

Report
Department of National Treasury
PRASA Naledi Rail (PTY) Ltd
Account: 102982
General overhaul / upgrade of Metrorail motor / passenger coaches
(plain trailers) and Shosholoza coaches

December 2016

This document is intended only for the use of the addressees named herein and may contain legally privileged and confidential information. If you are not the intended recipient of this document, you are hereby notified that any dissemination, distribution or copying of this document is strictly prohibited. If you have received this document in error, please immediately notify us by telephone and return the original / copy to us via the postal service. We will reimburse you any cost that you incur in notifying us and returning the document to us. Our telephone number is +27 (11) 669 9000.

EXECUTIVE SUMMARY OF FINDINGS

This executive summary must be read together with the full report, annexures and exhibits in this matter.

Mandate

1. The Public Protector in her report on the Passenger Rail Agency of South Africa ("PRASA") investigation, directed the Office of the Chief Procurement Officer ("OCPO") to conduct forensic investigations in respect of all PRASA contracts above R10 million from 2012 to date.
2. Bowmans was mandated by National Treasury to investigate 20 PRASA contracts above R10 million awarded by PRASA from 2012 to date, which included *inter alia* the Naledi general overhaul/upgrade contract of the Metrorail motor and passenger coaches and Shosholoza Meyl coaches.
3. The 20 PRASA contracts that Bowmans was mandated to investigate, were selected by National Treasury.

Summary of findings and opinion

Background

4. South Africa's railway sector was in *dire* need of an upgrade for several years. In 2005, approximately 4,500 PRASA railway coaches had an average life of more than 33 years.
5. In 2006, the National Rail Plan was approved by the South African Cabinet with the goal of identifying the funding and investment requirements for the country's ageing passenger rail system, especially in light of the quickly approaching 2010 FIFA Soccer World Cup.
6. During the period April 2006 to March 2013 PRASA (and its precursor company, the SARCC), through the General Overhaul/Upgrade Programme, had contracted with various rolling stock contractors that overhauled/upgraded over 3,472 commuter rail coaches.
7. Naledi Rail Engineering (Pty) Ltd ("Naledi") (registration number 2004/032945/07) is a rolling stock engineering company that was established in 2004. It has two directors and is 100% black owned.
8. Naledi has two facilities in Gauteng that provide general overhaul, upgrades and minor repairs to rolling stock across the African continent.

2005 - tender

9. In 2005, PRASA invited suppliers to tender for the general overhaul and upgrade of PRASA's rolling stock as part of the Accelerated Rolling Stock General Overhaul/Upgrade Programme.

2007 - initial contract

10. In 2007, PRASA awarded a contract to Naledi for the general overhaul/upgrade of PRASA rolling stock, after Naledi's bid documentation was evaluated and approved during the tender process. The contract was for a period of three years but in terms of the agreement, the contract could be extended by PRASA.
11. Naledi was one of seven companies that were approved as suppliers as part of PRASA's Accelerated Rolling Stock General Overhaul/Upgrade Programme.

2012 - Extension of the contract

12. During November 2012, PRASA's Board of Control (i.e. Board of Directors) authorised the extension of the Naledi contract.

Payments made by PRASA to Naledi

13. PRASA paid Naledi approximately R280 million from 2012 to date, for the general overhaul/upgrade of 171 motor, passenger and Shosholoza coaches.

Conclusion

14. Bowmans investigated the Naledi general overhaul/upgrade contract, including *inter alia*:
 - a. The appointment of Naledi
 - b. Payments made by PRASA to Naledi, and
 - c. Physical work performed by Naledi.
15. Bowmans did not identify any irregularities pertaining to the Naledi general overhaul/upgrade contract during the course of our investigation.

Contents

1.	BACKGROUND	9
2.	MANDATE, PERIOD, REPORT FORMAT AND QUALIFICATIONS TO OUR REPORT	9
3.	WORK PERFORMED	11
4.	COMPANY INFORMATION	12
5.	PRASA SUPPLY CHAIN MANAGEMENT POLICY	13
6.	APPOINTMENT OF NALEDI IN 2007	14
7.	PRIOR AGREEMENT BETWEEN SARCC AND NALEDI DATED 20 NOVEMBER 2007.....	14
8.	MEETING HELD ON 6 NOVEMBER 2012 BY THE PRASA FINANCIAL CAPITAL INVESTMENT PROCUREMENT COMMITTEE (FCIP)	16
9.	MEETING HELD ON 29 NOVEMBER 2012 BY THE PRASA BOARD OF CONTROL.....	17
10.	AGREEMENT BETWEEN PRASA AND NALEDI DATED 28 MARCH 2014.....	17
11.	NALEDI PRICE LIST	18
12.	INTERVIEW – MR ARTHUR TREURNICH (PROJECT MANAGER).....	19
13.	INTERVIEW – MR ARTHUR (ATTIE) BRIDGER (PRASA QUALITY ASSURER)	20
14.	MR ROBERT NEETHLING (CHIEF OPERATING OFFICER OF NALEDI)	21
15.	PAYMENTS MADE BY PRASA TO NALEDI	22
16.	PHYSICAL VERIFICATION OF THE COACHES.....	35
17.	CONCLUSION	38
	ANNEXURES.....	39
	EXHIBITS.....	40

Abbreviations

Descriptions and explanations of abbreviations and terms relevant to this report are listed below. These descriptions and explanations are intended to simplify the report content and are not intended to be authoritative.

Abbreviation / term	Description
A-date	<p>An "A-date" means the date that corresponds with the final completion and acceptance of rolling stock after general overhaul or an upgrade has been effected.</p> <p>The A-date in respect of rolling stock is stated in the format "yyyy/mm" together with the Contractors Code, e.g. "2005/09 RTS". The A-date coincides with the date of the Service Worthy Certificate.</p>
Ad-hoc work	Technical support and/or ad-hoc repair work, which falls outside general overhaul and upgrade work.
BBBEE	Broad-Based Black Economic Empowerment
Bowmans	Bowmans Inc., forensic accountants for National Treasury.
Commissioning test	Commission test means the series of tests required to demonstrate that a coach meets the criteria specified in the PRASA Specifications and Standards.
Compliance certificate	Compliance certificate means a certificate in terms of which the coach is certified to be fully compliant with the requirements of the agreed specification and is fully fit for its intended operational use.
FIFA	Federation Internationale de Football Association
GCEO	Group Chief Executive Officer
General overhaul (GO)	General overhaul is to inspect and examine the rolling stock (motor and passenger coaches) and to repair or replace the parts that do not work.
Life Cycle Management	Life Cycle Management ("LCM") of an asset, which included the phases of acquisition, operation, maintenance, upgrading and disposal.

