DATE: Tuesday, 25 February 2020  
TO: All Media  
ATTENTION: News Editors / Transport Reporters / All Reporters  
For immediate use  
TRANSPORT MINISTER FIKILE MBALULA’S ADDRESS ON THE OCCASION OF THE BRIEFING TO THE PORTFOLIO COMMITTEE ON TRANSPORT ON THE APPOINTMENT OF THE PRASA ADMINISTRATOR IN PARLIAMENT ON 25 February 2020 AT 10h00  

Chairperson  

Members of the Portfolio Committee  

When we appeared before this Committee in 2019, we committed to move with speed to address the chronic challenges that were the root cause of PRASA’s inability to deliver on its core mandate. In doing so, we took an incisive look at the operational environment through the War Room intervention.

You will appreciate that PRASA was established in 2009 as a consequence of government policy to institutionally separate passenger rail from freight rail.

This gave rise to the amendment of the Legal Succession Act to the South African Transport Services Act in 2008, consolidating passenger rail assets and operations under a new entity and a successor-in-law to the South African Rail Commuter Corporation (SARCC).

PRASA’s dismal performance, having achieved only 26% of its annual predetermined objectives in 2018/19 was cause for concern. This was a slight improvement from 21% in the previous year. This unacceptable state of affairs required drastic action.

Similarly, PRASA’s financial performance over the years was another pressing challenge. Over a period of 5 years, PRASA’s revenue had declined by 48%,
resulting in an untenable situation where its operating deficit reached
unacceptable levels of R1.8 billion.

Despite its infancy, PRASA’s operational performance continued to decline over
the years with notable stagnation in 2015 and 2016 of its on-time performance,
and its safety record plunging to unprecedented levels in 2016.

Equally, passenger numbers of the Mainline Passenger Services (MLPS), of
which Shosholoza Meyl is part of, declined from 3.8 million in 2008/09 to 387 530
in 2018/2019. This was largely due to the decline in locomotive reliability and
availability.

Autopax fleet availability plummeted from 570 buses to an all-time low of 90
buses in 2018/19, with passenger numbers declining from 3.15 million in 2012/13
to 1.9 million in 2017/18.

On time servicing of buses stood at 38% in 2017/18.

PRASA’s ability to pay its short-term liabilities continued to decline since 2016, a
situation exacerbated by the decline of the revenue generated from its
operations. This led to a situation where PRASA increasingly depended on both
its operational and capital subsidy for cash injections to stay afloat.

Long term plans in any institution do not self-execute and require sustained and
consistent leadership to succeed. The high turnover at leadership level had a
significant contribution to the decline in PRASA’s performance.

This includes high turnover at Ministerial, Board and Group CEO levels.

In the decade of its existence, PRASA has experienced many challenges that
became pronounced in the 2015/16 financial year. While the audit outcome in
2015/16 was unqualified with emphasis of matter, the AG flagged serious
governance breaches, particularly in the supply chain management. Irregular
expenditure stood at R4.1 billion alongside fruitless and wasteful expenditure of
R541 million. This period was also characterized by dissonance at the highest
levels of the organization, characterized by tensions between the Board and
management.

The Public Protector also released her report on PRASA titled “Derailed”, which
highlighted serious lapses of corporate governance. As a consequence, the
National Treasury instituted a forensic investigation on some of the issues
flagged by the Public Protector.

The Directorate of Priority Crime Investigation (“the Hawks”) had also initiated
investigations on a number of issues referred by PRASA.

The downward spiral continued in 2016/17 where PRASA had 2 Boards in a
single financial year. The relationship between Minister Peters and the Board
reached an all-time low, resulting in the Minister dismissing the Board, replacing it with an Interim Board in March 2017, which was short-lived. Over this period PRASA lost 1 355 employees, 26.4% due to natural attrition and 16% resigned. This was the first time PRASA received a qualified audit opinion.

Irregular expenditure stood at R19.6 billion, an increase from 14.8 billion in 2015/16. The AG reflected that instability in the entity, “including the board of control, negatively contributed to the decline in the financial management, performance reporting and compliance processes and the overall collapse of the internal controls within the public entity as a result of inadequate and ineffective oversight.” Fruitless and Wasteful expenditure escalated to R181 million.

