EXHIBIT DD 20

POLANI SOKOMBELA

JUDICIAL COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE, CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF STATE

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IN THE COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE, CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF STATE ("THE COMMISSION")

AUDIT OF SOUTH AFRICAN AIRWAYS ("SAA")

SWORN AFFIDAVIT

I, the undersigned,

POLANI SOKOMBELA

Do hereby declare under oath as follows:

1. I am an adult male and a citizen of the Republic of South Africa. I am currently employed as a business executive at the Auditor-General South Africa ("the AGSA"). I was formerly employed as a senior manager at the AGSA and assigned the role of engagement manager for the audit of SAA for the 2016-17 financial year.

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2. The content of this affidavit falls within my personal knowledge, except where otherwise stated or unless the contrary appears from the context, and is true and correct.

3. I further confirm that I have been duly authorised by the Auditor-General, Thembekile Makwetu, to depose of this affidavit. The said authorisation is attached hereto as annexure **"PS1"**.

4. I depose to this affidavit in response to a written request from the Commission made to Mr. Jan van Schalkwyk on 13 November 2019, and a verbal request made by the Commission to adv. Marissa Bezuidenhout on 2 December 2019. The request from the Commission was for an affidavit, deposed to by someone with personal knowledge of the SAA audit and who will be able to speak to the following issues:

4.1 The role of external auditors, especially in light of the reliance that is placed on the work that they do in the state owned enterprises (the "SOEs") space.

4.2 The duties of auditors when conducting audits of public entities, and how, if at all, the duties and standards with which private audit firms must comply differ from those applicable to the AGSA.

4.3 The process by which the AGSA determines whether to reject the appointment of private auditors of public entities each year [in terms of section 25(2) and (3) of the Public Audit Act, 2004 (Act No. 25 of 2004)] (the "PAA"), and the factors that it takes into account in making such determination.

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4.4 The view of the AGSA in respect of appointments of auditors for a period of five (5) financial years while section 25(4) of the PAA limits the appointment to no longer than one (1) financial year of the auditee. The Commission sought specific clarity on what would constitute a "proper" appointment where such appointment is made for one (1) financial year, and how it would differ when an appointment is made for five (5) financial years.

4.5 The purpose of the AGSA's oversight over audits that the AGSA opted not to perform, and what exactly this oversight role entails.

4.6 The process by which the AGSA decided to not reject the appointment, each year, of PriceWaterhouseCoopers ("PWC") and Nkonki Inc. as joint auditors of SAA, and any issues that the AGSA identified and/or raised regarding their appointment for each year of the joint audit.

4.7 The process by which the AGSA carried out the SAA audit (including, for example, the fact that the AGSA personnel spent many months at SAA getting to know the business).

4.8 A summary of the areas of concern identified by the AGSA in the 2016-17 audit. The summary should include:

4.8.1 The issues identified by the AGSA personnel who spent time getting to know SAA's business (including, *inter alia*, the absence of adequate policies and procedures, the existence of numerous acting positions, the lack of appropriate competencies, etc.); and

4.8.2 The issues of concern set out in the final audit report (including, in particular, each qualification identified and each restatement issued).

P.S KTD

4.9 Any engagements between the AGSA and SAA regarding issues identified by the AGSA (whether by way of management reports or otherwise), and the responses provided by SAA to these issues.

5. The remainder of this affidavit provides sufficient context to understand the mandate and work of the AGSA and addresses the focus areas listed in paragraphs 4.1 to 4.9.

THE MANDATE OF THE AGSA

6. The AGSA is the supreme audit institution of the Republic of South Africa. Its mandate stems from Chapter 9 of the Constitution of the Republic of South Africa, 1996 ("the Constitution"), which means that it exists to support constitutional democracy. The AGSA is independent, subject only to the Constitution and the law and must be impartial and exercise its functions without fear, favour or prejudice.