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

Abbreviation / term	Description
Metrorail	Metrorail, which operates commuter rail services in urban areas.
Motor coach	A motor coach is a powered rail vehicle able to pull several trailers and at the same time transport passengers or luggage.
Naledi	Naledi Rail Engineering (Pty) Ltd, registration number 2004/032945/07. Business registered address at 78 Spoornet Premises, Hattingh Street, Elandsfontein, 1429.
National Treasury	National Treasury means the National Treasury as established in terms of section 5 of the Public Finance Management Act, 1999 (Act no 1 of 1999).
Notice to proceed	Notice of proceed means an official letter duly signed by an authorized PRASA representative to the contractor instructing the contractor to carry out work.
OCPO	Office of the Chief Procurement Officer
Passenger coach	A passenger coach is a piece of railway rolling stock that is designed to carry passengers.
Plain trailer / trailer coach	Also known as a passenger coach
PRASA	Passenger Rail Agency of South Africa
Public Protector	<p>The Public Protector is appointed by the President, on the recommendation of the National Assembly, in terms of Chapter Nine of the Constitution, 1996. The Public Protector is required to be a South African citizen who is suitably qualified and experienced and has exhibited a reputation for honesty and integrity.</p> <p>The Constitution also prescribes the powers and duties of the Public Protector: Further powers, duties and the execution thereof are regulated by the Public Protector Act.</p> <p>The Public Protector has the power to investigate any conduct in state affairs, or in the public administration in any sphere of government, that is alleged or suspected to be improper or to result in any impropriety or prejudice.</p>
R	Rand, the RSA currency.

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

Abbreviation / term	Description
Rolling stock	Rolling stock is locomotives, carriages, wagons, or other vehicles used on a railway.
RSA	Republic of South Africa
SABS	South African Bureau of Standards. SABS is a leading global provider of standards, management systems, business improvement and regulatory approval information.
SARCC	South African Rail Commuter Corporation Ltd, renamed PRASA in December 2008.
Service Worthy Certificate	Service Worthy Certificate means the certificate issued by Metrorail rolling stock in which it refers to a declaration from the Operational depot that the relevant rolling stock can perform its full operational role and is Service Worthy at a point of handover. The rolling stock depot shall issue this certificate and a copy thereof must accompany the contractor's completion invoice for final payment. The A-date of the rolling stock should correspond with the date of this certificate.
Shosholoza	Shosholoza Meyl, which operates regional and inter-city rail services.
Specifications and standards	Specifications and standards mean the technical and functional specifications and standards, drawings and manuals for general overhauls and upgrades of rolling stock as stipulated in the agreement between PRASA and Naledi.
Upgrade	Upgrade refers to the complete stripping and re-building of rolling stock to a "like new" standard, also considered to be a "mid-life" upgrade in terms of Life Cycle Management Principles.

1. BACKGROUND

- 1.1 The Accelerated Rolling Stock Programme was initiated by SARCC during the 2006/07 financial year to stabilise the decline in the ageing fleet of Metrorail.
- 1.2 In December 2008 the Passenger Rail Agency of South Africa (PRASA) was established, consolidating all of the passenger rail entities to better manage and aggressively address the under-performance of rail passenger services into an entity that was more modern, efficient and customer-focused.
- 1.3 The Passenger Rail Agency of South Africa (PRASA) is a South African state owned enterprise responsible for most passenger rail services in the country. It consists of four branches:
- 1.3.1 Metrorail - operates commuter rail services in urban areas;
 - 1.3.2 Shosholoza Meyl - operates regional and inter-city rail services;
 - 1.3.3 Autopax - operates regional and inter-city coach services; and
 - 1.3.4 Intersite - manages the property owned by PRASA.
- 1.4 Operating within six large cities across the country, today PRASA manages over 374 stations and transports over 2.2 million passengers daily through its local metropolitan line and 1.4 million passengers per annum through its main line passenger service.
- 1.5 During 2014, the Public Protector investigated various allegations of irregularities at PRASA. The Public Protector found widespread evidence of maladministration, improper conduct, and nepotism at PRASA.
- 1.6 The Public Protector in her report on the PRASA investigation directed the Office of the Chief Procurement Officer (OCPO) to conduct forensic investigations in respect of all PRASA contracts above R10 million from 2012 to date.
- 1.7 Bowmans was mandated to conduct forensic investigations into 20 PRASA contracts, which included *inter alia*, the Naledi general overhaul contract of motor, passenger and Shosholoza coaches.

2. MANDATE, PERIOD, REPORT FORMAT AND QUALIFICATIONS TO OUR REPORT

Mandate

- 2.1 Bowmans was mandated by National Treasury to provide forensic accounting services in respect of PRASA. The principal objectives of our investigation were to:
- 2.1.1 Investigate the procurement processes which were followed in the appointment of Naledi.
 - 2.1.2 Determine whether the appointment of Naledi was made in line with relevant prescripts and were approved by relevant authorities.

- 2.1.3 Establish where applicable, whether deviations were in-line with relevant prescripts.
- 2.1.4 Determine whether payments correspond to the respective bid price and/or contractual agreement.
- 2.1.5 Identify all persons or entities that unduly benefitted as a result of irregular conduct.
- 2.1.6 Advise on the remedial actions which must be taken, in instances of maladministration and/or where improper conduct has been detected.
- 2.1.7 Provide a report on our findings.

We were not mandated to and did not conduct an audit in compliance with generally accepted auditing standards.

Period under investigation

- 2.2 Bowmans' investigation covered the period from 2012 to 16 May 2016.

Report format

- 2.3 Section 3 of the report sets out the work which we have performed. Sections 4 onwards deals with our detailed findings.
- 2.4 References in this report in parenthesis are to the various annexures and exhibits, which must be read in conjunction with this report.

Qualifications to our report

- 2.5 This report is provided solely as an internal document, for the addressees and their legal Counsel, to National Treasury. It may not be used for any other purpose or disseminated to any person without the prior written consent of Bowmans.
- 2.6 Our report deals only with the documentation with which we have been provided, together with other information which we have been able to obtain ourselves from third parties.
- 2.7 In compiling this report, we have accepted and relied on representations from persons and on the authenticity of documents provided to us. In order to make these representations and documents admissible for Court purposes, the authors of the representations and documents would have to confirm these in the relevant Court process.
- 2.8 Should it come to light that material information has been withheld or additional information is brought to our attention, we have the right to amend our report.
- 2.9 Bowmans did not review the tender process followed by SARCC in 2005, 2006 and 2007 when Naledi was awarded the initial contract for the general overhaul and upgrade of the coaches as Bowmans were mandated to investigate the period from 2012 to date. The initial tender process falls outside of the period under investigation.

3. WORK PERFORMED

Documents reviewed

- 3.1 Company search of Naledi.
- 3.2 PRASA Supply Chain Management Policy dated February 2009.
- 3.3 PRASA Supply Chain Management Policy dated September 2013.
- 3.4 Advertisement dated 17 April 2005 of the tender for the general overhaul of the SARCC rolling stock.
- 3.5 Notice to suppliers/contractors of pre-qualifying briefing session to be held on 26 April 2005.
- 3.6 Minutes of the meeting held on 6 November 2012 by the Financial Capital Investment Procurement Committee.
- 3.7 Minutes of the meeting held on 29 November 2012 by the PRASA Board of Control.
- 3.8 Agreement between SARCC and Naledi dated 20 November 2007 for the Accelerated Rolling Stock Programme: General overhaul/upgrade contract.
- 3.9 Updated/extended agreement between PRASA and Naledi dated 10 May 2014 for the rolling stock refurbishment programme: General overhaul/upgrade contract and technical support services.
- 3.10 Naledi creditor account in the accounting records of PRASA.
- 3.11 Naledi invoices and other supporting documentation for the payments made by PRASA to Naledi in terms of the general overhaul of the coaches.

