

STRICTLY PRIVATE AND CONFIDENTIAL

**REPORT: FORENSIC INVESTIGATION INTO THE PROCUREMENT
OF TWENTY (20) PROJECTS AWARDED BY THE
PASSENGER RAILWAY AGENCY OF SOUTH AFRICA (PRASA)**

NATIONAL TREASURY

28 October 2016

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Mr Kenneth Brown
Chief Procurement Officer
National Treasury
Private Bag X115
PRETORIA
0001

28 October 2016

Dear Mr Brown

**REPORT: FORENSIC INVESTIGATION INTO THE PROCUREMENT OF TWENTY (20) PROJECTS
AWARDED BY THE PASSENGER RAILWAY AGENCY OF SOUTH AFRICA (PRASA)
(Ref: 43/1/2/5/1)**

Please find enclosed herewith our report relating to the forensic investigation we conducted into the procurement of twenty (20) projects awarded by the Passenger Railway Agency of South Africa (PRASA).

Our findings therein are for the exclusive use of yourselves and your legal advisors. No other party, whether referred to therein or not, is entitled to rely on any of the views expressed in the report.

This document has been prepared solely for the use of National Treasury. As such, it should not be disclosed to any other party without our prior written consent, which we may, at our discretion withhold or give subject to conditions. It shall be a condition of such consent, if given, that PricewaterhouseCoopers Inc. accepts no responsibility to that third party and that any such third party will hold PricewaterhouseCoopers Inc. harmless in respect of any consequences of such disclosure. Whether or not we have given our consent, we will not accept liability or responsibility to any other party who may gain access to this document

We applied reasonable care and skill in the provision of the services set out in our Service Level Agreement dated 17 February 2016. However, the procedures undertaken by us in performing this work did not constitute an examination in accordance with the International Standards on Auditing and hence, no opinions have been expressed based on these Standards.

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Chief Executive Officer: T D Shango
Management Committee: S N Madikane, J S Masondo, P J Mothibe, C Richardson, F Tonelli, C Volschenk
The Company's principal place of business is at 2 Eglin Road, Sunninghill where a list of directors' names is available for inspection.
Reg. no. 1998/012055/21, VAT reg.no. 4950174682



Should you wish to discuss any aspect of this report, please do not hesitate to revert to me on +27 (31) 271 2000 or +27 (82) 454 6864.

Yours faithfully

Trevor White
Director

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Abbreviated Name / Terminology	Full Name and / or Description
Altech	Altech Radio Holdings (Pty) Ltd
BAC	Bid Adjudication Committee
Baran	Baran Projects South Africa (Pty) Ltd
B-BBEE	Broad-Based Black Economic Empowerment
BCM	Business Continuity Management
BEC	Bid Evaluation Committee
Black Star	Black Star Communications (Pty) Ltd
BoC	Board of Control
Bombardier	Bombardier Transportation Africa Alliance Consortium
BSC	Bid Specification Committee
CFSC	Cross Functional Sourcing Committee
CIDB	Construction Industry Development Board
CIO	Chief Information Officer
Constitution	The Constitution of the Republic of South Africa, 1996
CPI	Consumer Price Index
CPO	Chief Procurement Officer
CTPC	Tender and Procurement Committee
Dr Mtimkhulu	Dr D Mtimkhulu, member of the BEC, PRASA
Dr Phungula	Dr Josephat Phungula, GCPO, PRASA
DTPC	Divisional Tender and Procurement Committee
ECSA	Engineering Council of South Africa
EPMO	Enterprise Project Management Office
ETC	Estimated Total Cost

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Abbreviated Name / Terminology	Full Name and / or Description
EXCO	Executive Committee
FCIP	Finance, Capital Investment and Tender Committee
GCEO	Group Chief Executive Officer
GCPO	Group Chief Procurement Officer
Gibela	Gibela Rail Transport Consortium (Pty) Ltd
Glenro	Glenro Built Environment Consultants (Pty) Ltd
GNC	General Nerve Centre
Hages	Hages Infosystems (Pty) Ltd
Huawei	Huawei Technologies Africa (Pty) Ltd
ICT	Information and Communications Technology
ID	Identification Document
Ilanga	Ilanga Security Services (Pty) Ltd
JV	Joint Venture
MD	Managing Director
MOA	Memorandum of Agreement
Mr Balakrishnan	Mr Nathan Balakrishnan, MD of Black Star
Mr Baltac	General Manager: Signalling and Telecommunications, PRASA
Mr Bopape	Mr Maishe Bopape, member of BEC, PRASA
Mr Botabota	Mr Lesetja Botabota, Treasury Analyst: Finance at PRASA Corporate
Mr Brown	Mr Kenneth Brown, CPO, National Treasury
Mr Dayanand	Mr Sudesh Dayanand, current active principal of Valucorp
Mr Dikobe	Mr Tholo Dikobe, BEC member, PRASA
Mr Edwards	Mr Johan Edwards, Chief Engineer Signals and Telecommunications,

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Abbreviated Name / Terminology	Full Name and / or Description
	PRASA
Mr Els	Mr Sidney Els, former employee at PRASA Corporate
Mr Emeran	Mr Hishaam Emeran, member of CTPC, PRASA
Mr Gama	Mr Vince Gama, member of BEC, PRASA
Mr Gingcana	Mr Mbulelo Gingcana, Acting CPO, PRASA
Mr Gombert	Mr Patrick Gombert, member of CTPC, PRASA
Mr Gow	Mr Earnest Gow, BEC member, PRASA
Mr Gumede	Mr Edga Gumede, BEC member, PRASA
Mr Holele	Mr Tiro Holele, Chairperson for CTPC, PRASA
Mr Japhta	Mr Chris Japhta, Corporate Security, PRASA
Mr Kanjere	Mr Joshua Kanjere, ICT, PRASA
Mr Kekana	Mr David Kekana, Acting CEO of PRASA Technical
Mr Kgobe	Mr Kebaabetswe Kgobe, BEC member, PRASA
Mr Khena	Mr Nathi Khena, former Acting GCEO
Mr Khumalo	Mr Nkululeko Khumalo, BEC member, PRASA
Mr Khuzwayo	Mr Sidney Khuzwayo, Senior Manager Assurance and Project, PRASA
Mr Kobuwe	Mr Vincent Kobuwe, member of CTPC, PRASA
Mr Kondlo	Mr Sonwabile Kondlo, former employee and Project Manager, PRASA Technical
Mr Mabona	Mr Kevin Mabona, member of BEC, PRASA
Mr Magoro	Mr Joseph Magoro, Procurement Official, PRASA
Mr Mahlangu	Mr Jeff Mahlangu, Senior Manager: Internal Audit for Autopax, Intersite and PRASA CRES

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NATIONAL TREASURY

Abbreviated Name / Terminology	Full Name and / or Description
Mr Makgamatha	Mr Athanacious Makgamatha, Senior Engineer Telecommunications at PRASA Corporate
Mr Maletswa	Mr Pule Maletswa, Senior Manager: BCM at PRASA Corporate
Mr Mantsane	Mr Kabelo Mantsane, Head Corporate Security, PRASA
Mr Mapodile	Mr Thaodi Mapodile, Acting General Manager: Information and Communication Technology at PRASA Corporate
Mr Masenya	Mr Matsobane Masenya, Senior Systems Administrator: Information and Communication Technology at PRASA Corporate
Mr Matakata	Mr Mkhuseleli Matakata, current Head Group Corporate Security at PRASA Corporate
Mr Mathobela	Mr Siphwe Mathobela, General Manager, Enterprise Programme Management Office at PRASA
Mr Mbatha	Mr Chris Mbatha, former CPO and Chairman of CTPC, PRASA
Mr Moerane	Mr Vincent Moerane, ICT, PRASA
Mr Molope	Mr Richard Malope, BEC member, PRASA
Mr Montana	Mr Tshepo Lucky Montana, GCEO, PRASA
Mr Motshologane	Mr Jerita Motshologane, member of CTPC, PRASA
Mr Mpanza	Mr Brian Mpanza, owner of Zabo Creations
Mr Mteto	Senior Executive Partner, Black Star
Mr Mukwevho	Mr Takalani Mukwevho, General Manager: SCM, PRASA
Mr Nala	Mr Muziwandile Godfrey Nala, active principle of Semele
Mr Ndaba	Mr Vukani Ndaba, Chief Director SCM Monitoring and Compliance, National Treasury
Mr Ngakane	Mr Ramagoganye Ngakane, Senior Manager Train Operations, PRASA Rail

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NATIONAL TREASURY

Abbreviated Name / Terminology	Full Name and / or Description
Mr Nhlapho	Mr Sunnyboy Nhlapho, member of BEC, PRASA
Mr Nkabini	Mr Vusi Nkabini, BEC member, PRASA
Mr Phoma	Mr Teddy Phoma, Compliance Manager SCM, PRASA
Mr Phori	Mr Thabiso Phori, Manager: Finance at PRASA Corporate
Mr Pratt	Mr Russell Pratt, employee at Fleet Africa
Mr Psaros	Mr Dimitrios Psaros, Managing Director at Psaros
Mr Rehman	Mr Asif Rehman, Senior Manager, PRASA Technical
Mr Sebola	Mr Piet Sebola, Group Executive: Strategic Asset Development
Mr Sithole	Mr Maphita Sithole, SAD Enterprise Programme Management Office at PRASA
Mr Sonny	Mr Godfrey Sonny, Senior Manager, SCM PRASA Technical
Mr Swanepoel	Mr Donald Swanepoel, secretary of the CFSC and CTPC, PRASA
Mr Teffu	Mr Petrus Teffu, member of BEC, PRASA
Mr Thampy	Mr Krishnan Rajesh Thampy, principal and representative of Hages
Mr van Eeden	Mr Francois van Eeden, former Head Security at Autopax and current Acting Head Security at PRASA Rail
Mr Watermeyer	Mr Noel Watermeyer, representative from Altech
Mr Zaman	Mr Rasheeque Zaman, Chief Audit Executive for PRASA Group
Mr Zide	Mr Lindikhaya Zide, Company Secretary, PRASA
Ms Cosgrove	Ms Caren Cosgrove, Sales Consultant, ABSA Vehicle Management Solutions
Ms du Plessis	Ms Sarah du Plessis, member of CTPC, PRASA
Ms Kondowe	Ms Nonhlanhla Kondowe, General Manager: HR Projects and former Head of HR: PRASA Technical.

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Abbreviated Name / Terminology	Full Name and / or Description
Ms Kotu	Ms Martha Kotu, Secretary for FCIP and BoC at PRASA
Ms Leburu-Tsawane	Ms Mercia Leburu-Tsawane, Sourcing Specialist, PRASA
Ms Lehabe	Ms Belinda Lehabe, SCM, PRASA
Ms Mabitsela	Ms Portia Mabitsela, SCM official at PRASA CRES
Ms Manyosa	Ms Rose Manyosa, Finance Manager at PRASA Technical
Ms Moagi	Ms Rosemary Moagi, SCM PRASA Technical
Ms Mokate	Ms Mamsy Mokate, Acting CFO at PRASA Technical
Ms Mokotedi	Ms Shumi Mokotedi, BEC member, PRASA
Ms Monkwe	Ms Constance Monkwe, Tender Committee Secretary, PRASA
Ms Mosholi	Ms Matshidiso Mosholi, Senior Manager Procurement and Tendering, SCM, PRASA
Ms Ngoye	Ms Martha Ngoye, Acting GCEO, PRASA
Ms Ramabi	Ms Maggy Ramabi, SCM PRASA Corporate
Ms Sekhuthu	Ms Agnes Sekhuthu, Sourcing Manager at PRASA Technical
Ms Shezi	Ms Ntombeziningi Shezi, CTPC member, PRASA
Ms Shiba	Ms Bongwiwe Shiba, SCM, PRASA Technical
Ms Sojezi	Ms Ezekhaya Sojezi, BEC member, PRASA
Ms Thomas	Ms Nancy Thomas, SCM Prasa Corporate
Ms Zinde	Ms Hope Zinde, member of CTPC, PRASA
Ndwandwe	Ndwandwe Consulting CC
PFMA	Public Finance Management Act 1 of 1999
Phumi	Phumi Trading CC
PO	Purchase Order

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Abbreviated Name / Terminology	Full Name and / or Description
PPPFA	Preferential Procurement Policy Framework Act 5 of 2000
PRASA	Passenger Railway Agency of South Africa
Psaros	Psaros Communications CC
PSIRA	Private Security Industry Regulator Authority
PwC	PricewaterhouseCoopers Inc.
Rangewave	Rangewave Consulting (Pty) Ltd
RFP	Request for Proposal
RFT	Request for Tender
RTPC	Regional Tender and Procurement Committee
SAPS	South African Police Service
SASSETA	South African Security Sector Education Training Authority
Scheme	Scheme Security Services CC
SCM	Supply Chain Management
SDFC	Valucorp trading as S Dayanand Forensic Consulting
Semele	Semele Trading Enterprise CC
Siyaya	Siyaya Energy
SLA	Service Level Agreement
Swifambo	Swifambo Holdings (Pty) Ltd
TCC	Tax Clearance Certificate
Thales	Thales Maziya Consortium
UIF	Unemployment Insurance Fund
Umbutho	Umbutho Civil and Electrical CC
Valucorp	Valucorp 408 CC

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Abbreviated Name / Terminology	Full Name and / or Description
VAT	Value Adding Tax
VO	Variation Order
XON Systems	XON Systems (Pty) Ltd
Zabo Creations	Zabo Creations CC

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LIST OF ANNEXURES

Reference	Description
A1	An extract of the Constitution of the Republic of South Africa (1996)
A2	An extract of the Public Finance Management Act No 1 of 1999
A3	An extract of the Preferential Procurement Policy Framework Act 5 of 2000
A4	National Treasury Regulations, December 2003
A5	National Treasury Practice Note Number Supply Chain Management Practitioners 4 of 2003
A6	PRASA SCM Policy, February 2009
A7	PRASA SCM Policy, May 2014
A8	Memorandum from Dr Phungula, dated 13 October 2014
A9	Memorandum from the GCPO, dated 2 April 2014
A10	Memorandum, dated 20 September 2013
A11	PRASA Powers and Authority of the Board and Delegations of Authority
A12	Construction Industry Development Board Guidelines, dated 2011
B1	Inoxico Report of Ilanga Security Services (Pty) Ltd
B2	Extract from SAP accounting system relating to payments made to Ilanga and payment pack in the amount of R184,871.52
B3	Notice to Proceed dated 24 February 2011
B4	Resolution passed by Ilanga dated 1 March 2011
B5	Contract Meeting with Ilanga dated 4 May 2011
B6	Contract Agreement between PRASA and Ilanga
B7	CTPC minutes of meeting held on 26 April 2012 including Submission for Adjudication
B8	Recommendation Report for extension of scope for security contracts

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Reference	Description
B9	Tender Advice dated 4 January 2012
B10	CTPC minutes of meeting held on 8 October 2012 including relevant submission reports
B11	Recommendation Report for extension of security contracts
B12	Tender Advice dated 4 February 2013
B13	CTPC minutes of meeting held on 17 December 2013 including relevant submission reports
B14	CTPC minutes of meeting held on 29 May 2014 including relevant submission reports
B15	CTPC minutes of meeting held on 17 February 2014 including relevant submission reports
B16	Recommendation Report for month to month extension of security contracts
B17	Confirmation email from Mr Japhta dated 22 July 2016
B18	Notice to Proceed template provided by Ms Mosholi
C1	Inoxico Report of Semele Trading Enterprise CC
C2	Extract from SAP accounting system relating to payments made to Semele and payment pack in the amount of R3,169,367.60
C3	Memorandum, dated 10 January 2013
C4	Email correspondence between Ms Mosholi and Mr Japhta dated 13 March 2013
C5	Invitations to tender briefing session for mobile transporters
C6	Briefing session attendance register, dated 9 April 2013
C7	RFP, dated 9 April 2013
C8	Tender opening register, dated 29 April 2013
C9	Minutes and Agenda of CTPC Extra-Ordinary Meeting held on 30 May 2013

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Reference	Description
C10	Security Screening Report, dated 6 June 2013
C11	Memorandum, dated 11 September 2013
C12	Evaluation attendance register, dated 11 September 2013
C13	Submission for Adjudication Report, undated
C14	Minutes of CTPC Extra-Ordinary Meeting held on 6 and 13 September 2013
C15	Recommendation Report sent to the GCEO
C16	Tender Advice issued by the CTPC Secretariat
C17	Notice of Appointment sent to Semele, dated 15 November 2013
C18	Letter sent from Semele to PRASA, dated 17 November 2013
C19	Sale and Purchase of Goods Contract entered into between PRASA and Semele dated 19 November 2013
C20	Request for WBS Number form
C21	Project Change Request form
C22	Invoice from Zabo Creations
C23	Response letter from Ms Cosgrove, ABSA, dated 21 July 2016
C24	Mobile Transporters asset register
C25	Documentation contained within the bid document submitted by Semele
D1	Inoxico Report of Scheme Security Services CC
D2	Extract from SAP accounting system relating to payments made to Scheme and payment pack in the amount of R746,372.82
D3	Contract Agreement between PRASA and Scheme
D4	CTPC minutes of meeting held on 8 October 2012 including relevant submission reports
D5	Tender Advice dated 4 February 2013
D6	Submission for Condonation dated March 2013

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Reference	Description
D7	CTPC minutes of meeting held on 17 February 2014 including relevant submission reports
D8	Email from Ms Monkwe to Ms Mosholi dated 21 February 2014
D9	Recommendation Report for month to month extension of security contracts
D10	Confirmation email from Mr Japhta dated 22 July 2016
E1	Inoxico Report of Ndwandwe Consulting CC
E2	Extract from SAP accounting system relating to payments made to Ndwandwe and payment pack in the amount of R6,800,000
E3	CTPC minutes of meeting held on 9 December 2014 and Recommendation Report sent to the Acting GCEO
E4	Tender Advice dated 5 January 2015
E5	Notice of Appointment dated 12 January 2015
E6	Letter sent from Ndwandwe to PRASA, dated 13 January 2015
E7	SLA between Ndwandwe and PRASA, dated 12 January 2015
E8	Scoping Document of Ndwandwe
E9	Consultancy Agreement between PRASA and Ndwandwe, signed on 22 May 2015
F1	Inoxico Report of Hages Infosystems (Pty) Ltd
F2	Extract from SAP accounting system relating to payments made to Hages and payment pack in the amount of R470,791.50
F3	Advertisements for the contract HO/INS/114/10/2011
F4	Tender opening register dated 15 May 2012
F5	Declarations of Interests forms for evaluation of contract HO/ICT/029/11/2011, dated 18 September 2012
F6	Tender evaluation scoresheets for contract HO/ICT/029/11/2011

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Reference	Description
F7	Bid evaluation report and CFSC meeting minutes held on 27 September 2012
F8	Tender Advice dated 14 December 2012
F9	CPO Recommendation Report for Project Management and Business Analysis Services HO/ICT/029/11/2011, dated 14 December 2012
F10	Letter sent from Hages to PRASA, dated 17 December 2012
F11	Letter sent from PRASA to Rangewave, dated 18 December 2012
F12	Agreement between Hages and PRASA, dated 31 January 2013
F13	Submission for Adjudication, tender number HO/ICT/029/11/2011 and CTPC meeting minutes held on 27 March 2014
F14	Email from Mr Mabona dated 23 August 2016
G1	Inoxico Report drawn for Baran Projects South Africa (Pty) Ltd
H1	Inoxico Report for Siemens Limited
H2	Extract from SAP accounting system relating to payments made to Siemens Limited for Gauteng Phase 1 and payment pack in the amount of R6,895,841.61
H3	Contract Agreement between PRASA and Siemens Limited
H4	Recommendation Report for VO, undated
H5	CTPC minutes of meeting held on 9 March 2012
H6	Recommendation Report to GCEO for VO Approved on 29 March 2012
H7	Tender Advice dated 29 March 2012
H8	Minutes of CTPC meeting held on 10 April 2013 and submission for adjudication
H9	Minutes of CTPC meeting held on 17 December 2013 and submission for adjudication
I1	Annexure not used

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Reference	Description
I2	Extract from SAP accounting system relating to payments made to Siemens for Gauteng Phase 2 and payment pack in the amount of R271,049,999.99
I3	Advertisement for contract HO/INF(S)/249/04/2012
I4	Request for Proposal dated 16 April 2012
I5	Letters to BEC members dated 15 August 2012
I6	Bid Evaluation Report dated 27 July 2012
I7	BEC Meeting minutes dated 26 to 28 August 2012
I8	Bid Evaluation Report dated 3 September 2012
I9	CTPC minutes of meeting held on 31 October 2012
I10	FCIP minutes of meeting held on 6 November 2012
I11	Letter to Mr Mbatha dated 29 November 2012
I12	BoC minutes of meeting held on 29 November 2012
I13	Undated letter from Siemens to PRASA
I14	Siemens presentations
I15	Confidentiality agreements
J1	Inoxico Report for Swifambo Holdings (Pty) Ltd
K1	Inoxico Report for Gibela Rail Transport Consortium (Pty) Ltd
L1	Inoxico Report for Black Star Communications (Pty) Ltd
L2	Extract from SAP accounting system relating to payments made to Black Star and payment pack in the amount of R6,954,000
L3	A Request to Create a Purchase Requisition dated 18 July 2011
L4	Advertisement for contract HO/ICT/110/10/2011
L5	Request for Proposal dated 1 August 2011
L6	Tender Collection Register

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Reference	Description
L7	Briefing Session Attendance Register dated 21 October 2011
L8	Tender Opening Register dated 5 December 2011
L9	Tender Evaluation Attendance Register dated 1 February 2012
L10	CTPC minutes of meeting held on 31 July 2012 including relevant submission reports
L11	Correspondence between PRASA and Black Star dated 8 August 2012
L12	Letter to Mr Mbatha from Mr Balakrishnan dated 14 September 2012
L13	Notice to Proceed dated 27 September 2012
L14	Letter from Mr Balakrishnan dated 27 September 2012
L15	Letter from Mr Balakrishnan dated 29 September 2012
L16	Conditions of Contract entered into between PRASA and Black Star
L17	Variation Order Submission
M1	Extract from SAP accounting system relating to payments made to Black Star and payment pack in the amount of R9,967,823.68
M2	Request for Proposal dated 17 September 2013
M3	CTPC minutes of meeting held on 29 October 2013 including relevant submission reports
M4	CTPC minutes of meeting held on 21 November 2013 including relevant submission reports
M5	Recommendation Report dated January 2014
M6	Tender Advice dated 30 January 2014
M7	Notice of Appointment dated 4 February 2014
M8	Letter from Mr Balakrishnan dated 6 February 2014
M9	Annexure not used
M10	Letter from Mr Balakrishnan dated 25 July 2014

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Reference	Description
M11	Notice to Proceed dated 19 September 2014
M12	Letter from Mr Balakrishnan dated 22 September 2014
M13	Letter from Mr Balakrishnan dated 10 October 2014
M14	Request for Contract Re-Instatement dated 2 February 2016
M15	Letter from Mr Balakrishnan dated 8 March 2016
N1	Inoxico Report for Valucorp 408 CC
N2	Extract from SAP accounting system relating to payments made to Valucorp and payment pack in the amount of R3,165,771
N3	Minutes of the CTPC meeting held on 10 April 2013 and Submission for Adjudication Report, dated 10 April 2013
N4	Recommendation Report sent from the CPO to the GCEO
N5	Tender Advice, dated 23 April 2013
N6	Memorandum of Agreement between PRASA and Valucorp/SDFC
N7	Minutes of the CTPC meeting minutes held on 27 March and Submission for Condonation, dated 27 March 2014, attached to the minutes
N8	Minutes of the CTPC meeting minutes held on 14 May 2014 and Submission Report, dated 14 May 2014, attached to the minutes
N9	Minutes of the CTPC meeting minutes held on 29 May 2014 and Re-submission Report, dated 29 May 2014, attached to the minutes
N10	Recommendation Report sent from the GCPO to the GCEO
N11	Tender Advice, dated 27 June 2014
N12	Notice of Appointment, dated 15 July 2014
N13	Email from Ms Mosholi dated 5 July 2016
N14	Recommendation Report from the CPO to the GCEO
N15	Tender Advice, dated 16 February 2015

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Reference	Description
N16	Minutes of the CTPC meeting held on 20 April 2015
N17	Notice to Proceed dated 4 March 2015
N18	Email correspondence between Ms Mosholi and SDFC
O1	Inoxico Report for Altech Radio Holdings (Pty) Ltd
O2	Extract from SAP accounting system relating to payments made to Altech and payment pack in the amount of R1,412,907.99
O3	RFP, dated 26 September 2011
O4	Purchase Requisition, dated 18 October 2011
O5	Tender advertisement
O6	Tender collection register
O7	Letters sent from PRASA, dated 23 November 2012
O8	Evaluation tender register, dated 4 December 2012
O9	Tender briefing attendance register, dated 17 January 2013
O10	Tender opening register, dated 6 March 2013
O11	Memorandum, dated 7 March 2013
O12	Evaluation attendance register, dated 7 March 2013
O13	Minutes of the CTPC meeting held on 10 April 2013 and Submission for Adjudication, dated 10 April 2013, attached to the minutes
O14	Letter from Mr Matakata to Mr Montana, dated 14 August 2013
O15	Tender Advice, dated 3 September 2013
O16	Notice of Appointment, dated 3 September 2013
O17	Letter of acceptance, dated 19 September 2013
O18	Letter from PRASA to Verstay and Khuselo Telecoms, dated 1 October 2013
O19	Request for WBS number dated 12 November 2013

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Reference	Description
P1	Inoxico Report for Psaros Communications CC
P2	Extract from SAP accounting system relating to payments made to Psaros as well as payment information provided by Mr Psaros and PRASA CRES
P3	Documentation pertaining to the work performed by Psaros
Q1	Inoxico Report for Phumi Trading CC
Q2	Extract from SAP accounting system relating to payments made to Phumi and payment pack in the amount of R7,648,547.55
Q3	Tender advertisement
Q4	Leads 2 Business advertisement
Q5	Tender Collection Register dated 27 June 2013
Q6	Proof of payments made in respect of tender collection
Q7	Tender briefing minutes dated 4 June 2013
Q8	Tender briefing attendance register dated 27 June 2013
Q9	Tender opening register dated 4 July 2013
Q10	Compliance assessment
Q11	Memorandum dated 15 July 2013
Q12	Tender evaluation register dated 15 July 2013
Q13	Security screening report dated 15 October 2013
Q14	CTPC minutes of meeting held on 17 October 2013 including relevant submission reports
Q15	CTPC minutes of meeting held on 11 December 2013 including relevant submission reports
Q16	Letters addressed to the bidders dated 12 December 2013
Q17	CTPC minutes of meeting held on 17 February 2014 including relevant submission reports

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Reference	Description
Q18	Recommendation Report dated March 2014
Q19	Notice to Proceed dated 13 March 2014
Q20	Letter of Acceptance dated 13 March 2014
Q21	Contract entered into between PRASA and Phumi Trading
Q22	Letters of regret sent to losing bidders dated 17 March 2014
Q23	Notice to Proceed dated 21 August 2014
Q24	Letter from Phumi Trading dated 26 August 2014
Q25	Meeting with Phumi Trading attendance register dated 20 August 2014
R1	Inoxico Report for Umbutho Civil and Electrical CC
R2	Extract from SAP accounting system relating to payments made to Umbutho and payment pack in the amount of R4,141,039.05
R3	Purchase requisition dated 2 May 2013
R4	Tender advertisements
R5	Proof of payments made in respect of tender collection
R6	Tender Collection Register dated 7 June 2013
R7	Request for Tender dated May 2013
R8	Tender briefing attendance register dated 7 June 2013
R9	Tender opening register dated 13 June 2013
R10	Memorandum dated 14 August 2013
R11	Tender evaluation attendance register dated 14 August 2013
R12	Confidentiality Agreements and Declarations of Interests forms
R13	Technical evaluation scoresheets
R14	Security screening report dated 29 October 2013
R15	Letters addressed to the bidders dated 5 December 2013

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Reference	Description
R16	Submission Report dated February 2014
R17	Extract of the DTPC minutes for the meeting held on 9 December 2013
R18	Notice to Proceed dated 16 February 2013
R19	Letter of Acceptance dated 17 February 2014
R20	Letters of regret sent to losing bidders dated 18 February 2014
R21	Change of Scope dated February 2015
R22	Letter from PRASA to Umbutho dated 12 March 2015
R23	Contract entered into between PRASA and Umbutho
R24	Addendum to Contract dated 11 July 2015
R25	BOQ for revised scope
S1	Inoxico Report for Huawei Technologies Africa (Pty) Ltd
S2	Extract from SAP accounting system relating to payments made to Huawei and payment pack in the amount of R60,850,333.34
S3	Purchase Requisition, issued on 10 February 2012
S4	Tender advertisement placed in The Star newspaper on 20 February 2012
S5	Tender collection register, undated
S6	Site briefing session attendance register, dated 1 March 2012
S7	Receipt of tender documents, dated 16 April 2012
S8	Memorandum, dated 30 April 2012
S9	Bid evaluation register, dated 19 June 2012
S10	Bid evaluation attendance registers, dated 8 and 9 July 2012
S11	Minutes of CTPC Extra-Ordinary Meeting, held on 11 July 2012
S12	Minutes of the FCIP meeting held on 19 July 2012
S13	Minutes of the BoC meeting held on 24 July 2012

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Reference	Description
S14	Letter sent from Mr Zide to Mr Mbatha, dated 25 July 2012
S15	Letter sent from PRASA to Huawei and Altec Alcom Matomo Consortium, dated 27 February 2012
S16	Contract agreement between PRASA and Huawei and Altech Alcom Matom Consortium, signed on 28 March 2013
S17	Annexure A and Addendums to the contract agreement between PRASA and Huawei and Altech Alcom Matom Consortium
S18	Minutes of the CTPC meeting held on 24 June 2014 with presentation attached
S19	Extract of the BoC resolution reached in respect of the VO
T1	Inoxico Report for XON Systems (Pty) Ltd
T2	Extract from SAP accounting system relating to payments made to XON Systems and payment pack in the amount of R2,949,604.28
T3	RFP, dated September 2012
T4	Extract from an advertisement published in the Pretoria News dated 10 December 2012
T5	Request for WBS number form dated 9 December 2012
T6	Briefing session attendance register (undated) for contract HO/ICT/131/12/2012
T7	Site inspection attendance register (undated) for contract HO/ICT/131/12/2012
T8	Tender collection register (undated) for contract HO/ICT/131/12/2012
T9	Extract of the tender document submitted by XON Systems
T10	Tender opening register, dated 1 February 2013
T11	Internal memorandum, dated 11 February 2013
T12	Evaluation committee attendance register, dated 19 February 2013

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Reference	Description
T13	Declarations of Interests forms and Confidentiality Agreements, dated 19 to 20 February 2013
T14	Compliance Assessment and tender evaluations for contract HO/ICT/131/12/2012
T15	Extracts from the bid documents submitted by Business Connexion, Sizwe IT Group, Dimension Data and XON Systems.
T16	Submission for Adjudication for tender HO/ICT/131/12/2012.
T17	Minutes of CTPC Extra-Ordinary Meeting held on 15 March 2013
T18	Security screening report for XON Systems, dated 8 May 2013
T19	Letters to bidders to extend the tender validity period
T20	Recommendation Report, undated
T21	Notice of Appointment addressed to XON Systems
T22	Letter from XON Systems to PRASA dated 1 October 2013 and supporting correspondence
T23	SLA between XON Systems and PRASA
T24	Minutes of the CTPC meeting held on 24 June 2014 and Submission for the VO in the amount of R1,140,120.87 (including VAT), attached to the minutes
T25	Recommendation Report for the VO for contract HO/ICT/131/12/2012
T26	Notice to Proceed addressed to XON Systems (Pty) Ltd dated 21 June 2015
T27	Extracts that appears to have formed part of the bid submitted by XON

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EXECUTIVE SUMMARY OF FINDINGS AND RECOMMENDATIONS

1.000 We have summarised below the findings and recommendations relating to our forensic investigation into the procurement of 20 projects awarded by PRASA listed under Mandate herein below. This summary emanates from our detailed procedures performed, findings and recommendations recorded in this report, and hence we recommend that the report be read in its entirety to appreciate the basis of the findings and recommendations included in this executive summary before any action that may be necessary are taken.

Limitations

1.001 The following restrictions or limitations were experienced during our investigation:

- 1) This investigation was scheduled to commence in February 2016. PRASA was however unable to provide the documentation relating to the 20 projects included in the investigation at the commencement of our investigation and this delayed the investigation process. Our contract with National Treasury was then extended until 31 October 2016 to enable us to obtain most of the documentation to perform the investigation and report on our findings.
- 2) It is our understanding that National Treasury appointed a number of service providers to investigate contracts awarded by PRASA. During our investigation, PRASA employees informed us that it has been difficult to assist all the service providers that are requesting information on a timeous basis. Hence obtaining information and/or documentation took longer than initially anticipated.
- 3) Some of the projects that were included in our scope were advertised and awarded a number of years ago. A number of the PRASA employees that were involved in the procedures have since left PRASA's employment. As such, we were not able to contact some of the former employees for purposes of our investigation and we were unable to meet with them to

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obtain or clarify certain information.

- 4) The turnover of staff in certain positions has been noted and this has a negative impact on holding employees accountable for incorrect procedures adopted
- 5) During our investigation we have noted that the availability and accessibility of documentation is generally difficult within PRASA. This was also reported to us by PRASA on 17 February 2016 during the introductory meeting with National Treasury. We have requested documentation on numerous occasions and were unable to obtain same as it could not be located.
- 6) The time lapse between the advertisement and the final awarding of the contracts in some instances seem to be extensive. This has a negative effect on employees ability to recall what happened, why there is a lack of availability of documentation and also information regarding the costs involved in the project.
- 7) During our investigation, we have reviewed a number of minutes of committee meetings, including but not limited to the CFSC and CTPC meetings. These minutes appear to be vague and do not contain a detailed record of events. Further, the committee members interviewed cannot recall all the discussions relating to the projects during these meetings.

The appointment of Ilanga Security Services and Scheme Security Services

- 1.002 A number of security contracts were concluded prior to 2012 and hence were in place prior to the period of our review. The contracts awarded to Ilanga and Scheme have subsequently been extended.
- 1.003 The contract awarded to Ilanga has been extended for the periods summarised in the table hereunder:

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Number	Period of Extension	Amount (R)
1	February 2011 to 31 December 2011	7,191,439.29
2	January 2012 to November 2012	8,199,801.00
3	December 2012 to November 2013	16,113,288.96
4	December 2013 to September 2014	13,520,545.92
5	April 2013 to May 2014	12,054,515.04
6	Month to month extension as approved in March 2015	2,077,053.56
Total (R)		59,156,643.77

1.004 The contract awarded to Scheme has subsequently been extended for the periods summarised in the table hereunder:

Number	Period of Extension	Amount (R)
1	1 February 2012 to 30 November 2012	Unknown
2	December 2012 to July 2013	2,718,900.00
3	April 2013 to May 2014	12,054,515.04
4	Month to month extension as approved in March 2015	832,022.16
Total (R)		15,605,437.20

1.005 Ilanga received 34 payments between the period 10 June 2013 to 30 April 2016 totalling R23,305,062.18 for security services rendered. Scheme received 33 payments between the period 15 May 2013 to 30 April 2016 totalling R19,822,706.46 for security services rendered. The amounts paid to Ilanga and Scheme often does not agree with the extension amounts as referred to above (no payment data appears on the SAP system for these

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service providers prior to May 2013).

- 1.006 Based on our findings we determined that the extensions of the security contracts were not regularly approved as required. The procurement processes for these extensions were often not followed in terms of a provisioning system as provided for in the PRASA SCM Policy and relevant legislation.
- 1.007 We further noted that some of the extensions were approved after the commencement of the contract period or no approval exists for a specific period. The SCM Policy document deals with Variations of Contracts and the approval processes for these extensions were often not followed.
- 1.008 The CTPC recommended on 27 April 2012 that a national contract must be finalised by the end of November 2012. We determined however that the national tender for security services was only advertised in August 2016 which is four (4) years later. It further appears from our review of the documentation provided that the various requests for the extension of the security contracts were only done in an attempt to regularise the extension period and was therefore used to circumvent the SCM procedures as provided for and hence is irregular.

Recommendations

- 1.009 Mr Mantsane was the Head Group Corporate Security from 2007/early 2008 until early 2013 when he was replaced by Mr Matakata. We therefore recommend PRASA consider taking disciplinary action against Mr Mantsane for his failure to ensure that a national tender was advertised and thereafter service providers appointed.
- 1.010 Mr Matakata was appointed as Head Group Corporate Security on 1 June 2013 and the national tender for security services was only advertised in August 2016 some three (3) years later. We therefore recommend PRASA consider taking disciplinary action against Mr Matakata for his failure to ensure that a national tender was advertised and thereafter service providers appointed.

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The appointment of Semele Trading Enterprise

- 1.011 The tender was for the supply of 50 “mobile transporters”. We determined from our review of the documentation provided that the aforesaid contract was awarded to Semele following a closed bidding process.
- 1.012 Semele received five (5) payments totalling R18,368,640 (including VAT) which agrees to the contract amount for the units provided. There were no VOs issued in respect of this contract.
- 1.013 The specifications for the procurement of the mobile transporters were drafted based on internet searches conducted by Mr Japhta and was not approved by the BSC as it was not in effect at the time. This resulted in the specifications only suiting distributors of the T3 Motion mobile transporters. It is further supported by the fact that only Semele submitted a bid. Mr Mpanza from Zabo Creations attended the tender briefing. He stated during our interview that he decided not to tender for this project as he felt that he would not be successful and it was thus not worth tendering. Mr Pratt of Fleet Africa stated that during the tender briefing meeting he got the impression that the winning bidder had already been decided.
- 1.014 The confinement approval indicated a budgeted amount of R7,410,000 (including VAT) which was approved by the GCEO. Upon submission of the tender from Semele, the CTPC approved a contract amount of R18,368,640 (including VAT). This is an increase of R10,958,640 which amounts to 147,89% above the initial approved budgeted amount and appears to be irregular. Paragraph 10 of the SCM Policy provides for the requirements to perform a needs assessment and includes aspects such as budget availability and specifications.
- 1.015 It is important to note that aspects such as the maintenance for the units were not included as a requirement in the RFP but was included in the contract for payment and is irregular. The RFP further sets out the requirement to provide 50 mobile transporters, whereas 50 T3 Motion mobile transporters and 14 “Sageway” mobile transporters were provided. Mr Japhta as a representative

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of the end-user department was a member of the BEC and responsible to ensure that the tender submitted by Semele was in line with the specifications as recorded in the RFP. Paragraph 3 of the PPPFA Regulations further provides that an organ of the state must, prior to making an invitation for tenders (a) *“Properly plan for, and, as far as possible, accurately estimate the costs of the provision of services”*.

- 1.016 Annexure B attached to the contract reflects that Semele quoted R158,000 (including VAT) per unit and have included a number of additional items. Semele further quoted an amount of R4,999 for full service and maintenance per unit per month for the period of 24 months. This amounts to R119,976 (including VAT) for maintenance per unit, totalling R5,998,800 (including VAT) for the 50 units for the period of 24 months. This amount appears to be excessive. It is significant to note that Mr Japhta stated that these units were not regularly serviced and were only serviced when required. Details of service intervals could however not be provided.

Recommendations

- 1.017 The specifications for all prospective contracts should be drawn up and approved by the BSC committee to ensure that the specifications are fair and address all the requirements of the respective end-user department.
- 1.018 PRASA should consider taking disciplinary action against Mr Japhta as the end-user and member of the BEC for his failure to ensure that the tender submitted by Semele agrees with the specifications as provided for in the RFP. He further failed to give a proper cost estimate that was exceeded by 147.89%.
- 1.019 National Treasury should consider further investigation into the appointment of Semele as a result of the misrepresentations that were made regarding the tender that was submitted in respect of the mobile transporters as a sole supplier. The investigation should further include an analysis and further review of the maintenance costs that were charged by Semele per unit, which was not included in the RFP, with the view to determine if there is sufficient

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evidence to support criminal proceedings as a result of the alleged conduct.

- 1.020 PRASA should implement a system where all procurement related documents are filed in a safe and secure environment with a register to control the movement of the procurement files. Important documents, such as the financial bid documents which could not be found, and procurement files must be kept for a prescribed period. The price proposal is of significant importance in this situation as the mobile transporters delivered does not correspond with what was requested.

The appointment of Ndwandwe Consulting

- 1.021 The tender was for the development of a change management programme within PRASA. We determined from our review of the documentation provided that the aforesaid contract was awarded to Ndwandwe following a letter of motivation for confinement from the CPO recommending the appointment in December 2014.
- 1.022 Ndwandwe received three (3) payments in respect of this contract totalling R11,050,000 (including VAT) which falls within the total contract amount of R14,487,000 (including VAT).
- 1.023 The project was stopped during approximately September 2015 as PRASA did not make payments as required. It appears that the dispute relating to payments between Ndwandwe and PRASA is still ongoing and hence the reason why the project has not been completed to date. There were no VOs issued in respect of this contract.
- 1.024 It appears from our investigation that a confinement process was resorted to due to a delay in SCM procuring a service provider following an open bidding process. The SCM Policy provides for Single Source/ Confinement.
- 1.025 The type of services provided by Ndwandwe is not unique. The reasons given for confinement are not reasonable as there are a number of consulting firms that can provide change management programmes.

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- 1.026 The previous appointment of a service provider in 2007 cannot be used as a reason for confinement in December 2014, (seven (7) years later). Based on our interview with Ms Kondowe, we determined that she had requested SCM to advertise the tender in 2013. The procurement process was delayed and Ms Kondowe had to resort to following a confinement. This has resulted in a circumvention of the SCM procedures and the services required cannot be motivated as an emergency for cases resulting from poor planning.
- 1.027 We determined that on 12 January 2015 Ndwandwe was notified of their appointment by PRASA for the development of a modernisation change management programme for the amount of R14,487,000 (including VAT) and entered into a SLA. The Financial Plan attached to the Consultancy Agreement reflects an estimate of R2,8 million for onboarding logistics and appears excessive for the type of services as listed on the document.

Recommendations

- 1.028 PRASA should avoid resorting to the use of confinement processes, especially due to lack of planning. Furthermore, PRASA must procure services according to a provisioning system as provided for in the SCM Policy and relevant legislation to ensure that the market is tested according to a free and fair provisioning system.
- 1.029 PRASA should ensure that all payments to service providers are being made regularly and as agreed upon. This practice will ensure effective service delivery and avoidance of unnecessary delays in the completion of projects and prevent penalties for late payment that results in fruitless and wasteful expenditure.
- 1.030 National Treasury should consider investigating why the Acting Group Head of HCM at the time, Mr Bhekani Khumalo, did not approve the required invoices for payment that has further resulted in a delay in the finalisation of the project as further penalties incurred will amount to wasteful expenditure.

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The appointment of Hages Infosystems

- 1.031 The contract was for the provision of project management and business analysis capabilities in the SAP R/3 environment. We determined from our review of the documentation provided that the aforesaid contract was awarded to Hages following an open tender process.
- 1.032 PRASA made 21 payments to Hages during the period 8 March 2013 to 24 May 2016 totalling R11,306,774 (including VAT) and in terms of the rates as provided for in the SLA. Mr Mabona confirmed that the services were delivered by Hages as required. The original contract amount was R9,500,000 (including VAT) with a VO submitted increasing the contract amount to R11,913,000 (including VAT).
- 1.033 Based on our review of the documentation provided, it appears that the calculations performed during the bid evaluation were incorrect. It however appears that Hages would still have been the preferred bidder had these calculations been performed correctly.
- 1.034 It was apparent from interviews conducted that there appears to be confusion amongst the SCM staff pertaining to the level of BAC required to support an appointment where a VO results in the contract amount being increased to above R10 million.

Recommendations

- 1.035 We recommend that clear guidance be given to the BEC members about how to perform the calculations for the purposes of evaluation to ensure that the procurement process is fair and accurate.
- 1.036 PRASA should ensure that the level of BAC required to support appointments and VOs is clearly defined in their SCM Policy and should consider providing training to relevant staff.

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The appointment of Siemens Limited for Gauteng Phase 1

- 1.037 This contract was awarded to Siemens Limited for the design, construction and implementation of a new railway signalling system and Gauteng Nerve Centre for Gauteng Phase 1 during 2011. The appointment of Siemens for Gauteng Phase 1 was procured in 2010 and prior to 2012 (the period of our review).
- 1.038 We determined that PRASA made 12 payments to Siemens for Gauteng Phase 1 during the period 15 June 2011 to 31 March 2016 totalling R711,199,901.02 which is still within the total contract amount of R1,131,969,717.29 (R1,005,988,342 + R478,800 + R98,600,000 + R26,902,575.29). This amount includes VAT, but excludes contingency and escalation costs.
- 1.039 We determined that six (6) VOs were issued in respect of Gauteng Phase 1. It appears that all these VOs were approved as required in terms of the SCM Policy and relevant legislation.
- 1.040 We have not identified any irregular conduct in respect of this contract.

The appointment of Siemens Limited for Gauteng Phase 2

- 1.041 This contract was awarded to Siemens Limited for the design, construction and implementation of a new railway signalling system for Gauteng Phase 2.
- 1.042 PRASA made nine (9) payments to Siemens for Gauteng Phase 2 during the period 5 December 2013 to 15 March 2016 totalling R993,203,976.04 which is within the total contract amount of R2,762,691,043.44. To date of this report, no VOs were issued in respect of this contract.
- 1.043 Based on our review of the available documentation and interviews conducted, it appears that the procurement of Siemens in respect of the Gauteng Phase 2 project was done in accordance with a provisioning system which was fair and transparent as provided for in the PRASA SCM Policy and

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related legislation as referred to herein above.

The appointment of Black Star for the software contract

- 1.044 The contract was for an online ticket booking and reservation system for PRASA. We determined from our review of the documentation provided that the aforesaid contract was awarded to Black Star following an open bidding process.
- 1.045 Black Star received 14 payments from PRASA for the period 30 November 2012 to 15 July 2015 totalling R70,689,546 (including VAT) which falls within the total contract amount of R75,000,000 (R68,400,000 + R6,600,000).
- 1.046 Based on our review of the documentation obtained we determined that the bidders were not evaluated based on price due to the complex nature of the solution required. The specifications were drafted by the end-user but were not approved by the BSC as the committee was not in effect at the time. It is however important to note that the RFP provides for the total cost and this should not have been ignored in the evaluation process. The Preferential Procurement Regulations 2011 provides that an organ of state (PRASA) must, prior to making an invitation for tenders (b) *“Determine and stipulate the appropriate preference point system to be utilized in the evaluation and adjudication of tenders”*. The PPPFA states that a preference points system (90 points for price and 10 points for specific goals such as B-BBEE) must be followed for contracts with a rand value above the prescribed amount of R1 million and this was not done.
- 1.047 The evaluation criteria for this tender reflects that the B-BBEE was incorrectly based on 20%. If the BEC ignored pricing, which had originally been allocated at 20%, they evaluated the bid based on 25% B-BBEE (i.e. 20 out of 80). The tender evaluation process therefore appears to be invalid and should have been reperformed.
- 1.048 Based on the approval of the VO by Mr Montana, we noted that he reprimanded Dr Phungula and Mr Mbatha for poor planning resulting in the

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VO and a delay in completion of the project. It is significant to note that the project is still incomplete as at October 2016 and four (4) years after the commencement date even though it was supposed to be completed within 30 weeks according to the letter from Black Star to Mr Mbatha of PRASA dated 29 September 2012.

Recommendations

- 1.049 The specifications for all prospective contracts should be drawn up and approved by the BSC committee to ensure that the specifications are fair and address all the requirements of the respective end-user department.
- 1.050 PRASA should ensure that the bid specifications stipulate the requirements for the tender to ensure that the tender is evaluated accordingly and as provided for in the PPPFA.
- 1.051 PRASA should consider implementing processes and controls to ensure that projects are completed within a reasonable time frame and for the period as agreed upon to avoid unnecessary delays which may have adverse financial implications.
- 1.052 PRASA should consider taking disciplinary action against the members of the BEC for their conduct in the evaluation process, i.e. incorrect evaluation of B-BEE and for excluding aspects that were listed as a requirement such as price from the evaluation process.

The appointment of Black Star for the hardware contract

- 1.053 This contract was for the hardware for the online ticket reservation system for PRASA. We determined that the aforesaid contract was awarded to Black Star following an open bidding process.
- 1.054 We noted from our review of the payment documentation and information provided that Black Star received eight (8) payments from PRASA for the period 15 October 2014 to 25 June 2015 totalling R39,357,601.06 (including VAT) which falls within the total contract amount of R45,407,312.81. To date

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of this report, there were no VOs issued in respect of this contract.

- 1.055 Based on our review of documentation obtained and information provided, we determined that testing was conducted on the software which was being developed for the online ticket booking and research agent provided by Black Star in the first contract as referred to herein above, using specific equipment. The specifications were drafted for the hardware based on the specific hardware used when the software testing was conducted. Mr Mapodile, as the end-user, was in favour of procuring a supplier for the hardware contract is based on a confinement process, but the GCEO did not support this and hence the reason why an open tender process was followed.
- 1.056 We were provided with limited documentation relating to the procurement of Black Star for the hardware contract and hence are unable to conclude whether the procurement was done in accordance with a provisioning system which was fair and transparent as provided for in the PRASA SCM Policy and relevant legislation.
- 1.057 A Notice to Proceed was issued to Black Star by PRASA dated 19 September 2014 and serves to confirm that PRASA has approved their appointment in the amount of R45,407,312.81 (including VAT). Mr Balakrishnan accepted the Notice to Proceed in a letter dated 22 September 2014.
- 1.058 PRASA has however not entered into a contract with Black Star and hence the reason why a number invoices were not paid (we determined that an internal PRASA decision was made in June 2015 whereby suppliers could not be paid if there was no valid contract entered into between the parties). It is important to note that paragraph 9.14.4 of the SCM Policy provides that contract management shall be responsible to “*Ensure service level agreements are signed with successful tenderers that properly reflect the decision of the applicable adjudication committee*”. The supplier has on numerous occasions requested PRASA to enter into an SLA and hence cannot be penalised for the fact that PRASA has neglected their responsibility to draft and sign the contract.

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Recommendations

- 1.059 The specifications for all prospective contracts should be drafted and approved by the BSC committee to ensure that the specifications are fair and address all the requirements of the respective end-user department without favouring a specific service provider.
- 1.060 PRASA should implement a system where all procurement related documents are filed in a safe and secure environment with a register to control the movement of the procurement files. Important documents must be kept for a prescribed period and may be required for formal processes such as civil litigation and appeals processes.
- 1.061 PRASA should ensure that all agreements with the service providers are signed by both parties timeously as provided for in the SCM Policy and shortly after contracts have been awarded. This practice will avoid a delay in payments to service providers and hence will prevent penalties for late payment that results to fruitless and wasteful expenditure.
- 1.062 PRASA should consider taking disciplinary action against Mr Khuzwayo for neglecting his duties to ensure that the contract between Black Star and PRASA were signed by both parties.

The appointment of Valucorp

- 1.063 The contract was for the “*Separation of SD Forensics: Appointment of Service Provider*”. We determined from our review of the documentation provided that the aforesaid contract was awarded to SDFC (Valucorp’s trading name) based on confinement as a result of a contract that was initially entered into between SDFC and Siyaya Energy to provide forensic services in the performance area of fuel auditing. (Siyaya was previously appointed by PRASA for the provision of fuel tanks and e-tags that included the investigation and prevention of fuel fraud at Autopax).

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- 1.064 The SDFC contract was approved and has subsequently been extended for the periods as listed hereunder:
- a) The appointment of SDFC to provide forensic services for a period of 12 months from 17 September 2012 to 16 September 2013 for a contract amount of R17,000,000 (including VAT);
 - b) The application for condonation in respect of additional forensic services for a contract amount of R1,444,043 (including VAT) as approved on 3 April 2014;
 - c) The appointment of SDFC to provide forensic services for a period of 18 months from 16 September 2013 to 31 March 2015 for a contract amount of R10,000,000 (including VAT); and
 - d) The appointment of SDFC to provide forensic services for a period of 13 months from 1 December 2014 to 31 December 2015 for a contract amount of R14,780,000 (including VAT).
- 1.065 SDFC received 12 payments from PRASA for the period 15 May 2013 to 15 July 2015 totalling R36,460,251 (including VAT).
- 1.066 The contract was awarded to SDFC based on a motivation for confinement. The reason for confinement was as a result of the contract which was initially entered into between SDFC and Siyaya Energy to provide forensic services relating to fuel auditing. It is important to note that the reasons given are not reasonable as there are a number of firms that can provide these forensic services. It is further significant to note that Siyaya Energy contracted SDFC to assist with the investigations into fuel fraud and hence they had an existing relationship. Therefore the reasons given for confinement and PRASA appointing SDFC directly is not valid. To appoint SDFC is irregular as the relationship has not disappeared just because the appointment has now been done directly by PRASA.
- 1.067 The various extensions of the agreement entered into with SDFC further have not been always been approved in accordance with the SCM Policy. We noted for example that the extension in the amount of R1,444,043 was

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approved by the GCPO and not by the GCEO as required. We further noted that the extension in the amount of R14,780,000 was approved by the GCEO on 16 February 2015 and only submitted to the CTPC for noting purposes on 20 April 2015, whereas the CTPC should have first considered the application and then recommended the matter to the GCEO for approval.

- 1.068 The submission report provided by SDFC to PRASA in support of the extension does not reflect the details of the investigation files that had to be completed or any information relating to disciplinary action that had to be initiated. It is further important to note that we were unable to determine from our interviews conducted the details of the cases which had to be completed, the details relating to the recovery of funds and/or if any disciplinary action was taken as a result of the further work performed by SDFC.
- 1.069 SDFC reported directly to Mr Montana in his capacity as the GCEO and also issued their reports to him personally. Mr Matakata and Mr Mantsane, who were both appointed as Group Head Corporate Security during the tenure when SDFC provided forensic services, stated that they were not provided with reports that were issued as a result of the various investigations conducted by SDFC.
- 1.070 Based on our review of the payment packs provided we determined that the invoices submitted by SDFC were not supported by the details relating to the level of the staff used and a breakdown of their rates. The invoices were also not supported by any documentation relating to disbursements incurred and was approved only based on the instruction of Mr Montana. Invoices submitted by SDFC should have been supported by the required documentation including progress reports. To date, we have been unable to find copies of any forensic reports issued by SDFC despite them being paid R36,460,251.

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Recommendations

- 1.071 National Treasury should consider further investigation into the services allegedly delivered by SDFC to determine the nature of the deliverables that were submitted to PRASA as a result of the various appointments by PRASA.
- 1.072 The investigation should include a detailed analysis of the fees charged and the payments that were made to SDFC to determine if the number of staff actually used were regular and according to the required rates for each staff level. The investigation should include a review of the supporting documentation relating to the disbursement amounts charged to determine if the disbursements were justified.
- 1.073 PRASA should consider meeting with the Hawks unit of the SAPS to determine if any criminal proceedings were instituted against any individual as a result of the investigations performed by SDFC and the status thereof.

The appointment of Altech Radio Holdings

- 1.074 This contract was for the provision of a tactical radio communication system. We determined from our review of the documentation provided that the aforesaid contract was awarded to Altech following an open bidding process.
- 1.075 We ascertained from the payment data and documentation provided that Altech received five (5) payments from PRASA for the period 4 December 2013 to 31 March 2014 totalling R14,358,142.88. There were no VOs issued in respect of this contract. During our interview with Mr Japhta he confirmed that the services were delivered by Altech as required.
- 1.076 The RFP dated 26 September 2011 details the specifications for the provision of a tactical radio communication system and was signed by Mr Mantsane on 17 October 2011. Paragraph 3 of the Preferential Procurement Regulations 2011 provides that an organ of state must, prior to making an invitation for tenders (b) "*Determine and stipulate the appropriate preference point system to be utilized in the evaluation and adjudication of tenders*".

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- 1.077 Paragraph 4 further deals with the evaluation of tenders on functionality and states that the criteria must be clearly specified in the invitation to submit a tender. It however appears from our review of the available documentation that SCM did not comply with this requirement as provided for and this should have rendered the tender process as invalid.
- 1.078 The tender was advertised with a closing date as 25 November 2011 and the validity of the tender was extended to 28 February 2013 which is 15 months after the tender closing date. We were unable to determine why there was such a long delay in the finalisation to clarify the scope and pricing in respect of the tender. The contract was awarded to Altech on 3 September 2013.

Recommendation

- 1.079 The specifications for all prospective contracts should be drawn up and approved by the BSC committee to ensure that the specifications are fair and address all the requirements of the respective end-user department.
- 1.080 PRASA should ensure that the bid specifications clearly specify the requirements for the tender as well as the aspects for evaluation to ensure that tender documents are evaluated accordingly and as provided for in terms of the PPPFA.
- 1.081 PRASA should consider implementing processes and controls to ensure that projects are completed within a reasonable time frame and for the period as agreed upon to avoid unnecessary delays which may have adverse financial implications.
- 1.082 PRASA should implement a system where all procurement related documents are filed in a safe and secure environment with a register to control the movement of the procurement files as a number of documents could not be obtained.

The appointment of Psaros Communications

- 1.083 We were not provided with any procurement documentation in respect of

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Psaros by either PRASA Corporate or PRASA CRES and the file could not be located. It is our understanding based on the information provided that no procurement file exists for Psaros at PRASA.

- 1.084 We ascertained from our review of the payment data and documentation provided by Mr Psaros that they received two (2) payments from PRASA for the period 31 October 2013 to 19 December 2013 totalling R99,137.22 for training provided.
- 1.085 Psaros has not provided services to PRASA in the amount of R25,252,919.05 as reported to us before we commenced with our investigation. There was further no procurement documentation available in support of the payment as reported to us. Mr Psaros stated that he did not submit a proposal for any tender, but was appointed only to provide training to PRASA employees for an amount of approximately R108,000 during 2013.
- 1.086 The payment data and documentation provided reflects that one (1) payment in the amount of R633,221.68 was made to PSA for signage, although it is incorrectly reflected on SAP as a payment to Psaros.

Recommendations

- 1.087 PRASA should ensure that the information loaded onto SAP is accurate and records the true nature of the contract and payments made to the respective service providers. In addition, PRASA should consider including a field in the SAP system wherein the contract number is entered to link every payment to a specific contract, irrespective of the supplier name. This can also be supported by the maintenance of a contract register.
- 1.088 A formal filing system should be implemented in the finance department to ensure that the supporting payment documentation is readily available and is filed according to a referencing system.

The appointment of Phumi Trading

- 1.089 The tender was for the construction of a new drainage system at Katlehong –

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Kwesine. We determined from our review of the documentation provided that the aforesaid contract was awarded to Phumi following an open bidding process.

1.090 Phumi received 15 payments from PRASA for the period 30 September 2014 to 30 June 2016 totalling R64,085,797.81 and falls within the total contract amount of R66,879,306.12 (including VAT). To date of this report, there were no VOs issued in respect of this contract.

1.091 We determined that the advertisement does not reflect the required CIDB grading. We were unable to determine whether the CIDB grading requirement was recorded on the tender document even though it was recorded on the advertisement placed on the CIDB website.

1.092 We have not been provided with the tender documents to verify if the information is correct as recorded in the submission report. We noted from the submission report that Phumi met the required CIDB grading of 8CE/7CE as they have a CIDB grading of 8CE. Based on our review of the available documentation it however appears that the procurement of the contract was in accordance with a provisioning system which was fair and transparent as provided for in the PRASA SCM Policy and relevant legislation.

Recommendation

1.093 PRASA should ensure that all advertisements and the tender document include the required CIDB grading where applicable for the respective contract to ensure a competitive bidding process. The CIDB requirement should therefore not only be reflected on the CIDB website when tenders are advertised.

The appointment of Umbutho Civil and Electrical

1.094 The contract was for the refurbishment of the Gauteng South Region sub-station. We determined from our review of the documentation provided that the aforesaid contract was awarded to Umbutho following an open bidding

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process.

1.095 We ascertained from the payment data and documentation provided that Umbutho received three (3) payments from PRASA for the period 28 November 2014 to 30 October 2015 totalling R7,092,838.38 and falls within the total contract amount of R13,061,932.33 (including VAT). To date of this report, no VOs were approved during our review.

1.096 Based on our review of the available documentation and interviews conducted it appears that the procurement of Umbutho for the refurbishment of the Gauteng South Region sub-station was done in accordance with a provisioning system which was fair and transparent as provided for in the PRASA SCM Policy and related legislation.

The appointment of Huawei Technologies Africa

1.097 The contract was for the design, construction and implementation of a new digital railway signalling radio network. We determined from our review of the documentation provided that the aforesaid contract was awarded to Huawei following an open bidding process.

1.098 Huawei received 30 payments from PRASA for the period 12 September 2013 to 31 March 2016 totalling R435,026,709.62 and falls within the total contract amount of R582,080,735.98 (including VAT).

1.099 The site inspection was not held at the sites where the services would be implemented. Prospective bidders raised concerns and questions during the briefing meeting with the engineers who were responsible for the project and drafting of the specifications but they were unable to provide clarification. The prospective bidders were therefore required to submit bids based solely on a map depicting the various stations and hence the extent of the project was only realised upon commencement thereof. This has contributed to the significant increase in the contract amount as a result of the VOs in the amount of R97,001,547.18 (R501,547.18 + R96,500,000).

1.100 We determined from our review of the evaluation scoresheets for the three

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bidders that Huawei and Plessey were allocated scores, but Alandick was not evaluated. It should be noted that the scoresheets completed by Mr Botabota and Mr Mapodile were incomplete in respect of Plessey. Neither Mr Botabota nor Mr Mapodile could recall the reason therefore, but indicated that it may have been as a result of a disqualification issue.

- 1.101 We were unable to obtain the submission report which was presented to the CTPC for recommendation and were therefore unable to determine whether Alandick was disqualified as stated by the members of the BEC and/or as required during a provisioning system that was fair.

Recommendation

- 1.102 Site visits should be compulsory where the contract is dependent on knowledge of the geological areas to ensure the potential bidders understand the extent of the work required and can bid accordingly. This will assist in avoiding unnecessary VOs for cases such as the tender that was awarded to Huawei for the design, construction and implementation of a new digital railway signalling network.
- 1.103 PRASA should implement a system where all procurement related documents are filed in a safe and secure environment with a register to control the movement of the procurement files. This control would have ensured that the submission report was available and would have assisted in providing clarification regarding the evaluation process.

The appointment of XON Systems

- 1.104 This contract was for the construction of a datacentre in Umjantshi House. We determined from our review of the documentation provided that the aforesaid contract was awarded to XON Systems following an open bidding process.
- 1.105 XON Systems received nine (9) payments from PRASA for the period 31 January 2014 to 31 July 2015 totalling R12,802,458.79 and falls within the total contract amount of R13,561,089.21 (including VAT) (R12,420,968.34 +

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R1,140,120.87). It is our understanding that XON Systems are still awaiting further payments for services rendered.

1.106 Based on our review of the available documentation and interviews conducted, it appears that the procurement of XON Systems for the construction of a datacentre at Umjantshi House was done following an open bidding process which was fair and transparent as provided for in the PRASA SCM Policy and relevant legislation.

1.107 We noted that the representative for the end-user on the BEC, Mr Kobuwe, was from the security division of the end-user department and not from the infrastructure division to which this project relates. It appears that Mr Kobuwe may not have had all the technical expertise to assist the BEC in evaluating this tender and the extent of the VO in the amount of R1,140,120.87 could have been avoided had a representative from the infrastructure division been a member of the BEC.

Recommendation

1.108 PRASA should ensure that a representative from the end-user department who have intimate knowledge of the services required must attend the BEC to ensure that the bids are evaluated fairly and that all the requirements of the project are met.

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Contracts not investigated

1.109 We were informed by Mr Phoma of PRASA that three (3) of the contracts included in our scope are currently under investigation by Werksmans Attorneys. These projects were therefore not included in our review and this has been reported to Mr Ndaba of National Treasury. These projects are listed hereunder:

- i. The appointment of Baran Projects South Africa with a target value of R91,000,000 for the period 10 March 2014 to 31 August 2015;
- ii. The appointment of Swifambo Holdings (Pty) Ltd with a target value of R525,000,000 for the period 1 April 2013 to 31 March 2018; and
- iii. The appointment of Gibela Rail Transport Consortium with a target value of R5,699,959,067 for the period 1 May 2014 to 31 March 2034.

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INTRODUCTION

2.000 Terms of Appointment

2.000 The terms of our appointment are detailed in our letter of engagement dated 17 February 2016, which was signed by Mr Kenneth Brown (**Mr Brown**), Chief Procurement Officer (**CPO**) of National Treasury.

3.000 Objectives / Mandate

Background

3.001 The Public Protector in her report on the Passenger Railway Agency of South Africa (**PRASA**) investigation directed the Office of the CPO of National Treasury to conduct forensic investigations in respect of all PRASA contracts above R10 million from 2012 to date.

3.002 Following from the report of the Public Protector PricewaterhouseCoopers Inc. (**PwC**) was appointed by the Office of the CPO to conduct forensic investigations into 20 contracts awarded by PRASA to the service providers as summarised in the table hereunder:

No.	Entity	Validity Period start	Validity Period end	Amount (R)	
1	Ilanga Security Services	01/04/2013	31/08/2015	20,834,719.80	B
2	Semele Trading Enterprise CC	30/11/2013	30/11/2015	18,368,640.00	C
3	Scheme Security Services	01/04/2013	31/08/2015	16,697,583.76	D
4	Ndwandwe Consultants	13/01/2015	31/03/2017	11,614,200.00	E
5	Hages Infosystems	01/01/2013	31/07/2014	10,450,000.00	F
6	Baran Projects South Africa	10/03/2014	31/08/2015	91,000,000.00	G
7	Siemens (Pty) Ltd	15/10/2013	08/01/2018	2,710,500,000.00	H
8	Siemens Limited	08/02/2012	30/04/2017	600,000,000.00	I
9	Swifambo Holdings (Pty) Ltd	01/04/2013	31/03/2018	525,000,000.00	J

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#	Entity	Validity Period start	Validity Period end	Amount (R)
10	Gibela Rail Transport Consortium	01/05/2014	31/03/2034	5,699,959,067.00
11	Black Star Communications	14/11/2012	30/09/2015	75,000,000.00
12	Black Star Communications	01/03/2014	31/08/2015	45,407,312.81
13	Valucorp 408 CC	01/04/2013	13/12/2015	43,224,043.00
14	Altech Radio Holdings (Pty) Ltd	09/03/2013	30/09/2016	24,418,730.89
15	Psaros Communications	19/12/2012	31/03/2013	25,252,919.05
16	Phumi Trading CC	02/09/2014	30/09/2016	66,879,306.12
17	Umbutho Civil and Electrical CC	13/11/2014	31/08/2015	13,061,932.33
18	Huawei Technologies Africa	01/03/2013	01/03/2016	48,507,918.89
19	Huawei Technologies Africa	01/03/2013	27/08/2018	250,000,000.00
20	XON Systems (Pty) Ltd	01/03/2013	31/03/2016	13,516,089.21

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Scope of work/Mandate

3.003 PwC was requested to conduct a forensic investigation into the 20 contracts listed in the table herein above. The following is a summary of services that we were required to provide:

- i. Investigate the procurement processes which were followed in the appointment of the suppliers;
- ii. Determine whether the appointments of identified service providers were made in line with relevant prescripts and were approved by relevant authorities;
- iii. Establish where applicable, whether deviations were in-line with relevant prescripts;
- iv. Determine whether payments correspond to the respective bid price

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and/or contractual agreement;

- v. Identify all persons or entities that unduly benefited as a result of irregular conduct; and
- vi. Advise on the remedial actions which must be taken in instances of maladministration and/or where improper conduct has been detected.

Methodology/Approach

3.004 The approach to this investigation consisted of procedures that were neither rigid nor exhaustive and were amended when necessary during the investigation. We agreed that we would take the following approach to the investigation:

3.005 1) Preliminary investigation

- i. Obtain copies of all procurement files and related documentation relevant to the contracts in question;
- ii. Obtain all payments made to the identified suppliers in an electronic format for review and further analysis;
- iii. Identify methods used to appoint suppliers;
- iv. Conduct preliminary interviews with officials and/or third parties if required, who may provide additional information; and
- v. Obtain all relevant documentation and conduct a preliminary review thereof and account for any missing documentation.

3.006 2) Detailed investigation and analysis

- i. Obtain copies of all procurement policies, procedures and other directives relevant to Supply Chain Management (**SCM**) for the period under investigation;
- ii. Obtain all outstanding documentation not provided in the preliminary phase, included but not limited to:
 - The Tender specification documents;

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- Advertisement;
 - Receipt of tenders;
 - All tenders submitted and received;
 - Tender evaluation report;
 - Tender adjudication report;
 - Tender award documentation;
 - Minutes of meetings of the above tender processes;
 - Service Level Agreements (**SLA**); and
 - A list of payments, payment certificates and all supporting documentation relating to the payments as deemed necessary.
- iii. Obtain all correspondence relevant to issues identified including electronic communication and other records if applicable;
- iv. Conduct interviews with all relevant officials, consulting engineers, contractors and other third parties, and obtain affidavits where required and necessary;
- v. Examination of all tender documents and payment documents in order to identify any irregularities;
- vi. Determine the existence of any variation orders if applicable and whether this was done in terms of the relevant policies and procedures;
- vii. Perform background checks on individuals and companies in order to identify the role players and potential conflict of interests if applicable; and
- viii. Conduct a detailed analysis of all payments made to the bidders and identify any irregularities.

3.007 3) Phase 3: Reporting

- i. Issue a Preliminary Report (that was issued on 1 July 2016) ; and

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- ii. Issue a comprehensive and detailed Forensic Report based on the investigation performed, detailing our findings and recommendations made. The detailed Forensic Report will highlight the extent of inefficiency and non-compliance with internal controls and relevant prescripts.

3.008 There has been various delays in getting access to documentation. We have further not been provided with documentation relating to all 20 contracts awarded by PRASA as summarised in the table referred to herein above. In addition to the above, the documentation that has been provided appears to be incomplete. It has further been reported to us, during our preliminary investigation, by Mr Phoma of PRASA that the following three (3) contracts were investigated by Werksmans Attorneys (appointed by PRASA) and hence has been excluded from our review. (This has been reported to Mr Ndaba of National Treasury who agreed that these should be excluded from our investigation):

- i. Baran Projects South Africa;
- ii. Swifambo Holdings (Pty) Ltd; and
- iii. Gibela Rail Transport Consortium.

4.000 Sources of Information

4.001 The information dealt with in this report was obtained from various sources which include officials from the National Treasury Department, PRASA, third parties and includes interviews conducted with persons as detailed hereunder:

- i. Mr Vukani Ndaba (**Mr Ndaba**), Chief Director, SCM Monitoring and Compliance at National Treasury;
- ii. Mr Mbulelo Gingcana (**Mr Gingcana**), Acting CPO at PRASA;
- iii. Mr Teddy Phoma (**Mr Phoma**), Compliance Manager: SCM at PRASA Corporate;
- iv. Mr Asif Rehman (**Mr Rehman**), Senior Manager: SCM at PRASA

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- Technical;
- v. Ms Matshidiso Mosholi (**Ms Mosholi**), Senior Manager Procurement and Tendering: SCM at PRASA Corporate;
 - vi. Ms Martha Kotu (**Ms Kotu**), Secretary for FCIP and BoC at PRASA;
 - vii. Ms Constance Monkwe (**Ms Monkwe**), Tender Committee Secretary at PRASA Corporate;
 - viii. Ms Mercia Leburu-Tsawane (**Ms Leburu-Tsawane**), Sourcing Specialist: SCM at PRASA Corporate;
 - ix. Mr Takalani Mukwevho (**Mr Mukwevho**), General Manager: SCM at PRASA Corporate;
 - x. Mr Sidney Khuzwayo (**Mr Khuzwayo**), Senior Manager: Assurance and Projects at PRASA Corporate;
 - xi. Mr Maphita Sithole (**Mr Sithole**), SAD Enterprise Programme Management Office at PRASA;
 - xii. Mr Siphwe Mathobela (**Mr Mathobela**), General Manager, Enterprise Programme Management Office at PRASA;
 - xiii. Mr Thabiso Phori (**Mr Phori**), Manager: Finance at PRASA Corporate;
 - xiv. Mr Lesetja Botabota (**Mr Botabota**), Treasury Analyst: Finance at PRASA Corporate;
 - xv. Mr Rasheeqe Zaman (**Mr Zaman**), Chief Audit Executive for PRASA Group;
 - xvi. Mr Jeff Mahlangu (**Mr Mahlangu**), Senior Manager: Internal Audit for Autopax, Intersite and PRASA CRES;
 - xvii. Mr Mkhuseleli Matakata (**Mr Matakata**), current Head Group Corporate Security at PRASA Corporate;
 - xviii. Mr Chris Japhta (**Mr Japhta**), Contracts Manager: Security at PRASA Corporate;
 - xix. Mr Kabelo Mantsane (**Mr Mantsane**), former Head Group Corporate

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- Security and current Head Group: Business Continuity Management (**BCM**) at PRASA;
- xx. Mr Pule Maletswa (**Mr Maletswa**), Senior Manager: BCM at PRASA Corporate;
- xxi. Mr Chris Mbatha (**Mr Mbatha**), former CPO and current Chief Information Officer (**CIO**) at PRASA Corporate;
- xxii. Mr Hishaam Emeran (**Mr Emeran**), General Manager: Strategic and Network Planning at PRASA Corporate;
- xxiii. Mr Johan Edwards (**Mr Edwards**), Chief Engineer Signalling and Telecommunication at PRASA Corporate;
- xxiv. Mr Thaodi Mapodile (**Mr Mapodile**), Acting General Manager: Information and Communication Technology at PRASA Corporate;
- xxv. Mr Athanacious Makgamatha (**Mr Makgamatha**), Senior Engineer Telecommunications at PRASA Corporate;
- xxvi. Mr Matsobane Masenya (**Mr Masenya**), Senior Systems Administrator: Information and Communication Technology at PRASA Corporate;
- xxvii. Mr Sarah du Plessis (**Ms du Plessis**), Assistant Manager: Sourcing Specialist at PRASA Technical;
- xxviii. Ms Mamsy Mokate (**Ms Mokate**), Acting CFO at PRASA Technical;
- xxix. Ms Agnes Sekhuthu (**Ms Sekhuthu**), Sourcing Manager at PRASA Technical;
- xxx. Ms Rose Manyosa (**Ms Manyosa**), Finance Manager at PRASA Technical;
- xxxi. Mr Joseph Magoro (**Mr Magoro**), Contracts Manager at Autopax;
- xxxii. Mr Francois van Eeden (**Mr van Eeden**), former Head Security at Autopax and current Acting Head Security at PRASA Rail;
- xxxiii. Mr Ramagoganye Ngakane (**Mr Ngakane**), Senior Manager Train Operations, PRASA Rail;

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- xxxiv. Mr Sidney Els (**Mr Els**), former employee at PRASA Corporate;
- xxxv. Dr Josephat Phungula (**Dr Phungula**), former GCPO at PRASA;
- xxxvi. Ms Portia Mabitsela (**Ms Mabitsela**), SCM official at PRASA CRES;
- xxxvii. Ms Nonhlanhla Kondowe (**Ms Kondowe**), General Manager: HR Projects and former Head of HR: PRASA Technical;
- xxxviii. Mr Dimitrios Psaros (**Mr Psaros**), Managing Director at Psaros Communications CC (**Psaros**); and
- xxxix. Inoxico internet based searches conducted by PwC.

SCOPE AND NATURE OF OUR INVESTIGATION

- 5.000 We were not required to and did not undertake an audit in terms of the International Standards on Auditing. The scope of our work was limited to a review of documentary evidence made available to us and verbal information provided during our interviews. We have not verified the authenticity or validity of the records and documents made available to us.
- 5.001 The purpose of our exercise was to investigate and to report on the issues identified and recorded under the heading “Scope of work/Mandate” and to gather evidence to support our findings.
- 5.002 Our findings are based on the documentary evidence and verbal evidence provided. We cannot guarantee that we have had sight of all relevant documentation that may be in existence and therefore cannot comment on the completeness of the documentation made available to us. Any documentation or information brought to our attention subsequent to the date of this report, which would affect the findings detailed herein, will require our findings to be adjusted and qualified accordingly.
- 5.003 This report has been prepared solely for the use of National Treasury and its legal advisors. As such, it should not be disclosed to any other party without our prior written consent, which we may, at our discretion withhold or give subject to conditions. It shall be a condition of such consent, if given, that

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PwC accepts no responsibility to that third party and that any such third party will hold PwC harmless in respect of any consequences of such disclosure. Whether or not we have given our consent, we will not accept liability or responsibility to any other party who may gain access to this report.

- 5.004 Our investigation was restricted to the documentation and information provided to us by National Treasury and PRASA, their employees and third parties interviewed. Due to the fact that certain documents could not be obtained we cannot confirm whether the original documentation exists or is available.

GENERAL PROCEDURES UNDERTAKEN

- 6.000 The detailed procedures performed have been reported on in the section of this report dealing with each of the projects investigated.

