Africa reflects improvement on performance against pre-determined objectives. However, an improvement of 11% from 18% to 29% is a far cry from where we should be and remains unacceptably low.

We must equally take heed of the fact that the reporting period under review covers the period when the onset of the COVID-19 pandemic was at its peak and the country was on hard lockdown at Alert Level 5, with travel restrictions persisting on Alert Level 4.

The disruption of the pandemic came at a time when PRASA was grappling with the security challenge in its environment which resulted from the termination of irregular security contracts without a contingency plan in place. This left the PRASA environment exposed to criminality that has all but stripped bare its infrastructure.

The wanton destruction, theft and vandalism of rail infrastructure affected all PRASA business units, severely impacting on plans to resume services when we lifted restrictions on commuter rail and inter-provincial travelling.

The process of service recovery has been painstakingly slow due to the state of repair of the infrastructure. The recovery plan identified 10 priority corridors for recovery by the end of the 2022 calendar year. We have previously indicated that the full recovery of the Central Line in Cape Town is hamstrung by the process to relocate the illegal settlements on the rail track and reserve at Langa and Nyanga.

The following achievements were realised against the planned targets for the year:

- 25 out of 35 new trains were delivered
- 22 out of 32 signalling commissions completed
- 14% Qualifying Small Enterprises spending against a target of 15%

- 11% Exempted Micro Enterprises spending against 15% target

Importantly, there were no findings on the audit of predetermined performance objectives.

PRASA is in a dire financial position as it is not generating sufficient revenue to cover its operating costs. The group has posted a loss of R1.9 billion for the year under review.

Its operating costs remain high and increased marginally to R15.5 billion in 2020/21. This is against the backdrop of fare revenue which declined by R900 million mostly due to network and train unavailability due to COVID-19 restrictions and infrastructure damage.

As a consequence, PRASA has become dependent on the subsidy in the form of Operational and Capital grants.

PRASA's audit outcomes have stagnated over the last 3 years.

The entity has once again received a disclaimer from the Auditor-General. This is an untenable situation that is receiving our urgent attention.

The AG has highlighted a number of root causes for the audit outcome, which include:

- Inadequate governance records.
- Instability in key positions.
- Poor financial management discipline.
- Lack of compliance monitoring and enforcement.
- Lack of consequences management.
- Lack of effort to resolve matters related to PRASA's financial viability and that of its subsidiaries.
- Inadequate oversight.
- Inadequate financial reporting processes including reviews; and
- Ineffective audit findings action plan

We are deeply concerned at the issues highlighted by the AG, because we believe these are issues that can be resolved speedily through decisive interventions.

We are pleased that progress is being made with stabilising the management cohort through a recruitment process and implementation of a new organisational design.

We are also beginning to see progress with consequences management across the organisation. The implementation of the Special Investigation Unit (SIU) recommendations, following investigations on irregular expenditure, mainly arising from irregular procurement processes gives us comfort that consequences management has been internalised to become part of PRASA's DNA.

The SIU identified forty-four (44) employees against whom disciplinary action should be taken by PRASA. Thirty-three (33) of the forty-four (44) are still in the employ of PRASA.

In implementing consequences management, the thirty-three have been grouped into categories according to seniority level and significance of findings against them, as follows:

- Priority 1 employees are members of senior management. Fourteen (14) of the affected employees fall within this category. All of these employees have been placed on precautionary suspension and their disciplinary cases are at various stages.
- Priority 2 employees consist of junior managers, specialist and middle managers. Ten (10) of the affected employees fall in this category. All these employees have been served with letters indicating intent to subject them to disciplinary processes, giving them an opportunity to make representations as to why disciplinary action should not be preferred against them.
- Priority 3 consists of junior officials. Nine (9) of the affected employees fall in this category. These employees have also been served with letters indicating intent to subject them to disciplinary

processes, giving them an opportunity to make representations as to why disciplinary action should not be preferred against them.

Irregular expenditure remains a serious cause for concern. While we have noted a significant decline from R3 billion to R1.3 billion, the quantum of the irregular expenditure remains unacceptably high. In 2019 it was R3bn and dropped to R1.3bn in 2020.

We have made a commitment in our Performance Agreement with the President to dramatically reduce irregular expenditure in all our entities. It is for this reason that we want PRASA to implement measures that must deliver this reduction. However, our main prize is the complete elimination of irregular expenditure. If the internal control environment is as robust as it should be, then it is possible to eliminate irregular expenditure. This is an area we are keeping on the radar as it also affects the Minister's performance.

In the same vein, we have committed to 100% elimination of fruitless and wasteful expenditure by 2024. In the year under review, fruitless and wasteful expenditure incurred stood at R48m. Our target is to reduce this type of expenditure to 0.

The quantum of deviations, variations and expansions at PRASA are a source of concern as these indicate poor planning on the part of management. However, we do appreciate that sluggish pace at which PRASA has been implementing its capital programme, exacerbated by the onset of the COVID-19 pandemic has created a need for PRASA to play catch-up and accelerate its spending on capital projects. Despite this, we want PRASA to work smarter, rather than expose the entity to unmitigated risks.

While the Board has implemented some initiatives aimed at strengthening the internal control environment, these remain weak and ineffective. We have directed the Board to build the necessary capacity to address the deficiencies to ensure the robustness of internal controls.

In conclusion, significant strides have been made post the reporting period with tangible progress in the infrastructure rehabilitation and upgrades which has enable the restoration of commuter service in a number of priority corridors.

The Chairperson of PRASA, Mr Leonard Ramatlakane, will lead the PRASA presentation to the Committee on its Annual Report and Financial Statements.

I thank you.