Discussions held

- 3.12 We held discussions with the following individuals:

Name	Position
PRASA	
Abram Phago	Technical Supervisor
Arthur Treurnich	Project Manager
Arthur Bridger (Attie)	Quality Assurer
Cosmos Chipepo	Technical Supervisor
Dudley Maddocks	Supply Chain Management: Technical Division

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

Name	Position
Jacques Groenewaldt	Shosholoza Technician
Justice Ramashia	Quality Assurance Manager
Msizi Cele	Engineering Technician
Tholo Dikobe	National Fleet Manager: Accelerated Rolling Stock Programme
Naledi	
Robert Neethling	Chief Operating Officer

Work done

- 3.13 Performed company search on Naledi.
- 3.14 Obtained and perused the supply chain management policy and procedures for the period under investigation.
- 3.15 Obtained copies of all procurement files and related documentation relevant to this Naledi general overhaul/upgrade contract.
- 3.16 Read and reviewed appointment of Naledi as supplier of PRASA for the general overhaul of the motor and passenger coaches.
- 3.17 Obtained and reviewed the agreement between SARCC and Naledi dated 20 November 2007.
- 3.18 Obtained and reviewed the updated agreement between PRASA and Naledi dated 10 May 2014.
- 3.19 Obtained the Naledi creditors account, in the accounting records of PRASA in electronic format.
- 3.20 Obtained all supporting documentation for the payments made by PRASA to Naledi.
- 3.21 Compared Naledi creditor accounts in the accounting records of PRASA to the physical Naledi invoices.
- 3.22 Conducted various preliminary interviews with PRASA officials and Naledi staff members.
- 3.23 Physically inspected the PRASA Metrorail motor and passenger coaches and Shosholoza coaches overhauled by Naledi.
- 3.24 Compiled a report on our findings.

4. COMPANY INFORMATION

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

- 4.1 Naledi Rail Engineering (Pty) Ltd ("Naledi") (registration number 2004/032945/07) is an engineering company that assists PRASA with the repair and refurbishment of its rolling stock. Rolling stock is motor and passenger coaches, locomotives, carriages, wagons or other vehicles used on a railway.
- 4.2 Naledi was established in 2004 and provides the railway industry with a local source of skilled rolling stock engineering experts. Naledi was founded as and remains a 100% Black owned and controlled company.
- 4.3 Since 2004, Naledi refurbished numerous Metrorail motor and passenger coaches (plain trailers) as well as Shosholoza Meyl coaches.
- 4.4 Naledi has two facilities in Gauteng that provide general overhaul and upgrades.
- 4.5 Naledi Rail Engineering is a BBEE Level 4 and SABS registered company.
- 4.6 The company has repaired in excess of 349 motor coaches and plain trailers for PRASA and employs 165 employees.
- 4.7 Naledi currently has two active directors as listed in the table below (Exhibit 1):

#	Director	ID number	Appointment date	Status
1	Phesolo Jackson Alexander Mphafudi	560627 5729 084	5 May 2005	Active
2	Wahed Abed Rasool	640518 5139 081	10 November 2004	Active

- 4.8 Naledi's registered address is 78 Spoornet Premises, Hattingh Street, Elandsfontein.

5. PRASA SUPPLY CHAIN MANAGEMENT POLICY

- 5.1 The PRASA Supply Chain Management ("SCM") Policy dated February 2009 and September 2013 stipulates that for (Exhibits 2 and 3):
- 5.1.1 All amounts less than R350,000 - a minimum of three written quotes should be obtained from suppliers on the PRASA database.
- 5.1.2 All amounts more than R350,000 - a competitive tendering process is applicable.
- 5.2 Exceptions for competitive tendering will only be considered in the following circumstances (Exhibits 2 and 3):
- 5.2.1 In the case of emergency;
- 5.2.2 In the case of a sole source; and
- 5.2.3 In the case of confinements.

- 5.3 Contracts must be awarded for a period of not more than three years except bids for lease agreements for immovable property which may be awarded for a period of not more of 5 years.
- 5.4 The SCM Policy is silent regarding the procedures that are required to be executed with the extension of a contract.

6. APPOINTMENT OF NALEDI IN 2007

- 6.1 In 2005, the South African Rail Commuter Corporation Ltd ("SARCC") (renamed PRASA in December 2008) invited suppliers to tender for the general overhaul of the SARCC rolling stock.
- 6.2 Bowmans did not review the tender process followed by SARCC in 2005, 2006 and 2007 when Naledi was awarded the initial contract for the general overhaul and upgrade of the coaches as Bowmans was mandated to investigate the period from 2012 to date. The initial tender process falls outside of the period under investigation.
- 6.3 From limited tender documentation that Bowmans received, we were able to establish the following:
- 6.3.1 The tender was advertised by SARCC on 17 April 2005.
- 6.3.2 The closing date for the tender was 23 May 2005, 10h00 (Exhibit 4)
- 6.3.3 The General Overhaul ("GO") was defined as the repair, replace, improving and upgrade of coaches, systems and sub-components that are classified as unusable for operation (Exhibit 3).
- 6.3.4 A pre-qualifying briefing session was held on 26 April 2005 by SARCC (Exhibit 5).
- 6.4 Naledi's tender proposal was approved by SARCC and Naledi was awarded with its first contract dated 20 November 2007. Naledi was one of seven suppliers that were awarded a general overhaul/upgrade of coaches contract.

7. PRIOR AGREEMENT BETWEEN SARCC AND NALEDI DATED 20 NOVEMBER 2007

- 7.1 A prior agreement ("the Agreement") was concluded on 20 November 2007 between the South African Rail Commuting Corporation ("SARCC") and Naledi Rail Engineering (Pty) Ltd ("Naledi") (<http://www.naledirail.co.za/>) for R52 million (Exhibit 8).
- 7.2 The Agreement was signed by Naledi on 17 October 2007 and by SARCC on 20 November 2007 (Exhibit 8).
- 7.3 In terms of the Agreement, Naledi was appointed as supplier of PRASA for the general overhaul/upgrade of the SARCC Calls 5M2/A coaches in terms of the Accelerated Rolling Stock Programme (Exhibit 8).