DETAILED PROCEDURES AND FINDINGS

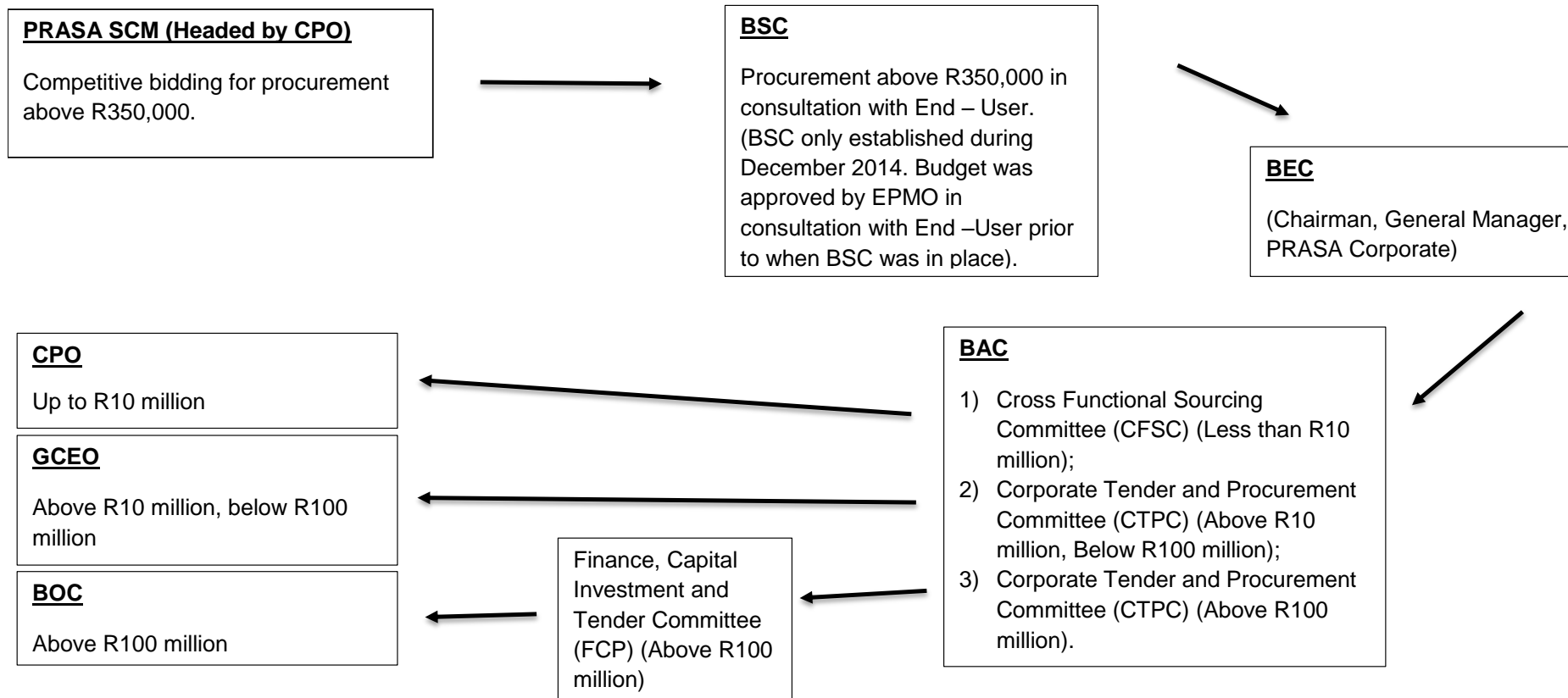
Applicable Legislation and Policies

- 7.000 Prior to discussing the investigation conducted into the 20 projects in question we deem it necessary to refer to the relevant legislation and procurement policies and procedures in place at the time when these contracts were awarded. Our detailed procedures and key findings are addressed thereafter. We shall only refer to relevant sections of the various legislation and policies where applicable as these documents are bulky and it is not necessary to attach the documents in their entirety. The complete documents are available should they be required.
- 7.001 We have further prepared a diagram to illustrate the approval process as provided for in the PRASA SCM policies for the Corporate and Divisional Operations as depicted below. We shall refer to the relevant legislation and policies thereafter.

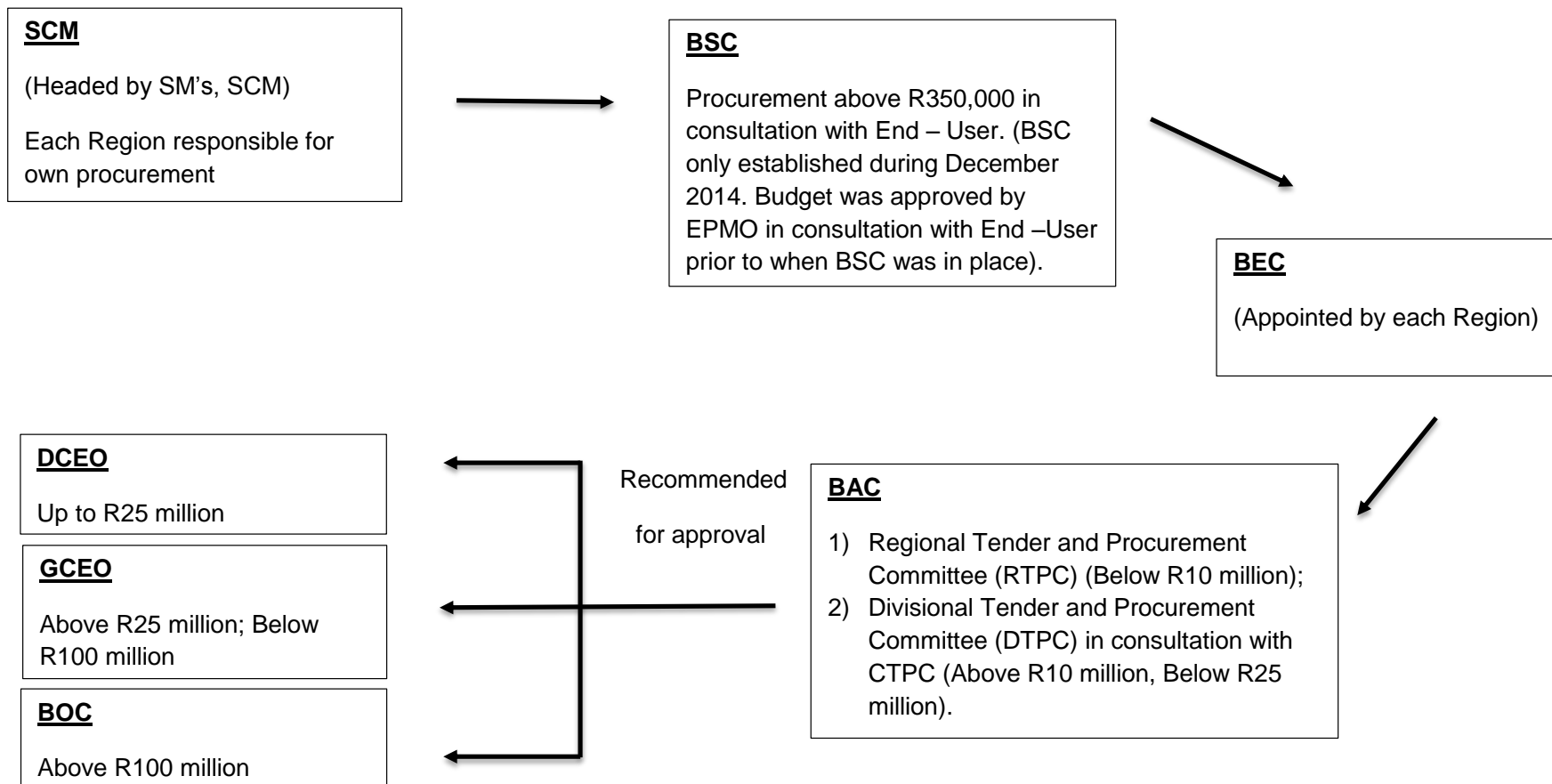
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PRASA CORPORATE



PRASA DIVISIONS (PRASA TECHNICAL / PRASA RAIL OPERATIONS)



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Constitution of the Republic of South Africa (1996)

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| 7.002 | The Constitution of the Republic of South Africa (Constitution), 1996, was approved by the Constitutional Court on 4 December 1996 and took effect on 4 February 1997. | A1 |
| 7.003 | Section 195(1) of the Constitution requires public administration to be governed by the democratic values and principles enshrined therein, including:

a) The promotion and maintenance of a high standard of professional ethics;

b) The promotion of effective, efficient and economic use of the State's resources;

c) Services must be provided impartially, fairly, equitably and without bias; and

d) Public administration must be accountable. | A1/3 |
| 7.004 | Section 217(1) of the Constitution provides that, " <i>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 and services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective</i> ". | A1/4 |
| <i>Public Finance Management Act 1 of 1999</i> | | |
| 7.005 | The Public Finance Management Act 1 of 1999 (PFMA) was assented to on 2 March 1999 and came in effect on 1 April 2000. The purpose of the Act is " <i>To regulate financial management in the national government and provincial governments; to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively; to provide for the responsibilities of persons entrusted with financial management in those governments; and to provide for matters connected therewith</i> ". | A2 |
| 7.006 | PRASA, a public entity, is listed as a Schedule 3B entity as a National Business Enterprise in the PFMA and is therefore required to comply with the provisions of this Act as provided for in Section 46. | A2/9 |

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7.007	<p>Section 1 of the PFMA defines Fruitless and wasteful expenditure as:</p> <p><i>“..expenditure which was made in vain and would have been avoided had reasonable care been exercised”;</i></p> <p>Irregular expenditure as:</p> <p><i>“..expenditure, other than unauthorised expenditure in contravention of or that is not in accordance with a requirement of any applicable legislation, including-</i></p> <p>a) <i>This Act; or</i></p> <p>b) <i>The State Tender Board Act, 1968 (Act no.86 of 1968), or any regulations made in terms of that Act; or</i></p> <p>c) <i>Any provincial legislation providing for procurement procedures in that provincial government”;</i> and</p> <p>Unauthorised expenditure as:</p> <p>a) <i>“Overspending of a vote or a main division within a vote;</i></p> <p>b) <i>Expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division”.</i></p>	<p>A2/5</p> <p>A2/5</p> <p>A2/7</p>
7.008	<p>Section 49 of the PFMA provides that every public entity must have an authority that is accountable for the purposes of the Act. Section 49(2) states that if the public entity-</p> <p>a) <i>“Has a board or other controlling body, that board or controlling body is the accounting authority for that entity; or</i></p> <p>b) <i>Does not have a controlling body, the chief executive officer or the other person in charge of the public entity is the accounting authority for that public entity unless specific legislation applicable to that public entity designates another person as the accounting authority”.</i></p>	<p>A2/10</p>
7.009	<p>Section 50 provides for the fiduciary duties of accounting authorities and reads as follows:</p> <p>(1) <i>“The accounting authority for a public entity must –</i></p> <p>(a) <i>Exercise the duty of utmost care to ensure reasonable protection of the</i></p>	<p>A2/10</p>

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assets and records of the public entity,

- (b) act with fidelity, honesty, integrity and in the best interests of the public entity in managing the financial affairs of the public entity;*
- (c) on request, disclose to the executive authority responsible for that public entity or the legislature to which the public entity is accountable, all material facts, including those reasonably discoverable, which in any way may influence the decisions or actions of the executive authority or that legislature; and*
- (d) seek, within the sphere of influence of that accounting authority, to prevent any prejudice to the financial interests of the state.*

(2) A member of an accounting authority or, if the accounting authority is not a board or other body, the individual who is the accounting authority, may not—

- (a) act in a way that is inconsistent with the responsibilities assigned to an accounting authority in terms of this Act; or*
- (b) use the position or privileges of, or confidential information obtained as, accounting authority or a member of an accounting authority, for personal gain or to improperly benefit another person.*

(3) 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".*

7.010 The general responsibilities of accounting authorities is set out under Section 51 of the PFMA and reads as follows:

A2/10-11

(1) An accounting authority for a public entity—

- (a) must ensure that that public entity has and maintains—*
 - (i) effective, efficient and transparent systems of financial and risk management and internal control;*

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- (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; and*
- (iii) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective;*
- (iv) a system for properly evaluating all major capital projects prior to a final decision on the project;*
- (b) must take effective and appropriate steps to—*
 - (i) ...;*
 - (ii) prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity; and*
 - (iii) manage available working capital efficiently and economically;*
- (c) is responsible for the management, including the safe-guarding, of the assets and for the management of the revenue, expenditure and liabilities of the public entity;*
- (d)”*

7.011 Section 54 provides for the information to be submitted by accounting authorities to the relevant treasury or the Auditor-General. The following parts of Section 54 are relevant:

- (2) “Before a public entity concludes any of the following transactions, the accounting authority for the public entity must promptly and in writing inform the relevant treasury of the transaction and submit relevant particulars of the transaction to its executive authority for approval of the transaction:*
 - (d) acquisition or disposal of a significant asset;*
 - (e) commencement or cessation of a significant business activity.*
- (3) A public entity may assume that approval has been given if it receives no response from the executive authority on a submission in terms of subsection (2) within 30 days or within a longer period as may be agreed to between itself and the executive authority”.*

7.012 Section 56 of the PFMA provides that the accounting authority may delegate any

A2/12

A2/13

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powers entrusted to it and such delegation must be reduced in writing.

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| 7.013 | <p>Section 57 deals with the responsibilities of other officials of a public entity and reads as follows:</p> <p><i>“An official in a public entity—</i></p> <ul style="list-style-type: none"><i>(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;</i><i>(b) is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official’s area of responsibility;</i><i>(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;</i><i>(d) must comply with the provisions of this Act to the extent applicable to that official, including any delegations and instructions in terms of section 56; and</i><i>(e) is responsible for the management, including the safeguarding, of the assets and the management of the liabilities within that official’s area of responsibility”.</i> | A2/13 |
| 7.014 | <p>Section 76(4) of the PFMA allow National Treasury to make regulations or issue instructions applicable to all institutions to which this Act applies concerning—</p> <ul style="list-style-type: none"><i>(a) “any matter that may be prescribed for all institutions in terms of this Act;</i><i>(b) financial management and internal control;</i><i>(c) the determination of a framework for an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective;</i><i>(d) audit committees, their appointment and their functioning;</i><i>(e) internal audit components and their functioning;</i><i>(f) the administration of this Act; and</i><i>(g) any other matter that may facilitate the application of this Act”.</i><p><i>Preferential Procurement Policy Framework Act 5 of 2000</i></p> | A2/18 |
| 7.015 | <p>The Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA) was promulgated to give effect to Section 217(3) of the Constitution. It should be noted that Section 2(1)(a)(b)(i) of the PPPFA states that a preference point system (90</p> | A3/1-4 |

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points for price and 10 points for specific goals) must be followed for contracts with a Rand value above the prescribed amount (R1 million). (Section 2(1)(b)(ii) provides for 80 points for price and 20 points for specific goals in terms of the preference point system for contracts with a value of less than R1 million which is not relevant for purposes of this report).

A3/3

A3/9-10

7.016 The Preferential Procurement Regulations 2011 was signed by the Honourable Mr Pravin Gordhan, Minister of Finance, on 6 June 2011 and came in effect on 7 December 2011. The Preferential Procurement Regulations also apply to public entities listed in Schedule 3B as provided for in paragraph 2 and is therefore applicable to PRASA.

A3/5-15

7.017 Paragraph 3 of the Preferential Procurement Regulations 2011 provides for “*Planning and stipulation of preference point system to be utilized*” and reads as follows:

A3/9

3. “*An organ of state must, prior to making an invitation for tenders-*

- (a) *Properly plan for, and, as far as possible, accurately estimate the costs of the provision of services, works or goods for which an invitation for tenders is to be made;*
- (b) *Determine and stipulate the appropriate preference point system to be utilized in the evaluation and adjudication of the tenders; and*
- (c) *Determine whether services, works or goods for which an invitation for tenders is to be made has been designed for local production and content*”

7.018 Paragraph 4 deals with evaluation of tenders on functionality and states under subparagraph (3) that:

A3/9

“*When evaluating tenders on functionality, the*

- (a) *Evaluation criteria for measuring functionality;*
- (b) *Weight of each criterion;*
- (c) *Applicable values; and*
- (d) *Minimum qualifying score for functionality,*

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Must be clearly specified in the invitation to submit a tender”.

National Treasury Regulations, Circulars and Practice Notes

7.019	The National Treasury Regulations promulgated in terms of the PFMA are applicable to government departments, constitutional institutions and public entities listed in Schedule 3A and 3C of the Act. PRASA is a Schedule 3B public entity. The SCM Policy issued by PRASA dated February 2009 specifically refers to the SCM Regulatory Framework issued by National Treasury under paragraph 2.2 “ <i>Policy Authority</i> ” and will be referred to in further detail hereunder. We therefore deem it necessary to refer to the National Treasury Regulations issued in terms of the Framework for SCM as published on 5 December 2003.	A4 A6/12
7.020	Paragraph 3(1) “Supply chain management system” reads as follows: <i>“The accounting officer or accounting authority of an institution to which these regulations apply must develop and implement an effective and efficient supply chain management system for -</i> <i>a) The acquisition of goods and services; and</i> <i>b) The disposal and letting of state assets, including the disposal of goods no longer required”.</i>	A4 A4/2
7.021	Paragraph 3(2) provides that “A supply chain management system referred to in subregulation (1) must – <i>(a) Be fair, equitable, transparent, competitive and cost effective;</i> <i>(b) Be consistent with the Preferential procurement Policy Framework Act, 2000; and</i> <i>(c) Provide for at least the following:-</i> <i>(i) demand management;</i> <i>(ii) acquisition management;</i> <i>(iii) logistics management;</i> <i>(iv) disposal management;</i> <i>(v) risk management; and</i>	A4/2

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(vi) regular assessment of supply chain performance”.

7.022	National Treasury issued a Code of Conduct for Supply Chain Management Practitioners (Practice Note Number SCM 4 of 2003) that should be adhered to by all officials and other role players involved in supply chain management (including public entities). This practice note was issued on 5 December 2003.	A5/1-3
7.023	The Practice Note provides that, “ <i>The position of a supply chain management (SCM) practitioner is, therefore, a position of trust, implying a duty to act in the public interest. Practitioners should not perform their duties to unlawfully gain any form of compensation, payment or gratuities from any person, or supplier/contactor for themselves, their family or their friends</i> ”.	A5/1
7.024	The Practice Note further encourages the practitioners to ensure that they perform their duties efficiently, effectively and with integrity, in accordance with the relevant legislation and regulations.	A5/1
7.025	Paragraph 1.3 of the Practice Note provides that, “ <i>Practitioners should be fair and impartial in the performance of their functions. They should at no time afford any undue preferential treatment to any group or individual or unfairly discriminate against any group or individual. They should not abuse the power and authority vested in them</i> ”.	A5/2
7.026	Paragraph 7.1 of the Practice Note further provides that, “ <i>Combative practices are unethical and illegal and should be avoided at all cost. They include but are not limited to:</i> <i>(a) Suggestions to fictitious lower quotations;</i> <i>(ii) Reference to non-existent competition;</i> <i>(iii) Exploiting errors in bids; and</i> <i>(iv) Soliciting bids from bidders whose names appear on the list of restricted bidders/suppliers/persons”.</i>	A5/3
	<i>PRASA SCM Policies and Procedures</i>	
7.027	The PRASA SCM Policy dated February 2009 was signed as Approved by the	A6

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Chairman of the Board of Control (**BoC**) on 26 February 2009. The Policy document is relevant for the period of our review and we will refer to certain sections thereof.

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| 7.028 | <p>The Policy Authority is set out under paragraph 2.2. of the document and reads as follows:</p> <p><i>“PRASA will in compliance with Sec 217(1) of the Constitution of South Africa ensure that when contracting for goods and or services shall do so in accordance with a system which is fair, equitable, transparent, competitive and cost effective. The SCM regulatory framework provides in section 3 (i) that the Accounting Officer of an institution must develop and implement an effective and efficient SCM system for acquisition of goods and services and for the development, maintenance, management, and implantation of this policy rests with the Group Chief Executive Officer (GCEO) and Board of control (BoC). No amendment shall be made to, or any deviation undertaken from the SCM Policy and Procedure without the approval of the GCEO”.</i></p> | A6/12 |
| 7.029 | <p>The Scope of the policy document is set out under paragraph 2.3:</p> <p><i>“This policy and procedure shall apply to PRASA and any of its Business Units or Subsidiaries and all employees must adhere to its provisions at all times. This policy and procedure shall apply at all levels and types of procurement and disposal contracts issued by PRASA.</i></p> <p><i>This covers all purchasing of goods, services (tangible and intangible), Capital and Operations expenditure, fixed assets, appointment of consultants, moveable assets and also covers the disposal thereof (selling of surplus, redundant and obsolete stock and assets, movable and immovable), media used to advertise tenders and income generating transactions”.</i></p> | A6/12 |
| 7.030 | <p>The purpose of the SCM Policy is to give effect to Constitutional and legislative requirements by documenting and formalizing the policies relating to SCM within the Agency as provided for in paragraph 6 of the document. The aims and objectives of the SCM Policy are further set out under paragraph 5 and is self-explanatory.</p> | A6/14-15 |
| 7.031 | <p>Paragraph 8.1 deals with conflict of interest and reads as follows:</p> <p><i>“If a SCM personnel or other PRASA employee or other role player, or any close</i></p> | A6/17 |

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family member, partner or associate of such official or other role player;

8.1.1 *Has any private or business interest in any contract to be awarded;*

8.1.2 *Conduct activities that could reflect negatively on the reputation of the Agency and its personnel;*

8.1.3 *Participating in any activity that might lead to the disclosure to the Agency's proprietary information; or*

8.1.4 *Conduct outside work for suppliers; That staff member or other role player must:-*

8.1.5 *Disclose that interest to the GCEO; and*

8.1.6 *Withdraw from participating in any manner whatsoever in the process relating to that contract”.*

7.032 The Roles and Responsibilities of the following Departments and/or Committees are set out in further detail under paragraph 9 of the SCM Policy and is self-explanatory:

9.1 SCM Department;

9.2 Finance, Capital Investment and Tender Committee (**FCIP**);

9.3 GCEO;

9.4 Corporate Tender and Procurement Committee (**CTPC**);

9.5 Divisional Tender and Procurement Committee (**DTPC**);

9.6 Regional Tender and Procurement Committee (**RTPC**);

9.7 CPO;

9.8 End – User; and

9.9 Cross Functional Sourcing Committee (**CFSC**).

7.033 We do not deem it necessary to repeat the information as far as it relates to the roles and responsibilities of these persons, departments and or committees as further set out in paragraph 9 of the SCM Policy. The document refers to the limitations as provided for in terms of the Delegations of Authority and will be referred to in further detail hereunder. We will again refer to the specific roles and responsibilities as far as it is relevant for purposes of this report.

7.034 Paragraph 9.11. provides for Contract Administration. Paragraph 9.11.1 provides

A6/17-18

A6/18

A6/19

A6/19-21

A6/21-22

A6/22-23

A6/24

A6/24-25

A6/25-26

A6/17-26

A6/27

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to “Ensure that the service is being delivered as agreed, to the required level of performance and quality”; paragraph 9.11.4 to “Ensure service level agreements are signed with successful bidders that properly reflect the decisions of the Tender Committee RTCPG”; and paragraph 9.11.8 provides for “Keeping all financial and procurement related records of contracts in safe custody to prevent damage, destruction or unauthorized used or removal”.

7.035 Paragraph 10 deals with Demand Management. We deem it necessary to refer to paragraph 10.2 that provides for the requirement to perform a needs assessment and reads as follows:

“A needs assessment will be performed for all purchasing by the End user on the beginning of each financial year. The assessment will take due cognizance of:

- 10.2.1 *Future need requirements;*
- 10.2.2 *Identification of critical delivery dates;*
- 10.2.3 *The frequency of need;*
- 10.2.4 *Budget availability;*
- 10.2.5 *Expenditure analysis (based on past expenditures);*
- 10.2.6 *Specifications;*
- 10.2.7 *Commodity analysis (checking for alternatives); and*
- 10.2.8 *Industry analysis”.*

7.036 Paragraph 11.3 provides for Bidding Methods and paragraph 11.3.2 deals with a “Competitive Bidding Process”. (These provisions are also relevant for the appointment of Consultants as provided for under paragraph 11.7.2 of the SCM Policy). Paragraph 11.3.2 states that “A competitive bidding process is applicable when the estimated total value of the requirement is more than R350m (SIC). This process must be followed irrespective of the type of service or product required.

Exceptions for competitive bidding will only be considered in the following circumstances:

- *In the case of an emergency;*
- *Where there is only limited sources available in the market, sole source; and*
- *In the case of single sourcing”.*

7.037 During our meeting with Mr Phoma he stated that the amount of R350 million

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should have read R350,000 and not R350 million which is appearing in the SCM Policy and is a typing error.

7.038	<p>Paragraph 11.3.3 provides for Unsolicited Bids and reads as follows: “<i>Unsolicited bids are generally prohibited unless approved for consideration by the GCEO. In approving their consideration, the GCEO shall take the following into account:</i></p> <ul style="list-style-type: none">• <i>That the unsolicited bid is a unique concept or offering;</i>• <i>That the offering of the bid cannot be provided efficiently through competitive bidding process;</i>• <i>That there are no suppliers in the market that can provide a similar offering without copying from the unsolicited bid”.</i>	A6/33
7.039	<p>Emergency purchases is provided for under paragraph 11.3.5 and reads as follows:</p> <p><i>“Purchases made for “emergency situations” where competitive bidding would be inappropriate is limited to the following types of situations:-</i></p> <ul style="list-style-type: none">• <i>Disasters (e.g. damage from cyclone, flood, fire, etc);</i>• <i>System failures (including supporting items which could affect the system);</i>• <i>Security risk.</i> <p><i>During emergencies the required goods, works or services may be obtained by means of quotations by preferably making use of the departmental supplier database.</i></p> <p><i>A motivation of the emergency purchase should be submitted to the GCEO for ratification”.</i></p>	A6/34
7.040	<p>Paragraph 11.3.6 deals with “Sole Source” suppliers and reads as follows:</p> <p><i>“Sole sourcing exists when there is only one source (supplier) available in the market. A sole source may make a special product or technology that no one else does. Where such a situation exists, competitive bidding is not advisable. All sole sourcing motivations must be submitted to the GCEO or for approval prior to entering negotiations with the sole source”.</i></p>	A6/35
7.041	<p>Paragraph 11.3.7 provides for Single Source/ Confinement and reads as follows:</p> <p><i>“This occurs where the needs of the business preclude the use of the competitive</i></p>	A6/35

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bidding process and for practical reasons only one bidder is approached to quote for goods and/or services.

This method can only be used for:-

- *Appointment of professional services such as legal, financial, technical contracts and security where unique expertise and/or security are required; or*
- *If its (SIC) an emergency as defined in Clause 11.3.6 above*

The decision to make use of a single source shall be motivated for approval and ratification by the GCEO”.

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- 7.042 Paragraph 11.4.7 deals with the invitation of bid and provides that “*Bids will be advertised in the print media or any publication if and when is necessary*”
Paragraph 11.4.8 states that “*Bids will be closed at least three weeks after the date of publication. In exceptional circumstances; a short period may be stipulated. Where this is required; the approval of the GCEO must be sought*”.

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- 7.043 Paragraph 11.6.2 states that “*The final approval body for bids depends on the Delegations of Authority*”. The SCM Policy dated February 2009 is silent on variations of contract amounts and was only provided for in the SCM Policy that was approved by the BoC on 29 May 2014.

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A7

- 7.044 We were provided with the SCM Policy document that was approved by the BoC on 29 May 2014. (The SCM Policy document is not signed by the Chairperson of the Board and the GCEO). It was however confirmed in a Memorandum from Dr Phungula, Group Chief Procurement Officer (**GCPO**) dated 13 October 2014 that the SCM Policy document should be used as an operating document since it has been approved by the Board on 29 May 2014. The purpose of the instruction directive was to implement some of the recommendations from the external auditors, and to clarify certain aspects to improve internal controls for the establishment of good governance. We will again refer to some of the aspects that were raised in the memorandum for clarity in further detail hereunder.

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A8/7

A8/1-7

- 7.045 We are not going to repeat all the information as contained in the SCM Policy that came in effect on 29 May 2014 as it further expands on the provisions of the SCM Policy dated February 2009 and is self-explanatory. We however deem it necessary to refer to some paragraphs that are relevant for purposes of this report and for ease of reference.

A7

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7.046	Variation of contract is defined as “ <i>The increase in scope of work and/ or the financial obligation of PRASA which includes contingent liability that arises after the contract has been awarded and concluded</i> ”.	A7/6
7.047	<p>The Roles and Responsibilities of the PRASA Board, Committees and relevant persons are contained under paragraph 9 of the SCM Policy document.</p> <p>Paragraph 9.1 deals with the PRASA Board and states as follows: “<i>The Board of PRASA as the Accounting Authority must delegate appropriate powers and duties to the GCEO to enable the GCEO to re-delegate appropriate powers and duties to the CPO as the Head of Supply Chain Management to enable him to:</i></p> <p><i>Discharge the Supply Chain Management responsibilities conferred to him/her in terms of-</i></p> <p><i>9.1.1 PFMA, sections 76 4(c) and 51 (a)(iii);</i></p> <p><i>9.1.2 Regulations in terms of the Public Finance Management Act, 1999 and Framework for Supply Chain Management;</i></p> <p><i>9.1.3 Preferential Procurement Policy Framework Act (5: 2000) and Regulations;</i></p> <p><i>9.1.4 National Treasury Regulations;</i></p> <p><i>9.1.5 Practice Notes issued by Provincial Treasury; and all other applicable legislation”.</i></p>	A7/10
7.048	Paragraph 9.3 deals with the responsibilities of the GCEO and states under paragraph 9.3.9 that the GCEO has the responsibility to “ <i>Approve tenders up to R100 000 000.00 (One Hundred Million), subject to the applicable Delegation of Authority from time to time</i> ”; and under paragraph 9.3.10 “ <i>Review and recommend to the FCP tenders with a value as per Delegation of Authority</i> ”.	A7/11
7.049	Paragraph 9.4 deals with the responsibilities of the CPO. Paragraph 9.4.9 states that the CPO has the responsibility to “ <i>Negotiate and implement a SLA between End –user departments and SCM, which will contribute to improved service delivery to the Directorates based on existing and future performance standards</i> ”, and under paragraph 9.4.10: “ <i>Approved items as per delegation of authority in terms of the procurement procedures and escalate matters of a value more than the relevant approval authority. The minimum amount is determined by the relevant Delegated Authority</i> ”.	A7/11-12

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| 7.050 | Paragraph 9.5 deals with the responsibilities of the Bid Specification Committee (BSC) and was not included in the SCM Policy document dated February 2009. Paragraph 9.5.1 states that the BSC is responsible to “ <i>Review, approve or disapprove all tender specifications for procurement that is above R350 000.00</i> ”. | A7/12 |
| 7.051 | Mr Phoma stated during our meeting that the BSC was only established at the end of 2014 and hence was not in effect when the contracts were awarded as will be discussed in this report. Ms Mosholi confirmed the statement made by Mr Phoma and stated that the BSC was established during December 2014 and the first BSC meetings were held during February 2015. | |
| 7.052 | During our consultations with Ms Mosholi and Mr Rehman, they indicated that prior to the BSC coming into effect, the Enterprise Project Management Office (EPMO) were responsible for the approval of the budget in respect of each project prior to the procurement thereof and in consultation with the respective end-user departments. | |
| 7.053 | Paragraph 9.7 deals with the responsibilities of the FCIP. Paragraph 9.7.2 states that it is the responsibility of the FCIP to “ <i>Consider recommendations from the GCEO for Board approval of tenders above R100 000 000.00 (One Hundred Million Rand)</i> ”. | A7/13 |
| 7.054 | The responsibilities of the CTPC is contained under paragraph 9.8 of the SCM Policy document. Paragraph 9.8.3 states that the CTPC’s primary functions includes “ <i>Adjudicate tenders that are above R10 000 000.00 (Ten Million Rand) but below R100 000 000.00 (One Hundred Million Rand)</i> ”; and under paragraph 9.8.7 to “ <i>Make recommendations to the GCEO in respect of tenders as per Delegation of Authority</i> ”. We were also provided with a memorandum from the GCPO titled “Supply Chain Management Directive” dated 2 April 2014 wherein it is stated that “ All <i>Tenders above R25 million must be evaluated in consultation with SCM Corporate (to ensure that an acceptable evaluation team is appointed), adjudicated at the CTPC and not the DTPC to avoid delays and misalignment with the SCM Policy</i> ”. | A7/14 |
| 7.055 | During our interview Mr Emeran he stated that during the CTPC meetings, the end-user and the BEC members should be on stand by to clarify any issues raised by the CTPC or to answer to questions as deemed necessary. We will refer to this | A9/1 |

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in further detail below. Mr Emeran further stated that the CTPC members are appointed for a fixed 12 month term and not on a contract for contract basis as is the case with the BEC.

7.056	Paragraph 9.9 of the SCM Policy deals with the responsibilities of the DTPC. Paragraph 9.9.5 states that it is the responsibility of the DTPC to “ <i>Recommend to the CTPC for requests for confinement as per delegation of authority, decide on requests for short-listing for tenders with a value not exceeding R25 000 000.00 (Twenty Five Million Rand); under paragraph 9.9.6 “Make recommendations to the CTPC for tenders above R25 000 000.00 (Twenty Five Million Rand); and under paragraph 9.9.7 “Review and approve requests for extension of contracts as per Delegation of Authority”. Paragraph 9.9.12 provides that the DTPC is also responsible to “Adjudicate recommendations of Bid Evaluation Committee tenders that are below R25 000 000.00 (Twenty Five Million Rand) and make recommendations to the DCEO”. In the memorandum from the GCPO dated 2 April 2014 it is confirmed that “The DTPC MUST only adjudicate recommendations below R25 m and recommend to the DCEO”.</i>	A7/14-15
7.057	Paragraph 9.10 deals with the primary functions of the RTPC. Paragraph 9.10.5 states that the RTPC “ <i>Adjudicate recommendations of the Bid Evaluation Committee tenders that are below R10 000 000.00 (Ten Million Rand) and make recommendation to the Regional Manager subject to the Delegation of Authority from time to time”.</i>	A9/1 A7/15
7.058	The roles and responsibilities of the End-User are contained under paragraph 9.12 and reads as follows: <i>“An End-user is an authorized employee of PRASA that requests SCM involvement, support, consultation, or the performance of activities associated with the acquisition of goods or services. It is the responsibility of End-users to:</i> 9.12.1 <i>Request SCM’s involvement, support or consultation in the performance of activities associated with the acquisition of foods or services, excluding items petty cash purchasing;</i> 9.12.2 <i>Accurately obtain proper budget approval, where applicable ,as well as to maintaining proper documentation to support the direction given to SCM;</i> <i>and</i> 9.12.3 <i>Clearly describe their need/requirements to enable SCM to produce</i>	A7/16

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accurately and timeously. The description of the requirement(s) should be good enough that it can be transmitted by a second party to a supplier and be delivered correctly without further clarification. This may mean using drawing and specifications. All requests for purchasing shall be submitted to SCM manually or via the e-procurement system”.

7.059 Paragraph 9.14 deals with the roles and responsibilities of Contract Administration and provides that Contracts Management shall be responsible to:

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9.14.3 “Handle formal governance of contracts and changes to contract documentation;

9.14.4 Ensure service level agreements are signed with successful tenderers that properly reflect the decision of the applicable adjudication committee;...

9.14.6 ... Maintain a contract database;.... and

9.14.8 ... Keeping all financial and procurement related records of contracts in safe custody to prevent damage, distruction or unauthorised used or removal”.

7.060 The SCM Policy document contains further information as far as it relates to “Confinement” and reads as follows under paragraph 12.3.8:

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“This occurs where the needs of the business preclude the use of the competitive tendering process and for practical reasons only one or a select number of tenderers are approached to quote for goods and / or services.

Situations where this method is used include, but not limited to the following:

12.3.8.1 The task that represents a natural continuation of previous work carried out by the firm;

12.3.8.2 An assignment where only one or a limited number of firms are qualified or have experience of exceptional worth for the assignment;

12.3.8.3 Appointment of professional services such as legal, financial, technical contracts and security where unique expertise and/ or security are required; and

12.3.8.4 If it’s an emergency as defined in clause 12.3.6 above.

The decision to make use of the confinement process shall be motivated for approval and ratification by the GCEO”.

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7.061	We have referred to the memorandum from Dr Phungula dated 13 October 2014 herein above. Paragraph 7 of the memorandum deals with Confinements as defined in the SCM Policy and states in paragraph 7.2 that <i>“The above amendment to the confinement clause eradicates the ambiguity that was observed in the 2009 SCM Policy”</i> .	A8/5 A6/35
7.062	Paragraph 7.3 of the memorandum provides that <i>“Prior to embarking on a confined process, approval should be sought via the office of the GCPO and be granted by the GCEO and not after the effect. Once the approval is granted, SCM may continue sourcing for goods or services based on the confinement approved”</i> . (This instruction was also confirmed in a prior memorandum dated 20 September 2013). Paragraph 7.4 of the memorandum dated 13 October 2014 states further that <i>“Final approval of the award shall be made in line with the delegation of authority in place at the time of the award”</i> .	A8/5 A10/2 A8/5
7.063	Paragraph 12.8.9 of the SCM Policy document deals with Variations of Contracts and reads as follows: <i>“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”</i> .	A7/26
7.064	Paragraph 1 of the memorandum dated 13 October 2014 contains further information relating to “Contract Variations” and refers to paragraph 12.8.9 of the SCM Policy. Paragraph 1.2 of the memorandum states that Variations include: <ul style="list-style-type: none"> <i>i. “All extensions to contracts which may or may not result in an increase in the contract value and/or period;</i> <i>ii. Any amendments made to the actual agreement in place between PRASA and the supplier; and</i> <i>iii. Any increase in the overall contract value for whatsoever reason”</i>. 	A8/1
7.065	The memorandum further states the following: <ul style="list-style-type: none"> <i>1.3 Effectively what this paragraph means is that all requests for variations are to be approved by the GCEO and are limited to 10% of the value of the contract.</i> <i>1.4 Instances where the variation is above 10% will only be considered in</i> 	A8/1

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extremely rare circumstances where it can be expressly proven that there was proper contract management performed and that it could not be avoided or is in the best interest of PRASA.

1.5 *Therefore all requests and submissions related to variations to contracts are to be forwarded to the corporate office to be adjudicated by the Corporate Tender and Procurement Committee (CTPC) for the final approval by the GCEO, or the Board of Control where applicable;*

1.6 *.....; and*

1.7 *All submissions should be as detailed as possible so as to capture accurately and completely the reason(s) for seeking the variation to the contracts) and the circumstances that led to the need for the relevant variation”.*

7.066 Mr Emeran mentioned during our meeting that subsequent to Mr Gingcana being appointed as Acting CPO, a Variation Committee was established during the end of 2015/early 2016 which is a sub-committee of the BoC. This committee is responsible for adjudicating all variations or extensions. The CTPC no longer has authority to adjudicate on any variations. The Variation Committee is not applicable for the entire period of our review. He further stated that they used the Treasury guidelines of not exceeding 20%. Treasury Instruction Note dated 31 May 2011 is not applicable to PRASA as a Schedule 3B entity as it only refers to Schedule 3A and 3C entities. We however deem it necessary to refer to the Instruction Note as referred to by Mr Emeran for ease of reference.

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7.067 Paragraph 3.9 of the Instruction Note deals with the “*Management of expansions or variation of orders against the original contract*” and that the absence of a prescribed threshold for such expansion or variation orders against the original contract amount has led to gross abuse of the current SCM system.

A8/14-15

7.068 Sub-paragraph 3.9.3 states the following: “*In order to mitigate against such practices, accounting officers and authorities are directed that, from the date of this instruction note taking effect, contracts may be expanded or varied by not more than 20% or R20 million (including all applicable taxes) for construction related goods, works and/or services and 15% or R15 million (including all applicable taxes) for all other goods and/or services of the original value of the*

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contract, whichever is the lower amount”.

7.069 Paragraph 12.10.3 of the SCM Policy that came in effect on 29 May 2014 deals with “Contract terms” and reads as follows: **A7/28**

“Contracts must be awarded for a period of not more than three years, except tenders for a lease agreement for immovable property, which may be awarded for a period of not more than 5 years.

Special circumstances for long-term contracts and strategic partnerships should be motivated for approval by the GCEO”.

PRASA POWERS AND AUTHORITY OF THE BOARD AND DELEGATIONS OF AUTHORITY

7.070 We were provided with a document titled “Prasa Powers and Authority of the Board and Delegations of Authority”. The document is signed but is not dated. We were unable to determine when the document was approved by the BoC and or when it came in effect. It was however confirmed to us by Mr Phoma that the document was used as an operating document and was in effect during the period of our review (January 2012 to date). **A11**

7.071 The content of the delegation document is not all relevant for purposes of this report but we will attach the manual in its entirety for ease of reference. (Appendix 1A is not included and could not be located at the time of issuing this report). The powers and duties of the BoC is contained under paragraph 2 of the document and reads as follows: “*The Board is empowered to exercise all powers and authorities to lead, control and manage PRASA and to delegate any or all of such powers to an official(s), employee(s), and any other person and/or to a committees) of PRASA, subject to existing PRASA policies and the provisions set out herein*”. The document refers to matters that are reserved for approval by the BoC and is self-explanatory. The document further refers to the fiduciary duties of the BoC as set out in Section 50 of the PFMA, as well as the general responsibilities of the BoC as provided for in Section 51 of the PFMA. We will briefly refer to some of the provisions as provided for in this document for purposes of this report **A11/1-26**
A11/4
A2/10-11

7.072 Paragraph 3 provides for “Delegations of Authority – Principles and Conditions” and states under paragraph 3.1 that the Board approves the powers and

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delegated authorities as set out in the table that is contained in Appendix 1A. (We were however not provided with the Appendix 1A at the time of issuing this report.)

7.073	<p>Paragraph 3.2.12 states that “<i>The Group Chief Executive officer shall be responsible for the management of all delegation and authorizations granted in terms hereof to all executives and other employees excluding the Chairman of the Board and other Board committees, and shall ensure that the committees that act in terms of such delegation, act:</i></p> <ul style="list-style-type: none">• <i>Lawfully;</i>• <i>Within the scope of their powers and authorization;</i>• <i>In terms of internal rules and procedures that the Board have approved;</i>• <i>In compliance with any directives and policies by the Board; and</i>• <i>In accordance with the provisions of the PFMA, or any other applicable legislation”.</i>	A11/5-6
7.074	<p>Paragraph 3.2.13 states that “<i>The delegation of authority, unless otherwise specified, is confined to be exercised only within the limit and scope of the functional area of the Delegee”.</i></p>	A11/6
7.075	<p>Paragraph 3.2.14 further states: “<i>All financial authority shall be exercised within the approved budgets of delegees. Any decisions with regard to matters beyond the approved budget shall be referred for approval to the next level of decision-making, or to the functionary authorized to approve over expenditure. Over-expenditure regarding the budgets of the divisions shall be authorised by the Group Chief Executive officer, and if there is any over-expenditure on the total PRASA budget, Board approval shall be required”.</i></p> <p>Construction Industry Development Board (CIDB) guidelines</p>	A11/6
7.076	<p>According to the CIDB Act 38 of 2000 no public sector client may award construction contracts to a contractor who is not registered. We obtained a document titled “<i>Guidelines for Contractor registration</i>” that was issued by the CIDB. The document sets out the types of work that contractors can register for and provides a brief guideline on how to register. The document further provides general definitions and abbreviations that is self-explanatory.</p>	A12

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7.077 We further obtained a Checklist for Contractor Registration dated 2011 from the CIDB website at www.cidb.org.za. The document contains a table that is setting out the tender range values (This information was used to specify the contractor grading during the open tender bidding process for construction work and will be referred to in further detail later in the report).

A12

A12/2

Contractor Grading destination	Range of tender values	
	Greater than	Less than or equal to
1	R0	R200 000
2	R200 000	R500 000
3	R500 000	R1 500 000
4	R1 500 000	R3 000 000
5	R3 000 000	R5 000 000
6	R5 000 000	R10 000 000
7	R10 000 000	R30 000 000
8	R30 000 000	R100 000 000
9	R100 000 000	No limit

7.078 Ms Sekhuthu indicated that when an advertisement is placed on the CIDB website, all entities registered with CIDB would receive a text message if they have the required CIDB grading.

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Detailed investigation

- 8.000 This investigation emanated from issues that were raised by the Public Protector in her report on the PRASA investigation directed to the Office of the CPO of National Treasury to conduct forensic investigations in respect of all PRASA contracts above R10 million from 2012 to date. We were appointed to conduct forensic investigations into 20 contracts awarded by PRASA to the service providers as summarised in the table under paragraph 2.002 herein above.
- 8.001 Our investigation to date into the contracts where documentation could be obtained will be discussed in further detail hereunder. Relevant procurement documentation and other official records relating to the 20 contracts were requested from PRASA at the commencement of our investigation. In addition to this, we obtained documents and records relating to the payments made in respect of the relevant projects and will be discussed in further detail hereunder.
- 8.002 We received a number of documents from the aforementioned sources, which were sorted per contract in date order to obtain an understanding of the sequence of events. We deem it necessary to deal with each project separately and to briefly refer to the relevant documents and the content of each where applicable. All documents discussed hereunder were obtained from the sources listed above, unless otherwise stated.
- 8.003 We requested the payment information relating to the contracts under investigation as well as detail relating to the SAP system being used by PRASA. Mr Phoma and Mr Phori provided us with extracts from the SAP system for each service provider. The accounting transactions as per the extracts were identified using a “document type”. Further analysis of this “document type” category revealed the following classifications of the transactions included in the summaries:

Document type abbreviation	Document type description
RE	Invoice – PO related
ZK	Vendor / BS posting
AB	Accounting document

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Document type abbreviation	Document type description
KA	Vendor / Bank posting
KR	Vendor invoice
ZP	Payment posting
KG	Vendor credit memo
KZ	Vendor payment

- 8.004 Based on these document types, the total value per “document type” was calculated for each service provider and each classification, as listed above. These totals were used to determine the full value of payments made to the service provider during the specific period. We will refer to the summary of payments made to each of the service providers in further detail below.
- 8.005 We attempted to link the payments made to each service provider to a specific contract. As the information provided by Mr Phoma did not include a unique identifier that can be linked to a contract name or contract number, we obtained the respective “*WBS number*” for each contract to enable Mr Phori to extract the payment information from the SAP system per WBS number.
- 8.006 During our review of the payment information provided by Mr Phori subsequent to the extraction using the WBS number, we noted for Semele Trading Enterprise one (1) WBS number was linked to more than one (1) contract. Mr Phori was unable to provide an explanation for this as according to his knowledge only one (1) contract should be linked to a WBS number.
- 8.007 To eliminate the risk of misallocating payments to a specific contract, we requested the payment packs for all the contracts under review unless otherwise indicated. The relevant source documents relating to the payments consist of a number of lever arch files and hence, due to the volume, have not been attached to this report. These documents are available for inspection if required.
- 8.008 The payment packs obtained from PRASA in respect of the contracts under review generally included the following documents. It should be noted that not all the payment packs included all of the documents listed below.

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- i. Remittance advice – This is a document summarising the invoice details and payment details for the particular payment. This document is stamped as ‘Paid’ as proof that it has been processed;
- ii. Creditors reconciliation – A creditors reconciliation is prepared whereby the amount owing to the supplier as per the SAP creditors ledger is compared to the amount owing to the supplier as per the third party supplier statement. Based on this reconciliation, the amount payable to the supplier is calculated. The reconciliation also contains the “Paid” stamp and the amount as per the supplier statement (discussed below) and the SAP creditors ledger (discussed below). These amounts agree to the amount as per the remittance advice;
- iii. Extract from the SAP creditors ledger – This extract is taken from the SAP system and reflects the total amount to be paid for the respective payment pack. The extract also contains the “Paid” stamp;
- iv. PRASA Corporate Invoice Payment Check List – The check list details the various documents required for a payment to be effected, including delivery note and invoice. The “Paid” stamp is also reflected on the check list;
- v. Delivery Note – The delivery note details the items which were delivered to PRASA by the supplier. The delivery note is also contains the “Paid” stamp;
- vi. Supplier Invoice – The supplier invoice reflects the total amount payable for the respective deliverables and contains the “Paid” stamp;
- vii. Supplier Statement of Account – The statement reflects the total outstanding amount due to the supplier by PRASA on a specific date. The statement details the relevant invoices submitted for payment to PRASA. The supplier statement contains the “Paid” stamp; and
- viii. Purchase requisition – This document contains the information pertaining to the purchase order and requisition which is agreed to the details contained as per the supplier invoice. Indicated on this purchase requisition is the relevant account and ledger account to where the invoice

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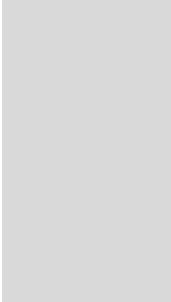
was processed.

8.009 We wish to refer to some aspects of the payment process as it is relevant and will be discussed under each contract later in this report.

8.010 Ms Manyosa provided us with a system description detailing the payment process within PRASA. The payment process can be summarised as follows:

- i. Payments are made on the 15th and the last day of each month;
- ii. In extraordinary circumstances payments can be made that fall outside these days but only after a specific request by the CEO;
- iii. Payments are made after supplier reconciliations are performed by the Finance Department;
- iv. An invoice must be submitted together with the Purchase Order (**PO**) or must indicate the PO number on the invoice. The invoice must also be submitted together with the supplier statement. All these documents must be signed off by the end-user;
- v. The invoice is verified as being a valid tax invoice before it is captured onto the SAP system;
- vi. The invoices are then checked and stamped before being submitted together with all the relevant supporting documentation for posting to the SAP system;
- vii. A SAP reference number is allocated to each invoice and written on the invoice as proof that the invoice was captured onto the SAP system;
- viii. After this the creditors reconciliation is performed and reviewed. This reconciliation is signed as proof of review;
- ix. For the payment process the SAP system will populate the amount payable to the specific supplier. This is compared to the amount on the statement and adjustments are made where necessary;
- x. A payment proposal is printed and signed by the Accounts Payable Supervisor which is attached to the creditors reconciliation;
- xi. The payment run is prepared and then reviewed by the Accounts Payable

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- Supervisor together with the supporting documentation;
- xii. The Senior Financial Manager reviews all documentation and releases the payment; and
 - xiii. The Senior Manager or Assistant Manager Accounts Payable will finally authorise the release of the payment on the banking system.
- 

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A. The appointment of Ilanga Security Services with a target value of R20,834,719.80 for the period 1 April 2013 to 31 August 2015

8.011 An Inoxico Report drawn on Moz Gold CC trading as Ilanga Security Services (**Ilanga**) with registration number 2003/101325/23 reflects that the said entity was registered on 20 November 2003. The current Active Principal is listed hereunder:

i. Irfaan Yacoob with ID 940911 5625 083 appointed on 5 February 2016

8.012 We noted that the above mentioned member was appointed on 5 February 2016 and after when the contract was awarded, however the Inoxico Report does provide the details of the resigned members.

a) Review of payments made by PRASA

8.013 We requested a list of all payments made by PRASA to Ilanga. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system. The list of transactions we received were for various contracts depending on the time during which the service provider was active at PRASA.

8.014 We ascertained from the above mentioned analysis that Ilanga had received 32 payments from PRASA for the period 10 June 2013 to 30 April 2016 as summarised in the table hereunder:

Name of supplier	Total number of payments made	Amount (R)
Ilanga Security Services	32	22,105,971.42

8.015 Mr Phori confirmed in an email dated 29 August 2016 that no payments were made to Ilanga prior 10 June 2013. Mr Phori further confirmed in an email dated 31 August 2016 that Ilanga was not paid from any other business unit other than PRASA Corporate according to the data available to him.

8.016 We requested and obtained one (1) payment pack from PRASA as an example of the documents forming part of the approval process.

**B1
B1/8**

B2

**B2/6-7
B2/8-9**

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- 8.017 The payment pack includes the following documents:
- i. The remittance advice, dated 20 January 2014 reflects an amount of R184,871.52, which is made up of nine (9) invoices; **B2/10**
 - ii. The creditors reconciliation is dated 17 January 2014 and reflects the total payment to be made to Ilanga as R184,871.52. The reconciliation is prepared and signed by what appears to be Dumisile Sithole and reviewed and stamped by Bonisa Ngcongca on 19 January 2014. This amount agrees to the amount as per the remittance advice; **B2/11**
 - iii. The extract from the SAP creditors ledger reflects the nine (9) supplier invoices' amounts and the total amount as R184,871.52; **B2/12**
 - iv. The PRASA Corporate Invoice Payment Check List is signed as requested and dated 17 December 2013; **B2/13-14**
 - v. A supplier invoice is included for each delivery as detailed in the extract of the SAP creditors ledger referred to herein above; **B2/15-23**
 - vi. The supplier statement of account dated December 2013 contains all the invoices to which this payment pack relates; and **B2/24-25**
 - vii. The purchase requisitions were attached to the payment pack confirming that payment can be made to Ilanga. **B2/26-36**

b) Procurement Review

- 8.018 It has been reported to us during the preliminary phase of our investigation that a number of security contracts were concluded prior to 2012 and hence were in place prior to 2012 (our mandate covers forensic investigations in respect of the relevant contracts from 2012 to date). The security contract that was awarded to Ilanga was according to our understanding in place prior to when PRASA was formed and was taken over by PRASA to honour this contracts. This contract was later extended for periods of time and will be discussed hereunder as far as it relates to the extensions since 2012.
- 8.019 We determined that the contract awarded to Ilanga has subsequently been extended as follows (each of these extensions will be discussed in further detail

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below):

- 1) The appointment of Ilanga to provide security services for a period of 11 months from February 2011 to 31 December 2011 for an amount of R7,191,439.20 (including Value Added Tax (**VAT**));
- 2) The extension of scope to provide security services from January 2012 to November 2012 for an amount of R8,199,801 (including VAT) (R6,537,672 + R1,662,129);
- 3) The extension of scope to provide security services from December 2012 to November 2013 for an amount of R16,113,288.96 (including VAT);
- 4) The extension of scope to provide security services for the modernisation project initiated by PRASA from December 2013 to September 2014 for an amount of R13,520,545.92 (including VAT);
- 5) The condonation to provide security services for from April 2013 to May 2014 for an amount of R12,054,515.04 (including VAT); and
- 6) The extension of scope to provide security services on a month to month basis for an amount of R2,077,053.56 (including VAT) per month, that was approved on 30 March 2015.

1) The appointment of Ilanga to provide security services for a period of 11 months from February 2011 to 31 December 2011 for an amount of R7,191,439.20 (including VAT)

Notice to Proceed for the period February 2011 to 31 December 2011

- 8.020 A Notice to Proceed dated 24 February 2011 addressed to Ilanga was signed by Ms Mosholi, Procurement Manager SCM.
- 8.021 The notice refers to an offer from Ilanga dated 21 January 2011 for the supply of security services for Umlazi Line and South Coast for the period of 11 months (February 2011 – 31 December 2011).
- 8.022 The offer was approved in terms of the costing as summarised in the table below:

B3

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Ilanga						
			Grade D			
Area	Armed	Unarmed	Armed (R)	Unarmed (R)	Monthly Contract Excl. VAT (R)	Monthly Contract Incl. VAT (R)
Umlazi Line	8	34	7,110.00	6,750.00	286,380.00	326,473.20
South Coast	10	32	7,110.00	6,750.00	287,100.00	327,294.00
Totals per month (R)					573,480.00	653,767.20
Totals per annum (R)					6,308,280.00	7,191,439.20

8.023 It was resolved on 1 March 2011 that MS Rahman of Ilanga be authorised to sign the contract documents between PRASA and Ilanga.

B4

Contract Meeting with Ilanga

8.024 We noted from the attendance register provided that a contract meeting was held with Ilanga on 4 May 2011 and after the Notice to Proceed was issued.

B5

8.025 The following individuals were present at the meeting and signed the attendance register:

- i. Mr Japhta, PRASA;
- ii. MS Rahman, Ilanga; and
- iii. Ivan Chami, Metrorail.

Contract Agreement

8.026 The Corporate Security National Contract Document entered into between PRASA and Ilanga appears to be signed by a representative of Ilanga on 4 May 2011, and by a representative of PRASA as the client on 19 May 2011. We noted that these signatures were not witnessed.

B6

B6/50

8.027 The agreement consists of 52 pages, however some of the pages are missing

B6/1

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from the copy provided to us. The contract number is reflected as
"PRASA/CS/KZN/2011/01".

8.028	The Contract Agreement reflects the contract period as 12 months, commencing on 1 January 2011 and ending on 31 December 2011, whereas the notice to proceed reflects a period of 11 months (1 February 2011 to 31 December 2011).	B6/1
8.029	In the agreement under the section " <i>Preamble</i> " on page 8 the following is stated <i>"This agreement is an umbrella agreement for the provision of the Security Services at the Sites to be agreed upon between the parties. The contractor and the Client shall hereinafter enter into Individual Agreements in respect of Business Units of the Client for Particular individual Sites where Security Services are to be provided under the terms and conditions of this Agreement together with any special conditions required by the Client and included in the Individual Agreements(s)".</i>	B6/8
8.030	Paragraph 4 deals with the " <i>Resolute Conditions</i> " of the contract, some which are listed hereunder: i. The submission of registration certificates for the contractor, the directors and employees at the Private Security Industry Regulator Authority (PSIRA) (paragraph 4.1.5); ii. Proof of South African Security Sector Education Training Authority (SASSETA) registration and a Competency Certificate for training completed or proof of accreditation of the trainer (paragraph 4.1.7); iii. For all security personnel the following must be submitted: a. Training certificate in the PSIRA grades (paragraph 4.1.8.2); and b. SASSETA training certificate for the Grades A, B, C or D (paragraph 4.1.7). iv. For armed guards a fire arm competency certification and results of training on shooting must be submitted (paragraph 4.1.8.4).	B6/10
8.031	Paragraph 5 deals with commencement, duration and renewal and reads as follows:	B6/13

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5.1. *“This agreement shall be deemed to have commenced on the effective date and shall endure for the contract period;*

5.2. *The duration of this contract is 12 months from commencement date.*

5.3. *It will be the discession of the client to renew or extend this contract, in this regard the contractor acknowledges and agrees that it has no expectation or right of any nature as regards the renewal of this agreement”.*

8.032 According to paragraph 6.18 additional security personnel will only be provided if there is an official written request from a duly authorised manager. An authorised manager was defined in paragraph 1.7 as *“Protection Services Regional Security Manager in the employ of Client being authorised by the Head Corporate Security”*. It was further stated that no payment shall be effected if additional security personnel were provided without authorisation.

B6/19

8.033 Paragraph 17.1 in the agreement reflects that a fixed fee shall be paid to the contractor for the period of the contract (as displayed in the Schedule of Quantities and Monthly Rates).

B6/28

8.034 The contractor must submit separate invoices for each site to PRASA, three (3) days after the end of each month. These invoices must be certified by both PRASA and the contractor as correct.

8.035 Paragraph 17.3 provides for an increase in the contract value:

“An increase not exceeding the percentage increase in CPIX or 7% in the contract value, whichever is the least, may be negotiated on the remaining contract amount, after the completion of the first twelve months, if the statutory increase exceeds 7%”.

B6/28

8.036 Paragraph 17.2.6 refers to the contract value as set out in Annexure A. We were however not provided with Annexure A and is therefore unable to comment on the contract value as provided for.

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**2) The extension of scope to provide security services from January
2012 to November 2012 for an amount of R8,199,801 (including VAT)
(R6,537,672 + R1,662,129)**

Submission for Extension of Security Contracts dated 12 April 2012

- 8.037 We were provided with a SCM Submission for extension of Security Contracts titled "*Extension of the Metrorail Security Contracts for Gauteng, Eastern Cape and Kwa-Zulu Natal*" that was signed by what appears to be Mr Mantsane on 12 April 2012. The submission was attached to the minutes of the CTPC meeting held on 26 April 2012.
- 8.038 Under paragraph 1 "*Background*" the submission reads as follows:
- 1.1. "*In August 2009 a new directive was issued to corporate security in respect of the management and sourcing of contract security services rendering within PRASA Group. This meant that all security related contract management is centralized under one command and control within the office of the Head Group Corporate Security.*"
 - 1.2. "*This directive also took into cognisance the fragmented state of security contracts within the PRASA Group as there was no uniformity to standards, terms and conditions as well as the overall security approach. In addition the various contracts prevailing at the regions furthermore commenced and expired on different dates.*"
 - 1.3. "*Apart from this undesirable situation the integration of mainline passenger service (which had its own security contracts under Transnet) and the establishment of PRASA Cres required further intervention for the realignment of security contracts throughout PRASA.*"
 - 1.4. "*Based on the abovementioned challenges, Corporate Security embarked on a process of conducting security risk, threat and vulnerability assessments within the operational environment to assess the prevailing security challenges to develop appropriate security measures to respond to the security challenges.*"
 - 1.5. "*The assessments confirmed that there was a total disjuncture in contract*

B7/5

B7/5

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security services rendering as regions were operating independently and there were no standardised approach in terms of security services rendering. There was furthermore a vast difference in the contract documents of the regions”.

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|-------|--|-----------------|
| 8.039 | The submission states under paragraph 2.3 the following:

<i>“In bringing overall uniformity in the security contracts management process there is a need to extend the current Metrorail contracts to ensure these coincide with the expiry date of MLPS and PRASA Cres security contracts which expire on 30 November 2012. The current Metrorail security contracts have been implemented on a month to month basis and this is expected to continue until a national security contract has been put in place before 30 November 2012”.</i> | B7/7 |
| 8.040 | The scope of the work is set out in paragraph 3 and is self-explanatory. We noted that Ilanga is included under paragraph 3.3 for services relating to Kwa-Zulu Natal. | B7/7 |
| 8.041 | The reason for the extension is recorded under paragraph 3.6 as follows:

<i>“This submission requests approval for the extension of the Metrorail security contracts to 30 November 2012 in line with the prevailing MLPS and PRASA CRES security contracts. It is envisaged that this final leg of integration will ensure standardisation; alignment; uniformity and similar terms and conditions of contracting that will lead to an all-encompassing national security contract for PRASA Group by November 2012”.</i> | B7/9 |
| 8.042 | It was recommended that the CTPC approve the extension of the security contract of Ilanga for 84 security officials at R6,537,672 (including VAT) for services in Kwa-Zulu Natal. | B7/11-13 |
| 8.043 | It appears that the submission was signed as Requested by the Mr Mantsane, Head Corporate Security, dated 12 April 2012. It should be noted that the copy of the submission provided was not signed as Recommended by Mr Mbatha as GCPO. | B7/13 |

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Minutes and Agenda of Corporate Tender and Procurement Committee Meeting
held on 26 April 2012

- | | | |
|-------|--|-------------|
| 8.044 | The minutes of the CTPC meeting held on 26 April 2012 was attached to an email sent from Mr Maishe Bopape (Mr Bopape) to Mr Donald Swanepoel (Mr Swanepoel) dated 9 May 2012. | B7/1 |
| 8.045 | The minutes are unsigned and includes amendments which, as per the email, appears to have been made by Mr Bopape. | |
| 8.046 | The minutes indicate the following individuals were present at the meeting: <ul style="list-style-type: none">i. Mr Tiro Holele (Mr Holele) as the CTPC Chairman;ii. Mr Mbatha, Mr Mantsane, Ms Martha Ngoye (Ms Nogye), Mr Bopape as CTPC members; andiii. Mr Swanepoel as the CTPC Secretary. | B7/3 |
| 8.047 | It should be noted that no Declarations of Interest or Confidentiality Agreements were located on file. | |
| 8.048 | The CTPC was requested to consider the extension of the existing Metrorail security contracts for Gauteng, Eastern Cape and Kwa-Zulu Natal until the end of November 2012 and was discussed under item number eight (8). | B7/4 |
| 8.049 | The CTPC noted the following under the recommendation of the submission: <ul style="list-style-type: none">i. <i>“The recommendation should be amended as follows: The CTPC’s approval is hereby sought to approve the extensions of the contracts for the various regions as indicated in the tables under paragraph 6.1 of the Detail Of Funding of the Project</i>ii. <i>In order to have a national contract in place by 01 December 2012 the End-user ensure that a national tender is issued well in advance of the termination of the current contracts at the end of November 2012.</i> | B7/4 |
| 8.050 | The minutes reflect that the CTPC concurred with the recommendation to extend the contracts until the end of November 2012, subject to the following: | B7/4 |

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- i. The changes mentioned in the CTPC comments must be applied; and
- ii. Approval must be obtained from the GCEO.

8.051 It is important to note that we could not obtain the approval by the GCEO for the appointment of Ilanga for the extended period to November 2012 for the additional amount of R6,537,672 (including VAT) as required.

8.052 We obtained a copy of the Recommendation Report submitted to the GCEO for the approval of the extension of scope for security contracts to various security service providers that was attached to the minutes of the CTPC meeting held on 8 October 2012 (we will refer to these minutes in further detail below).

8.053 The report was prepared to seek approval to extend the scope and mandate of the security contracts to also cover the Shozoloza Meyl environment. We noted that the budget for project is set out under paragraph 5 as follows:

- i. Budget including VAT – R35,306,712;
- ii. Budget excluding VAT – R30,970,800; and
- iii. Source of funding – OPEX.

8.054 We noted that the GCEO's approval was sought for the scope to be extended to include Shozoloza Meyl. Ilanga is included in the list for an additional amount of R1,662,129.10. The recommendation was signed as Approved by what appears to be Mr Lucky Montana (**Mr Montana**) as GCEO on 4 February 2012. We could not obtain the minutes of the CTPC meeting where the submission was supported.

8.055 We obtained a copy of the Tender Advice for the extension of security contracts for various security companies that was signed by Ms Mosholi. The Tender Advice refers to the extension of the Shozoloza Meyl that was approved on 4 January 2012 and include the extension of Ilanga for a period of nine (9) months as summarised in the table hereunder:

B8

B10

B8

B8/7

B9

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Area	Company	Total Contingent	Contract Amount Incl. VAT for 9 months (R)	Current Contract Amount (R)
Kwa-Zulu Natal	Ilanga	18	1,246,590.00	8,943,535.30

3) The extension of scope to provide security services from December 2012 to November 2013 for an amount of R16,113,288.96 (including VAT)

SCM Extension of Security Contracts recommended on 2 October 2012

- 8.056 We were provided with a SCM Extension of Security Contracts document titled “*Extension of Security Contracts for various security companies*” that was attached to the minutes of the CTPC meeting held on 8 October 2012. **B10/22-30**
- 8.057 The reason for the further extension of the security contracts was set out in paragraph 2.3 and reads as follows: **B10/26**
- “The extension of contracts is necessary to provide for adequate time for an open tender process to be followed. The procurement of suitably qualified and competent security service providers requires that the department develop holistic and integrated tender requirements that will address the total security service rendering as supported by the SRTVA (SIC). In addition that all requirements are integrated with the security service offerings that are provided by the internal security compliment to ensure a seamless security service rendering across PRASA Group.*
- This office therefore requests extensions to ensure that all security service rendering prerequisites are addressed in a comprehensive and detailed tender document. This will ensure that the department reached companies that possess the skills, competence and capacity to deliver security services in collaboration with PRASA Security as an extension of its internal security service rendering”.*
- 8.058 It is however important to note that the CTPC stated in a meeting held on 26 April 2012 that “*in order to have a national contract in place by 01 December 2012 the end user ensure that a national tender is issued well in advance of the termination*” **B7/4**

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of the current contracts at the end of November 2012”.

- 8.059 The contract period from December 2012 to July 2013 and the value of the extension of the security services of Ilanga is summarized in paragraph 5 as follows:

B10/28

Kwa-Zulu Natal - Metrorail				
Company	Region	Contingent	Contract Number	Contract Amount (R)
Ilanga	KZN	84	PRASA/CS/KZN/2011/01	5,637,911.04

PRASA Cres				
Company	Region	Contingent	Contract Number	Contract Amount (R)
Ilanga	KZN	58	PRASA/CS/KZN/2011/01	3,868,813.44

Main Passenger Services				
Company	Region	Contingent	Contract Number	Contract Amount (R)
Ilanga	KZN	18	PRASA/CS/CRES/2011/01	1,235,468.16

- 8.060 It was recommended that the CTPC approve the extension of the security contract of Ilanga for the period of eight (8) months to make provision of the finalisation of the national tender from December 2012 to July 2013. This resulted in an additional cost of R10,742,192.64 (R5,637,911.04 + R3,868,813.44 + R1,235,468.16) for the period December 2012 to July 2013.

B10/30

- 8.061 The SCM report appears to have been signed as Recommended by the Head of Corporate Security, Mr Mantsane, dated 2 October 2012. It should be noted that the copy of the SCM report provided to us was not signed by Mr Mbatha as the CPO.

B10/30

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Minutes and Agenda of Corporate Tender and Procurement Committee Extra -
Ordinary Meeting held on 8 October 2012

8.062	Minutes and the agenda of the CTPC meeting held on 8 October 2012 was attached to an email sent from Mr Swanepoel to Mr Khuzwayo on 30 October 2012. Mr Khuzwayo indicated that “Ordinary” CTPC meetings are held once a month. Where submissions are made requiring the CTPC to sit on additional occasions these meetings are referred to as “Extra-Ordinary” meetings.	B10/1
8.063	<p>The minutes were sent to Mr Khuzwayo for his attention and further comments. We noted that the minutes contain a number of handwritten notes that appear to be relevant to the items discussed. We noted that the following comments were recorded under item 4:</p> <p><u>“Item 4</u></p> <ol style="list-style-type: none"><i>1. Revise the submission to reflect that EXT made subject to specification being finalised.</i><i>2. Motivation to be beefed up to include where and how for work has been done to be ready to put up the tender call.</i> <p><i>NB 1. Fairness of price/comparison to</i></p> <ol style="list-style-type: none"><i>2. Statutory increases/ quantified</i> <p>RESOLVED</p> <ol style="list-style-type: none"><i>1. Availability of funds/security to engage to confirm this with various divisions business units”.</i>	B10/6-12
8.064	<p>The minutes indicate the following individuals were present at the meeting:</p> <ol style="list-style-type: none">Mr Holele as Chairman;Mr Swanepoel as Secretary; andMs Jerita Motshologane (Ms Motshologane), Mr Mantsane, Mr Mathobela and Ms Ntombeziningi Shezi (Ms Shezi) as members.	B10/3
8.065	Declaration of Interest which appear to be signed by the aforementioned members were located on file. We were not provided with a form for Mr Swanepoel.	B10/17-21

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8.066	In the agenda the extension of existing security contracts for Metrorail, Main Line Passenger Services and PRASA Cres is listed as item number four (4).	B10/5
8.067	The minutes reflect that all contracts be extended for a period of eight (8) months. The total amount of the extension is recorded as R270,536,592 (including VAT).	B10/5
8.068	It was resolved by the CTPC that the contracts be extended for eight (8) months, subject to the following: i. <i>“Corporate Security to engage Metrorail, Main Line Passenger Services and PRASA Cres to ascertain and confirm in writing that sufficient funds are available to cover the extended period of the contracts;</i> ii. <i>Support by the GCEO;</i> iii. <i>Consideration by the FCIP and if supported;</i> iv. <i>Approval by the BOC”.</i>	B10/5
8.069	We also obtained a copy of a SCM Recommendation Report titled <i>“Extension of Security Contracts for Various Security Companies”</i> that deals with the extension of the security contracts for the period of eight (8) months from December 2012 to July 2013. We noted that the information relating to the funding for the project is similar to the information as set out in the SCM extension report referred to herein above. The document was signed by what appears to be Mr Mbatha as the CPO on 31 January 2013 as Recommended. The Recommendation Report was signed as Approved by what appears to be Mr Montana as the GCEO (we noted that the date is recorded as 04/02/2012 and appears to be an error). The following handwritten notes are recorded under Comments by what appears to be Mr Montana: <i>“Chris/Kabelo</i> <i>The extension of the security contracts for the various security companies is approved for a period of 12 months. This should provide sufficient time for PRASA Corporate security to restructure the portfolio and find a suitable balance between the internal and external security provisions. We are unable to make changes this stage due to the violence and destruction of rail assets. However, the 12 month extension should be conditional on performance and that PRASA is provided with</i>	B11 B8 B11 B11/10

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properly trained guards. These guards will also be under the command of PRASA Security and their deployment in terms of an operational plans of PRASA. The private security is not adding much value in its current form and will require mayor restructuring by December 2013’.

Tender Advice

8.070 A SCM Tender Advice was issued to Mr Mantsane by the CTPC Secretariat.

B12/1-2

8.071 The Tender Advice reflects that the extension of security contracts for various security companies has been approved on 4 February 2013, which includes the extension of the security contract for Ilanga as summarised hereunder for a period of 12 months and the amount was adjusted accordingly as set out for the eight (8) month period as initially recommended.

8.072 The following regarding Ilanga were detailed in the Tender Advice:

Kwa-Zulu Natal - Metrorail			
Company	Region	Contingent	Contract Amount (R)
Ilanga	KZN	84	8,456,866.56

PRASA Cres			
Company	Region	Contingent	Contract Amount (R)
Ilanga	KZN	58	5,803,220.16

Main Passenger Services			
Company	Region	Contingent	Contract Amount (R)
Ilanga	KZN	18	1,853,202.24

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8.073	<p>The Tender Advice was signed by Ms Mosholi in the capacity as Procurement Manager, SCM. The date of approval on the Tender Advice is reflected as 4 February 2013.</p> <p>4) The extension of scope to provide security services for the modernisation project initiated by PRASA from December 2013 to September 2014 for an amount of R13,520,545.92 (including VAT)</p> <p><u>Submission for Additional Security for Depot Modernisation-Process dated 17 December 2013</u></p>	
8.074	<p>We obtained a SCM Submission Report for additional security for the Depot Modernisation-Process dated 17 December 2013. (The document was attached to the minutes of the CTPC meeting held on 17 December 2013.)</p>	B13/23-29
8.075	<p>The transaction description was reflected as the “<i>RATIFICATION FOR EXTENSION OF SCOPE FOR CURRENT SERVICE PROVIDERS</i>”.</p>	B13/23
8.076	<p>Under paragraph 1 “Introduction” the following is recorded:</p> <p><i>“PRASA embarked on a depot modernisation programme nationally. The project focusses on the improvement of staff facilities, upgrade of current equipment, particularly within in the lifting shops and installation of high grade security fencing with CCTV surveillance for the perimeter.</i></p> <p><i>The removal of the fence at the respective depots have presented the Security Department with serious security challenges as it creates additional vulnerabilities that adversely impacted on the security situation within the depot. This consequently resulted in several security incidents that had an impact on passenger rail services.</i></p> <p><i>The nature of the security threats necessitated that the department deploy additional security from 01 December 2013 to address the prevailing challenges as the staging yards that are as a result of the Modernisation project. The department have not made any payment to any of the service providers as payment will be due to service providers at the end of December 2013”.</i></p>	B13/23

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8.077	The security services required is set out on page 2 as follows: <ul style="list-style-type: none">i. <i>“Guarding within staging yards, depots and offices.</i>ii. <i>Mobile teams for crime prevention</i>iii. <i>Risk verification”.</i>	B13/24
8.078	Under paragraph 3.1 in the report it is recorded that <i>“The contract will be an ad-hoc security service rendering that is coupled by the Modernisation project. The deployment of additional security personnel has been implemented with as an emergency with effect from 01 December 2013 and will continue until 30 September 2014 (SIC)”.</i>	B13/26
8.079	Paragraph 5 reflects the details of the funding for the project as follows: <ul style="list-style-type: none">i. Approved budget for the project – R13,520,545.92 (excluding VAT);ii. Source of funding – OPEX; andiii. It should be noted that the amount including VAT was reflected as R11,627,669.49, however this appears to be a typing error as the amount of R13,520,545.92 includes VAT.	B13/27
8.080	It is recommended that <i>“The CTPC’s approval is herewith sought to ratify for the procurement of additional security service rendering that was implemented on 01 December 2013 as an emergency to address the prevailing security challenges”.</i>	B13/27
8.081	It appears that the recommended period for the extension was from 1 December 2013 to September 2014.	B13/28
8.082	The total cost of the extension of Ilanga’s security services is depicted in a table under paragraph 6.3 as follows:	B13/28

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Depot	Security Requirements	Unit Cost (R)	Total Monthly Cost Excl. VAT (R)	Total Monthly Cost Incl. VAT (R)	Total Cost Security over 12 month period (R)
Durban	14	7,314.00	102,396.00	116,731.44	1,400,777.28
Springfield	12	7,314.00	87,768.00	100,055.52	1,200,666.24
TOTAL (R)			190,164.00	216,786.96	2,601,443.52

8.083 It appears that the submission was signed by Mr Matakata in the capacity as Head Group Corporate Security dated 17 December 2013.

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8.084 The minutes of the CTPC meeting held on 17 December 2013 refers to the discussion of the additional security depot modernisation process that was discussed under item ten (10). The following individuals were present at the meeting:

- i. Mr Mbatha as Chairman;
- ii. Ms Monkwe as Secretary;
- iii. Dr Phungula, Mr Emeran, Ms Motshologane , Ms Hope Zinde (**Ms Zinde**) and Mr Patrick Gombert (**Mr Gombert**) as members; and
- iv. Mr Khuzwayo as Head of Secretariat.

8.085 The minutes appear to be signed by Secretary, Ms Monkwe dated 17 February 2014 and the Chairman, Mr Mbatha.

8.086 Declarations of Interests and Confidentiality Agreements which appear to be signed by the above mentioned members were located on file.

8.087 The minutes state that the CTPC had to consider the “*Extension of scope for the improvement of staff facilities, upgrade of current equipment and installation of*

B13/1-22

B13/1-2

B13/7-22

B13

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high grade security fencing with CCTV surveillance for the perimeter”.

