

**EKURHULENI METROPOLITAN MUNICIPALITY  
COUNCIL MEETING  
2015.03.26**

**ITEM A-MPAC (29-2015)**

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**SUBMISSION OF ANNUAL REPORT, INCLUSIVE OF ANNUAL FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR GENERAL FOR THE 2013/2014 FINANCIAL YEAR: BRAKPAN BUS COMPANY (BBC).**

**PURPOSE**

To submit to Council progress report on audited Annual Report, inclusive of the Annual Financial Statements (AFS) and report of the Auditor General for the 2013/2014 financial year.

**EXECUTIVE SUMMARY**

The audited Annual Report, inclusive of the Annual Financial Statements (AFS) have been tabled in Council and were referred to MPAC and other oversight committees in terms of section 129 of the Municipal Finance Management Act to perform oversight function.

The MPAC held its meeting on the 12<sup>th</sup> February 2015, to discuss in detail the issues pertaining to the annual report.

Herein is this report concerns issues pertaining to the Brakpan Bus Company emphasised by the Auditor General in the 2013/14 annual report of the company.

**KEY DELIBERATIONS**

The Committee was concerned on the “going concern” emphasised by the Auditor General (AG) regarding the financial viability of the entity, after its subsidy had been suspended by the Gauteng Department of Roads and Transport (DoRT).

The entity responded by indicating that in October 2010, the National Department of Transport (NDoT) changed the format of submitting the subsidy claim from ticket sales to kilometer base. Subsequently, the BBC was given a rate of R10.87 per kilometer. According to BBC’s own calculations, the correct rate was supposed to have been R13.11. The error in calculation led then BBC to continue with submitting subsidy claims based on ticket sales, pending resolution of the correction of the kilometer rate. Owing to non-compliance by the BBC with the new subsidy calculation methodology, Gauteng Department of Roads and Transport (DoRT) suspended subsidy payments pending BBC’s compliance with the new subsidy claim calculations.

The issue of BBC’s subsidy miscalculation has compounded BBC’s operational challenges, and has presented BBC with the following challenge that compromises its sustainability: The BBC’s current liabilities exceed current assets as stated in the AG’s report. This is made out of the creditors of the EMM, of which amount is sitting at R8 293 854. Part of this amount, to the tune of R7.7M, was approved by Council as a write off, in a Council meeting held on the 28th August 2014 pending set conditions.

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The Committee is not happy about the matter taking over five (5) years to be resolved by the entity and its shareholders and the impact that it has had on the financial viability of the entity.

The entity further provided an explanation to the Committee about the AG's emphasis on the issue of predetermined objectives. It was explained that during the reporting on predetermined objectives, there was a material misstatement on Objective 3: which talks about Safe and Reliable bus service.

The indicator reads as: Reduced number of accidents involving injuries and fatalities reported. Instead of reporting only on accidents that involve injuries and fatalities, management reported on all accidents. This was subsequently corrected and no material finding was raised.

The Committee also raised a concern with regards to the irregular expenditure incurred by the entity amounting to R1 013 558.45, and thus required the entity to explain what transpired for the expenditure to be incurred and how the entity will prevent the same occurrence in future.

The entity explained that the amount of R1 013 558.45 in irregular expenditure, which is made out of two amounts is broken down as follows:

- Dalpark Service Station            R 837 558.45
- VDM Consulting                    R 176 000.00
- **Total**                                **R1 013 558.45**

**(1) DALPARK SERVICE STATION**

EMM supplies BBC with diesel and invoices BBC on monthly basis. However, in the 2013/14 financial year, there were challenges encountered with the supplier of diesel, as a result the pumps went dry on a number of occasions. BBC was prompted to procure the diesel from the nearest filling station in the interim. This happened at unforeseen intervals, and the company alleged that it was impossible to prepare beforehand and the overall cost that the company incurred was an amount of R837 558.45 in irregular expenditure during that period. Nonetheless, service delivery was not compromised in the process and the company had an obligation to seek for a temporary measure in order to continue providing essential services to its clients.

**(2) VDM CONSULTING**

The Management introduced the use of private inspectors in the year 2012/2013, a process which resulted in a number of bus drivers being caught pilfering, which resulted in the bus drivers being charged for those offenses.

Management appointed VDM consulting company to handle the hearings. The hearings were handled within the contracted period of time. Subsequently the offenders appealed the sanctions, which appeals were dealt with after the initial contract with VDM has expired. Given the fact that VDM was privy of the matter, their services were then requested for the appeal hearings. An extension or an addendum to the initial contract was erroneously not penned down. The cost of appeal, an

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amount of R176 000, 00 was paid in the financial year 2013/2014 due to the extension of contract.

The Committee was satisfied with the response, but still wanted to know how the company will ensure that some of the concerns raised by the Committee, especially the irregular expenditure, does not recur in future.

The company responded as follows: that in dealing with the irregular expenditure on diesel, there in the process of going out on tender to get a supplier of diesel as and when the EMM pumps are dry or dysfunctional. And in dealing with the irregular expenditure on consultants, the company indicated that a data base has been created of the respective suppliers and also the company has entered into contracts with a few relevant consultants to deal with hearings including the appeals of same.

**RECOMMENDATION**

1. **That** the report regarding the submission of Annual Report, inclusive of Annual Financial statements and the report of the Auditor General for the 2013/2014 financial year; **BE NOTED**.
2. **That** Council **RATIFY** the irregular expenditure of **R1 013 558.45**.
3. That the Company Board **COMMISSIONS** an internal committee to liaise with the National and Provincial Departments in resolving the issue of the grant allocated to BBC.
4. **That** the Accounting Officer **SUBMITS** a progress report to MPAC by 30 June 2015.