Report
Department of National Treasury
PRASA Naledi Rail (PTY) Ltd
Account: 102982
General overhaul / upgrade of Metrorail motor / passenger coaches
(plain trailers) and Shosholozo coaches

December 2016

- 7.4 According to para 1.6.50 of the Agreement, it required the whole of the services, tasks, work and requisites to be supplied, rendered, provided or performed by the contractor, i.e. Naledi (Exhibit 8).
- 7.5 The Agreement explained (para 3.2.5) that in this three year complex transitional phase from the normal 5M2A general overhaul to the upgraded 10M standard, the SARCC has decided to confine the general overhaul/upgrade contract to the current general overhaul contractors as well as other newly appointed contractors as at the date of this agreement (Exhibit 8).
- 7.6 PRASA continued by stating that realising that supplier market instability and insecurity do not support cost containment/reductions, the SARCC will award three year contracts, with the option to extend for a further two years (para 3.2.6) (Exhibit 8).
- 7.6.1 A three year rolling allocation will consist of a specific number of units in year one. For year two and three's allocation, consideration will be given to the performance of the contractors in the preceding year at the discretion of the SARCC (para 3.2.6.1).
- 7.6.2 In the event of good performance, year two will simply become year one of the next three year cycle with the same conditions as explained in the previous paragraph (para 3.2.6.2).
- 7.6.3 This can conceivably continue *ad infinitum* provided all conditions remain intact. Similarly, a notice period of six months will be given when increases in coach allocations are made (para 3.2.6.2).
- 7.7 The Agreement further required in para 3.1 (Exhibit 8):
- 7.7.1 The general overhaul and upgrade of between 500 to 700 5M2A rolling stock per annum (the specifications for the general overhaul and upgrade were stipulated in Annexure B to the Agreement).
- 7.7.2 SARCC to determine cost per coach and competitive pricing will be the overarching goal (According to para 7, SARCC will determine the price and reserves the right to negotiate the pricing. Prices will be negotiated on an annual basis. Annexure D to the Agreement makes provision for annual price adjustments).
- 7.7.3 Work allocation to regions and contractors will be done through an Authorized Process.
- 7.7.4 The Process was to be auditable.
- 7.8 According to para 3.2, Naledi's performance would be measured by SARCC against Naledi's delivery schedules, the length of coach production period (turnaround time), services support, cost and quality (Exhibit 8).
- 7.9 Para 13.7 stipulates that SARCC reserves the right to reduce the number of coaches allocated to Naledi. SARCC may allocate the general overhaul and upgrade of the coaches to other service providers if a contractor under performs (Exhibit 8).
- 7.10 SARCC also had the right to enforce penalties for late delivery (para 13) (Exhibit 8).

7.11 SARCC reserves the right to investigate any information provided by Naledi (para 20) (Exhibit 8).

8. MEETING HELD ON 6 NOVEMBER 2012 BY THE PRASA FINANCIAL CAPITAL INVESTMENT PROCUREMENT COMMITTEE (FCIP)

8.1 The Accelerated Rolling Stock Programme was discussed at the Financial Capital Investment Procurement Committee meeting held on 6 November 2012 (Exhibit 6).

8.2 The Group Chief Executive Officer ("GCEO") (Mr Tshepo Lucky Montana) stated during the meeting that (Exhibit 6):

8.2.1 The Accelerated Rolling Stock Programme was initiated by SARCC during the 2006/07 financial year to stabilize the decline in the ageing fleet of Metrorail.

8.2.2 The state of passenger rail was described as being on a "knife edge". PRASA, through the General Overhaul ("GO") and Upgrade programme, managed to overhaul and/or upgrade 3,036 coaches and locomotives.

8.2.3 During the first phase i.e. between April 2006 and March 2010, approximately 2,000 coaches were overhauled/upgraded.

8.2.4 PRASA entered into a three year contract with various rolling stock contractors for the general overhaul/upgrade of its rolling stock fleet.

8.2.5 The initial general overhaul and upgrade contracts were expiring on 31 March 2013. It was suggested by PRASA, that in order to maintain stability of the current rolling stock between 2013 and 2023, the General Overhaul and Upgrade Programme had to continue until a critical mass of deliveries of the new fleet had been achieved.

8.2.6 The three year contracts with the general overhaul/upgrade contractors were based on the budget cycles of government and ensuring certainty in the rail industry, to promote investment, growth of the industry and job creation.

8.2.7 SARCC contracted with various rolling stock contractors on a three year basis, which consisted of a fixed contract quantity for year one. While year two and year three allocations were mainly determined by price, quality of service and timeous delivery of the rolling stock by the contractors in the preceding year. This was at the sole discretion of PRASA.

8.2.8 During the meeting the GCEO emphasized that it was crucial that PRASA stabilizes the local rail industry by extending the three year contracts to five years to bring certainty during the Rolling Stock Fleet Renewal Programme, whose benefits would not be material in the first three years of delivery.

8.2.9 The first three years will be fixed contract quantity while year four and year five allocations would be indicative, based on the rolling stock contractors' performance on price, quality

of service and timeous delivery of the rolling stock from the preceding three years being averaged and budget allocations by the National Treasury. The proposed allocation supports and promotes the rail industry in general, as part of the Industrial Policy Action Plan.

8.3 The FCIP Committee noted the performance of the current General Overhaul/Upgrade Programme (Exhibit 6).

8.4 The FCIP Committee recommended that the PRASA Board approve the table of Estimated Budget and Quantities of allocation of coaches and locomotives to the general overhaul/upgrade contractors for a five year period (Exhibit 6).

9. **MEETING HELD ON 29 NOVEMBER 2012 BY THE PRASA BOARD OF CONTROL**

9.1 The Chairperson of the FCIP Committee reported the outcome of the Accelerated Rolling Stock Programme as discussed during the FCIP Committee meeting held on 6 November 2012, to the Board of Control at its meeting on 29 November 2012 (refer section above) (Exhibit 7).

9.2 According to the minutes of the meeting held by the PRASA Board of Control on 29 November 2012, the Board approved the midterm review of the General Overhaul/Upgrade Programme and the allocation of coaches and locomotives to the general overhaul/upgrade contractors for a five year period, to include maintenance contracts and warranty management (Exhibit 7).

10. **AGREEMENT BETWEEN PRASA AND NALEDI DATED 28 MARCH 2014**

10.1 On 28 March 2014, PRASA and Naledi entered into a new contract for the general overhaul, upgrade and technical support contract for the PRASA coaches. The contract was for a five year period, i.e. from 1 April 2014 to 31 March 2019. The contract was for an unspecified contract value (Exhibit 9). Although the contract had an unspecified contract value, Naledi's price list was approved by PRASA prior to the signing of the contract. This price list is compared by PRASA to the price lists of other general overhaul/upgrade suppliers. Work was assigned to Naledi on a coach-by-coach basis.

10.2 The agreement provided the following background (Exhibit 9):

- A. *During the period April 2006 to March 2013, PRASA, (and its precursor company the SARCC) has through the General Overhaul/Upgrade Program contract with various Rolling Stock Contractors, overhauled and/or upgraded over 3,472 commuter rail coaches.*
- B. *Through the Rolling Stock Refurbishment Programme, PRASA has succeeded in bringing back into service coaches that were previously out of service or would have been stabled, thereby contributing towards increasing and sustaining service levels to its commuters. PRASA intends to continue to pursue the refurbishment of both its*

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholozo coaches

December 2016

commuter rail fleet and long distance service fleet and desires to enter into a new 5 (Five) year contract with the Contractor for the overhaul and/or upgrade of its rolling stock. In order to ensure stability in the performance of the refurbished vehicles in the critical 12 months warranty period after refurbishment, PRASA desires and the Contractor agree that the maintenance of refurbished vehicles in the 12 month warranty period shall be undertaken by the Contractors.