8.088	Ilanga is included in the list of recommended contractors. The total value of the item amounts to R13,520,545.929 (excluding VAT) and the delivery period is reflected as September 2014.	B13
8.089	It appears that the matter was deferred by the CTPC <i>inter alia</i> for the following reasons: i. <i>“A cost breakdown of a project be provided.</i> ii. <i>Information as to why the additional security for a period of ten months”.</i>	B13
<u>Submission for Condonation for Corporate Security dated 29 April 2014</u>		
8.090	The SCM Submission for Condonation for <i>“Additional Security for Depot Modernisation Project”</i> sent to the GCPO from the Head Group Corporate Security dated 29 April 2014 was attached to the minutes and agenda of CTPC Meeting held on 29 May 2014.	B14/11-18
8.091	It appears that this condonation relates to the submission for the Additional Security for Depot Modernisation Process that was discussed by the CTPC meeting held on 17 February 2014 as discussed herein above. The following is recorded under paragraph 1 <i>“Introduction”</i> : 1.1 <i>“PRASA embarked on a depot modernisation programme nationally. The project focuses on the improvement of staff facilities, upgrade of current equipment particularly within the lifting shops and installation of high grade security fencing with CCTV surveillance for the perimeter.</i> 1.2 <i>The removal of the fence at the respective depots presented the security department with serious security challenges as it creates additional vulnerabilities that adversely impacted on the security situation within the depot. This consequently resulted in several security incidents that had an impact on passenger rail services.</i> 1.3 <i>PRASA Security conducted a security risk, threat and vulnerability assessment (SRTVA) that supports the deployment of additional ad-hoc security resources to mitigate security risks that are prevalent for the duration of depot</i>	B13 B14/11-12

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modernisation project.

1.4 *The nature of the security threats necessitated that the department deploy additional security from 1 December 2013 to address the prevailing challenges as the staging yards that emanated as a result of the modernisation project.*

1.5 *The department made a submission to the PRASA Technical Executive responsible for depot modernisation on the 19 December 2014 for a formal process to be followed to ratify the emergency deployment of security within the depot. This was however not implemented by PRASA Technical as result the department could not make any payments to any of the service providers as the submission was never handed in to the PRASA Technical SCM for consideration and presentation at its DTPC.*

1.6 *The service providers deployed security personnel from the 01 December 2013 to date and they have not been paid for services rendered since the first deployment. These companies have managed to bring down theft and vandalism within the yards since their deployment and several arrests were made since their deployment.*

1.7 *Some of the companies had already started to withdraw from sites as it was no longer financially viable for them to deploy security personnel without receiving payments from PRASA Technical. This created serious vulnerabilities as the department had to re-deploy personnel from operations to address requirements in the yards creating additional vulnerabilities in operations”.*

8.092 The approved budget for the extension is reflected under paragraph 5 as R3,953,376 (including VAT) (it should be noted that the amount excluding VAT is reflected as R4,506,848.64 and appears to be a typing error as this is the correct amount including VAT). The source of the funding is reflected as “OPEX”.

B14/15

8.093 The request for the approval of condonation by the GCEO was sought for the ad-hoc security services to PRASA for the period 1 December 2013 to March 2014 at the total cost of R4,506,848.64 (including VAT) for various service providers. The table below details the total cost extracted from the table for Ilanga for the period 1 December 2013 to March 2014:

B14/16

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Depot	Security Requirements	Unit Cost (R)	Total Monthly Cost Excl. VAT (R)	Total Monthly Cost Incl. VAT (R)	Total Cost Security over 12 month period (R)
Durban	14	7,314.00	102,396.00	116,731.44	466,925.76
Springfield	12	7,314.00	87,768.00	100,055.52	400,222.08
TOTAL (R)			190,164.00	216,786.96	867,147.84

8.094 It should be noted that the abovementioned table is similar to the table reflected in the submission for the Additional Security for Depot Modernisation Process, which was attached to the CTPC meeting minutes of 17 December 2013. However the Total Cost of Security over a 12 month period differs to that of the submission as detailed in the table below:

B13

Submission Amount	Condonation Amount
Total Cost Security over 12 month period (R)	Total Cost Security over 12 month period (R)
1,400,777.28	466,925,76
1,200,666.24	400,222.08

**B13/28 &
B14/16**

8.095 The following information is stated under paragraph 6.3:

B14/16-17

“All documentation for ratification was submitted to PRASA Technical well in advance the business unit however failed to table the submissions to its SCM for consideration at its CTPC. The consequences for the condonation are therefore PRASA Technical’s responsibility. Attached it the submission with references to emails sent on 19 December 2014”. (It should be noted that we were not provided with the emails as referred to in the document.)

8.096 It appears that the request for condonation was signed as Recommended by Mr Matakata in the capacity as Head Group Corporate Security dated 29 April 2014. It should be noted that the copy of the document provided to us was not signed by

B14/17

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as Supported by Dr Phungula, or as Approved by Mr Montana as the GCEO.

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- | | | |
|-------|--|--|
| 8.097 | We obtained a copy of the minutes of the CTPC meeting held on 29 May 2014 when the submission for condonation was discussed under item 10. Two (2) sets of minutes were obtained for the CTPC meeting held on 29 May 2014. The one (1) version of the minutes appear to be signed by the Chairman, Mr Mbatha, on 24 June 2014. The second version of the minutes appear to be signed by the Chairman, Mr Mbatha, and the secretary, Mr Khuzwayo, but is not dated. | B14/1-10 |
| 8.098 | The minutes of the CTPC meeting held on 29 May 2014 reflect the following individuals were present at the meeting:

i. Mr Mbatha as Chairman;

ii. Ms Monkwe as Secretary;

iii. Dr Phungula, Mr Vincent Kobuwe (Mr Kobuwe), Ms Zinde, Ms Motshologane as members; and

iv. Mr Khuzwayo as the Head of Secretariat. | B14/1 & 5

B14/6 |
| 8.099 | No Declarations of Interest or Confidentiality Agreements for the above mentioned members were located on file. | |
| 8.100 | Under item number 10 the additional security for depot modernisation project was discussed. The CTPC was requested to consider the request for condonation of ad-hoc security services rendered to PRASA Technical. | B14/9 |
| 8.101 | The abovementioned condonation amounted to R4,506,848.64 (including VAT). Ilanga is included in the list of the recommended contractors. We noted however that the minutes reflect the contract period as four (4) months. | B14/4 |
| 8.102 | The CTPC resolved that the said matter was supported subject to the following reasons:

- <i>“The project be classified under Capex and not Opex.</i> | B14 |

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- Page 2/8 bullet 1.5, the dates to be reflected correctly”.

8.103 We were unable to determine if the further request for condonation was approved by the GCEO as provided for and/or why the condonation was only for the period 1 December 2013 to March 2014 and not for the entire period. The initial request was for the approval for extension of scope to provide security services for the modernisation project for the period December 2013 to September 2014. We were also unable to obtain the approval for this request.

5) Application for condonation to provide security services for from April 2013 to May 2014 for an amount of R12,054,515.04 (including VAT)

Submission for Condonation dated 11 February 2014

8.104 The SCM Submission for Condonation of Security Service Providers for PRASA Corporate was attached to the minutes of the CTPC meeting held on 17 February 2014.

B15/19-21

8.105 Under Introduction the reasons for the submission is recorded as follows:

B15/19-20

“In February 2013 the GCEO approved a contract extension for various security companies that addressed all security services that are rendered within the PRASA Group. Due to the fact that an EXCO decision was taken that all PRASA CRES security contracts be managed and paid at Corporate Security, this office had to administer the overall management of these contracts.

The submission for the extension of contracts was based on the services that were rendered by the respective service providers at the time.

During the process of communicating the extensions to the various service providers a decision was then taken by the former Head of Corporate Security to restructure the security services rendered by the different companies. This consequently resulted in the complements for some service providers being reduced and some contracts particularly for PRASA CRES environment being terminated”.

8.106 The submission reflects that Ilanga was one of the service providers which were

B15

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affected. The submission states that “*The contract for Ilanga Security was extended with 85 security officers as opposed to a compliment of 58 that was approved*”.

8.107 Paragraph 1.5 states that the “*None of these changes were done by means of a formal process through SCM*”.

8.108 It is recorded under paragraph 1.6 that the various changes “*are not in line with the intial extensions as approved by the GCEO that was loaded on SAP by SCM. The end result is that the respect contract budgets are exceeded due to the incorrect implementation of the extensions of contracts*”.

8.109 The following table depicted the condonation value for Ilanga:

Company	Complement	Unit (R)	Condonation Value (R)
Ilanga	27	8,337.96	2,701,499.04

8.110 The submission serves to seek the approval from the CTPC to condone security service provision for Ilanga with a total complement of 27 security officers at a total cost of R2,701,499.04 (including VAT) for the period April 2013 to May 2014 (the period of 14 months).

8.111 It appears that the submission was signed as recommended by Mr Matakata in the capacity as Head Group Corporate Security dated 11 February 2014.

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8.112 The minutes indicate the following individuals were present at the meeting:

- i. Mr Mbatha as Chairman;
- ii. Ms Monkwe as Secretary;
- iii. Dr Phungula, Mr Emeran, Ms Zinde and Mr Kobuwe as members; and
- iv. Mr Khuzwayo as Head of Secretariat.

8.113 The minutes appear to be signed by the Chairman, Mr Mbatha and the Secretary,

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Ms Monkwe dated 13 March 2014.

8.114	Declarations of Interests and Confidentiality Agreements which appear to be signed by the above mentioned members were located on file.	B15/5-18
8.115	The minutes reflect that the regularisation of various security contracts for PRASA Corporate were discussed under item number 13.	B15/4
8.116	The minutes states that the CTPC need to consider the following: <i>“Condonation of various security providers that all PRASA CRES Security contract be managed and paid at Corporate Security. Corporate Security had to administer the overall management of these contracts”.</i>	B15/4
8.117	The above mentioned security providers which were recommended for condonation included Ilanga. The total condonation value was recorded as R12,054,515.04 (including VAT) (we have referred to the value of R2,701,499.04 allocated for Ilanga).	B15/4 & 21
8.118	In the minutes it is reflected that the matter was deferred by the CTPC for the following reasons: <ul style="list-style-type: none">- <i>“On the submission the background should incorporate the story as to why changes were made</i>- <i>What is being done”.</i>	B15
8.119	We could not obtain the minutes of the CTPC meeting when the application was approved or where it was approved by the GCEO. 6) The extension of scope to provide security services on a month to month basis for an amount of R2,077,053.56 (including VAT) per month	
<u>Recommendation Report dated 26 March 2015</u>		
8.120	Mr Japhta provided us with a copy of a SCM Recommendation Report titled <i>“MONTH TO MONTH GROUP SECURITY CONTRACT EXTENSIONS”</i> . The said report appears to have been signed as Recommended by Dr Phungula dated 26	B16/1-7

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March 2015 and as Approved by Mr Montana dated 30 March 2015.

8.121 The purpose of the report is detailed under paragraph 1 and states “*The purpose of this submission is to seek the GCEO’s Committee’s approval to extend the current Group security contracts on a month to month basis pending finalisation of the national security tender*”.

B16/1

8.122 The background for this report states that Corporate Security has embarked on a national tender during 2014 and the Bid Evaluation Committee (**BEC**) is currently still evaluating the bids received. The process of evaluation is not expected to be completed before March 2015.

B16/2

8.123 The report provides a detailed breakdown of the costs for security services per PRASA entity and for each services provider.

B16

8.124 The total amounts for Ilanga for the different PRASA entities is detailed in the table below:

PRASA Entity	Monthly contract amount (R)
Kwazulu Natal	829,020.54
Main Line Passenger Services	256,948.02
PRASA CRES	991,085.00
TOTAL (R)	2,077,053.56

8.125 Mr Japhta confirmed to us by email dated 22 July 2016 that Ilanga is currently still providing services to PRASA Group based on the above approval.

B17/1

c) Interviews conducted

8.126 A number of PRASA employees and relevant third parties who were involved in the matter or appeared to have knowledge of the contracts under investigation were interviewed. Detailed hereunder is a summary of the individuals we interviewed and relevant information obtained from them as far as it relates to each contract under discussion. We will again refer to our interviews with these individuals as far as they relate to the other contracts discussed hereunder.

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Interview with Mr Japhta

8.127 Mr Japhta is employed as Contracts Manager within the Corporate Security Department at PRASA and reports to Mr Matakata, as the Head Group Corporate Security at PRASA. (We will again refer to his employment details in further detail hereunder when we deal with the specific issue that have been raised). We will briefly refer to the information Mr Japhta provided as far as it relates to Ilanga and the procurement of the security contracts that form part of our review:

- i. Mr Japhta stated that security contracts were procured prior to 2012 where after the various contracts were extended for periods of time as referred to herein above;
- ii. He stated that he had drafted the submission for the extension of scope to provide security services from January 2012 to November 2012 for the amount of R6,537,672. He further added that the additional submission was prepared to extend the scope of security guards to also cover Shozolozza Meyl in the amount of R1,662,129;
- iii. We have requested Mr Japhta during our interview for the approval of the extension to provide security services from January 2012 to November 2012 in the amount of R6,537,672 but it could not be provided;
- iv. Mr Japhta further confirmed that he prepared the Submission Report for the further extension for a period December 2012 to November 2013. As far as it relates to the restructuring of the PRASA security we have asked Mr Japhta to further comment on the progress relating to the national security contract that was supposed to be in place before 30 November 2012, as referred to in the previous submissions he had prepared. He stated that they had experienced various problems relating to the finalisation of the national contract and hence it has resulted in the various extensions;
- v. He further added that they are currently in the process of finalising the specifications for the national contract;
- vi. Mr Japhta indicated that as part of the restructuring process, PRASA were looking into the “*Phase in Phase out*” approach. The purpose thereof is to

B7

B8

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increase internal security and decrease dependency of external service providers;

- vii. As far as it relates to the extension relating to the modernisation project, Mr Japhta stated that they had required an increased number of security guards as a result of criminal conduct for aspects such as theft and vandalism. Mr Japhta could not provide us with the approval by the GCEO subsequent to the application for condonation for the period 1 December 2013 to March 2014. He confirmed that the matter was supported by the CTPC but was unable to provide us with the approval for the modernisation project; and
- viii. Mr Japhta further confirmed that the security entities were later appointed on a month to month basis and are currently still providing security services to PRASA on this basis.

B13/23

Interview with Mr Matakata

8.128 Mr Matakata is employed as the Head Group Corporate Security within the Corporate Security Department at PRASA. We will briefly refer to the information he provided as far as it relates to Ilanga:

- i. Mr Matakata has been employed at PRASA since February 2008 and was appointed as the Head Group Corporate Security on 1 June 2013. He reports directly to the GCEO;
- ii. He took over as Head Group Corporate Security from Mr Mantsane;
- iii. During our interview with Mr Matakata he confirmed that security contracts were extended for periods of time as referred to herein above and as stated by Mr Japhta. He however raised a concern that he could not manage the expenditure on security contracts in an effective and efficient manner as the security services were provided to various offices and buildings throughout PRASA. These contracts were not managed by the Head Group Corporate Security as required;
- iv. He further corroborated the information as provided by Mr Japhta and stated that he was not initially involved in the appointment of these service

providers;

- v. Mr Matakata stated that the finalisation of the national contract was part of discussions when he was appointed as Head Group Corporate Security on 1 June 2013 and is still to be finalised; and
- vi. Mr Matakata stated that as far as it relates to the application for condonation dated 11 February 2014, he had instructed Mr Japhta to prepare the submission to apply for condonation. A number of unapproved changes were made to the original contracts which resulted in the service providers not being paid as the amounts were not approved and thus not loaded on the SAP system.

B15

Interview with Mr Mantsane

8.129 Mr Mantsane is currently employed as the Head Group Business Continuity Management and reports to the GCEO. Mr Mantsane was the former Head Group Corporate Security. We will briefly refer to the information he provided as far as it relates to Ilanga:

- i. Mr Mantsane has been employed at PRASA since 2007/early 2008 and was the former Head Group Corporate Security until he was replaced by Mr Matakata in early 2013. (He stated that he was hospitalised for a period in 2012 and 2013 during his tenure as Head Group Corporate Security);
- ii. He confirmed that the security contracts were procured prior to 2012 and have subsequently been extended as referred to herein above; and
- iii. He was unable to confirm the current status of the security contracts and/or the status as far as it relates to a national security contract. He however stated that the national security contract were under discussion as far back as 2010 but was delayed for various reasons such as the soccer world cup and the restructuring of the security of PRASA as part of the “*Phase in Phase out*” proposals referred to by Mr Japhta.

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Interview with Ms Mosholi

- 8.130 Ms Mosholi is employed as the Senior Manager Procurement and Tendering for PRASA Corporate and reports to Mr Gingcana, as the Acting CPO at PRASA. We will briefly refer to the information Ms Mosholi provided as far as it relates to Ilanga:
- 8.131
- i. She stated that she would draft the Notice to Proceed or Notice of Appointment after the approval by the GCEO or CPO;
 - ii. The Tender Advice is drafted by the CTPC or CFSC secretary and currently should be signed by the Head of Secretariat;
 - iii. Ms Mosholi provided us with a Notice to Proceed template which she made use of when she drafted notices to contractors. She explained that the Notice of Appointment was used until August 2014. The Notice to Proceed then replaced the Notice of Appointment. The difference between these two (2) relates to the paragraph informing the contractor that “*formal contract documents will be concluded within 60 days and you will be advised regarding the signing thereof. The letter of acceptance and your offer shall constitute a binding agreement between Passenger Rail Agency of South Africa (PRASA) and yourselves*”; and
 - iv. Ms Mosholi also confirmed that they are in the process of finalising the national contract for security services. She further stated in an email dated 10 October 2016 that “*the tender was advertised in August 2016 and closed on 08 October 2016. We are awaiting approval for the appointment of a Bid Evaluation Committee by Acting GCEO*” and hence is still in process.

B18

B19

Findings

- 8.132 Detailed below is a summary of significant findings from the investigation into the awarding of the security contract to Ilanga:
- i. We determined from our review of the documentation provided and interviews conducted that a number of security contracts were procured

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prior to 2012 and hence were in place prior to the period of our review;

- ii. We determined that the contract awarded to Ilanga has been extended on a number of occasions as summarised in the table hereunder:

	Period of Extension	Amount (R)
a.	February 2011 to 31 December 2011	7,191,439.29
b.	January 2012 to November 2012	8,199,801.00
c.	December 2012 to November 2013	16,113,288.96
d.	December 2013 to September 2014	13,520,545.92
e.	April 2013 to May 2014	12,054,515.04
f.	Month to month extension as approved in March 2015	2,077,053.56
Total (R)		59,156,643.77

- a. Extension period February 2011 to December 2011: The Contract Agreement for the period February 2011 to 31 December 2011 (11 months) was signed by a representative of Ilanga on 4 May 2011 and by a representative of PRASA on 19 May 2011. The Contract Agreement was signed prior to 2012 and hence we were unable to determine if it was supported by the CTPC and/or approved by the GCEO as provided for;
- b. Extension period January 2012 to November 2012: The request for the extension of scope to provide security services from January 2012 to November 2012 for an amount of R6,537,672 (including VAT) was supported by the CTPC during the meeting held on 26 April 2012. It is important to note that the recommendation by the CTPC to support the request for extension was held on 26 April 2012 and already four (4) months after the commencement of the extension in January 2012. We could not obtain the approval by the GCEO for the appointment of Ilanga for the extended period to November 2012 for the additional amount of R6,537,672 as

B6

B7

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provided for;

The request for the extension of scope to include Shozolozza Meyl for the same period in the amount of R1,662,129.10 (including VAT) was approved by the GCEO on 4 February 2012, one (1) month after the commencement of the extension in January 2012. We however could not obtain the minutes of the CTPC where this submission was supported as provided for;

B8

- c. Extension period December 2012 to November 2013: The extension of scope to provide security services from December 2012 to November 2013 for an amount of R16,113,288.96 (including VAT) was initially supported by the CTPC for a period of eight (8) months on 8 October 2012. We noted from our review of the Recommendation Report that the GCEO had approved the recommendation for a period of 12 months on 5 February 2013 (we assume the date to be an error as it was Recommended by Mr Mbatha on 31 January 2013). We noted that this amount has correctly been adjusted for a period of 12 months as the initial request was for R1,342,774.08 per month for a period of 8 months, totalling R10,743,192.64;

B10

- d. Extension period December 2013 to September 2014: The extension of scope to provide security services for the modernisation project that was initiated by PRASA from December 2013 to September 2014 for an amount of R13,520,545.92 (including VAT) was initially not supported by the CTPC on 17 December 2013 and was deferred. The CTPC had supported the request for condonation on 29 May 2014 (as it was already five (5) months into the contract period). We were unable to obtain the approval by the GCEO in respect of this request for extension and/or condonation;

B13

B14

- e. Extension period April 2013 to May 2014: The application for condonation to provide security services from April 2013 to May 2014 for an amount of R12,054,515.04 (including VAT) was deferred by the CTPC at the meeting held on 17 February 2014

B15

and was not supported. We were unable to obtain the minutes of the CTPC meeting where it was discussed thereafter and/or supported as required. We further could not obtain documentation that would indicate that the request for condonation was approved by the GCEO as provided for; and

B16/6

- f. Month to month extension: We could not obtain the minutes of the CTPC meeting where the request for the extension of scope to provide security services on a month to month basis for an amount of R2,077,053.56 (including VAT) per month was supported. The Recommendation Report is however signed by the GCEO on 30 March 2015 as Approved. We were further could not obtain any documentation in support of the extension for the period September 2014 to March 2015 when the month to month extension was approved.
- iii. During our meeting with Mr Japhta he confirmed that Illanga is still providing security services to PRASA based on the approval by the GCEO on a month to month basis. The recommendation Report was signed as Approved by the GCEO on 30 March 2015;
- iv. Based on our review of the payment data provided, we ascertained that Illanga had received 34 payments between the period 10 June 2013 to 30 April 2016 totalling R23,305,062.18 for security services rendered. We noted that the amounts paid often do not agree with the extension amounts as referred to above (no payment data appears on the SAP system to Illanga prior to May 2013); and
- v. Based on our review of the documentation provided we noted that it has been recommended since 2012 that a national security contract be advertised for the appointment of security service providers. We determined that the tender was advertised in August 2016 and closed on 8 October 2016. The evaluation of the tender is still in the process of being finalised.

Conclusions

- 8.133 The extension of the security contracts were not regularly approved as required. The procurement processes for these extensions were often not followed in terms of a provisioning system as provided for in the PRASA SCM Policy and relevant legislation.
- 8.134 We further noted that some of the extensions were approved after the commencement of the contract period or no approval exists for a specific period, such as September 2014 to March 2015 when the month to month extension was approved.
- 8.135 It is further important to note that Paragraph 12.8.9 of the SCM Policy document deals with Variations of Contracts and reads as follows: *“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”*. In the memorandum dated 13 October 2014 it is recorded that *“Instances where the variation is above 10% will only be considered in extremely rare circumstances where it can be expressly proven that there was proper contract management performed and that it could not be avoided or is in the best interest of PRASA”*. The approval processes for these extensions were often not followed.
- 8.136 The CTPC recommended on 27 April 2012 that *“In order to have a national contract in place by 01 December 2012 the End-user ensure that a national tender is issued well in advance of the termination of the current contracts at the end of November 2012”*. The national tender for security services was only advertised in August 2016 which is four (4) years later. It further appears from our review of the documentation provided that the various requests for the extension of the security contract was only done in an attempt to regularise the extension period and was therefore used to circumvent the SCM procedures as provided for and hence is irregular.

Recommendations

- 8.137 Mr Mantsane was the Head Group Corporate Security from 2007/early 2008 until early 2013 when he was replaced by Mr Matakata. We therefore recommend PRASA consider taking disciplinary action against Mr Mantsane for his failure to ensure that a national tender was advertised and thereafter service providers appointed.
- 8.138 Mr Matakata was appointed as Head Group Corporate Security on 1 June 2013 and the national tender for security services was only advertised in August 2016 some three (3) years later. We therefore recommend PRASA consider taking disciplinary action against Mr Mantsane for his failure to ensure that a national tender was advertised and thereafter service providers appointed.

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B. The appointment of Semele Trading Enterprise with a target value of R18,368,640.00 for the period 30 November 2013 to 30 November 2015

8.139 An Inoxico Report drawn on Semele Trading Enterprise CC (**Semele**) with registration number 2004/022929/23 reflects that the said entity was registered on 10 March 2004. The current Active Principal is listed hereunder:

C1/3

- i. Muziwandile Godfrey Nala (**Mr Nala**) with ID 760131 5551 083 appointed on 5 May 2004.

C1/7

a) Review of payments made by PRASA

8.140 We requested a list of all payments made by PRASA to Semele. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system.

C2/1

8.141 We ascertained from the above mentioned analysis that Semele had received seven (7) payments from PRASA for the period 31 May 2013 to 15 August 2014 as detailed in the table below:

Number	Date	Amount (R)
1	31/05/2013	1,292,750.00
2	29/11/2013	1,292,750.00
3	13/12/2013	9,184,320.00
4	03/04/2014	2,528,648.00
5	15/05/2014	3,169,367.60
6	02/07/2014	957,656.40
7	15/08/2014	2,528,648.00
		20,954,140.00

8.142 We obtained and reviewed the payment packs for the seven (7) payments made by PRASA to Semele.

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- 8.143 The contract period for Semele is stated as being from November 2013 for a period of two (2) years. The first payment made to Semele in May 2013 falls outside of the contract period. The second payment made to Semele on 29 November 2013 was made 14 days after the Notice of Appointment was issued to Semele on 15 November 2013 (as will be discussed in further detail hereunder).
- 8.144 With reference to the payment packs for these two (2) payments, the payments pertain to the supply of firearms for the internal security personnel of PRASA and are unrelated to the Semele contract under review. The total value paid to Semele pertaining to the contract under review amounted to R18,368,640 which agrees to the contract amount.
- 8.145 We will discuss the payment pack relating to payment number five (5) in the table above to serve as an example of the documents generally included in the payment. It should be noted that not all the documents discussed below are included in each of the payment packs received.
- 8.146 The payment pack includes the following documents:
- i. The remittance advice dated 15 May 2014 reflects the amount of R3,169,367.60;
 - ii. The creditors reconciliation is dated 14 May 2014 and reflects the total payment to be made to Semele as R3,169,367.60. The reconciliation is prepared by and signed by what appears to be Dumisile Sithole and reviewed and stamped by Binosa Ngongca. This amount agrees to the amount as per the remittance advice;
 - iii. The extract from the SAP creditors ledger reflects the reference as “121117” with the same amount;
 - iv. PRASA Corporate Invoice Payment Check List is signed as Requested dated 14 May 2014;
 - v. The Delivery Note is issued by Semele and indicates that 20 mobile transporters were delivered on 24 April 2014;
 - vi. The supplier Invoice reflect the invoice number as “121117” dated 24 April 2014. The invoice reflects the total cost for 20 mobile transporters as

C2/2

C2/3

C2/4

C2/5

C2/6

C2/7

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R3,196,367.60, at a unit price of R158,468.38 each. The address included on the invoice for Semele is 90 Darwin Street, Wendywood, Sandton. The relevance of this will be discussed below;

- vii. The supplier Statement of Account, dated 24 April 2014, reflects only one (1) invoice, invoice number “121117”, in the amount of R3,169,367.60, payable in 30 days; and
- viii. The purchase requisition is attached to the payment pack, confirming that payment can be made to Semele for the mobile transporters in April 2014.

C2/8

C2/9

b) Procurement Review

- 8.147 We obtained the procurement file and documentation relating to the abovementioned project. The tender was for the supply of fifty (50) “*mobile transporters*”. We determined from our review of the documentation provided that the aforesaid contract was awarded to Semele following a closed bidding process.

Memorandum dated 10 January 2013

- 8.148 On 10 January 2013, a request was sent to the GCEO by the Head Group Corporate Security. This request detailed the need for a “*reputable service provider*” to provide 50 mobile transporters to improve the effectiveness of security at PRASA. During the interview with Mr Japhta he stated that he drafted this memorandum based on a recommendation by Mr Mantsane, the former Group Head Corporate Security.
- 8.149 The request provides details of seven (7) recommended companies namely, MGN Group, Custom Capital, Inovent, Fleet Africa, Zabo Creations, ABSA Fleet and Phumelela Risk Management. Mr Japhta indicated during his interview that he obtained the entity names from internet based searches and Mr Mukwevho, Fleet Manager at PRASA, provided him with details pertaining to ABSA Fleet and Fleet Africa.
- 8.150 The expected expenditure under paragraph six (6), Financial Implications, is recorded as R7,410,000 (inclusive of VAT). It is important to note that the approved budget for purchase is recorded for the same amount and the source of funding is “CAPEX”. Mr Japhta confirmed that he drafted this request and

C3/1

C3/2

C3/3

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indicated during his interview that this amount is based on an estimate following internet searches he conducted and the Rand / US Dollar exchange rate at the time.

8.151 The request was signed by Mr Mantsane, Head Corporate Security and Mr Mbatha, CPO: PRASA. The request further appears to be signed by Mr Montana, GCEO: PRASA and dated 27 February 2013. **C3/3**

8.152 Included in the comments section of the request is the following *“This submission is part of the three tactical interventions by security that you recently approved”*. During our interview with Mr Japhta he indicated that these three (3) interventions relate to uniforms, mobility of security and security equipment. **C3/4**

Email correspondence

8.153 In the email correspondence between Ms Mosholi and Mr Japhta on 13 March 2013 (11:39), Ms Mosholi indicated that the GCEO has approved the request. We noted that Ms Mosholi has requested Mr Japhta to provide the specifications in a further email on the same day at 4:43 PM. During the interview with Ms Mosholi she indicated that she had no further involvement in the procurement of this project subsequent to this email. **C4/2**

8.154 Mr Japhta replied with a list of contact details for the following entities: **C4/1**

- i. MGN Group;
- ii. Fleet Africa;
- iii. Innovent;
- iv. Custom Capital; and
- v. Zabo Creations.

8.155 On 27 March 2013 letters were sent to seven (7) entities wherein they were invited to attend a tender briefing session to be held on 9 April 2013 at 10:00. We noted that Phumulela Risk and ABSA Fleet were not included in the list of service providers which were provided by Mr Japhta as referred to herein above but were on the original request. The letters were signed by Ms Leburu-Tsawane, Sourcing **C5/1-7**

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Specialist. Ms Leburu-Tsawane confirmed during an interview held with her, that she obtained all the contact details for the service providers from Mr Japhta.

Briefing session attendance register

- 8.156 The attendance register for the briefing session that was held on 9 April 2013 reflects that representatives from the following entities were present:
- i. ABSA Vehicle Management;
 - ii. Fleet Africa;
 - iii. Phumelela Fleet Operations;
 - iv. MGN Group – Semele Trading Enterprise; and
 - v. Zabo Creations.
- 8.157 It appears that no representatives from Custom Capital and Innovent attended the briefing session.
- 8.158 During a telephonic discussion held on 8 June 2016 with a representative from Custom Capital, we were informed that they never received the email correspondence in which they were invited to attend the tender briefing session. The representative indicated that this was most likely due to the fact that the individual to whom the email request was sent, was no longer an employee of Custom Capital at that time.

Request for Proposal

- 8.159 We were provided with a Request for Proposal (**RFP**) document that is also dated 9 April 2013. Mr Japhta and Ms Leburu-Tsawane confirmed that the prospective bidders were provided with the RFP when they attended the briefing session.
- 8.160 The RFP details the specifications for the mobile transporters and includes photos of the required vehicles. It further provides for the supply of 50 mobile transporters. The detailed security specifications of the mobile transporters are listed under paragraph 3.1 of the document as follows:
- i. *“Three wheel personal mobility vehicle.*

C6/1

C7

C7/3-4

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- ii. Front wheel drive, with real wheel braking from hydraulic disc brakes*
- iii. Vertically adjustable high intensity L.E.D. headlights*
- iv. High intensity L.E.D. rear brake lights*
- v. High intensity L.E.D. rear running lights*
- vi. High intensity L.E.D. red/blue front facing emergency lights (solid red lights visible
excess of 1000 ft. to meet CVC emergency lighting requirement)*
- vii. PRASA and PRASA Security emblem to be placed on all mobile transporters.*
- ix. Onboard siren*
- x. Canopy/Sunshade*
- xi. Onboard CCTV with audio 168 hours memory*
- xii. Emergency LED Lights blue/red*
- xiii. 0 degree turning radius*
- xiv. Field swappable power modules*
- xv. Lithium Polymer batteries (can be charged onboard or off of vehicle)*
- xvi. 115km operation range per charge (type C batteries)*
- xvii. Additional Battery with external charger*
- xviii. Maximum speed 40 km/ph*
- xix. Speed limiter switch (governor switch)*
- xx. Vehicle payload 450 lbs (operator & equipment)*
- xxi. Platform sensor switch (prevents vehicle operation unless rider is standing on platform)*
- xxii. Handlebar mounted parking brake (disables throttle when brake is set)*
- xxiii. Removable Pannier (soft storage pack)*
- xxiv. Lockable storage compartment (large enough to hold 2" thick "Posse Box" or similar*

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xxv. *Clipboard)*

xxvi. *Vehicle compatible with removable ballistic shield, trailer, and future high tech options*

xxvii. *(pending)*".

- 8.161 Mr Japhta indicated during the interview held that he drafted the specifications contained in the RFP following internet based searches he performed.
- 8.162 We noted that the specifications included a requirement that sunshades were to be provided. Upon our inspection of the mobile transporter, which will be discussed in detail below, it did not have a sunshade. Mr Japhta indicated that PRASA only requested a limited number of sunshades from Semele, and that these sunshades are removable and could thus be attached by the guards when required. The RFP however does not contain any details regarding the maintenance of these units. The relevance thereof will be discussed in further detail below.
- 8.163 The tender opening register, dated 29 April 2013, details the description of the project as "*Mobile Transporter T3 Wheeler*". Only one (1) bidder is listed on the register, namely Semele that appears to be a representative of the MGN Group according to the Briefing Session Attendance register. The tender opening register is signed by Ms Leburu-Tsawane as well as two (2) witnesses. Ms Leburu-Tsawane stated during her interview that the project description may have been completed subsequent to the opening of the bids, which could be the reason the description refers to T3 Mobile Transporters (the model provided by Semele).

Minutes and Agenda of Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 30 May 2013

- 8.164 The minutes indicate the following individuals were present at the meeting:
- i. Mr Holele, Chairman of the CTPC;
 - ii. Mr Mbatha, Mr Bopape and Ms Motshologane as members of the CTPC;
and
 - iii. Ms Monkwe as secretary.

C8

C6/1

C9/2

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8.165	Declarations of Interests which appear to be signed by Mr Mbatha, Mr Holele and Ms Monkwe were located on file.	C9/6-8
8.166	This tender is listed as item number eight (8) where the CTPC is requested to consider the appointment of Semele to provide PRASA with mobile transporters.	C9/3
8.167	It is important to note that the contract amount is now indicated as R18,368,640 (including VAT) with a contract period of two (2) years “ <i>as-and-when required</i> ”, as opposed to the amount of R7,410,000 (including VAT) for an “As and When Contract” for a two (2) year period as indicated in the Memorandum dated 10 January 2013 referred to herein above.	C9/3 C3/3
8.168	It is significant to note that this is an increase of R10,958,640 (147,89%) from the initial approved budgeted amount. It is further important to note that this amounts to R367,372.80 (including VAT) per mobile transporter.	
8.169	The minutes of the CTPC contains the following comments regarding this request: <i>i. Confirmation of the budget and maintenance</i> <i>ii. Reasons why”.</i>	C9/3
8.170	We noted that the CTPC resolved that the request was initially “ <i>Not approved</i> ”.	C9/3
8.171	The minutes appear to be signed by the Chairperson, Mr Holele, on 3 July 2013.	C9/1
8.172	It should be noted that this CTPC meeting was held prior to the BEC evaluations of the bid received, which will be discussed in further detail below. During our interviews with various individuals, none were able to provide clarification on this aspect. <u>Security Screening Report</u>	
8.173	On 6 June 2013, Mr Mantsane sent a letter to Ms Mosholi wherein he states that security screening was performed on Semele. Mr Mantsane states that the company is registered with one (1) director who has a judgment against his name.	C10/1
8.174	The letter further states that “ <i>Given the available information it is advised that this company be closely monitored should they be awarded the contract</i> ”. The letter	C10/2

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appears to have been signed on behalf of Mr Mantsane. Mr Matakata indicated during his interview that the results contained in a Security Screening Report provide guidance for the procurement of the potential service provider. However, the entity subject to this report may still be awarded the contract regardless of the results of the security screening. It is thus merely advice provided by the Security Department.

- | | | |
|-------|---|----------------|
| 8.175 | In a memorandum, dated 11 September 2013, the Acting CPO, Dr Phungula, notifies the following individuals of their appointment as part of the tender evaluation team for the appointment of a mobile transporter supplier:

i. Mr Mukwevho, General Manager, SCM;

ii. Mr Japhta;

iii. Ms Leburu-Tsawane; and

iv. Mr Herbert Makhubela (Mr Makhubela). | C11 |
| 8.176 | The evaluation attendance register, dated 11 September 2013, indicates that the following individuals were present at the bid evaluation:

i. Ms Leburu-Tsawane;

ii. Mr Mukwevho; and

iii. Mr Japhta. | C12 |
| 8.177 | Ms Leburu-Tsawane confirmed that Mr Makhubela was not present at the evaluations, however she was unable to provide more detail in respect of the four (4) scores detailed in the technical evaluation, herein referred to below. | |
| 8.178 | Each of the aforementioned individuals appears to have signed a Declaration of Interest and a Confidentiality Agreement in respect of the tender for evaluation. | C12/4-9 |
| 8.179 | The documentation in respect of the evaluation for compliance was completed for Semele on 11 September 2013. The documentation reflects that all compulsory documentation was submitted by Semele. The documentation that was completed for purposes of evaluation appears to be signed by the three (3) members of the tender evaluation team. | C12/2 |

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8.180	The technical evaluation for the tender evaluation was also completed for Semele on 11 September 2013. The documentation in respect of the technical evaluation reflects that 81% weighted score was allocated to Semele (with the lowest acceptable score being recorded as 70%). It should be noted that the technical evaluation indicates that there are four (4) committee members and scores have been submitted by four (4) members.	C12/3
8.181	The technical evaluation document is signed by three (3) individuals and includes a handwritten note stating “ <i>Unanimous Evaluation Team</i> ”. Mr Japhta indicated that he recalls a fourth person being present at the evaluation, but was unable to confirm who this person was.	C12/3
8.182	The Submission for Adjudication Report was signed by Mr Mukwevho, General Manager: SCM. The document is undated. The following was noted from this document:	C13/8
	<ul style="list-style-type: none">i. It is recorded under paragraph 1 on page 2 of the document that Semele is a subsidiary of T3 Motion Incorporated in the United States of America and is the sole distributor of T3 Motion products in South Africa. (This is however incorrect as Zabo Creations is also a distributor of T3 Motion products in South Africa and will be referred to in further detail below);ii. A closed tender process was followed;iii. Seven (7) tenderers were invited but only one (1) tender was received;iv. The end-user is detailed as Mr Maletswa, Senior Manager within the Security Department;v. Under paragraph 13, the following recommendation is recorded <i>“The tenderer is the sole source distributor of T3 in the country. The only one known source that can meet the PRASA Mobile Transport needs. The Corporate Tender Procurement Committee is hereby sought to appoint Semele Trading Enterprise (MGN Group) to provide mobile transport T3 in the total amount of R18 368 640.00 including VAT”</i>; andvi. The document appears to be signed by Mr Mukwevho as General Manager	C13/2-8

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SCM.

- 8.183 During our interview with Mr Maletswa he stated that he was not the end-user for this contract and does not have any knowledge of why his name would be reflected as such on the submission.
- 8.184 We have request the bid document submitted by Semele and were provided with only the technical proposal document. We will not refer to the entire document and will only refer to specific sections thereof. It is however important to note that we could not obtain the financial proposal that sets out the details of the units that will be provided and/or pricing information relating to the units offered. We noted the following from the bid document:
- i. A letter of appreciation and clarity contained in the file reads as follow under "Filing":

"The first file has T3i Series Mobile Patroller documents (Tricycle), the second file is the continuation of the first and has the Sageway documents Two (wheeler), and the one envelope has both quotations for T3 and Sageway".

This document does not reflect any detail relating to the number of units which will be provided;
 - ii. A letter from T3 Motion confirms that Semele has been "*exclusively appointed for the sales, marketing and distribution of all products manufactured by T3 Motion Inc.*" The letter further states that the warranty and guarantee of all products sold by Semele are backed by the manufacturer in the United States of America and managed through an exclusive distributorship of T3 Motion Africa (MGN Group). It is important to note that the letter is signed by Mr Nala as MD of T3 Motion. The letter further contains the address 90 Darwin Street, Wendywood, Sandton which is the same address as Zabo Creations as reflected on their invoice provided as will be discussed herein below;
 - iii. The bid document contained a declaration of interest form which was completed and signed by what appears to be Mr Nala on 12 April 2013. Mr

C25/3

C22/1

C25/8

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Nala answered the question contained in paragraph 2.11 “No” confirming that none of the directors, shareholders or directors of the company has any interest in any related companies whether or not they are bidding for this contract.

Minutes of Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 6 and 13 September 2013

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|-------|---|-----------------|
| 8.185 | The minutes of the CTPC held on 6 and 13 September 2013 respectively reflects that the tender for the appointment of a service provider to supply mobile transporters was again discussed. The minutes reflects that the following individuals were present at the meeting: | C14/2 |
| | i. Mr Mbatha as Chairman of the CTPC; | C14/7 |
| | ii. Dr Phungula, Mr Kobuwe, Mr Emeran, Ms Zinde and Ms Motshologane as members of the CTPC; and | C14/2 |
| | iii. Mr Khuzwayo as Head of Secretariat. | |
| 8.186 | The minutes state that the meeting was convened and adjourned on 6 September 2013 and re-convened on 13 September 2013 to conclude on some of the items. | C14/2 |
| 8.187 | The Declarations of Interests forms and Confidentiality Agreements which appear to be signed by the members of the CTPC were located on file. | C14/8-23 |
| 8.188 | We obtained the agenda for the CTPC meetings held on 6 and 13 September 2013. The agenda for the meeting on 6 September 2013 reflects that four (4) items were discussed during this meeting. The appointment of Semele is not reflected within these four (4) items. The agenda for the meeting held on 13 September 2013 reflects that 15 items were discussed during this meeting. The appointment of Semele is reflected as being discussed under item 11. It thus appears from the agendas for the two (2) meetings that additional items were added to the agenda when the meeting was reconvened on 13 September 2013. | |
| 8.189 | The minutes of the meeting reflect that the CTPC supported the recommendation, but made the following remark: “ <i>Initial confinement approval is to be included or attached to this request on final submission to GCEO</i> ”. We noted that the value of | C14/7 |

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the tender was recorded for the same amount of R18,368,640 (including VAT) as previously submitted.

8.190	The minutes appear to be signed by the Chairman, Mr Mbatha and the secretary dated 29 October 2013.	C14/1
8.191	We were provided with a SCM Recommendation Report submitted to the GCEO which was signed by Dr Phungula in his capacity as Acting CPO, dated 8 October 2013. We noted the following from our review of the report:	C15
	i. The content of the report is similar to the information as contained in the adjudication report referred to herein above;	C13
	ii. We noted that the report reflects that the approved budget under paragraph 7 is recorded as R7,410,000 as previously referred to herein above. The report is silent on the confirmation of the budget amount and further clarity as requested by the CTPC as noted during the meeting held on 30 May 2013. We further noted that the “ <i>initial confinement approval</i> ” is not included in the submission to the GCEO as requested by the CTPC during the meeting held on 13 September 2013 as provided for;	C15/6 C15/8
	iii. It should be noted that paragraph 8 indicates that “ <i>Corporate Security has done the security screening and the report confirmed that there is not risk involved in doing business with Semele Trading Enterprise</i> ”. This does not correspond to the results of the screening report, referred to herein above, which indicates that the entity should be closely monitored should they be awarded the contract; and	C15/8
	iv. The report appears to be signed by Mr Montana, the GCEO, dated 13 November 2013 as Approved.	
8.192	A SCM Tender Advice was issued to Mr Mukwevho and Ms Leburu-Tsawane by the CTPC Secretariat. The Tender Advice indicates that the appointment of Semele has been approved on 13 November 2013 in the amount of R18,368,640 (including VAT). The Tender Advice was signed by Ms Mosholi in her capacity as Senior Manager Procurement and Tendering, SCM.	C16
8.193	On 15 November 2013, Semele was notified of their appointment as a service	C17

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provider for the provision of three-wheeled mobile transporters in the amount of R18,368,640 (including VAT). The notice states that Semele must communicate their acceptance of the appointment in writing before 20 November 2013. The notice was signed by Ms Mosholi.

C17/2

- 8.194 Semele confirmed their acceptance of the appointment in a letter dated 17 November 2013. The letter appears to be signed by Mr Nala who, according to the Inoxico search performed, is the sole principle of Semele.

C18

Sale and Purchase of Goods Contract signed 19 November 2013

C19

- 8.195 We obtained the contract entered into between PRASA and Semele from Mr Khuzwayo on 20 July 2016. The contract reflects that the contract period was from 15 November 2013 to 14 October 2016 with the contract amount reflected as R18,368,640 (including VAT).

- 8.196 The contract appears to be signed by Mr Nala on behalf of Semele dated 19 November 2013 and Mr Montana on behalf of PRASA on the same day.

C19/34

- 8.197 A payment schedule is included as in annexure A to the contract and reflects the following:

C19/37

Description	Invoice amount (excluding VAT) (R)	Dates of payment
Mobilisation Fee 50%	9,184,320.00	15 December 2013
Delivery of 5x T3i patroller	1,710,780.00	25 March 2014
Delivery of 14x T3 Vision mobile Transporter	1,260,840.00	30 April 2014
45x T3i patroller	6,212,700.00	15 May 2014

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8.198 Annexure B contains two (2) quotations provided by Semele to PRASA for the provision of the mobile transporters. The first quotation is reflected as follows:

**C19/39 -
40**

Description	Quantity	Unit Price (R)	Total (R)
T3i series Mobile Transporter	50	158,000.00	7,900,000.00
Extra Power Modules (Batteries)	100	22,100.00	2,210,000.00
Sunshades	25	38,000.00	950,000.00
Months of full service and maintenance	24	4,999.00	5,998,800.00
Training of trainers and accreditations	20	1,500.00	30,000.00
Supply and deliver of certificates	200	95.00	19,000.00
Grand Total			17,107,800.00

8.199 The second quotation is reflected as follows:

C19/40

Description	Quantity
Supply, and deliver Sageway mobile transporter	14
Training of trainers	20
Supply certificates for the competency of personnel	100
Grand total	R1,260,840.00

8.200 The total of the two (2) quotations amounts to the full contract amount of R18,368,640. We were not provided with any additional information pertaining to how the total amount of the second quotation is apportioned between the three (3) items listed on the quotation.

8.201 Based on the RFP provided to us, we were unable to determine the reason for the inclusion of the 14 “Sageway” mobile transporters in the quoted amount as the RFP makes no reference to the provision of these additional 14 mobile

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transporters. We further have not been provided with the financial proposal submitted by Semele to verify whether the tender submitted included these items or details relating to the maintenance of the units. (Mr Japhta confirmed that the 14 Sageways were delivered as will be referred to in further detail below).

8.202 It is further significant to note that the amount included for maintenance per scooter for a 24 month period amounts to R119,976. (R4,999 per month x 24) and appears to be excessive.

8.203 Mr Khuzwayo indicated that the contract was drafted by DM5 Incorporated, a law firm which assisted PRASA in drafting contracts.

8.204 We noted from the Request for WBS Number form, dated 27 November 2013, that an amount of R130,000,000 is allocated to the Corporate Security Department as a budgeted amount. The amount of R18,368,640 (including VAT) would be utilised from this budget.

C20

Project Change Request form dated 28 November 2013

C21

8.205 We obtained the request submitted by the Corporate Security Department to the EPMO to approve a change in the budget of the “*Mobile Transporters*” project. The form reflects that the EPMO received the request on 28 November 2013.

8.206 The request includes a background on the project which states that the mobile transporters will “*serve as a force multiplier to reduce the need for physical security resources in combating crime within the operational environment*”.

8.207 The request further states in paragraph 1.2.4 that “*The department made its submission to SCM and a reputable service provider was appointed for the supply and deliver of the mobile transporters. The response however came at a higher price as what was budgeted for. The variance on the budgeted amount is R11,868,640.00*”.

8.208 The recommendation, contained in paragraph 2 of the request, states that “*the amount of R11,868,640.00 for mobile transporters be sourced from the Asset Protection Project Technology for Yards and Depots with a current budget of R25,120,823.00. It is estimated that only twelve million will be spend against this*

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budget by the end of March 2014”.

8.209 The form appears to be signed by Mr Japhta as Project Manager and Mr Matakata as Project Sponsor on 27 November 2013. The form also appears to be signed by Mr Piet Sebola (**Mr Sebola**) as Approved on 28 November 2013.

c) Review of Variation Orders

8.210 No variation orders were noted in respect of this contract.

d) Interviews conducted

Interview with Mr Japhta

8.211 Mr Japhta provided the following information as far as it relates to Semele:

- i. He explained that the reason for a confinement as opposed to an open tender process being followed was that there was an urgency to obtain mobile security for the railway platforms;
- ii. The three (3) wheel mobile transporters were preferred to the two (2) wheeler mobile transporters for safety purposes in that they are sturdier and the guards are less likely to “fall over”;
- iii. Mr Japhta stated that a limited supplier database was available at the time and thus when entities were requested to quote, they were requested to complete vendor forms upon submission of their quotes. He further stated that since January 2016 PRASA has been making use of the Treasury supplier database;
- iv. Semele was known to PRASA as they previously provided PRASA with firearms during 2012 or 2013. However, Mr Japhta indicated that his relationship with Semele / Mr Nala is based on a client/business relationship;
- v. Semele is based in Johannesburg but also has an office in Durban;
- vi. As previously stated Mr Japhta drafted the RFP including the specifications following internet based searches. He further indicated that there was no specialist to consult with and provide assistance to him. The RFP was

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provided to the prospective bidders without any review being performed on the specifications included therein;

- vii. No BSC existed at the time to critique the specifications drafted by Mr Japhta;
- viii. Mr Japhta is unaware of the process followed where the prices of the bids received are significantly higher than the original estimate approved;
- ix. He confirmed that the mobile transporters were delivered to PRASA House Hatfield whereafter they were allocated asset numbers and distributed to the other PRASA divisions; and
- x. Mr Japhta indicated that the mobile transporter provided by Semele were not regularly serviced and were only serviced when required. (However the Annexure B document that was attached to the sale and Purchase of Goods Contract we referred to herein above reflects an amount for maintenance of R4,999 per unit for the 24 months, totalling a cost of R119,976 per unit. This appears to be excessive and was not a requirement in terms of the RFP).

C19/39-40

Interview with Mr Matakata

- 8.212 Mr Matakata stated that this contract was awarded prior to his appointment as the Head Group Corporate Security. He however confirmed that the mobile transporters were delivered although to his knowledge not within the agreed timeframe.

Interview with Mr Brian Mpanza

- 8.213 We met Mr Brian Mpanza (**Mr Mpanza**), the owner of Zabo Creations CC (**Zabo Creations**), one (1) of the entities that were invited to the tender briefing for this contract. Their offices are located at 90 Darwin Street, Wendywood, Sandton which is the same address used by Semele herein above. We will briefly refer to the information he provided as far as it relates to this contract:

C25/3

- i. He stated that Zabo Creations is an importer of the T3 mobile transporters from the United States of America;

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- ii. Mr Mpanza confirmed that Zabo Creations attended the tender briefing session at PRASA on 9 April 2013 together with other service providers such as Mr Brian Gwebu from Phumulela Fleet Operations. He informed us during our interview that Mr Brian Gwebu has passed away;
- iii. Mr Mpanza stated that he decided not to tender for this project as he felt that he would not be successful and it was thus not worth tendering. He further added that Zabo Creations has never provided any services to PRASA;
- iv. He stated that he knows Semele as a supplier of mobile transporters and has previously worked with them. He however stated that he has no relationship with Semele and that they are not using the same address. He indicated that according to his knowledge, Semele is based in Bryanston and was unable to state why Semele was using his business address;
- v. Mr Mpanza mentioned that he has provided mobile transporters to various other entities, including the South African Police Service (**SAPS**). He provided us with an invoice he prepared for the SAPS dated 13 September 2012. The invoice relates to the provision of 12 mobile transporters to the total amount of R1,542,105.27 (excluding VAT) and at a unit price of R128,508.77 (excluding VAT) that is significantly lower than the units provided by Semele. The invoice reflects the product code as “*T3 I-Series*”. The product description is reflected as:
 - “Electric Stand-Up Tri-cycle*
 - Supplied with, Built in CCTV*
 - Charger Units*
 - Black Pannier Bag*
 - Helmets*
 - Blue Emergency Lights*
 - Operating Manual DVD*
 - Training Manual DVD”; and*
- vi. We have further requested Mr Mpanza to comment on the price for

C22

maintenance for these units. He has however not provided us with a comment in this regard.

Interview with Mr Russell Pratt

- 8.214 Mr Russel Pratt (**Mr Pratt**) is an employee at Fleet Africa and he attended the briefing session at PRASA on behalf of Fleet Africa. During our telephonic and electronic communications he provided the following information regarding this contract:
- i. He confirmed that Fleet Africa was invited to attend a briefing session for the provision of mobile transporters at PRASA;
 - ii. Mr Pratt stated that during the tender briefing session he got the impression that the winning bidder had already been decided;
 - iii. He stated that upon discussion with management regarding submitting a tender for this contract it was decided that it would not be worth their while to submit a proposal; and
 - iv. We have requested Mr Pratt to provide us with a price for these units, but has not provided the information as requested.

Interview with Ms Caren Cosgrove

- 8.215 Ms Caren Cosgrove (**Ms Cosgrove**) is employed as Sales Consultant within the ABSA Vehicle Management Solutions Department. During our telephonic and electronic communications with Ms Cosgrove she confirmed the following:
- i. Ms Cosgrove attended the briefing session at PRASA on 9 April 2013;
 - ii. She received the RFP for the bid at the tender briefing session; and
 - iii. ABSA were of the view that due to the costs of the batteries of the mobile transporters, maintenance costs would be too high and "*it would not make business sense*" to submit a proposal.
- 8.216 Ms Cosgrove provided us with a document which details the reasons why they did not submit a tender for the provision of mobile transporters.

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Interview with Mr Mbatha

8.217 Mr Mbatha is employed as CIO for PRASA Corporate and reports to the GCEO. Mr Mbatha was the CPO from 2011 to October 2014, during which he was a member of the CTPC and Chairperson of the CFSC. We will briefly refer to the information he provided as far as it relates to Semele:

- i. Mr Mbatha stated that the Security Department makes use of the confinement process often with their reasoning being the confidentiality and specialisation of services required by them;
- ii. He was unable to provide clarity as to why tender evaluations occurred subsequent to the first time this contract was submitted to the CTPC for adjudication;
- iii. Where a CTPC meeting is adjourned and reconvened on another day, the agenda should not change. However, if the agenda does change this should be communicated to the Chairperson;
- iv. He stated that the original estimated budget for all contracts are “arbitrary” and rarely corresponds to the final contract amount; and
- v. Mr Mbatha stated that during the CTPC meeting where this matter was adjudicated, he noted that these mobile transporters appeared to be quite expensive but as only one (1) bid was received, there was no comparative quotes.

Interview with Ms Monkwe

8.218 Ms Monkwe is employed as Secretary of the Bid Adjudication Committee (**BAC**) and reports to Mr Khuzwayo. We will briefly refer to the information she provided as far as it relates to Semele:

- i. Ms Monkwe indicated that in instances where a CTPC meeting is adjourned and reconvened on a different date, the agenda rarely changes. It is however possible that additional items will be added to the agenda of the reconvened meeting.

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Interview with Ms Leburu-Tsawane

- 8.219 Ms Leburu-Tsawane is employed as a Sourcing Specialist for PRASA Corporate and reports to Ms Mosholi. We will briefly refer to the information she provided as far as it relates to Semele:
- i. Ms Leburu-Tsawane indicated that subsequent to receiving only one (1) bid, she was instructed by Ms Mosholi to continue with bid evaluations as normal;
 - ii. Her first involvement in the procurement process of Semele was the email correspondence on 13 March 2013, she thus has no knowledge as to why the confinement process was followed;
 - iii. Ms Leburu-Tsawane confirmed that the mobile transporters were transferred in ownership to PRASA and were not subject to a long-term lease; and
 - iv. She stated that during the bid evaluations the respective SCM representative is required to ensure that all Confidentiality Agreements and Declarations of Interest are signed by all the BEC members.

Interview with Mr Emeran

- 8.220 Mr Emeran is employed as a General Manager: Strategic Network Planning for PRASA and reports to Mr Sebola, the Group Executive: Strategic Asset Development. We will briefly refer to the information Mr Emeran provided as far as it relates to Semele:
- i. Mr Emeran indicated that where a CTPC meeting is adjourned and reconvened, two (2) separate sets of minutes should be drafted with the second set indicating that it is a continuation of the previous meeting. Ideally in situations such as these no new items are added to the agenda, but where they are the CTPC members will be notified of said changes prior to the meeting;
 - ii. He recalls that the CTPC raised concerns in respect of the pricing and maintenance of the mobile transporters. He stated that their concern

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relating to the pricing was due to them being unable to determine if the price was fair and reasonable due to there being no comparative quotes; and

- iii. During the CTPC meetings, the end-user department and the BEC should be available to answer any questions raised by the CTPC or to provide any additional clarification as required.

Interview with Mr Mantsane

8.221 Mr Mantsane provided the following information as far as it relates to Semele:

- i. He stated that according to his knowledge Semele was the only entity that could provide the three (3) wheeled mobile transporters at the time;
- ii. PRASA Corporate preferred the two (2) wheeled mobile transporters while the other regions preferred the three (3) wheeled mobile transporters;
- iii. Mr Mantsane confirmed that subsequent to Mr Japhta drafting the specifications he perused it;
- iv. He stated that during 2014/2015 there was a need to procure more mobile transporters. He further stated that the Security Department wanted to rely on the “as and when required” basis of the contract with Semele to procure these mobile transporters without having to follow a procurement process. According to his knowledge this was not approved; and
- v. Mr Mantsane indicated that the vetting unit within the Security Department performs the security screenings. The vetting unit will make a recommendation based on the results and SCM may use their discretion whether to follow the recommendation or not. Mr Mantsane confirmed that no re-screening is performed.

Interview with Ms Mosholi

8.222 Ms Mosholi provided the following information as far as it relates to Semele:

- i. She stated that she would draft the Notice to Proceed or Notice of Appointment after the GCEO or CPO approval;

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- ii. The Tender Advice is drafted by the CTPC or CFSC secretary and currently should be signed by the Head of Secretariat;
- iii. Ms Mosholi provided us with a Notice to Proceed template which she made use of when she drafted notices to contractors. She explained that the Notice of Appointment was used until August 2014. The Notice to Proceed then replaced the Notice of Appointment. The difference between these two (2) relates to the paragraph informing the contractor that “*formal contract documents will be concluded within 60 days and you will be advised regarding the signing thereof. The letter of acceptance and your offer shall constitute a binding agreement between Passenger Rail Agency of South Africa (PRASA) and yourselves*”;
- iv. She stated that a confinement is often preferred by the end-users to circumvent the procurement process. The confinement only needs to be motivated by the end-user and must be approved by the GCEO. No further approvals or motivations are required;
- v. Ms Mosholi confirmed that there is no formal policy relating to the receipt of only one (1) bid during the tender process. She mentioned that if no tenders are received following a confinement the tender would then be advertised and follow an open bidding process. Where only one (1) tender is received the evaluation process will proceed;
- vi. She stated that Form C and Form H which is included in the tender documents, should be completed by the bidder, is sent to the Security Department to perform a security screening. The Security Screening Report containing the results of the security screening is sent back to the requestor. Where risks or judgements are identified in the report the procurement official will then contact the bidder to clarify and determine if the judgement has been settled. The bidder is then required to submit proof of payment of a judgement to the procurement official who will send it back to the Security Department. The Security Department will rescind the previous report and re-issue an amended report based on the information provided;
- vii. She recalls that Semele provided proof of payment of the judgement; and

B18

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- viii. She explained that where there is an increase in the contract amount from the amount originally approved by the EPMD, the end-user would have to submit a motivation to the EPMD to approve the additional funding.

Interview with Mr Maletswa

- 8.223 During the period in which Semele was appointed, Mr Maletswa was employed as a Senior Manager: Security Strategy for PRASA Corporate and reported to Mr Mantsane, who was the Group Head Security at that time. Mr Maletswa stated that he had no involvement in this project other than performing the security screening which he performed for various contracts.

Interview with Mr Mukwevho

- 8.224 Mr Mukwevho is employed as General Manager: SCM and reports to the CPO. We will briefly refer to the information he provided as far as it relates to Semele:
- i. Mr Mukwevho stated that his area of expertise relates to fleet management. He stated that it is possible that he provided the contact details for Fleet Africa, ABSA Fleet and Phumelela Risk to Mr Japhta. He confirmed that Mr Gwebu, the owner of Phumelela Risk passed away in December 2014;
 - ii. He stated that he has never come across Semele in the fleet space;
 - iii. Mr Mukwevho mentioned that according to Semele they are the sole distributors in South Africa for the three (3) wheel mobile transporters;
 - iv. He was unable to recall whether the BEC consisted of three (3) or four (4) members; and
 - v. Mr Mukwevho indicated that it is unlikely that a bid would be evaluated twice especially where only one (1) entity responded.

e) Verification of services

- 8.225 During our interview with Mr Japhta, he confirmed that 64 mobile transporters (14 Sageway and 50 T3 Motion three-wheelers) were delivered to PRASA House, Hatfield as opposed to the fifty T3 Motions three-wheelers requested. Mr Japhta

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stated that they were allocated asset number and distributed to the other regions. Mr Japhta provided us with an asset register for all the mobile transporters delivered to PRASA as well as their respective asset numbers. Mr Japhta indicated that delivery notes were received upon delivery of the mobile transporters, but that he has been unable to locate these delivery notes.

- 8.226 Subsequent to our interview with Mr Matakata, he arranged for one of the security guards to bring the mobile transporter for us to inspect as depicted in the photographs below (The security guard who presented the mobile transporter for our inspection confirmed that he had undergone training from the service provider and gave a short presentation on the usage thereof).



Findings

- 8.227 Detailed below is a summary of significant findings from the investigation into the awarding of the contract to Semele for the supply of 50 mobile transporters:
- i. The tender for the supply of 50 mobile transporters was awarded to Semele following a closed bidding process;
 - ii. On 10 January 2013 a request was sent to the GCEO by the Head Group Corporate Security regarding the need to confine the appointment of a

C3

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- service provider to provide 50 mobile transporters to improve the effectiveness of security at PRASA. This was approved by the GCEO on 27 February 2013;
- iii. We noted from the memorandum dated 10 January 2013 that the details of seven (7) entities were listed as providers of mobile transporters. The expected expenditure was recorded as R7,410,000 (including VAT);
- iv. On 27 March 2013 letters were sent to the seven (7) entities wherein they were invited to attend a briefing session which was to be held on 9 April 2013 at 10:00. We noted from our review of the attendance register of the briefing session that the meeting was attended by representatives of five (5) of the entities, including Semele as part of the MGN Group;
- v. The RFP provides for the supply of 50 mobile transporters and lists a number of specifications on the document. The specifications include three (3) wheeled mobile transporters with a canopy/shade with additional specifications relating to lights, batteries and other removables. Mr Japhta confirmed that he drafted the specifications based on Internet based searches. The specifications were not reviewed and were not approved by the BSC as it was not in place at the time;
- vi. The tender opening register dated 29 April 2013 reflects that only Semele submitted a bid. Mr Mpanza from Zabo Creations attended the tender briefing. He stated during our interview that he decided not to tender for this project as he felt that he would not be successful and it was thus not worth tendering. Mr Pratt of Fleet Africa told us that during the tender briefing meeting he got the impression that the winning bidder had already been decided. We determined that ABSA Vehicle Management Solutions also did not submit a bid as they were of the view that it did not make business sense to respond to the tender "*due to the fact that the replacement battery of the Segway... cost almost as much as the Segway*". It appears that the specifications were drafted in such a manner to only suit distributors of the T3 Motion mobile transporters;
- vii. From the minutes of the CTPC held on 30 May 2013, we noted that the
- C5**
- C6**
- C7/3-4**
- C8**
- C9**
- C23/1**

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contract amount is reflected as R18.368,640 (including VAT) for a contract period of two (2) years as and when required. The matter was not supported by the CTPC at this meeting. It is significant to note that this is an increase of R10,958,640 (147,89%) from the initial approved budgeted amount. It is further important to note that this amounts to R367,372.80 (including VAT) per mobile transporter. We were not provided with any documentation which illustrates that the bid was evaluated prior to this CTPC meeting;

viii. On 11 September 2013 the BEC was appointed to evaluate the bid. We noted from our review of the documentation provided that the evaluation for compliance was completed for Semele on the same day and reflects that all compulsory documentation was submitted by Semele. They further met the technical threshold of 70% with a score of 81%. (Mr Japtha was appointed as a member of the BEC);

C12

iv. The Submission for Adjudication report reflects under paragraph 1 on page 2 of the document that Semele is a subsidiary of T3 Motion Incorporated in the USA and the sole distributor of T3 products in South Africa. Under paragraph 13, the following recommendation is recorded:

C13

“The tenderer is the sole source distributor of T3 in the country. The only one known source that can meet the PRASA Mobile Transport needs.

The Corporate Tender Procurement Committee is hereby sought to appoint Semele Trading Enterprise (MGN Group) to provide mobile transport T3 in the total amount of R18 368 640.00 including VAT”.

This appears to be a misrepresentation as Mr Mpanza of Zabo Creations has confirmed that they are also a distributor of T3 products in South Africa;

ix. The CTPC supported the recommendation in a meeting held on 6 and 13 September 2013. The Recommendation Report appears to be signed by Dr Phungula in his capacity as Acting CPO on 8 October 2013, and by Mr Montana as GCEO on 13 November 2013 as Approved;

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|-------|--|------------|
| x. | We however noted that the initial confinement approval by the GCEO was not included in the submission to the GCEO as requested by the CTPC. Semele was notified of their appointment on 15 November 2013 for the provision of three (3) wheeled mobile transporters in the amount of R18.368,640 (including VAT) which was accepted by Semele on 17 November 2013; | C3 |
| xi. | A Sale and Purchase of Goods Contract was entered into between PRASA and Semele on 19 November 2013 for the contract amount of R18.368,640 (including VAT). We noted from our review of the contract agreement that the payment schedule is attached as annexure A to the contract together with annexure B which contains two (2) quotations provided by Semele for the provision of mobile transporters. It is important to note that the first quotation reflects the details of 50 T3i series mobile transporters with additional items such as extra power modules (batteries), sunshades and provision for monthly full service and maintenance. The second quotation reflects the details of the supply and delivery of 14 Sageway mobile transporters and was not included in the RFP; There were also no information regarding the maintenance for these units included in the RFP. | C19 |
| xii. | We noted from annexure B that Semele quoted R158,000 (including VAT) per unit and have included a number of additional items. It is significant to note that Semele quoted an amount of <u>R4,999</u> for full service and maintenance <u>per unit per month</u> for the period of 24 months. This amounts to R119,976 (including VAT) for maintenance per unit, totalling R5,998,800 (including VAT) for the 50 units for the period of 24 months. This amount appears to be excessive. It is significant to note that Mr Japhta stated that these units were not regularly serviced and were only serviced when required; | |
| xiii. | We have attempted to test the market by contacting the other entites who were invited to attend the briefing session to obtain an indication of what they would have quoted had they submitted a bid. As at the date of this report, we were unable to obtain the costing from the other entities except that provided by Zabo Creations. Mr Mpanza of Zabo Creations provided | C22 |

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an invoice dated 13 September 2012 issued to the SAPS that reflects the cost per unit as R128,508.77 (excluding VAT), which amounts to R149,428.80 (including VAT). Mr Mpanza was further requested to provide details relating to the maintenance costs for these units but has not done so;

- xiv. We determined from our interview with Mr Mpanza and the information provided by him that he is also a distributor of T3 Motion mobile transporters and hence Semele is not the sole supplier as stated in the submission. It is further significant to note that the business address of Zabo Creations at 90 Darwin Street, Wendywood, Sandton, is the same as the address details provided by Semele. Mr Mpanza however stated that they are not related;
- xv. We determined from the asset register provided to us by Mr Japhta that PRASA received 64 units from Semele which corresponds to the two (2) quotations included in the contract which refers to the 50 T3 Motion mobile transporters and 14 Sageway mobile transporters; and
- xvi. We determined from our review of the payment data and documentation provided to us that Semele received five (5) payments totalling R18.368,640 (including VAT) which agrees to the contract amount for the units provided. There were no VOs issued in respect of this contract.

**C2/6-7,
C22/1,
C25/3**

C24

C2

Conclusions

- 8.228 The specifications for the procurement of the mobile transporters were drafted based on internet searches conducted by Mr Japhta and was not approved by the BSC as it was not in effect at the time. This resulted in the specifications only suiting distributors of the T3 Motion mobile transporters. It is further supported by the fact that only Semele submitted a bid. Mr Mpanza from Zabo Creations attended the tender briefing. He stated during our interview that he decided not to tender for this project as he felt that he would not be successful and it was thus not worth tendering. Mr Pratt of Fleet Africa stated that during the tender briefing meeting he got the impression that the winning bidder had already been decided.

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- 8.229 The confinement approval indicated a budgeted amount of R7,410,000 (including VAT) which was approved by the GCEO. Upon submission of the tender from Semele, the CTPC approved a contract amount of R18,368,640 (including VAT). This is an increase of R10,958,640 which amounts to 147,89% above the initial approved budgeted amount and appears to be irregular. Paragraph 10 of the SCM Policy provides for the requirements to perform a needs assessment and includes aspects such as budget availability and specifications.
- 8.230 It is important to note that aspects such as the maintenance for the units were not included as a requirement in the RFP but was included in the contract for payment and is irregular. The RFP further sets out the requirement to provide 50 mobile transporters, whereas 50 T3 Motion mobile transporters and 14 "Sageway" mobile transporters were provided. Mr Japhta as a representative of the end-user department was a member of the BEC and responsible to ensure that the tender submitted by Semele was in line with the specifications as recorded in the RFP. Paragraph 3 of the PPP Regulations further provides that an organ of the state must, prior to making an invitation for tenders (a) "*Properly plan for, and, as far as possible, accurately estimate the costs of the provision of services*".
- 8.231 Annexure B attached to the contract reflects that Semele quoted R158,000 (including VAT) per unit and have included a number of additional items. Semele further quoted an amount of R4,999 for full service and maintenance per unit per month for the period of 24 months. This amounts to R119,976 (including VAT) for maintenance per unit, totalling R5,998,800 (including VAT) for the 50 units for the period of 24 months. This amount appears to be excessive. It is significant to note that Mr Japhta stated that these units were not regularly serviced and were only serviced when required. Details of service intervals could however not be provided.

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Recommendations

- 8.232 The specifications for all prospective contracts should be drawn up and approved by the BSC committee to ensure that the specifications are fair and address all the requirements of the respective end-user department.
- 8.233 PRASA should consider taking disciplinary action against Mr Japhta as the end-user and member of the BEC for his failure to ensure that the tender submitted by Semele agree with the specifications as provided for in the RFP. He further failed to give a proper cost estimate that was exceeded by 147.89%.
- 8.234 National Treasury should consider further investigation into the appointment of Semele as a result of the misrepresentations that were made regarding the tender that was submitted in respect of the mobile transporters as a sole supplier. The investigation should further include an analysis and further review of the maintenance costs that were charged by Semele per unit, which was not included in the RFP, with the view to determine if there is sufficient evidence to support criminal proceedings as a result of the alleged conduct.
- 8.235 PRASA should implement a system where all procurement related documents are filed in a safe and secure environment with a register to control the movement of the procurement files. Important documents, such as the financial bid documents which could not be found, and procurement files must be kept for a prescribed period. The price proposal is of significant importance in this situation as the mobile transporters delivered does not correspond with what was requested.

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C. The appointment of Scheme Security Services with a target value of R16,697,583.76 for the period 1 April 2013 to 31 August 2015

8.236 An Inoxico Report drawn on Scheme Security Services CC (**Scheme**) with registration number 2002/031502/23 reflects that the said entity was registered on 26 April 2002. The current Active Principals are listed hereunder:

- i. Innocent Mncube with ID 690628 5817 088 appointed on 26 April 2002; and
- ii. Valeria Lifa Mncube with ID 930105 1316 084 appointed on 4 July 2011.

a) Review of payments made by PRASA

8.237 We requested a list of all payments made by PRASA to Scheme. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system.

8.238 We ascertained from the above mentioned analysis that Scheme had received payments from PRASA for the period 15 May 2013 to 30 April 2016 as summarised in the table hereunder:

Name of supplier	Total number of payments made	Amount (R)
Scheme Security Services	31	18,819,385.62

8.239 Mr Phori confirmed in an email dated 29 August 2016 that no payments were made to Scheme prior 15 May 2013. Mr Phori further confirmed in an email dated 31 August 2013 that Scheme was not paid from any other business unit other than PRASA Corporate according to the data available to him.

8.240 We requested and obtained one (1) payment pack from PRASA as example of the documents forming part of the approval process.

8.241 The payment pack includes the following documents:

- i. The remittance advice, dated 8 March 2016 reflects an amount of R746,372.82, which is made up of two (2) invoices;

D1

D1/6

D2

D2/3-4

D2/5-6

D2/7

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|------|--|-----------------|
| ii. | The creditors reconciliation is dated 7 October 2015 and reflects the total payment to be made to Scheme as R746,372.82. The reconciliation is prepared and signed by what appears to be Dumisile Sithole and reviewed and signed by what appears to be Mr Phori. This amount agrees to the amount as per the remittance advice; | D2/8 |
| iii. | The extract from the SAP creditors ledger reflects the two (2) supplier invoices' amounts and the total amount as R746,372.82; | D2/9 |
| iv. | A supplier invoice is included for each delivery as detailed in the extract of the SAP creditors ledger referred to herein above; | D2/10-11 |
| v. | The supplier statement of account dated 31 January 2016 is included in the payment pack reflecting the invoices due for payment; and | D2/12-13 |
| vi. | The purchase requisition was attached to the payment pack confirming that payment can be made to Scheme. | D2/14-15 |

b) Procurement Review

8.242 We have referred to the security contracts that were procured prior to 2012 herein above when we discussed the appointment of Ilanga. Based on our preliminary investigation we determined that Scheme was one of the service providers that were appointed to provide security services to PRASA prior to 2012 that has subsequently been extended. We were provided with documentation relating to various extensions as will be discussed hereunder.

8.243 We determined that PRASA awarded the contract to Scheme that has subsequently been extended as listed hereunder (each of these extensions will be discussed in further detail below):

- 1) The appointment of Scheme to provide security services for a period of 11 months from 1 February 2012 to 30 November 2012 (amount not specified);
- 2) The extension of scope to provide security services from December 2012 to July 2013 for an amount of R1,812,600 (including VAT);
- 3) The condonation to provide security services for the period April 2013 to May 2014 for an amount of R12,054,515.04 (including VAT); and
- 4) The extension of scope to provide security services on a month to month

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basis for an amount of R832,022.16 (including VAT) per month.

1) The appointment of Scheme to provide security services for a period of 11 months from 1 February 2012 to 30 November 2012 (amount not specified)

Contract Agreement dated 25 April 2012

8.244	The Corporate Security National Contract Document entered into between PRASA and Scheme appears to be signed on 25 April 2012 by representatives of both Scheme and PRASA along with three (3) witnesses. According to the agreement the contract number is "PRASA/CS/CRES – GP/2012/02".	D3 D3/52
8.245	The agreement consist of 52 pages. We deem it necessary to refer to certain sections of this agreement.	
8.246	Under "Preamble" on page 8 the following is stated " <i>This agreement is an umbrella agreement for the provision of the Security Services at the Sites to be agreed upon between the parties. The contractor and the Client shall hereinafter enter into Individual Agreements in respect of Business Units of the Client for Particular individual Sites where Security Services are to be provided under the terms and conditions of this Agreement together with any special conditions required by the Client and included in the Individual Agreements(s).</i> <i>The security services to be provide by the contractor are as outlined in the Request for Proposal (RFP) issued by the Client</i> ".	D3/8
8.247	It is important to note that we were not provided with the RFP that was issued by the client as stated in the agreement.	
8.248	The Contract Agreement under paragraph 1.22 reflects the commencement date as 1 February 2012 and end date as 30 November 2012, which is a period of ten (10) months. It is important to note that paragraph 5 of the agreement deals with commencement, duration and renewal and stated under paragraph 5.2 that " <i>The duration of this contract is 12 months from commencement date</i> ".	D3/6 D3/13
8.249	Under paragraph 3.2 the agreement refers to the number of guards, horses and	D3/8

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equipment provided as listed in the attached schedule of “*Quantities and Rates*”.

The agreement states that “*The number of guards required in terms of the agreement is subject to change as a result of continuous risk*”.

8.250	<p>The agreement refers to the resolute conditions that had to be complied with in paragraph 4, some which are listed hereunder:</p> <ul style="list-style-type: none">i. The submission of registration certificates for the contractor, the directors and employees at the PSIRA (paragraph 4.1.5);ii. Proof of SASSETA registration and a Competency Certificate for training completed or proof of accreditation of the trainer (paragraph 4.1.7);iii. For all security personnel the following must be submitted:<ul style="list-style-type: none">a. Training certificate in the PSIRA grades (paragraph 4.1.8.2); andb. SASSETA training certificate for the Grades A, B, C or D (paragraph 4.1.7).iv. For armed guards a fire arm competency certification and results of training on shooting must be submitted (paragraph 4.1.8.4).	D3/10
8.251	<p>According to paragraph 6.18 additional security personnel will only be provided if there is an official written request from a duly authorised manager. An authorised manager is defined in paragraph 1.7 as “<i>Protection Services Regional Security Manager in the employ of Client being authorised by the Head Corporate Security</i>”. It was further stated that no payment shall be effected if additional security personnel were provided without authorisation.</p>	D3/19
8.252	<p>The agreement deals with remuneration and paragraph 17.1 provides that a fixed fee shall be paid to the contractor for the period of the contract (as displayed in the Schedule of Quantities and Monthly Rates).</p>	D3/30
8.253	<p>Paragraph 17.2 stated that the contractor must submit separate invoices for each site to PRASA, three (3) days after the end of each month and must be certified by the contractor and PRASA as the client as correct.</p>	D3/30
8.254	<p>Paragraph 17.3 states the following regarding the increase in the contract value “<i>An increase not exceeding the percentage increase in CPIX or 7% in the contract</i>”</p>	D3/30

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value, whichever is the least, may be negotiated on the remaining contract amount, after the completion of the first twelve months, if the statutory increase exceeds 7%”.