In 2017/18, PRASA had 4 Boards in a single financial year. This perpetuated the instability. Over this period PRASA lost 1 246 employees, 27% due to natural attrition and 18% resigned. Once again, the audit outcome was a qualified audit opinion. Irregular expenditure stood at R23.4 billion, an increase from R19.6 billion the previous year.

Similarly, fruitless and wasteful expenditure escalated to R1 billion, up from R988 million the previous year. Once again, the Auditor General sharply raised the concern about instability at PRASA.

During the latter part of 2019, we conducted a review on the performance of the Board and of the entity as a whole.

This assessment followed the Government Technical Advisory Centre (GTAC) assessment report. Based on this report and other considerations, we arrived at a conclusion that PRASA had deep-rooted challenges that required decisive interventions at leadership and management levels.

It became glaringly obvious that merely replacing an interim Board with a permanent Board would not address the deep-rooted fault lines at PRASA. The GTAC report highlighted the dysfunctionality of PRASA and recorded non-compliance with financial prescripts that warranted immediate action and intervention.

The Auditor General in his Management report for the 2018/19 financial year, raised critical issues on governance, which included a finding that PRASA did not take effective and appropriate steps to prevent irregular and fruitless and wasteful expenditure, as required by law.

The AG also highlighted in the report that there had been no progress in addressing the significant deficiencies noted over the oversight by the accounting authority and senior management regarding financial and performance reporting, compliance and related internal controls. This was evident from the regressed audit outcomes.

Since the interim Board’s appointment, the affairs of the entity had not improved,
but had instead regressed, as evidenced by the disclaimer audit opinion, following two financial years of stagnant audit outcomes of “qualified with findings”.

Having considered all these issues and other aspects of the AG’s report, the delivery against the signed Shareholders Compact, the PFMA and King IV code, I arrived at a conclusion that a more incisive intervention that would enable quick turn-around times in decision-making with a view to stabilise operational performance was more urgent than an appointment of a permanent Board. This view was supported and agreed to by Cabinet.

It was on this basis that I decided to dissolve the Interim Board and place PRASA under administration.

Our commitment to addressing the chronic challenges which limit PRASA’s ability to deliver an efficient, safe and reliable passenger rail service has never been greater. We will also pay close attention to the implementation of measures that ensure PRASA achieves good financial health and employs public resources prudently.

In November 2019, alongside the Deputy Minister and the PRASA Board, I appeared before the Standing Committee on Public Accounts (SCOPA) on review of the 2018/2019 financial statements, deviations, irregular, fruitless and wasteful expenditure of the entity.

The Board failed to answer key questions of the Committee and similarly failed dismally to account for its ineptitude.

I further wrote to the President apprising him of the crisis at PRASA and the Board’s failure to carry out its fiduciary duties. I further briefed the President on the importance to dissolve the Board and sought political guidance, leadership and counsel from him on the matter.

In November 2019, I wrote to the Minister of Finance outlining the crisis at PRASA and its Board of Control’s failure to carry out its fiduciary duties.

Having applied my mind on the leadership and management challenges at PRASA, I served the individual members of the Board with notices of my intention to dissolve the Board and invited them to make representation on why they should not be dismissed. The Board collectively made representations to me.

Having considered their collective representations, I concluded that the representation did not justify the continued existence of the Board, and I subsequently terminated the Board.

As part of the process to seek Cabinet approval for the intervention, the ESIEID Cabinet Committee considered the Cabinet memorandum on the matter of
PRASA and approved my recommendation to be tabled before Cabinet on the dissolution of the Board of PRASA and to place the entity under administration. Cabinet subsequently approved the recommendations and PRASA was then placed under Administration, and an Administrator appointed.

The appointment of the Administrator followed due legal processes as he was first appointed in terms of the Public Service Act and subsequently seconded to PRASA as Acting Group CEO.

Section 49 (3) of Public Finance Management Act provides that “The Relevant treasury, in exceptional circumstances, may approve or instruct that another functionary of a public entity must be the accounting authority for that public entity”

The National Treasury has since granted approval in terms of Section 49 (3) of PFMA that the Group CEO of PRASA or a person acting in that position, be the Accounting Authority for a period of twelve (12) months.

PRASA has since informed the Auditor General of this approval in line with the provisions of Section 49 (5) of PFMA.

I thank you.

Ends-

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