



# Submission to the Standing Committee on the Auditor-General (SCOAG)

## Withdrawal of the AGSA team from the Nelson Mandela Bay Metro audit

### 1. Purpose of submission

The purpose of the submission is to share the events leading to the withdrawal of the AGSA team from the audit of the Nelson Mandela Bay Metro.

### 2. Background

#### 2.1 Integrated Public Transport System Grant (IPTS Grant)

The Metro has received in excess of R3 billion from 2010 to date for the purpose of building and maintaining a public bus transport system. From the inception of this grant, the AGSA raised various findings relating to irregularly awarded tenders and money spent in contravention of the conditions of the grant amongst others.

Recently, National Treasury wrote a letter to the metro informing them that they intend recalling all of the funds paid to date (R3 billion), giving the Metro 2 weeks to respond. In that letter, the AGSA findings are referenced as a basis for the recall.

The letter further refers to a forensic investigation commissioned by National Treasury where the report was issued three years ago but no action was taken to implement the recommendations. Currently, the spending from the grant is the subject of a fraud and corruption case brought by the Hawks that is ongoing.

#### 2.2 SMMEs and the drain cleaning tender

In December 2018, a contract for drain cleaning was awarded to a contractor, who subsequently sub-contracted to certain Small and Medium Enterprises (SMMEs). Likewise, this contract has been the subject of numerous media articles linking the killing/assassination of a number of SMME owners, as well as former councilors, to this tender.

This contract is also the subject of a possible material irregularity which we have handed over to our Investigations Business Unit for further guidance. Requests for information have been issued with respect to this contract.

Earlier this year, the Mayor publicly promised SMMEs that they would be receiving R500 million in contracts from the Metro.

### 2.3 Instability in leadership

The political as well as administrative leadership of the Metro has been unstable for an extended period. No council meetings have taken place since June due to political instability. The City Manager, Chief Financial Officer (CFO) and all senior management positions are occupied by acting officials who are rotated frequently.

### 3. Intimidation directed to the audit team

From the beginning of the audit, the team has had remarks passed at them by Metro officials. When they requested information about the drain cleaning tender, an official made a comment that they would require bodyguards if they want to audit that tender. No official of the Metro was willing to talk about the tender, and they could not even identify a project manager to assist the audit team.

An official informed the audit team that 10 to 12 individuals with links to this contract had been killed. The SMMEs constantly protest and congregate at the metro to demand the R500 million that they believe they are entitled to as per the Mayor's speech. This is well reported in the media on almost a weekly basis.

At one stage, SMMEs stormed the supply chain management (SCM) unit at the Metro armed with guns and threatened the SCM officials. Fortunately, the audit team was not in the building at that moment, but were in the building next door. The auditors were told by the SCM officials that the SMMEs were informed that they are not getting the money because "the auditors are here". In our opinion this places a target on the audit team.

An envelope was found in the boardroom where the auditors are accommodated at the Metro. It was addressed to the "Audit Manager, Audit-General". Inside the envelope was the front page of the Weekend Post, dated Saturday, 19 October. Two articles were on this newspaper clipping. The first reflected the above-mentioned letter from National Treasury about the IPTS funds. The second related to a recent assassination of an ex-councilor and a businessman linked to the SMME group in Port Elizabeth, the same group linked to the drain cleaning contract mentioned above.

### 4. Action taken by the AGSA

In responding to this security risk we have performed the following actions:

- A security risk assessment was requested from:
  - AGSA security experts;
  - the safety and security unit of the Metro; and
  - SAPS crime intelligence through the provincial Department of Safety and Liaison.

We received a report back from SAPS crime intelligence and they recommended that our staff require improved security as the access controls and security at the Metro offices from which we work is inadequate.

- We removed the team from the audit on 4 November 2019. A letter was sent to the Mayor requesting his intervention in ensuring a safe audit environment for our staff. The Mayor and the acting City Manager met with the Business Executive and a delegation from the AGSA office on Wednesday, 13 November 2019. The Metro undertook to accommodate the team in the safety and security building, which is more secure.
- The office is in the process of assessing that building to confirm that it is safe with the necessary access controls.

- In the interim, the acting CFO and officials have sent documents to East London as requested so that the audit can continue.
- The team have received counselling for the anxiety and fear that they have been subjected to.