8.255 Paragraph 17.2.6 refers to “Annexure A” for the contract value (we have not been provided with Annexure A and are therefore unable to comment on the contract value as provided for in the annexure).

2) The extension of scope to provide security services from December 2012 to July 2013 for an amount of R1,812,600 (including VAT)

SCM Extension of Security Contracts document dated 2 October 2012

8.256 An SCM Extension of Security Contracts report relating to the extension of security contracts for various security companies for a period of eight (8) months was attached to the minutes of the CTPC meeting held on 8 October 2012.

D4/21-29

8.257 The report reflects the end-user as Corporate Security.

D4/22

8.258 Under paragraph 1 Introduction the report reads as follows:

D4/22

“1.1 During the latter part of the 2011/2012 financial year this office requested for an extension of various security contracts in preparation for the National Security Tender that was envisaged to be concluded by November 2012.

1.2 The department could not embark on the national security tender process as it needed to ensure that it made appropriate budget preparations with due consideration for PSIRA guidelines that are aligned to last's security sectoral wage determination. The current private security as guided and regulated by PSIRA, hence adequate time is required to prepare for the national security tender.

1.3 The department needed to consider and evaluate the impact of other projects such as the modernisation program that will bring about greater security efficiencies.

1.4 The delay by the Department of Higher Education and Training in the implementation of the security training program is another contributing factor as it has influence on the phase in and phase out process. This consequently

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affects the private security resource requirements”.

8.259 The scope of the work included the provision of security services within Metrorail, Main Line Passenger Services and PRASA CRES. **D4/22**

8.260 Scheme was one of the service providers recommended for extension in PRASA CRES. **D4/23**

8.261 The contract value prior to the extension and the value of the extension for Scheme, is summarised in the table under paragraph 2.2 as follows: **D4/24**

Company Name	Contract Period (12 months)	Contract Value (R)	Extension Period (8 months)	Extension Value (R)
Scheme	December 2011 to November 2012	2,565,000	December 2012 to July 2013	1,812,600

8.262 We noted from the information that the extension value was R226,575 per month (R1,812,600 / 8) as opposed to contract value which is R213,750 per month and hence an increase of 6% (R2,565,000 / 12). **D4/27**

8.263 It was recommended that the CTPC approve the extension of the security contract of Scheme for the period of eight (8) months for the extension amount of R1,812,600. There is no indication if the said amount includes or excludes VAT. **D4/30**

8.264 The SCM document appears to have been signed as Recommended by the Head of Corporate Security, Mr Mantsane, dated 2 October 2012. It should be noted that the report was not signed by Mr Mbatha as the CPO as approved. **D4/29**

Minutes and Agenda of Corporate Tender and Procurement Committee Extra - Ordinary Meeting held on 8 October 2012

8.265 The draft resolution of the CTPC meeting held on 8 October 2012 was attached to an email sent from Mr Swanepoel to Mr Khuzwayo on 30 October 2012. **D4/2-4**

8.266 The minutes indicate the following individuals were present at the meeting: **D4/3**

i. Mr Holele as Chairman;

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	<ul style="list-style-type: none"> ii. Mr Swanepoel as Secretary; and iii. Ms Motshologane, Mr Mantsane, Mr Mathobela and Ms Shezi as members. 	
8.267	Declarations of Interests which appear to be signed by the above members were located on file, except for Mr Swanepoel.	D4/16-20
8.268	In the agenda the extension of existing security contracts for Metrorail, Main Line Passenger Services and PRASA Cres is listed under item number four (4).	D4/13-16
8.269	The minutes indicate that all contracts be extended for a period of eight (8) months. The total amount for the extension is recorded as R270,536,592 (including VAT).	D4/4
8.270	<p>It was resolved by the CTPC that the contracts be extended for eight (8) months, subject to the following:</p> <ul style="list-style-type: none"> i. <i>“Corporate Security to engage Metrorail, Main Line Passenger Services and PRASA Cres to ascertain and confirm in writing that sufficient funds are available to cover the extended period of the contracts;</i> ii. <i>Support by the GCEO;</i> iii. <i>Consideration by the FCIP and if supported;</i> iv. <i>Approval by the BOC”.</i> 	D4/4
	<u>Recommendation Report dated 31 January 2013</u>	
8.271	A SCM Recommendation Report was sent to the GCEO by the CPO. In this report, the CPO motivates the extension of security contracts for various security companies for a period of eights (8) months, including Scheme. The report was attached to the minutes of the CTPC meeting held on 8 October 2012.	D4/30-38
8.272	The content of this report appears to be similar to the SCM Extension of Security Contracts report we refer to herein above.	D4/22
8.273	The report is concluded with the recommendation that the GCEO approves the extension of security contracts for a period of eight (8) months from December	D4/39

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2012 to July 2013 to provide for the finalisation of the national security tender.

8.274 The report appears to be signed as Recommended by the CPO, Mr Mbatha dated 31 January 2013 and appears to be signed as Approved by Mr Montana as the GCEO dated 4 February 2012.

D4/39

8.275 The following handwritten note appears on the last page of the report together with what appears to be Mr Montana's signature:

D4/40

"Chris/Kabelo

The extension of the security contracts for the various security companies is approved for a period of 12 months. This should provide sufficient time for PRASA Corporate security to restructure the portfolio and find a suitable balance between the internal and external security provisions. We are unable to make changes this stage due to the violence and destruction of rail assets. However, the 12 month extension should be conditional on performance and that PRASA is provided with properly trained guards. These guards will also be under the command of PRASA Security and their deployment in terms of an operational plans of PRASA. The private security is not adding much value in its current form and will require mayor restructuring by December 2013".

Tender Advice dated 4 February 2013

8.276 We were provided with a SCM Tender Advice for the extension of security contracts for a period of 12 months. The date of approval is reflected as 4 February 2013. We noted that Scheme was listed under PRASA Cres as one of the service providers for the contract value of R2,718,900. (This amount has correctly been adjusted for a period of 12 months as opposed to eight (8) months as initially requested at R226,575 per month).

D5/1-2

8.277 The following information relating to Scheme is summarised in the Tender Advice:

D5/2

PRASA CRES			
Company	Region	Contingent	Contract Value (R)
Scheme Security	Gauteng	25	2,718,900

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8.278	<p>The Tender Advice appears to be signed by Ms Mosholi in the capacity as Procurement Manager, SCM.</p> <p><u>Submission for condonation dated 12 March 2014 as a result of contract amounts that were changed</u></p>	D5/2
8.279	<p>Mr Japhta provided us with a SCM Submission for Condonation which appears to have been signed as Requested by Mr Matakata dated 12 March 2014, as Supported by Dr Phungula dated 18 March 2014 and as Approved by Mr Montana dated 1 April 2014.</p>	D6 D6/4
8.280	<p>The submission details the background of the request for condonation and states under paragraph 1 as follows: <i>“During the process of communicating the extensions to the various service providers a decision was then taken by the former Head of Corporate Security to restructure the security services rendered by the different companies. This consequently resulted in the complements for some service providers being reduced and some contracts particularly for PRASA CRES environment being terminated”</i>.</p>	D6/1
8.281	<p>The details of the original approvals <i>versus</i> the changes that were made is provided, which includes changes to the contract that was approved for Scheme. The changes to the approved contracts resulted in the Security Department being <i>“challenged with outstanding payments as the various changes are not in line with the initial extensions as approved by the GCEO and that were subsequently loaded on SAP by SCM”</i>. This resulted in contract budgets being exceeded.</p>	D6/2
8.282	<p>The writer requested the CTPC to condone the changes that have been made to the initial submission as it does not have a cost implications as <i>“the complements were move amongst services providers”</i>.</p>	D6/3
8.283	<p>The report is concluded with the following recommendation:</p> <p><i>“The Head Group Corporate Security attempted several times to schedule a meeting with his predecessor Mr K Mantsane for him to provide reasons for the changes that had been implemented. These attempts have however not bared any fruits.</i></p>	D6/3

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An investigation is however in process for the various irregularities identified and the matter will be dealt with as soon as the investigation is concluded. This will recommend that disciplinary action be taken against the official(s) responsible for the unethical change of complements and termination of services as the preliminary analyses suggest an element of unfairness on the part of PRASA”.

8.284 The submission further contains a handwritten comment that appears to have been made by Mr Montana dated 1 April 2014: **D6/1**

“Mr Matakata

The increases made in SAP should be reversed forthwith and the funds be recovered from the Managers who manipulates my approval as requested”.

8.285 We were provided with the abovementioned document subsequent to our meeting with Mr Matakata as a result of the additional information we requested for purposes of our investigation. We were however unable to meet with Mr Matakata thereafter to clarify what has transpired as a result of these instructions from Mr montana as he was suspended thereafter and was unable to meet. **D6**

3) Application for condonation to provide security services for a period April 2013 to May 2014 for an amount of R12,054,515.04 (including VAT)

Submission for Condonation dated 11 February 2014 of various security service providers

8.286 A SCM Submission for Condonation of various Security Service Providers for PRASA Corporate was attached to the minutes of the CTPC meeting held on 17 February 2014. **D7/19-22**

8.287 Under paragraph 1 Introduction the reasons for the submission reads as follows: **D7/20-21**

“1.1 In February 2013 the GCEO approved a contract extension for various security companies that addressed all security services that are rendered within the PRASA Group. Due to the fact that an EXCO decision was taken that all PRASA CRES security contracts be managed and paid at Corporate Security, this office had to administer the overall management of these

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contracts.

1.2 The submission for the extension of contracts was based on the services that were rendered by the respective service providers at the time.

1.3 During the process of communicating the extensions to the various service providers a decision was then taken by the former Head of Corporate Security to restructure the security services rendered by the different companies. This consequently resulted in the complements for some service providers being reduced and some contracts particularly for PRASA CRES environment being terminated”.

- | | | |
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| 8.288 | Scheme was one of the service providers which were affected, paragraph 1.4 states “ <i>R1-Security’s contract with PRASA CRES was terminated and its complement was transferred to Scheme Security who is now being deployed at Pretoria Station”.</i> | D7/21 |
| 8.289 | It is important to note that paragraph 1.5 states:

“ <i>None of these changes were done by means of a formal process through SCM”.</i> | D7/21 |
| 8.290 | It is further recorded under paragraph 1.6 that

“ <i>This office is now challenged with outstanding payments as the various changes are not in line with the initial extensions as approved by the GCEO that was loaded on SAP by SCM. The end result is that the respect contract budgets are exceeded due to the incorrect implementation of the extension of contracts”.</i> | D7/21 |
| 8.291 | The purpose of the submission is to seek the approval from the CTPC to condone security service providers, including Scheme, for the period April 2013 to May 2014. The condonation of Scheme included a total complement of 40 security officers at a total cost of R4,350,240. We noted that the following three (3) service providers were listed in respect of the required condonation:

i. Ilanga Security, which we refer to herein above;

ii. Advance Detachment; and

iii. Scheme. | D7/23 |

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8.292 The detail of the funding for the project for the period April 2013 to May 2014 is summarised in the table here under:

Company	Complement	Unit (R)	Condonation Value (R)
Ilanga	27	8,337.96	2,701,499.04
Scheme	40	9,063.00	4,350,240.00
Advanced Detachment	46	9,063.00	5,002,776.00

8.293 It was recommended that the CTPC approved the extension of the contract as far as it relates to Scheme for the required period with a total compliment of 40 security officers at a total cost R4,350,240.

8.294 The submission was signed as Recommended by what appears to be Mr Matakata in the capacity as Head Group Corporate Security dated 11 February 2014.

Minutes and Agenda of Corporate Tender and Procurement Committee Extra - Ordinary Meeting held on 17 February 2014

8.295 The minutes indicate the following individuals were present at the meeting:

- i. Mr Mbatha as Chairman;
- ii. Ms Monkwe as Secretary;
- iii. Dr Phungula, Mr Emeran, Ms Zinde and Mr Kobuwe as members; and
- iv. Mr Khuzwayo as Head of Security.

8.296 The minutes appear to be signed by the Chairman, Mr Mbatha and the Secretary, Ms Monkwe dated 13 March 2014.

8.297 Declarations of Interests and Confidentiality Agreements which appear to be signed by the above mentioned members were located on file.

8.298 The minutes reflects that the regularisation of various security contracts for PRASA Corporate were discussed under item number 13 and reads as follows:

D7/23

D7/2

D7/1

D7/5-18

D7/4

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“Condonation of various security providers that all PRASA CRES Security contract be managed and paid at Corporate Security. Corporate Security had to administer the overall management of these contracts”.

8.299	The above mentioned security providers which were recommended for condonation included Scheme amongst others. The total condonation value is recorded as R12,054,515.04 (including VAT).	D7/4
8.300	We noted that the CTPC resolved that the matter be deferred for the following reasons: <ul style="list-style-type: none">- <i>“On the submission the background should incorporate the story as to why changes were made.</i>- <i>What is being done to resolve this problem”.</i>	D7/4
8.301	We obtained a copy of an email from Ms Monkwe to Ms Mosholi dated 21 February 2014 titled <i>“Security Contracts Resolution from CTPC”.</i>	D8
8.302	The email reads as follows: <i>“Continuation..</i> <i>1. REGULARISATION OF VARIOUS SECURITY CONTRACT (PRASA CORPORATE)</i> <i>Matter Deferred.</i> <ul style="list-style-type: none">- <i>Background to tell a story of what happened</i><ul style="list-style-type: none">o <i>What happens beyond May 2014 to reflect a long term solution</i>o <i>How did it get to the condonation value</i>o <i>What was approved by GCEO</i>- <i>Page 2 and 4 number to tally (SIC)”.</i>	D8/1
8.303	We were unable to determine what has transpired as a result of this email and if it was sufficiently addresses for approval by the CTPC. We could not obtain the minutes of the CTPC where the extension was supported by the CTPC or any documentation which reflects that it was approved by the GCEO.	

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4) The extension of scope to provide security services on a month to month basis for an amount of R832,022.16 (including VAT) per month

Recommendation Report dated 26 March 2015

- | | | |
|-------|--|------------|
| 8.304 | Mr Japhta provided us with a copy of a SCM Recommendation Report titled “MONTH TO MONTH GROUP SECURITY CONTRACT EXTENSIONS”. The said report appears to have been signed as Recommended by Dr Phungula dated 26 March 2015 and as Approved by Mr Montana dated 30 March 2015. | D9
D9/6 |
| 8.305 | The purpose of the report is detailed under paragraph 1 and states “ <i>The purpose of this submission is to seek the GCEO’s Committee’s approval to extend the current Group security contracts on a month to month basis pending finalisation of the national security tender</i> ”. | D9/1 |
| 8.306 | The background for this report states that Corporate Security has embarked on a national tender during 2014 and the BEC is currently still evaluating the bids received. The process of evaluation is not expected to be completed before March 2015. | D9/2 |
| 8.307 | The report provides a detailed breakdown of the costs for security services per PRASA entity and for each services provider. | |
| 8.308 | The total amount for Scheme for the different PRASA entities is R832,022.16 as Scheme is only included to provide security services to PRASA CRES. | D9/6 |
| 8.309 | Mr Japhta confirmed in an email dated 22 July 2016 that Scheme is currently still providing services to PRASA Group based on the approval dated 30 March 2015 we refer to herein above. | D10 |

c) Interviews conducted

Interview with Mr Japhta

- | | | |
|-------|--|--|
| 8.310 | During our interview with Mr Japhta he confirmed the extensions of the contracts awarded to Scheme and the information relating to the security contracts as | |
|-------|--|--|

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discussed herein above:

- i. We have requested Mr Japhta to provide us with the approval of the condonation to provide security services for the period April 2013 to May 2014 as referred to herein above, but this could not be provided; and
- ii. Mr Japhta confirmed that Scheme was later appointed with other security service providers to provide services on a month to month basis and are currently still providing security services to PRASA as stated herein above.

D7

Interview with Mr Matakata

- 8.311 During our interview with Mr Matakata he confirmed the extensions of the contracts awarded to Scheme and the information relating to the security contracts as discussed under Ilanga herein above.

Interview with Mr Mantsane

- 8.312 We have referred to our interview with Mr Mantsane under Ilanga herein above, and he could not provide us with any further information as far as it relates to Scheme.

Findings

- 8.313 Detailed below is a summary of significant findings from the investigation into the awarding of the security contract to Scheme:
- i. We determined from our review of the documentation provided and interviews conducted that a number of security contracts were procured prior to 2012 and hence were in place prior to the period of our review;
 - ii. We determined that the contract awarded to Scheme has subsequently been extended as summarised in the table hereunder:

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	Period of Extension	Amount (R)
a	1 February 2012 to 30 November 2012	Unknown
b	December 2012 to July 2013	2,718,900.00
c	April 2013 to May 2014	12,054,515.04
d	Month to month extension approved in March 2015	832,022.16
Total (R)		15,605,437.20

- a. Extension period 1 February 2012 to 30 November 2012: A Contract Agreement for the appointment of Scheme to provide security services for a period of 11 months from 1 February 2012 to 30 November 2012 (amount not specified) was obtained. The Contract Agreement was signed by a representative of Scheme on 25 April 2012 and by a representative of PRASA on the same day. The Contract Agreement does not have the required schedule that sets out the contract amount and hence we were unable to determine the contract amount for the period as specified. We have not been provided with the minutes where this appointment was supported by the CTPC nor any documentation relating to the GCEO approval;
- b. Extension period December 2012 to July 2013: The extension of scope to provide security services from December 2012 to July 2013 for an amount of R1,812,600 (including VAT) was initially supported by the CTPC on 8 October 2012 for a period of eight (8) months. We noted from our review of the Recommendation Report that the GCEO had approved the recommendation for a period of 12 months on 5 February 2013 totalling R2,718,900 (we assume the date to be an error as it was Recommended by Mr Mbatha on 31 January 2013). This amount has correctly been adjusted for a period of 12 months as the initial request was for R226,575 per month for a period of 8 months, totalling R1,812,600;

D3

D4

D7

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- c. Extension period April 2013 to May 2014: The application for condonation to provide security services for the period April 2013 to May 2014 for an amount of R12,054,515.04 (including VAT) was deferred by the CTPC at the meeting held on 17 February 2014 and was not supported. We were unable to obtain the minutes of the CTPC meeting where it was discussed thereafter and/or supported as required. We further could not obtain documentation that would indicate that the request for condonation was approved by the GCEO as provided for; and
- d. Month to month extension: We could not obtain the minutes of the CTPC meeting held where the request for the extension of scope to provide security services on a month to month basis for an amount of R832,022.16 (including VAT) per month was supported. The Recommendation Report is however signed by the GCEO on 30 March 2015 as Approved.
- iii. During our meeting with Mr Japhta he confirmed that Scheme is still providing security services to PRASA based on the month to month approved that was signed as Approved by the GCEO on 30 March 2015;
- iv. It is significant to note that the extension of the security contracts were not regularly approved as required. The procurement processes for these extensions were often not followed in terms of a provisioning system as provided for in the SCM Policy and relevant legislation. This is supported by Mr Matakata in his submission dated 12 March 2014 wherein he stated that *“An investigation is however in process for the various irregularities identified and the matter will be dealt with as soon as the investigation is concluded. This will recommend that disciplinary action be taken against the official(s) responsible for the unethical change of complements and termination of services as the preliminary analyses suggest an element of unfairness on the part of PRASA”*;
- v. Based on our review of the payment data provided, we ascertained that Scheme had received 33 payments between the period 15 May 2013 to 30 April 2016 totalling R19,822,706.46 for security services rendered. We noted that similar to Ilanga, the amounts paid often do not agree with the

D9

D9/6

D6/3

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extension amounts as referred to above (No payment data appears on the SAP system for these suppliers prior to May 2013); and

- vi. During our discussion of Ilanga herein above we have referred to the national security contract which is in the process of being procured.

Conclusions

- 8.314 We conclude that the extension of the security contracts were not regularly approved as required. The procurement processes for these extensions were often not followed in terms of a provisioning system as provided for in the PRASA SCM Policy and relevant legislation.
- 8.315 We noted that some of the extensions were approved after the commencement of the contract period or no approval exists for a specific period, such as May 2014 to March 2015 when the month to month extension was approved.
- 8.316 It is important to note that Paragraph 12.8.9 of the SCM Policy document deals with Variations of Contracts and reads as follows: *“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”*. In the memorandum dated 13 October 2014 it is recorded that *“Instances where the variation is above 10% will only be considered in extremely rare circumstances where it can be expressly proven that there was proper contract management performed and that it could not be avoided or is in the best interest of PRASA”*. Based on our findings the approval processes for these extensions were often not followed.
- 8.317 We referred to the recommendation made by the CTPC on 27 April 2012 that a national contract must be finalised by the end of November 2012. We however determined that the national tender for security services was only advertised in August 2016 which is four (4) years later. It further appears from our review of the documentation provided that the various requests for the extension of the security contract was only done in an attempt to regularise the extension period and was therefore used to circumvent the SCM procedures as provided for and hence is irregular.

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Recommendations

- 8.318 Mr Mantsane was the Head Group Corporate Security from 2007/early 2008 until early 2013 when he was replaced by Mr Matakata. We recommend PRASA consider taking disciplinary action against Mr Mantsane for his failure to ensure that a national tender was advertised and thereafter service providers appointed.
- 8.319 Mr Matakata was appointed as Head Group Corporate Security on 1 June 2013 and the national tender for security services was only advertised in August 2016 and three (3) years later. We therefore recommend PRASA consider taking disciplinary action against Mr Mantsane for his failure to ensure that a national tender was advertised and thereafter service providers appointed.

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D. The appointment of Ndwandwe Consulting with a target value of R11,614,200 for the period 13 January 2015 to 31 March 2017

8.320 An Inoxico Report drawn on Ndwandwe Consulting CC (**Ndwandwe**) with registration number 2004/001756/23 reflects that the said entity was registered on 12 January 2004. The current Active Principal is listed hereunder:

E1/3

- i. Nonhlanhla Khethekile Ndwandwe with ID number 740906 0612 088 appointed on 12 January 2004.

E1/6

a) Review of payments made by PRASA

8.321 We requested a list of all payments made by PRASA to Ndwandwe. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system.

E2

8.322 We ascertained from the above mentioned analysis that Ndwandwe had received three (3) payments from PRASA for the period 2 June 2015 to 8 April 2016 as summarised in the table hereunder. (It should be noted that on various occasions more than one (1) invoice was combined into one (1) payment):

Number	Date	Amount (R)
1	02/06/2015	6,800,000
2	31/03/2016	2,650,000
3	08/04/2016	1,600,000
TOTAL		11,050,000

8.323 We requested all payment packs relating to these three (3) payments made by PRASA to Ndwandwe in respect of the contract under review. We were however not provided with the payment pack relating to the last payment of R1,600,000.

8.324 We will discuss the payment pack relating to payment number one (1) in the table above to serve as an example of the documents generally included in the payment packs. All the payment packs received for Ndwandwe contain the documents

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listed below.

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|-------|---|-----------------|
| 8.325 | The payment pack includes the following documents: | |
| | i. The remittance advice reflects an amount of R6,800,000 dated 2 June 2015; | E2/2 |
| | ii. The creditors reconciliation is dated 2 June 2015. According to the reconciliation, three (3) invoices are outstanding as per the third party statement (R1,700,000, R3,400,000 and R1,700,000). Based on this reconciliation, the amount payable to the supplier is R6,800,000. The reconciliation is prepared and signed by what appears to be Dumisile Sithole and reviewed and signed by what appears to be Mr Phori. These amounts agree to the amount as per the remittance advice; | E2/3 |
| | iii. The extract from the SAP creditors ledger lists the three (3) invoices to which this payment pack relates with the total amount reflected as R6,800,000. The reference for each of the invoices reflects the supplier invoice number; | E2/4 |
| | iv. Supplier invoices are included in the payment pack which reflect the amounts as detailed above. The invoice numbers correspond to the references included on the SAP creditors ledger extract; | E2/5-7 |
| | v. Supplier Statements of Account are included in the payment pack for each of the three (3) invoices for payment; and | E2/8-10 |
| | vi. Purchase requisitions are included in payment pack one (1) for each of the invoices confirming that payment can be made to Ndwandwe. | E2/11-13 |
| 8.326 | The original contract period was stated as being for a year starting in January 2015. The payment in the amount of R2,650,000 on 31 March 2016 and the payment of R1,600,000 on 8 April 2016 fall outside of this contract period. During our interview with Ms Kondowe, as will be discussed in detail hereunder, she indicated that due to operational issues within PRASA Ndwandwe were not timeously paid for services delivered upon issuance of their invoices. Payments were thus only made in 2016 for services rendered in 2015. The payments of R2,650,000 and R1,600,000 thus relate to the contract, but were paid long after | |

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the services were rendered.

8.327 The total contract amount awarded to Ndwandwe was stated as being R14,487,000. The total payments made as per these three (3) payments totalled to R11,050,000, which falls within the total contract amount.

b) Procurement Review

8.328 We obtained the procurement file and documentation relating to the abovementioned project. The tender was for the development of a change management programme within PRASA. We determined from our review of the documentation provided that the aforesaid contract was awarded to Ndwandwe following a letter of motivation for confinement from the CPO recommending the appointment.

Minutes and Agenda of Corporate Tender and Procurement Committee
Continuation Meeting held on 9 December 2014

8.329 We obtained the minutes of the CTPC meeting held on 9 December 2014 where the confinement of Ndwandwe was discussed under item 36. A further item on the agenda, which also related to Ndwandwe was discussed under item 35. The minutes appear to be signed by the chairman and the secretary on 17 February 2015.

8.330 The minutes indicate the following individuals were present at the meeting:

- i. Mr Mbatha as Chairman;
- ii. Ms Monkwe as Secretary; and
- iii. Dr Phungula, Mr Kobuwe and Ms Yvonne Page as members.

8.331 Under item 35, the CTPC are requested to support the confinement of Ndwandwe for the transformation and change management to the amount of R12,000,000 (including VAT) for a period of six (6) months.

8.332 The CTPC resolved that they support the matter subject to the following conditions:

- i. *“Reasons to confine to be strengthened.*

E3/1-6

E3/2

E3/5

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- ii. *HCM Executive to sign in support of the submission.*
- iii. *Confirmation of the budget.*
- iv. *Confirmation of the amount quoted by the supplier.*
- v. *N.B Ms. Koka to consult SCM (Mr. Khuzwayo) in revising the submission for the GCEO's final approval".*

8.333 Under item 36, the CTPC are requested to support the confinement of Ndwandwe for the modernisation change management programme to the amount of R11,500,000 (including VAT) for phase 1 and R9,000,000 (including VAT) for phase 2.

8.334 The CTPC resolved that they support the matter subject to the following conditions:

- i. *"Possibility of the project being combined with that of Corporate HCM and as the supplier confined to is the same.*
- ii. *PRASA HCM Executive and PRASA Technical CEO both to sign in support of the submission.*
- iii. *Confirmation of the amount as budgets or quoted by the supplier*
- iv. *N.B Ms. Nonhlanhla to consult Corporate SCM (Mr. Khuzwayo) in revising the submission for the GCEO's final approval".*

8.335 During the interview conducted with Ms Kondowe she clarified why two (2) submissions were made to the CTPC for Ndwandwe. She indicated that both PRASA Corporate and PRASA Technical had sourced Ndwandwe to provide similar services for them. When the matters were presented to the CTPC, they recommended that the projects be joined into one and be run from PRASA Corporate.

Recommendation Report dated 23 December 2014

8.336 A Recommendation Report was sent to the Acting GCEO by the CPO. During our interview with Ms Kondowe, she confirmed that she drafted this report. The report motivates that Ndwandwe should be appointed to develop the change

E3/6

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management programme for PRASA. The reasons for the motivation can be summarised as follows:

E3

- i. Ndwandwe assisted PRASA in 2007 with a similar programme (7 years prior to the Recommendation Report);
- ii. Ndwandwe has a good reputation within PRASA;
- iii. Ndwandwe have knowledge of the rail business;
- iv. Ndwandwe has the background knowledge to start this project which would “link” to the previous project;
- v. Cost and time would be saved as appointing a service provider who has no prior experience with PRASA would take the new service provider four (4) to six (6) months to obtain the required knowledge; and
- vi. Due to the time delay mentioned above, deadlines would be missed in respect of different programmes which were due to be launched at PRASA within the next year.

8.337 It however appears from our review of the information provided that the reasons given for confinement are not reasonable as there are a number of consulting firms that can provide change management programmes. It is further important to note that in these circumstances the previous appointment of a service provider cannot be used as a reason for confinement. Ms Kondowe indicated during our interview with her that she had requested SCM to advertise the tender in 2013. (She was unable to provide us with any correspondence in this regard). The procurement process was delayed and Ms Kondowe had to resort to following a confinement process as she required the services. Ms Kondowe further stated that the services rendered by Ndwandwe under their previous contract, which commenced in 2007 until approximately 2010, had not been completed due to operational issues within PRASA.

8.338 Under paragraph 6, Financial Implications – Budget, the following is recorded:

“The HCM department recommends that PRASA engages the services of Dualpoint (t/a Ndwandwe Consultants) (1), R14,487million be approved for the first phase of the change programme financial year 2014/15 some activities will

E3/15

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overlap into 2015/16 financial year, (2) for activities planned for phase two financial year 2015/16, and (3) phase three financial year 2016/17 where organisational impact analysis will be conducted analysed and other change intervention implemented to ensure that FULL programme benefits are realised by PRASA, HCM will submit costs for the 2nd and 3rd phase for budget approval.

The budget is fair and reasonable given historical fees and scope of work and period involved.

This programme is planned to commence with immediate effect (December 2014) as a matter of urgency; going out on an open tender will delay the modernisation projects. Finding a suitable service who can continue from where Ndwandwe consultants ended in 2010/11 will only result in additional costs, time delays. Finding a service provider who has experience in rail and large scale change programmes who understands PRASA will pose as a challenge”.

- | | | |
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| 8.339 | Paragraph 7 of the report reflects that “ <i>During the CTPC meeting it was resolved that the submission be supported and elevated to GCEO for approval</i> ”. It is important to note that we could not locate the minutes of the CTPC meeting when the tender was discussed for recommendation to the GCEO as provided for. We are in the process to investigate this aspect further. | E3/9 |
| 8.340 | The Recommendation Report was signed by Dr Phungula as CPO on 23 December 2014 and Ms Ngoye as Acting GCEO on 5 January 2015 as Approved. During our interview with Dr Phungula he mentioned that he had no background to the procurement of Ndwandwe and that he supported it based on the information contained in the Recommendation Report. | E3/10 |
| 8.341 | A Tender Advice was issued to Nonhlanhla Kondowe, PRASA Technical HCM, by the CTPC Secretariat, dated 5 January 2015. The Tender Advice confirms the appointment of Ndwandwe to assist PRASA with a modernisation change programme for the amount of R14,487,000. We noted that there is a note recorded on the letter that states “ <i>Final price to be confirmed at final appointment</i> ”. The Tender Advice was signed by Mr Khuzwayo in his capacity as Senior Manager Assurance and Project. | E4 |
| 8.342 | On 12 January 2015, Ndwandwe was notified of their appointment by PRASA for | E5 |

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the development of a modernisation change programme in the amount of R14,487,000 (including VAT). The notice states that Ndwandwe must communicate their acceptance of the appointment in writing before 14 January 2015. The notice appears to be signed by Mr Mukwevho as General Manager SCM.

E5/2

- 8.343 Ndwandwe confirmed their acceptance of the appointment in a letter dated 13 January 2015. The letter appears to be signed by Ezra Ndwandwe.

E6

Service Level Agreement

- 8.344 An SLA, dated 12 January 2015, was entered into between Ndwandwe and PRASA.

E7

- 8.345 The effective date of the SLA is recorded as 12 January 2015.

- 8.346 The SLA appears to be signed by Ezra Ndwandwe on 19 February 2015 on behalf of Ndwandwe, and by Ntlomo Koka on 12 January 2015 on behalf of PRASA. It is important to note that the total project cost reflected on the last page of the document is recorded in the amount of R14,487,000 (including VAT) and is for the same amount as previously stated. The date for the close out report reflects January 2016 and hence appears to be the completion date.

E7/8

Scoping Document dated 19 February 2015

- 8.347 We obtained a copy of the scoping document located on file. The Scoping Document details *inter alia* the scope of work and procedures which will be performed. The document sets out the objective, key activities and deliverables in an 8 step approach to the change management process approach and is self-explanatory. Ms Kondowe confirmed that she drafted this document with the assistance of Ms Ntlomo Koka (**Ms Koka**).

E8

E8/6

- 8.348 The Scoping Document is signed by Ms Kondowe as PRASA Technical HCM and Ms Koka as PRASA Corporate HCM on 19 February 2015. Ezra Ndwandwe appears to have signed the scoping document on the same day, being 19 February 2015.

E8/15

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Consultancy Agreement

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| 8.349 | A Consultancy Agreement was also entered into by PRASA and Ndwandwe. The agreement appears to be signed by a representative of PRASA on 22 May 2015 and Ezra Ndwandwe as a representative of Ndwandwe. It is important to note that the name of the persons who have signed the document is not reflected, and the document was not signed by any witnesses. | E9/28 |
| 8.350 | The Consultancy Agreement further contains a document titled “ <i>Change Management for Modernisation – Financial Plan</i> ” and reflects the period when services are expected for completion. The total project costs is recorded as R14,487,000 (including VAT) and is the same as the amount previously stated. It appears that this was the final amount approved for this project. | E9/31-33 |
| 8.351 | We noted from the Financial Plan attached to the Consultancy Agreement that an estimate of R2,8 million is recorded for onboarding logistics and is comprised of the following items:

i. “ <i>Formal appointment by client</i>
ii. “ <i>Contract and SLA signed</i>
iii. “ <i>Introduction of team to client</i>
iv. “ <i>Change management office allocation</i>
v. “ <i>Access cards distributed</i>
vi. “ <i>Video/memo from GCEO’s office re: support for the change management intervention</i> ” | E9/31 |
| 8.352 | The estimate amount of R2,8 million appears excessive for these types of services.

c) <u>Review of Variation Orders</u> | |
| 8.353 | No variation orders were noted in respect of this contract. | |

d) Interviews conducted

Interview with Mr Mukwevho

- 8.354 Mr Mukwevho stated that his only involvement with Ndwandwe relates to the Notice of Appointment which he signed. He stated that he was not involved with the procurement process and he would rely on the internal procedures to have been correctly followed at this stage.

Interview with Ms Kondowe

- 8.355 Ms Kondowe is employed as General Manager: HR Projects. Ms Kondowe was the Head of HR at PRASA Technical from August 2012 to March 2015. We will briefly refer to the information she provided as far as it relates to Ndwandwe:
- i. Ms Kondowe confirmed that she was the end-user for the contract awarded to Ndwandwe;
 - ii. She stated that she requested SCM to procure the services for the change management programme through an open tender process, but SCM delayed the process and she had to resort to confining Ndwandwe due to time constraints;
 - iii. Ms Kondowe indicated that PRASA Corporate also required similar services and had followed an open tender process to procure same. Ndwandwe were recommended to be appointed to provide the services to PRASA Corporate;
 - iv. During the CTPC meeting held on 9 December 2014, the CTPC recommended that the two (2) projects be combined and run from PRASA Corporate. Ms Koka was the respective end-user from PRASA Corporate's side;
 - v. Ms Kondowe stated that the previous contract awarded to Ndwandwe in 2007 had not been completed by Ndwandwe when the project was stopped by PRASA. The motivation to confine Ndwandwe for the change management programme thus included them being able to complete the outstanding components from the first contract. She was unable to provide

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us with documentation regarding the aspects of the project which was allegedly not completed. She further added that all her documents were removed from her office in the process of relocating to a different office;

- vi. She stated that Ndwandwe commenced work for the change management programme on approximately 28 January 2015 and worked until approximately September 2015 whereafter work ceased. Ms Kondowe confirmed that Ndwandwe ceased working due to not getting the necessary support from PRASA management as well as them not getting paid for the services rendered. She further stated that she received and authorised the invoices from Ndwandwe, but the Acting Group Head of HCM at the time, Mr Bhekani Khumalo, did not approve the invoices to effect payment (We were not able to meet with Mr Khualo to determine the reason why he did not approve the invoices); and
- vii. Ms Kondowe mentioned that the dispute between PRASA and Ndwandwe is still ongoing and that Ndwandwe are yet to receive the full amount for services rendered that were rendered by them to date.

e) Verification of services

8.356 During our interview with Ms Kondowe, she stated that service delivery commenced in January 2015, but due to issues encountered by Ndwandwe with PRASA management and Ndwandwe not being paid, they ceased work in or around September 2015. The dispute between Ndwandwe and PRASA is still ongoing. They have thus not received payment for services rendered and therefore the work has not been completed.

8.357 Ms Kondowe confirmed that Ndwandwe were on track to complete the services within the required time frame had they not ceased delivery due to them not being paid by PRASA.

Findings

8.358 Detailed below is a summary of significant findings from the investigation into the awarding of the change management programme contract to Ndwandwe:

- i. We determined from our review of the documentation provided that the

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aforesaid contract was awarded to Ndwandwe following a letter of motivation for confinement which was approved by Ms Ngoye as Acting GCEO on 5 January 2015;

- ii. On 9 December 2014 the request for the appointment of Ndwandwe based on a confinement was discussed at the CTPC meeting. The CTPC resolved that they supported the recommendation subject to the following conditions:
- *“Possibility of the project being combined with that of Corporate HCM and as the supplier confined to is the same.*
 - *PRASA HCM Executive and PRASA Technical CEO both to sign in support of the submission.*
 - *Confirmation of the amount as budgets or quoted by the supplier.*
 - *N.B Ms. Nonhlanhla to consult Corporate SCM (Mr. Khuzwayo) in revising the submission for the GCEO’s final approval”;*
- iii. We determined from our review of documentation provided and our interview conducted with Ms Kondowe that PRASA Corporate and PRASA Technical has sourced Ndwandwe to provide similar services to them. When the matters were presented to the CTPC on 9 December 2014, they recommended that the projects be combined into one (1) and run from PRASA Corporate;
- iv. The recommendation report dated 23 December 2014 contains the motivation why Ndwandwe should be appointed to develop the change management programme for PRASA in the amount of R14,487,000 (including VAT) for the first phase of the project. Ms Kondowe stated during our interview that Ndwandwe rendered services previously as referred to in the recommendation report that commenced in 2007 until approximately 2010, but had not been completed due to operational issues within PRASA;
- v. It however appears from our review of the information provided that the reasons given for confinement are not reasonable as there are a number of

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consulting firms that can provide change management programmes. It is further important to note that in these circumstances the previous appointment of a service provider cannot be used as a reason for confinement. Ms Kondowe indicated during our interview with her that she had in fact requested SCM to advertise the tender in 2013. The procurement process was delayed and Ms Kondowe had to resort to following a confinement process as she required the services. This has resulted in a circumvention of the SCM procedures and is as a result of poor planning;

- vi. The recommendation report was signed as Recommended by what appears to be Dr Phungula as CPO on 23 December 2014 and was Approved by Ms Ngoye as Acting GCEO on 5 January 2015 as provided for;
- vii. On 12 January 2015 Ndwandwe was notified of their appointment by PRASA for the development of a modernisation change management programme for the amount of R14,487,000 (including VAT). An SLA was entered into between Ndwandwe and PRASA on the same day and for the total project cost as referred to herein above. We noted from the Financial Plan attached to the Consultancy Agreement that an estimate of R2,8 million is recorded for onboarding logistics and appears excessive for the type of services as listed on the document.
- viii. Ndwandwe received three (3) payments in respect of this contract totalling R11,050,000 (including VAT) which falls within the total contract amount of R14,487,000 (including VAT). We noted that the original contract period was stated as being for a year starting 15 January 2015. We noted that the payment in the amount of R2,650,000 (including VAT) on 31 March 2016 and the payment of R1,600,000 (including VAT) made on 8 April 2016 fall outside the contract period as agreed upon. During our interview with Ms Kondowe she indicated that Ndwandwe was not timeously paid for services upon issuance of their invoices and hence the reason why these two (2) payments were only made in 2016; and

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- ix. It appears that the project was stopped during approximately September 2015 as PRASA did not make payments as required. It has been reported to us that the dispute between Ndwandwe and PRASA is still ongoing and hence the reason why the project has not been completed to date. There were no VOs issued in respect of this contract.

Conclusions

- 8.359 A confinement process was resorted to due to a delay in SCM procuring a service provider following an open bidding process. Paragraph 11.3.7 of the SCM Policy provides for Single Source/ Confinement and reads as follows:
“This occurs where the needs of the business preclude the use of the competitive bidding process and for practical reasons only one bidder is approached to quote for goods and/or services.
This method can only be used for:-
- *Appointment of professional services such as legal, financial, technical contracts and security where unique expertise and/or security are required; or*
 - *If its (SIC) an emergency...”*
- “The decision to make use of a single source shall be motivated for approval and ratification by the GCEO”.*
- 8.360 The type of services provided by Ndwandwe is not unique. The reasons given for confinement are not reasonable as there are a number of consulting firms that can provide change management programmes.
- 8.361 The previous appointment of a service provider in 2007 cannot be used as a reason for confinement in December 2014 (7 years later). Based on our interview with Ms Kondowe we determined that she had requested SCM to advertise the tender in 2013. The procurement process was delayed and Ms Kondowe had to resort to following a confinement. This has resulted in a circumvention of the SCM procedures and the services required cannot be motivated as an emergency for cases resulting from poor planning.
- 8.362 We determined that on 12 January 2015 Ndwandwe was notified of their appointment by PRASA for the development of a modernisation change

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management programme for the amount of R14,487,000 (including VAT) and entered into a SLA. The Financial Plan attached to the Consultancy Agreement reflects an estimate of R2,8 million for onboarding logistics and appears excessive for the type of services as listed on the document.

Recommendations

- 8.363 PRASA should avoid resorting to the use of confinement processes, especially due to lack of planning. Furthermore, PRASA must procure services according to a provisioning system as provided for in the SCM Policy and relevant legislation to ensure that the market is tested according to a free and fair provisioning system.
- 8.364 PRASA should ensure that all payments to service providers are being made regularly and as agreed upon. This practice will ensure effective service delivery and avoidance of unnecessary delays in the completion of projects and prevent penalties for late payment that results to fruitless and wasteful expenditure.
- 8.365 National Treasury should consider investigating why the Acting Group Head of HCM at the time, Mr Bhekani Khumalo, did not approve the required invoices for payment that has further resulted in a delay in the finalisation of the project as further penalties incurred will amount to wasteful expenditure.

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E. The appointment of Hages Infosystems with a target value of R10,450,000.00 for the period 1 January 2013 to 31 July 2014

8.366 An Inoxico Report drawn on Hages Infosystems (Pty) Ltd (**Hages**) with registration number 2010/014229/07 reflects that the said entity was registered on 7 July 2010. The current Active Principals are listed hereunder:

- i. Krishnan Rajesh Thampy with ID number 700107 0000 000 appointed on 19 July 2010; and
- ii. Nditsheni Arina Muzila with ID number 931209 0677 089 appointed on 1 February 2014.

a) Review of payments made by PRASA

8.367 We requested a list of all payments made by PRASA to Hages. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system.

8.368 We ascertained from the above mentioned analysis that Hages had received 21 payments from PRASA for the period 8 March 2013 to 24 May 2016 as summarised in the table below (it should be noted that on various occasions, more than one (1) invoice was combined for one (1) payment):

Number	Date	Amount (R)
1	08/03/2013	470,791.50
2	15/04/2013	447,036.75
3	30/04/2013	512,059.50
4	31/05/2013	1,039,594.50
5	15/07/2013	862,418.50
6	15/08/2013	858,648.00
7	25/09/2013	1,430,973.60

F1/3

F1/7

F2

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Number	Date	Amount (R)
8	31/10/2013	1,145,985.00
9	15/11/2013	1,225,317.60
10	29/11/2013	1,293,159.00
11	19/12/2013	212,382.00
12	08/04/2014	571,881.00
13	06/05/2014	339,321.00
14	30/05/2014	24,607.30
15	30/10/2015	150,480.00
16	16/11/2015	156,678.75
17	02/12/2015	205,656.00
18	15/01/2016	102,144.00
19	16/02/2016	29,184.00
20	31/03/2016	43,776.00
21	24/05/2016	184,680.00
		11,306,774.00

8.369 We requested all payment packs from PRASA relating to Hages and the contract under review. We were however not provided with the last payment pack relating to the payment in the amount of R184,690.

8.370 We will discuss the payment pack relating to payment number one (1) in the table above to serve as an example of the documents generally included in the payment packs. All the payment packs received for Hages contain the documents listed below.

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8.371	The payment pack includes the following documents:	
	i. The remittance advice reflects the amount of R470,791.50 and dated 8 March 2013;	F2/2
	ii. The creditors reconciliation is dated 8 March 2013 and reflects the total payment to be made to Hages as R470,791.50. The reconciliation is prepared and signed by what appears to be Norman Thaele and reviewed and approved by Ms Mokate. This amount agrees to the amount as per the remittance advice;	F2/4
	iii. Partner ledger – detailing the debit and credit amount as well as the balance of the account for Hages;	F2/5
	iv. The extract from the SAP creditors ledger reflects the reference as “SAJ/2103/0058” with the same amount;	F2/6
	v. The supplier invoice reflects the invoice number as “SAJ/2103/0058” dated 14 December 2012. The invoice reflects the total cost of R470,791.50. Attached to the invoice are supporting documents which includes timesheets and proof of disbursements claimed; and	F2/7-35
	vi. The purchase requisition is attached to the payment pack confirming that payment can be made to Hages.	F2/36-37
8.372	The original contract amount was R9,5 million (including VAT) for a contract period of 36 months, commencing on 1 January 2013. The total amount paid to Hages during 2013 amounts to R9,498,365.95 (including VAT) which falls within the approved contract amount.	
8.373	An extension was sought for an additional R950,000 and to extend the period until 30 July 2014 which will be referred to in further detail below. The total amount of invoices paid from January 2014 to 30 July 2014 amounts to R935,809.30.	
8.374	The agreement between PRASA and Hages refers to specific rates that Hages was permitted to charge per staff level, inclusive of VAT, as will be discussed in further detail below. From our review of the payment packs we noted that the amounts charged by Hages for a Senior Business Analyst at the rate of R675 (R769.50 including VAT), and a Senior Project Manager at a rate of R850 (R969	F2/7

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including VAT) agree with the rates in the SLA we will refer to below.

F12/9

b) Procurement Review

8.375 We obtained the procurement file and documentation relating to the abovementioned project. The contract was for the provision of project management and business analysis capabilities in the SAP R/3 environment. We determined from our review of the documentation provided that the aforesaid contract was awarded to Hages following an open tender process.

8.376 We were provided with extracts from a number of newspapers, reflecting the advertisement of what appears to be the abovementioned contract (the contract reference number is illegible). The advertisement provides the following pertinent information:

F3

- i. Minimum of Level Four (4) Broad-Based Black Economic Empowerment (**B-BBEE**) status is required for potential bidders;
- ii. A compulsory briefing session - Tuesday 28 February 2012 at PRASA House Hatfield;
- iii. RFP documents were available from 20 February 2012 to 24 February 2012 subsequent to the payment of a non-refundable R500; and
- iv. Tender closing date - Friday 16 March 2012 at 12:00.

8.377 The Tender Opening Register was obtained from Ms Maggy Ramabi (**Ms Ramabi**) and reflects that two (2) bids were received for tender HO/ICT/029/11/2012. The closing date of the tender is provided as 16 May 2012 with the following bidders:

F4

- i. Rangewave Consulting (Pty) Ltd; and
- ii. Hages Infosystems (Pty) Ltd.

8.378 The register was signed by the Secretary of the CFSC and CTPC with two (2) witness signatures.

F4

8.379 We were provided with the Declarations of Interests forms for contract HO/ICT/029/11/2011 for four (4) evaluation committee members dated 18

F5

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September 2012, being:

- i. Mr Botabota
- ii. Mr Kevin Jabulani Mabona (**Mr Mabona**);
- iii. Mr Vince Gama (**Mr Gama**); and
- iv. Ms Ezekhaya Sojezi (**Ms Sojezi**).

8.380 It should be noted that the Declaration of Interest form for Mr Botabota reflects an amendment to the date from 13 February 2012 to 18 September 2012. During the interview with Mr Botabota he confirmed his signature and handwriting on the Declaration of Interest form, however he does not recall the amendment to the date and further stated that he is unlikely to sign a document with such an amendment.

F5/1

8.381 Furthermore, it should be noted that the other three (3) Declaration of Interest forms all contain the correct date of 18 September 2012 (i.e. no amendments), however the form for Mr Gama is unsigned.

F5/3

Tender evaluation documents

8.382 Tender evaluation documents for contract HO/ICT/029/11/2011 were received for three (3) of the four (4) evaluation committee members, excluding that of Ms Sojezi. The contract number is consistent with that on the Declaration of Interests forms. The table below reflects a summary of the scores given by each of the three (3) committee members for the bidder Rangewave Consulting (Pty) Ltd (**Rangewave**):

F6/1-3

Technical Criteria	Mr Botabota	Mr Mabona	Mr Gama
Previous Experience	4	4	4
CV's of Resources	5	4	4

8.383 The table below reflects a summary of the scores given by each of the three (3) committee members for the bidder Hages:

F6/4-6

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Technical Criteria	Mr Botabota	Mr Mabona	Mr Gama
Previous Experience	3	3	4
CV's of Resources	2	3	3

Bid evaluation report

- 8.384 The bid evaluation report was attached to the minutes of the CFSC meeting held on 27 September 2012 which will be referred to in further detail below. **F7/9-22**
- 8.385 The report appears to have been signed by the following members of the BEC on 18 September 2012: **F7/10**
- i. Mr Botabota as Chairperson of the BEC; and
 - ii. Mr Gama, Mr Sojezi and Mr Mabona as members of the BEC.
- 8.386 During the interview held with Mr Botabota he indicated that the date reflected below his signature on page 2 of the report is not his handwriting. Mr Botabota further stated that this report would have been drafted by SCM.
- 8.387 All of the abovementioned individuals supported the recommendation contained in the report.
- 8.388 The report indicates that only two (2) bids were submitted by the closing date, being Hages and Rangewave. **F7/14**
- 8.389 Both entities were deemed to be compliant following the compliance assessment as recorded under paragraph 5.2 of the report, and the technical evaluation was subsequently performed for both entities for the next phase of the evaluation process. The two (2) entities were further evaluated based on price and B-BBEE. **F7/17**
- 8.390 We were not provided with the bid documents and could therefore not verify if the information provided in the evaluation report is correct.

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8.391 The table below reflects the total scores awarded to Rangewave:

F7/21

Criteria	Weighting	KM	LB	ES	VG	Avg (WTD)
Previous Experience	30%	4	4	5	4	1.28
CV's of Resources	20%	4	5	4	4	0.85
TECHNICAL SCORE						2.13
B-BBEE	20%					17.30
PRICE	30%					13.09
TOTAL SCORE						32.52

8.392 The table below reflects the total scores awarded to Hages:

F7/21

Criteria	Weighting	KM	LB	ES	VG	Avg (WTD)
Previous Experience	30%	4	3	3	3	0.98
CV's of Resources	20%	3	2	2	3	0.75
TECHNICAL SCORE						1.73
B-BBEE	20%					26.30
PRICE	30%					30.00
TOTAL SCORE						58.03

8.393 It should be noted that the scores awarded to Hages by Mr Mabona and Mr Gama have been switched around in the bid evaluation report, but contains the correct total as recorded in the report. We noted that Hages' score of 58,03 is higher than the score of 32,52 scored by Rangewave.

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8.394 The average score for both Rangewave and Hages for “*Previous Experience*” and “*CV’s of Resources*” were however incorrectly calculated according to the percentage weighting. We have performed an analysis of the correct percentage weighting and summarised the information as set out in the table hereunder:

Rangewave:

Criteria	Weighting	KM	LB	ES	VG	Avg (WTD)
Previous Experience	30%	4	4	5	4	25.5
CV’s of Resources	20%	4	5	4	4	17
TECHNICAL SCORE						42.5

F7/21

Hages

Criteria	Weighting	KM	LB	ES	VG	Avg (WTD)
Previous Experience	30%	4	3	3	3	19.5
CV’s of Resources	20%	3	2	2	3	10
TECHNICAL SCORE						29.80

F7/21

8.395 Based on our calculations on the corrected percentage weighting we determined that Rangewave has scored 42.5 points for “*Previous Experience*” and “*CV’s of Resources*”, whereas Hages has scored 29.80 points.

8.396 We further noted that the score awarded to Hages in terms of the B-BBEE rating also appears to be incorrect based on the percentage weighting. The CFSC addressed this in their meeting held on 27 September 2012 and the score appears to have been corrected in the CPO’s report as will be referred to in further detail below. We have however not been able to recalculate the scores awarded for B-

F9

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BBEE as we were not provided with the information or the formula that was used in respect of the said calculation.

8.397 The formula provided for Pricing under paragraph 5.5 also appears to be incorrect. The CFSC noted this in their meeting and resolved that “*A correction of the price evaluation formula and the scores on the evaluation sheet*” to be submitted. We will however refer to the minutes of the CFSC and the comments made by the committee in further detail below.

F7/8

8.398 Based on our calculation of the percentage weighting of “*Previous Experience*” and “*CV’s of Resources*”, as well as the points awarded for B-BBEE and Price by the BEC we determined that Hages has scored the highest points of 85 points (29.80 + 26.30 + 30) as apposed to 72.90 points (42.5 + 17.30 + 13.09) by Rangewave.

8.399 We were not provided with the bid documents and were therefore unable to determine the details surrounding the price offered by each of the two bidders. The price offered for these type of services should include a breakdown of the level of the staff and the rates per hour for each staff member to provide the required services offered. We noted from our review of the evaluation report that an average rate per hour was used for the weighted score based on price and is scewed as the level of staff and the rates will differ, i.e. the one bidder may want to use more junior staff to provide the service at a lower rate and will use a senior staff member to assist with the management of the project with less hours and will be cheaper, whereas the bidder which who will use more senior staff at a higher level will be more expensive.

F7/19

8.400 The BEC however recommended the appointment of Hages for the “*implementation of document management at R3150,96 p/h Vat inclusive*”.

F7/20

8.401 The report appears to have been signed by the Chairperson of the BEC, Mr Botabota.

F7/20

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Minutes of the Cross Functional Sourcing Committee meeting held on 27
September 2012

8.402	The minutes indicate the following individuals were present at the meeting: iv. A Lubbe as Chairperson; v. Mr Maletswa, Corporate Security; vi. S Mokotedi, Legal; vii. Daluxolo Qabaka, SCM; viii. Mr Mabona, ICT; and ix. Mr Swanepoel as secretary.	F7/1
8.403	This tender was discussed under item number three (3). The document reflects the resolution minute number as “ <i>HQ/PROC/CFSC 118/2012 of 27 September 2012</i> ” and tender number “ <i>HO/ICT/029/11/2011: Project Management and Business Analysis Services</i> ”.	F7/7
8.404	The budget value provided for the project (including VAT) is R9,500,000 with the name of the contractor being Hages. The contract delivery period provided for is three (3) years.	F7/7
8.405	The document includes the following comments by the CFSC: <i>“CFSC noted that with regard to the technical evaluation of the tenders Hages Info Systems has a weighted score of 26.3 which is more than the 20% allocated for B-BBEEE.</i> <i>The Committee further noted that the calculations of the scores on the technical evaluation sheet are incorrect and need to be corrected. If the outcome is the same the matter can be submitted to the GCPO for his approval but if the outcome has changes in favour of the other tenderer the matter needs to be re-submitted to the CFSC for consideration (SIC)”.</i>	F7/7
8.406	The CFSC resolved the following: i. A correction of the price evaluation formula and the scores on the	F7/8

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evaluation sheet; and

ii. Approval by the GCPO.

8.407 Mr Botabota indicated during his interview that he could not recall what was wrong with the price evaluation formula, as stated in the minutes of the CFSC meeting, nor does he recall whether it was rectified or by whom.

8.408 Mr Botabota indicated during his interview that he could not recall what was wrong with the price evaluation formula or whether it was rectified.

8.409 The document appears to have been signed by the Chairperson, A Lubbe, on 27 September 2012.

F7/8

8.410 The bid evaluation report for tender number HO/ICT/029/11/2011 is attached to the minutes of the CFSC meeting, as discussed above.

Tender Advice

8.411 We obtained a SCM Tender Advice sent by the CFSC Secretariat to Mr Joshua Kanjere (**Mr Kanjere**), Information and Communications Technology (ICT) Department, PRASA Corporate that was copied to Mr Mabona, ICT Department, PRASA Corporate and Ms Mosholi. The document was signed by Ms Mosholi with the date of approval reflecting 14 December 2012.

F8

8.412 The document provides for the contractor as Hages with the transaction value of the contract being R9,500,000 (including VAT).

Chief Procurement Officer Recommendation Report

8.413 The CPO Recommendation Report for Project Management and Business Analysis Services HO/ICT/029/11/2011 consists of ten (10) pages, however the copy that we have been provided with does not include page six (6). (We have requested a complete copy of this document but this could not be obtained). The report was Recommended by Ms Mosholi in her capacity as the Procurement Manager dated 14 December 2012, and was signed as Approved by what appears to be Mr Mbatha as the GCPO dated 14 December 2012.

F9/8

8.414 Paragraph 1 of the report makes provision for the project background and states

F9/3

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that PRASA issued an open tender advertisement in four (4) newspapers on 20 to 24 February 2012. A compulsory briefing session was held on 28 February 2012 where eight (8) prospective bidders attended. The attendance register of the said briefing session is attached as appendix 1 to the report, however we have not been provided with the register. The report confirms that the tender closed on 16 March 2012 whereafter two (2) bids were received.

8.415 Paragraph 3.1 provides the names of the evaluation committee members as referred to herein above. Paragraph 3.2 provides the names of the two (2) bidders who submitted their tenders and refers to the evaluation criteria as set out in paragraph 3.3.

F9/4

8.416 Paragraph 5.3 refers to the technical assessment and clarified that both bidders were considered to be able to perform the work as specified. The B-BBEE scoring and pricing was calculated for each of the bidders as follows:

F9/6

Tenderer	B-BBEE score	Pricing score	Total score	Ranking
Rangewave	18	34.9	52.9	2
Hages	16	80	96.0	1

8.417 It should be noted that the scores contained in paragraph 5.3 differ to those contained in the BEC report as well as further on in the CPO's report. We have not been able to determine how these scores were calculated and why they differ from the rest of the report, as referred to hereunder.

8.418 The B-BBEE evaluation is detailed in paragraph 5.4, a summary of which is detailed below:

F9/6

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Tenderer	B-BBEE level	Difference (%)	B-BBEE scores	Black shareholding	Black equity score	Total score
Hages	Level 3	25%	7.5	100%	10.0	17.5
Rangewave	Level 2	10%	9.0	25%	2.5	11.5

8.419 We have not been able to determine how the scores were calculated and why these differ from those contained in paragraph 5.3 as discussed above. However, the B-BBEE scores have been amended following the comments raised by the CFSC.

8.420 During our interviews conducted, we were unable to determine the formulas used to calculate the B-BBEE and Pricing scores for each of the two (2) bidders, and hence we have not been able to recalculate the scores.

8.421 The report is concluded with the following recommendation:

*“The Chief Procurement Officer’s approval is hereby sought to appoint **Hages infosystems for implementation of document management at R3 135.00 p/h.** There is a budget of **(R9 500 000.00)** Vat inclusive, which will be managed on a time and material basis for a period of 36 months (SIC)”.*

8.422 Mr Rajesh Thampy (**Mr Thampy**) of Hages sent a letter to Ms Mosholi on 17 December 2012 when he acknowledged the receipt of the Notice to Proceed dated 14 December 2012 and accepted the appointment, however we were not provided with the Notice to Proceed preceding this letter.

8.423 PRASA sent a letter dated 18 December 2012 to Rangewave, informing them that they have been unsuccessful in the tender HO/ICT/029/11/2011. The letter appears to have been signed by Ms Masholi.

Agreement between PRASA and Hages

8.424 We were provided with the agreement entered into between PRASA and Hages dated 31 January 2013. The agreement consists of 16 pages and was signed by Mr Mbatha in the capacity as CPO, on behalf of PRASA and Mr Thampy in the

F9/8

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F11

F12/16

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capacity as Managing Director (**MD**) on behalf of Hages. We noted that both signatures were only witnessed by one (1) person each.

F12/16

8.425 In his capacity as CPO, Mr Mbatha had the authority to enter into contracts with the total contract amount of up to R10 million.

8.426 Paragraph 5 provides that the contract will commence on 1 January 2013 and the initial duration of the project will be for a period of 36 months.

F12/5

8.427 The scope of work is detailed in paragraph 6 of the SLA, stating the following four (4) categories of resources:

F12/5

- i. Senior Project Manager;
- ii. Project Manager;
- iii. Senior Business Analyst; and
- iv. Business Analyst.

8.428 Paragraph 13 provides for the pricing, “*at a Capped budget of R9,5 million Vat Inclusive*” and reflect the following rates:

F12/9

Description	Rate per hour – VAT Inclusive (R)
Project Manager	798
Senior Project Manager	969
Business Analyst	598
Senior Business Analyst	770

8.429 The SLA reflects further that the above rates will remain firm for the first year of the contract period after which it will increase at the anniversary of the contract and at the Consumer Price Index (**CPI**) rate of the month of anniversary. The paragraph further provides for disbursements and agreed upon rates and is self-explanatory. These rates are contained in the payment pack in support of the invoices submitted as referred to herein above.

F12/9

F2/7

8.430 The agreement does not make any reference to the details of a contract manager

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on behalf of either PRASA or Hages.

c) Review of Variation Orders

8.431 We noted from our review of the documentation provided that one (1) VO was issued to increase the contract value from R9,500,000 (including VAT) to R10,450,000 (excluding VAT) (which amounts to R11,913,000 including VAT) as discussed in further detail below.

Submission for Adjudication

8.432 The SCM submission relates to the increase in contract value of the current Hages contract in respect of tender number HO/ICT/029/11/2011. The submission was attached to the minutes of the CTPC meeting held on 27 March 2014 and will be discussed in further detail below.

F13/22

8.433 The submission document reflects that Hages was appointed “for a period of 36 months or to a value of R9 500 000, whichever comes first”. It is further recorded on page 2 of the document that “Whilst the contract was for 36 months, the rate of usage of the above mentioned resources resulted in the contract being consumed fully before estimated 36 month period”.

F13/22

F13/23

8.434 It is recorded under paragraph 2.1 New Scope of Work, that “The scope of work will remain the same as the original scope of work and the services would be provided until the 30 July 2014”.

F13/24

8.435 The reasons for the increase of the contract is summarised under paragraph 2.2 as follows:

F13/24

- i. “The SAP Real Estate, Plant Maintenance and Linear Asset Management projects are still underway and require project managers to oversee
- ii. Halting the projects at this critical stage will result in a loss of continuity and traction in the delivery of the next phases
- iii. To provide cover for the SAP projects whilst PRASA ICT is in the process of going out on open tender to acquire the same services”.

8.436 The submission serves to seek the approval of the CFSC for the increase in

F13/25

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contract value from R9,500,000 to R10,450,000 (excluding VAT) (which amounts to R11,913,000 including VAT).

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| 8.437 | We assume that the submission was signed as Recommended and signed by what appears to be Mr Mabona, “ <i>COE Manager – ICT</i> ” on 13 March 2014 (the not recommended option was however not deleted). The submission was further signed as Supported by what appears to be the signature of Jabu Nkosi, “ <i>General Manager - ICT Ops</i> ” on 17 March 2014 (the not supported option was however not deleted). | F13/25 |
| <u>Minutes of Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 27 March 2014</u> | | |
| 8.438 | The minutes of the CTPC meeting held on 27 March 2014 reflects that the following individuals were present at the meeting: <ul style="list-style-type: none">i. Mr Mbatha as Chairman;ii. Ms Monkwe as secretary;iii. Mr Kobuwe and Ms Motshologane as members; andiv. Mr Khuzwayo as Head of Secretariat. | F13/2 |
| 8.439 | Declarations of Interests forms and Confidentiality Agreements which appear to be signed by the abovementioned members were located on file. | F13/4-17 |
| 8.440 | This tender is listed under item number nine (9) where the CTPC discussed an increase in contract value of the existing contract with Hages. | F13/20 |
| 8.441 | We noted that the CTPC supported the matter subject to the following conditions: <ul style="list-style-type: none">i. “<i>Ratifying the Scope change</i>”ii. “<i>Request additional approval for 10%</i>”. | F13/20 |
| 8.442 | We were not provided with the document where the recommendation was approved by the GCEO as provided for. | |

d) Interviews conducted

Interview with Mr Botabota

8.443 Mr Botabota is employed as a Treasury Analyst in the Finance Department at PRASA and reports to the Group CFO. We will briefly refer to the information he provided as far as it relates to this contract:

- i. Mr Botabota stated that the handwriting reflected on the Evaluation Scoresheets for both Rangewave and Hages is not his handwriting;
- ii. According to his knowledge, he was never the Chairperson of a committee however he has been a member on numerous occasions; and
- iii. He explained that the BEC would evaluate bids following a briefing provided by the end-user detailing their requirements. He stated that scoring guidelines are provided to the BEC members to enable consistency in scoring amongst all members.

F6

F7

Interview with Mr Mbatha

8.444 Mr Mbatha provided the following information relating to Hages:

- i. According to his knowledge, where an extension results in a contract value increasing to more than R10,000,000, the variation should be adjudicated by the CFSC and not the CTPC as the CFSC originally adjudicated the matter.

Interview with Ms Monkwe

8.445 Ms Monkwe stated during an interview held with her that where an extension results in a contract value increasing to more than R10,000,000, the variation should be adjudicated by the CTPC and not the DTPC. She further stated that the end-user department used to draft the Submission Reports and this would explain why the report submitted to the CTPC for the extension requests the DTPC to recommend. She stated that submission Reports are now drafted by the BEC members since the appointment of Mr Gingcana as Acting CPO.

F13

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Interview with Ms Mosholi

- 8.446 Ms Mosholi provided the following information in respect of Hages:
- i. She stated that she would draft the Notice to Proceed or Notice of Appointment after the GCEO or CPO approval;
 - ii. The Tender Advice is drafted by the CTPC or CFSC secretary and currently should be signed by the Head of Secretariat;
 - iii. Ms Mosholi provided us with a Notice to Proceed template which she made use of when she drafted notices to contractors. She explained that the Notice of Appointment was used up until August 2014. The Notice to Proceed then replaced the Notice of Appointment. The difference between these two (2) relates to the paragraph informing the contractor that *“formal contract documents will be concluded within 60 days and you will be advised regarding the signing thereof. The letter of acceptance and your offer shall constitute a binding agreement between Passenger Rail Agency of South Africa (PRASA) and yourselves”*;
 - iv. The BEC members are appointed on a contract to contract basis, there is thus no set BEC committee. At each BEC meeting the end-user provides an explanation of what the project entails and the requirements for the project. The BEC can ask questions and request clarification, however there is no formal training provided to the BEC. Each BEC member will receive an evaluation scoresheet which they are required to complete. The respective Procurement Practitioner creates a spreadsheet containing the individual scores and determines the average of each bidder. Where discrepancies are noted during the compilation of the spreadsheet, the BEC members would discuss the outlying score and the respective BEC member then has the opportunity to change his/her score based on the discussion; and
 - v. Ms Mosholi stated that when a contract was approved by the CFSC i.e. under R10 million, and a variation order of less than 10% is requested the variation should also be approved by the CFSC even if the contract amount is in excess of R10 million. However, when the variation order

B18

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requested is more than 10%, it should be approved by the CTPC.

e) Verification of services

8.447 Mr Mabona confirmed that the services were delivered by Hages.

F14

Findings

8.448 Detailed below is a summary of significant findings from the investigation into the awarding of the business analyst and project management contract to Hages:

- i. We determined from our review of the documentation provided that the aforesaid contract was awarded to Hages following an open tender process. The bid was advertised as required with a compulsory briefing session for 28 February 2012 and tender closing date of 16 March 2012;
- ii. We noted from our review of the tender opening register that bid documents were received from two (2) suppliers, one (1) of which is Hages. The two (2) bid documents were evaluated during a tender evaluation on 18 September 2012 and both were found to be compliant following the compliance assessment. The technical evaluation was subsequently performed for both entities for the next phase of the evaluation process whereafter Hages scored the highest points of 58.03 as opposed to Rangewave which had scored 32.52 points. The BEC recommended the appointment of Hages to the CFSC which was held on 27 September 2012;
- iii. We have however noted from our review of the documentation provided that the average score for both Rangewave and Hages for "*Previous Experience*" and "*CV's of Resources*" were incorrectly calculated according to the percentage weighting. We have performed an analysis of the correct percentage weighting and considered the points awarded for B-BBEE and Price by the BEC. (It however appears that the scores allocated for B-BBEE and price were also flawed). Based on our analysis we determined that Hages has scored 85 points (29.80 + 26.30 + 30) as opposed to 72.90 points (42.5 + 17.30 + 13.09) scored by Rangewave.

F4

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| iv. | Based on our review of the evaluation report we determined that an average rate per hour was used for the weighted score based on price and is skewed as the level of staff and the rates will differ. The price offered for these type of services should include a breakdown of the level of the staff and the rates per hour for each staff member to provide the required services offered. We further determined that the CFSC resolved during the meeting held on 27 September 2012 that “ <i>A correction of the price evaluation formula and the scores on the evaluation sheet</i> ” be submitted. Mr Botabota as Chairperson of the BEC could not recall what was wrong with the price evaluation formula nor does he recall whether it was rectified. | |
| v. | The CFSC however supported the appointment of Hages during the CFSC meeting held on 27 September 2012. We noted however from our review of the CPO recommendation report that the scores allocated differ to the scores that were calculated on the BEC report. We have not been able to determine from the information provided how these scores were allocated and why they differ from the BEC. | F7

F9 |
| vi. | Based on the CPO recommendation report the recommendation to appoint Hages with the contract amount of R9,500,000 (including VAT) was recommended by Ms Mosholi in her capacity as Procurement Manager on 14 December 2012 and was signed as Approved by what appears to be Mr Mbatha as the GCPO on 14 December 2012 as required for contracts less than R10,000,000; | F9 |
| vii. | On 17 December 2012 Mr Thamy of Hages acknowledged receipt of a Notice to Proceed and accepted the appointment. We were provided with an agreement entered into between Hages and PRASA dated 31 January 2013 which reflects that the contract will commence on 1 January 2013 for a period of 36 months and “ <i>at a Capped budget of R9,5 million Vat Inclusive</i> ”; | F10

F12 |
| viii. | We determined that one (1) VO to increase the contract value from R9,500,000 (including VAT) to R10,450,000 (excluding VAT) (which | F13 |

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amounts to R11,913,000 including VAT) was submitted to the CTPC meeting held on 27 March 2014 for consideration. This amounts to an increase of R2,413,000 (including VAT) and a 25.4% increase on the original contract amount;

- ix. The CTPC supported the matter subject to the following conditions:
- *“Ratifying the scope change.*
 - *Request additional approval for 10%”;*
- x. During our interview with Ms Mosholi, she stated that when a contract was approved by the CFSC for a contract amount under R10,000,000 and a VO increases the contract amount to above R10,000,000, it needs to be supported by the CTPC and approved by the GCEO. We were however not provided with documentation where the VO which was recommended by the CTPC was approved by the GCEO as required; and
- xi. We determined that PRASA made 21 payments to Hages during the period 8 March 2013 to 24 May 2016 totalling R11,306,774 and in terms of the rates as provided for in the SLA. Mr Mabona confirmed that the services were delivered by Hages as required.

A8

F2

F12/9

Conclusions

- 8.449 Based on our review of the documentation provided it appears that the calculations performed during the bid evaluation were incorrect. It however appears from the information provided that Hages would still have been the preferred bidder had these calculations been performed correctly.
- 8.450 It was apparent from interviews conducted that there appears to be confusion amongst the SCM staff pertaining to the level of BAC required to support an appointment where a VO results in the contract amount being increased to above R10 million.

Recommendations

- 8.451 We recommend that clear guidance be given to the BEC members about how to perform the calculations for the purposes of evaluation to ensure that the procurement process is fair and accurate.
- 8.452 PRASA should ensure that the level of BAC required to support an appointments is clearly defined in their SCM Policy and should consider providing training to relevant staff.

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**F. The appointment of Baran Projects South Africa with a target value of
R91,000,000 for the period 10 March 2014 to 31 August 2015**

- 8.453 An Inoxico Report drawn on Baran Projects South Africa (Pty) Ltd (**Baran**) with registration number 2011/134093/07 reflects that the said entity was registered on 18 November 2011. The current Active Principals are listed hereunder (The ID numbers are unusual and appear to be recorded as passport numbers for foreigners):
- i. Dan Niv with ID number 109508 4700 000 appointed on 17 April 2012;
 - ii. Sasson Shilo with ID number 11737228 appointed on 21 July 2013;
 - iii. Esteban Senter with ID number 29004093 appointed on 21 July 2013;
 - iv. Lior Frumkes with ID number 39004457 appointed on 7 October 2015;
 - v. Sasson Shilo with ID number P11737228 appointed on 21 July 2013; and
 - vi. Esteban Senter with ID number P29004093 appointed on 21 July 2013.

a) Procurement Review

- 8.454 We were informed by Mr Phoma that this contract is currently under investigation by Werksmans Attorneys and thus all documentation relating thereto is in their possession and thus was not reviewed by PwC. Mr Ndaba of National Treasury has been informed about this.

G1

G1/6

**G. The appointment of Siemens Limited with a target value of
R2,710,500,000 for the period 15 October 2013 to 8 January 2018**

- 8.455 From the information obtained we determined that Siemens Limited has been awarded this contract, and not Siemens (Pty) Ltd as per the initial information obtained. This will be discussed in detail hereunder.
- 8.456 An Inoxico Report drawn on Siemens Limited with registration number 1989/091899/10 reflects that the said entity was registered on 5 September 1989. The current Active Principals are listed hereunder:
- i. Marius Theodorus de Waal with ID number 250312 5025 008 appointed on 22 September 2004;
 - ii. Hans Baur with ID number 290214 0000 000 appointed on 22 September 2004;
 - iii. Reinhard Johann Fred Sanne with ID number 301208 5042 101 appointed on 22 September 2004;
 - iv. Walter Ernst Pferdekamper with ID number 311305 0301 000 appointed on 22 September 2004;
 - v. Willem Carl van der Merwe with ID number 360117 5046 004 appointed on 22 September 2004;
 - vi. Bernard Avant Smith with ID number 360420 0000 000 appointed on 22 September 2004;
 - vii. Joahn de Walt Troskie with ID number 380815504004 appointed on 22 September 2004;
 - viii. Stephanus Johannes Paulus Kruger with ID number 381014 5019 005 appointed on 22 September 2004;
 - ix. Geoffrey Harold Hainebach with ID number 390522 5059 002 appointed on 22 September 2004;
 - x. Gunter Roef Dieter Gosmann with ID number 391027 5084 108 appointed on 22 September 2004; and
 - xi. Adriaan Sarel du Plessis with ID number 440309 5008 001 appointed on

H1
H1/6

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1 October 1991.

a) Review of payments made by PRASA

8.457 We requested a list of all payments made by PRASA to Siemens Limited for Gauteng Phase 1. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system. We requested the payment packs pertaining to the payments listed on the schedule provided by Mr Phoma to determine the total payments made to Siemens in respect of this contract. We noted that payments made to Siemens for other projects were also included in the schedule.

8.458 Based on the payment packs provided, as well as the dates the contracts were awarded to Siemens in respect of Gauteng Phase 1 and Gauteng Phase 2, we were able to allocate the payments included in the schedule according to each contract.

8.459 We ascertained from the above mentioned analysis that Siemens Limited had received 12 payments from PRASA for the period 15 June 2011 to 31 March 2016 as summarised in the table hereunder (it should be noted that on various occasions more than one (1) invoice was combined for one (1) payment. It should further be noted that in some instances invoices for Gauteng Phase 1 and Gauteng Phase 2 were combined into one (1) payment):

8.460

Number	Date	Amount (R)
1	15/06/2011	96,182,048.00
2	28/02/2012	66,447,180.00
3	15/05/2012	6,895,841.61
4	21/12/2012	96,099,081.60
5	15/03/2013	12,370,247.95
6	23/05/2013	146,389,466.04
7	19/11/2013	29,996,002.51

H2

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Date	Amount (R)	Number
8	15/09/2014	21,804,946.26
9	14/11/2014	5,833,489.08
10	21/09/2014	109,013,389.20
11	10/12/2014	31,301,452.47
12	31/03/2016	88,866,756.30
		711,199,901.02

8.461 We requested the payment packs relating to the 12 payments made by PRASA to Siemens Limited in respect of the Gauteng Phase 1 contract under review. We were however, not provided with the payment packs relating to payments number 1, 2, 5, 8 and 9 listed in the table above.

8.462 We will discuss the payment pack relating to payment number three (3) in the table above to serve as an example of the documents generally included in the payment packs. It should be noted that not all the documents discussed below are included in each of the payment packs.