C. PRASA also wishes to engage the services of the Contractor on an ad-hoc 'as and when basis' to provide technical and such related support services necessary to optimize the exploitation of its rolling stock on the basis set out herein.

10.3 The general obligations of Naledi under the contract comprised the pre-examination, repair/upgrade, testing, commissioning of the coaches and providing and executing a warranty under working conditions of the rolling stock (Exhibit 9).

10.4 In terms of the agreement, Naledi had to submit a production plan within two weeks of PRASA allocating rolling stock for general overhaul/upgrade to Naledi. Naledi had to submit a revised production plan within 30 days of this contract (Exhibit 9).

10.5 The agreement stipulated that Naledi agreed to maintain the following average prices (Exhibit 9):

Type of coach	Repair work	Average price to maintain
Motor coach	General overhaul,	4,200,000
Passenger coach	General overhaul	2,200,000
Motor coach	Upgrade	6,700,000
Passenger coach	Upgrade	3,300,000
Electrical Locomotives	General overhaul	5,500,000
Diesel electrical locomotives	General overhaul	8,800,000
Shosholozo Meyl Main Line coaches	Upgrade	2,700,000

11. NALEDI PRICE LIST

11.1 Naledi's price list is approved by PRASA at the beginning of each calendar year.

- 11.2 The Naledi price list is compared by the PRASA Financial Department to the price lists of the other general overhaul/upgrade suppliers to ensure that the prices of the components are market related.
- 11.3 This Naledi price list is attached to each invoice submitted by Naledi to PRASA.
- 11.4 The price list is used as a tick list to indicate the components that were repaired/replaced on a coach.
- 11.5 The Project Manager compares the items ticked on the price list against the work list of PRASA, which listed the components that had to be repaired/replaced.
- 11.6 The Project Manager compares the Naledi invoice against the Naledi price list to ensure that the invoice is accurate.

12. **INTERVIEW – MR ARTHUR TREURNICH (PROJECT MANAGER)**

- 12.1 Bowmans conducted an interview with Mr Arthur Treurnich (Annexure A).
- 12.2 Mr Treurnich is the Project Manager for the refurbishment programme of the rolling stock since 2006.
- 12.3 The refurbishment of rolling stock is part of the total asset life cycle management and requires refurbishment of rolling stock on a recommended cycle of every nine years.
- 12.4 PRASA utilises Capital Expenditure ("Capex") funding for the refurbishment of the rolling stock. The budget for the funding for the project is approximately R1 billion per annum.
- 12.5 Annual allocations are based on regional needs, industry capacity, turnaround times, quality and costs. These factors indicate the number of rolling stock allocated to each contractor for refurbishment.
- 12.6 PRASA has a total of seven general overhaul/upgrade contractors conducting refurbishment. Naledi Rail Engineering (Pty) Ltd is one of the general overhaul/upgrade contractors.
- 12.7 The regional depot (Gauteng South) determines the requirements of the refurbishment of the rolling stock based on the production schedule agreed with the general overhaul/upgrade contractor. The production schedule list the dates of when PRASA would have to send the coaches to Naledi for the general overhaul/upgrade and the estimated date when the completed coaches would be returned by Naledi to PRASA.
- 12.8 PRASA provides the contractor with the predetermined scope of works to be performed during the refurbishment of the coach.
- 12.9 The PRASA representative at Naledi, Mr Arthur (Attie) Bridger, supervises the general overhaul and upgrade work performed by Naledi from start to finish, which includes *inter alia* overseeing the process, the work performed by the Naledi and signing off invoices for payment.

- 12.10 Naledi submits their invoices to PRASA according to predetermined payment milestones according to the general overhaul/upgrade agreement between PRASA and Naledi.
- 12.11 Naledi is an active role-player in the rail industry. According to Mr Treurnich, for the current year, Naledi was performing exceptionally well and met the expectations of PRASA.
- 12.12 The Project Manager for Shosholozza Meyl rolling stock and locomotives is Mr Tholo Dikobe.

13. INTERVIEW – MR ARTHUR (ATTIE) BRIDGER (PRASA QUALITY ASSURER)

- 13.1 Mr Arthur Bridger (nickname "Attie") is the Quality Assurer for PRASA and is based at the premises of Naledi (Annexure B).
- 13.2 Mr Bridger explained that Naledi performs refurbishing work for Metrorail and Shosholozza Meyl. Mr Bridger performs quality inspections on behalf of PRASA for refurbishing work done by Naledi for both Metrorail and Shosholozza Meyl.
- 13.3 The PRASA completes a "Work List" indicating the repairs required on a specific coach. Mr Bridger checks the Work List to verify the repairs requested and if any changes are made, it is communicated with PRASA in writing via e-mail.
- 13.4 The Work List provides a breakdown of the different sections of the coach such as the undercarriage, the inside of the coach, roof, etc.
- 13.5 Together with the Naledi Rail representative, they perform a verification of the repairs required as indicated on the Work List. Naledi then obtains a "Works Order" from PRASA.
- 13.6 The PRASA Technical Department would then issue a Works Order number and Naledi can then proceed with the refurbishment process of the coach.
- 13.7 There are three payment milestones in the refurbishment process of a coach.

Milestone 1:

- 13.8 Naledi commences with the refurbishment and firstly strips the coach. This is the first progress payment milestone.
- 13.9 Naledi completes a stripping certificate. Mr Bridger then checks the work performed and signs-off the stripping certificate.
- 13.10 Naledi can then submit an invoice for the work completed for the first payment milestone reached.
- 13.11 The invoice submitted will be accompanied by the strip certificate. Naledi claims according to the pricing agreed with PRASA as contained in the price book.

Milestone 2:

- 13.12 The second progress payment milestone is when Naledi reached the 80% mark. This means that all the required work has been performed as requested and the remaining 20% will be for the commissioning of the coach.
- 13.13 On the second milestone, Mr Bridger would check the work on a continuous basis through-out the process and he would sign the Completion Certificate for the work performed and completed by the Naledi on the coach.
- 13.14 Naledi then submits an invoice to PRASA for payment for the work completed on the refurbishment of the coach. The invoice is accompanied by the Completion Certificate.

Milestone 3:

- 13.15 The coach is then shunted from Naledi back to the PRASA depot.
- 13.16 At the depot, PRASA would then commission/place the trailer coach or motor coach into service. The commissioning process includes testing of electrical systems and roadworthy test runs to determine whether the coach operates properly.
- 13.17 When PRASA is satisfied with the work performed by Naledi, PRASA then issues a Service Worthy Certificate and the coach can then be placed back into service for transporting of passengers.
- 13.18 PRASA then provides Naledi with a copy of the Service Worthy Certificate and Naledi can then submit the final invoice for the third and final payment milestone to PRASA. The invoice from Naledi is accompanied by the Service Worthy Certificate.
- 13.19 The third milestone would be the final payment for a trailer coach.
- 13.20 If work was performed on a motor coach, Naledi can only claim up to 90%. The remaining 10% is held back until PRASA tested the motor coach for a period of two weeks or 3,000 kilometer without detecting any faults or problems.
- 13.21 PRASA then issues the 3,000 kilometer or 14 day fault free compliance certificate to Naledi. Naledi can then submit an invoice for the remaining 10% of the fee. The invoice for a motor coach would be accompanied by the 3,000 kilometer or 14 day fault free compliance certificate.
- 13.22 Mr Bridger stated that he has never signed off on a certificate if the work was not completed satisfactorily by Naledi.
- 13.23 Mr Bridger stated that he also verifies the Naledi invoices against the price book and if the pricing per the invoices are correct, he would sign off the invoices before submission to the PRASA head office.
- 13.24 The work performed by Naledi is guaranteed for a period of one year.