8.463 The payment pack includes the following documents:

- i. The remittance advice dated 15 May 2012 reflects the amount of R6,895,841.61; **H2/2**
- ii. The creditors reconciliation is dated 11 May 2012 and reflects the total payment to be made to Siemens Limited as R6,895,841.61. The reconciliation is prepared and signed by what appears to be Norman Thaele and reviewed and approved by Ms Mokate. This amount agrees to the amount as per the remittance advice; **H2/3**
- iii. The extract from the SAP creditors ledger reflects the reference as “SIEMENS” with the same amount; **H2/4**
- iv. The supplier invoice dated 24 April 2014 reflects the total cost of R6,895,841.61; **H2/5-6**

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- v. The supplier Statement of Account, dated 12 April 2012, reflects a number of invoices including the invoice in the amount of R6,895,841.61;
- vi. An escalation schedule was attached to the payment pack reflecting an amount of R6,895,841.61;
- vii. The purchase requisition is attached to the payment pack, confirming that payment can be made to Siemens Limited; and
- viii. A General Ledger Manual Journal dated 7 May 2012 is attached to the payment pack reflecting the total amount of R6,895,841.61. The document is signed by a number of PRASA individuals.

H2/7-8

H2/9

H2/10

H2/11

8.464 Siemens Limited was appointed for Gauteng Phase 1 and signed their agreement with PRASA on 13 April 2011. According to the agreement the original contract amount was R1,005,988,342 (including VAT). We determined that three (3) VOs were requested thereafter that increased the total contract amount to R1,131,969,717 (the third VO consists of four (4) VOs which were combined as one (1)). Siemens was paid an amount of R711,199,901.02 which is within the total contract value.

b) Procurement Review

8.465 During our investigation, Mr Phoma explained that Siemens Limited has been awarded two (2) contracts for the “*Design, Construction and Implementation of a New Railway Signalling System*” divided into Gauteng Phase 1 and Gauteng Phase 2.

8.466 Based on our review of the documentation received in respect of this Siemens Limited contract, we noted that the contract was awarded to Siemens Limited for the design, construction and implementation of a new railway signalling system and Gauteng Nerve Centre (**GNC**) for Gauteng Stage 1 during 2011. It was reported to us that the appointment of Siemens for Gauteng Phase 1 was procured in 2010 and prior to 2012 (the period of our review). We have however obtained further documentation relating to the contract and noted that a number of VOs were requested in relation to this contract and will be discussed hereunder as far as it relates to the VOs which were issued.

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- 8.467 Contract Agreement
- 8.468 We obtained the Contract Agreement entered into between PRASA and Siemens Limited. The date of acceptance is reflected as 16 February 2011 with the date of completion due being provided as “5 year from commencement date”. The contract amount is provided as R1,005,988,342 (including VAT). **H3**
- 8.469 The contract was signed by what appears to Dietmar Kacnik as the contractor and by what appears to be the signature of Mr Montana on behalf of PRASA dated 13 April 2011. **H3/52**
- 8.470 Included in Annexure D attached to the contract are the names of Mr Baltac and Mr Edwards as the representatives of PRASA for this project. **H3/62**
- 8.471 Annexure F attached to the contract details the milestone payment schedule for this contract amounting to R1,005,988,342 (including VAT) as the final value. **H3/64**
- 8.472 An escalation schedule is attached as Annexure H providing details of the fixed escalation as well as the expected escalation for different items forming part of the project. It is significant to note that the contract amount has increased from R1,005,988,342 to R1,100,299,867 as contained in the submission report for the second VO which includes an escalation amount of R93,832,725 (R1,100,299,867 – (R1,005,988,342 + R478,800 (VO1))). The relevance thereof will be discussed in detail below. **H3/74**
- c) Review of Variation Orders**
- 8.473 We noted from our review of the documentation provided that three (3) VOs were issued in respect of this contract. We requested, but were not provided with documentation for the first VO in the amount of R478,800 (including VAT) and hence will not be able to comment thereon. The second VO was issued to the amount of R98,600,000 and the third VO (which consists of VO3 to VO6) in the amount of R28,243,177.05 as discussed in further detail below.

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Variation Order in the amount of R98,600,000

Tender Recommendation Report

8.474	We obtained an unsigned and undated SCM Tender Recommendation Report with the transaction detailed as “ <i>VARIATION ORDER FOR KAALFONTEIN RESIGNALLING ON SIEMENS GAUTENG PHASE 1 CONTRACT</i> ”.	H4
8.475	The purpose of the report is “ <i>to request SCM to consider and approve a variation order (VO) of R98,6m as extension on the Siemens Gauteng Phase 1 resignalling contract, to include the urgent resignaling of the Kaalfontein installation. Kaalfontein was scheduled to form part of Gauteng Phase 2 installation, to be tendered during the latter part of 2012. The Kaalfontein signalling situation requires immediate intervention to mitigate serious safety risks on this respective line section</i> ”.	H4/1
8.476	The report further states that the Kaalfontein overhead electrical power sub-station was struck by lightning during December 2011. The Strategic Asset Development department motivated that the signalling at Kaalfontein receives immediate attention.	H4/2
8.477	The report states that the R98,6 million variation constitutes an 8.22% variation on the original contract amount. We noted from the summary on page 4 of the document that the contract amount (excluding Kaalfontein) is recorded as R1,100,299,867 (which includes VAT and escalations). The original contract amount was reflected as R1,005,988,342 and hence amounts to an increase of 9.8% increase (including the escalation rate and VO1) as opposed to the 8.22% as recorded in the recommendation report. (We were unable to determine how the escalation costs were calculated).	H4/4
8.478	The report is concluded with the following recommendation: “ <i>An additional amount of R98,6m, plus provision for escalation, be approved as variation order on Phase 1 of the Gauteng Resignaling project for inclusion of the Kaalfontein (Leralla Branch) signaling installation;</i> <i>The Siemens contract for Gauteng Phase 1 (Annexure A) be extended on the</i>	H4/4

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same terms and conditions, to include the urgent Kaalfontein installation, in order to capitalize on the economies of scale and approved technology solutions with Siemens on site and currently implementing the Gauteng Phase 1 resignaling (SIC)".

Minutes of the Corporate Tender and Procurement Committee Special Meeting held on 9 March 2012

8.479	We obtained the minutes of the CTPC meeting held on 9 March 2012. The minutes indicate that the following individuals were present at the meeting: i. Mr Lindikaya Zide (Mr Zide) as Chairman; ii. Mr Mbatha, Ms Nogye, Mr Holele and Mr Bopape as members; iii. Mr Swanepoel as Secretary; and iv. Mr Khuzwayo as Secretariat.	H5/2
8.480	We were not provided with the Declaration of Interest forms or the Confidentiality Agreements for this meeting.	
8.481	The contract is listed under item four (4) where the CTPC are requested to consider the VO of Siemens Limited to the amount of R98,6 million (including VAT and escalations). The CTPC recommended the VO for approval by the GCEO with the following remarks: <i>"The tender submission to be amended / revised to reflect that only the portion of phase two needed to be brought forward in order to mitigate serious safety risks issued identified by Management (SIC)".</i>	H5/3
8.482	It was further noted by the CTPC that the value of the required scope increase amounted to 8.96% of the original contract.	H5/3
	<u>Recommendation Report</u>	
8.483	An SCM Recommendation report with the transaction detailed as "VARIATION ORDER FOR KAALFONTEIN RE-SIGNALING ON SIEMENS GAUTENG PHASE 1 CONTRACT" is signed as Recommended by what appears to be the signature of Mr Mbatha dated 26 March 2011 and as Approved by what appears	H6 H6/5

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to be the signature of Mr Montana dated 29 March 2012. It appears that the date for Mr Mbatha's signature is incorrect as the contract was only signed on 13 April 2011.

8.484	The details included in this report corresponds to the Tender Recommendation Report discussed herein above. However, it includes that the CTPC considered the VO and recommended it be supported and elevated for approval to the GCEO.	H4 H6/4
8.485	We were provided with the SCM Tender Advice dated 29 March 2012 signed by what appears to be the signature of Ms Mosholi confirming that the VO has been approved.	H7
<i>Variation Order in the amount of R28,243,177.05</i>		
<u>Minutes of the Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 10 April 2013</u>		
8.486	We obtained the minutes of the CTPC meeting held on 10 April 2013. The minutes indicate that the following individuals were present at the meeting: i. Mr Holele as Chairman; ii. Mr Mbatha, Mr Bopape and Mr Mantsane as members; iii. Mr Swanepoel as Secretary; and iv. Mr Khuzwayo as Secretariat.	H8 H8/2
8.487	We obtained the Declaration of Interest forms for all of the above attendees except Mr Mbatha and Mr Swanepoel.	H8/6-9
8.488	This contract is included under item six (6) where the CTPC is requested to consider an increase in the contract value to the amount of R28,243,177.05 (including VAT).	H8/5
8.489	The CTPC resolved that the matter stand over to the next CTPC meeting with the comments " <i>The question was raised whether the VO's have become necessary in order to change the process. End-user to attend the following meeting of the Committee in order to explain the process in more detail</i> ".	H8/5
8.490	Attached to the CTPC minutes is a submission report for the CFSC's approval in the amount of R28,243,177.05 (including VAT). We noted that the submission	H8/10-16

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report was signed by what appears to be Mr Edwards on 14 March 2013 and Mr Baltac as General Manager Signals and Telecommunications as Recommended on the same day (this submission was however submitted to the CTPC and not the CFSC).

8.491	The report states that the contract was originally extended with R478,800 (including VAT) for a geotechnical investigation with a second extension of R98,616,216 (including VAT) to include the resignalling of Kaalfontein (we could not obtain any documentation relating to VO1 in the amount of R478,800). <u>Minutes of the Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 17 December 2013</u>	H8/10
8.492	We obtained the minutes of the CTPC meeting held on 17 December 2013. The minutes indicate that the following individuals were present at the meeting: i. Mr Mbatha as Chairman; ii. Dr Phungula, Mr Emeran, Ms Motshologane, Ms Zinde and Mr Gombert as members; iii. Mr Monkwe as Secretary; and iv. Mr Khuzwayo as Head of Secretariat.	H9 H9/2
8.493	We were provided with the Declaration of Interest forms as well as Confidentiality Agreements for all of the above members.	H9/5-20
8.494	This contract is included as number four (4) where the CTPC is requested to consider a contract value increase to the amount of R26,902,575.29 (including VAT). We noted that the amount has decreased from R28,243,117.05 (including VAT).	H9/4
8.495	Attached to the minutes is the CTPC Submission for Adjudication report. It appears that the submission refers to the request to approve VO3, VO4, VO5 and VO6 as summarised in the table below:	H9/21-27

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Category	Tender price (including VAT, excluding Contingency and Escalation)	Tender Delivery/ Completion
VO3: Consolidation of land	18,025.68	Recommended
VO4: SONICK batteries	7,752,467.22	Recommended
VO5: Access control equipment at New Interlocking Rooms	2,197,965.52	Recommended
VO6: Bi-directional Signalling Lawley - Residentia	16,934,116.87	Recommended
Total	26,902,575.29	

H9/26

8.496 The CTPC Submission for Adjudication report appears to have been signed by Mr Edwards and Mr Baltac dated 16 October 2013.

H9/27

8.497 The report further refers to the VO which was approved in the amount of R98,600,000 for Kaalfontein – Tembisa as referred to herein above.

H9/26

8.498 Also attached to the minutes are a number of letters and correspondence providing details regarding the requested changes to the original contract as well as the amounts for each of these, being:

H9/28-45

- i. Consolidation of Land;
- ii. Provision of Sodium Nickel (SONICK) batteries;
- iii. Access control equipment at the new interlocking stations; and
- iv. Bi-directional signalling Lawley to Stretford.

8.499 The minutes also included a letter addressed to Mr Baltac from Siyaya DB, being the project managers for this contract, dated 3 December 2013. The letter details the amounts for each of the VOs requested as per the CTPC report and states that these have been approved by the CTPC. However, we have not been provided with the CTPC minutes where these VOs were supported, or where it was approved by the GCEO. During our meeting with Mr Edwards he confirmed that the VOs were approved as required. He could however not locate the documentation in support of the approval.

H9/46-47

d) Interviews conducted

Interview with Mr Edwards

8.500 Mr Edwards is employed as Chief Engineer: Signalling and Telecommunications at PRASA Corporate and reports to Mr Baltac, as the General Manager: Signalling and Telecommunications. We will briefly refer to the information Mr Edwards provided as far as it relates to Siemens Limited:

- i. Mr Edwards stated that this contract was initially for five (5) years, however the period has been extended and is expected to be completed by May 2017;
- ii. He explained that PRASA went out on a public tender during March 2009 and the tender closing date was 30 June 2009;
- iii. During July 2009 Siyaya DB was appointed as the “Transactional Advisor” to assist with the evaluation of the tenders;
- iv. Mr Edwards stated that he drafted the specifications for this tender;
- v. He also confirmed that this contract had an extension of time as well as a number of VOs;
- vi. Mr Edwards explained that Gauteng Phase 1 included the GNC development as well as the upgrading and connecting of 18 of the 90 stations in Gauteng; and
- vii. The reason for the Gauteng Phase 1 and Phase 2 contracts was to control all signals and information from one (1) centre point, being the GNC and to have a more secure system. He stated that the VOs were all approved in respect of the contract, but was unable to provide us with further documentation as referred to herein above.

Interview with Mr Athanacious Makgamatha

8.501 Mr Makgamatha is employed as Senior Engineer Telecommunications at PRASA Corporate. Mr Makgamatha provided the following information relating to this Siemens Limited contract:

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- i. Mr Makgamatha took over as the Project Manager for this project after Mr Gama past away during early 2016;
- ii. He further stated that Siemens had to perform the civil construction of the building of the GNC as well as the technical components thereof;
- iii. The GNC was built to enable operations from one (1) central point for all the Gauteng railway stations; and
- iv. A portion of the 90 stations within Gauteng was included in the contract of the Gauteng Phase 1 project, to be connected to the GNC.

e) Verification of services

8.502 Mr Edwards and Mr Makgamatha stated that this project is still ongoing, however PRASA has taken over the GNC with a “snag list” to be completed by Siemens.

8.503 The images below depicts the building of the GNC, which formed part of the Siemens Gauteng Phase 1 project:



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8.504 The images below depict the rotating uninterruptable power supply (UPS) at the GNC as well as the transformer and the connections used to supply power to the GNC directly from their own railway lines. The GNC is not dependant on municipal electricity.



8.505 The images below depict the control room of the GNC, from where all trains within the Gauteng railway system will be controlled and monitored once both Gauteng Phase 1 and Gauteng Phase 2 are completed. The control room has a screen of 50 meters to enable the operators as well as various other GNC officials to have a

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24 hour live view of the railway tracks and trains.



8.506 The images below depict the new control and signalling system that has been installed at the Olifantsfontein Station and the SONICK battery that has been installed at the station, which formed part of the VO for R26,902,575.29 (including VAT).



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8.507 The images below depict the new control panels and cabinets at the Olifantsfontein Station as well as the Siemens logo appearing on the components:



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Findings

- 8.508 Detailed below is a summary of significant findings from the investigation into the awarding of the Gauteng Phase 1 contract to Siemens:
- i. The contract for the design, construction and implementation of a new railway signalling system and GNC for Gauteng Phase 1 was procured in 2010 and prior to 2012 (the period of our review). We were therefore not required to investigate how this contract was procured;
 - ii. We have obtained a contract agreement entered into between PRASA and Siemens for the completion of this project for a period of five (5) years from the commencement date in the amount of R1,005,988,342 (including VAT). We noted that the date of acceptance of the contract is reflected as 16 February 2011;
 - iii. Based on our review of the documentation provided we determined that the following VOs were issued in respect of this contract:
 - VO1 for the geotech investigation in the amount of R478,800. We were not provided with the documentation relating to the approval of this VO;
 - VO2 for Kaalfontein – Tembisa in the amount of R98,600,000. The request for the approval of the VO was submitted to the CTPC on 9 March 2012 and was supported whereafter it was approved by Mr Montana as the GCEO on 29 March 2012 as required; and
 - VO3 to VO6 was submitted together for recommendation to the CTPC on 10 April 2013 and 17 December 2013 for the amount totalling R28,243,177.05 and R26,902,575.29 (including VAT) respectively. We noted from our review of the minutes that the matter was deferred for further clarity by the CTPC on both occasions. We could not obtain the documentation relating to the approval of VO3 to VO6 in the amount of R26,902,575.29. Mr Edwards however confirmed that these VOs were approved and that the services were delivered in respect of these requests.

H3

H8/10

H4-H7

H8-H9

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H2

- iv. We determined that PRASA made 12 payments to Siemens for Gauteng Phase 1 during the period 15 June 2011 to 31 March 2016 totalling R711,199,901.02 which is still within the total contract amount of R1,131,969,717.29 (R1,005,988,342 + R478,800 + R98,600,000 + R26,902,575.29) This amount includes VAT, but excludes contingency and escalation costs. (We were unable to determine how the escalation costs were calculated).
- v. We have visited the GNC and Olifantsfontein station and verified that services were delivered. We further determined that items such as the SONICK battery which formed part of VO3 was installed. Mr Edwards and Mr Makgamatha stated that this project is still ongoing, however PRASA has taken over the GNC with a “snag list” to be completed by Siemens as part of this project.

Conclusions

- 8.509 We determined that six (6) VOs were issued in respect of Gauteng Phase 1. It appears that all these VOs were approved as required in terms of the SCM Policy and relevant legislation.
- 8.510 We have not identified any irregular conduct in respect of this contract.

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H. The appointment of Siemens Limited with a target value of R600,000,000 for the period 8 February 2012 to 30 April 2017

a) Review of payments made by PRASA

8.511 We ascertained from the above mentioned analysis as referred to in our discussion relating to Gauteng Phase 1, that Siemens had received nine (9) payments from PRASA in respect of Gauteng Phase 2, for the period 5 December 2013 to 15 March 2016 as summarised in the table hereunder (it should be noted that on various occasions more than one (1) invoice was combined for one (1) payment. It should further be noted that in some instances invoices for Gauteng Phase 1 and Gauteng Phase 2 were combined into one (1) payment):

8.512

Number	Date	Amount
1	05/12/2013	271,049,999.99
2	06/05/2014	193,388,373.04
3	15/10/2014	183,608,500.00
4	19/12/2014	57,900,243.18
5	23/06/2015	172,411,117.56
6	21/09/2015	48,604,165.92
7	30/11/2015	30,794,191.84
8	10/12/2015	6,344,930.86
9	15/03/2016	29,102,453.65
		993,203,976.04

12

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- 8.513 We will discuss the payment pack relating to payment number one (1) in the table above to serve as an example of the documents generally included in the payment packs. It should be noted that not all the documents discussed below are included in each of the payment packs.
- 8.514 The payment pack included the following documents:
- i. The remittance advice, dated 5 December 2013, reflects an amount of R271,049,999.99; **I2/2**
 - ii. The creditors reconciliation is dated 23 October 2013 and reflects the total payment to be made to Siemens as R271,049,999.99. The reconciliation is prepared and signed by what appears to be Geoffrey Kenosi and reviewed and signed by what appears to be Motsei Molohe. This amount agrees to the amount as per the remittance advice; **I2/3**
 - iii. The extract from the SAP creditors ledger reflects the same amount; **I2/4-5**
 - iv. The PRASA Corporate Invoice Payment Check List is signed as requested by Alison Moosa; **I2/6**
 - v. The supplier invoice is signed by three (3) individuals, one (1) of which appears to be Mr Montana. The tax invoice number is dated 23 October 2013 and further reflects the total cost as R271,049,999.99 (including VAT); **I2/7-8**
 - vi. The supplier statement of account dated 30 November includes the invoice to which this payment relates; and **I2/9-10**
 - vii. The purchase requisition was attached to the payment pack confirming that payment can be made to Siemens. **I2/11-13**
- 8.515 Siemens Limited was appointed for Gauteng Phase 2 for a contract amount of R2,710,500,000 (including VAT). Siemens was paid an amount of R993,203,976.04 which is within the total contract value.
- b) Procurement Review**
- 8.516 We obtained the procurement file and documentation relating to the abovementioned project. The contract was for the “*Design, Construction and*

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Implementation of a New Railway Signalling System for Gauteng Phase 2". We determined from our review of the documentation provided that the aforesaid contract was awarded to Siemens Limited. It is important to note that this project is a separate project and not an extension of Gauteng Phase 1 as it includes stations which were not included in Gauteng Phase 1.

- 8.517 Mr Magoro provided us with a printout version of the advertisement that would have been placed in the newspapers, for this tender. The document provides the following pertinent information:
- i. Tender number – HO/INF(S)/249/04/2012;
 - ii. The bidders shall be:
 - a. Registered as 8CE or higher with CIDB;
 - b. Registered as 8GB or higher with CIDB;
 - c. Registered as 9EP and 9EB or higher with CIDB;
 - iii. A compulsory briefing session - 20 April 2012 at Leriba Hotel, No 245 End Avenue, Clubview, Centurion, Pretoria;
 - iv. A compulsory site visit – held in Gauteng from 23 to 25 April 2012 at 10:00;
 - v. RFP documents were available from 16 April 2012 subsequent to the payment of a non-refundable R10,000;
 - vi. Tender closing date - Friday 15 June 2012 at 16:00; and
 - vii. Contact person for this tender – Mr Magoro.

Request for Proposal

- 8.518 We were provided with the RFP dated 16 April 2012 consisting of 51 pages and a number of annexures. We will not be referring to all the technical aspects of this RFP, as our mandate only includes a review of the processes followed to procure the services. The RFP provides the following pertinent information:
- i. Tender number – HO/INFRA(S) 249/04/2012;
 - ii. Tender scope – Design, Construction and Implementation of a New Railway Signalling System for Gauteng Phase 2;

I3

I4

I4/2

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- iii. Issue date – 16 April 2012;
- iv. Compulsory Briefing Session for Bidders – 20 April 2012;
- v. Compulsory Site Visit – 23 to 25 April 2012;
- vi. Closing date for Submissions – 15 June 2012 at 16:00; and
- vii. Contact person at PRASA - Mr Magoro.

8.519	The project background is provided under paragraph 7 of the RFP, and states that “PRASA wishes to replace all existing signalling interlockings” and that the ageing system is a mayor challenge impacting train performance. Several important actions are required to minimise conflicting corridor traffic: <ul style="list-style-type: none">i. Re-routing services and eliminate bottle neck sections; andii. Re-signal using full bi-directional signalling to allow operational flexibility.	I4/13
8.520	The RFP further states “The proposed electronic interlocking system must ensure compatibility with the system currently in place in PRASA and the interlocking system (SICAS S7) currently being under implementation by Siemens Limited the contractor appointed by PRASA under Gauteng Stage 1 Contract”.	I4/13
8.521	The RFP provides the commencement date of the contract, being 1 October 2012.	I4/17
8.522	The scope of work is provided as: <i>“The service provider to be appointed will install the new signalling system for the Gauteng Region and their remote-control from the GNC, as well as the associated Civil, Perway, Electrical and Telecommunication works for the Gauteng Regions North and South including the re-signalling of Germiston Railway Stations. The Project will be implemented in phases within 8 years. It must be noted that some of the phases may run parallel to activities under this Gauteng Phase 2 Project, as well as in parallel to activities still under the Gauteng Stage 1 Project. The Bidders must provide a cost breakdown per phase and sub-project in the pricing schedule. The Bidders are invited to reconfigure and minimise the number of interlockings in order to optimise the re-signalling to take advantage of technical features of the offered interlocking system”.</i>	I4/18

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8.523	Furthermore, the project would be divided into phases for each of the following: <ul style="list-style-type: none">i. Gauteng North;ii. Gauteng South; andiii. Re-signalling of Germiston.	
8.524	Paragraph 13.18 refers to the insurance of a minimum of R50,000,000 that bidders should have for professional indemnity. Bidders were also required to provide details of how they would achieve a minimum of 40% localisation, with the installation being assumed to be 100% locally.	I4/25 I4/26
8.525	Paragraph 18 details the bidder's experience required: <ul style="list-style-type: none">a) <i>"Previous experience of designing, constructing and installing similar railway interlocking systems and must attach letters of referral from at least 3 clients to which they have done this work for;</i>b) <i>Previous experience of refurbishing and installing centralised traffic control systems and must attach 3 letters of referral from previous client for which they have done this work for;</i>c) <i>Must demonstrate the capacity to handle a Project of this magnitude in terms of the human resource, financials and equipment;</i>d) <i>Must be demonstrate that they are familiar with all regulatory framework that relates to this Project including but not limited to, Occupational Health and Safety Act 1993, Railway Safety Regulator Act 2004, Construction Industries Development Board Act 2000 and National Environmental Management Act 1988".</i>	I4/27
8.526	The compliance requirements were listed as: <ul style="list-style-type: none">i. Valid Original Tax Clearance Certificate (TCC);ii. Valid B-BBEE certificate;iii. Letter from auditors confirming shareholding;iv. Completed and signed PRASA Tender Forms;v. Certificates for attendance of compulsory briefing session and compulsory	I4/28

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site visit;

- vi. Bid bond;
- vii. Registered as 8CE or higher with CIDB;
- viii. Registered as 8GB or higher with CIDB;
- ix. Registered as 9EB or 9EP or higher with CIDB;
- x. Registered professionally with Engineering Council of South Africa (**ECSA**);
- xi. Registered with ECSA as Signal or Technology Engineer; and
- xii. Certified Health and Safety Officer.

8.527 Bidders were required to provide their pricing with emphasis on:

14/29

- i. Offer firm pricing and clearly indicate price basis;
- ii. Attach an excel spreadsheet for the pricing;
- iii. Indicate the cost breakdown per station;
- iv. Indicate the escalation and formula used;
- v. PRASA will not consider estimates;
- vi. The price proposal should be in the format as per Annexure 6.2 of the RFP; and
- vii. Whether the bidder is funding the project through debt, equity or combination.

Bid Evaluation Committee appointment letters

8.528 We were provided with letters addressed to the following individuals, for their appointment to the BEC for tender HO/INFRA(S)240/2012:

15/1-9

- i. Mr Mbatha;
- ii. Mr Bopape;
- iii. Mr Sebola;
- iv. Mr Edga Gumede (**Mr Gumede**);

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	v. Ms Motshologane;	
	vi. Mr Emeran;	
	vii. Mr Mantsane;	
	viii. Mr Baltac; and	
	ix. Ms Shumi Mokotedi (Ms Mokotedi).	
8.529	The above letters appear to be signed by Mr Holele, in his capacity as the Acting GCEO, dated 15 August 2012. It should be noted that the tender number as referred to as HO/INFRA/240/2012 in the letters differs to that of the RFP as HO/INFRA/249/04/2012. It however refers to the same contract.	15/1-9
		14/2
	<u>Bid Evaluation Committee minutes</u>	
8.530	We were provided with the BEC minutes for the meeting held on 26 to 28 August 2012. The following individuals were present:	17
	i. Mr Emeran as the Chairperson;	
	ii. Mr Mbatha, Mr Gumede, Mr Sebola, Mr Baltac, Ms Mokotedi, Ms Motshologane at Mr Mantshane as members; and	
	iii. Ms Margaret Ngulube as Secretariat.	
8.531	The minutes state that all bidders were compliant following the Compliance Assessment.	17/3
8.532	It further reflects that the following three (3) bidders obtained the minimum of 70 points for technical scoring:	17/6
	i. Siemens Limited – 81.007;	
	ii. Thales – 73.529; and	
	iii. Bombardier – 71.007.	
8.533	The above three (3) bidders scored as follows for B-BBEE:	17/7
	i. Siemens Limited – 42.75;	
	ii. Thales – 54.72; and	

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iii. Bombardier – 54.51.

8.534 The scores for the above mentioned bidders were allocated for pricing as follows:

- i. Siemens Limited – 33.63;
- ii. Thales – 27.53; and
- iii. Bombardier – 35.

8.535 From the above, the total scores were calculated, being:

17/8

Bidder	Technical Score	B-BBEE Score	Pricing Score	Total Score
Siemens Limited	81.007	42.75	33.63	81.72
Thales	73.529	54.72	27.53	79.27
Bombardier	71.007	54.51	35	73.08

8.536 It should be noted that from the information provided in the minutes, we are unable to determine how they calculated the total scores. The scores were contained in the BEC report that will be referred to in more detail below. We were however unable to determine the accuracy due to the technical nature thereof.

8.537 The minutes were unsigned and no specific reference is made to this tender number or the tender description.

17/8

Bid Evaluation Reports

8.538 We obtained two (2) versions of a bid evaluation report attached to the minutes of the CTPC meeting held on 31 October 2012 as will be discussed herein below.

16 & 18

8.539 The bid evaluation reports are dated 25 July 2012 and 3 September 2012 alternatively. Both versions of the bid evaluation report are unsigned.

8.540 We noted the following important dates in respect of the tender that is included in both reports:

- i. 17 April 2012 – RFP was issued;

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- ii. 20 April 2012 – Compulsory briefing session was held;
- iii. 23 to 25 April 2012 – Compulsory site visit was held;
- iv. 15 June 2012 – Tender closing date; and
- v. 15 August – BEC members appointed.

8.541 In paragraph 1 on page 5 of the reports it reflects that six (6) tenders were received by the closing date. The compliance assessment was performed and it was found that all bids met the compliance requirements.

I6/5 & I8/5

8.542 The evaluation criteria is reflected on page 12 of the reports as follows:

I6/12 & I8/12

Evaluation Criteria	Weighting
Technical	50%
Localisation	5%
Pricing	35%
BEE	10%
Bank Rating	Compliance
Security Screening	Compliance
TOTAL	100%

8.543 All the bids were subsequently evaluated for technical requirements with a threshold of 70%. The following scores were awarded to the bidders following the technical evaluation as reflected in paragraph 7.3 on page 31 of the report dated 25 July 2012:

I6/31

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Bidder	Weighted Score (out of 50)	Percentage
ACTOM (Pty) Ltd	18.85	37.70%
Bombardier Transportation Africa Alliance Consortium	35.43	70.86%
General Electric Transportation Consortium	26.32	52.86%
Invensys Rail Dimetronic	32.42	64.84%
Siemens Ltd	41.19	82.38%
Thales Maziya Consortium	37.26	74.52%

- 8.544 The report further reflects on page 31 that the technical evaluation comprises of 55 out of the 100 points. *“It must be noted that 5 points out of the 55 has been reserved for localization”.* **I6/31**
- 8.545 Localisation evaluation is described in paragraph 7.3 on page 31 of the report and is evaluated based on two (2) elements, namely:
- *“Whether the bidder has given the undertaking to achieve 40% Localisation; and*
 - *Whether a clear plan of action from the bidder to achieve the Localisation target is provided”.*
- I6/31**
- 8.546 The report further states the following regarding localisation:
- “In the Request for Proposals it was stipulated that PRASA would like to achieve 40%, on use of components, equipment and material that has been manufactured in South Africa”.*
- I6/31**
- 8.547 Based on the 70% threshold, only three (3) of the bidders were subsequently evaluated based on localisation, price and B-BBEE, namely Bombardier Transportation Africa Alliance Consortium (**Bombardier**), Siemens Limited and

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Thales Maziya Consortium (**Thales**).

8.548 The scores included in the report for the localisation are reflected as follows:

I6/32

Bidder	Weighted Score
Bombardier Transportation Africa Alliance Consortium	3.3
Siemens Ltd	3.3
Thales Maziya Consortium	3.3

8.549 The combined scores for the technical evaluation and the localisation evaluation are reflected on page 32 of the report. We noted that the scores included in this table do not appear to be an accurate reflection of the sum of the technical and localisation scores awarded to the bidders.

Bidder	Weighted Score	PwC calculation	Difference
Bombardier Transportation Africa Alliance Consortium	38.81	38.73	-0.08
Siemens Ltd	43.81	44.49	0.68
Thales Maziya Consortium	40.07	40.56	-0.49

8.550 The scores included in the report for the B-BBEE are reflected as follows:

I6/34

Bidder	Weighted Score
Bombardier Transportation Africa Alliance Consortium	5.45
Siemens Ltd	4.28
Thales Maziya Consortium	5.47

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8.551 The scores included in the report for the price are reflected as follows:

16/35

Bidder	Price (R) (Incl. VAT)	Points	% more than the lowest acceptable bid (price)
Bombardier Transportation Africa Alliance Consortium	2,638,579,863.00	35.00	0
Siemens Ltd	2,762,691,043.44	33.63	3.92
Thales Maziya Consortium	3,225,840,082.97	27.53	21.33

8.552 The scores for the technical, B-BBEE and price were added together to obtain the total points per bidder. These scores are reflected on page 39 to 40 of the report as follows:

16/39-40

Bidder	Points	Ranking
Bombardier Transportation Africa Alliance Consortium	79.27	2
Siemens Ltd	81.72	1
Thales Maziya Consortium	73.08	3

8.553 The following scores were awarded to the bidders following the technical evaluation as contained in the report dated 3 September 2012:

18/30

Bidder	Weighted Score (out of 50)	Percentage
ACTOM (Pty) Ltd	18.85	37.692%
Bombardier Transportation Africa Alliance Consortium	35.51	71.009%
General Electric Transportation Consortium	26.32	52.632%
Invensys Rail Dimetronic	32.42	64.832%

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Bidder	Weighted Score (out of 50)	Percentage
Siemens Ltd	41.51	81.007%
Thales Maziya Consortium	36.77	73.529%

- 8.554 We noted from the above, that the scores awarded to Bombardier, Siemens Limited and Thales differ to the scores awarded to them in the report dated 25 July 2012. The scores of the other bidders remained the same.
- 8.555 The points awarded to the three (3) bidders (who attained the 70% threshold for the technical evaluation) for localisation, B-BBEE and price correspond to the scores awarded to them as reflected in the report dated 25 July 2012.
- 8.556 We noted that the differences in scores address the variations in the report dated 25 July 2012, based on our calculations, as detailed herein above. The final awarded scores and rankings however remained the same as set out in the previous evaluation report we referred to.
- 8.557 The recommendation included in both reports is that Siemens Limited be appointed as the preferred bidder, Bombardier as reserved bidder and that PRASA enter into negotiations with Siemens Limited subsequent to when a contract could be entered into. If negotiations are unsuccessful, Bombardier be appointed as the preferred bidder and negotiation will commence between PRASA and Bombardier.
- 8.558 The evaluation report dated 3 September 2012 contains a list of appendices. We have only been provided with appendix 2.1 and 2.2.
- 8.559 Mr Mbatha stated during our meeting that he does not know why two (2) BEC reports were drafted. He stated that the BEC was not required to make any amendments to the report following their evaluation according to his understanding the report dated 25 July 2012 is a draft version.

**16/40 &
18/43**

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Minutes of the Corporate Tender and Procurement Committee Extra-Ordinary
Meeting held on 31 October 2012

8.560	We obtained the minutes of the CTPC meeting held on 31 October 2012. The minutes indicate that the following individuals were present at the meeting: <ul style="list-style-type: none">i. Mr Holele as Chairman;ii. Mr Mbatha, Mr Bopape, Mr Mantsane and Mr Mathobela as members;iii. Mr Swanepoel as Secretary; andiv. Mr Khuzwayo as Observer.	19/2
8.561	The tender is listed under item three (3) where the CTPC are requested to consider the appointment of Siemens Limited as the preferred bidder and Bombardier as the reserved bidder for tender HO/INFRA (S) 249 04/2012, the design, construction and implementation of a new railway signalling system for Gauteng Phase 2.	19/3
8.562	Comments by the CTPC were included, which stated that “ <i>Makhosini Mashele and Hans- Joachim Bimberg, Siyaya DB Consultants presented the item and responded to questions raised by members of the Committee</i> ”.	
8.563	The CTPC concurred with the recommendation and resolved the following: <ul style="list-style-type: none">i. “<i>Siemens be appointed as the preferred bidder;</i>ii. <i>Bombardier be appointed as the reserved bidder;</i>iii. <i>The Negotiation Team enter into negotiations with the preferred bidder and if the negotiations are successful PRASA signs an agreement with the preferred bidder;</i>iv. <i>Should the negotiations not be successful with the preferred bidder the reserved bidder should be appointed as the preferred bidder and the Negotiation Team should enter into negotiations with the preferred bidder (who was the former reserved bidder) and if the negotiations are successful PRASA signs an agreement with the preferred bidder</i>”.	19/3

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- 8.564 The CTPC's support is subject to:
- i. "Support by the GCEO;
 - ii. Support by the FCIP; and
 - iii. Approval by the BOC".
- 8.565 It should be noted that the minutes are unsigned.
- Minutes of the Finance, Capital Investment and Procurement Committee Meeting held on 06 November 2012
- 8.566 The minutes indicate that the following individuals were present at the meeting: **I10/1**
- i. Dr Bridgette Gasa as Chairperson;
 - ii. Mr Montana as GCEO; and
 - iii. Mr Xolile George, Ms Ntebo Nkoenyane and Mr Mawethu Vilana as members.
- 8.567 Further individuals in attendance at the FCIP meeting are reflected as Mr Zide, Mr Mbatha, Mr Sebola, Mr Bopape, Ms Kotu, Ms Shezi and Mr Godfrey Sonny (**Mr Sonny**). During the interview with Mr Mbatha he stated that his attendance at FCIP meetings were compulsory in his capacity as CPO. Mr Mbatha stated that he was not a member of the FCIP and had no voting rights therein. **I10/1**
- 8.568 This tender is discussed under point 9 on page 6 of the minutes. Mr Makhensa Manbunda and Mr Hans-Joachim Bimberg from Siyaya DB Engineers presented the submission to the committee and highlighted the following: **I10/6**
- "PRASA issued a Request for Proposal (RFP) for a five-year project entailing the Design, Construction and Implementation of a new Railway Signalling System for the Gauteng Phase2 on 17 April 2012;
 - The closing date for the submission was on 15 June 2012; and Prasa received six (6) bids namely: Actomy (Pty) Ltd, Bombardier Africa Alliance Consortium, General Electric Transportation Consortium, Invensys Rail Dimetronic (Pty) Ltd, Siemens Limited and Thales Maziya Consortium". **I10/7**

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8.569	The minutes state that “ <i>The Committee considered the submission for the Design, Construction and Implementation of a New Railway Signalling System for Gauteng Phase 2 and was satisfied that the tender process followed was consistent with the Prasa Supply Chain Management Policy</i> ”.	I10/7
8.570	The FCIP resolved that they would “ <i>recommend to the Board the appointment of Siemens as the preferred bidder at the amount of R2.8 billion (Inc. VAT) for a period of Five (5) years; and</i> <ul style="list-style-type: none">• <i>Bombardier be appointed as the reserved bidder.</i>• <i>The Group Chief Executive Officer, to negotiate with the bidder in respect of the reduction of site establishment fees and any other related cost. If the negotiations are successful, the GCEO signs and agreement with the preferred bidder;</i>• <i>The Committee further requested management to submit and Executive Summary Report on the outcomes of the negotiation team at its next meeting</i>”.	I10/7-8
8.571	The minutes appear to be signed by Dr Gasas dated 25 February 2013. <u>Memorandum dated 29 November 2012</u>	
8.572	We were provided with an internal memorandum dated 29 November 2012, addressed to Mr Mbatha that appears to be signed by Mr Zide as the Company Secretary.	I11/1 I11/2
8.573	The memorandum states that the committee recommended the following submissions at the FCIP meeting held on 6 November 2012 for the BoC’s approval at the BoC meeting that was scheduled to be held on 29 November 2012: <ul style="list-style-type: none">i. Design, Construction and Implementation of a new Railway Signalling System for Gauteng Phase 2 (HO/INF(S)/256/04/2012); andii. Provision and Installation of a security fence in PRASA Depots Nationally (HO/SCM/225/11/2011).	

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Minutes of the Board of Control meeting held on 29 November 2012

8.574	The minutes indicate that the following individuals were present at the meeting: i. Mr Sfiso Buthelezi as Chairperson; ii. Dr Gasa, Mr Thulani Gcabashe, Ms Marissa Moore, Mr George, Mr Mganyana Salanje and Ms Namhla Mxenge as members; and iii. Mr Montana as GCEO.	I12/1
8.575	Further individuals in attendance at the Board meeting are reflected as Mr Zide, Mr Ngakane, Mr Fenton Gastin and Mr Holele.	I12/1
8.576	The tender is discussed under paragraph 8.1 on page 8, and reflects the same details as provided in the FCIP minutes. However, the following is stated: <i>“The FCOP Committee having discharged its duties in accordance with the authority and powers granted to it by the Board makes the following recommendations:</i> <i>- That the Board approved the appointment of Siemens as preferred bidder at the value of R2.7 billion”.</i>	I12/1
8.577	It should be noted that the FCIP minutes reflects the appointment of Siemens Limited for the amount R2,8 billion whereas the BoC minutes reflect the amount as R2,7 billion. However, the tender amount for Siemens Limited was R2,762,691,043.44.	
8.578	Furthermore, the minutes state that the total cost of the signalling program would amount to R6 billion following this appointment of Siemens Limited.	I12/9
8.579	The Board resolved to appoint Siemens Limited as the preferred bidder for the amount of R2,7 billion.	I12/9
8.580	The minutes appear to be signed by Mr Buthelezi dated 24 January 2013.	I12/35

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Undated letter from Siemens to PRASA

- 8.581 We received a letter on a Siemens Limited letterhead reflecting that it was addressed to PRASA with tender number HO/INFRA(S) 249/04/2012 as reference. This tender number corresponds to that on the RFP and it appears that this letter addressed their “*OPTIONAL PRICE PROPOSAL*”. The letter is undated and unsigned.

I13

Siemens presentations

- 8.582 We were provided with three (3) presentations dated January 2013 with the subject provided as “*Building Cities worth building a future in*”. The presentations appear to address the following three (3) topics:

I14

- i. “*TT-02*”;
- ii. Training; and
- iii. “*T-X 02*”.

- 8.583 Due to the technical nature of these presentations, we will not be referring to them in further detail.

c) Review of Variation Orders

- 8.584 No variation orders were noted in respect of this contract.

d) Interviews conducted

Interview with Mr Magoro

- 8.585 Mr Magoro is employed as Contract Manager at Autopax, a subsidiary of PRASA. He reports to Mr Thabo Mashea. We will briefly refer to the information provided by Mr Magoro as far as it relates to this contract:

- i. During the initial stages of the procurement of this contract, Mr Magoro was employed as a Sourcing Specialist at PRASA Corporate and reported to Ms Mosholi;
- ii. He indicated that he was responsible for placing the advertisement for this contract but left PRASA Corporate prior to the appointment of the service

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provider;

- iii. The SCM is responsible for drafting the RFP. However, on occasion external consultants would be brought in to assist with technical issues in respect of the requirements to be included in the RFP. These external consultants would differ to the consultants sometimes utilised during the evaluation process;
- iv. He indicated that an external consultant was appointed by PRASA to assist with the specifications for this contract. The consulting firm appointed was Malongete Consulting and the consultant responsible was Brenda Malongete;
- v. He stated that Ms Mosholi would have taken over his responsibilities for this contract when Mr Magoro was transferred to Autopax; and
- vi. Mr Magoro stated that he was of the understanding that the end-user for this contract was Mr Edwards.

Interview with Mr Mbatha

8.586 Mr Mbatha provided the following information relating to Siemens Limited:

- i. He confirmed that he was a member of the BEC and CTPC for this contract. According to him it is not a conflict to sit on both these meetings. He stated that the GCEO appointed him to the CTPC and BEC for contracts above R1 billion.

Interview with Mr Edwards

8.587 Mr Edwards provided the following information relating to Siemens Limited:

- i. Mr Edwards was involved with the project from the beginning and assisted with the drafting of the specifications;
- ii. He stated that when Gauteng Phase 2 was awarded to Siemens Limited, PRASA adjusted the payment schedules for Gauteng Phase 1 as some of the aspects were overlapping;
- iii. The objective of this project was to control all trains from a central point

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whereby feedback could be obtained regarding any issues encountered along the railway to enable PRASA to react in a timeous manner;

- iv. He further stated that he expects an escalation on this project of approximately R600 million due to the timeframes that have changed and the effect of the Rand/Dollar exchange rate; and
- v. Mr Makgamatha took over as Project Manager from Mr Gama who passed away during March 2016.

Interview with Mr Mantsane

8.588 Mr Mantsane provided the following information relating to Siemens Limited:

- i. He confirmed that he received no formal training or guidance prior to commencement of the evaluation. He stated that the Siemens Limited contract contained various “security features” which he focussed on while he performed the technical evaluation; and
- ii. Mr Mantsane does not recall why two (2) BEC reports were drafted as he cannot remember having to make any amendments to the intial report.

Interview with Ms Mosholi

8.589 Ms Mosholi stated during the interview conducted that she was not the procurement official involved with this contract subsequent to Mr Magoro’s transfer to Autopax.

Interview with Mr Makgamatha

8.590 Mr Makgamatha stated that he was the Project Manager for this project which included the remainder of the 90 stations within the Gauteng railway system, to be connected to the GNC.

Interview with Mr Khuzwayo

8.591 During our meeting with Mr Khuzwayo, he states that the various committees often requested negotiations with bidders in an attempt to reduce the cost, but were often unsuccessful. He could however not provide us with any confirmation

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that negotiations with Siemens took place.

e) Verification of services

8.592 Mr Makgamatha confirmed that the control rooms and systems of the remainder of the stations will also be similar to that of Olifantsfontein, discussed under Gauteng Phase 1 herein above. He stated that the entire project of Gauteng Phase 1 and Gauteng Phase 2 is expected to be completed by 2020, with the operators and other staff of the GNC expanding as each station is connected to the GNC.

Findings

8.593 Detailed below is a summary of significant findings from the investigation into the awarding of the Gauteng Phase 2 contract to Siemens:

- | | | |
|------|--|-------------------------------|
| i. | We determined from our review of the documentation provided that the aforesaid contract was awarded to Siemens following an open bidding process. The tender was advertised with a compulsory tender briefing to be held on 20 April 2012, a compulsory site visit to be held on 23 to 25 April 2012 and the tender closing on 15 June 2012; | 13 |
| ii. | The RFP refers to the design, construction and implementation of a new railway signalling system for Gauteng Phase 2. We noted that it is recorded under the scope of work in the RFP that project will be implemented in phases over a period of eight (8) years and some of the activities will run parallel to the Gauteng Phase 1. The RFP sets out the compliance requirements in detail which includes the CIDB grading required; | 14

14/18 |
| iii. | The BEC was appointed on 15 August 2012 and the evaluation was performed on 26 to 28 August 2012. We noted from the Bid Evaluation Report dated 3 September 2012 that six (6) tenders were received by the closing date. We noted that all the bidders were compliant subsequent to the compliance assessment whereafter the technical evaluation was performed. Three (3) bidders obtained the minimum of 70 points subsequent to the technical evaluation whereafter they were evaluated on price and B-BBEE. Siemens received the highest score of 81.72 points | 15

18 |

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- after completion of the evaluation process and was recommended to be appointed as the preferred bidder;
- iv. The matter was adjudicated on by the CTPC on 31 October 2012 where they concurred with the recommendation that Siemens be appointed as the preferred bidder. It is important to note that the CTPC recommended that a negotiation team enter into negotiations with Siemens before an agreement is signed. We determined from our interview with Mr Khuzwayo that the various committees often requested negotiations with bidders in an attempt to reduce the cost, but were often unsuccessful. We could not obtain any confirmation that negotiations with Siemens took place; **I9**
- v. The matter was referred to the FCIP on 6 November 2012, as required for contracts in excess of R100 million as provided for in the SCM Policy. The FCIP also supported the matter to appoint Siemens as the preferred bidder in the amount of R2,8 billion (including VAT) for a period of five (5) years. The FCIP also requested the GCEO to negotiate with the bidder in respect of the reduction of site establishment fees and any other related costs whereafter the GCEO must sign an agreement with the bidder. The BoC approved the appointment of Siemens on 29 November 2012 in respect of this contract. We were however not provided with the agreement entered into between PRASA and Siemens in respect of this project; **I10**
I10/7-8
I12
- vi. PRASA made nine (9) payments to Siemens for Gauteng Phase 2 during the period 5 December 2013 to 15 March 2016 totalling R993,203,976.04 which is within the total contract amount of R2,762,691,043.44. No VOs were issued in respect of this contract; and **I2**
- vii. During our meeting with Mr Makgamatha, he confirmed that the control rooms and systems of the remainder of the stations will also be similar to that of Olifantsfontein, discussed under Gauteng Phase 1. He further stated that the entire project of Gauteng Phase 1 and Gauteng Phase 2 is expected to be completed by 2020, with the operators and other staff of the GNC expanding as each station is connected to the GNC.

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Conclusions

- 8.594 Based on our review of the available documentation and interviews conducted, it appears that the procurement of Siemens in respect of the Gauteng Phase 2 project was done in accordance with a provisioning system which was fair and transparent as provided for in the PRASA SCM Policy and related legislation as referred to herein above.

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I. The appointment of Swifambo Holdings (Pty) Ltd with a target value of R525,000,000 for the period 1 April 2013 to 31 March 2018

- 8.595 An Inoxico Report drawn on Swifambo Holdings (Pty) Ltd (**Swifambo**) with registration number 2011/117852/07 reflects that the said entity was registered on 19 September 2011. The current Active Principals are listed hereunder:
- i. Landgrebe Secretarial Services appointed on 28 January 2013; and
 - ii. Auswell Mashaba with ID number 640317 5730 084 appointed on 7 March 2012.

a) Procurement Review

- 8.596 We were informed by Mr Phoma that this contract is currently under investigation by Werksmans Attorneys and thus all documentation relating thereto is in their possession. The project was therefore not included in our review and has been reported to Mr Ndaba of National Treasury.

J1

J1/8

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**J. The appointment of Gibela Rail Transport Consortium with a target value
of R5,699,959,067 for the period 1 May 2014 to 31 March 2034**

- 8.597 An Inoxico Report drawn on Gibela Rail Transport Consortium (**Gibela**) with registration number 2013/045763/07 reflects that the said entity was registered on 15 March 2013. The current Active Principals are listed hereunder:
- i. Yvan Francois Jacques Jean-Pierre Eriau with ID number 08A173368 appointed on 15 March 2013;
 - ii. Yvan Francois Jacques Jean-Pierre Eriau with ID number 13AC52986 appointed on 15 March 2013;
 - iii. Christo Stockenstr m with ID number 540218 5117 085 appointed on 25 July 2015;
 - iv. Mark Vernon Spinner with ID number 630730 5119 086 appointed on 28 August 2014; and
 - v. Mziwabantu Dayimani with ID number 780204 5475 086 appointed on 11 October 2013.

a) Procurement Review

- 8.598 We were further informed by Mr Phoma that this contract is also under investigation by Werksmans Attorneys and hence was not included in our review. This has been reported to Mr Ndaba of National Treasury.

K1

K1/6

K. The appointment of Black Star Communications with a target value of R75,000,000 for the period 14 November 2012 to 30 September 2015

- 8.599 An Inxico Report drawn on Black Star Communications (Pty) Ltd (**Black Star**) with registration number 2009/011809/07 reflects that the said entity was registered on 18 June 2009. The current Active Principals are listed hereunder:
- i. Claude Stanley Barnes with ID number 631117 5047 088 appointed on 1 November 2010;
 - ii. Dannyboy Katishi Masemola with ID number 680717 5760 083 appointed on 1 March 2011;
 - iii. Moraka Vincent Masoga with ID number 801026 5351 081 appointed on 1 February 2011; and
 - iv. Neethiananthan V Balakrishnan with ID number A19880079 appointed on 1 November 2011.

a) Review of payments made by PRASA

- 8.600 We requested a list of all payments made by PRASA to Black Star. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system. We requested the payment packs pertaining to the payments listed on the schedule provided by Mr Phoma to determine the total payments made to Black Star in respect of this contract. Based on the payment packs provided, as well as the dates the contracts were awarded to Black Star in respect of this contract and the second contract awarded to Black Star (discussed below), we were able to allocate the payments included in the schedule according to each contract.

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8.601 We ascertained from the above mentioned analysis that Black Star received 14 payments from PRASA for the period 30 November 2012 to 15 July 2015 as summarised in the table hereunder:

Number	Date	Amount (R)
1	30/11/2012	6,954,000.00
2	31/01/2013	2,969,472.00
3	15/03/2013	5,916,600.00
4	18/03/2013	2,281,368.00
5	30/04/2013	3,194,280.00
6	31/05/2013	6,590,340.00
7	19/07/2013	7,506,900.00
8	19/07/2013	240,426.00
9	19/08/2013	6,707,760.00
10	30/09/2013	6,213,570.00
11	15/11/2013	6,036,300.00
12	23/12/2013	5,934,840.00
13	31/03/2014	3,543,690.00
14	15/07/2015	6,600,000.00
		70,689,546.00

8.602 We requested the payment packs relating to the 14 payments made by PRASA to Black Star in respect of the contract under review. We were however not provided with the payment pack relating to payment number 12 as detailed in the table above.

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- 8.603 We will discuss payment pack relating to payment number one (1) in the table above to serve as an example of the documents generally included in the payment packs. It should be noted that not all the payment packs contained the documents listed below.
- 8.604 The payment pack includes the following documents:
- i. The remittance advice, dated 30 November 2012, reflects an amount of R6,954,000; **L2/2**
 - ii. The creditors reconciliation is dated 29 November 2012 and reflects the total payment to be made to Black Star as R6,954,000. The reconciliation is prepared and signed by what appears to be Norman Thaele and reviewed, approved and signed by what appears to be Ms Mokate. This amount agrees to the amount as per the remittance advice; **L2/3**
 - iii. The extract from the SAP creditors ledger reflects the supplier invoice number in the text column with the same amount; **L2/4**
 - iv. The supplier invoice is signed by two (2) individuals, one (1) of which appears to be Mr Mapodile. The tax invoice number is reflected as BSC/PRA/001 and dated 31 October 2012. The invoice further reflects the total cost as R6,954,000 (including VAT); **L2/5**
 - v. The supplier statement of account dated 31 October 2012 reflects one (1) invoice in the amount of R6,954,000; and **L2/6**
 - vi. The purchase requisition was attached to the payment pack confirming that payment can be made to Black Star. **L2/7-8**
- 8.605 Black Star was appointed for this contract on 27 September 2012 for a total amount of R68,400,000 (including VAT). A VO was issued in the amount of R6,600,000 (including VAT) thus increasing the total contract amount to R75,000,000 (including VAT). The total paid to Black Star as detailed herein above thus falls within the contract amount with a total of R4,310,454 still available to be paid on the contract.

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b) Procurement Review

8.606 We obtained the procurement file and documentation relating to the abovementioned project. The contract was for an online ticket booking and reservation system for PRASA. We determined from our review of the documentation provided that the aforesaid contract was awarded to Black Star following an open bidding process.

Purchase Requisition

8.607 A Request to Create a Purchase Requisition form was located on file. The request is dated 18 July 2011 with description “*Request for online booking and Reservations System*”. The budgeted amount is reflected as R5,000,000 and the delivery date as six (6) months.

8.608 The motivation included in the Purchase Requisition states as follows:

“Prasa generates its income from selling tickets to the commuters. It is therefore imperative that this function is fully enabled and available at all times. The current fare collection solutions are disparate, unstable and are not in terms of providing access to ticket sales/reservations outside Prasa stations”.

8.609 The Purchase Requisition reflects the requestor’s name as Jabulani Nkosi and appears to be signed by the Requestor and the Approver.

Tender advertisement

8.610 We obtained the tender advertisement in respect of this tender. We are unable to determine from the document provided the date on which the advertisement was placed.

8.611 The advertisement reflects the following important dates:

- i. Compulsory tender briefing session – 21 October 2011;
- ii. RFP collection date – 13 to 21 October 2011; and
- iii. Tender closing– 11 November 2011 at 12:00.

8.612 The contact person in respect of this tender is reflected as Ms Rosemary Moagi

L3

L4

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(Ms Moagi).

Request for Proposal dated 1 August 2011

8.613	We obtained a copy of the RFP dated 1 August 2011. Paragraph 2 of the RFP, Introduction and Purpose of the RFP reflects the following: <i>“PRASA is requesting proposals from experienced companies regarding the following capabilities: Reservation capabilities for long distance bus and train, Online Self Service Booking, Telephone and walk-in reservations, 3rd party sales points (e.g. Retailers), Mobile/Handheld ticketing Devices and Self service kiosks. Respondents are welcome to include appropriate value adding capabilities not necessarily mentioned in this document”.</i>	L5/3
8.614	We noted that the criteria for evaluation was contained under paragraph 10 of the RFP includes the cost of the project which reads as follows (the relevance thereof will be referred to below) <i>“Total cost, including all bidding assumptions. The project cost structure must cater for working within a budget. Demonstration of a proven track record that is timely and performs within budget”.</i>	L5/10
8.615	It is important to note that paragraph 3 of the Preferential Procurement regulations 2011 provides that an organ of state must, prior to making an invitation for tenders (b) <i>“Determine and stipulate the appropriate preference point system to be utilized in the evaluation and adjudication of tenders”</i> which was not done. The relevance thereof will be discussed in further detail below.	A3/9
	<u>Tender Collection Register</u>	
8.616	The tender collection register is completed for tender number HO/ICT/110/10/2011. The tender register reflect that the collection dates for the online booking and reservation system tender is from 13 to 21 October 2011.	L6
8.617	During the aforementioned dates, 24 entities collected tender packs for tender HO/ICT/110/10/2011.	L6/2-3
	<u>Briefing session attendance register dated 21 October 2011</u>	
8.618	We obtained the briefing session attendance register for tender	L7

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HO/ICT/110/10/2011.

- 8.619 The attendance register indicates that the briefing session was held on 21 October 2011 at 10:00. The tender register appears to be signed by representatives from 28 entities. Lucan Mtete attended the briefing session on behalf of Black Star.

Tender opening register dated 5 December 2011

- 8.620 We obtained the tender opening register which is dated 5 December 2011. The project description reflects "*ON-LINE BOOKING AND RESERVATION SYSTEM*", with tender number HO/ICT/110/10/2011.

L8

- 8.621 Tenders were received from 12 entities. It should be noted that a handwritten note indicates that three (3) of the listed tenderers submitted tenders for a different tender and should thus not have been included on the list for tender HO/ICT/110/10/2011. It can therefore be concluded that only nine (9) of the 12 tenders were submitted for this tender.

L8/1

- 8.622 The tender opening register is signed by the individual who opened the bids as well as two (2) witnesses.

Tender evaluation attendance register dated 1 February 2012

- 8.623 The tender evaluation attendance register reflects the date as 1 February 2011. The date appears to be an error as it should reflect 2012 and not 2011.

L9

- 8.624 The following individuals were present at the tender evaluation:

L9/2

- i. Mr Mapodile - ICT;
- ii. Mr Nkosi - ICT;
- iii. Mr Mabona - ICT; and
- iv. Ms Moagi - SCM.

- 8.625 Declarations of Interests and Confidentiality Agreements which appear to be signed by the above mentioned members were located on file. (We noted that the Declarations of Interests forms reflect the incorrect date of 1 February 2011 in

L9/3-10

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respect of two (2) of the members and should read 1 February 2012).

Minutes of the Corporate Tender and Procurement Committee Extra-Ordinary
Meeting held on 31 July 2012

- | | | |
|-------|---|--------------|
| 8.626 | The minutes indicate that the following individuals were present as the meeting:

i. Mr Holele as the Chairman;

ii. Mr Mbatha, Mr Mantsane, Mr Mathobela and Mr Bopape as members; and

iii. Mr Swanepoel as Secretary. | L10/2 |
| 8.627 | The tender is discussed under item number ten (10). The CTPC was requested to consider the appointment of Black Star for the provision of an online booking and reservation system. | L10/3 |
| 8.628 | The total contract amount is reflected as R79,000,000 (including VAT). The delivery period is not indicated. | L10/3 |
| 8.629 | The following comments were included by the CTPC:

<i>“Jabulani Nkosi, ICT department presented the item and responded to questions raised by members of the Committee.</i>

<i>CTPT (SIC) noted that the request is for the Committee to assist with the support to evaluate the submissions to the GEO for his approval.</i>

<i>The Committee raised its concerns that the background of the submission is not sufficient enough to support the recommendation to award business to BlackStar. More detail is required”.</i> | L10/3 |
| 8.630 | The CTPC resolved that they concurred with the recommendation that:

<ul style="list-style-type: none">• <i>“BlackStar Communication be appointed as the preferred bidder for the development and implementation of integrated ticketing system.</i>
• <i>The GCEO appoint a negotiations team to negotiate and finalise costings.</i>
• <i>If the negotiations with BlackStar are successful, that a contract be entered into between the two parties.</i>
• <i>IBM be appointed as the reserved bidder for the development and</i> | L10/3 |

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implementation of integrated ticketing system.

Subject to:

- *Submission of a more detailed background to support the recommendation to award business to BlackStar.*
- **Approval by the GCEO”.**

8.631 We were unable to determine whether the comment made by the CTPC in respect of the detailed background which they requested was addressed as we were not provided with the submission report submitted to the CTPC. The recommendation report however was approved by the GCEO on 31 July 2012 and on the same day the CTPC meeting was held.

8.632 Mr Mbatha stated during his interview that a negotiations team was appointed to clarify certain issues which were unclear from the bid documents. In his capacity as the CPO, Mr Mbatha had to ensure that all comments or conditions made by the CTPC were addressed prior to the submission to the GCEO.

8.633 Declarations of Interests and Confidentiality Agreements which appear to be signed by the members of the CTPC as referred to herein above with the exception of Mr Mbatha and Mr Swanepoel are on file. We noted that a Declaration of Interest and a Confidentiality Agreement which appears to be signed by Mr Khuzwayo was also maintained on file.

L10/4-13

Tender Advice approved on 31 July 2012

8.634 The Tender Advice was attached to the minutes of the CTPC meeting held on 31 July 2012.

L10/14

8.635 The resolution taken by the CTPC as referred to above, is reflected in the Tender Advice.

8.636 The date of approval is reflected as 31 July 2012. The Tender Advice appears to be signed by Ms Mosholi.

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GCEO Recommendation Report

8.637	The GCEO Recommendation Report was attached to the minutes of the CTPC meeting held on 31 July 2012.	L10/15
8.638	Paragraph 1, on page 4 of the report states the following in respect of this tender: i. 13 October 2011 – the tender was advertised in City Press and Sunday Times; ii. 21 October 2011 – compulsory tender briefing was held; and iii. 11 November 2011 – the tender closed.	L10/18
8.639	Paragraph 3, on page 4, details further important dates in respect of this tender: i. 27 January 2012 – the CPO appointed the BEC members; and ii. 1 – 2 February 2012 – the evaluation process commenced.	L10/18
8.640	Paragraph 3.1 on page 5 lists the members of the BEC. We noted that Mr Khuzwayo is included in this list, but was not included on the tender evaluation attendance register.	L10/19
8.641	The list of entities who submitted bids by the closing date is contained in paragraph 3.2, on page 5 of the report. These entities are listed as follows: i. Afrigis; ii. Blackstar Communications; iii. Carma Systems; iv. eQtickets Payments; v. IBM; vi. KG Payment; vii. KTS Technology; viii. Mosima; and ix. Tata Consultancy.	L10/19

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8.642 The evaluation criteria for this tender is detailed in paragraph 3.3 of the report as follows:

L10/20

Evaluation Criteria	Weighting
Technical	60%
Pricing	Not evaluated
BEE	20%
Bank Rating	Compliance
Security Screening	Compliance
TOTAL	100%

8.643 We noted that the bidders were not evaluated based on price. Page 7 of the report reflects the following:

L10/21

“Due to complexity of the solution required and the range of solutions and prices proposed, it was decided that PRASA focus on the bidder that provides the most comprehensive solution and BBEE”. (It is important to note that the RFP provides for the total cost under paragraph 10.4 and this should not have been ignored in the evaluation process. Paragraph 3 of the Preferential Procurement regulations 2011 provides further that an organ of state must, prior to making an invitation for tenders (b) *“Determine and stipulate the appropriate preference point system to be utilized in the evaluation and adjudication of tenders”.*

L5/10

A3/9

8.644 Hence the evaluation criteria for this tender reflects that the B-BBEE was incorrectly based on 20%. The PPPFA states that a preference points system (90 points for price and 10 points for specific goals such as B-BBEE) must be followed for contracts with a rand value above the prescribed amount of R1 million. If the BEC ignored pricing, which had originally been allocated 20% for B-BBEE, they evaluated the bid based on 25% B-BBEE (i.e. 20 out of 80) and is irregular.

A3/3

8.645 Paragraph 5.2 on page 8 of the report states that all the bidders who were evaluated were found to be compliant during the pre-qualification process and

L10/22

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thus none were eliminated at this stage of the evaluation process.

- 8.646 The technical evaluation was performed on the nine (9) bidders based on the 13 requirements as set out in the RFP. The following two (2) tables reflect the total technical scores awarded to each of the bidders.

IBM	Mosima	KG Payment	Tata Consultancy	Carma
39.00	12.00	22.00	31.67	20.33

L10/29

Afrigis	Blackstar	KTS Technology	eQtickets
23.67	45.00	13.00	36.33

L10/29

- 8.647 Paragraph 5.3 highlights the top three (3) bidders as Black Star (45 points), IBM (39 points) and eQtickets (36.3 points).

L10/23

- 8.648 The B-BBEE evaluation was performed thereafter and the scores were awarded to the bidders as follows:

Bidder	Weighted Score
Black Star	6
IBM	4
eQtickets	5.5

L10/23

- 8.649 We noted that the price evaluation was not performed as mentioned above due to the wide range in prices and solutions that were proposed. The pricing proposed by each of the bidders is reflected in paragraph 5.5 as follows:

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Bidder	Price (R) (Including VAT)
Black Star	79,000,000.00
IBM	Did not provide a price
eQtickets	22,235,472.00
Mosima	12,000,000.00
Tata Consulting	20,402,595.96
Carma	25,800,000.00
Afrigis	9,952,200.00
KTS Technology	12,969,180.00
KG Payments	105,000,000.00

L10/25

8.650 The BEC made the following recommendation as contained in paragraph 6 of the report:

L10/26

- i. *“That Blackstar Communication be appointed as the preferred bidder for the development and implementation of integrated ticketing system;*
- ii. *That the Group Chief Executive Officer appoint a negotiations team to negotiate and finalise costings; and*
- iii. *That if the negotiations with Blackstar are successful, that a contract be entered into between the two parties;*
- iv. *That IBM be appointed as the reserve bidder for the development and implementation of integrated ticketing system;”.*

8.651 The report appears to be signed by the GCPO, Mr Mbatha as Recommended and the GCEO, Mr Montana as Approved on 31 July 2012.

L10/27

8.652 We obtained a letter, dated 8 August 2012, which is addressed to Mr Lucas Mteto (**Mr Mteto**) from Black Star. The letter serves to inform Black Star that they have been appointed as the preferred bidder and that IBM have been appointed as the

L11

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reserve bidder.

- 8.653 The letter further states that “*PRASA will contact you for contract negotiation including but not limited to price, training and BEE*”. The letter was signed by the CPO, Mr Mbatha dated 8 August 2012.
- 8.654 Mr Mteto acknowledges receipt of the letter on the same day. **L11**
- 8.655 We obtained a letter dated 14 September 2012 addressed to the CPO, Mr Mbatha. The letter indicates that Black Star attended a meeting with PRASA on 12 September 2012 where the scope of work was agreed upon as well as the contract amount. The contract amount is reflected as R60,000,000 (excluding VAT) which amounts to R68,400,000 (including VAT). **L12**
- 8.656 The letter further refers to the request that the project will be completed in a shorter period of time, although the exact period is not indicated. The letter appears to be signed by Mr Nathan Balakrishnan (**Mr Balakrishnan**), the MD of Black Star.
- Notice to Proceed dated 27 September 2012
- 8.657 We obtained the Notice to Proceed for the appointment of Black Star for tender HO/ICT/110/10/2011 dated 27 September 2012. **L13**
- 8.658 The Notice to Proceed serves to notify Black Star that they have been awarded the contract for the above mentioned tender. Black Star was requested to accept the award in writing by no later than 1 October 2012. The Notice to Proceed appears to be signed by Ms Mosholi.
- 8.659 Black Star acknowledges receipt of the Notice to Proceed in a letter addressed to Ms Mosholi dated 27 September 2012. The letter appears to be signed by Mr Balakrishnan. **L14**
- 8.660 On 29 September 2012, in a letter addressed to Mr Mbatha, Black Star confirm the details of the contract in respect of contract value and scope of work, which was detailed in a previous letter sent to PRASA on 14 September 2012, as referred to herein above. **L15**

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- 8.661 The letter states that “*This fee excludes hardware, storage and database servers, with the exception of the servers we will provide for the hosting of the ticketing application, web server and firewall*”. The letter reflects that the timeframe of the project was reduced from 40 weeks to 30 weeks. The letter appears to be signed by Mr Balakrishnan.
- Conditions of Contract entered into between PRASA and Black Star
- 8.662 We obtained the contract entered into between PRASA and Black Star for the online booking and reservation system. The contract is signed by a representative of Black Star and two (2) witnesses as well as Mr Zide on behalf of PRASA dated 15 November 2012. It should be noted that no witness signatures appears for the signature of Mr Zide and that no date was completed in respect of the signature by the representative of Black Star. **L16/13**
- 8.663 We noted that in paragraph 2.2 of the contract, the Black Star tender date is reflected as 18 November 2011. This date does not correspond with the tender closing date as indicated in the Recommendation Report, which is reflected as 11 November 2011. Based on these documents, it appears that the Black Star tender was submitted seven (7) days subsequent to the tender closing date. (We could not obtain the tender document to verify the date of the bid documents). **L16/3**
- 8.664 The contract commencement date is reflected as 1 October 2012 for a period “*as indicated in the project time line – see Addendum A page 5*”. Addendum A is discussed in further detail herein below. **L16/3**
- 8.665 Paragraph 6, on page 4 of the contract, reflects the contract amount as R60,000,000 “*Excluding VAT and Hardware, but include all other disbursements*”. **L16/5**
- 8.666 Addendum A of the contract, on page 5 and 6, details the various phases of the project as well as the estimated timeline for each phase. These are reflected as follows: **L16/23-24**

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Phase	Description	Timeframe
Phase 1	Business Case and functional analysis	Completion by mid December 2012
Phase 2	Technical requirements	Completion by end December 2012
Phase 3	System development	Completion by mid April 2013
Phase 4	Test and deployment of system	Completion by mid June 2013
Phase 5	Handover and maintain	Completion by end July 2013

- 8.667 The project completion date is recorded as “*end of July 2013*”.
- 8.668 Addendum A details the scope of work for the project as well as a project deliverable breakdown and invoice submission schedule on pages 7 to 9 of the document. **L16/25-27**
- c) Review of Variation Orders**
- 8.669 We noted from our review of the documentation provided that one (1) VO was issued to the amount of R6,600,000 (including VAT) as discussed in further detail below.
- Variation Order Submission in the amount of R6,600,000 (approved on 13 April 2015)
- 8.670 We obtained the submission for the VO from Mr Mapodile. The submission is addressed to the GCEO from the GCPO. **L17**
- 8.671 The introduction to the submission states that “*the project is currently running late, way out of scheduled delivery date of 30 September 2013. To a large extent the delays were internal to PRASA*”. **L17/1**
- 8.672 Paragraph 4 on page 2 and 3 of the report details the additional work which is required as well as the reasons for the delay in the project. **L17/4-5**
- 8.673 The submission states in paragraph 11.1 that “*The CTPC meeting held on 17*” **L17/6**

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February 2015 resolved that the submission be revised to reflect the cost breakdown and that it be considered for elevation to GCEO for final approval”.

- | | | |
|-------|--|-----------------------------|
| 8.674 | The submission serves to seek the approval of the GCEO for the following:

i. <i>“Extension of the contract end date to 30 September 2015.</i>

ii. <i>The variation order on the contract value of R6,600,000.00 (Vat inclusive) for the purchase of the Online Booking and Reservation System for the long distance Bus and Rail services. Thereby increasing the total contract value to R75,000,000 (Vat inclusive)”.</i> | L17/6 |
| 8.675 | The increase of R6,600,000 (including VAT) is an increase of 9,65% on the original contract amount. This is within the 10% VO limit as detailed in paragraph 12.8.9 of the SCM Policy and as further provided for in the memorandum dated 13 October 2014 we refer to herein above. | A7/26
A8/1 |
| 8.676 | The submission appears to be signed by the GCPO, Dr Phungula, as Recommended dated 11 March 2015 and the GCEO, Mr Montana, as Approved dated 13 April 2015. | L17/6 |
| 8.677 | We noted a handwritten note on the comments section on the last page of this submission that appears to be written and signed by Mr Montana which states the following:

<i>“Dr Phungula and Mr Mbatha</i>

<i>This is the price the company pays for poor planning and lack of project management. Whilst I take note of the reasons for the seven (7) months delay, these are simply not good enough to justify the money. It is important that planning within PRASA and procurement is robust enough to prevent this type of costs. I need a plan that addresses these shortcomings”.</i> (We were not provided with a planning document to address these shortcomings as instructed by the GCEO). | L17/7 |

d) Interviews conducted

Interview with Mr Mapodile

8.678 Mr Mapodile is employed as the Acting General Manager: Information and Communication Technology at PRASA Corporate and reports to Mr Mbatha, the CIO. We will briefly refer to the information Mr Mapodile provided as far as it relates to Black Star:

- i. Mr Mapodile confirmed that he was the end-user for this project;
- ii. He stated that the difference between the Notice to Proceed and the Notice of Appointment is that upon issuance of a Notice to Proceed the service provider can commence with the work and be compensated accordingly. However, the Notice of Appointment has no contractual basis and therefore any work performed subsequent to a Notice of Appointment being issued does not guarantee compensation thereof; and
- iii. Mr Mapodile stated that Mr Jabu Nkosi drafted the specifications for this project.

e) Verification of services

8.679 Mr Mapodile confirmed that the services are still ongoing. The completion of this project was delayed to enable PRASA to procure a service provider to supply the hardware for the online system without which the software contract could not be completed.

Findings

8.680 Detailed below is a summary of significant findings from the investigation into the awarding of the online booking and reservation system contract to Black Star:

- i. We determined from our review of the documentation provided that the aforesaid contract was awarded to Black Star following an open bidding process. The tender was advertised with a compulsory tender briefing to be held on 21 October 2011 and the tender closing on 11 November 2011;
- ii. We noted from our review of the tender collection register that 24 entities

L6

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collected tender documents whereafter nine (9) entities submitted bids in respect of this tender. The tenders were evaluated on 1 to 2 February 2012 and were all found to be compliant following the compliance assessment. We noted that subsequent to the technical evaluation, only three (3) entities obtained the required threshold. The bidders were not evaluated based on price due to the complexity of the solution required. It was decided that PRASA would focus on the bidder who provided the most comprehensive solution and B-BBEE (Black Star submitted a bid in the amount of R79,000,000 (including VAT);

L10

- iii. The RFP provides for the total cost under paragraph 10.4 and this should not have been ignored in the evaluation process. Paragraph 3 of the Preferential Procurement regulations 2011 provides further that an organ of state must, prior to making an invitation for tenders (b) “*Determine and stipulate the appropriate preference point system to be utilized in the evaluation and adjudication of tenders*”. The PPPFA states that a preference points system (90 points for price and 10 points for specific goals such as B-BBEE) must be followed for contracts with a rand value above the prescribed amount of R1 million. If the BEC ignored pricing, which had originally been allocated 20%, they evaluated the bid based on 25% B-BBEE (i.e. 20 out of 80) and is irregular.

- iv. Black Star was recommended as the preferred bidder for the contract. We noted from the minutes of the CTPC meeting held on 31 July 2012 that the CTPC concurred with the recommendation to appoint Black Star subject to the submission of a detailed background to support the recommendation and the approval of the GCEO;

L10

- v. We noted from the recommendation report that the recommendation was approved by what appears to be Mr Montana on 31 July 2012 as required. A Notice to Proceed was issued to Black Star on 27 September 2012 whereafter they confirmed acceptance of the contract on 29 September 2012. In a letter from Mr Balankrishnan dated 14 September 2012 we noted that Black Star attended a meeting with PRASA where the scope of work was agreed upon as well as the contract amount. The contract

L10/15

L13

L12

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amount is reflected as R60,000,000 (excluding VAT), which amounts to R68,400,000 (including VAT). We further noted that the letter refers to the request that the project be completed in a shorter period of time (the exact period is not indicated);	
vi. A Conditions of Contract was entered into between Black Star and PRASA on 15 November 2012 for the contract amount of R60,000,000 (excluding VAT and hardware), but include all other disbursements. We noted from the contract that the commencement date is reflected as 1 October 2012. The completion date according to the Addendum attached to the contract is recorded as “ <i>end of July 2013</i> ”. It is significant to note that the project is still incomplete as at October 2016 and four (4) years after the commencement date.	L16 L16/23-24
vii. One (1) VO in the amount of R6,600,000 was submitted for approval on 11 March 2015 by Dr Phungula as the GCPO. The increase of R6,600,000 (including VAT) is an increase of 9,65% of the original contract amount and within the 10% VO limit as provided for in the SCM Policy and as set out in the memorandum dated 13 October 2014;	L17
viii. The recommendation for the VO was approved by what appears to be Mr Montana as the GCEO on 13 April 2015. Mr Montana made the following comment with his approval: <i>“Dr Phungula and Mr Mbatha This is the price the company pays for poor planning and lack of project management. Whilst I take note of the reasons for the seven (7) months delay, these are simply not good enough to justify the money. It is important that planning within PRASA and procurement is robust enough to prevent this type of costs. I need a plan that addresses these shortcomings”;</i>	L17/7
ix. We noted from our review of the payment documentation and information provided that Black Star received 14 payments from PRASA for the period 30 November 2012 to 15 July 2015 totalling R70,689,546 which falls within the total contract amount of R75,000,000 (R68,400,000 + R6,600,000);	L2

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and

- x. During our interview with Mr Mapodile he confirmed that the services are still ongoing. The completion of this project was delayed to enable PRASA to procure a service provider to supply the hardware for the online system without which the software contract could not be completed.

Conclusions

- 8.681 Based on our review of the documentation obtained we noted that the bidders were not evaluated based on price due to the complex nature of the solution required. The specifications were drafted by the end-user but were not approved by the BSC as the committee was not in effect at the time. It is however important to note that the RFP provides for the total cost and this should not have been ignored in the evaluation process. Paragraph 3 of the Preferential Procurement regulations 2011 provides further that an organ of state must, prior to making an invitation for tenders (b) “*Determine and stipulate the appropriate preference point system to be utilized in the evaluation and adjudication of tenders*”. The PPPFA states that a preference points system (90 points for price and 10 points for specific goals such as B-BBEE) must be followed for contracts with a rand value above the prescribed amount of R1 million and was not done.
- 8.682 The evaluation criteria for this tender reflects that the B-BBEE was incorrectly based on 20%. The PPPFA states that a preference points system (90 points for price and 10 points for specific goals such as B-BBEE) must be followed for contracts with a rand value above the prescribed amount of R1 million. If the BEC ignored pricing, which had originally been allocated at 20%, they evaluated the bid based on 25% B-BBEE (i.e. 20 out of 80). The tender process therefore appears to be invalid and should have been reperformed.
- 8.683 Based on the approval of the VO by Mr Montana, we noted that he reprimanded Dr Phungula and Mr Mbatha for poor planning resulting in the VO and a delay in completion of the project. He further stated that “*It is important that planning within PRASA and procurement is robust enough to prevent this type of costs*”. It is significant to note that the project is still incomplete as at October 2016 and four (4) years after the commencement date even though it was supposed to be

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completed within 30 weeks according to the letter from Black Star to Mr Mbatha of PRASA dated 29 September 2012.

Recommendations

- 8.684 The specifications for all prospective contracts should be drawn up and approved by the BSC committee to ensure that the specifications are fair and address all the requirements of the respective end-user department.
- 8.685 PRASA should ensure that the bid specifications stipulate the requirements for the tender to ensure that the tender is evaluated accordingly and as provided for in the PPPFA.
- 8.686 PRASA should consider implementing processes and controls to ensure that projects are completed within a reasonable time frame and for the period as agreed upon to avoid unnecessary delays which may have adverse financial implications.
- 8.687 PRASA should consider taking disciplinary action against the members of the BEC for their conduct in the evaluation process, i.e. incorrect evaluation of B-BEE and for excluding aspects that were listed as a requirement such as price from the evaluation process.

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**L. The appointment of Black Star Communications for a second contract
with a target value of R45,407,312.81 for the period 1 March 2014 to 31
August 2015**

a) Review of payments made by PRASA

8.688 We ascertained from the above mentioned analysis, as referred to in our discussion relating to the first contract awarded to Black Star, that Black Star received eight (8) payments from PRASA for the period 15 October 2014 to 25 June 2015 as summarised in the table hereunder:

8.689

Number	Date	Amount (R)
1	15/10/2014	9,967,823.68
2	14/11/2014	1,800,716.47
3	19/12/2014	2,674,018.88
4	27/02/2015	7,296,653.45
5	31/03/2015	2,674,018.77
6	30/04/2015	9,549,635.27
7	15/05/2015	4,385,604.51
8	25/06/2015	1,009,130.03
		39,357,601.06

8.690 We requested the payment packs relating to the eight (8) payments made by PRASA to Black Star in respect of the contract under review. We were however not provided with the payment pack relating to payment number six (6) as detailed in the table above.

8.691 We will discuss payment pack relating to payment number one (1) in the table above to serve as an example of the documents generally included in the payment packs. All the payment packs received for Black Star contain the documents listed below.

8.692 The payment pack includes the following documents:

- i. The remittance advice, dated 15 October 2014, reflects an amount of

M1/2

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R9,967,823.68;

M1/3

ii. The creditors reconciliation is dated 14 October 2014 and reflects the total payment to be made to Black Star as R9,967,823.68. The reconciliation is prepared and signed by what appears to be Norman Thaele and reviewed and signed by what appears to be Bonisa Ngcongca. This amount agrees to the amount as per the remittance advice;

M1/4

iii. The extract from the SAP creditors ledger reflects the supplier invoice number in the reference column with the same amount;

M1/5

iv. The supplier invoice is signed by two (2) individuals, one (1) of which appears to be Mr Mapodile. The tax invoice number is reflected as BSC/PRA/016, which corresponds to the number included on the SAP creditors ledger extract. The invoice reflects the total cost as R9,967,823.68 (including VAT);

M1/6-7

v. The delivery note, dated 10 June 2014 is signed as Received by what appears to be Cobus Jonker and as Delivered by Lucan Mteto. The delivery note contains the serial numbers of all units delivered;

M1/8

vi. The supplier statement of account dated 30 September 2014 reflects two (2) invoices, one (1) of which is the invoice to which the payment pack relates. The statement is signed by what appears to be Mr Mapodile;

M1/9-10

vii. The purchase requisition was attached to the payment pack confirming that payment can be made to Black Star.

8.693 Black Star was appointed for this contract on 4 February 2014 for the total amount of R45,407,312.81 (including VAT). The total amount paid to Black Star, as detailed herein above, thus falls within the contract amount with an amount of R6,049,711.75 (including VAT) still available to be paid on the contract.

b) Procurement Review

8.694 We obtained the procurement file and documentation relating to the abovementioned project. The contract was for the hardware for the online ticket reservation system for PRASA. We determined that the aforesaid contract was awarded to Black Star following an open bidding process.

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Request for Proposal dated 17 September 2013

8.695	The RFP reflects the contract name as “ <i>Hardware for Online and Reservation Ticketing System</i> ” and the contract number as HO/ICT/265/09/2013.	M2
8.696	The following dates were depicted in the RFP: i. RFP issue date – 17 September 2013; ii. Compulsory briefing session – 23 September 2013; and iii. Tender closing date – 16 October 2013.	M2/2
8.697	Page 16 of the RFP indicates that the contract period would be for period of one (1) year.	M2/16
8.698	The scope of work is detailed on page 13 of the RFP as follows: i. “ <i>supply PRASA with hardware equipment as specified within the tender document (Section: Detailed requirements)</i> ii. <i>install the hardware</i> iii. <i>ensure that the equipment are covered by OEM warranty for a period of not less than 36 months from purchase</i> iv. <i>provide support on the hardware during the warranty period</i> ”.	M2/13
8.699	The scope of work section further states that the project specifications are attached to the RFP as annexure A. Mr Mapodile provided us with annexure A of the RFP which details the specifications for all the hardware required.	M2/42-56
<u>Submission for Adjudication signed on 25 October 2013</u>		
8.700	The submission for adjudication report was attached to the CTPC minutes dated 29 October 2013 as discussed hereunder.	M3/21
8.701	The introduction on page 1 of this report states that a contract was awarded to Black Star for development of an online ticketing reservation system. This contract was limited to the software components of this system and did not include the hardware components. A need thus arose to procure the hardware components to	M3/21

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enable the system to function.

8.702 The hardware required includes:

- i. *“Point of sale computers*
- ii. *Ticket printers*
- iii. *Mobile scanners*
- iv. *Luggage scales*
- v. *Backend servers”.*

8.703 Paragraph 3 on page 3 reflects that 24 tenders were issued and tender documents were received from three (3) tenderers being Black Star, XON and Siyangena Technologies. We were unable to determine the details of the entities who collected tender documents but did not submit a bid as we have not been provided with the tender opening register.

M3/23

8.704 Paragraph 5 on page 4 details the members of the BEC as Ms Mosholi, Mr Mapodile, Mr Botabota and Ms Nancy Thomas (**Ms Thomas**).

M3/24

8.705 Page 5 of the submission report details the technical evaluation in respect of the three (3) tenderers. The evaluation criteria included in the report indicates that the technical evaluation requires a threshold of 70%. The weighted scores for the technical evaluation is reflected as follows:

M3/25

- i. Black Star – 77.7%;
- ii. Siyangena – 44.8%; and
- iii. XON – 54.8%.

8.706 It thus appears from the above weighted scores that XON and Siyangena would have been eliminated at this stage due to them not having attained the 70% threshold for the technical evaluation.

8.707 The price and BEE evaluation was performed on only Black Star. The price is reflected as R45,407,312.81. Paragraph 7 indicates under source of funding that R40,000,000 has been approved for this project.

M3/26

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8.708	The report indicates that a request for a security screening was sent on 23 October 2013. No results for the security screening were included.	M3/27
8.709	The CTPC was requested to approve the appointment of Black Star for the provision of hardware for the online ticketing reservation system in the amount of R45,407,312.81 (including VAT). The report appears to be signed by Ms Mosholi, in her capacity as chairperson of the board, on 25 October 2013. <u>Minutes of the Corporate Tender and Procurement Committee Ordinary Meeting held on 29 October 2013</u>	M3/28
8.710	The minutes indicate that the following individuals were present as the meeting: i. Mr Mbatha as the Chairperson; ii. Ms Motshologane, Ms Zinde, Mr Kobuwe, Dr Phungula and Mr Emeran as members; and iii. Mr Khuzwayo and Ms Monkwe as secretary.	M3/2
8.711	Declarations of Interest and Confidentiality Agreement forms for the above individuals were located on file. It should be noted however, that Mr Mbatha did not complete or sign a Confidentiality Agreement.	M3/5-20
8.712	This contract was discussed under item eight (8) of the minutes. The CTPC are requested to consider the appointment of Black Star for tender number HO/ICT/265/09/2013 relating to the hardware for the online reservation ticketing system. The total contract amount is reflected as R45,407,312.81 (including VAT). No contract period is indicated.	M3/4
8.713	The CTPC resolved that the matter be deferred. The following comments were made by the CTPC: i. <i>“The proof of the Security screening report to be attached or to reflect.</i> ii. <i>The BEE Ownership to be indicated on the submission</i> iii. <i>The Confirmation of budget be given.</i> iv. <i>Confirmation of the scope of work by ICT to be confirmed</i>	M3/4

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v. *The Explanation on the Specific brand(s) to be given*

vi. *Tender validity to be provided by SCM”.*

8.714	The minutes appear to be signed by the Chairman (undated) and by the secretary on 21 November 2013.	M3/1
	<u>Memorandum dated 5 November 2013</u>	
8.715	This memorandum was attached to the minutes of the CTPC meeting held on 21 November 2013, discussed herein below.	M4/25-27
8.716	The memorandum is addressed to Dr Phungula from Mr Mapodile and titled “ <i>CLARIFICATION: HO/ICT/265/09/2013 – HARDWARE FOR ONLINE AND RESERVATION PROJECT</i> ”. The memorandum was signed by Mr Mapodile.	M4/25 M4/27
8.717	The memorandum contains 3 sections, namely background, scope of tender and budget. The scope of tender on page 2 of the memorandum provides clarity in respect of the scope of work as well as an explanation for requesting specific brands. The budget section, on page 3 of the memorandum, confirms that an amount of R40,000,000 was approved for the procurement of the equipment.	M4/26 M4/27
8.718	This memorandum thus addresses three (3) of the comments made by the CTPC during the meeting held on 29 October 2013 in respect of the budget, scope of work and specific branding (points iii, iv and v of the CTPC comments referred to herein above).	M3/4
	<u>Submission for Adjudication signed on 15 November 2013</u>	
8.719	The submission for adjudication was attached to the minutes of the CTPC meeting held on 21 November 2013 as discussed herein below.	M4/17
8.720	This submission is similar to the previous submission signed on 25 October 2013 and considered at the CTPC meeting held on 29 October 2013.	
8.721	This submission report appears to address the remaining comments made by the CTPC during the meeting held on 29 October 2013. The results of the security screening, the BEE ownership and the tender validity has been included in this	M4/20,23- 24

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	submission report (these relate to points i, ii and vi of the CTPC comments referred to herein above).	M3/4
8.722	The CTPC are requested to approve the appointment of Black Star for the provision of hardware for the online ticketing reservation system in the amount of R45,407,312.81 (including VAT) for a period of one (1) year. The report appears to be signed by Ms Mosholi, in her capacity as chairperson of the board, on 15 November 2013. <u>Minutes of the Corporate Tender and Procurement Committee Ordinary Meeting held on 21 November 2013</u>	M4/24
8.723	The minutes indicate that the following individuals were present as the meeting: i. Mr Mbatha as the Chairperson; ii. Mr Kobuwe, Dr Phungula and Mr Emeran as members; and iii. Mr Khuzwayo as Head of Secretariat; and iv. Ms Monkwe as secretary.	M4/2
8.724	Declarations of Interest and Confidentiality Agreement forms for the above individuals were located on file.	M4/5-16
8.725	This contract was discussed under item four (4) of the minutes. The CTPC are again requested to consider the appointment of Black Star for the provision of hardware for the online reservation ticketing system. The total contract amount is reflected as R45,407,312.81 (including VAT) and the contract period as three (3) years.	M4/4
8.726	The CTPC resolved that they supported the matter subject to clarity on the budget and the branding.	
8.727	The minutes appear to be signed by the Chairman (undated) and by the secretary on 11 December 2013.	M4

Recommendation Report dated January 2014

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8.728	Mr Mapodile provided us with the Recommendation Report sent to the GCEO from the GCPO.	M5
8.729	Paragraph 12 states the GCEO is sought to approve the appointment of Black Star to provide the hardware for the online reservation system “for a period of 12 months, at the total amount of R45 407 312.81 including VAT ”.	M5/9
8.730	Paragraph 12 further states that “The R5million budget shortfall will be funded from existing ICT CAPEX which does not form part of the R40 million CAM”.	M5/9
8.731	This appears to address the comments of the CTPC where they required additional clarification on the budget. The report is signed as Approved by what appears to be Mr Montana on 30 January 2014. <u>Tender Advice dated 30 January 2014</u>	
8.732	Mr Mapodile further provided us with the tender advice. The tender advice reflects that approval has been granted to appoint Black Star to provide the hardware for the online reservation ticketing system for the amount of R45,407,312.81 (including VAT).	M6
8.733	The tender advice is dated 30 January 2014 and appears to have been signed by Ms Mosholi. <u>Notice of Appointment dated 4 February 2014</u>	
8.734	We obtained the Notice to Appointment relating to the appointment of Black Star for tender HO/ICT/265/09/2013 dated 4 February 2014.	M7
8.735	The Notice to Appointment serves to notify Black Star that they have been awarded the contract for the above mentioned tender. Black Star was requested to accept the award in writing by no later than 11 February 2014. The Notice to Appointment appears to be signed by Ms Mosholi.	M7/2
8.736	Black Star acknowledges receipt of the Notice to Appointment in a letter addressed to Ms Mosholi dated 6 February 2013. The year included in the date in this letter reflects 2013 and it appears to be an error. The letter appears to be	M8

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signed by Mr Balakrishnan the MD of Black Star.

- 8.737 On 25 July 2014, Mr Balakrishnan addressed a letter to Dr Phungula. In this letter Mr Balakrishnan notifies Dr Phungula that Black Star had commenced with the work and had already delivered units to PRASA. Mr Balakrishnan requests Dr Phungula to assist him in getting the contract signed. The letter appears to be signed by Mr Balakrishnan. **M10**

Notice to Proceed dated 19 September 2014

- 8.738 We obtained the notice to proceed dated 19 September 2014. The notice serves to notify Black Star that PRASA has approved Black Star's appointment in the amount of R45,407,312.81. Black Star was requested to accept the notice in writing by no later than 25 September 2014. The Notice to Appointment appears to be signed by Ms Mosholi. **M11**

- 8.739 Mr Balakrishnan accepted the Notice to Proceed in a letter dated 22 September 2014. **M12**

- 8.740 Mr Balakrishnan again addressed a letter to Dr Phungula on 10 October 2014. The letter requests that Dr Phungula assist Black Star in finalising the contract. The letter appears to be signed by Mr Balakrishnan. During our interview with Dr Phungula he confirmed that he would have escalated these concerns to Mr Khuzwayo as he was responsible for ensuring that contracts are drafted and signed. **M13**

Memorandum dated 2 February 2016

- 8.741 On 2 February 2016, Mr Mbatha addressed a letter to Mr Nathi Khena (**Mr Khena**), the Acting GCEO at the time (we were not provided with page 2 of this document). The letter is titled "*Request for Contract Re-Instatement: Hardware for Online and Reservation Solution (Blackstar) – HO/ICT/265/09/2013*". **M14**

- 8.742 The background provided in this letter details that Black Star was appointed on 6 February 2014, but as "*the award was in the form of "Letter of Appointment", Blackstar did not initiate the project pending the conclusion of contract between*" **M14/1**

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PRASA and themselves”.

8.743 The letter further states that Black Star commenced work on the project upon receipt of a Notice to Proceed on 22 September 2014. By end of March 2015, 87% of the hardware had been delivered with the remaining 13% expected to be delivered by June/July 2015. **M14/1**

8.744 Paragraph 7 of this letter details the contract amount, amount delivered and outstanding as follows: **M14/2**

Item	Contract Value (R)	Delivered and Paid for (R)	Delivered by 30/06/15 and NOT Paid (R)	Still to be delivered (R)
Ticketing Hardware	45,407,312.00	39,357,601.00	1,098,150.00	4,952,561.00

8.745 The letter serves to recommend that the Acting GCEO approve “*the reinstatement of the contract for Blackstar Communications for a period of twenty (20) months until 31st May 2016 at a cost of R45 407 312.81 VAT Inclusive*”. **M14/3**

8.746 The letter appears to be signed by Mr Mbatha as Requested dated 2 February 2016, Mr Gingcana as Recommended and Mr Khena as Approved. **M14/3-4**

8.747 Mr Balakrishnan addressed a letter to Mr Gingcana dated 8 March 2016. The letter appears to be signed by Mr Balakrishnan. In this letter Mr Balakrishnan states the following concerns: **M15**

- i. *“We have two invoices which have not been paid and are more than 9 months overdue amounting to: R1,098,150.77 VAT Inclusive*
- ii. *We have incurred major losses as a result of exchange rate variation’s which were outside of our control as a result of Management change of timeframe priorities.*
- iii. *This amounts to: R2,870,095.49 VAT Inclusive”.*

c) Review of Variation Orders

8.748 No variation orders were issued in respect of this contract.

d) Interviews conducted

Interview with Mr Phoma

- 8.749 Mr Phoma is the Compliance Manager for SCM at PRASA Corporate and reports to Ms Mosholi. During an interview held with him, he stated that he had obtained information that the hardware specifications drafted for this contract appears to be “*tailor made*” for Black Star. He was however unable to provide us with further information in this regard.

Interview with Mr Mapodile

- 8.750 Mr Mapodile provided the following information relating to Black Star:
- i. Mr Mapodile confirmed that he is the end-user for this project;
 - ii. He stated that testing was conducted on the software provided by Black Star using specific equipment. Mr Mapodile drafted the specifications for the hardware tender based on the testing conducted. He included equipment brands in the specifications as based on the testing these specific brands were compatible;
 - iii. Mr Mapodile stated that as the end-user he was in favour of procuring a supplier for the hardware contract by use of the confinement process. However, the GCEO did not support this process for this project and thus an open tender process was followed; and
 - iv. He stated that as per his knowledge there is still no signed contract between Black Star and PRASA for this project. Based on an internal decision in June 2015, suppliers could not be paid if there was no valid contract between the parties. As such Black Star had performed services and been paid prior to June 2015 based on the Notice to Proceed. Subsequent to June 2015 no payments have been made to Black Star for services rendered and according to his knowledge Black Star has provided services to the amount of R1,1 million for which they have not yet been paid.

e) Verification of services

8.751 Mr Mapodile confirmed that the services have commenced and are expected to be completed in September 2016. He explained that the delay in delivering of services is due to the issue of the delay in signing of the contract and thus Black Star not being remunerated for services rendered.

Findings

8.752 Detailed below is a summary of significant findings from the investigation into the awarding of the hardware pertaining to the online booking and reservation system contract to Black Star:

- i. We determined from our review of the documentation provided that the aforesaid contract was awarded to Black Star following an open tender process. We noted from the RFP that the compulsory briefing session was to be held on 23 September 2013 with the tender closing date as 16 October 2013;
- ii. Tender documents were issued to 24 entities whereafter only three (3) bidders submitted their tender documents in response to the tender. We noted from the information as contained in the submission report that the technical evaluation requires a threshold of 70% with only Black Star obtaining the required threshold from the three (3) bidders evaluated with a score of 77,7%. It is important to note that Mr Mapodile stated during our interview that testing was conducted on the software which was provided by Black Star in the first contract as referred to herein above, using specific equipment. He drafted the specifications for the hardware based on the testing conducted. He stated further that he, as the end-user, was in favour of procuring a supplier for the hardware contract that is based on a confinement process, but the GCEO did not support this aspect and hence the reason why an open tender process was followed;
- iii. The CTPC resolved during a meeting held on 29 October 2013 that the matter be deferred and made the following comments:

M3/25

M3/4

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- *“The proof of the Security screening report to be attached or to reflect.*
 - *The BEE Ownership to be indicated on the submission*
 - *The Confirmation of budget be given.*
 - *Confirmation of the scope of work by ICT to be confirmed*
 - *The Explanation on the Specific brand(s) to be given*
 - *Tender validity to be provided by SCM”;*
- iv. A memorandum dated 5 November 2013 was submitted to Dr Phungula titled “*CLARIFICATION: HO/ICT/265/09/2013 – HARDWARE FOR ONLINE AND RESERVATION PROJECT*” and addressed three (3) of the comments made by the CTPC in the meeting held on 29 October 2013. The contract was further discussed during a CTPC meeting held on 21 November 2013 where it was resolved that they supported the matter and recommended the appointment of Black Star for the provision of hardware for the online ticketing system for the amount R45,407,312.81 (including VAT). The recommendation report to appoint Black Star was signed as Approved by what appears to be Mr Montana as the GCEO on 30 January 2014 as required;
- v. A Notice of Appointment dated 4 February 2014 was issued to Black Star notifying them of their appointment. On 25 July 2014 (and after four (4) months). Mr Balakrishnan sent a letter to Dr Phungula wherein he stated that Black Star had commenced with the work and had already delivered units to PRASA, but requested Dr Phungula to assist in getting the contract signed. A Notice to Proceed dated 19 September 2014 was then issued to Black Star to confirm their appointment;
- vi. On 10 October 2014 Mr Balakrishnan sent a further letter to Dr Phungula to assist Black Star in finalising the contract. We noted from a memorandum dated 2 February 2016 from Mr Mbatha addressed to Mr Khena, who was the Acting GCEO at the time, that the Acting GCEO approved the reinstatement of the contract with Black Star for the same contract amount until 31 May 2016 as a result of these delays;

M4/25-27

M4/24

M7

M10

M11

M13

M14

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- vii. Mr Balakrishnan sent a further letter to Mr Gingcana (the Acting GCPO at the time) dated 8 March 2016 wherein he stated that two (2) invoices have not been paid and are more than nine (9) months overdue amounting to R1,098,150.77 (including VAT). During our interview with Mr Mapodile he stated that as a result of an internal decision made in June 2015, suppliers could not be paid if there was no valid contract entered into between the parties;
- viii. Black Star had been paid prior to June 2015 based on the Notice to Proceed. PRASA has however not entered into an agreement with Black Star and hence the reason why the invoices were not paid. It is important to note that paragraph 9.14.4 of the SCM Policy provides that contract management shall be responsible to “*Ensure service level agreements are signed with successful tenderers that properly reflect the decision of the applicable adjudication committee*”. The supplier has on numerous occasions requested PRASA to enter into an SLA with PRASA and hence cannot be penalised for the fact that PRASA has neglected their duties;
- ix. We noted from our review of the payment documentation and information provided that Black Star received eight (8) payments from PRASA for the period 15 October 2014 to 25 June 2015 totalling R39,357,601.06 which falls within the total contract amount of R45,407,312.81. There were no VOs issued in respect of this contract; and
- x. We determined from our interview with Mr Mapodile that the services have commenced and is expected to be completed in September 2016. He stated that the delay in delivering of services is due to the issue of the delay in signing of the contract and thus Black Star not being remunerated for services rendered.

M15

M1

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Conclusions

- 8.753 Based on our review of documentation obtained and information provided, we determined that testing was conducted on the software which was being developed for the online ticket booking and research agents by Black Star in the first contract as referred to herein above, using specific equipment. The specifications were drafted for the hardware based on the specific hardware used when the software testing was conducted. Mr Mapodile, as the end-user, was in favour of procuring a supplier for the hardware contract is based on a confinement process, but the GCEO did not support this and hence the reason why an open tender process was followed.
- 8.754 We were provided with limited documentation relating to the procurement of Black Star for the hardware contract and hence are unable to conclude whether the procurement was done in accordance with a provisioning system which was fair and transparent as provided for in the PRASA SCM Policy and relevant legislation.
- 8.755 A Notice to Proceed was issued to Black Star by PRASA dated 19 September 2014 and serves to confirm that PRASA has approved their appointment in the amount of R45,407,312.81 (including VAT). Mr Balakrishnan accepted the Notice to Proceed in a letter dated 22 September 2014.
- 8.756 PRASA has however not entered into a contract with Black Star and hence the reason why a number invoices were not paid (we determined that an internal PRASA decision was made in June 2015 whereby suppliers could not be paid if there was no valid contract entered into between the parties). It is important to note that paragraph 9.14.4 of the SCM Policy provides that contract management shall be responsible to “*Ensure service level agreements are signed with successful tenderers that properly reflect the decision of the applicable adjudication committee*”. The supplier has on numerous occasions requested PRASA to enter into an SLA with PRASA and hence cannot be penalised for the fact that PRASA has neglected their responsibility to draft and sign the contract.

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Recommendations

- 8.757 The specifications for all prospective contracts should be drafted and approved by the BSC committee to ensure that the specifications are fair and address all the requirements of the respective end-user department without favouring a specific service provider.
- 8.758 PRASA should implement a system where all procurement related documents are filed in a safe and secure environment with a register to control the movement of the procurement files. Important documents must be kept for a prescribed period and may be required for formal processes such as civil litigation and appeals processes.
- 8.759 Prasa should ensure that all agreements with the service providers are signed by both parties timeously as provided for in the SCM Policy and shortly after contracts have been awarded. This practice will avoid a delay in payments to service providers and hence will prevent penalties for late payment that results to fruitless and wasteful expenditure.
- 8.760 PRASA should consider taking disciplinary action against Mr Khuzwayo for neglecting his duties to ensure that the contract between Black Star and PRASA were signed by both parties.

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M. The appointment of Valucorp 408 CC with a target value of R43,224,043.00 for the period 1 April 2013 to 31 December 2015

- 8.761 An Inoxico Report drawn on Valucorp 408 CC (**Valucorp**) with registration number 2010/168251/23 reflects that the said entity was registered on 3 December 2010. The current Active Principal is listed hereunder:
- i. Sudesh Dayanand (**Mr Dayanand**) with ID number 720124 5057 085 appointed on 3 December 2010.

N1/3

N1/6

- 8.762 From the report, we noted that it reflects Valucorp trading as “*S Dayanand Forensic Consulting*” (**SDFC**).

N1/3

a) Review of payments made by PRASA

- 8.763 We requested a list of all payments made by PRASA to Valucorp/SDFC. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system.
- 8.764 We ascertained from the above mentioned analysis that Valucorp had received 12 payments from PRASA for the period 15 May 2013 to 15 July 2015 as detailed in the table below (it should be noted that on various occasions more than one (1) invoice was combined for one (1) payment):

N2

Number	Date	Amount (R)
1	15/05/2013	7,906,818.00
2	31/07/2013	5,895,543.00
3	30/09/2013	3,165,771.00
4	05/05/2014	1,443,843.00
5	22/07/2014	3,893,283.00
6	18/09/2014	1,473,165.00
7	16/10/2014	1,458,480.00

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Date	Amount (R)	Number
8	14/11/2014	1,704,017.00
9	16/04/2015	5,302,942.00
10	29/05/2015	1,431,581.00
11	12/06/2015	1,289,576.00
12	13/07/2015	1,495,232.00
		36,460,251.00

8.765 We requested all payment packs from PRASA relating to Valucorp, we were however not provided with the payment pack relating to the last payment of R1,495,232.

8.766 We will discuss the payment pack relating to payment number three (3) in the table above to serve as an example of the documents generally included in the payment packs. All the payment packs received for Valucorp contains the documents listed below.

8.767 The payment pack includes the following documents:

- i. The remittance advice reflects the amount of R3,166,771 and dated 30 September 2013; **N2/2**
- ii. The creditors reconciliation is dated 25 September 2013 and reflects the total payment to be made to Valucorp as R3,166,771. The reconciliation is prepared by and signed by what appears to be Norman Thaele and reviewed and approved by Binosa Ngongca. This amount agrees to the amount as per the remittance advice; **N2/3**
- iii. The extract from the SAP creditors ledger reflects two (2) invoices to which this payment pack relates in the amounts of R1,497,521 and R1,668,250 with the total amount reflected as R3,166,771. The reference for each of the invoices reflects the supplier invoice number; **N2/4**
- iv. PRASA Corporate Invoice Payment Check List is signed as Requested **N2/5**

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and dated 20 September 2013;

- v. Two (2) supplier invoices are included in the payment pack which reflect the amounts as detailed above. Invoice number PRA2013/007 dated 31 July 2013 reflects R1,281,576 for fees and the amount of R32,039 for disbursements, totalling R1,497,521 (including VAT). It is important to note that the invoice only reflects "*To professional fees for the provision of forensic auditing services for the period 01 to 31 July 2013*". It is not supported by any timesheets and/or supporting documentation relating to the disbursement amount as is normally required for these types of services. Invoice number PRA2013/008 dated 31 August 2013 reflects R1,427,685 for fees and the amount of R35,692 for disbursements, totalling R1,668,250 (including VAT). It is important to note that the invoice also only reflects "*To professional fees for the provision of forensic auditing services for the period 01 to 31 August 2013*". It is not supported by any timesheets and/or supporting documentation relating to the disbursement amount as is normally required for these types of services. Both these invoices are signed by what appears to be Mr Dyanand as the director of SDFC;
- vi. The supplier statement of account, dated 2 September 2013, reflects the total outstanding balance due to Valucorp as R3,166,771; and
- vii. The purchase requisition was attached to the payment pack, confirming that payment can be made to Valucorp for both invoices detailed above.

N2/6-7

N2/8

N2/9

- 8.768 The original contract amount was stated as R17,000,000 for a contract period of one (1) year from September 2012 to September 2013 that will be discussed in detail hereunder. The total invoices submitted during this period (as paid by payment number one (1) to three (3)) amounted to R16,968,132 which falls within the approved contract amount.
- 8.769 Payment number four (4) in the amount of R1,443,043 related to the condonation that was approved on 3 April 2014 by the GCPO will be discussed in detail below.
- 8.770 An extension was granted for the period September 2013 to March 2015 to the value of R10,000,000. During this period an amount of R15,300,428 was invoiced

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to PRASA by Valucorp. The total payments made during this period amounted to R9,997,486. A further extension was granted to the value of R14,780,000 for the period December 2014 to December 2015 as will be discussed below. This extension included the amounts invoiced in excess of the original extension granted.

- 8.771 The total amount invoiced based on the final extension of R14,780,000 amounted to R9,519,331. This amount together with the period for which it was invoiced for fall within the final extension period and amount. Amounts could still be billed for the period August 2015 to December 2015 in an amount of R5,260,669 (R14,780,000 – R9,519,331). We were not provided with the payment pack for the last payment of R1,495,232 dated 13 July 2015.
- 8.772 We have referred to our review of the payment packs provided and noted that a total amount of R717,457 was billed towards disbursements. No further supporting documentation has been provided in support of these disbursements.
- 8.773 We further noted that reference is only made to the provision of forensic auditing services, with no further description as to the detailed work undertaken and billed for. The invoices provided were not supported by correspondence relating to progress pertaining to the investigation areas.
- 8.774 The total of these payments agree to the payment summary of all accounting transactions of Valucorp received, totalling R37,928,792.

b) Procurement Review

- 8.775 As discussed above, Valucorp is trading as S Dayanand Forensic Consulting. From the documentation obtained it appears that PRASA refers to “SD Forensics” or “SDFC”. For ease of reference we use SDFC in this report when we refer to Valucorp trading as S Dyanand Forensic Consulting.
- 8.776 We obtained the procurement file and documentation relating to the abovementioned project. The contract was for the “*Separation of SD Forensics: Appointment of Service Provider*”. We determined from our review of the documentation provided that the aforesaid contract was awarded to SDFC based on a confinement as a result of a contract that was initially entered into between

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SDFC and Siyaya Energy (**Siyaya**) to provide forensic services in the performance area of fuel auditing. (Siyaya was previously appointed by PRASA for the provision of fuel tanks and e-tags that included the investigation and prevention of fuel fraud at Autopax).

- 8.777 The SDFC contact was approved and has subsequently been extended for the periods as listed hereunder (each of these contracts/extensions will be discussed in further detail below):
- a) The appointment of SDFC to provide forensic services for a period of 12 months from 17 September 2012 to 16 September 2013 for a contract amount of R17,000,000 (including VAT);
 - b) The application for condonation in respect of additional forensic services for a contract amount of R1,444,043 (including VAT) as approved on 3 April 2014;
 - c) The appointment of SDFC to provide forensic services for a period of 18 months from 16 September 2013 to 31 March 2015 for a contract amount of R10,000,000 (including VAT); and
 - d) The appointment of SDFC to provide forensic services for a period of 13 months from 1 December 2014 to 31 December 2015 for a contract amount of R14,780,000 (including VAT).
- 1) The appointment of SDFC to provide forensic services for a period of 12 months from 17 September 2012 to 16 September 2013 for a contract amount of R17,000,000 (including VAT)**

Submission for Adjudication

- 8.778 The SCM Submission for Adjudication Report was attached to the minutes of the CTPC meeting held on 10 April 2013 as will be discussed in detail below. **N3/10**
- 8.779 The document refers to the need for specialised forensic investigations into fuel fraud subsequent to a preliminary investigation that was conducted by Siyaya Energy. **N3/10**
- 8.780 Siyaya was appointed to provide bulk fuel services to PRASA and to investigate fuel fraud. Siyaya then contracted SDFC to assist with the investigation into the **N3/11**

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fuel fraud. It is reported that the investigation yielded more than 9,000 irregular fuel transactions at 45 petrol stations within eight (8) months amounting to a total value of over R20,000,000 which is equivalent to approximately 15% of the total fuel costs of PRASA.

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|-------|--|--------------|
| 8.781 | During the investigation conducted by SDFC (while contracted by Siyaya), it is reported that irregularities relating to the e-fuel system was identified. The report further states under paragraph 3 that this was a conflict of interest because Siyaya was responsible for the e-fuel system. | N3/11 |
| 8.782 | It is further reported under paragraph 4 that “ <i>The scope of the SD Forensic Consulting CC service provision will be forensic Investigation related to revenue leakage, theft and corruption that prevalent in the following business units :</i> ” <ul style="list-style-type: none">• <i>Metrorail</i>• <i>Shosholoza Meyl</i>• <i>Autopax</i>• <i>Including any other potential risky area within PRASA Group that may require forensic investigation”.</i> | N3/12 |
| 8.783 | It is recommended under paragraph 8 that the CTPC appoint SDFC separately to provide forensic services over a period of 12 months for a total contract amount of R17,000,000. It is further noted that the scope be extended to include “ <i>revenue leakage, theft and misuse of PRASA assets”.</i> | N3/13 |
| 8.784 | It should be noted that the submission we obtained is unsigned and undated.

<u>Minutes and Agenda of the Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 10 April 2013</u> | |
| 8.785 | The minutes indicate the following individuals were present at the meeting: <ul style="list-style-type: none">i. Mr Holele as Chairman;ii. Mr Mbatha, Mr Bopape and Mr Mantsane as members;iii. Mr Swanepoel as Secretary; and | N3/2 |

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iv. Mr Khuzwayo as Secretariat.

8.786	We noted that Declarations of Interests forms which appear to be signed by the members of the CTPC were located on file.	N3/6-9
8.787	This tender is listed as item number 12 where the CTPC is requested to consider the confinement of SDFC as a service provider to PRASA. The description of the service is indicated as “ <i>CONFINEMENT: SEPARATION OF SD FORENSIC: APPOINTMENT OF SERVICE PROVIDER</i> ”.	N3/3
8.788	The contract amount is indicated as R17,000,000 (including VAT) with a contract period of 12 months.	N3/3
8.789	We noted that the CTPC concurred with the recommendation subject to the following: i. “ <i>Breakdown of the R17 million (excl. VAT)</i> ”; ii. “ <i>Revision of point 4 of the submission – “expediency” needs to be defined.</i> ” iii. “ <i>Approval by the GCEO</i> ”.	N3/3
8.790	The minutes were signed by the secretary, Mr Khuzwayo and the Chairperson, Mr Holele on 10 April 2013 and 23 April 2013 respectively.	N3/1

Recommendation Report

8.791	A SCM Recommendation Report sent from the CPO to the GCEO was provided. The report consists of six (6) pages and was signed as Recommended by Mr Mbatha, in his capacity as CPO dated 15 April 2013. The report appears to be signed by Mr Montana in his capacity as GCEO as Approved dated 23 April 2013. The project description is provided as “ <i>SEPARATION OF SD FORENSIC</i> ”.	N4/5
8.792	The report further contains the same information as contained in the Adjudication Report referred to herein above.	N4/1
8.793	The financial implications is stated under paragraph 6 of the report and reads as follows: “ <i>The separation of SD Forensic Consulting CC contract will be provided over a 12 month period at a total cost of R17,000,000.00</i> ”.	N4/4

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8.794	The report confirms that the CTPC supported the recommendation of the appointment of SDFC at the meeting held on 10 April 2013. The document does not clarify the aspects that were raised by the CTPC and needs to be investigated further.	N4/4
8.795	The following recommendation is included under paragraph 8 of the report: <i>“It is recommended that the Group Chief Executive approves:</i> <ul style="list-style-type: none">• <i>that PRASA contracts SDFC directly for the provision of forensic services in the total amount not exceeding R17 000 000.00, over a 12 month period.</i>• <i>the scope of the contract be extended to include revenue leakage, theft and misuse of PRASA assets.</i>• <i>the work that was carried out from October 2012 be condoned and that the services rendered in the contemplated contract be paid”.</i> <p><u>Tender Advice</u></p>	N4/5
8.796	We obtained a SCM Tender Advice sent by the CTPC Secretariat to Mr Mantsane and copied to Mr Maletswa and Ms Mosholi. The document was signed by Ms Mosholi with the date of approval reflected as 23 April 2013.	N5
8.797	The document reflects that it was resolved that: <ul style="list-style-type: none">• <i>“PRASA contracts SDF directly for the provision of forensic services in the total amount of R17 000 000.00 over a 12 month period;</i>• <i>The scope of the contract be extended to include revenue leakage, theft and misuse of PRASA assets; and</i>• <i>work carried out from October 2012 be condoned as the services rendered in the contemplated contract be paid (SIC)”.</i>	
8.798	We noted that the document contains a handwritten note reflecting “CTPC Min 031 of 10 April 2013” that appears to refer to the minutes of the CTPC meeting held on 10 April 2013. <p><u>Memorandum of Agreement</u></p>	
8.799	We obtained a copy of a Memorandum of Agreement (MOA) entered into between PRASA and SDFC that consists of 25 pages. The Table of Contents refers to the	N6

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following documents, which were not included as part of the document:

- i. Annexure A – Tender document;
- ii. Annexure B – Notice to Proceed; and
- iii. Annexure C – Letter of Acceptance.

8.800	The agreement was signed by the GCEO of PRASA, Mr Montana dated 23 April 2013, with the signatures of two (2) witnesses. The agreement was further signed by a representative of SDFC dated 25 April 2013, and was signed by two (2) witnesses.	N6/25
8.801	The agreement states in paragraph 1.3 that PRASA appoint SDFC based on the work they performed for Siyaya, as a service provider of PRASA. It is further recorded that “ <i>the second reason why SDFC was contracted separately is the requirement that they maintain independence since Siyaya Energy installed the fuelling tanks</i> ”.	N6/3
8.802	Paragraph 3.2 provides the contract period, commencing on 17 September 2012 until 16 September 2013.	N6/7
8.803	Paragraph 5 deals with pricing structure and payment and states under paragraph 5.2 that “ <i>SDFC is appointed for the contract value not exceeding R17,000,000 including VAT subject to clause 5.4</i> ”. Paragraph 5.4 states that “ <i>the price of R17,000,000 total cost associated with the project, including VAT, disbursement and any other costs associated with the delivery of the project in its entirety</i> ”. It is important to note that the Agreement does not provide how rates per hour for each grade are determined. The details relating to the level of the staff used and their rates were also not recorded on the SDFC invoices as referred to herein above.	N6/8
8.804	The MOA does not provide the details of the Project Managers on behalf of PRASA or the service provider and does not state to whom SDFC should report. 2) The application for condonation in respect of additional forensic services for a contract amount of R1,444,043 (including VAT) as approved on 3 April 2014	
	<u>Submission for Condonation</u>	
8.805	A SCM Submission for Condonation was attached to the minutes of the CTPC	N7/23

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meeting held on 27 March 2014. The submission was sent to the CTPC from the Head Group Corporate Security with project description as “*Condonation SD Forensic*”.

8.806 Under the introduction of the document it is recorded that SDFC were requested to assist on various other critical investigations over and above those that they were contracted to perform during the initial contract period. It is noted that the total value of these investigations amounted to R794,043. **N7/23**

8.807 Paragraph 1.5 of the document states further as follows: “*in addition to investigations SD Forensics had to train PRASA investigators to enable the department to take over all pending investigations at a total cost of R650,000.00 for 33 investigators nationally. This was necessary as the investigation methodologies employed by SD Forensics are complex and necessitated that investigators are appropriately trained*”. **N7/24**

8.808 The purpose of the submission was to seek the approval for “*the condonation for additional services provided by SD Forensic to the total value of R1 444 043*”. **N7/25**

8.809 During the interview held with Mr Japhta he stated that he drafted this submission along with Mr Maletswa, subsequent to which Mr Matakata then signed as the requestor dated 2 April 2014. **N7/25**

Minutes and Agenda of the Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 27 March 2014

8.810 The minutes indicate the following individuals were present at the meeting: **N7/2**

- i. Mr Mbatha as Chairman;
- ii. Ms Monkwe as secretary;
- iii. Mr Kobuwe and Ms Motshologane as members; and
- iv. Mr Khuzwayo as Head of Secretariat.

8.811 Declarations of Interests forms and Confidentiality Agreements which appear to have been signed by the members of the CTPC were located on file. **N7/9-22**

8.812 This tender is listed as item number five (5). The description of the transaction which the CTPC are required to approve is indicated as follows: **N7/4**

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“Request for paying the outstanding amount for service rendered to Autopax for Forensic Investigation in relation to ongoing fraud by employees that colluded with petrol attendents (SIC) at various filling stations”.

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| 8.813 | The CTPC resolved that the matter is deferred for the following reasons:

i. <i>“Proposal and supporting documentation be attached</i>

ii. <i>Page 1 bullet 1.4, Critical Investigation – What was involved</i>

iii. <i>Page 1. Bullet 1.5 Training- The breakdown costs to be indicated.</i>

iv. <i>Level of complicity by SDF to reflect”.</i> | N7/4 |
| 8.814 | The minutes appear to have been signed by the Chairperson, Mr Mbatha and the secretary, Ms Monkwe dated 15 April 2014. There is no documentation to illustrate what has transpired as a result of the resolution taken by the CTPC and/or if further action has been taken in that regard. | N7/1 |
| 8.815 | We noted that the SCM Submission for Condonation was submitted to the GCPO on 2 April 2014. The GCPO was requested to approve <i>“the condonation for additional services provided by SD Forensic to the total value of R1 444 043”.</i> | N7/28 |
| 8.816 | The submission was requested and appears to be signed by the Head Group Corporate Security, Mr Matakata on 2 April 2014. The submission was signed as Approved by the GCPO, Dr Phungula dated 3 April 2014. | N7/28 |
| 8.817 | We have not been provided with the approval from the GCEO for the condonation of the R1,444,043. During our interview with Dr Phungula he stated that the GCEO approval was not required in this instance as the amount fell within the delegation of the GCPO. This is however not in agreement with the memorandum he provided dated 13 October 2014 we referred to herein above where he stated that in paragraph 1.3 that <i>“all requests for variations are to be approved by the GCEO and are limited to 10% of the value of the contract”.</i> | A8/1 |

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3) The appointment of SDFC to provide forensic services for a period of 18 months from 16 September 2013 to 31 March 2015 for a contract amount of R10,000,000 (including VAT)

Minutes of Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 14 May 2014

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| 8.818 | The minutes of the CTPC meeting held on 14 May 2014 reflects that the extension of contract for the forensic services on widespread fraud and corruption within the organisation for the initial contract amount of R17,000,000 was discussed under item three (3). The extension relates to the extension of a period of eighteen months for an additional amount of R10 million as will be discussed in further detail hereunder. The following individuals were present at the meeting:

i. Mr Mbatha as Chairman; and

ii. Dr Phungula, Mr Kobuwe, Mr Emeran, Ms Zinde, Ms Motshologane and Mr Gombert as members. | N8/2 |
| 8.819 | Declarations of Interests forms and Confidentiality Agreements which appear to be signed by all the aforementioned attendees were located on file. | N8/5-20 |
| 8.820 | The CTPC again resolved that the matter be deferred for the following reasons:

<i>“The submission to be strengthen (SIC) and cover other areas as follows:</i>

<i>- The size and value of risk associated with the project.</i>

<i>- The current scope of the contract to be stipulated.</i>

<i>- The disciplinary action taken by PRASA in any of the cases/ findings.</i>

<i>- The contract period to be confirmed.</i>

<i>- The value to be specified accordingly.</i>

<i>- The initial/ original contract approved to be attached.”</i> | N8/4 |
| 8.821 | The minutes appear to have been signed by the Chairman, Mr Mbatha and provision is made for the signature of the secretary. However, the minutes appears to have been signed by Ms Monkwe and not Mr Khuzwayo who was the Secretary at this meeting. The signature by the secretary is dated 21 May 2013. | N8/1 |

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Submission Report

8.822	A SCM Submission Report was attached to the minutes of the CTPC meeting held on 14 May 2014 which is unsigned. We noted that the document contains a number of handwritten notes and amendments to the report. The amended version of this Submission Report was attached to the minutes of the CTPC meeting held on 29 May 2014 as will be referred to in further detail below.	N8/21-24 N8/25-28
<u>Minutes of Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 29 May 2014</u>		
8.823	We obtained a copy of the minutes of the CTPC meeting held on 29 May 2014 when the extension of the contract for providing forensic services in the amount of R10,000,000 (including VAT) was discussed under item 11. Two (2) sets of minutes were obtained for the CTPC meeting held on 29 May 2014. The one (1) version of the minutes appear to be signed by the Chairman, Mr Mbatha, on 24 June 2014. The second version of the minutes appear to be signed by the Chairman, Mr Mbatha, and the secretary, Mr Khuzwayo, but is not dated.	N9/1 N9/5
8.824	The minutes indicate the following individuals were present at the meeting: <ul style="list-style-type: none"> i. Mr Mbatha as Chairman; and ii. Ms Monkwe, Dr Phungula, Mr Kobuwe, Ms Zinde and Ms Motshologane as members. 	N9/2
8.825	We noted that the CTPC supported the recommendation that was submitted in respect of the extension of the contract in the amount of R10,000,000 (including VAT).	N9/4
8.826	Attached to the minutes of the meeting is the amended SCM Submission Report. We noted that this report includes the handwritten amendments of the Submission Report referred to herein above.	N9/12
8.827	A proposal document of SDFC, " <i>Proposed Deliverables for the fuel card fraud investigation</i> " is attached to the submission discussed above and dated September 2013.	N9/16-20
8.828	We noted that the submission is undated and unsigned. The submission is addressed to the CTPC by the Group Head of Security with project description	N9/15

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indicated as “*SDFC Forensic Auditing: Provision of Forensic Services within PRASA Group*”.

8.829	It is further noted that the submission was for the extension of the contract of SDFC for a period of 15 months from 16 September 2013 to 31 December 2014.	N9/15
8.830	The additional scope of work for the extension is recorded under paragraph 5 on page 3 of the document and reads as follows: i. “ <i>Completion of case files for work done (01 April 2011 – 31 March 2012)</i> ii. <i>Initiation of disciplinary action</i> iii. <i>Begin formal recovery of funds from implicated individuals / institutions.</i> iv. <i>Completion of FuellBust programme</i> ”.	N9/14
8.831	The report refers to “Annexure A” regarding the additional scope of work. Annexure A, attached to the re-submission, is a letter addressed to the Group Head of Security, Mr Matakata, from SDFC. The letter lists the additional proposed scope of work, as listed above, and provides details in respect of each item listed. The letter appears to be signed by Mr Dayanand dated September 2013.	N9/14 N9/16-20
8.832	The aforementioned report does not reflect the details of the files that had to be completed or any information relating to disciplinary action that had to be initiated. It is further important to note that we were unable to determine from our interviews conducted the details of the cases which had to be completed, the details relating to the recovery of funds and/or if any disciplinary action was taken as a result of the further work.	
8.833	It is important to note that it is recorded under paragraph 7, Financial Implication, that “ <i>a budget of R10 million is set aside for the project and will be managed from the office of the GCEO</i> ”. During the interview held with Mr Emeran, he stated that the reason for the project being managed from the office of the GCEO could be due to the nature of the work being performed.	N9/14
8.834	The CTPC were requested to approve the extension of the contract for an additional 15 months in the amount of R10,000,000 (including VAT).	N9/15

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Recommendation Report

8.835 A SCM Recommendation Report from the GCPO to the GCEO consists of five (5) pages. The report appears similar to the initial Recommendation Report submitted by the CPO to the GCEO, referred to herein above.

N10/5

N4

8.836 Paragraph 3 provides for some of the planned projects that PRASA has made investments into, which requires the monitoring and investigative skills, expertise and resources of SDFC. The table below details these projects, as reflected on page two (2) of the report:

N10/2

PROJECT	SCOPE	VALUE (R)	CONTRACT PERIOD	REMARKS
1. Fuel Supply	National	855,000,000	3 Years	Contract Extension
2. Security Deployments	National	606,000,000	1 Year	Contract Extension
3. Rolling Stock	National	54,000,000,000	+10 Years	New Contract
4. Other Support Programs (OPEX)		>350,000,000	3 Years	As And When

8.837 Reference is made to Annexure A under paragraph 5 that provides detailed information in respect of the abovementioned scope of work, however we have not been provided with the document. It appears that the "Annexure A" referred to in this report relates to the "Annexure A" attached to the re-submission report which was obtained with the minutes of the CTPC meeting held on 29 May 2014, as discussed herein above.

N10/3

8.838 Paragraph 9 of the report states that "*The CTPC held on Tuesday, 21 May 2014, considered the submission and unanimously resolved that it be supported and elevated to Group Executive Officer for final approval*".

N10/4

8.839 The report is concluded with the recommendation that the GCEO should approve the extension for 15 months from 16 September 2013 to 31 December 2014 for the amount of R10,000,000.

N10/5

8.840 The report appears to have been signed as recommended by Dr Phungula, in his capacity as GCPO on 9 June 2014 and the report appears to have been signed as

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Approved by Mr Montana in his capacity as GCEO on 27 June 2014. The project description is provided as “*SDFC FORENSIC AUDITING: PROVISION OF FORENSIC SERVICES WITHIN PRASA GROUP*”. The following handwritten comment appears on the report:

“*Dr Phungula*

The contract extension is approved for the period: 16th September to March 2015. The office of the Group CEO has assigned new investigations by the Forensic team and the period recommended in this Memo is clearly not realistic. Approval is hereby granted subject to the extension for another 18 months till March 2015”. (the request was for the extension for 15 months from 16 September 2013 to 31 December 2014).

Tender Advice

- 8.841 We obtained a Tender Advice sent by the CTPC Secretariat to Mkhuseleli Matakata and copied to Ms Belinda Lehabe (**Ms Lehabe**), SCM PRASA Corporate. The document was signed by Ms Mosholi with the date of approval reflected as 27 June 2014. **N11**
- 8.842 The document provides for the GCPO's comments as “*Approval is subject to the extension of contract for 18 months*” with the transaction values as R10,000,000 (including VAT).

Notice of Appointment

- 8.843 The Notice of Appointment was sent to Mr Dayanand on 15 July 2014. The reference is provided as “*CONTRACT EXTENSION*” and was signed by Ms Mosholi. **N12**
- 8.844 The notice is to inform SDFC that approval has been granted to extend the contract with the following terms of extension:
- i. “*The contract is extended from the 16 September 2015 to 15 March 2015.*”
 - ii. “*The indicative contract value for fuel investigation is R10 million VAT Inclusive, but the additional scope of the contract will be funded separately*”.
- 8.845 Ms Mosholi provided us with a copy of an email sent on 16 July 2014 in which SDFC accepts the “*Letter of Appointment*” from PRASA. **N13**

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- 4) The appointment of SDFC to provide forensic services for a period of 13 months from 1 December 2014 to 31 December 2015 for a contract amount of R14,780,000 (including VAT)**

Recommendation Report

- | | | |
|-------|--|----------------|
| 8.846 | A SCM Recommendation Report from the CPO to the GCEO consists of six (6) pages. The report was signed as recommended by Dr Phungula in his capacity as the GCPO dated 8 February 2015. The report appears to have been signed as Approved by Mr Montana in his capacity as GCEO dated 16 February 2015. The project description is provided as " <i>SDFC FORENSIC AUDITING: PROVISION OF FORENSIC SERVICES WITHIN PRASA GROUP</i> ". | N14/6 |
| 8.847 | The said report appears to be a contract extension with the end-user identified as " <i>PRASA RAIL</i> ". The purpose of the submission is to obtain approval from the GCEO to increase the scope of work of SDFC to cover " <i>Durban and Cape Town Stations, PRASA CRES and Metrorail Area South</i> ". | N14/1 |
| 8.848 | The information contained in the report appears to be similar to the previous Recommendation Report submitted by the CPO to the GCEO, for the extension of contract in the amount of R10,000,000 which was approved by the GCEO on 27 June 2014. | N10 |
| 8.849 | Paragraph 3.3 provides for the additional increase in scope of work required amounting to R14,780,000, including VAT and disbursements for " <i>unfinalised contracts</i> " as summarised in the table hereunder. | N14/3-4 |

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Project	Amount (R)	Period	Investigation Status	Status
1. Fuel Card Investigation (Autopax)	10,000,000	18 months (16 September 2013 – 15 March 2015)	Investigation in Progress	Contract Extension Finalised
Total: Finalised Contracts	10,000,000			
2. Investigation into improvements and Maintenance at Park and Durban Stations (PRASA CRES)	5,400,000	9 months (1 July 2014 – 31 March 2015)	Received the complete list of Quotation Awards, Contracts (incl. supporting documents) for Park Station have been received, as well as purchase order documents for some of the KZN Contract.	Awaiting sign off of Terms of Reference, and Formal Notice of Appointment
3. Investigation into Employee Misconduct (PRASA CRES)	980,000	6 weeks (1 July 2014 – 8 August 2014)	Investigation has been finalised.	Report submitted to PRASA GCEO. Terms of Reference still needs to be signed off.
4. Detailed investigation into Employee Misconduct: Possible	4,800,000	6 months from date of instruction from PRASA GCEO	Preliminary Investigation initiated.	Awaiting sign off of Terms of Reference, and Formal Notice of Appointment

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Syndicate (PRASA CRES)				
5. Investigation into Nepotism at Cape Town Station (Metrorail)	1,400,000	3 months from date of instruction from PRASA GCEO	Initial interviews conducted. Follow-up interviews will be scheduled.	Awaiting sign off of Terms of Reference, and Formal Notice of Appointment
6. Investigation into Salary Discrepancies in Area South (Metrorail)	2,200,000	4 months from date of instruction from PRASA GCEO	Initial interviews conducted. Follow-up interviews will be scheduled.	Awaiting sign off of Terms of Reference, and Formal Notice of Appointment
Total: Unfinalised Contracts	14,780,000	Amount is inclusive of VAT and Disbursements		

8.850 It is important to note that the document reflects under 3 that the “*Investigation has been finalised*” and “*Report submitted to PRASA GCEO. Terms of Reference still needs to be signed off*”. The status on number 2, 4, 5 and 6 all reflects “*Awaiting sign off of Terms of Reference, and Formal Notice of Appointment*”.

8.851 We were not provided with a submission document or proposal document from SDFC that sets out the details of the further services to be provided for the additional amount of R14,780,000.

8.852 The report states that a budget of R20,000,000 has been set aside for this project and that these funds will be managed directly from the GCEO’s office. This differs to the R10,000,000 budget referred to previously.

8.853 Paragraph 7 of the report states that “*This submission will, on obtaining the GCEO’s approval, be subject to next scheduled CTPC meeting for noting purposes*”. It should be noted that this contradicts the approval process as set out in PRASA’s SCM Policy.

8.854 The report is concluded with the recommendation that the GCEO should approve the extension for another 13 months from 1 December 2014 to 31 December 2015 for the amount of R14,780,000 (including VAT and disbursements).

N14/5

N14/5

N14/6

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Tender Advice

8.855 We obtained a Tender Advice sent by the CTPC Secretariat to Mr Ngakane from the GCEO's office and copied to Ms Lehave. The document was signed by Mr Khuzwayo with the date of approval reflected as 16 February 2015.

N15

8.856 The transaction is reflected as "*Increase in scope of work in order to continue providing forensic services to cover Durban and Cape Town Stations, PRASA CRES and Metrorail Area South*" and the transaction value as R14,780,000 (including VAT and disbursements).

Minutes of Corporate Tender and Procurement Committee Ordinary Meeting held on 20 April 2015

8.857 We obtained the minutes of the CTPC meeting held on 20 April 2015 where the increase in scope was listed under item seven (7). The minutes appear to be signed by the chairman and the secretary on 20 April 2015.

N16

8.858 The minutes indicate the following individuals were present at the meeting:

- i. Mr Mbatha as Chairman;
- ii. Mr Kobuwe, Dr Phungula, Mr Emeran and Ms Yvonne Page as members;
and
- iii. Ms Monkwe as secretary.

8.859 The minutes indicate that the matter was noted at this meeting as required in the Recommendation Report discussed herein above. No further comments are included.

8.860 Following our interview with Ms Mosholi, she provided us with a copy of the Notice to Proceed pertaining to the R14,780,000 extension of the contract with SDFC. The said notice is dated 4 March 2015 and was signed by Ms Mosholi on the same day. She further provided us with confirmation from SDFC of their acceptance *via* email on 4 March 2015 of the Notice to Proceed and was based on the approval by the GCEO dated 16 February 2016.

N17

N18

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c) Interviews conducted

Interview with Mr Japhta

- 8.861 Mr Japhta stated that he was not involved with this contract and stated that his only knowledge relates to the extension of R1,444,043. He further stated that he is aware of reports prepared by SDFC being provided to PRASA, however he has never had sight of any of these reports.

Interview with Mr Matakata

- 8.862 Mr Matakata provided the following information as far as it relates to SDFC:
- i. SDFC was already appointed by the time Mr Matakata assumed office as the Group Head Corporate Security;
 - ii. He stated that SDFC provided reports to Mr Mantsane while he was the Group Head Corporate Security, however when Mr Matakata took over they submitted their reports directly to Mr Montana;
 - iii. Mr Matakata further stated that he has approved payments to SDFC on occasions where he was unaware whether the services were rendered and if so what these services consisted of;
 - iv. During 2013 the current contract for SDFC was nearing its end date and he had raised it at an Executive Committee (**EXCO**) meeting. Mr Matakata further stated that Mr Montana “*lambasted*” him for raising the topic and allegedly stated that their services are important and that he as GCEO would cover the cost for any further services rendered by SDFC from the GCEO Cost Centre;
 - v. Mr Matakata stated that even though Mr Montana committed to pay for these services from the GCEO Cost Centre, he was still required to approve the payments and it was still paid out of the Security Department Cost Centre; and
 - vi. He mentioned that as per his knowledge SDFC were paid according to a payment schedule and a “*flat rate*”. He further stated that according to his understanding they adhered to this payment schedule regardless of

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whether the work was delivered accordingly or the quality of the report provided.

Interview with Mr Mbatha

- 8.863 Mr Mbatha stated that he has not been provided with any of the reports nor has he had sight of the reports submitted by SDFC to PRASA. He further stated that if the GCEO's office provides the budget for a contract, it means that the service provider would report directly to the GCEO.

Interview with Mr Mantsane

- 8.864 Mr Mantsane provided the following information with regards to SDFC:
- i. He stated that Autopax were investigating the disappearance of two (2) of their busses. As part of this investigation they reviewed the fuel cards used for these buses and stated that fuel fraud was identified during this review. Siyaya Energy as the fuel supplier, then subcontracted SDFC on behalf of PRASA to conduct the investigation into the fuel fraud;
 - ii. He indicated that he did not receive reports from SDFC as they submitted these reports to the CEO of Autopax, Mr Dumisani Kgaboesele (we were unable to interview Mr Kgaboesele as he is no longer employed by PRASA. We have however interviewed Mr van Eeden who was the Head of Security at Autopax at the time and reported to Mr Kgaboesele. We will refer to his interview below). Mr Mantsane stated that when he requested these reports, Mr Dayanand indicated that the matter had been reported to the Hawks;
 - iii. During our meeting with Mr Mantsane he provided us with the contact information for Mr van Eeden who was the Head of Security at Autopax at the time;
 - iv. Mr Mantsane informed us that he delegated two (2) internal PRASA investigators to assist SDFC in coordinating interviews and access to information;
 - v. He stated that SDFC did not issue any reports for work performed in

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- addition to the investigations conducted into the fuel fraud at Autopax;
- vi. Mr Mantsane indicated that where SDFC conducted investigations at other divisions of PRASA, SDFC would be required to report to the Head of Security; and
 - vii. According to his knowledge no disciplinary action was instituted against any PRASA employees for investigations performed by SDFC. Furthermore he is unaware of any instances where charges were brought against any individual.

Interview with Ms Mosholi

8.865 Ms Mosholi provided the following information with regards to SDFC:

- i. She stated that she drafted the Notice to Proceed or Notice of Appointment after the GCEO or CPO approval;
- ii. The Tender Advice is drafted by the CTPC or CFSC secretary and currently should be signed by the Head of Secretariat; and
- iii. She could not provide any further information as far as it relates to the services rendered by SDFC.

Interview with Mr Maletswa

8.866 Mr Maletswa provided the following information relating to SDFC:

- i. He stated that he recalls the project but has limited knowledge thereof;
- ii. He stated that Mr Mantsane was the contact person for SDFC and that all reports were issued to him;
- iii. Mr Maletswa further stated that he was responsible for compiling reports for presentation at EXCO meetings. These reports include details of the various projects within the Security Department amongst which was SDFC. He does not recall the detail included in the EXCO report in respect of SDFC; and
- iv. Mr Maletswa stated that the Investigation Unit within the Security Department would have managed this project and that Mr Mantsane was

responsible for this unit.

Interview with Mr van Eeden

8.867 Mr van Eeden was employed as the Head of Security at Autopax during the period when SDFC was initially appointed. We will briefly refer to the information he provided as far as it relates to this contract:

- i. He explained that Autopax used “*Fleet Max*” as their fuel management system. This is a system driven by Wesbank which accumulates information from the use of the fuel cards and petrol logs. The system identifies red flags by calculating the average fuel usage per bus and highlighting any anomalies. Wesbank would notify Mr van Eeden of the red flags identified whereafter he would investigate matters further;
- ii. He indicated that when he started an investigation into the red flags identified by Wesbank, he requested Mr Mantsane to provide him with internal investigators to assist him. Mr van Eeden explained that at the end 2010 or beginning 2011, Mr Mantsane informed him that SDFC has been appointed to investigate the fuel fraud and that they were taking over the investigations into fuel fraud going forward;
- iii. When SDFC initially commenced with their investigation, they investigated all Autopax busses and not only those for which red flags were identified;
- iv. Mr van Eeden stated that he is aware of two (2) reports which were submitted to Mr Mantsane and Mr Montana. Mr Matakata informed him of these reports when Mr Matakata took over as Head Group Corporate Security. No reports were provided to him;
- v. He stated that he was not involved in the appointment of SDFC, he never approved any payments to SDFC and he never reviewed any of the findings made by SDFC;
- vi. According to his knowledge no disciplinary action was instituted against any PRASA employees for investigations performed by SDFC. Furthermore he is unaware of any instances where charges were brought against any individual;

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- vii. Mr van Eeden explained that Autopax appointed Siyaya Energy to implement an e-fuel system to replace the Fleet Max system. Siyaya Energy appointed SDFC according to his knowledge as the “*quality controllers*” for the e-fuel system; and
- viii. Mr van Eeden stated that he arranged a meeting with Colonel Heap from the Hawks to discuss the 293 “*suspect*” transactions that were allegedly reported to them by SDFC. Following this meeting SDFC indicated to Mr van Eeden that they would prepare the dockets for the hawks to take the matter to the prosecutor. He does not know if the matter was taken to the prosecutor, but it is his understanding that the information was never provided to the Hawks.

Interview with Mr Mukwevho

- 8.868 Mr Mukwevho provided the following information relating to SDFC:
- i. He stated that he was aware of this project being halted following “*clashes*” with Wesbank when SDFC requested information from them;
 - ii. He stated that he had attended a presentation by SDFC along with members of the Security Department where SDFC highlighted issues they have identified during their investigation;
 - iii. According to his knowledge “*nothing really came of the investigations*”; and
 - iv. Mr Mukwevho confirmed that he did not receive nor did he have sight of any reports issues by SDFC.

Interview with Mr Rasheeqe Zaman and Mr Jeff Mahlangu

- 8.869 Mr Zaman is employed as the Chief Audit Executive for PRASA Group and reports to the Audit Committee. Mr Mahlangu is employed as Senior Manager: Internal Audit for Intersite, Autopax and PRASA CRES and reports to Mr Zaman. We will briefly refer to the information they provided as far as it relates to this contract:
- i. Mr Zaman stated that he was aware that a forensics company was appointed to investigate fuel fraud at Autopax. He further stated that this was included in their Annual Financial Statements as well as mentioned at

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- the EXCO meetings;
- ii. Mr Zaman mentioned that according to his knowledge, SDFC reported to the Head Group Corporate Security and they may have also reported to the GCEO;
 - iii. Mr Mahlangu confirmed that he has not had sight of any reports issued by SDFC, however, Mr Zaman stated that Mr Mantsane provided him with a “*small report*” during the initial stages of the investigation in January 2012;
 - iv. Neither Mr Mahlangu nor Mr Zaman are aware of any further investigations conducted by SDFC subsequent to the fuel fraud investigation at Autopax; and
 - v. Mr Zaman stated that where Internal Audit appoints a consulting firm, Mr Zaman would expect an invoice to contain specific rates for each resource as well as individual timesheets and a breakdown of the costs. He further mentioned that invoices submitted by the consulting firm would need to be linked to certain milestones in the project before payment will be authorised.

Interview with Dr Phungula

8.870 Dr Phungula was employed as Strategic Sourcing Manager: SCM at PRASA until May 2014 when he assumed the position of Acting CPO. In November 2014 Dr Phungula was appointed as the CPO until he resigned on 15 August 2015. He provided the following information relating to this contract:

- i. Siyaya Energy was appointed to supply fuel to PRASA at Autopax. The contract stipulated that in addition to supplying fuel they should also investigate any potential fraud identified. Siyaya Energy were informed that they could not supply fuel and investigate the fuel fraud and they subsequently recommended SDFC to be appointed as they had experience with fuel fraud investigations;
- ii. According to his knowledge SDFC compiled case files for the Hawks but their contract with PRASA lapsed during this process. The contract thus had to be extended to ensure that they were able to complete these

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investigations;

- iii. Dr Phungula stated that SDFC reported directly to the GCEO, Mr Montana, and the Head Group Corporate Security. He further stated that the Head Group Corporate Security was the custodian of the files and acted as mediator between PRASA and the Hawks; and
- iv. Dr Phungula indicated that the GCEO may have had a legal advisor to assist him in the matters. He stated that according to his knowledge disciplinary actions were brought against a number of PRASA employees who were subsequently dismissed and legal action was taken in some instances. He was however unable to provide any details relating to these matters.

Interview with Mr Ngakane

8.871 Mr Ngakane was previously employed as the Office Manager in the office of the GCEO for the period under review. We will briefly refer to the information he provided as far as it relates to this contract:

- i. He stated that the office of the GCEO would receive various submissions from various PRASA departments, which they would then review and prepare for the GCEO to sign;
- ii. He confirmed that he was in this position while Mr Montana was the GCEO as well as during the period SDFC was performing forensic work for PRASA;
- iii. Mr Ngakane stated that he consulted with Mr Matakata when SDFC contacted the office of the GCEO due to not payment of their invoices. Mr Matakata informed him that Mr Mantsane had exhausted the Security Department's budget and he was not willing to sign invoices for which he does not know anything about the work performed. Subsequently the project was moved to the GCEO's office and paid from their budget as "Professional Fees";
- iv. He confirmed that SDFC delivered a number of reports along with invoices and statements, however he has never seen the content of these reports

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as he provided Mr Montana with the sealed envelopes;

- v. Mr Ngakane stated that he would receive the invoice from SDFC and Mr Montana would confirm that he is satisfied with the work performed whereafter he had approved the invoices for payment;
- vi. Subsequent to Mr Montana being replaced by another GCEO he requested copies of the reports provided to PRASA by SDFC. Mr Ngakane gave these reports to the then Acting GCEO Mr Kena but he is unsure of the location of these reports as he later left the GCEO's office and transferred to PRASA Rail (we were unable to meet with Mr Kena as the former Acting GCEO);
- vii. He is aware of disciplinary hearings followed by the dismissal of the following two (2) PRASA employees, subsequent to investigations conducted by SDFC:
 - a. Mr Steven Gobeni; and
 - b. Mr Tumisho Makofane.

Interview with Mr Montana

8.872 We have tried to contact Mr Montana and left several messages for him to meet and discuss the appointment of SDFC. We were unable to speak to Mr Montana and he has not returned any of our messages that were left at number 082 771 8339 that was provided to us. We are therefore unable to obtain any further clarity as far as it relates to the details surrounding the appointment of SDFC or the details of the services rendered by them as they had reported to Mr Montana as the GCEO.

d) Verification of services

8.873 Based on our interviews as discussed herein above, we could not obtain any reports or deliverables submitted to PRASA by SDFC to confirm that the services were delivered.

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Findings

- 8.874 Detailed below is a summary of significant findings from the investigation into the awarding of the contract to Valucorp for the provision of forensic services:
- i. We determined from our review of the documentation provided that the aforesaid contract was awarded to SDFC based on a confinement as a result of a contract which was initially entered into between SDFC and Siyaya Energy to provide forensic services relating to fuel auditing;
 - ii. The contract with SDFC has subsequently been extended as listed hereunder:
 - a) The appointment of SDFC to provide forensic services for a period of 12 months from 17 September 2012 to 16 September 2013 for a contract amount of R17,000,000 (including VAT);
 - b) The application for condonation in respect of additional forensic services for a contract amount of R1,444,043 (including VAT) as approved on 3 April 2014;
 - c) The appointment of SDFC to provide forensic services for a period of 18 months from 16 September 2013 to 31 March 2015 for a contract amount of R10,000,000 (including VAT); and
 - d) The appointment of SDFC to provide forensic services for a period of 13 months from 1 December 2014 to 31 December 2015 for a contract amount of R14,780,000 (including VAT).
 - iii. We noted that the submission relating to the appointment for a period of 12 months for a contract amount of R17,000,000 (including VAT) was submitted to the CTPC meeting held on 10 April 2013. The submission is unsigned and undated. The submission document contains the motivation for the appointment of SDFC based on confinement and as a result of the work they provided on behalf of Siyaya Energy. The CTPC concurred with the recommendation to appoint SDFC subject to the following:
 - *“Breakdown of the R17 million (excl. VAT);*

N3

N3

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- *Revision of point 4 of the submission – “expediency” needs to be defined.*
 - *Approval by the GCEO”.*
- iv. The recommendation report to appoint SDFC to provide forensic services for a period of 12 months from 17 September 2012 to 16 September 2013 for a contract amount of R17,000,000 (including VAT) was signed as approved by Mr Montana as GCEO on 23 April 2013 as required;
- v. We noted from our review of the MOA entered into between PRASA and SDFC was signed by Mr Montana on 23 April 2013 and by a representative of SDFC on 25 April 2013. Paragraph 5 of the MOA deals with the pricing structure and payment and states under paragraph 5.2 that *“SDFC is appointed for the contract value not exceeding R17,000,000 including VAT subject to clause 5.4”*. Paragraph 5.4 states that *“the price of R17,000,000 total cost associated with the project, including VAT, disbursement and any other costs associated with the delivery of the project in its entirety”*. It is important to note that the Agreement does not provide how rates per hour for each grade are determined. The details relating to the level of the staff used and their rates were also not recorded on the SDFC invoices as referred to herein above;
- vi. A submission for condonation for *“additional services provided by SD Forensic to the total value of R1 444 043”* was attached to the minutes of CTPC meeting held on 27 March 2014. The CTPC deferred the matter for the following reasons:
- *“Proposal and supporting documentation be attached*
 - *Page 1 bullet 1.4, Critical Investigation – What was involved*
 - *Page 1. Bullet 1.5 Training- The breakdown costs to be indicated.*
 - *Level of complicity by SDF to reflect”.*
- vii. A further submission dated 2 April 2014 was signed by Mr Matakata as Head Group Corporate Security and was signed as Approved by Dr

N6

N7

N7

N7/28

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Phungula as the GCPO on 3 April 2014. We could not obtain minutes of the CTPC meeting where this request was discussed or deliberated on and/or where it has been approved by the GCEO for the condonation of the R1,444,043 as provided for. During our interview with Dr Phungula he stated that the GCEO approval was not required in this instance as the amount fell within the delegation of the GCPO. This is however not in agreement with the memorandum he provided dated 13 October 2014 we referred to herein above where he stated that in paragraph 1.3 that *“all requests for variations are to be approved by the GCEO and are limited to 10% of the value of the contract”*;

A8/1

viii. A submission report was attached to the minutes of the CTPC meeting held on 14 May 2014 for the extension of the contract for a further period of 18 months for an additional amount of R10,000,000 (including VAT). We noted from the minutes that the CTPC again resolved that the matter be deferred for the following reasons:

N8/21

N8

- *“The submission to be strengthen (SIC) and cover other areas as follows:*
- *The size and value of risk associated with the project.*
- *The current scope of the contract to be stipulated.*
- *The disciplinary action taken by PRASA in any of the cases/ findings.*
- *The contract period to be confirmed.*
- *The value to be specified accordingly.*
- *The initial/ original contract approved to be attached.”*

ix. A further submission relating to the request for the extension in the amount of R10,000,000 was attached to the minutes of the CTPC meeting held on 29 May 2014. The submission contained further information to clarify the aspects that were raised by the CTPC meeting held on 14 May 2014. The CTPC supported the recommendation. It is important to note that it is recorded under paragraph 7 that *“a budget of R10 million is set aside for the project and will be managed from the office of the GCEO”* (during our

N9

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interview with Mr Emeran, he stated that the reason for the project being managed from the office of the GCEO could be due to the nature of the work that was performed by SDFC). During our interview with Mr Matakata he stated that Mr Montana “*lambasted*” him for raising the topic relating to the extension of the SDFC contract and that the services are important. He further added that the GCEO agreed to cover the cost for any further services render by SDFC from the GCEO cost centre and hence the reason why it was included as referred to herein above;

- x. We noted that the recommendation report for a period of 12 months was signed as Recommended by Dr Phungula, in his capacity as GCPO on 9 June 2014. It is important to note that Mr Montana as the GCEO has signed the report as Approved on 27 June 2014 as provided for. He however has increased the contract period to 18 months and stated the following:

“Dr Phungula

The contract extension is approved for the period: 16th September to March 2015. The office of the Group CEO has assigned new investigations by the Forensic team and the period recommended in this Memo is clearly not realistic. Approval is hereby granted subject to the extension for another 18 months till March 2015” (the request was for the extension for 15 months from 16 September 2013 to 31 December 2014);

- xi. A recommendation report to appoint SDFC for a further period in the amount of R14,780,000 was signed by Dr Phungula in his capacity as GCPO on 8 February 2015. The recommendation report provides the details for the additional increase in scope of work required and reflects under paragraph 3.3 a table that refers to unfinalised contracts. It is important to note that we were not provided with submission document or submission document from SDFC that sets out the details of the further services to be provided for the additional amount of R14,780,000 for a period of 13 months from 1 December 2014 to 31 December 2015;
- xii. A budget of R20,000,000 has been set aside for this project that was

N10

N10/5

N14

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<p>managed from the GCEO's office. During our meeting with Mr Mbatha he stated that if the GCEO's office provides the budget for the contract, it means that the service provider will report directly to the GCEO. It is significant to note that paragraph 7 of the report states that "<i>This submission will, on obtaining the GCEO's approval, be subject to next scheduled CTPC meeting for noting purposes</i>" (this contradicts the approval process as set out in PRASA's SCM Policy). Mr Montana has signed the report as Approved in his capacity as GCEO on 16 February 2015;</p>	<p>N14/5</p>
<p>xiii. We noted from our review of the minutes of the CTPC meeting held on 20 April 2015 that the "<i>Request for increase in scope of work in order to continue to provide forensic services to cover Durban and Cape Town stations, PRASA Cres and Metrorail Area South</i>" in the amount of R14,780,000 (including VAT) was listed under item seven (7). The matter was noted and subsequent to the approval of the GCEO on 16 February 2015;</p>	<p>N16</p>
<p>xiv. We ascertained from our review of the payment data provided and documentation obtained that SDFC received 12 payments from PRASA for the period 15 May 2013 to 15 July 2015 totalling R36,460,251. We noted from our review of the payment packs provided that the invoices submitted by SDFC were not supported by the details relating to the level of the staff used and a breakdown of their rates. The invoices were also not supported with any documentation relating to disbursements incurred and needs to be investigated in further detail. Mr Zaman, the Chief Audit Executive for the PRASA group, stated during our interview that he would expect an invoice to contain specific rates for each resource as well as individual time sheets and the breakdown of the costs. He further added that invoices that are submitted by a consulting firm would need to be linked to certain milestones in the project before payment will be authorised. It is therefore important that invoices submitted by SDFC should also be supported with documentation such as a progress report. Mr Ngakane stated during our interview with him that he signed the invoices submitted by SDFC following</p>	<p>N2</p>

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the instruction from Mr Montana.