14. **MR ROBERT NEETHLING (CHIEF OPERATING OFFICER OF NALEDI)**

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

14.1 Mr Robert Neethling ("Neethling") is the Chief Operating Officer of Naledi (Annexure C).

Refurbishment of Coaches

14.2 PRASA requested Tenders in a Request for Proposals dated 19 April 2012.

14.3 Naledi Rail Engineering submitted Tender number HO/EPMO/247/03/2012 for the "PRASA Rolling Stock Fleet Renewal Procurement Programme.

14.4 Naledi was the successful bidder and entered into an agreement with PRASA, the agreement was extended for the period 1 April 2014 to 31 March 2019.

14.5 The agreement entered into between Naledi and PRASA was signed by both parties.

General

14.6 Naledi was allocated 36 plain trailers (passenger coaches), 12 motor coaches and 10 Shosholoza Meyl coaches to refurbish for 2016 as per the agreement between PRASA and Naledi.

15. PAYMENTS MADE BY PRASA TO NALEDI

15.1 PRASA made a total of R280,103,417 payments to Naledi for the general overhaul/upgrade contract (Annexures D and E)(Exhibit 10).

15.2 Naledi overhauled approximately 171 coaches:

#	Coach overhauled/upgraded by Naledi	Amount (Rand)
1	MC13576	5 138 184.08
2	MC17604	4 977 659.58
3	MC13220	4 371 310.61
4	MC17617	4 292 244.96
5	MC17527	4 271 022.22
6	MC13525	3 951 056.81
7	SM25138	3 690 569.91
8	SM36045	3 655 498.28
9	MC13666	3 622 609.50

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

#	Coach overhauled/upgraded by Naledi	Amount (Rand)
10	SM25028	3 608 467.86
11	MC19594	3 554 283.82
12	MC9111	3 542 343.47
13	MC13575	3 528 140.76
14	MC13591	3 450 224.09
15	MC9929	3 355 067.57
16	MC13004	3 343 978.43
17	MC19569	3 308 752.67
18	MC13419	3 292 262.29
19	MC19576	3 201 152.50
20	MC19548	3 184 400.20
21	MC19553	3 175 377.15
22	MC13550	3 173 590.21
23	MC13703	3 169 414.28
24	SM36164	3 064 037.13
25	MC13404	3 046 949.39
26	MC13589	3 046 331.87
27	SM36202	3 010 915.85
28	MC13432	2 960 308.05
29	MC19565	2 922 816.08
30	MC13445	2 895 940.90

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

#	Coach overhauled/upgraded by Naledi	Amount (Rand)
31	MC9178	2 884 421.61
32	SM36321	2 875 754.14
33	MC9171	2 803 582.16
34	MC13484	2 710 645.93
35	PT10911	2 552 016.19
36	PT12860	2 537 506.81
37	SM35115	2 493 354.86
38	SM32087	2 419 847.81
39	SM39033	2 380 037.13
40	PT12484	2 296 828.11
41	PT11748	2 197 006.09
42	PT12805	2 167 557.86
43	PT13918	2 160 043.25
44	SLEEPER 33105	2 081 404.19
45	PT13733	1 824 518.82
46	SHOSHO 35135/36320	1 815 458.56
47	PT9704	1 727 756.16
48	PT18329	1 712 520.28
49	PT13951	1 667 479.01
50	PT13878	1 622 608.32
51	SLEEPER 33097	1 616 615.12

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

#	Coach overhauled/upgraded by Naledi	Amount (Rand)
52	PT12700	1 570 324.09
53	PT18288	1 562 310.46
54	PT13790	1 557 237.31
55	PT13833	1 555 271.85
56	PT12360	1 550 771.48
57	PT12482	1 542 410.53
58	PT12708	1 541 323.10
59	PT12504	1 535 890.21
60	PT12825	1 519 404.25
61	PT9534	1 513 194.17
62	PT13818	1 513 003.19
63	PT18370	1 512 829.08
64	PT12992	1 510 164.92
65	PT18362	1 504 009.32
66	PT11058	1 499 251.26
67	PT18278	1 497 961.91
68	PT12290	1 492 814.10
69	PT18376	1 492 365.70
70	PT10949	1 488 738.40
71	PT11713	1 486 443.90
72	PT9560	1 486 424.99

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

#	Coach overhauled/upgraded by Naledi	Amount (Rand)
73	PT11005	1 486 132.93
74	PT13862	1 481 780.77
75	PT18328	1 477 027.61
76	PT12397	1 473 838.96
77	PT12758	1 470 696.28
78	PT10937	1 465 286.26
79	PT13788	1 464 841.05
80	PT11686	1 455 702.96
81	PT11809	1 455 016.25
82	PT10914	1 454 439.89
83	PT13832	1 452 710.89
84	PT12300	1 434 448.74
85	PT12797	1 431 813.16
86	PT9701	1 429 594.16
87	PT18369	1 419 271.45
88	PT18083	1 413 957.22
89	PT10926	1 412 249.70
90	PT11666	1 411 338.31
91	PT12709	1 410 703.84
92	PT18357	1 402 143.87
93	PT12690	1 397 997.44

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

#	Coach overhauled/upgraded by Naledi	Amount (Rand)
94	PT12774	1 396 620.36
95	PT12544	1 383 388.01
96	PT11664	1 380 127.07
97	SM33097	1 368 000.00
98	SM33105	1 368 000.00
99	PT13859	1 365 591.86
100	PT11639	1 352 657.02
101	PT13797	1 347 122.88
102	PT11678	1 339 731.76
103	PT13887	1 336 886.14
104	PT18332	1 323 992.55
105	PT13774	1 315 424.79
106	PT13829	1 315 311.01
107	PT12842	1 314 877.45
108	PT13873	1 314 694.59
109	PT13896	1 313 097.23
110	PT18125	1 311 400.80
111	PT12793	1 301 675.51
112	PT13810	1 300 841.01
113	PT13750	1 296 887.24
114	PT13828	1 289 225.10