- xv. From our interviews conducted and information provided it appears that SDFC reported directly to Mr Montana in his capacity as the GCEO and also issued their reports to him personally. Mr Matakata and Mr Mantsane, who were both appointed as Group Head Corporate Security during the tenure when SDFC provided forensic services, stated that they were not provided with reports that were issued as a result of the various investigations conducted by SDFC;
- xvi. During our interview with Mr Matakata he also stated that SDFC were paid according to a payment schedule and a flat rate. He stated that according to his understanding they adhered to this payment schedule regardless of whether the work was delivered accordingly or the quality of the report provided;
- xvii. Mr Mantsane stated that SDFC has according to his understanding initially submitted reports to the CEO of Autopax. He further added that when he requested these reports as Head Group Corporate Security Mr Dayanand indicated that the matter has been reported to the Hawks. According to his knowledge no disciplinary action was instituted against any PRASA employees for investigations performed by SDFC;
- xviii. During our interview with Mr van Eeden as former Head of Security at Autopax, he stated that he was informed by Mr Mantsane that SDFC has been appointed to investigate the fuel fraud and that they were taking over the investigations. He stated that he is aware of two (2) reports which were issued to Mr Mantsane and Mr Montana but has indicated that no reports were provided to him. He further corroborated information as provided by Mr Mantsane that according to his knowledge no disciplinary action was instituted against any PRASA employees for investigations performed by SDFC. He further added that he attended the meeting with the Hawks unit to discuss 293 suspect transactions that was allegedly reported by SDFC. Following this meeting SDFC indicated to Mr van Eeden that they would prepare the dockets for the Hawks for prosecution but according to his

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understanding the information was never provided;

- xix. Dr Phungula stated that SDFC reported directly to the GCEO, Mr Montana, and the Head Group Corporate Security. He further stated that the Head Group Corporate Security was the custodian of the files and acted as mediator between PRASA and the Hawks. He further added that according to his knowledge, disciplinary actions were brought against a number of PRASA employees who were subsequently dismissed. He was however unable to provide any details relating to these matters and is not in agreement with the information provided by Mr Mantsane and Mr van Eeden as referred to herein above; and
- xx. We were unable to meet with Mr Montana to obtain further information regarding the appointment of SDFC or to confirm if services were rendered by SDFC as required. Based on the information provided it appears these aspects need to be investigated further.

Conclusions

- 8.875 The contract was awarded to SDFC based on a motivation for confinement. The reason for confinement was as a result of the contract which was initially entered into between SDFC and Siyaya Energy to provide forensic services relating to fuel auditing. It is important to note that the reasons given are not reasonable as there are a number of firms that can provide these forensic services. It is further significant to note that Siyaya Energy contracted SDFC to assist with the investigations into fuel fraud and hence they had an existing relationship. Therefore the reasons given for confinement and PRASA appointing SDFC directly is not valid. To appoint SDFC is irregular as the relationship has not disappeared just because the appointment has now been done directly by PRASA.
- 8.876 The various extensions of the agreement entered into with SDFC further have not been always been approved in accordance with the SCM Policy. We noted for example that the extension in the amount of R1,444,043 was approved by the GCPO and not by the GCEO as required. We further noted that the extension in the amount of R14,780,000 was approved by the GCEO on 16 February 2015 and

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only submitted to the CTPC for noting purposes on 20 April 2015, whereas the CTPC should have first considered the application and then recommended the matter to the GCEO for approval.

- 8.877 The submission report provided by SDFC to PRASA in support of the extension does not reflect the details of the investigation files that had to be completed or any information relating to disciplinary action that had to be initiated. It is further important to note that we were unable to determine from our interviews conducted the details of the cases which had to be completed, the details relating to the recovery of funds and/or if any disciplinary action was taken as a result of the further work performed by SDFC.
- 8.878 SDFC reported directly to Mr Montana in his capacity as the GCEO and also issued their reports to him personally. Mr Matakata and Mr Mantsane, who were both appointed as Group Head Corporate Security during the tenure when SDFC provided forensic services, stated that they were not provided with reports that were issued as a result of the various investigations conducted by SDFC.
- 8.879 Based on our review of the payment packs provided we determined that the invoices submitted by SDFC were not supported by the details relating to the level of the staff used and a breakdown of their rates. The invoices were also not supported by any documentation relating to disbursements incurred and was approved only based on the instruction of Mr Montana. Invoices submitted by SDFC should have been supported by the required documentation including progress reports. To date we have been unable to find copies of any forensic reports issued by SDFC despite them being paid R36,460,251.

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Recommendations

- 8.880 National Treasury should consider further investigation into the services allegedly delivered by SDFC to determine the nature of the deliverables that were submitted to PRASA as a result of the various appointments by PRASA.
- 8.881 The investigation should include a detailed analysis of the fees charged and the payments that were made to SDFC to determine if the number of staff actually used were regular and according to the required rates for each staff level. The investigation should include a review of the supporting documentation relating to the disbursement amounts charged to determine if the disbursements were justified.
- 8.882 PRASA should consider meeting with the Hawks unit of the SAPS to determine if any criminal proceedings were instituted against any individual as a result of the investigations performed by SDFC and the status thereof.

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N. The appointment of Altech Radio Holdings with a target value of R24,418,730.89 for the period 3 September 2013 to 30 September 2016

- 8.883 An Inoxico Report drawn on Altech Radio Holdings (Pty) Ltd (**Altech**) with registration number 2009/020638/07 reflects that the said entity was registered on 26 October 2009. The current Active Principals are listed hereunder:
- i. Brett Emlyn Nash with ID number 720118 5175 087 appointed on 25 September 2014;
 - ii. Paballo Leticia Sambo with ID number 780831 0258 081 appointed on 26 January 2015;
 - iii. Lucas Lefu Tseki with ID number 791104 5458 081 appointed on 15 October 2010; and
 - iv. Vusumuzi Magomeni Simon Mngomezulu with ID number 861222 5287 089 appointed on 26 January 2015.

O1/3
O1/9-10

a) Review of payments made by PRASA

- 8.884 We requested a list of all payments made by PRASA to Altech. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system.
- 8.885 We ascertained from the above mentioned analysis that Altech had received five (5) payments from PRASA for the period 4 December 2013 to 31 March 2014 as summarised in the table hereunder (it should be noted that two (2) invoices were combined for one payment in respect of payment number five (5)):

O2

8.886	Number	Date	Amount (R)
	1	04/12/2013	1,412,907.99
	2	19/12/2013	421,686.00
	3	31/01/2014	181,602.00
	4	14/02/2014	3,450,438.00

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Number	Date	Amount (R)
5	31/03/2014	8,891,508.89
		14,358,142.88

- 8.887 We requested the payment packs relating to the five (5) payments made by PRASA to Altech in respect of the contract under review. We were however, not provided with payment packs relating to payments number three (3) and five (5) as detailed in the table above.
- 8.888 We will discuss the payment pack relating to payment number one (1) in the table above to serve as an example of the documents generally included in the payment packs. All the payment packs received for Altech contains the documents listed below.
- 8.889 The payment pack includes the following documents:
- i. The remittance advice reflects an amount of R1,412,907.99 and dated 4 December 2014;
 - ii. The creditors reconciliation is dated 3 December 2013 and reflects the total payment to be made to Altech as R1,412,907.99. The reconciliation is prepared by and signed by what appears to be Norman Thaele and reviewed and stamped by Bonisa Ngcongca. This amount agrees to the amount as per the remittance advice;
 - iii. The extract from the SAP creditors ledger reflects the supplier invoice number as “27856” in the text column with the same amount;
 - iv. The PRASA Corporate Invoice Payment Check List is signed as requested and dated 29 November 2013;
 - v. Supplier invoice – The supplier invoice is signed as approved by various individuals, including Mr Matakata and Mr Japhta. The tax invoice number is reflected as “27856”, which corresponds to the number included on the SAP creditors ledger extract. The invoice reflects the total cost for the various items provided as R1,412,907.99;
 - vi. The supplier statement of account dated 16 October 2013 reflects one

O2/2

O2/3

O2/4

O2/5

O2/6

O2/10

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invoice in the amount of R1,412,907.99. The statement is signed by what appears to be Mr Matakata and Mr Japhta; and

- vii. The purchase requisition was attached to the payment pack confirming that payment can be made to Altech.

O2/11

- 8.890 Altech was appointed for this contract on 3 September 2013 for a total amount of R24,418,730.89. The total amount paid to Altech, as detailed herein above, thus falls within the contract amount with an amount of R10,060,588.01 still available to be paid on the contract.

b) Procurement Review

- 8.891 We obtained the procurement file and documentation relating to the abovementioned project. The tender was for the provision of a tactical radio communication system. We determined from our review of the documentation provided that the aforesaid contract was awarded to Altech following an open bidding process.

Request for Proposal

- 8.892 A RFP, dated 26 September 2011, details the specifications required for the provision of a tactical radio communication system to the Security Department.

O3

- 8.893 The RFP serves as a request by the Security Department to SCM to follow an open tender process to procure the “*Radio Trunking for communication with its mobile units*” and covers the requirements for trunking services. It is important to note that the RFP does not contain any information regarding the criteria for the tender evaluation that was submitted.

- 8.894 The RFP was signed by Mr Mantsane on 17 October 2011.

O3/9

Purchase Requisition

- 8.895 A Purchase Requisition, dated 18 October 2011, was completed for the purchase of various items relating to radio communication. The estimated cost is stated as being R16,000,000.

O4

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8.896 The Purchase Requisition was signed by Mr Japhta on 18 October 2011, as requisitioner, Mr Mantsane on 18 October 2011, as the relevant Line Manager, and Ms Sojezi on 19 October 2011, as Procurement Official.

Tender advertisement

8.897 On 24 October 2011, a quote was received from Dumisa Design Advertising for the placement of advertisements in the following newspapers:

- i. Citizen;
- ii. The Herald;
- iii. Cape Times;
- iv. The Mercury;
- v. The Star; and
- vi. City Press.

8.898 The tender was advertised in all the above mentioned newspapers and copies of these advertisements were on file. The advertisement included the following information:

- i. A compulsory briefing session – 4 November 2011;
- ii. Tender documents could be collected between 31 October 2011 and 3 November 2011; and
- iii. The tender closing date – 25 November 2011 at 12:00.

8.899 The tender collection register indicates that representatives from ten (10) entities collected tender documents. The entities are listed as follows:

- i. Royal Security;
- ii. Reutech;
- iii. Altech;
- iv. Plessey;
- v. Verstay;

O5/1

O5/4-9

O6

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- vi. Emcom;
- vii. Altech Fleetcall;
- viii. Sitcom Coastal;
- ix. Khuselo; and
- x. Vodamap

8.900 Letters, dated 23 November 2012, were sent to the above mentioned entities notifying them of an extension in relation to the validity of the tender to 28 February 2013. Two (2) of these letters were on file (addressed to Altech and Verstay). This is 15 months after the tender closing date.

07/1-2

Evaluation tender register

8.901 On 4 December 2012, an evaluation tender register was completed. The description on the register is stated as “*Presentation on Tender: Tactical Security Communication*”.

08

8.902 Three (3) of these evaluation tender registers were on file. Two (2) of these contained handwritten notes which stated “*Altech*” and “*Verstay*” respectively. We located the presentation prepared by Altech on file. We noted that Mr Japtha and Mr Seaba of Corporate Security and Ms Leburu-Tsawane of SCM attended all three (3) presentation meetings. Mr Japtha indicated that the third attendance register relates to the presentation by Khuselo. He further stated that the bidders were requested to present their proposed solutions due to the complex nature of the tender.

08/1-3

08/4-25

8.903 On 17 January 2013, the tender briefing attendance register was completed. Representatives from the following entities were present:

09

- i. Altech Alcom Matomo;
- ii. Altech Fleetcall;
- iii. Verstay; and
- iv. Khuselo Telecoms.

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Tender opening register

8.904	The tender opening register, dated 6 March 2013, indicates that three (3) entities submitted bids, namely: i. Altech; ii. Khuselo; and iii. Verstay.	O10
8.905	It should be noted that the tender opening register reflects that the submission by Altech included one (1) original, one (1) copy and one (1) CD. The submissions by Khuselo and Verstay consisted of only one (1) original each.	
	<u>Memorandum dated 7 March 2013</u>	
8.906	In a memorandum, dated 7 March 2013, the Acting CPO, Dr Phungula, notifies the following individuals of their appointment as part of the tender evaluation team for the appointment of a mobile transporter supplier: i. Mr Mukwevho; ii. Mr Japhta; and iii. Mr Petrus Teffu (Mr Teffu).	O11/1
8.907	Provision is made for the signature of Mr Mbatha on the memorandum, however Mr Mbatha confirmed that the signature present is that of Ms Mosholi.	O11/2
8.908	The evaluation attendance register, dated 7 March 2013, indicates that the following individuals were present at the bid evaluation: i. Mr Teffu; ii. Mr Mukwevho; and iii. Mr Japhta.	O12
8.909	Each of the aforementioned individuals appears to have signed a Declaration of Interest and a Confidentiality Agreement on 7 March 2013 in respect of the tender which they would be evaluating.	O12/2-7

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8.910	The tender evaluation in respect of the compliance documentation was completed. The evaluation indicates that all compulsory documentation was submitted by Altech, Verstay and Khuselo.	O12/8
8.911	The scoresheets completed by each of the evaluation team members on 7 March 2013 were located on file. The scoresheets detail the scores provided by each of the evaluation team members to each of the three (3) bidders. <u>Submission for Adjudication</u>	O12/9-11
8.912	The SCM Submission for Adjudication is attached to the minutes of the CTPC meeting held on 10 April 2013 as discussed herein below.	O13/11
8.913	The report refers to the Security Department that makes use of cellular phones as their means of communication which is expensive and inefficient. Tactical radio communication was required to address these issues for a more effective communication within the Security Department.	
8.914	On page 1 of the report, it indicates that an evaluation was performed on 17 May 2012. During the evaluation, the committee were of the opinion that there was a huge difference on the tender amounts.	O13/11
8.915	The bidders were all requested to attend an additional briefing session on 28 November 2012 and 28 February 2013 to clarify the scope and pricing and technical requirements respectively. The new tender closing date was indicated as 6 March 2013 with the tender evaluation commencing on 7 March 2013.	
8.916	According to the report, ten (10) tender packs were issued and confirmed that three (3) bids were received from Khuselo, Verstay and Altech.	O13/14
8.917	Verstay and Khuselo were eliminated due to not having achieved the required 70% threshold for the technical evaluation. According to the tables included in the report, weighted scores awarded to the bidders were as follows (we could not determine the tender amounts from the documentation provided in respect of each of the bidders): i. Khuselo: 62.7%;	O13/16

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	ii. Verstay: 55.3%; and	
	iii. Altech: 70.7%.	
8.918	It was noted that a security screening was requested for Altech, but no results were included in the report.	O13/24
8.919	The template for evaluations contain the technical evaluation criteria and the weight for evaluation. It is important to note that the RFP does not contain any information regarding the criteria for the tender evaluation that was submitted.	O13/18 O3
8.920	Paragraph 3 of the Preferential Procurement regulations 2011 provides that an organ of state must, prior to making an invitation for tenders (b) “ <i>Determine and stipulate the appropriate preference point system to be utilized in the evaluation and adjudication of tenders</i> ”. Paragraph 4 further deals with the evaluation of tenders on functionality and states that the criteria must be clearly specified in the invitation to submit a tender. It however appears from our review of the available documentation that SCM did not comply with this requirement as provided for.	A3/9
8.921	The report states that the CTPC are requested to approve the appointment of Altech for the provision of a tactical radio communication system.	O13/24
8.922	The report appears to be signed as Recommended by Mr Maletswa, as Senior Manager: Corporate Security, and Mr Mantsane as Supported on 13 March 2013 as Head Group Corporate Security.	O13/25
8.923	During the interview with Mr Maletswa he stated that he was not the end-user for this project and does not know why his name would be included as such. He further stated that he would have signed the submission as Recommended based on the content thereof but the submission would have been drafted by Mr Japhta.	
	<u>Minutes and Agenda of Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 10 April 2013</u>	
8.924	The minutes indicate the following individuals were present at the meeting: i. Mr Holele as the Chairman; ii. Mr Mbatha, Mr Bopape and Mr Mantsane as members;	O13/2

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	iii. Mr Swanepoel as secretary; and	
	iv. Mr Khuzwayo as Secretariat.	
8.925	Declarations of Interests which appear to be signed by Mr Holele, Mr Bopape, Mr Mantsane and Mr Kuzwayo, were located on file.	O13/6-9
8.926	This tender is listed as item number four (4) where the CTPC is requested to consider the appointment of Altech to provide PRASA with a tactical security communication system.	O13/3
8.927	The contract amount is indicated as R24,418,730.89 (including VAT) with a contract period of two (2) years with the option to extend.	O13/3
8.928	The CTPC agreed with the recommendation of the appointment of Altech subject to the following provisions: i. Explanation of why the tender was issued on 31 October 2011 and closed on 25 November 2011 but only submitted for adjudication on 10 April 2013 (this is one (1) year and five (5) months later); ii. Indication of the tender validity period; iii. Written confirmation from corporate security that a security screening was performed on Altech and that no risks were identified; iv. Written confirmation from the Finance Department that there are sufficient funds available for the project; and v. GCEO approval.	O13/3
8.929	The minutes appear to be signed by Mr Holele on 23 April 2013. We were not provided with information that the remarks by the CTPC were addressed and are in the process to investigate this further.	O13/1
	<u>Letter dated 14 August 2013</u>	
8.930	On 14 August 2013 (four (4) months after the CTPC meeting was held on 10 April 2013), a letter was sent from Mr Matakata to Mr Montana. The letter states that the GCEO received the request for the radio communication system, but sent it back to the Security Department for reassessment by the newly appointed Head	O14

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Group Corporate Security, Mr Matakata to determine if the project was still critical and whether or not the procurement should go ahead.

- 8.931 Mr Matakata states in this letter that there is still a need for the procurement of a radio communication system for the Security Department and recommended the appointment of Altech as a service provider with a contract amount of R24,418,730.89 (including VAT).
- 8.932 The letter appears to be signed by Mr Matakata on 20 August 2013, Mr Mbatha on 29 August 2013 and Mr Montana on 3 September 2013. The individuals recommended, supported and approved the recommendation respectively. **O14/3**
- 8.933 Mr Japhta indicated during the interview held with him that according to his knowledge the appointment of Altech was already approved by the CTPC but as the request was instituted by Mr Mantsane, the GCEO required confirmation from Mr Matakata that the services were still required.
- 8.934 A SCM Tender Advice was issued to Mr Matakata by the CTPC Secretariat. The Tender Advice indicates that the appointment of "*Altech Alcom Matomo*" has been approved on 3 September 2013 to the amount of R24,418,730.89. The Tender Advice appears to be signed by Ms Mosholi. **O15**
- 8.935 On 3 September 2013, "*Altech Alcom Matomo*" were informed of their appointment as service providers of the tactical security communication system to the amount of R24,418,730.89 (including VAT). The notice states that "*Altech Alcom Matomo*" must communicate their acceptance of the appointment in writing before 10 September 2013. The Notice of Appointment appears to be signed by Ms Mosholi. **O16**
O16/2
- 8.936 Altech confirmed their acceptance of the appointment in a letter dated 9 September 2013. The letter appears to be signed by Mr Noel Watermeyer (**Mr Watermeyer**) as Sales Manager of Altech. **O17**
- 8.937 On 1 October 2013, Verstay and Khuselo Telecoms were notified that they were unsuccessful. **O18**
- 8.938 A request for WBS number was submitted for this project to the amount of **O19**

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R24,418,730.89 on 12 November 2013. The project description is reflected as
“PRASA Security Improvement Projects”.

8.939 We were not provided with the SLA or any form of contract which detailed the terms and scope of work for the project. We have requested PRASA to provide us with the outstanding information but could not be located.

c) Review of Variation Orders

8.940 No variation orders were noted in respect of this contract.

d) Interviews conducted

Interview with Mr Japhta

8.941 Mr Japhta provided the following information as far as it relates to Altech:

- i. Mr Japhta explained that these services were procured for the use of the internal PRASA Security staff and not for the security staff provided by the other services providers;
- ii. He stated that the original budget is based on his assumptions and calculations as PSIRA has not yet come up with pricing guidelines for these types of security related services; and
- iii. Mr Japhta stated that he has no knowledge of the reason for the delay in the procurement process in respect of this contract.

Interview with Mr Matakata

8.942 Mr Matakata stated that the initial procurement of these services was done prior to his appointment as Group Head Corporate Security.

Interview with Mr Mantsane

8.943 Mr Mantsane indicated that he has no knowledge of the reason for the delay in the procurement process of Altech.

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Interview with Mr Maletswa

- 8.944 Mr Maletswa stated that he has no knowledge as to the reason for the delay in the procurement process and that these services were acquired for operational purposes of which he has no input and he had no involvement in the matter.

Interview with Mr Mukwevho

- 8.945 Mr Mukwevho stated that although he was a member of the BEC he had no further involvement in the procurement process and thus has no knowledge as to the delay in the procurement process.

e) Verification of services

- 8.946 During our interview with Mr Japhta he confirmed that the services were delivered by Altech.

Findings

- 8.947 Detailed below is a summary of significant findings from the investigation into the awarding of the contract to Altech for the provision of a tactical radio communication system:
- i. We determined from our review of the documentation provided that this contract was awarded to Altech following an open bidding process. The RFP dated 26 September 2011 details the specifications for the provision of a tactical radio communication system and was signed by Mr Mantsane on 17 October 2011. Paragraph 3 of the Preferential Procurement regulations 2011 provides that an organ of state must, prior to making an invitation for tenders (b) "*Determine and stipulate the appropriate preference point system to be utilized in the evaluation and adjudication of tenders*". Paragraph 4 further deals with the evaluation of tenders on functionality and states that the criteria must be clearly specified in the invitation to submit a tender. It however appears from our review of the available documentation that SCM did not comply with this requirement as provided for. The tender was advertised with a compulsory briefing session

O3

O5

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- to be held on 4 November 2011 and tender closing on 25 November 2011;
- ii. We noted from our review of the tender collection register that representatives from 10 entities collected tender documents. Letters were sent to the entities on 23 November 2012 when they were notified that the validity of the tender was extended to 28 February 2013 which is 15 months after the tender closing date. We noted that three (3) entities submitted bid documents, including Altech;
- iii. The tenders were evaluated on 7 March 2013 and were all found to be compliant subsequent to the compliance assessment. We noted from our review of the adjudication report that it is recorded that the bidders were all requested to attend an additional briefing session on 28 November 2012 and 28 February 2013 to clarify the scope and pricing and technical requirements respectively. There is no record that the evaluation criteria was provided to the tenderers. The new tender closing date was indicated as 6 March 2013 with the tender evaluation commencing on 7 March 2013;
- iv. We were unable to determine from our interviews conducted why there was such a long delay in the finalisation to clarify the scope and pricing in respect of the tender;
- v. Verstay and Khuselo were eliminated for not meeting the required 70% threshold for the technical evaluation. Altech was recommended as the preferred bidder to provide the tactical security communication system for a contract amount of R24,418,730.89 (including VAT);
- vi. On 10 April 2013 the CTPC agreed with the recommendation of Altech subject to the following provisions:
- Explanation of why the tender was issued on 31 October 2011 and closed on 25 November 2011 but only submitted for adjudication on 10 April 2013 (this is one (1) year and five (5) months later);
 - Indication of the tender validity period;
 - Written confirmation from corporate security that a security screening

O6

O7

O13

O13/2

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- was performed on Altech and that no risks were identified;
- Written confirmation from the Finance Department that there are sufficient funds available for the project; and
 - GCEO approval.
- vii. On 14 August 2013 (and a further four (4) months after the CTPC meeting was held) a letter was sent from Mr Matakata to Mr Montana. The letter states that the GCEO received the request for the radio communication system, but sent it back to the Security Department for reassessment by the newly appointed Head Group Corporate Security, Mr Matakata to determine if the project was still critical and whether or not the procurement should go ahead. Mr Matakata confirmed there was still a need for the procurement for a radio communication system and recommended the appointment of Altech as referred to herein above that was approved by Mr Montana on 3 September 2013; **O14**
- viii. On 3 September 2013 Altech was informed of their appointment to provide a tactical security communication system which was accepted by Altech on 9 September 2013. We were not provided with the SLA or any form of contract relating to the terms and scope of work for the project; **O17**
- ix. We ascertained from our review of the payment data and documentation provided that Altech received five (5) payments from PRASA for the period 4 December 2013 to 31 March 2014 totalling R14,358,142.88. There were no VOs issued in respect of this contract; and **O2**
- x. During our interview with Mr Japhta he confirmed that the services were delivered by Altech as required.

Conclusions

- 8.948 The RFP dated 26 September 2011 details the specifications for the provision of a tactical radio communication system and was signed by Mr Mantsane on 17 October 2011. Paragraph 3 of the Preferential Procurement Regulations 2011 provides that an organ of state must, prior to making an invitation for tenders (b)

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“Determine and stipulate the appropriate preference point system to be utilized in the evaluation and adjudication of tenders”.

- 8.949 Paragraph 4 of the Preferential Procurement Regulations 2011 further deals with the evaluation of tenders on functionality and states that the criteria must be clearly specified in the invitation to submit a tender. It however appears from our review of the available documentation that SCM did not comply with this requirement as provided for and this should have rendered the tender process as invalid.
- 8.950 The tender was advertised with a closing date as 25 November 2011 and the validity of the tender was extended to 28 February 2013 which is 15 months after the tender closing date. We were unable to determine why there was such a long delay in the finalisation to clarify the scope and pricing in respect of the tender. The contract was awarded to Altech on 3 September 2013.

Recommendation

- 8.951 The specifications for all prospective contracts should be drawn up and approved by the BSC committee to ensure that the specifications are fair and address all the requirements of the respective end-user department.
- 8.952 PRASA should ensure that the bid specifications clearly specify the requirements for the tender as well as the aspects for evaluation to ensure that tender documents are evaluated accordingly and as provided for in terms of the PPPFA.
- 8.953 PRASA should consider implementing processes and controls to ensure that projects are completed within a reasonable time frame and for the period as agreed upon to avoid unnecessary delays which may have adverse financial implications.
- 8.954 PRASA should implement a system where all procurement related documents are filed in a safe and secure environment with a register to control the movement of the procurement files as a number of documents could not be obtained.

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**O. The appointment of Psaros Communications CC with a target value of
R25,252,919.05 for the period 19 December 2012 to 31 March 2013**

8.955 An Inoxico Report drawn on Psaros Communications CC (**Psaros**) with registration number 2005/020979/23 reflects that the said entity was registered on 18 February 2005. The current Active Principal is listed hereunder:

P1

P1/6

- i. Dimitrios Psaros with ID number 710310 5036 086 appointed on 18 February 2005.

a) Review of payments made by PRASA

8.956 We requested a list of all payments made by PRASA to Psaros. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system.

P2/1

8.957 We requested all payment packs relating to the payments made to Psaros, but could not be provided.

8.958 In the list of payments made by PRASA to Psaros, it is reflected that Psaros received an amount of R633,221.68 on 31 August 2012. The description is reflected as "*Signage-Various Stations*". We confirmed during our investigation that Psaros does not provide services in the form of signage and that they only provide training services.

8.959 During our investigation we met Mr Psaros as we could not obtain any of the documentation relating to the appointment by PRASA. (We will refer to the interview in further detail below). During our meeting with Mr Psaros, he stated that Psaros did not provide services to PRASA with a target value of R25,252,919.05.

8.960 Mr Psaros provided us with three (3) invoices which relate to the training he provided to PRASA employees. He mentioned that although three (3) invoices were issued, they all relate to the same training that was provided for different delegates.

P2/2-4

8.961 Based on the statement provided to us by Mr Psaros, we determined that he

P2/5

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received a total of R99,137.22 for services rendered relating to training in 2013. He further indicated that he provided training to another PRASA employee in the previous year which amounted to approximately R8,000. The total payments thus made to Psaros amounts to approximately R107,137.22.

P2/4

8.962 We obtained Psaros' bank account details from some of the documentation he provided. We requested Mr Phori to extract the total payments made to this account by PRASA.

8.963 Mr Phori provided us with an email dated 25 August 2016 which contains SAP screenshots containing the details relating to the payments. We noted that the vendor numbers 106760 and 109452 both reflect Psaros. We confirmed, with reference to the PRASA vendor database, that both these vendor numbers refer to account number 1924315483 as provided by Mr Psaros. Mr Phori further provided us with a spreadsheet detailing payment in the amount of R633,221.68 dated 23 November 2012 as well as the two (2) payments in the amount of R90,440.97 and R8,696.25 as confirmed by Mr Psaros. We further requested the payment pack in respect of the payment in the amount of R633,221.68 from PRASA CRES. We were provided with the payment pack which included the following documents:

P2/6-7

P2/5-6

P2/8

i. The purchase order dated 22 November 2012, reflects the vendor as "106760 PSAROS COMMUNICATIONS C". The description is reflected as "Signage – Various Stations" and "453660/Signage – Various Stations PSA" in the amount of R633,221.68 (including VAT);

P2/9

ii. The supplier invoice issued by Premier Sayina Africa (PSA) dated 22 June 2012 reflects a reference "Signed Artwork" in the amount of R77,829.75 (including VAT) (the invoice for the balance of the amount was not attached to the payment pack);

P2/10-11

iii. Cheque requisitions and authorisations for signage, dated 9 November 2012, in the amount of R555,391.93 and R77,829.75 was attached to the payment pack. The cheque requisitions reflect the project name as "Signage PRASA Autopax (PTA)" and the payee as "PSA"; and

P2/13-18

iv. Purchase requisitions were attached to the payment pack confirming that

P2/19-21

payment can be made for “*Signage – Various Stations*”.

- 8.964 Hence it appears from the documentation provided that the payment in the amount of R633,221.68 was made to PSA and not to Psaros as reflected in the SAP information provided by Mr Phori. The information provided by Mr Psaros is corroborated by the information contained in the payment pack.

b) Procurement Review

- 8.965 We were not provided with any procurement documentation in respect of Psaros by either PRASA Corporate or PRASA CRES and the file could not be located. It is our understanding based on the information provided that no procurement file exists for Psaros at PRASA.

Interview with Mr Psaros

- 8.966 Mr Psaros is the Managing Director of Psaros. We will briefly refer to the information he provided as far as it relates to this contract:
- i. Mr Psaros stated that Psaros provides short courses and in house training;
 - ii. Mr Psaros could not recall whether he responded to a tender from PRASA, but the usual practice for Psaros is to advertise their training courses and entities/individuals would respond to them;
 - iii. He confirmed that training was only provided to PRASA employees on two (2) occasions, in 2012 and 2013;
 - iv. Mr Psaros recalled that the training provided in 2012 was provided to only one (1) PRASA employee for the total amount of approximately R8,000;
 - v. The second occasion on which Psaros provided training to PRASA was in November 2013 where 11 PRASA employees attended. Mr Psaros provided us with the course brochure as well as the registration forms in respect of the attendees. Mr Psaros confirmed that he was remunerated in full for the services provided by him in the amount of R99,137.22; and
 - vi. Mr Psaros indicated that he did not provide services to PRASA in excess of R110,000 as being alleged.

P3

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Findings

- 8.967 Detailed below is a summary of significant findings from the investigation into the awarding of the contract to Psaros:
- i. We ascertained from our review of the payment data and documentation provided by Mr Psaros that they received two (2) payments from PRASA for the period 31 October 2013 to 19 December 2013 totalling R99,137.22 for training provided;
 - ii. We determined from our interviews conducted that Psaros has not provided services to PRASA in the amount of R25,252,919.05 as reported to us before we commenced with our investigation. There was further no procurement documentation available in support of the payment as reported to us. Mr Psaros stated that he did not submit a proposal for any tender, but was appointed only to provide training to PRASA employees for an amount of approximately R108,000 during 2013; and
 - iii. We noted from the payment data and documentation provided that one (1) payment in the amount of R633,221.68 was made to PSA for signage, although it is incorrectly reflected on SAP as a payment to Psaros.

Recommendations

- 8.968 PRASA should ensure that the information loaded onto SAP is accurate and records the true nature of the contract and payments made to the respective service providers. In addition, PRASA should consider including a field in the SAP system wherein the contract number is entered to link every payment to a specific contract, irrespective of the supplier name. This can also be supported by the maintenance of a contract register.
- 8.969 A formal filing system should be implemented in the finance department to ensure that the supporting payment documentation is readily available and is filed according to a referencing system.

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P. The appointment of Phumi Trading CC with a target value of R66,879,306.12 for the period 2 September 2014 to 31 August 2015

8.970 An Inoxico Report drawn on Phumi Trading CC (**Phumi**) with registration number 2004/036103/23 reflects that the said entity was registered on 22 April 2004. The current Active Principal is listed hereunder:

- i. Patricia Nonhlanhla Lethatha with ID number 900917 0600 086 appointed on 18 March 2008.

a) Review of payments made by PRASA

8.971 We requested a list of all payments made by PRASA to Phumi. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system.

8.972 We ascertained from the above mentioned analysis that Phumi had received 15 payments from PRASA for the period 30 September 2014 to 30 June 2016 as detailed in the table hereunder (it should be noted that on various occasions more than one (1) invoice was combined for (1) payment):

Number	Date	Amount (R)
1	30/09/2014	2,387,473.50
2	30/10/2014	2,392,347.00
3	01/12/2014	1,699,138.19
4	22/12/2014	7,220,406.49
5	02/02/2015	10,067,898.31
6	31/03/2015	4,445,287.54
7	15/05/2015	7,648,547.55
8	12/06/2015	5,123,140.16
9	02/09/2015	9,700,250.12

Q1
Q1/6

Q2

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Number	Date	Amount (R)
10	15/10/2015	1,544,980.72
11	13/11/2015	4,831,956.12
12	18/12/2015	2,684,300.91
13	02/03/2016	2,235,038.71
14	31/05/2016	473,959.72
15	30/06/2016	1,631,072.77
		64,085,797.81

8.973 We requested all payment packs from PRASA relating to Phumi in respect of the contract under review. We were however not provided with payment packs for the first two (2) payments although we did receive the relevant payment certificate.

8.974 We will discuss the payment pack relating to payment number seven (7) in the table above to serve as an example of the documents generally included in the payment pack. It should be noted that not all the documents discussed below are included in each of the payment packs received.

8.975 The payment pack includes the following documents:

- i. A payment certificate issued by Glenro Built Environment Consultants (Pty) Ltd (**Glenro**) is dated 1 April 2015 to the amount of R7,648,547.55. The payment certificate serves to "*certify that the work has been executed to our satisfaction and that the above amount is now due for payment to Phumi Trading CC*";
- ii. The remittance advice reflects the amount of R7,648,547.55 and dated 15 May 2015;
- iii. The creditors reconciliation is dated 8 April 2015 and reflects the total payment to be made to Phumi as R7,648,547.55. The reconciliation is prepared by and signed by what appears to be Geoffrey Kenosi and reviewed by Motsei Molohe. This amount agrees to the amount as per the

Q2/2-18

Q2/20

Q2/21

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	remittance advice;	
iv.	The extract from the SAP creditors ledger reflects the same amount;	Q2/22
v.	PRASA Corporate Invoice Payment Check List is signed as Requested and undated;	Q2/23
vi.	The supplier invoice is dated 1 April 2015. The invoice reflects the total cost as R7,648,547.55;	Q2/24
vii.	The supplier statement of account, dated 8 April 2015 reflects the total amount due as R7,648,547.55; and	Q2/25
viii.	The purchase requisition was attached to the payment pack, confirming that payment can be made to Phumi.	Q2/26-28
8.976	The original contract period was for the period September 2014 to April 2015 (a period of eight (8) months). However we noted that the payments stretched over a period of 21 months.	
8.977	The total contract amount awarded to Phumi was stated as being R66,879,306.12. The total payments made as per the above mentioned payments totalled to R64,085,797.81 which falls within the total contract amount.	
	<i>b) <u>Procurement Review</u></i>	
8.978	We obtained the procurement file and documentation relating to the above mentioned project. The tender was for the construction of a new drainage system at Katlehong – Kwesine. We determined from our review of the documentation provided that the aforesaid contract was awarded to Phumi following an open bidding process.	
	<u>Tender advertisement</u>	
8.979	On 24 October 2011, a quote was received from Dumisa Design Advertising for the placement of advertisements in the following newspapers:	Q3/2
	i. Cape Argus;	
	ii. The Sowetan;	

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iii. The Mercury; and

iv. The New Age.

8.980 The tender was advertised in all the above mentioned newspapers and copies of these advertisements were on file. The Request for Tender was also attached and included the following information:

Q3/3-6

Q3/7

i. A compulsory briefing session – 4 June 2013 at 10:00;

ii. Non-refundable deposit to collect tender documents – R1,000;

iii. Tender documents could be collected between 28 May 2013 to 3 June 2013; and

iv. The tender closing date – 27 June 2013 at 12:00.

8.981 It is important to note that the advertisement does not reflect the required CIDB grading in respect of the tender. During our interview with Mr Rehman and Ms Sekhuthu they indicated that currently the CIDB grading must be included in the advertisement but previously it was sufficient for it to be included in the advertisement on the CIDB website. We were further unable to determine whether the CIDB grading requirement was included in the tender document.

8.982 A document on a “Leads 2 Business” letterhead was also provided to us, which reflects the same information as advertised as set out in the Request for Tender as discussed herein above.

Q4

8.983 We further received proof of payments of the R1,000 deposit to obtain the tender documents for a number of entities.

Q5

8.984 The tender collection register indicates that representatives from 27 entities collected tender documents. The register reflects whether entities have paid for the tender documents.

Q6

Tender briefing minutes

8.985 We were provided with the minutes for the tender briefing meeting held on 4 June 2013 at 10:00 at PRASA’s offices in Braamfontein. The contract description is provided as “Katlehong – Kwesine : Construction New Drainage System”.

Q7

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8.986	<p>The minutes reflect the attendance of a number of individuals, with the following PRASA employees attending:</p> <ul style="list-style-type: none">i. Ms Bongiwe Shiba (Ms Shiba), SCM, PRASA Technical;ii. Mr M Mphela, SCM, PRASA Technical;iii. Ms Moagi, SCM, PRASA Technical;iv. Ms du Plessis, PRASA Rail; andv. Mr Sonwabile Kondlo (Mr Kondlo), PRASA.	Q7/1
8.987	<p>Paragraph 1.4 states that the “<i>Closing date and time for the tender was also extended to the 4th of July 2013 @ 12H00</i>”. A number of technical and contractual matters were discussed by the above mentioned attendees. It is important to note that the required CIDB grading is not recorded in the minutes and hence appears not to be disclosed to the bidders as a requirement (it was also not included in the advertisement as referred to herein above). The minutes were signed by the Chairman of the meeting, however no name or date is reflected for the signature.</p>	Q7/2 Q7/5
8.988	<p>The briefing meeting attendance register consists of three (3) pages with a number of attendees listed from various entities and officials from PRASA. The tender number is provided as HO/PT/INFR (D)012/05/2013. We noted that “<i>John</i>” attended the tender briefing on behalf of Phumi (number 7).</p> <p><u>Tender opening register</u></p>	Q8
8.989	<p>We were provided with the tender opening register consisting of two (2) pages. The register is dated 4 July 2013 with the tender number reflecting HO/PT/INFR (D)/012/05/2013. The register appears to be signed by Ms du Plessis as the CFSC/CTPC Secretary along with three (3) witness signatures. The following 14 entities are listed as submitting bids before closing time:</p> <ul style="list-style-type: none">i. Seletje Construction;ii. King Civil/Lettam Joint Venture (JV);iii. Amawakawaka Projects CC;iv. Odirile Investments/Setheo JV;	Q9

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- v. Phumi Trading;
- vi. Inyatsi Construction;
- vii. Mmalarepo/Esorfranki JV;
- viii. Fastmove Electrical;
- ix. Umbutho Civil & Electrical;
- x. Lenong Engineering (Pty)
- xi. Mohwibidu General;
- xii. Vusela Construction;
- xiii. Maunga Projects CC; and
- xiv. VF Munisi Civils (Pty) Ltd.

8.990 The abovementioned bidders were then evaluated for the compliance requirements, being the following:

- i. Valid Original TCC;
- ii. Proof of bank account;
- iii. Bank rating code;
- iv. B-BBEE rating certificate;
- v. Company registration documents;
- vi. Letter of good standing;
- vii. COR, CM29 form as issued by CIPRO;
- viii. JV or Consortium agreement, if applicable;
- ix. Copies of director's Identification Documents (**ID**);
- x. CIDB grading; and
- xi. Proof of Unemployment Insurance Fund (**UIF**) registration.

8.991 No conclusions were made to reflect which bidders were successful in the above evaluation or if any of the bidders were disqualified.

8.992 In a memorandum, dated 15 July 2013, Mr Sonny, Senior Manager, SCM PRASA

Q10

Q11

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Technical, notifies the following individuals of their appointment as part of the tender evaluation team. The appointment is to “*SERVE IN THE TENDER EVALUATION COMMITTEE TO EVALUATE THE TENDER FOR THE: KATHLEHONG-KWESINE RAILWAY LINE DRAINAGE IMPROVEMENT STRUCTURE HO/PT/INFR (D) 012/05/2013*”:

- i. Mr Nkululeko Khumalo (**Mr Khumalo**) as the Chairperson; and
- ii. Mr Tholo Dikobe (**Mr Dikobe**), Mr Kebaabetswe Kgobe (**Mr Kgobe**), Ms Shiba and Mr Kondlo as members.

8.993	The memorandum appears to have been signed by Mr Sonny dated 18 July 2013.	Q11/2
	<u>Bid evaluation register</u>	
8.994	The bid evaluation register is dated 15 July 2013 and is completed by the following individuals: <ol style="list-style-type: none">i. Mr Kgobe;ii. Mr Kondlo;iii. Mr Dikobe;iv. Ms Shiba;v. Ms Moagi; andvi. Mr Khumalo.	Q12/1
8.995	Each of the aforementioned individuals, except Ms Moagi, appears to have signed a Declaration of Interest and a Confidentiality Agreement on 15 July 2013, in respect of the tender for evaluation.	Q12/2-11
	<u>Security Screening Report</u>	
8.996	On 15 October 2013 Mr Matakata sent a Security Screening Report for Phumi to Mr Sonny.	Q13
8.997	The report consists of two (2) pages and is concluded with “ <i>The available information would indicate that there are no security reasons why this company should not be awarded the contract as stated above</i> ”. The report appears to have	Q13/2

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been signed by someone on behalf of Mr Matakata dated 10 October 2013

Submission Report

- | | | |
|--------|--|--------------------------------|
| 8.998 | We were provided with the SCM Submission Report for tender HO/PT/INFR (D)/012/05/2013. This submission was attached to the minutes of the CTPC meeting held on 17 October 2013 as discussed herein below. | Q14 |
| 8.999 | The Submission Report consists of eight (8) pages and is unsigned and undated. | Q14/21-28 |
| 8.1000 | The report provides the background and states that the “ <i>condition of the existing drainage system along the Katlehong-Kwesine line has deteriorated as a result of inadequate or poor maintenance over a long period</i> ”. Furthermore, the report states that poor drainage has a negative impact on the track conditions and could ultimately result in derailment. | Q14/21 |
| 8.1001 | The contract delivery period is provided for under paragraph 3 as eight (8) months. The report further details the names of the 14 bidders who submitted their tenders, being the same names as per the tender opening register we referred to herein above. | Q14/22

Q9 |
| 8.1002 | Paragraph 6 of the report states that “ <i>ten (10) only met technical requirements</i> ”. However, the names of the four (4) bidders that were disqualified were not provided. Under paragraph 6.2 it is recorded that “ <i>Amawakawaka did not meet the CIDB grading requirement</i> ” and was eliminated from the remainder of the evaluation. | Q14/24 |
| 8.1003 | The remaining bidders were then evaluated based on pricing and B-BBEE. It should be noted that only eight (8) of the remaining bidders were evaluated: | Q14/24-25 |

Tenderer	Price (R)	Pricing Score	B-BBEE Score	Total score
<i>Phumi Trading</i>	66,879,306.12	90.00	10	100.00
<i>VF Munisi Civils</i>	70,329,828.82	84.44	4	88.44
<i>Lenong Engineering</i>	70,918,904.10	83.64	10	93.64

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<i>Tenderer</i>	<i>Price (R)</i>	<i>Pricing Score</i>	<i>B-BBEE Score</i>	<i>Total score</i>
<i>Maunga Projects</i>	<i>72,871,560.17</i>	<i>69.20</i>	<i>9</i>	<i>78.20</i>
<i>Inyatsi Construction</i>	<i>88,459.94</i>	<i>59.80</i>	<i>3</i>	<i>62.80</i>
<i>King Civil/ Letham JV</i>	<i>95,251,930.16</i>	<i>50.57</i>	<i>4</i>	<i>54.57</i>
<i>Mmalarepo/ Esorfranki JV</i>	<i>95,287,803.00</i>	<i>50.52</i>	<i>8</i>	<i>58.52</i>
<i>Fastmove Electrical</i>	<i>118,509,381.61</i>	<i>18.97</i>	<i>9</i>	<i>27.97</i>

8.1004 We have not been provided with the tenders submitted by the 14 bidders and are therefore unable to verify if the information is correct as recorded in the evaluation report. The amount provided in the table above for Inyatsi Construction, appears to be incorrectly recorded as R88,459.94.

8.1005 The estimated cost of the project, as provided by Glenro Built-Environmental Consultants, was R71,350,644.24 (including VAT and contingencies).

8.1006 The report further states that “*it is evident that **Phumi Trading, VF Munisi, and Maunga** are closest to the estimated budget. However the tender proposals of Mohwibidu General Construction (**R 49,962,965.25**) and Odirile/Setheo Investment JV (**R 58,687,670.25**) are substantially lower*”.

Q14/25

8.1007 The reasons for the above mentioned bidders being substantially lower, is provided as:

Q14/25

a) *Odirile/Setheo JV and Mohwibidu General Construction did not use the correct quantities as provided for in the Bill of Quantities as per **Addendum 1**.*

b) *Odirile/Setheo JV and Mohwibidu General Construction did not price the Bill of Quantities provided as per **Addendum 2***”.

We were not provided with the BID documents to verify if this information is correct.

8.1008 The approved budget is stated as R60,000,000 with the source of funding being

Q14/26

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“Capital”. The report further states that the current provision for the year is R12,000,000, the Estimated Total Cost (**ETC**) and a Capital Adjustment Motivation would be submitted to the EPMO to increase the budget to R73,000,000.

- | | | |
|--------|--|-----------------|
| 8.1009 | The report is concluded with the following recommendation:

<i>“The Corporate Tender Procurement Committee’s approval is hereby sought to recommend Phumi Trading for Katshehong Kwesine Line: Railway Drainage Improvement. The approval should be granted subject to EPMO approving the increase in ETC for this project to R73 million”</i> . | Q14/27 |
| 8.1010 | A handwritten note is made in the above recommendation, where <i>“Divisional”</i> is crossed out and replaced with <i>“Corporate”</i> .

<u>Minutes of Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 17 October 2013</u> | Q14/27 |
| 8.1011 | The minutes indicate the following individuals were present at the meeting:

i. Dr Phungula as Chairperson;

ii. Ms Motshologane, Mr Gombert, Ms Zinde and Mr Kobuwe as members;
and

iii. Mr Khuzwayo as Secretary. | Q14/2 |
| 8.1012 | Each of the aforementioned individuals, appears to have signed a Declaration of Interest and a Confidentiality Agreement on 17 October 2013, however the Declaration of Interest forms for Mr Khuzwayo and Ms Motshologane only reflect their names and no signatures. | Q14/5-16 |
| 8.1013 | This tender is listed as item number eight (8) where the CTPC is requested to consider the appointment of Phumi for <i>“TENDER HO/PT/INF(D) /012/05/2013: KATLEHONG KWESISNI LINE: RAILWAY DRAINAGE IMPROVEMENT”</i> . | Q14/4 |
| 8.1014 | The contract amount is indicated as R73,000,000 (including VAT) with a contract period of eight (8) months. | Q14/4 |
| 8.1015 | The resolution taken by the CTPC indicates that they requested clarity on the | Q14/4 |

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following:

1. *“The Technical Element scored and outcome to be provided in view of the two envelope system being used to reflect all tenderers who met the 65% threshold.*
2. *Confirmation of receipt of additional information being provided to the tenderers prior to their disqualification on incomplete pricing”.*

8.1016	The minutes appear to be signed by the Chairman and Secretary dated 29 October 2013.	Q14/1
8.1017	Attached to the minutes are two (2) addendums for the Katlehong-Kwesine railway drainage improvement.	Q14/17-20
8.1018	The Submission Report as discussed herein above is also attached to the minutes.	Q14/21-28
	<u>Minutes of Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 11 December 2013</u>	
8.1019	The minutes indicate the following individuals were present at the meeting: <ol style="list-style-type: none">i. Dr Phungula as Chairperson;ii. Mr Emeran, Ms Motshologane, Ms Zinde as members;iii. Mr Khuzwayo as Head of Secretariat; andiv. Ms Monkwe as Secretariat.	Q15/2
8.1020	Each of the aforementioned individuals, appears to have signed a Declaration of Interest and a Confidentiality Agreement on 11 December 2013.	Q15/5-16
8.1021	This tender is listed as item number five (5) where the CTPC is requested to consider the appointment of Phumi for <i>“KATLEHONG KWESINE LINE: RAILWAY DRAINAGE IMPROVEMENT”</i> .	Q15/4
8.1022	The contract amount is indicated as R73,000,000 (including VAT) with a contract period of eight (8) months.	Q15/4

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8.1023	<p>The resolution taken by the CTPC indicates that the submission be revised in respect of the following:</p> <ol style="list-style-type: none">1. <i>“The paragraph on page 6 of 10 to be re-arranged to address the reasons for eliminating Odirile/Setheo JV and Mohwibidu General Constitution; and</i>2. <i>The recommendation section on page 8 of 10, to include details of the transaction and record of contract”.</i>	Q15/4
8.1024	<p>The minutes are unsigned and undated.</p>	Q15/1
8.1025	<p>Attached to the minutes is another SCM Submission Report consisting of ten (10) pages, and is unsigned and undated. The content of the report is similar to the Submission Report discussed above, however it appears that the previous comments of the CTPC were addressed under paragraph 8 and paragraph 14 of the submission. More detail is provided with respect to the technical evaluations of the bidders, and the following three (3) bidders did not meet the required 65% threshold for the technical evaluation:</p> <ol style="list-style-type: none">i. Seletje Construction;ii. Umbutho Civil; andiii. Vusela Construction.	Q15/17-26 Q15/21
8.1026	<p>We noted that Phumi has met the required CIDB grading of 8CE/7CE as they have a CIDB grading of 8CE.</p>	Q10/1, Q15/18
8.1027	<p>The second point of clarity requested by the CTPC at the meeting held on 17 October 2013, was not addressed in this report. Furthermore, the report was unsigned and undated.</p>	Q15/4 Q15/24-25
8.1028	<p>Letters, dated 12 December 2013, were sent by PRASA to the bidders to request an extension of the tender validity period to 31 March 2014. The bidders were requested to respond to the said letter by 17 December 2013, however we have not been provided with the response letters. The letters were signed by Mr Rehman.</p>	Q16

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Minutes of Corporate Tender and Procurement Committee Extra-Ordinary Meeting
held on 17 February 2014

- | | | |
|--------|--|-------------------------------------|
| 8.1029 | The minutes indicate the following individuals were present at the meeting:

i. Dr Mbatha as Chairperson;

ii. Ms Monkwe as Secretary; and

iii. Dr Phungula, Mr Emeran, Ms Zinde and Mr Kobuwe as members. | Q17/2 |
| 8.1030 | Each of the aforementioned individuals, appears to have signed a Declaration of Interest and a Confidentiality Agreement on 17 February 2013. Furthermore, Mr Khuzwayo also signed a Declaration of Interest and a Confidentiality Agreement on 17 February 2013 although his name does not appear as a member of the CTPC. | Q17/5-16
Q17/17-18 |
| 8.1031 | This tender is listed as item number four (4) where the CTPC is requested to consider the appointment of Phumi for <i>“KATLEHONG KWESINE LINE: RAILWAY DRAINAGE IMPROVEMENT”</i> . | Q17/4 |
| 8.1032 | The contract amount is indicated as R73,000,000 (including VAT) with a contract period of eight (8) months. | Q17/4 |
| 8.1033 | The resolution taken by the CTPC reflects the following remarks:

1. <i>“Submission to be signed by the Chairperson of the BEC.</i>

2. <i>The Page 4 of the submission, Mr Tholo Dikobe designation to be corrected.</i>

3. <i>The Page 6 of 10, the budget estimated to be taken out of the submission and the amount substantially lower than the initiated price.</i>

4. <i>EPMO sentence reflected on the recommendation paragraph be removed.</i>

5. <i>Inyatsi pricing on Page 6 of 10 to be reflected as non-responsive”.</i> | Q17/4 |
| 8.1034 | Mr Emeran stated during his interview that at the time the CPO was a member of the CTPC. Where the CTPC supported a matter subject to conditions it was the responsibility of the CPO to ensure that these conditions were addresses in the revised Submission Report prior to approval by the GCEO. | |

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8.1035	The minutes are signed by the Chairperson and Secretary dated 13 March 2014.	Q17/1
8.1036	Attached to the minutes is another SCM Submission Report consisting of ten (10) pages and one (1) annexure. The report is unsigned and undated and the content of the report is similar to the two (2) Submission Reports discussed herein above. It appears that the previous comments of the CTPC at the meeting held on 11 December 2013, were addressed. On page 3 of the report a comment is added <i>“Validity period has been extended and agreed by all the tenderers on the original proposed terms until 31 March 2014”</i> .	Q17/19-29 Q17/21
8.1037	The annexure attached to the Submission Report, reflects the technical scoring for each of the 14 bidders, by the evaluation committee. However, the total scores are unclear and cannot be determined.	Q17/29
8.1038	Mr Emeran stated that he would not have signed this report in his capacity as the Chairperson of the DTPC (as provided for on page 9 of the Submission Report) as the DTPC would only have noted this submission and not adjudicated it.	
	<u>Recommendation Report</u>	
8.1039	A SCM Recommendation Report consisting of nine (9) pages sent from the CPO to the GCEO was provided to us. Under paragraph 15 it was recommended that <i>“The Group Chief Executive Officer’s approval is hereby sought to approve Phumi Trading cc for Katlehong Line: Railway Drainage Improvement for a period of eight months at total amount of R 66 879 306.12 (incl. VAT)”</i> . The report appears to have been signed as Recommended by Dr Phungula dated 28 February 2014 and as Approved by Mr Montana dated 4 March 2014.	Q18 Q18/8
8.1040	The report is similar to the three (3) Submission Reports discussed herein above, with the changes as per the CTPC meeting held on 17 February 2014, reflecting in the Recommendation Report. However, the remark to remove the budget estimate on page 6 of the report was not done, and the tender amount for Inyatsi Construction was rectified and reflects the tender amount of R88,459,742.94.	Q18/6

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Notice to Proceed

8.1041 A Notice to Proceed dated 13 March 2014 addressed to Phumi was signed by Mr Rehman. **Q19**

8.1042 The said notice informs Phumi of their appointment in the amount of R66,879,306.30 (including VAT), and state that they should confirm acceptance of the appointment within 24 hours of receipt of this notice.

8.1043 In a letter dated 13 March 2014, Phumi acknowledged receipt of the above mentioned Notice to Proceed and accepted the contract appointment. **Q20**

Contract

8.1044 We were provided with the contract entered into between PRASA and Phumi reflecting the following pertinent information: **Q21/1**

- i. Contract number – HO/PT/INFR (D)/012/05/2013;
- ii. Nature of work – Katlehong Kwesine Line: Railway Drainage Improvement;
- iii. Date of acceptance of tender – 13 March 2014;
- iv. Date of completion due – 31 December 2014; and
- v. Approximate costs – R58,666,058 (excluding 10% contingency).

8.1045 The contract consists of 43 pages and provision is made for signatories on page 3 and page 42 of the contract. However, PRASA did not sign the contract on either of these two (2) pages and only the representative from Phumi, Ms Nonhlanhla Monakali, along with two (2) witnesses signed the contract dated 2 April 2014. **Q21/3&42**

8.1046 During the interview with Mr Rehman and Ms Sekhuthu they stated that PRASA would issue a Notice to Proceed to enable the contractor to start work even before a contract is entered into between PRASA and the service provider. This is due to the fact that the contract takes time to compile and the General Conditions of Contract signed by the contractor as part of the tender is deemed to be a sufficient contractual basis for the commencement of the work.

8.1047 Letters, dated 17 March 2014, were sent to the remaining 13 bidders to inform **Q22**

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them that they have not been successful for tender HO/PT/INFR (D)/012/05/2013

Notice to Proceed

8.1048 A Notice to Proceed dated 21 August 2014 addressed to Phumi was signed by Mr Rehman. It appears that there was a delay in the commencement of the project from 13 March 2014 to 21 August 2014. **Q23**

8.1049 The said notice states as follows: **Q23**
*“Your offer dated 4 July 2013 for the above-mentioned project has been approved at a total maximum amount of **R66 879 306.12**”*. The notice required Phumi to accept the notice by 22 August 2014.

8.1050 In a letter dated 26 August 2014, Phumi acknowledged receipt of the “*1st and 2nd notice to proceed and therefore accept the appointment for **R66 879 306.12**”*. The letter further states that “*We intend to establish site from the 1st September 2014*”. The letter is unsigned. **Q24**

c) Review of Variation Orders

8.1051 No variation orders were noted in respect of this contract.

d) Interviews conducted

Interview with Mr Rehman and Ms Sekhuthe

8.1052 Mr Rehman is employed as the Senior Manager: SCM at PRASA Technical and reports to the Acting CEO of PRASA Technical, Mr David Kekana (**Mr Kekana**). Ms Sekhuthe is employed as the Sourcing Manager: SCM at PRASA Technical and reports to Mr Rehman. We will briefly refer to the information they provided as far as it relates to this contract:

- i. The previous Project Manager for this contract on behalf of PRASA was Mr Kondlo. However, he is no longer employed by PRASA Technical and the project has been taken over by Ms Buhle Maposa;
- ii. The Consulting Engineer on this project is Glenro;

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- iii. Mr Rehman indicated that the project is in its final stages of completion;
- iv. Mr Rehman described the payment approval process as follows:
 - a. The service provider issues an invoice to PRASA;
 - b. The Consulting Engineer then issues a payment certificate in support of the service provider's invoice;
 - c. The Consulting Engineer is required to sign the payment certificate; and
 - d. The payment pack is submitted to PRASA to be signed off by the Project Manager and the end-user executive.
- v. Ms Sekhuthu indicated that when an advert is placed on the CIDB website, all entities registered with CIDB would receive a text message if they have the required CIDB grading;
- vi. They mentioned that the reason for the extensive procurement duration could be attributed to *inter alia* the capacity of employees, sittings of meetings and deferrals of evaluations;
- vii. The Submission Report submitted to the CTPC for consideration is drafted by the BEC. Where the submission is deferred or not approved by the CTPC, the Submission Report is not signed. Once the CTPC approves the submission the required signatories would sign the document; and
- viii. Mr Rehman confirmed that the first Notice to Proceed was issued to the Phumi on 13 March 2014. However, a second Notice to Proceed was issued on 21 August 2014 which contained an additional paragraph stating "*Formal contract documents will be concluded within 60 days and you will be advised regarding the signing thereof*". He indicated that he is unsure whether any work was commenced during the period between the two (2) Notices to Proceed documents.

Interview with Mr Emeran

8.1053 Mr Emeran provided the following information relating to Phumi:

- i. Mr Emeran confirmed that he was Chairperson of the DTTC and a member

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of the CTPC concurrently. He further stated that no conflict existed as he would never adjudicate the same project on both committees. Where he sat on the DTPC and the CTPC for the same project, the DTPC would only note the project but not adjudicate thereon; and

- ii. He stated that when a Submission Report is submitted to CTPC for adjudication, it must be signed by the BEC and end-user.

e) Verification of services

- 8.1054 During our discussion with Mr Rehman and Ms Sekhuthu, they confirmed that service delivery has commenced and is in its final stages of completion.

Findings

- 8.1055 Detailed below is a summary of significant findings from the investigation into the awarding of the contract to Phumi for the construction of the new drainage system at Katlehong-Kwesine:

- i. We determined from our review of the documentation provided that the aforesaid contract was awarded to Phumi following an open bidding process. The tender was advertised with a compulsory briefing session to be held on 4 June 2013 and tender closing on 27 June 2013. It is important to note that the advertisement does not reflect the required CIDB grading as required. We determined from our interview with Mr Rehman that at the time this advertisement was placed, it was not a requirement for the CIDB grading to be included in the advertisement as it was included in the advertisement placed on the CIDB website. We were also unable to determine whether the CIDB grading requirement was recorded on the tender document;
- ii. We determined from our review that the closing date for the tender was extended to 4 July 2013 on which 14 bidders submitted tender documents, including Phumi. We noted from the submission report that ten (10) bidders met the technical requirements and were subsequently evaluated based on price and B-BBEE. We have not been provided with the tender documents and were unable to verify if the information is correct as

Q3/6-7

Q7/2

Q14/24-25

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recorded in the submission report. We noted from the submission report that Phumi met the required CIDB grading of 8CE/7CE as they have a CIDB grading of 8CE;	Q10, Q15/18
iii. Phumi was recommended to the CTPC as the preferred bidder for a total contract amount of R66,879,306.12 (including VAT). It should be noted that this recommendation was made subject to the EPMO approving an increase in budget from R60,000,000 to R73,000,000. We noted from our review of the CTPC meetings held on 17 October 2013 and 11 December 2013 that the matter was not supported and deferred for further clarity;	Q14/4, Q15/4
iv. A further submission was presented to the CTPC on 17 February 2014 for adjudication. This submission report appears to address the comments made by the CTPC on 11 December 2013 where they deferred the matter. The matter was supported at this meeting with minor amendments such as <i>“EPMO sentence reflected on the recommendation paragraph be removed”</i> and hence appears to be addressed;	Q17/19-29
v. The recommendation to approve the appointment of Phumi for the tender for a period of eight (8) months in the amount of R66,879,306.12 (including VAT) was signed as Approved by Mr Montana on 4 March 2014 as provided for;	Q18/8
vi. A Notice to Proceed was issued to Phumi on 13 March 2014 and was accepted by Phumi on the same day. We noted that a further Notice to Proceed was issued on 21 August 2014. It appears that there was a delay in the commencement of the project from 13 March 2014 to 21 August 2014 and that the site was established on 1 September 2014;	Q19 Q23
vii. Phumi received 15 payments from PRASA for the period 30 September 2014 to 30 June 2016 totalling R64,085,797.81 and falls within the total contract amount of R66,879,306.12 (including VAT). There were no VOs issued in respect of this contract; and	Q2
viii. We determined from our meeting with Mr Rehman and Ms Sekhuthe that the project has commenced and is in its final stages of completion.	

Conclusions

- 8.1056 We determined that the advertisement does not reflect the required CIDB grading. We were unable to determine whether the CIDB grading requirement was recorded on the tender document even though it was recorded on the advertisement placed on the CIDB website.
- 8.1057 We have not been provided with the tender documents to verify if the information is correct as recorded in the submission report. We noted from the submission report that Phumi met the required CIDB grading of 8CE/7CE as they have a CIDB grading of 8CE. Based on our review of the available documentation it appears that the procurement of the contract was in accordance with a provisioning system which was fair and transparent as provided for in the PRASA SCM Policy and relevant legislation.

Recommendation

- 8.1058 PRASA should ensure that all advertisements and the tender document include the required CIDB grading where applicable for the respective contract to ensure a competitive bidding process. The CIDB requirement should therefore not only be reflected on the CIDB website when tenders are advertised.

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Q. The appointment of Umbutho Civil and Electrical CC with a target value of R13,061,932.33 for the period 13 November 2014 to 31 August 2015

8.1059 An Inxico Report drawn on Umbutho Civil and Electrical CC (**Umbutho**) with registration number 2001/061183/23 reflects that the said entity was registered on 3 September 2001. The current Active Principal is listed hereunder:

- i. Diau April Mokoena with ID number 700420 5926 087 appointed on 3 September 2001.

a) Review of payments made by PRASA

8.1060 We requested a list of all payments made by PRASA to Umbutho. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system.

8.1061 We ascertained from the above mentioned analysis that Umbutho received three (3) payments from PRASA for the period 28 November 2014 to 30 October 2015 as summarised in the table hereunder:

Number	Date	Amount (R)
1	28/11/2014	2,068,296.07
2	31/07/2015	4,141,039.05
3	30/10/2015	883,503.26
		7,092,838.38

8.1062 We obtained the payment packs from PRASA relating to the three (3) payments made by PRASA to Umbutho in respect of the contract under review.

8.1063 We will discuss the payment pack relating to payment number two (2) in the table above to serve as an example of the documents generally included in the payment packs. All the payment packs received for Umbutho contain the documents listed below.

R1
R1/7

R2

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- 8.1064 The payment pack includes the following documents:
- i. The remittance advice reflects the amount as R4,141,039.05 and dated 31 July 2015; **R2/2**
 - ii. The creditors reconciliation is dated 15 July 2015 and reflects the total payment to be made to Umbutho as R4,141,039.05. The reconciliation is prepared by and signed by what appears to be Gaolathe Mxosa and reviewed and signed by what appears to be Motsei Molohe. The amount agrees to the amount as per the remittance advice; **R2/3**
 - iii. The extract from the SAP creditors ledger reflects the same amount; **R2/4**
 - iv. The supplier invoice is dated 15 July 2015 and reflects a total cost of R4,141,039.05; **R2/5**
 - v. The supplier statement of account dated 15 July 2015 reflects the total amount due as R4,141,039.05; **R2/6**
 - vi. The purchase requisition was attached to the payment pack confirming that payment can be made to Umbutho. **R2/7-9**
- 8.1065 All of these payments fall within the contract period of 1 March 2014 to 21 December 2015.
- 8.1066 The total contract amount awarded to Umbutho was stated as being R13,061,932.33. The total payments made as per these three (3) payments totalled R7,092,838.38 and hence falls within the contract amount.
- b) Procurement Review***
- 8.1067 We obtained the procurement file and documentation relating to the abovementioned project. The tender was for the refurbishment of the Gauteng South Region sub-station. We determined from our review of the documentation provided that the aforesaid contract was awarded to Umbutho following an open bidding process.

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Purchase Requisition

- 8.1068 A Purchase Requisition, dated 2 May 2013, was completed for the Gauteng South Region sub-station refurbishment. The estimated cost is stated as being R15,000,000. **R3**
- 8.1069 The Purchase Requisition appears to be signed by Ms Alison Moosa on 2 May 2013 as requisitioner, on 2 May 2013, by the relevant Line Manager and Ms Sekhuthu on 2 May 2013, as the Procurement Official.

Tender advertisement

- 8.1070 We were provided with the Tender Notice and Invitation to Tender for tender HO/PT/INFR(E)/001/04/2013. The notice states that bidders should have a CIDB contractor grading of 7EP and 6EP Potentially Emerging Enterprises may also submit bids. **R4**
- 8.1071 The following pertinent information was further provided in the tender advertisement: **R4/3**
- i. Compulsory briefing meeting – 16 May 2013;
 - ii. Non-refundable deposit of R500 is payable to receive the tender documents;
 - iii. Tender collection – 7 May 2013 to 13 May 2013; and
 - iv. Closing date and time – 6 June 2013 at 12:00.
- 8.1072 We have been provided with a number of proof of payment deposits from the prospective bidders to obtain the tender documents. **R5**
- 8.1073 The tender collection register dated 7 June 2013 reflects that 28 bidders collected the tender documents (the register reflects the tender closing date as 6 June 2016 as opposed to 6 June 2013 as advertised). **R6**

Request for Tender

- 8.1074 Ms Sekhuthu provided us with a copy of the Request for Tender (**RFT**) provided to the prospective bidders. The RFT is dated May 2013 and reflects the tender

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	number as HO/PT/(E)/001/04/2013. The project name is reflected as “GAUTENG SOUTH REGION SUBSTATION REFURBISHMENT”.	R7/1
8.1075	The RFT further contains the same dates for the tender closing and briefing session as contained in the tender advertisement.	R7/2 R4
8.1076	On page 12 of the RFT the main objective of this tender is stated as “Refurbishment of electrical equipment within the Gauteng South Region Substation and the building of bund walls around transformers”.	R7/12
8.1077	On page 13 of the RFT the Scope of Work states that this project would be implemented in phases due to Metrorail only being able to provide one (1) staff member per area to assist at the substations. The scope further details the work to be completed at each of the 24 substations listed in the RFT.	R7/13
8.1078	The RFT does not reflect a period for this contract.	R7/39
8.1079	On 7 June 2013 the tender briefing attendance register were completed by 38 attendees representing PRASA and prospective bidders. It should be noted that the tender advertisement stated the tender briefing will be held on 16 May 2013, however the register reflects the tender briefing date as 7 June 2013. We have not been provided with any documentation illustrating that the bidders were informed of the change of the tender briefing date.	R8
8.1080	The tender opening register dated 13 June 2013 appears to have been signed by Ms du Plessis, as the DTPC secretary. The tender number is reflected as “HO/PT/(E)/001/04/2013. The register reflects that 13 bids were received from the following entities: i. Consolidated Power Projects (Pty); ii. Ampcor Khanyisa; iii. Pumi Trading CC/Five K (JV); iv. Fastmove Electrical CC; v. Tshireletso/Tractionel (JV); vi. Active Power Projects;	R9

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- vii. Roshqott Energy Projects;
- viii. Vesyma/Reatlegile (JV);
- ix. Siemens;
- x. Setheo Engineering;
- xi. Tokologo Technical Assig;
- xii. Mehleketo; and
- xiii. Umbutho/ML Nkosi (JV).

Memorandum dated 14 August 2013

- | | | |
|--------|--|--------------|
| 8.1081 | In a memorandum, dated 14 August 2013, the Senior Manager: SCM PRASA Technical, Mr Sonny, notifies the following individuals of their appointment as part of the tender evaluation team to evaluate the Gauteng South Region sub-station refurbishment tender: <ul style="list-style-type: none">i. Ms Sekhuthu as the Chairperson; andii. Mr Earnest Gow (Mr Gow), Mr Vusi Nkabini (Mr Nkabini), Mr Shiba and Mr Richard Malope (Mr Malope) as members. | R10 |
| 8.1082 | The memorandum appears to be signed by Mr Sonny in his capacity as Senior Manager: SCM PRASA Technical. The tender number is reflected as HO/PT/(E)/001/04/2013, which corresponds with the number reflected on the tender opening register. | R10/2 |
| 8.1083 | The tender evaluation attendance register dated 14 August 2013, indicates that the following individuals were present at the bid evaluation: <ul style="list-style-type: none">i. Ms Sekhuthu;ii. Mr Gow;iii. Mr Nkabini;iv. Mr Shiba;v. Mr Malope; andvi. Ms Moagi. | R11 |

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8.1084	Each of the aforementioned individuals appears to have signed a Declaration of Interest and a Confidentiality Agreement on 14 August 2013 in respect of the tender which for evaluation. However, the Declaration of Interest for Ms Sekhutha does not include her signature and only her name and employee number is reflected.	R12
8.1085	We were not provided with the tender evaluation in respect of the compliance documentation. Based on the tender evaluation templates completed by the BEC members, it appears that all 13 bidders complied with the requirements.	
8.1086	The tender evaluation scoresheets dated 14 August 2013 for each of the individuals listed above were found on file. The bidders were evaluated for technical compliance and capabilities.	R13/1-6
	<u>Security Screening Report dated 29 October 2013</u>	
8.1087	A Security Screening Report for Umbutho dated 29 October 2013 from Mr Matakata, Head Group Corporate Security is addressed to Mr Sonny and hence illustrates that Umbutho was identified as the preferred bidder prior to when a request was submitted to extend the evaluation to 28 February 2014 as will be referred to in further detail below.	R14
8.1088	The report consists of two (2) pages and is concluded with “ <i>The available information would indicate that there are no security reasons why this company should not be awarded the contract as stated above</i> ”. During the interview with Mr Rehman he indicated that the purpose of the Security Screening Report is to identify any potential risks the entity might pose to PRASA.	R14/2
8.1089	We were provided with 11 letters dated 5 December 2013 addressed to the bidders for tender HO/PT/INFR (E)/001/04/2013. The purpose of the letters were to inform the bidders that the tender evaluations were still in progress and that PRASA would like to extend the tender validity period until 28 February 2014 as the validity of the proposals submitted expired on 13 December 2013. The letters were signed by Mr Rehman. (These letters were not signed as Accepted by the bidders to serve as confirmation thereof). We noted that the letters to the following	R15

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two (2) bidders were not on file:

- i. Vesyma/Reatlegile (JV); and
- ii. Siemens.

Submission Report

8.1090	The SCM Recommendation Report consists of ten (10) pages and appears to have been signed as follows: <ol style="list-style-type: none">i. Recommended by Mr Malope as Senior Engineer on 9 December 2013;ii. Supported by Mr Rehman as SCM PRASA Technical on 9 December 2013, and by Mr Emeran as Chairman of the DTTC on 27 January 2014 respectively; andiii. Approved by Saki Zamxaka as CEO of PRASA Technical on 11 February 2014.	R16/9
8.1091	The contract delivery period is stated as 18 months and paragraph 4 states that “ <i>Validity period has been extended and agreed by all tenderers on the original proposed terms until 28 February 2014</i> ”. We have not been provided with any letters or correspondence from the bidders that reflects the acceptance of the proposed extension.	R16/3
8.1092	Paragraph 7 details the evaluations, and states that only four (4) of the 13 bidders achieved the technical requirements, being: <ol style="list-style-type: none">i. Consolidated Power Projects (Pty);ii. Tshireletso/Tractionel (JV);iii. Active Power Projects; andiv. Umbutho/ML Nkosi (JV).	R16/6
8.1093	Furthermore, Veyma/Reatlegile (JV) did not meet the required CIDB grading and were eliminated.	R16/5
8.1094	The remaining bidders were then evaluated based on price and B-BBEE, and received the following scores:	R16/7

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Tenderer	Price (R)	Pricing Score	B-BBEE Score	Total Score
Umbutho/ML Nkosi (JV)	15,444,838.52	90.00	7	97.00
Active Power Projects	16,043,096.65	86.51	9	95.51
Consolidated Power Projects	17,800,730.14	76.27	5	81.27
Tshireletso/ Tractionel (JV)	33,996,389.72	-18.10	7	-11.10

8.1095 We have not been provided with the tenders submitted by the 13 bidders, and cannot comment on the details relating the scoring.

8.1096 Paragraph 9.1 states that the price estimate was R19,424,237.70 (including VAT). We noted that Umbutho Civil/ML Nkosi (JV) submitted the bid in the amount of R15,444,838.52 (including VAT) and is less than the estimate amount and the lowest bidder.

8.1097 It was recommended that the DTPC support the approval of the appointment of Umbutho for R15,444,838.52 (including VAT and 10% contingency) for the refurbishment of Gauteng South Region sub-stations Phase 3.

Divisional Tender and Procurement Committee meeting extract of 9 December 2013

8.1098 We were provided with an extract from the DTPC meeting held on 9 December 2013, where tender HO/PT/INFR/(E)/001/04/2013 was discussed under item number nine (9). The contract amount is provided as R15,444,838.52 with the contract period being 18 months. The DTPC supported the submission subject to:

1. *“Supply Chain Management*

a. Summarizing the scores of those tenderers who qualified (on page 6 of the submission);

R16/7

R16/9

R17

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- b. *Correcting the arithmetical accuracy of the threshold calculation; and*
- c. *Including the BEE ownership”.*

8.1099 The extract was signed by Mr Emeran as the Chairperson of the DTPC dated 20 December 2013.

Notice to Proceed dated 16 February 2014

8.1100 The Notice to Proceed addressed to Umbutho is dated 16 February 2014 (the document is dated 16 February 2013 and appears to be a typing error). The purpose of the notice was to inform Umbutho that PRASA has awarded the tender HO/PT/INFR(E)/001/04/2013 to them and they had to accept this within 24 hours of receipt of the notice. The notice was signed by Mr Rehman.

R18

8.1101 In a letter dated 17 February 2014, Umbutho accepted the appointment of “*Gauteng Region: Substations Refurbishment Phase 3*”. The letter appears to be signed by AD Mokoena on behalf of Umbutho.

R19

8.1102 We obtained letters of regret dated 18 February 2014 sent to the other bidders informing them that they were not successful for this tender. The letters were signed by Mr Rehman.

R20

Change of Scope Report signed as Recommended on 30 January 2015

8.1103 A SCM Change of Scope Report sent to the Chairperson of the DTPC from the Executive Manager: Strategic Infrastructure appears to be signed by following individuals:

R21/7

- i. Recommended by Mduduzi Dlamini (Chief Engineer Electrical) dated 30 January 2015;
- ii. Supported by Mr Kobuwe and Mr Rehman and Mr Emeran dated 3 February 2015; and
- iii. Approved by Saki Zamxaka as CEO (no date is reflected alongside his signature).

8.1104 The objective of this report was to obtain approval for the change of scope for contract HO/PT/INFR(E)/001/04/2013. The report states that Umbutho was

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awarded the contract in March 2014. A change of scope was necessary due to the time lapse between the scope determination for the open tender and the awarding of the contract.

R21/2

8.1105 The original scope included 24 substations and 12 of these were excluded from the new scope “because equipment was replaced by the region due to unexpected failure or was excluded for not complying with the latest Prasa standards”.

R21/3

8.1106 Paragraph 4 details the reasons for the revision of the scope as follows:

R21/5

- *“Umbutho Civil / ML Nkosi Electrical cc (JV) was appointed for the total scope of work amounting to R 12 316 458.15 excl. Vat and Contingencies.*
- *Due to equipment failures and replacement by region and scope that was removed to meet the latest Prasa standards, the scope for this contract was therefore reduced by an amount of R 3, 230, 383.90.*
- *It will be beneficial to Prasa for the identified scope to be done immediately using the savings from work already done by the region, before equipment failures start happening.*
- *The cables, busbars and conductors were left out of the original scope and have to be included for the successful completion of the project. Because of the difference in sizes between old and new equipment, cables are likely to be short and joints in cables are not allowed.*
- *Control panels contain the brain for protection inside a traction substation and should therefore be included in the scope where circuit breakers are replaced. Some panels were not included in the original scope by mistake”.*

8.1107 The table below details the change of scope and the financial impact:

R21/6

Original contract amount (excluding VAT and contingencies)	12,316,458.15
Less: Reduced scope	- 3,230,383.90
Add: New scope	1,330,139.73
Subtotal	10,416,213.98

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Contingency (10%)	1,041,621.40
Subtotal	11,457,835.38
VAT (14%)	1,604,096.95
Grand total	13,061,932.33

- 8.1108 The report is concluded with “*The Divisional Tender and Procurement Committee’s support is hereby sought to recommend the change in scope of the contract for “**Gauteng South Region: Substations refurbishment Phase 3**” for the total revised value of **R13 061 932.33 Including VAT and 10% Contingency**”.* **R21/7**
- 8.1109 Mr Rehman confirmed during his interview that no worked was performed by Umbutho prior to the change of scope as detailed herein above. He further stated that the respective region commenced with work which formed part of the original scope of Umbutho due to an urgency. The scope of Umbutho’s original appointment thus had to be decreased. Mr Rehman confirmed that no contract was compiled based on the initial scope.
- 8.1110 A letter dated 12 March 2015 addressed to Umbutho appears to be signed by Mr Rehman. The letter is to inform them that the contract has been amended subsequent to a scope revision. The revised contract amount is stated as R13,061,932.33 (including VAT) as opposed to the original R15,444,838.52 (including VAT) that was awarded on 16 February 2013 (two (2) years earlier). Mr Rehman stated during his interview that no formal acceptance of the change of scope was received from Umbutho but their acceptance of the change was inferred by them by signing the contract. **R22**
- Contract Agreement entered into between PRASA and Umbutho on 11 July 2015
- 8.1111 We were provided with the Contract Agreement entered into between PRASA and Umbutho for contract HO/PT/INFR(E)/001/40/2013. The date of acceptance of the tender is reflected as 17 February 2014, with the date of commencement being 1 March 2014 and date of completion being 20 March 2015. **R23**

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8.1112	The contract appears to be signed the CEO of PRASA Technical, Mr Saki Zamxaka, and by a representative of Umbutho dated 11 July 2015. However, the signature of the PRASA representative was not witnessed.	R23/3
8.1113	The contract amount is reflected as R13,061,932.33 (including VAT and 10% contingency (Managed by PRASA)) and is in terms of the revised amount as approved by the DTPC.	R23/1
8.1114	We noted that a Bill of Quantities for the revised scope was also contained on file, detailing the costs per substation and how the total contract amount will be allocated to each of the different substations. Mr Rehman indicated during his interview that the Consulting Engineer would have drafted this document. <u>Addendum to contract dated 11 July 2015</u>	R25
8.1115	An addendum to contract HO/PT/INFR(E)/001/04/2013 appears to be signed by a representative of PRASA and Umbutho dated 11 July 2015.	R24
8.1116	The contract was amended as follows: i. Initial contract period – 12 months – 1 March 2014 to 20 March 2015; ii. Extension of contract period – 9 months – 20 March 2015 to 21 December 2015; and iii. Final revised contract period – 21 months – 1 March 2014 to 21 December 2015. c) <u>Review of Variation Orders</u>	
8.1117	No variation order was noted in respect of this contract. It should however be noted that a change in scope was approved prior to commencement of the project. d) <u>Interviews conducted</u> <u>Interview with Mr Rehman and Ms Sekhuthe</u>	
8.1118	Mr Rehman and Ms Sekhuthe provided the following information relating to the contract with Umbutho:	

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- i. The previous Project Manager for this contract on behalf of PRASA was Mr Richard Malope. However, he is no longer employed by PRASA Technical and the project has been taken over by Mr Mohwera Tlake;
- ii. The Consulting Engineer on this project is Gibb; and
- iii. Mr Rehman indicated that the project is six (6) months from completion. He further stated that a VO is currently being prepared and submitted for an increase of 7% which amounts to approximately R910,000 on the original contract amount. This is however in process and not part of our review.

e) Verification of Services

8.1119 During our discussion with Mr Rehman and Ms Sekhuthu, they confirmed that service delivery has commenced and is due to be completed within six (6) months.

Findings

8.1120 Detailed below is a summary of significant findings from the investigation into the awarding of the contract to Umbutho for the refurbishment of the Gauteng South Region sub-station:

- i. We determined from our review of the documentation provided that the aforesaid contract was awarded to Umbutho following an open bidding process. The tender was advertised with a compulsory briefing session to be held on 16 May 2013 and tender closing on 6 June 2013. We noted from the tender briefing attendance register that the meeting was held on 7 June 2013 and not on 16 May 2013, as advertised. We have not been provided with any documentation that the prospective bidders were informed of the change in the tender briefing date;
- ii. We noted that 13 bidders submitted tender documents in respect of this tender whereafter only four (4) bidders met the technical requirements. These four (4) bidders were subsequently evaluated based on price and B-BBEE whereafter Umbutho scored the highest points with a score of 97;
- iii. The DTPC supported the appointment of Umbutho for the said tender for a

R4/3

R8

R9

R16/6-7

R16/9

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<p>contract amount of R15,444,838.52 (including VAT) on 9 December 2013, which was signed as approved by what appears to be Mr Zamxaka on 11 February 2014 as CEO of PRASA Technical as required;</p>	R17
<p>iv. A Notice to Proceed was issued to Umbutho on 16 February 2014 which was accepted by them on 17 February 2014;</p>	R18
<p>v. We were provided with a Change of Scope Report dated 3 February 2015 and noted that the change of scope was necessary due to the time lapse between the scope determination for the open tender and the awarding of the contract. The report reflects that the original scope included 24 substations and that 12 of these were excluded from the new scope “<i>because equipment was replaced by the region due to unexpected failure or was excluded for not complying with the latest Prasa standards</i>”. The report is concluded with “<i>The Divisional Tender and Procurement Committee’s support is hereby sought to recommend the change in scope of the contract for “Gauteng South Region: Substations refurbishment Phase 3” for the total revised value of R13 061 932.33 Including VAT and 10% Contingency” and was signed as Approved by Mr Zamxaka;</i></p>	R21
<p>vi. Mr Rehman confirmed that no work was performed by Umbutho prior to the change of scope. A contract agreement was entered into between PRASA and Umbutho on 11 July 2015 which reflects the contract amount as R13,061,932.33 (including VAT). This amount agrees with amount as reflected in the Change of Scope Report. We further noted from an addendum to the contract that the contract period was revised and extended for 21 months being 1 March 2014 to 21 December 2015;</p>	R23
<p>vii. Umbutho received three (3) payments from PRASA for the period 28 November 2014 to 30 October 2015 totalling R7,092,838.38 and falls within the total contract amount of R13,061,932.33 (including VAT). No VOs were approved during our review; and</p>	R24
<p>viii. We determined with our interview with Mr Rehman and Ms Sekhuthu that the project is in progress and is due to be completed within six (6) months (i.e. estimated to be completed by January 2017). It should be noted that</p>	R2

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this timeframe exceeds the revised contract period as reflected in the addendum to the contract referred to herein above.

R24

Conclusions

- 8.1121 Based on our review of the available documentation and interviews conducted it appears that the procurement of Umbutho for the refurbishment of the Gauteng South Region sub-station was done in accordance with a provisioning system which was fair and transparent as provided for in the PRASA SCM Policy and related legislation as referred to herein above.

R. The appointment of Huawei Technologies Africa with a target value of R48,507,918.89 for the period 1 March 2013 to 1 March 2016

- 8.1122 An Inoxico Report drawn on Huawei Technologies Africa (Pty) Ltd (**Huawei**) with registration number 2005/038288/07 reflects that the said entity was registered on 27 October 2005. The current Active Principal is listed hereunder:
- i. Sindile Lester Peteni with ID number 441108 5447 089 appointed on 27 October 2005;
 - ii. Habiba Surtee with ID number 500914 0631 082 appointed on 14 October 2014;
 - iii. Paulos Sello Mahlangu with ID number 620325 5588 083 appointed on 27 October 2005;
 - iv. Dafeng Li with ID number 660116 0000 000 appointed on 1 September 2010;
 - v. Jinge Li with ID number 680305 0000 000 appointed on 2 February 2007;
 - vi. Christina Naidoo with ID number 701225 0205 083 appointed on 28 June 2012;
 - vii. Wenjun Liu with ID number 750826 0000 000 appointed on 20 May 2013;
 - viii. Yanxin Du with ID number E01169180 appointed on 12 July 2013; and
 - ix. Wu Wucongcheng with ID number G55579798 appointed on 5 June 2015.

a) Review of payments made by PRASA

- 8.1123 During a meeting with Mr Phoma on 12 May 2016, he stated that the Huawei contract was transferred between PRASA Technical and PRASA Corporate at the initial stages of the project. This was later confirmed during other interviews which will be discussed in detail below. Subsequently we requested a list of all payments made to Huawei from both PRASA Technical and PRASA Corporate. Mr Phori and Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system.
- 8.1124 We ascertained from the above mentioned analysis that Huawei had received 30

S1/3

S1/9

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payments from PRASA for the period 12 September 2013 to 31 March 2016 as detailed in the table hereunder (it should be noted that on various occasions more than one (1) invoice was combined for one (1) payment):

Number	Date	Amount (R)
1	12/09/2013	24,253,959.44
2	30/09/2013	10,668,333.72
3	15/10/2013	3,556,111.24
4	19/11/2013	3,556,111.24
5	13/12/2013	60,850,333.34
6	04/03/2014	7,112,222.47
7	06/03/2014	3,556,111.25
8	28/03/2014	3,556,111.25
9	02/05/2014	3,556,111.25
10	05/04/2013	48,507,918.89
11	26/06/2014	7,112,222.48
12	15/08/2014	3,995,354.12
13	30/09/2014	3,556,111.23
14	05/11/2014	3,556,111.23
15	28/11/2014	22,277,784.23
16	12/12/2014	3,556,111.23
17	19/12/2014	3,556,111.23
18	18/02/2015	44,837,469.13

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Number	Date	Amount (R)
19	13/03/2015	1,248,613.88
20	31/03/2015	7,682,459.33
21	07/04/2015	22,277,784.23
22	15/04/2015	3,309,649.82
23	30/06/2015	42,722,015.44
24	27/07/2015	10,507,961.88
25	31/07/2015	1,378,578.27
26	15/10/2015	17,047,958.71
27	17/11/2015	11,218,103.02
28	30/11/2015	2,338,716.97
29	18/12/2015	35,582,697.44
30	31/03/2016	18,091,571.68
		435,026,709.62

8.1125 We requested all payment packs from PRASA Corporate and PRASA Technical relating to Huawei and the contract under review. We were however not provided with the payment pack relating to payment number nine (9). Furthermore, more than one (1) invoice is reflected on the remittance advice for some of the payment packs and has thus been paid however these invoices were not attached to the respective payment pack.

8.1126 We will discuss the payment pack relating to payment number five (5) in the table above to serve as an example of the documents generally included in the payment. It should be noted that payment pack five (5) was selected due to it containing the most complete set of documents and it being the largest payment made to Huawei. It should further be noted that not all the documents discussed

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below are included in each of the payment packs.

- 8.1127 The payment pack includes the following documents:
- i. The remittance advice reflects the amount of R60,850,333.34 and dated 13 December 2013; **S2/3**
 - ii. The creditors reconciliation is dated 5 November 2013 and reflects the total payment to be made to Huawei as R60,850,333.34. The reconciliation is prepared by and signed by what appears to be Kebaabetswe Kgobe and reviewed by Motsei Molohe. This amount agrees to the amount as per the remittance advice; **S2/4**
 - iii. The extract from the SAP creditors ledger reflects the amount of R60,850,333.34 which is made up of three (3) invoices in the amounts of R28,647,111.05, R28,647,111.05 and R3,556,111.24; **S2/5**
 - iv. The PRASA Corporate Invoice Payment Check List is signed as Requested by Alison Moosa and dated 9 September 2013; **S2/6**
 - v. The supplier invoices reflect the total cost for each delivery as detailed in the SAP creditors ledger extract as referred to herein above; **S2/7-8**
 - vi. A shipment acceptance and supporting documentation is attached to each of the three (3) invoices to which this payment relates; **S2/11-25**
 - vii. The supplier statement of account dated 5 November 2013 includes the three (3) invoices as detailed herein above; and **S2/48**
 - viii. A purchase requisition for each of the individual amounts listed above is attached to the payment pack confirming that payment can be made to Huawei. **S2/49-57**
- 8.1128 The original approved amount for which Huawei was appointed was R485,079,188.80. Huawei's contract was subsequently extended as per a VO for R97,001,547.18 resulting in the revised contract amount of R582,080,735.98. Huawei received payments in the amount of R435,026,709.62.

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b) Procurement Review

- 8.1129 We obtained the procurement file and documentation relating to the above mentioned project. The tender was for the design, construction and implementation of a new digital railway signalling radio network. We determined from our review of the documentation provided that the aforesaid contract was awarded to Huawei following an open bidding process.
- 8.1130 A Purchase Requisition was issued on 10 February 2012. The Purchase Requisition appears to be signed by Sid Els on 10 February 2012, as requisitioner, Mr Baltac on 10 February 2012, as the Line Manager, and Mr Magoro on 13 February 2012, as Procurement Official. **S3**
- 8.1131 An advertisement was placed in The Star newspaper on 20 February 2012 and a copy of this advertisement was held on file. The advertisement contained the following details: **S4**
- i. A compulsory meeting – 1 March 2012 at 10:00;
 - ii. Tender documents could be collected between 22 February 2012 and 29 February 2012;
 - iii. Payment of R5,000 was required to obtain the tender documents;
 - iv. The closing date – 16 April 2012 at 12:00; and
 - v. Queries were to be submitted to Mr Magoro.
- 8.1132 The tender collection register details that a total of 12 entities collected tender packs for this tender. The document is undated. **S5**
- Site briefing session attendance register
- 8.1133 A site briefing session attendance register, dated 1 March 2012, was completed. Representatives from 16 entities were present at the briefing session. We noted that “*Jason he*” and “*Jacky Xie*” attended the meeting on behalf of Huawei. **S6**
- 8.1134 It was noted that representatives from the following entities were present at the briefing session, but did not sign the tender collection register:

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- | | | |
|------|---------------------|-------------|
| i. | Excelcom; | S6/2 |
| ii. | Emcom Wireless; | S6/2 |
| iii. | Margo Projects; and | S6/3 |
| iv. | MSN. | S6/3 |

Handwritten acknowledgment of receipt

8.1135 Handwritten acknowledgment of receipts for the receipt of tender documents in respect of Huawei, Plessey and Alandick dated 16 April 2012 were contained on file. **S7**

8.1136 These handwritten documents appear to serve as proof that the tender documents were received by PRASA. Each document reflects a stamp which reads as follows: "*RECEIVED 2012-04-16 PRASA SCM Tender Admin*".

8.1137 In a memorandum dated 30 April 2012, the GCPO, Mr Mbatha, notifies the following individuals of their appointment as part of the tender evaluation team for the appointment of a service provider in respect of the construction and implementation of a new digital railway signalling radio network: **S8**

- i. Mr Zide;
- ii. Mr Botabota;
- iii. Dr D Mtimkhulu (**Dr Mtimkhulu**);
- iv. Mr Els;
- v. Mr Mapodile;
- vi. Mr Sunnyboy Nhlapho (**Mr Nhlapho**) ; and
- vii. Mr Magoro.

Tender opening register

8.1138 The tender opening register on file is dated 2 May 2012. This is two (2) days after the submission of the tenders to PRASA. **S7/4**

8.1139 The tender opening register lists the names of three (3) bidders, namely Plessey,

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Alandick and Huawei. The register appears to be signed by the individual who opened the bids, but no witness signatures are present in the provided spaces.

Bid evaluation register – 19 June 2012

8.1140 On 19 June 2012, the bid evaluation attendance register is completed and signed by the following individuals:

- i. Mr Mapodile;
- ii. Mr Botabota; and
- iii. Mr Els.

8.1141 It should be noted that the name Mr Nhlapho appears on the register but no further details have been completed for this individual.

8.1142 Each of the aforementioned individuals who appear to have signed the bid evaluation attendance register, appears to have signed a Declaration of Interest and a Confidentiality Agreement on 19 June 2012 in respect of the tender for evaluation.

8.1143 Mr Magoro also appears to have signed a Declaration of Interest and a Confidentiality Agreement on 19 June 2012 in respect of this tender even though he did not sign the bid evaluation attendance register.

Bid evaluation registers dated 8 and 9 July 2012

8.1144 Another bid evaluation attendance register was completed in respect of this tender on 8 July 2012 and 9 July 2012. The following individuals were present on both days:

- i. Dr Mtimkhulu;
- ii. Mr Els;
- iii. Mr Botabota;
- iv. Mr Mapodile; and
- v. Mr Nhlapho.

S9

S9/2-9

S10

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8.1145	Each of the aforementioned individuals appear to have signed a Declaration of Interest and a Confidentiality Agreement on 8 and 9 July 2012 in respect of the tender for evaluation.	S10/3-28
8.1146	Based on the attendance registers, Mr Magoro appears to have only been present on 9 July 2012 although he signed a Declaration of Interest and a Confidentiality Agreement for both days.	
	<u>Evaluation scoresheets</u>	
8.1147	The evaluation scoresheets completed by Dr Mtimkhulu, Mr Els, Mr Botabota, Mr Mapodile and Mr Nhlapho were located on file.	S10/29-36
8.1148	It should be noted that the evaluation scoresheets provided refer to the scoring of Huawei and Plessey, but not for Alandick. It should further be noted that the scoresheets completed by Mr Botabota and Mr Mapodile were incomplete in respect of Plessey. During our interview with Mr Botabota he indicated that he would have completed his scoresheet but does not recall if he completed scores for Alandick.	
	<u>Minutes of Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 11 July 2012</u>	
8.1149	The minutes indicate the following individuals were present at the meeting: i. Mr Holele as Chairman; ii. Mr Mbatha, Siphiwe Mathobela, Ms Motshologane, Mr Bopape, Ms Ngoye and Ms Shezi as members; and iii. Mr Khuzwayo as Secretary.	S11/2
8.1150	The minutes indicate that presentations were given by <i>inter alia</i> Siyaya DB Consulting Engineers for items number three (3) and four (4).	
8.1151	Item number three (3) relates to the request to appoint Huawei and Alcom Matomo Consortium to design, construct and implement a new digital railway signalling radio network.	S11/3

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8.1152	The contract amount is indicated as R485,079,188.80 (including VAT). The contract period is not indicated. It should be noted that we were not provided with the Adjudication Report which was presented to the CTPC (we have requested the documentation for our review but it could not be located).	S11/3
8.1153	<p>The CTPC noted issues which needed to be addressed prior to submission to the FCIP. These included the following:</p> <ul style="list-style-type: none"><i>i. “% BEE Equity</i><i>ii. Contract period</i><i>iii. The sequence of benefits to be realised in the implement of the new infrastructure needs to be categorised.</i><i>iv. Functional explanation in respect of this technology to be considered for inclusion in the submission.</i><i>v. Security screening to be conducted”.</i>	S11/3
8.1154	<p>The CTPC resolved that they agreed with the recommendation subject to the inclusion of the issues noted above, support by the GCEO and approval by the FCIP. It should be noted that the minutes are unsigned.</p> <p><u>Minutes of the Finance, Capital Investment and Procurement Committee Meeting held on 19 July 2012</u></p>	S11/3 S11/1
8.1155	<p>The minutes indicate that the following individuals were present at the meeting:</p> <ul style="list-style-type: none"><i>i. Dr Bridgette Gasas as Chairperson;</i><i>ii. Mr Montana as GCEO; and</i><i>iii. Mr Xolile George, Ms Ntebo Nkoenyane and Ms Mawethu Vilana as members.</i>	S12/1
8.1156	Further individuals in attendance at the FCIP meeting are reflected as Mr Mbatha, Mr Bopape, Mr Sebola, Mr Zide and Ms Kotu.	
8.1157	This tender is discussed under point 8.3 on page 11 of the minutes. Mr Els presented this item to the committee.	S12/11

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8.1158	The minutes state that the various dates on which the tender was advertised and closed and the names of the bidders (i.e. Alandick, Huawei Consortium and Plessey).	
8.1159	The BAC, subsequent to consideration of the recommendation made by the BEC, requests the FCIP “to appoint Huawei Consortium as a preferred bidder for the design, construction and implementation of a New Digital Railway Signalling Radio Network, at the price of R 485, 079, 188.80 (incl. VAT)”.	
8.1160	<p>The FCIP resolved that they “would recommend the following to the Board for approval:</p> <ul style="list-style-type: none">○ Huawei Consortium be appointed as a preferred bidder for the Design, Construction and Implementation of a New Digital Railway Signalling Radio Network, at the amount of R 485, 079, 188.80 (incl VAT)○ The GCEO to appoint a negotiating team to enter into negotiations with Huawei Consortium and if the negotiations are successful the GCEO sign an agreement;○ The Negotiating Team be mandated to negotiate and secure the Local Content of between 40-50%; a Detail Program for Training for Prasa Employees and an Increase the Levels of BBBEE participations”.	S12/12-13
8.1161	Mr Mbatha confirmed during his interview that he entered into negotiations with Huawei on behalf of PRASA, but Huawei was unwilling to accept a lower price.	
8.1162	The minutes appear to be signed by Dr Gasa as chairperson of the FCIP dated 6 November 2012.	S12/20
	<u>Minutes of the Board Meeting held on 24 July 2012</u>	
8.1163	<p>The minutes indicate that the following individuals were present at the meeting:</p> <ul style="list-style-type: none">i. Mr Sfiso Buthelezi as Chairman;ii. Dr Gasa, Mr Nkosinathi Khena, Ms Marissa Moore, Ms Ntebo Nkoenyane and Mr Mfanyana Salanje as members; andiii. Mr Montana as GCEO.	S13/1

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8.1164	Further individuals in attendance at the Board meeting are reflected as Mr Zide, Mr Ngakane, Mr Fenton Gaston and Mr Sebola.	
8.1165	This tender is discussed under paragraph 8.19, on page 6, and reflects the following: i. <i>“The Rail operations require new digital incorporating voice and data devices.</i> ii. <i>This is part of the modernisation of the business.</i> iii. <i>FCIP Committee recommends that the Board appoint Huawei Consortium for installation of Digital Railway Signalling at the value of R485million (SIC)”.</i>	S13/7
8.1166	The Board resolved that they approved the appointment of Huawei as the preferred bidder as recommended by the FCIP.	
8.1167	The minutes appear to be signed by Mr Sfiso Buthelezi dated 19 September 2012. <u>Letter dated 25 July 2012</u>	
8.1168	On 25 July 2012, a letter titles <i>“RE: ITEMS TO BE ADJUDICATED BY THE FCIP COMMITTEE MEETING”</i> , was sent to the CPO, Mr Mbatha by Mr Zide, the company secretary. It should be noted that the letter is unsigned. And we could not locate a signed copy.	S14
8.1169	The letter details the recommendations made by the FCIP in respect of various tenders, following the meeting held on 20 July 2012. The tender for the design, construction and implementation of a new digital signalling radio network (HO/INF (T) 245/02/2012) is contained on page 3 and 4 of the letter.	
8.1170	In respect of tender HO/INF(T) 245/02/2012, the FCIP recommended that <i>“Huawei Consortium be appointed as a preferred bidder for the design, construction and implementation of a New Digital Railway Signalling Radio Network, at the price of R 485, 079, 188.80 (incl. VAT)”</i> .	S14/3
8.1171	The letter includes a recommendation that a negotiation team be appointed to perform various functions in relation to the contract. We were however not	S14/3-4

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provided with documentation or information to indicate that the issues that were raised by the CTPC in the meeting held on 11 July 2012 were included in the submission to the FCP as required.

- 8.1172 On 27 February 2012, a letter was addressed to Huawei and Altec Alcom Matomo Consortium. The letter serves to notify the bidder that they have been appointed as a *“Preferred Bidder”* for the contract. The letter was signed by Mr Mbatha dated 27 July 2012.

S15

Contract Agreement

- 8.1173 The Contract Agreement entered into between PRASA and *“HUAWEI ALTECH ALCOM MATOM CONSORTIUM”* appears to be signed on 28 March 2013 by representatives of PRASA and the contractor. It is important to note that the SCM Policy that came into effect on 29 May 2014 provided that:

S16/119

“Contracts must be awarded for a period of not more than three years, except tenders for a lease agreement for immovable property, which may be awarded for a period of not more than 5 years.

A7/28

Special circumstances for long-term contracts and strategic partnerships should be motivated for approval by the GCEO”.

- 8.1174 We were not provided with a document that will illustrate that the contract period of five (5) years was approved by the GCEO. Mr Botabota indicated during his interview that if a contract would exceed the three (3) year prescribed period, the BEC members would be informed. He further stated that he does not recall the contract term being brought to the BEC members’ attention.

- 8.1175 The Contract Agreement indicates that the contract is for a period of five (5) years and for the amount of R485,079,188.80 (including VAT).

S16/1

c) Review of Variation Orders

- 8.1176 It appears that the contract that was awarded was for the initial amount of R485,079,188.80 (including VAT). Two (2) addendums to the contract were included in the annexures of the Contract Agreement.

**S17/40 &
48**

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8.1177	The first addendum to the contract indicates that the additional contract amount of R501,547.18 which results in a revised contract amount of R485,580,735.98. The additional contract amount results in an increase of 0.1% of the original contract price.	S17/40
8.1178	The additional scope is indicated on page 40 of Annexure A as “ <i>The refurbishment of a room in the Pretoria North CTC building to be able to accommodate the GSM-R core equipment requirements as per manufacture specifications</i> ”. We were not provided with any documentation to illustrate that the additional scope was approved.	
8.1179	The addendum appears to be signed on behalf of the contractor and PRASA on 13 October 2014 and 31 October 2014 respectively.	
8.1180	The second addendum to the contract indicates that the additional contract amount of R96,500,000 which results in a revised contract amount of R582,080,735.98.	S17/48
8.1181	The additional contract amount amounts to an increase of 19,89% of the original contract price.	
8.1182	The additional scope is indicated in paragraph 2 as follows: <ul style="list-style-type: none">➤ <i>“Independent network for each region</i>➤ <i>Cancel the network redundancy</i>➤ <i>Environment monitor system and deployment;</i>➤ <i>SIM cards and tool kit;</i>➤ <i>Project implementation time prolongs seven months;</i>➤ <i>New Dispatcher systems and deployment;</i>➤ <i>Site civil works Increase;</i>➤ <i>New added E2E responsibility for GSM-R network”.</i>	S17/48
8.1183	The addendum appears to be signed on behalf of the contractor and PRASA on 31 October 2014.	S17/49

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Presentation to PRASA dated 6 June 2014

8.1184 A presentation was attached to the minutes of the CTPC meeting held on 24 June 2014 that deals with the *“Increase in contract for technical solution of PRASA GSM-R network on all three Regions”* for the amount of R96,500,000 (including VAT). **S18/4-7**

8.1185 A presentation titled *“Assisting PRASA to accomplish a mutually agreed upon Variation Order with Huawei Altech Consortium”* is attached to the minutes of the CTPC meeting held on 24 June 2014 as referred to herein below. **S18/4**

8.1186 The presentation indicates that the new VO price will result in an increase of 19,9% of the original contract amount, but further states that this percentage remains within the 20% contract increase limitation. It is however important to note that the SCM Policy dated May 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”*. **A7/26**

VO 1 and 2: Submission for increase in contract amount dated 18 June 2014

8.1187 The SCM Submission for an increase in the contract amount is attached to the minutes of the CTPC meeting held on 24 June 2014 refers to the request for an increase in contract amount for the Huawei contract with tender number HO/INF (T) 245/02/2012. **S18/8-11**

8.1188 The reason for the proposed increase in contract amount is that PRASA requested Huawei to provide a proposal for an improvement in the GSM-R network on all three (3) regions, which will allow for features to be implemented in future. **S18/10**

8.1189 A summary of the total costs for the contract is summarised in the table below: **S18/10**

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Supplier	Tender price (excluding VAT) (R)	Tender price (including VAT) (R)	Tender Deliver/ Completion
HUAWEI GSM-R Radio Network			
Original Contract Amount	425,508,060.35	485,079,188.80	Approved
VO1: Pretoria North Core site refurbishment	439,953.67	501,547.18	Approved
VO2: Improvement/ Enhancement to PRASA GSM-R network	84,649,122.81	96,500,000.00	Recommended
TOTALS	510,597,136.82	582,080,735.98	

8.1190 The report serves to recommend that the CTPC approve the increase in contract amount for Huawei and Altech Matomo Consortium in the amount of R96,500,000 (including VAT).

S18/11

8.1191 The additional amount of R501,547.18 is reflected as approved in the report, but we have not obtained any documentation to illustrate that this amount was approved by the GCEO as required. It is further important to note that the amount of R582,080,735.98 (R485,079,188.80 + R501,547.18 + R96,500,000) is 19.9% of the original contract amount as stated herein above.

8.1192 The report appears to be signed by Mr Edwards, as the Chief Engineer Signals and Telecommunications and Mr Baltac, as the General Managers Signals and Telecommunications on 18 June 2014.

S18/11

Minutes of Corporate Tender and Procurement Committee Ordinary Meeting held on 24 June 2014

8.1193 The minutes indicate the following individuals were present at the meeting:

S18/2

- i. Mr Mbatha as Chairman;
- ii. Ms Monkwe as Secretary; and
- iii. Dr Phungula, Mr Kobuwe, Mr Gombert, Mr Emeran and Ms Motshologane as members.

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8.1194	Item number 12 relates to the request to increase the contract amount for Huawei and Alcom Matomo Consortium.	S18/3
8.1195	The amount is indicated as R96,500,000 (including VAT). The contract period is indicated as “ <i>existing contract</i> ”.	S18/3
8.1196	The item relates to the aforementioned second addendum to the contract.	S17/48
8.1197	The comments state that the CTPC support the increase subject to the following conditions: <ul style="list-style-type: none"> i. <i>“Background to have sufficient information / clear picture relating to now and the future.</i> ii. <i>Cost implications to be stipulated.</i> iii. <i>Reasons to be outlined as to options and what is opted for due to financial strains.</i> iv. <i>Technical Advisors to advice on what needs to be done prior to work having being done. (to provide risks in summary)”.</i> 	S18/3
8.1198	The minutes appear to be signed by the Chairman, Mr Mbatha. Mr Mbatha stated during our interview that the CTPC supported the matter but recommended that it be submitted to the FCIP and BoC for approval due to the large percentage increase in the contract amount. <u>Extract of a BoC resolution taken on 31 July 2014</u>	S18/1
8.1199	We obtained an extract of the BoC resolution from a meeting held on 31 July 2014. The extract details that the BoC were requested to approve a VO on the Huawei contract to the amount of R97,001,547.18 (including VAT). This amount appears to include the VO to the amount of R96,500,000 as well as the VO to the amount of R501,547.18 as indicated in the submission discussed above.	S19
8.1200	The extract states “ <i>The Board following deliberations on the recommendation resolved to approve the increase in the contract value(variation order) on the Huawei/ALCOM Consortium contract with an amount of R97 001 547.18 (Including VAT), for various improvements/enhancements of the GSM-R network</i>	

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as detailed in the submission”.

- 8.1201 The extract appears to be signed by Mr Lide in his capacity as company secretary dated 5 August 2014.

d) Interviews conducted

Interview with Mr Botabota

- 8.1202 Mr Botabota provided the following information as far as it relates to Huawei:
- i. He indicated that during the BEC meeting held on 19 June 2012 not all the BEC members were present and no tender evaluation commenced. During this meeting the end-user, being Mr Els, briefed the BEC members on the project requirements;
 - ii. During the BEC meetings held on 8 and 9 July 2012 the actual bid evaluations took place;
 - iii. Mr Botabota could not recall why no scoring was performed for Alandick. He stated that it might have been due to Alandick disclosing their pricing in their technical proposal. During this time the two (2) envelope system was implemented and hence Alandick would have been disqualified for disclosing the pricing in the technical proposal;
 - iv. He recalls there were disagreements between the BEC members regarding various technical and pricing matters; and
 - v. Mr Botabota further mentioned that he was of the opinion that Huawei was emphasized by other BEC members during the evaluation.

Information provided by Mr Els

- 8.1203 Mr Els was previously employed at PRASA and is currently employed at Loliwe Rail Solutions. We contacted him telephonically to request a meeting with him to which he responded that he is based in Cape Town. Mr Els agreed to assist us by responding to questions. We will briefly refer to the information he provided as far as it relates to this contract:

- i. He stated that "*The system in question was required for the new national*

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signalling programme embarked by PRASA to provide a communications for the new trains and the electronic signalling system”;

- ii. He confirmed his attendance at the BEC meetings on 8 and 9 July 2012;
- iii. Mr Els could not recall why scores were not completed for Alandick but states that it could have been a “*non qualification issue*”;
- iv. He could not recall whether there was discussion or a final decision drawn as to the scoring of Plessey and Alandick;
- v. He stated that his presentation to the FCIP was to “*advise the board on the technical improvement on the communication system used for the safe management of the Metro Trains and GSM-R was the proposed system for PRASA to make use of*”;
- vi. Mr Els was not aware of the contract period; and
- vii. By the time Mr Els left PRASA’s employment, the work had not yet been commenced by Huawei.

Interview with Mr Mbatha

8.1204 Mr Mbatha provided the following information relating to Huawei:

- i. Mr Mbatha stated that “GSM-R” is currently not in existence in South Africa;
- ii. He further stated that the PRASA engineers drafted the specifications for this contract and during the briefing meeting held the prospective bidders raised concerns and questions which the engineers were unable to clarify or answer. The prospective bidders were denied a site visit and were required to provide bids based solely on a map depicting the various stations; and
- iii. Mr Mbatha is of the opinion that the excessive amount for the VO can be attributed to the lack of foresight and expertise of the engineers who drafted the specifications for the project as the contractor only realised the extent of the project once they commenced work on the project.

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Interview with Mr Edwards

- 8.1205 Mr Edwards provided the following information relating to Huawei:
- i. Mr Els was the Project Manager on this project but Mr Edwards was involved with the project from the beginning and assisted with drafting the specifications;
 - ii. Mr Edwards confirmed that Huawei was one (1) of the contracts which was moved from PRASA Corporate to PRASA Technical and was moved back to PRASA Corporate one (1) year later; and
 - iii. He stated that approval by the BoC and the GCEO also serve to approve the contract term as provided for.

Interview with Mr Mapodile

- 8.1206 Mr Mapodile provided the following information relating to Huawei:
- i. Mr Mapodile mentioned that in this instance the financial and technical proposals had to be submitted separately for each bidder. During the evaluation the BEC noted that one (1) of the bidders had made reference to their pricing in their technical proposal. He stated that a debate ensued between the BEC members as referred to by Mr Botabota and the decision was reached to disqualify the bidder. He does not recall which of the three (3) bidders were disqualified in this manner;
 - ii. He stated one of the other three (3) bidders were disqualified for another reason which he could not recall at the time; and
 - iii. Mr Mapodile stated that Mr Mtimkulu as Chairperson of the BEC was the only BEC member to have seen the Submission Report which was submitted to the CTPC for adjudication.

e) Verification of services

- 8.1207 Mr Edwards confirmed that the project has commenced with an initial completion date estimated at the end of 2015. The contract has however been extended and the current expected completion date is at the end of 2016. He further stated that

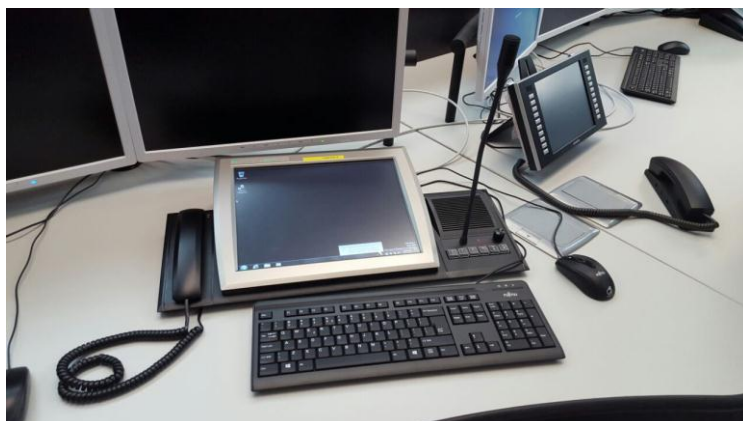
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approximately R80 to R90 million is still to be paid to Huawei for the remainder of the contract. During our site visit of the GNC, Mr Edwards pointed out certain equipment, such as the signalling tower, as provided by Huawei as part of this contract as depicted below.



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The image below depicts the communication device installed by Huawei in the GNC control room to facilitate the communication between the control room and the trains.



Findings

- 8.1208 Detailed below is a summary of significant findings from the investigation into the awarding of the contract to Huawei for the design, construction and implementation of a new digital railway signalling radio network:
- i. We determined from our review of the documentation provided that the aforesaid contract was awarded to Huawei following an open bidding process. The tender was advertised with a compulsory briefing session to be held on 1 March 2012 and tender closing on 16 April 2012; **S4**
 - ii. We noted from the site briefing attendance register that 16 representatives attended the meeting at PRASA House, Hatfield. It should be noted that the site briefing meeting was not held at the sites where the services would be implemented. During our meeting with Mr Mbatha he stated that the prospective bidders raised concerns and questions during the briefing meeting with the engineers who were responsible for the project and drafting of the specifications were unable to clarify. He further stated that the prospective bidders were required to submit bids based solely on a map depicting the various stations and hence the extent of the project was only realised upon commencement thereof. This has resulted in an excessive increase in the contract amount as contained in the VO as will **S6**

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- be referred to hereunder;
- iii. The tender opening register reflects that three (3) bidders submitted bid documents, namely Plessey, Alandick and Huawei. The tender evaluation committee was appointed on 30 April 2012 for the evaluation of the tender;
- iv. The tenders were evaluated on 8 and 9 July 2012. It should be noted from our review of the evaluation scoresheets that Huawei and Plessey were allocated scores, but Alandick was not evaluated. It should further be noted that the scoresheets completed by Mr Botabota and Mr Mapodile were incomplete in respect of Plessey;
- v. We have met with Mr Botabota and Mr Mapodile, as members of the BEC, and communicated with Mr Els to clarify the aspect relating to the evaluation of the three (3) bidders.
- During our interview with Mr Botabota he indicated that he would have completed his scoresheet but does not recall if he completed scores for Alandick. He stated that it might have been due to Alandick disclosing their pricing in the technical proposal which caused them to be disqualified and hence the reason why they were not evaluated;
 - Mr Mapodile mentioned that in this instance the financial and technical proposals had to be submitted separately for each bidder. During the evaluation the BEC noted that one (1) of the bidders had made reference to their pricing in their technical proposal. He stated that a debate ensued between the BEC members as referred to by Mr Botabota and the decision was reached to disqualify the bidder. He does not recall which of the three (3) bidders were disqualified in this manner;
 - Mr Els could not recall why scores were not completed for Alandick and stated that it could have been a “*non-qualification issue*” as stated by Mr Mapodile;
- vi. We were unable to obtain the submission report which was presented to the CTPC for recommendation and thus we were unable to determine

S7

S8

S10/29-36

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whether Alandick was disqualified as stated by the members of the BEC;	
vii. We determined from our review of the minutes of the CTPC meeting held on 11 July 2012 that the CTPC concurred with the recommendation to appoint Huawei, in the amount of R485,079,188.80 (including VAT), subject to support by the GCEO and approval by the FCIP;	S11
viii. We obtained the minutes of the FCIP meeting held on 19 July 2012 wherein the item was discussed under paragraph 8.3 and recommended the appointment of Huawei to the BoC. The matter was submitted to the BoC as required. The BoC resolved during a meeting held on 24 July 2012 to approve the appointment of Huawei as the preferred bidder as recommended by the FCIP for a total contract amount of R485 million;	S12 S13
ix. A contract was entered into between PRASA and Huawei on 28 March 2013 for a period of five (5) years. It is important to note that the SCM Policy which came into effect on 29 May 2014 states that: <i>“Contracts must be awarded for a period of not more than three years, except tenders for a lease agreement for immovable property, which may be awarded for a period of not more than 5 years.</i> <i>Special circumstances for long-term contracts and strategic partnerships should be motivated for approval by the GCEO”;</i>	S16
x. We were not provided with a document that illustrates that a contract period of five (5) years was approved by the GCEO. It is however important to note that the BoC had approved the appointment of Huawei for the contract amount of R485,079,188.80 (including VAT) as set out in the agreement for the term of the contract;	
xi. We noted from our review of the contract that two (2) VOs were issued in respect of this contract in the amount of R501,547.18 and R96,500,000 totalling R97,001,547.18 (including VAT). The increase of the contract amount is set out in the addendum to the contract dated 31 October 2014 in respect of these two (2) VOs relating to the additional work required;	S17/40, 48

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- xii. The request for the approval of the VO in the amount of R96,500,000 was submitted to the CTPC meeting held on 24 June 2014 where it was supported. We noted that the two (2) VOs result in a revised contract amount of R582,080,735.98 which is 19,9% of the original contract amount of R485,079,188.80. The SCM Policy dated May 2014 states that:

S18

“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”;

- xiii. Two (2) VOs in the amount of R97,001,547.18 (including VAT) (R96,500,000 + R501,547.18) was approved by the BoC in a meeting held on 31 July 2014;

S19

- xiv. We ascertained from our review of the payment data and documentation provided that Huawei received 30 payments from PRASA for the period 12 September 2013 to 31 March 2016 totalling R435,026,709.62 and falls within the total contract amount of R582,080,735.98 (including VAT); and

S2

- xv. We determined that the project has commenced and that services were delivered as required according to Mr Edwards. The contract has been extended and is expected to be completed at the end of 2016.

Conclusions

- 8.1209 The site inspection was not held at the sites where the services would be implemented. Prospective bidders raised concerns and questions during the briefing meeting with the engineers who were responsible for the project and drafting of the specifications but they were unable to provide clarification. The prospective bidders were therefore required to submit bids based solely on a map depicting the various stations and hence the extent of the project was only realised upon commencement thereof. This has contributed to the significant increase in the contract amount as a result of the VOs in the amount of R97,001,547.18 (R501,547.18 + R96,500,000).

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- 8.1210 We determined from our review of the evaluation scoresheets for the three bidders that Huawei and Plessey were allocated scores, but Alandick was not evaluated. It should be noted that the scoresheets completed by Mr Botabota and Mr Mapodile were incomplete in respect of Plessey. Neither Mr Botabota nor Mr Mapodile could recall the reason therefore, but indicated that it may have been as a result of a disqualification issue.
- 8.1211 We were unable to obtain the submission report which was presented to the CTPC for recommendation and were therefore unable to determine whether Alandick was disqualified as stated by the members of the BEC and or as required during a provisioning system that was fair.

Recommendation

- 8.1212 Site visits should be compulsory where the contract is dependent on knowledge of the geological areas to ensure the potential bidders understand the extent of the work required and can bid accordingly. This will assist in avoiding unnecessary VOs for cases such as the tender that was awarded to Huawei for the design, construction and implementation of a new digital railway signalling network.
- 8.1213 PRASA should implement a system where all procurement related documents are filed in a safe and secure environment with a register to control the movement of the procurement files. This control would have ensured that the submission report was available and would have assisted in providing clarification regarding the evaluation process.

S. The appointment of Huawei Technologies Africa with a target value of R250,000,000 for the period 1 March 2013 to 27 August 2018

- 8.1214 During our meeting with Mr Phoma on 12 May 2016, he confirmed that the Huawei contract referred to with a target amount of R250,000,000 is part of the same contract as we refer to herein above. We have therefore not repeated the information as it deals with the variation of the contract amount.

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**T. The appointment of XON Systems (Pty) Ltd with a target value of
R13,516,089.21 for the period 1 May 2012 to 31 March 2016**

- 8.1215 An Inoxico Report drawn on XON Systems (Pty) Ltd (**XON Systems**) with registration number 1998/004786/07 reflects that the said entity was registered on 13 March 1998. The current Active Principal is listed hereunder:
- i. Israel Biziwe Skosana with ID number 530715 5659 083 appointed on 15 December 2010;
 - ii. Daphne Ramaisela Motsepe with ID number 570424 0789 083 appointed on 15 October 2014;
 - iii. Makhuparetsa Paul Nyama with ID number 570704 5752 081 appointed on 15 December 2010;
 - iv. Mark John Harris with ID number 670408 5156 082 appointed on 1 September 2015;
 - v. Bart Maria Hector van Buynder with ID number 690514 5003 087 appointed on 24 May 1999; and
 - vi. Jan Carel Coetzee with ID number 691018 5228 081 appointed on 13 March 1989.

a) Review of payments made by PRASA

- 8.1216 We requested a list of all payments made by PRASA to XON Systems. Mr Phoma provided us with a summary of all accounting transactions that took place throughout the period, as per the SAP accounting system.
- 8.1217 We ascertained from the above mentioned analysis that XON Systems had received nine (9) payments from PRASA for the period 31 January 2014 to 31 July 2015 as summarised in the table hereunder (it should be noted that on various occasions more than one invoice was combined for one payment):

T1
T1/9

T2

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Number	Date	Amount (R)
1	31/01/2014	2,949,604.28
2	03/03/2014	684,285.01
3	31/03/2014	4,838,537.70
4	13/06/2014	2,529,153.66
5	30/09/2014	259,590.66
6	14/11/2014	169,995.00
7	19/12/2014	574,251.90
8	27/02/2015	198,185.16
9	31/07/2015	598,895.42
		12,802,458.79

- 8.1218 We requested all payment packs relating to the payments listed in the table above. We were however not provided with payment packs relating to payments number three (3).
- 8.1219 We will discuss the payment pack relating to payment number one (1) in the table above to serve as an example of the documents generally included in the payment packs. It should be noted that payment pack one (1) was selected due to it containing the most complete set of documents. It should further be noted that not all the documents discussed below are included in each of the payment packs.
- 8.1220 The payment pack includes the following documents:
- i. The remittance advice reflects the amount of R2,949,604.28 and dated 31 January 2014;
 - ii. The creditors reconciliation is dated 31 January 2014 and reflects the total payment to be made to XON Systems as R2,949,604.28. The reconciliation is prepared by and signed by what appears to be Dumisile

T2/2

T2/3

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	Sithole and reviewed and stamped by Binosa Ngongca. This amount agrees to the amount as per the remittance advice;	
iii.	The extract from the SAP creditors ledger reflects the amount of R2,949,604.28 which is made up of three (3) invoices in the amounts of R1,358,303.16, R339,909.99 and R1,251,391.13;	T2/4
iv.	Delivery Notes – the delivery note is issued for each of the three (3) invoices to which this payment relates;	T2/5,10,11
v.	The supplier invoices reflect the total cost for each delivery as detailed in the SAP creditors ledger extract as referred to herein above;	T2/6,12,13
vi.	The supplier statement of account dated 1 December 2012 reflects three (3) invoices in the total amount of R2,949,604.28; and	T2/7,14
vii.	The purchase requisition is attached to the payment pack confirming that payment can be made to XON Systems.	T2/8,9,15, 16
8.1221	The original approved amount for which XON Systems were appointed was R12,420,968.34. As is evident from the payment details above, XON received payments in the amount of R12,972,413.79. XON Systems thus received R551,445.45 in excess of the approved amount.	
	<u>b) Procurement Review</u>	
8.1222	We obtained the procurement file and documentation relating to the abovementioned project from Mr Phoma. The tender was for the Construction of a Datacentre in Umjantshi House. We determined from our review of the documentation provided that the aforesaid contract was awarded to XON Systems following an open bidding process.	
	<u>Request for Proposal</u>	
8.1223	We were provided with a RFP dated September 2012 for “CONSTRUCTION OF DATACENTRE IN UMJANTSHI HOUSE (VER.1)”. The RFP consists of 11 pages, with the last page appearing to be a diagram of the proposed datacentre.	T3/1 T3/11
8.1224	Paragraph 2 of the RFP provides for the goal of the proposal being:	T3/2-3

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“The goal of the request for proposal (RFP) is to seek proposals for accomplishment of the following:

- a. Construction of a 140m² datacentre facility and a staging area in Umjantshi House lower ground. Providing for raised flooring, cooling, UPS, racks, HVAC, fire detection and suppression, environmental monitoring and surveillance, and datacentre management system.*
- b. Installation of a generator (existing 350KVA) to backup the datacentre and selected work areas.*
- c. Electrical reticulation for the generator including electrical reticulation from the datacentre UPS to cabling closets on all floors.*
- d. Design of the new network environment reusing the existing network equipment in Metropark Building.*
- e. Migration/moving of server/network equipment from existing datacentre in Metropark to the new datacentre”.*

8.1225 Paragraph 4 provides for the prerequisites of the bidders:

- i. The bidder should be CISCO certified (at least silver level);
- ii. The bidder should be Krone certified (the compliance table that was with the RFP also provides for cabling to be Krone certified and proof of certification should be submitted with the tender);
- iii. The bidder should have implemented a similar project successfully within the last three (3) years; and
- iv. The bidder should be certified to work on proposed technologies in the solution.

8.1226 The document further provides for all the requirements of the project, including the construction works, the migration of servers, the required hardware and software and the documentation management. Furthermore, it is stated that the successful bidder should be able to implement the solution within eight (8) weeks of the award.

8.1227 We were further provided with an extract of the advertisement published in the

T3/3-4

T3/9

T3/10

T4

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Pretoria News dated 10 December 2012, where the tender HO/ICT/131/12/2012 was advertised. The advertisement reflects that the closing date of the tender is 31 January 2013 at 14:00 with the compulsory briefing meeting to be held on 14 December 2012 at 11:00 at Umjantshi House Braamfontein.

- 8.1228 We noted from the Request for WBS Number form, dated 9 December 2012, that an amount of R16,000,000 is allocated to the Information and Communications Department as a budgeted amount for the project Construction of a Datacentre at Umjantshi House. The amount of R12,420,968.34 (including VAT) would be utilised from this budget for the contractor XON Systems.

T5

Attendance registers

- 8.1229 The site inspection attendance register for contract HO/ICT/131/12/2012 consists of four (4) pages reflecting a number of attendees who attended the meeting. However, the date and time for the site inspection is not reflected on the document. We noted that “*Jerry Mahlangu*” attended the meeting on behalf of XON Systems.

T7

- 8.1230 The tender collection register for contract HO/ICT/131/12/2012 consists of two (2) pages reflecting a total of ten (10) prospective bidders. The date and time for the collection is not reflected on the document.

T8

Extract from tender document

- 8.1231 We were provided with an extract of the tender document submitted by XON Systems, containing the following:

T9

- i. Form C;
- ii. Company details and contact details; and
- iii. Form H.

T9/1

T9/2

T9/3-4

- 8.1232 The extract provided does not make reference to the tendered amount or the proposed solution.

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Tender opening register

- 8.1233 The tender opening register dated 1 February 2013 for tender HO/ICT/131/12/2012 reflects that the following bids were received:
- i. “*Business Connexion*”;
 - ii. “*Sizwe*”;
 - iii. “*Dimension Data*”; and
 - iv. “*XON*”.
- 8.1234 The register was not signed by the secretary of the CFSC or the CTPC, however two (2) witness signatures appear on the document along with a third signature.

Internal memorandum dated 11 February 2013

- 8.1235 An internal memorandum dated 11 February 2013 titled “*Tender Evaluation Team for: Construction of Data Centre*” consists of two (2) pages and was signed by Mr Mbatha in his capacity as the CPO.
- 8.1236 The memorandum is addressed to the following PRASA employees:
- i. Mr Mukwevho – Chairperson – SCM;
 - ii. Mr Mabona – ICT;
 - iii. Tilly Nkosi – Insurance;
 - iv. Ms Lehabe – SCM;
 - v. Mr Vincent Moerane (**Mr Moerane**) – ICT; and
 - vi. Daluxolo Qabaka – SCM.

- 8.1237 The abovementioned individuals were appointed as members of the evaluation team for the tender HO/ICT/131/12/2012.

Evaluation committee attendance register

- 8.1238 We were provided with the evaluation committee attendance register dated 19 February 2013 for contract HO/ICT/131/12/2012. The document was signed by

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what appears to be the signature of the following individuals:

- i. Mr Mukwevho;
- ii. Mr Moerane;
- iii. Ms Lehabe; and
- iv. Daluxolo Qabaka.

- | | | |
|--------|--|----------------|
| 8.1239 | We were provided with Declarations of Interests forms and Confidentiality Agreements for four (4) evaluation committee members, dated 19 to 20 February 2013. | T13/1-8 |
| 8.1240 | It should be noted that the Confidentiality Agreement of Ms Lehabe does not reflect a name, however the signature appears to be similar to that of the Declaration of Interest form for this committee member. | T13/6 |

Evaluation of bids received

- | | | |
|--------|--|----------------|
| 8.1241 | The Compliance Assessment for the bids received for HO/ICT/131/12/2012 reflects the following bidders were evaluated:

<ol style="list-style-type: none">i. Business Connexion (Pty) Ltd;ii. Sizwe;iii. Dimension Data (Pty) Ltd; andiv. XON. | T14/1 |
| 8.1242 | The bids received were reviewed based on compliance of the following items, and all four (4) bidders were found to be compliant:

<ol style="list-style-type: none">i. Tax Clearance Certificate;ii. B-BBEE Certificate;iii. Attendance of briefing session;iv. Letter of good standing;v. Providing company registration documentation;vi. COR, CM29 form; | T14/1-2 |

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- vii. Proof of Unemployment Insurance Fund registration;
- viii. Completed and signed all tender forms;
- ix. Letter from bank / cancelled cheque;
- x. Bank rating code;
- xi. Providing copies of the directors' Identification Documents;
- xii. Providing documents on company letterhead; and
- xiii. Security screening.

8.1243 Following the above compliance review, the bids were evaluated by the evaluation committee members, a summary of the evaluation of Business Connexion is detailed in the table below:

T14/3-6

Criteria	Weighting	Mr Mukwevho	Mr Moerane	Ms Lehabe	Daluxolo Qabaka
Skills	20	5	2	3	3
Experience	20	5	2	3	2
Project Management	10	5	2	3	3
Technology	20	5	3	5	3
Construction	10	4	2	5	2
Maintenance	10	5	2	3	2
Documentation (6.6, 8.3, 8.7)	10	5	2	5	4
TOTAL	100%	34	15	27	19

8.1244 Following the above compliance review, the bids were evaluated by the evaluation committee members, a summary of the evaluation of Sizwe is detailed in the table below:

T14/7-10

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Criteria	Weighting	Mr Mukwevho	Mr Moerane	Ms Lehabe	Daluxolo Qabaka
Skills	20	5	2	5	3
Experience	20	5	3	4	3
Project Management	10	5	3	5	4
Technology	20	5	3	5	3
Construction	10	4	3	5	2
Maintenance	10	3	2	3	2
Documentation (6.6, 8.3, 8.7)	10	5	2	5	4
TOTAL	100%	32	18	32	21

8.1245 Following the above compliance review, the bids were evaluated by the evaluation committee members, a summary of the evaluation of Dimension Data detailed in the table below:

T14/11-14

Criteria	Weighting	Mr Mukwevho	Mr Moerane	Ms Lehabe	Daluxolo Qabaka
Skills	20	5	3	5	3
Experience	20	5	3	5	3
Project Management	10	5	2	4	3
Technology	20	5	3	5	3
Construction	10	4	3	5	2
Maintenance	10	3	3	3	3

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Criteria	Weighting	Mr Mukwevho	Mr Moerane	Ms Lehabe	Daluxolo Qabaka
Documentation (6.6, 8.3, 8.7)	10	5	2	5	4
TOTAL	100%	32	19	32	21

8.1246 Following the above compliance review, the bids were evaluated by the evaluation committee members, a summary of the evaluation of XON Systems is detailed in the table below:

T14/15-18

Criteria	Weighting	Mr Mukwevho	Mr Moerane	Ms Lehabe	Daluxolo Qabaka
Skills	20	5	None	5	4
Experience	20	5	None	5	4
Project Management	10	4	None	4	2
Technology	20	5	None	4	3
Construction	10	4	None	4	3
Maintenance	10	4	None	4	3
Documentation (6.6, 8.3, 8.7)	10	5	None	5	4
TOTAL	100%	32	None	31	23

8.1247 It should be noted that the evaluation form for Mr Moerane for XON Systems does not reflect any scores and it appears that the page was incorrectly copied. We have requested another copy of the document for our review but it could not be located.

T14/16

8.1248 Following the technical evaluation, the four (4) bidders were evaluated based on pricing, for which the scores were allocated as follows:

T14/21

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Tenderer	Price (R)	Pricing score
Business Connexion	12,767,515.75	87.5
Sizwe	12,977,011.57	86.0
Dimension Data	14,714,535.44	73.4
XON	12,420,968.34	90.0

8.1249 The bidders were also evaluated for B-BBEE, with the scores recorded as follows:

T14/22

Tenderer	B-BBEE Level	B-BBEE Score
Business Connexion	3	8
Sizwe	4	5
Dimension Data	3	8
XON	3	8

8.1250 From the above scorings and evaluations, the summary was provided as follows:

T14/23

Tenderer	B-BBEE Score	Technical Score	Pricing Score	Total Score
Business Connexion	8	0	87.5	95.5
Sizwe	5	0	86.0	91.0
Dimension Data	8	0	73.4	81.4
XON	8	0	90.0	98.0

8.1251 It is unclear why the technical scoring is reflecting as zero for all the bidders. It is however important to note that XON Systems scored the highest total score of 98.

8.1252 We requested and obtained the tenders submitted by the above four (4) bidders to perform a review of the bid documents. We did not copy these documents as they are bulky, however we have given them back to PRASA subsequent to our review.

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From our review we found the following:

- i. Business Connexion submitted their bid in the amount of R12,767,515.75 (including VAT). The bid documents submitted by Business Connexion did not contain proof of Krone certification, as was a requirement of the bid documents;
- ii. Sizwe submitted their bid in the amount of R12,977,011.57 (including VAT). The bid documents submitted by Sizwe did not contain proof of Krone or CISCO certification, as was a requirement of the bid documents;
- iii. Dimension Data submitted their bid in the amount of R14,714,535.44 (including VAT); and
- iv. XON Systems submitted their bid in the amount of R12,420,968.34 (including VAT). The bid documents submitted by XON Systems did not contain proof of CISCO certification, as was a requirement of the bid documents.

T15/1-10

T15/11-12

T15/13-15

T15/16-18

8.1253 From the above it can be concluded that Dimension Data was the only bidder who submitted all the required documentation as per the bid documents. During our interview with Mr Mapodile he stated that if a bidder does not provide proof of all the aforementioned certifications, they should be disqualified during the compliance evaluation. This was confirmed by Mr Mbatha and Dr Phungula during our interviews with them.

8.1254 We subsequently contacted Mr Jerry Mahlangu who attended the briefing session on behalf of XON Systems to confirm whether they are CISCO and Krone certified, as was the requirements in terms of the RFP. We were provided with extracts that appears to have formed part of the bid submitted by XON for this tender. Included in the extracts is a "Teaming Agreement" between XON Systems and Storage Technology Services (Pty) Ltd (StorTech), stating that StorTech will be subcontracted to XON Systems for this contract. The agreement further states that StorTech is a "Cisco Advanced Technology Partner, through its combined Cisco Gold partnership with Vodacom".

T27

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Submission for Adjudication

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| 8.1255 | We were provided with the SCM Submission for Adjudication for tender number HO/ICT/131/12/2012. This submission was also attached to the minutes of the CTPC meeting held on 15 March 2013 as discussed herein below. | T16 |
| 8.1256 | The submission consists of nine (9) pages and details the background of the project as well as the scope of work. | T16/1-3 |
| 8.1257 | The submission further confirms the following individuals as members of the evaluation committee:

i. Ms Lehabe;

ii. Mr Mukwevho;

iii. Daluxolo Qabaka; and

iv. Mr Moerane. | T16/5 |
| 8.1258 | The submission confirms that four (4) bids were received and that they were all compliant. An evaluation summary is provided that corresponds to the summary as discussed herein above. | T16/6 |
| 8.1259 | The submission appears to have been signed by Mr Mapodile and Mr Kanjere dated 12 March 2013. The approved budget for the project is provided as R13,000,000 with the recommended contractor being XON Systems for a total amount of R12,420,968.34 (including VAT). | T16/9 |

Minutes of Corporate Tender and Procurement Committee Extra-Ordinary Meeting held on 15 March 2013

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| 8.1260 | The minutes indicate that the following individuals were present at the meeting:

iv. Mr Holele as Chairman;

v. Mr Mbatha, Maishe Bopape and Ms Motshologane as members; and

vi. Ms du Plessis as Secretary. | T17/2 |
| 8.1261 | This tender is listed as item number nine (9) where the CTPC is requested to | T17/3 |

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consider the appointment of XON Systems for “*TENDER HO/ICT/131/12/2012:
CONSTRUCTION OF A DATA CENTRE*”.

8.1262	The contract amount is indicated as R12,420,968.34 (including VAT) with a contract period/delivery period recorded as “ <i>THREE YEARS MAINTENANCE WARRANTY ON ALL EQUIPMENT</i> ”.	T17/3
8.1263	The resolution taken by the CTPC indicates that they deferred the matter and that they requested the end-user to explain the situation at the next meeting. The minutes appear to be signed by the Chairman dated 10 April 2013 and are signed by another person on behalf of the secretary.	T17/3
8.1264	We were not provided with documentation to illustrate that the end-user has explained the situation as requested by the CTPC or that the recommendation was approved. We have requested PRASA to provide further information to clarify this aspect but could not be obtained.	
8.1265	The Submission for Adjudication as discussed herein above is also attached to the minutes.	T17/5-13
	<u>Security Screening Report</u>	
8.1266	A Security Screening Report for XON Systems dated 8 May 2013 from Mr Mantsane, Head Group Corporate Security is addressed to Ms Mosholi.	T18
8.1267	The report consists of two (2) pages and is concluded with “ <i>The available information indicates that there are no security reasons why this company should not be awarded the contract as stated above</i> ”.	T18/2
8.1268	We were provided with four (4) letters dated 9 September 2013 addressed to each of the bidders on tender HO/ICT/131/12/2012. These letters were to inform the bidders that the tender evaluations were still in progress and that PRASA would like to extend the tender validity period until 30 November 2013.	T19/1-4
8.1269	XON Systems acknowledged receipt in a letter dated 10 September 2013 and Dimension Data in a letter dated 11 September 2013. We were not provided with the response letters from Sizwe or Business Connexion.	T19/5-6

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Recommendation Report dated 18 September 2013

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| 8.1270 | The SCM Recommendation Report consists of ten (10) pages and was signed as Recommended by Dr Phungula on 18 September 2013 and Approved by Saki Zamxaka as Acting GCEO dated 27 September 2013. | T20
T20/9 |
| 8.1271 | The report reflects tender number HO/ICT/131/12/2012 and details the background of the project. The contract delivery period is provided for as three (3) years. It is recorded under paragraph 15.1 that " <i>The CTPC considered and adjudicated the recommendation of the Tender Evaluation Committee and resolved that it be supported and elevated to GCEO for approval</i> ". We were not provided with the minutes of the meeting that the CTPC has recommended the appointment for approval by the GCEO. | T20/3 |
| 8.1272 | The report further details the evaluation process that was followed and that XON Systems is recommended as the contractor to be appointed, for the total amount of R12,420,968.34 (including VAT). | T20/9 |

Notice of Appointment

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|--------|--|---------|
| 8.1273 | An undated Notice of Appointment addressed to XON Systems appears to have been signed by Ms Mosholi. | T21 |
| 8.1274 | The purpose of the notice was to inform XON Systems that approval has been granted for their appointment for the " <i>Construction of a data centre at Umjantshi House</i> " for the amount of R12,420,968.34 (including VAT). | T21/1 |
| 8.1275 | In a letter dated 1 October 2013, XON Systems acknowledged receipt of the above mentioned Notice of Appointment and accepted the award. | T22/1 |
| 8.1276 | PRASA sent letters to the remaining three (3) bidders dated 2 October 2013, informing them that their bid was unsuccessful for tender HO/ICT/131/12/2012. | T22/2-4 |

Service Level Agreement

- | | | |
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| 8.1277 | The SLA entered into between XON Systems and PRASA consists of 32 pages and is undated and unsigned. We have requested PRASA to provide us with a | T23 |
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signed copy of the SLA, but it could not be located.

- 8.1278 The agreement provides for the scope of the contract under paragraph 3, being: **T23/3**
- i. Help Desk and call logging service;
 - ii. Contract and Service Management; and
 - iii. Preventative Maintenance Services:
 - a. Electrical Systems;
 - b. Air conditioning;
 - c. Fire systems;
 - d. CCTV and access control; and
 - e. Environmental monitoring services.

- 8.1279 Paragraph 6 states that the duration of this agreement will be valid for one (1) year period from 1 September 2014 to 31 August 2015. **T23/4**

- 8.1280 The agreement does not make reference to the contract value or rates applicable to the contract. The only reference to fees relates to the Preventative Maintenance Services, for a total amount of R561,779.73 (including VAT). **T23/31**

c) Review of Variation Orders

Variation Order in the amount of R1,140,120.87

- 8.1281 We were provided with a Submission for the approval of VO 1 that was attached to the minutes of the meeting held on 24 June 2014 as will be discussed herein below. **T24/4-9**
- 8.1282 The Submission document details the reasons for the VO and a document is attached detailing the price for each item listed for variation. The total for the variation amounts to R1,140,120.87 (including VAT). **T24/9**
- 8.1283 The submission reflects that the VO in the amount of R1,140,120.87 is a 9,7% increase of the initial contract amount of R12,420,000. It should be noted that the contract amount as per the tender submitted and the Notice of Appointment, is **T24/7**

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R12,420,968.34.

8.1284	Paragraph 7 of the submission reflects the detail for the funding of the project. The total approved budget is indicated as R18,000,000 (including VAT). The source of the funding is indicated as “ <i>CAPEX Budget Project – DR Datacentre</i> ”. This approved budget differs from the approved budget as set out in the Submission for Adjudication as discussed herein above, which reflect the budget as R13,000,000.	T24/7 T16/9
8.1285	The GCPO was requested to approve the VO of the XON Systems’ contract for the amount of R1,140,120.87 (including VAT).	T24/8
8.1286	The submission appears to have been signed by Mr Mapodile dated 26 May 2014 as what appears to be Recommended (the Not Recommended option is not deleted).	T24/8
<u>Minutes of Corporate Tender and Procurement Committee Ordinary Meeting held on 24 June 2014</u>		
8.1287	The minutes indicate the following individuals were present at the meeting: i. Mr Mbatha as Chairman; ii. Ms Monkwe as Secretary; and iii. Dr Phungula, Mr Kobuwe, Mr Gombert, Mr Emeran and Ms Motshologane as members.	T24/2
8.1288	This tender is listed as item number two (2) where the CTPC is requested to approve the “ <i>variation order on the existing contract for the construction of DR Datacentre</i> ”. The amount of the extension is indicated as R1,140,120.87 (including VAT).	T24/3
8.1289	The CTPC resolved that they supported the matter. A comment is added by the CTPC which states that Mr Khuzwayo is to enter into price negotiations with the end-user.	T24/3
8.1290	The minutes appear to have been signed by the Chairman and the secretary. No dates have however been completed in respect of the signatures.	T24/1

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Recommendation Report

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| 8.1291 | We were provided with the SCM Recommendation Report for the VO in the amount of R1,140,120.87 (including VAT) for contract HO/ICT/131/12/2012. The report consists of nine (9) pages and was signed as Recommended by Dr Phungula dated 2 June 2015 and Approved by what appears to be Mr Montana as GCEO dated 5 June 2015. It is important to note that this is almost one (1) year after the CTPC supported the matter on 24 June 2014. | T25

T25/6 |
| 8.1292 | The report provides the details of the variation in paragraph 2 and states that the variation is a 9.7% variation on the existing XON Systems' contract. The content of this report appears similar to the VO submission as discussed herein above, however almost a year has lapsed between the two (2) documents. | T25/2 |
| 8.1293 | Dr Phungula stated during his interview that he signed the recommendation and is based on the information that is contained in the Recommendation Report. He further stated that when a submission for a VO is sent to him for recommendation, he would compare what the report states to what was included in the contract to ensure that the VO is not for work that was in the original scope. | |

Notice to Proceed

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| 8.1294 | A Notice to Proceed dated 21 June 2015 addressed to XON Systems appears to have been signed by Ms Mosholi. | T26 |
| 8.1295 | The said notice informs XON Systems that approval has been granted for the VO amounting to R1,140,120.87 (including VAT). | |
| 8.1296 | In a letter dated 24 June 2015, XON Systems acknowledged receipt of the above mentioned Notice to Proceed. | T26/3 |

d) Interviews conducted

Interview with Mr Mapodile

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| 8.1297 | Mr Mapodile provided the following information relating to XON Systems:

i. Mr Mapodile was assisted by Mr Willie du Preez to draft the RFP in respect | |
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of this contract;

- ii. Mr Mapodile stated that Mr Willie du Preez briefed the BEC members on the requirements for this contract. The representative for the end-user on the BEC was Mr Kobuwe. Mr Mapodile stated that although Mr Kobuwe was from the end-user department, he was within their security division and not from the infrastructure division. He further stated that Mr Kobuwe may not have had all the technical expertise to assist the BEC in evaluating this tender;
- iii. Mr Mapodile is of the view that the VO would not have been necessary if someone from the infrastructure division of the ICT Department had been part of the BEC to ensure that all requirements were met by the winning bidder;
- iv. He confirmed that to his knowledge there is no signed contract between XON and PRASA; and
- v. Mr Mapodile explained that where cabling and switches are required, PRASA will only appoint a service provider who is CISCO and Krone certified.

Interview with Mr Mukwevho

8.1298 Mr Mukwevho provided the following information relating to XON Systems:

- i. He stated that they were not provided with any training or guidance prior to the commencement of evaluation; and
- ii. Where a bidder neglected to submit proof of a specific certification clarification might be sought from the bidder. If such clarification is sought communication thereof should be contained in the procurement file. He does not recall any such clarification being sought during this evaluation for XON Systems. To confirm whether a bidder has the required certifications reference may have been made to the previous work experience of the bidder to determine whether similar work had been performed.

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e) Verification of services

- 8.1299 Mr Mapodile confirmed that the services were delivered by XON Systems, however PRASA has not remunerated them in full.
- 8.1300 Mr Masenya confirmed that XON Systems completed the construction of the datacentre at Umjantshi approximately mid 2014. He indicated that XON Systems were responsible for the civil construction of the actual room in which the datacentre is held as well as all the components which form part of the datacentre. He further mentioned that this datacentre is the disaster recovery site and the main datacentre at PRASA Hatfield is still being used.
- 8.1301 The images below depicts the special flooring required for datacentres, the specialised fire extinguisher which is activated by the smoke detectors and the distribution board.



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- 8.1302 The image below depicts the uninterruptable power supply (UPS) which comes into use immediately when a power outage occurs to bridge the gap in the power supply in the time the generator takes to start up. This ensures that there is a continuous supply of power to the datacentre.



- 8.1303 The image below depicts the cooling units on the left side which regulates the temperature in the datacentre to maintain an ideal room temperature. The cabinets on the right contain all the servers and other equipment.



Findings

- 8.1304 Detailed below is a summary of significant findings from the investigation into the awarding of the contract to XON Systems for the construction of a datacentre at

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Umjantshi House:

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|------|---|--|
| i. | We determined from our review of the documentation provided that the aforesaid contract was awarded to XON Systems following an open bidding process. The tender was advertised with a compulsory briefing session to be held on 14 December 2012 and tender closing on 31 January 2013; | T4 |
| ii. | We noted from our review of the RFP that it was a requirement of the bidders to be CISCO certified (at least silver level) and Krone certified. The compliance table that was with the RFP also provides for cabling to be Krone certified and proof of certification should be submitted with the tender. Four (4) bid documents were received in respect of the tender; | T3 |
| iii. | The BEC was appointed on 11 February 2013 whereafter the bid documents were evaluated on 19 and 20 February 2013. All four (4) bidders were found to be compliant as part of the compliance assessment. It is important to note that the assessment did not include aspects relating to the CISCO and Krone certifications as set out in the RFP. We determined from our review of the bid documents that Dimension Data was the only bidder who submitted all the required documentation including proof of CISCO and Krone certifications. It appears from our review of the bid document submitted by XON Systems that they did not contain proof of CISCO certification as a requirement of the bid document; | T11
T12
T14 |
| iv. | We determined from our communication with Mr Jerry Mahlangu, who attended the briefing session on behalf of XON Systems, to confirm whether they are CISCO and Krone certified as required in terms of the RFP. We were provided with extracts that appears to have formed part of the bid submitted by XON for this tender. Included in the extracts is a “Teaming Agreement” between XON Systems and Storage Technology Services (Pty) Ltd (StorTech), stating that StorTech will be subcontracted to XON Systems for this contract. The agreement further states that StorTech is a “Cisco Advanced Technology Partner, through its combined Cisco Gold partnership with Vodacom”; | T27 |

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v.	Following the compliance assessment, the technical evaluation was performed on all four (4) bidders whereafter they were evaluated on price and B-BBEE. XON Systems scored the highest points subsequent to all evaluations;	T12
vi.	The submission report submitted to the CTPC meeting held on 15 March 2013 reflects that XON Systems was the recommended bidder to provide the services for the contract amount of R12,420,968.34 (including VAT). The CTPC did not support the matter on this occasion and deferred the matter to the next meeting for the <i>“End user to be on hand to explain”</i> .	T16 T17
vii.	We were not provided with the minutes of the meeting that the CTPC has recommended the appointment for approval by the GCEO thereafter. We were however provided with the recommendation report in which the GCEO approved the appointment of XON Systems on 27 September 2013. It is recorded under paragraph 15.1 of the recommendation report that <i>“The CTPC considered and adjudicated the recommendation of the Tender Evaluation Committee and resolved that it be supported and elevated to GCEO for approval”</i> . Hence it appears that the submission was discussed by the CTPC before being submitted to the GCEO for approval as required;	T20
viii.	We were provided with an SLA between PRASA and XON Systems for the required services, although it was undated and unsigned. We noted that the agreement refers to a contract period of 1 September 2014 to 31 August 2015, but does not make reference to the contract value or rates applicable to the contract;	T23 T23/4
ix.	A Notice of Appointment was issued to XON Systems that <i>“approval has been granted to appoint XON Systems (Pty) Ltd for the Construction of a data centre at Umjantshi House at the total contract amount of R 12 420 968.34 (Vat Incl)”</i> . XON Systems confirmed their acceptance of the bid on 1 October 2013;	T21 T22
vi.	One (1) VO in the amount of R1,140,120.87 (including VAT) was submitted	T24

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to the CTPC on 24 June 2014 and was supported. This is a 9,7% increase of the initial contract amount of R12,420,968.34. During our meeting with Mr Mapodile he indicated that the representative for the end-user on the BEC, Mr Kobuwe, was from the security division of the end-user department and not from the infrastructure division. It appears that Mr Kobuwe may not have had all the technical expertise to assist the BEC in evaluating this tender. Mr Mapodile is of the opinion that the VO could have been avoided had a representative from the infrastructure division been a member of the BEC;

- x. We noted from our review of the recommendation report that the VO was signed as Recommended by Dr Phungula on 2 June 2015 and as Approved by what appears to be Mr Montana, as the GCEO, on 5 June 2015 and almost one (1) year after the matter was supported by the CTPC;
- xi. XON Systems received nine (9) payments from PRASA for the period 31 January 2014 to 31 July 2015 totalling R12,802,458.79 and falls within the total contract amount of R13,561,089.21 (including VAT) (R12,420,968.34 + R1,140,120.87). It is our understanding that XON Systems are still awaiting further payments for services rendered; and
- xii. Mr Masenya confirmed that XON Systems completed the construction of the datacentre at Umjantshi approximately mid 2014. He indicated that XON Systems were responsible for the civil construction of the actual room in which the datacentre is held as well as all the components which form part of the datacentre. He further mentioned that this datacentre is the disaster recovery site and the main datacentre at PRASA Hatfield is still being used.

T25

T2

Conclusions

- 8.1305 Based on our review of the available documentation and interviews conducted, it appears that the procurement of XON Systems for the construction of a datacentre at Umjantshi House was done following an open bidding process which fair and transparent as provided for in the PRASA SCM Policy and relevant legislation.
- 8.1306 We noted that the representative for the end-user on the BEC, Mr Kobuwe, was from the security division of the end-user department and not from the infrastructure division to which this project relates. It appears that Mr Kobuwe may not have had all the technical expertise to assist the BEC in evaluating this tender and the extent of the VO in the amount of R1,140,120.87 could have been avoided had a representative from the infrastructure division been a member of the BEC.

Recommendation

- 8.1307 PRASA should ensure that a representative from the end-user department who have intimate knowledge of the services required must attend the BEC to ensure that the bids are evaluated fairly and that all the requirements of the project are met.