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

#	Coach overhauled/updated by Naledi	Amount (Rand)
115	PT12681	1 278 193.59
116	PT13866	1 241 657.05
117	PT13888	1 234 500.80
118	PT11703	1 223 413.38
119	PT12773	1 223 388.20
120	PT13807	1 220 084.26
121	PT12692	1 215 206.95
122	PT9603	1 187 256.14
123	PT11780	1 173 483.95
124	PT18393	1 171 012.50
125	PT9567	1 168 674.60
126	PT12579	1 167 216.81
127	PT11807	1 166 277.95
128	PT13781	1 161 302.24
129	PT18111	1 155 183.00
130	PT13834	1 155 072.62
131	PT13724	1 143 872.43
132	PT11179	1 143 417.24
133	PT16036	1 138 365.43
134	PT13841	1 132 038.47
135	PT12238	1 123 677.59

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

#	Coach overhauled/updated by Naledi	Amount (Rand)
136	PT13891	1 121 479.39
137	PT13893	1 101 570.77
138	PT10280	1 094 716.09
139	PT11612	1 010 078.82
140	PT13721	1 005 682.09
141	PT11710	930 044.97
142	SM32154	911 118.52
143	PT11110	845 576.23
144	SM35055	684 000.00
145	SM35092	684 000.00
146	SM35135	684 000.00
147	SM35176	684 000.00
148	SM35207	684 000.00
149	SM36020	684 000.00
150	SM36055	684 000.00
151	SM36056	684 000.00
152	SM36163	684 000.00
153	SM36166	684 000.00
154	SM39038	684 000.00
155	SM36320	635 905.08
156	36073	537 788.43

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

#	Coach overhauled/upgraded by Naledi	Amount (Rand)
157	MC13263	513 000.00
158	MC13407	513 000.00
159	MC13579	513 000.00
160	MC9142	513 000.00
161	36009	475 712.62
162	35115/36319	452 338.71
163	SM32155	401 346.85
164	MC13566	388 944.00
165	PT1110	336 275.35
166	PT13041	314 265.67
167	PT10329	285 000.00
168	PT10951	285 000.00
169	PT12234	285 000.00
170	PT13935	285 000.00
171	SM36319	126 267.08
	Total for coaches	289,848,967.14
	Corrected by PRASA	(3,344,101.76)
	Total invoiced by Naledi	286,214,161.56
	Outstanding invoices payable by PRASA to Naledi as at 16 May 2016	(6,401,448.76)
	Paid by PRASA to Naledi up to 16 May 2016	280,103,416.62

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholozo coaches

December 2016

15.3 The total payments made by PRASA to Naledi is summarised in the table below (Annexures D and E) (Exhibit 10):

Year	Month	Amount (Rand)	Total for the period	Average per month
2013			31,324,431	4,474,919
	June	4,286,029		
	July	4,720,792		
	August	5,954,539		
	September	4,768,647		
	October	5,376,632		
	November	4,507,793		
	December	1,710,000		
2014			85,366,694	7,760,609
	January	1,154,205		
	February	6,618,700		
	March	8,756,461		
	May	11,770,355		
	June	7,136,446		
	July	6,268,116		
	August	3,549,059		
	September	10,406,789		
	October	9,079,097		
	November	12,289,767		

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholozo coaches

December 2016

Year	Month	Amount (Rand)	Total for the period	Average per month
	December	8,337,699		
2015			103,977,248	8,664,771
	January	7,883,001		
	February	6,114,953		
	March	11,892,454		
	April	6,055,177		
	May	668,870		
	June	9,002,193		
	July	7,961,166		
	August	8,133,136		
	September	10,342,129		
	October	9,162,938		
	November	17,475,407		
	December	9,285,823		
2016			59 435 044	11,887,009
	January	10,460,725		
	February	11,230,315		
	March	15,093,356		
	April	18,825,651		
	May	3,824,997		
Grand total			280,103,417	8,002,955

PRASA payments checked against Naledi physical invoices

- 15.4 Bowmans compared all the invoices paid by PRASA to the physical Naledi invoices (Annexure E) (Exhibit 11).
- 15.5 Of the total amount of R280,103,417, paid by PRASA to Naledi, Bowmans (Annexure E):
- 15.5.1 Received invoices totaling R274,529,500.
- 15.5.2 Did not receive Naledi invoices to the value of R5,573,917 (2% of the total paid by PRASA to Naledi).
- 15.6 All the invoices listed per the Naledi creditors account in the accounting records of PRASA agreed with the physical Naledi invoices (Annexure E) (Exhibit 11).

PRASA payments for coaches checked against average price per agreement

- 15.7 Bowmans randomly selected 17 coaches for physical verification (refer next section).
- 15.8 Bowmans also checked the amount paid by PRASA for these coaches and compared the total payments per coach to the average prices per the agreement between PRASA and Naledi.
- 15.9 The agreement stipulated that Naledi agreed to maintain the following average prices:

Type of coach	Repair work	Average price to maintain
Motor coach	General overhaul,	4,200,000
Passenger coach	General overhaul	2,200,000
Motor coach	Upgrade	6,700,000
Passenger coach	Upgrade	3,300,000
Electrical Locomotives	General overhaul	5,500,000
Diesel electrical locomotives	General overhaul	8,800,000
Shosholoza Meyl Main Line coaches	Upgrade	2,700,000

- 15.10 The table below reflects the total cost for the 17 random selected coaches compared to the average price Naledi had to maintain according to the agreement between PRASA and Naledi (Annexure F):

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

#	Coach number	Cost per coach	Average price to maintain
1	MC13576 Less price adjustment	5,138,184 (326,907) <u>4,811,277</u>	4,200,000
2	MC17617	4,292,245	4,200,000
3	SM25138	3,690,570	2,700,000
4	MC13004	3,343,978	4,200,000
5	SM36164	3,659,046	2,700,000
6	36320 (old 35135)	3,135,364	2,700,000
7	32154 (old 33097)	3,211,734	2,700,000
8	PT9534	1,513,194	2,200,000
9	PT18278	1,497,962	2,200,000
10	PT18328	1,477,028	2,200,000
11	PT18369	1,419,271	2,200,000
12	PT13774	1,315,425	2,200,000
13	PT12579	1,167,217	2,200,000
14	PT12238	1,333,347	2,200,000
15	SM36358 (old 35055)	3,574,164	2,700,000
16	36009	3,062,563	2,700,000
17	SM36319 (old 35115)	3,071,961	2,700,000

15.11 As can be seen from the table above, except for the Shosholoza coaches and one motor coach, Naledi invoiced PRASA less than the average price Naledi had to maintain in terms of the agreement between PRASA and Naledi.

- 15.12 Bowmans discussed the Shosholoza coaches that exceeded the average price Naledi had to maintain, with Mr Arthur Treurnich on 27 October 2016. Mr Treurnich stated the following:
- 15.12.1 At the time when the updated agreement was signed by PRASA and Naledi in 2014, none of the Shosholoza coaches were overhauled/updated. Therefore, the R2.7 million average price Naledi had to maintain was an estimated price as there was no historical costs available.
- 15.12.2 Subsequent to the signing of the PRASA/Naledi agreement, PRASA changed the material required for the Shosholoza general overhaul/upgrades. PRASA required and approved better quality materials for the Shosholoza coaches than initially anticipated. This also resulted in the actual general overhaul/upgrade prices exceeding the average price per the agreement.
- 15.12.3 PRASA has an approved price list for Naledi. This price list was approved by the PRASA Financial Department, after the historical prices since 2006 of all the general overhaul/upgrade suppliers, were analyzed.
- 15.12.4 All the prices for each of the invoices submitted by Naledi is checked by Mr Arthur Bridger against the Naledi approved price list prior to submission of the invoice to the PRASA Financial Department and prior to payment by PRASA.
- 15.12.5 The prices per the approved Naledi price list increases annually. Therefore, also contributing to the fact that the actual prices for the Shosholoza coaches general overhaul/upgrade exceeds the average prices per the agreement.

16. PHYSICAL VERIFICATION OF THE COACHES

- 16.1 Naledi overhauled approximately 171 motor, passenger and sleeper coaches over the period 2012 to May 2016.

Selection

- 16.2 Bowmans selected a sample of 17 coaches, which constitutes approximately 10% of the full population of coaches overhauled by Naledi over the period 2012 to May 2016. The coaches selected consisted of motor and passenger coaches and Shosholoza coaches.
- 16.3 Bowmans physically inspected the coaches to ensure that the coaches exist and that the coaches were indeed overhauled.

Type of coach	Coach number	Amount (Rand)	Selection
Motor	MC13576	5 138 184.08	1
Motor	MC17617	4 292 244.96	2

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

Type of coach	Coach number	Amount (Rand)	Selection
Sleeper	SM25138	3 690 569.91	3
Motor	MC13004	3 343 978.43	4
Sleeper	SM36164	3 064 037.13	5
Sleeper	SHOSHO 35135/36320	1 815 458.56	6
Sleeper	SLEEPER 33097	1 616 615.12	7
Passenger	PT9534	1 513 194.17	8
Passenger	PT18278	1 497 961.91	9
Passenger	PT18328	1 477 027.61	10
Passenger	PT18369	1 419 271.45	11
Passenger	PT13774	1 315 424.79	12
Passenger	PT12579	1 167 216.81	13
Passenger	PT12238	1 123 677.59	14
Sleeper	SM35055	684 000.00	15
Sleeper	36009	475 712.62	16
Sleeper	SM36319	126 267.08	17

Physical Verifications

16.4 With the assistance of the PRASA Technical Supervisors at Braamfontein, namely Mr Cosmos Chipepo and Mr Abram Phago we physically verified the following PRASA coaches:

Coach number	Date verified	Assisted by:	Position
MC13576	23/09/2016	Cosmos Chipepo	Technical Supervisor
PT9534	23/09/2016	Cosmos Chipepo	Technical Supervisor
PT13774	23/09/2016	Cosmos Chipepo	Technical Supervisor

Report
 Department of National Treasury
 PRASA Naledi Rail (PTY) Ltd
 Account: 102982
 General overhaul / upgrade of Metrorail motor / passenger coaches
 (plain trailers) and Shosholoza coaches

December 2016

Coach number	Date verified	Assisted by:	Position
PT12579	23/09/2016	Cosmos Chipepo	Technical Supervisor
PT12238	23/09/2016	Cosmos Chipepo	Technical Supervisor
MC17617	24/09/2016	Abram Phago	Technical Supervisor
MC13004	24/09/2016	Abram Phago	Technical Supervisor
PT18328	24/09/2016	Abram Phago	Technical Supervisor
PT18369	24/09/2016	Abram Phago	Technical Supervisor
PT18278	24/09/2016	Abram Phago	Technical Supervisor

- 16.5 With the assistance of Mr Msizi Cele, the Engineering Technician of Shosholoza Meyl and Mr Attie Bridger, Quality Assurance Representative for PRASA based at Naledi. We physically verified the following Shosholoza Meyl coaches:

Coach number	Date verified	Assisted by	Position
SM25138	29/09/2016	Msizi Cele	Engineering Technician
SM36164	29/09/2016	Msizi Cele	Engineering Technician
SM35135/36320	30/09/2016	Attie Bridger	Quality Assurance
SM36319	30/09/2016	Attie Bridger	Quality Assurance
SM36009	03/10/2016	Frank Witbooi	Acting Supervisor
SM33097	18/10/2016	Jacques Groenewaldt	Shosholoza Technician
SM35055	18/10/2016	Jacques Groenewaldt	Shosholoza Technician

- 16.6 Coaches that have been overhauled are marked with the date when the coach was placed back into operation.
- 16.7 This is called an "A-date" that means the date that corresponds with the final completion and acceptance of rolling stock, after general overhaul or an upgrade has been effected.
- 16.8 The A-date in respect of rolling stock is stated in the format "yyyy/mm" together with the Contractors Code, e.g. "2005/09 RTS". The A-date coincides with the date of the Service Worthy Certificate.

Report
Department of National Treasury
PRASA Naledi Rail (PTY) Ltd
Account: 102982
General overhaul / upgrade of Metrorail motor / passenger coaches
(plain trailers) and Shosholoza coaches

December 2016

16.9 Bowmans established through the physical verification of the above listed coaches, that the coaches exist and that they were overhauled by Naledi.

17. **CONCLUSION**

17.1 Bowmans investigated the appointment of Naledi, payments made by PRASA to Naledi and the physical work performed by Naledi.

17.2 Bowmans did not find any irregularities pertaining to this general overhaul/upgrade contract with Naledi.

Annexures

The detailed report should be read in conjunction with the annexures listed below. Annexures constitutes the working paper of Bowmans:

Annexure #	Description
A	Notes of interview conducted with Mr Arthur Treurnich
B	Notes of interview conducted with Mr Arthur Bridger (Attie)
C	Notes of interview conducted with Mr Robert Neethling
D	Summary of the Naledi creditors account in the accounting records of PRASA
E	Naledi invoices paid by PRASA as per the Naledi creditors account in accounting records of PRASA compared and agreed to the physical Naledi invoices
F	Payments made by PRASA in respect of the 17 coaches selected for physical inspection by Bowmans

Exhibits

The detailed report should be read in conjunction with the exhibits listed below. Exhibits are third party documentation obtained from e.g. PRASA and Naledi:

Exhibit #	Description
1	Company search of Naledi
2	PRASA Supply Chain Management Policy dated February 2009
3	PRASA Supply Chain Management Policy dated September 2013
4	Advertisement dated 17 April 2005 of the tender for the general overhaul of the SARCC rolling stock.
5	Notice to suppliers/contractors of pre-qualifying briefing session to be held on 26 April 2005.
6	Minute of the meeting held on 6 November 2012 by the Financial Capital Investment Procurement Committee
7	Minute of the meeting held on 29 November 2012 by the PRASA Board of Control
8	Agreement between SARCC and Naledi dated 20 November 2007 for the Accelerated Rolling Stock Programme: General overhaul/upgrade contract
9	Agreement between PRASA and Naledi dated 10 May 2014 for the Rolling Stock Refurbishment Programme: General overhaul/upgrade contract and technical support services
10	Naledi creditor account in the accounting records of PRASA
11	Naledi invoices and other supporting documentation for the payments made by PRASA to Naledi in terms of the general overhaul of the coaches.
12	Photographs of the PRASA coaches that were overhauled/upgraded by Naledi