7. The AGSA accounts to the National Assembly by tabling its annual report in Parliament.

P.S KTD

8. The AGSA's functions are described in section 188 of the Constitution. These functions, together with the powers necessary to perform them, are further regulated by chapters 2 and 3 of the PAA. By law, the AGSA audits and reports on how the government spends the South African taxpayers' money. Every year, the institution conducts mandatory audits of national and provincial government departments, certain public entities, municipalities and municipal entities. The AGSA is also empowered to perform discretionary audits.

9. The AGSA not only audits and reports on financial management in the public sector, but does so in a manner that enables the legislature to call the executive to account for the management of public funds.

10. The annual audit reports on the auditees of the AGSA are included in their respective annual reports, which they table in their relevant legislature (Parliament and provincial legislatures).

THE MANDATE OF THE AGSA TO PERFORM THE AUDIT OF SAA

11. The AGSA performs mandatory and discretionary audits, as has already been explained in paragraph 8 *supra*. In respect of discretionary audits, I respectfully draw the attention of the Commission to section 4(3) of the PAA which reads as follows:

P.S KTD

(3) The Auditor-General may audit and report on the accounts, financial statements and financial management of –

(a) any public entity listed in the Public Finance Management Act; and

(b) any other institution not mentioned in subsection (1) and which is –

(i) funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or

(ii) authorised in terms of any legislation to receive money for a public purpose.

12. SAA is listed as a Schedule 2 Major Public Entity in the Public Finance Management Act, 1999 (Act No. 1 of 1999) and therefore meets the description of section 4(3)(a) of the PAA. The latter means that the AGSA has a discretion to perform the external audit of SAA.

THE IMPORTANCE OF EXTERNAL AUDITORS IN THE CONTEXT OF SOEs

13. External auditors provide independent assurance to a variety of users, including those charged with governance, on financial statements, performance information and compliance with applicable laws and regulations.

14. These auditors provide assurance that the financial statements are free from material misstatements, report on the usefulness and reliability of the information in the annual performance report, report on material non-

P.S KTD

compliance with relevant, key legislation and identify key internal control deficiencies that should be addressed.

15. The audit opinion does not provide absolute assurance, even if an audit was carefully plannned and executed. External auditors do not audit to identify and report on fraud and corruption, but the audit processes could identify possible fraud and corruption which should then be reported to management and those charged with governance for investigation in line with the auditing standards.

16. The reliance on audited annual financial statements, performance reports and compliance is placed by those charged with governance [audit committees, the accounting authority (usually this is a board), management of the entity and shareholders]. Certain structures in Parliament, such as the standing committee on public accounts (SCOPA) and responsible portfolio committees, place reliance on the work of external auditors to enable effective oversight. Other stakeholders such as investors, lenders, suppliers, employees and even the general public rely on the reports produced by external auditors. Lastly, the reliance placed by industry specific bodies and regulators such as the Independent Regulatory Board for Auditors (IRBA), the Companies and Intellectual Property Commission (CIPC) and the Johannesburg Stock Exchange (JSE) (in the case of listed companies) should not be underestimated.

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THE DUTIES OF AUDITORS IN RESPECT OF THE AUDIT OF PUBLIC ENTITIES

Applicable regulatory frameworks

17. The external audit of public entities is performed either by the AGSA or by a private audit firm. Only when the AGSA opts not to perform the audit, the auditee will appoint a private firm to conduct such audit.

18. In the event that the AGSA opts to perform the audit of a public entity, the audit is performed in accordance with the provisions of the PAA. Where the AGSA has opted not to perform the external audit of a public entity, the private audit firm must perform such audit within the parameters of relevant sections of the PAA and the provisions of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (the "APA").

19. The regulatory frameworks for audits conducted by the AGSA and those conducted by private firms are therefore not identical.

20. The standards and codes under which these audits are conducted by both the AGSA and the private audit firms are universal and the same. It should, however, be noted that each firm will have its audit methodology and internal policies and procedures on how to apply those codes and standards. This can result in differences, for example in the risk assessment process, actual sample of transactions tested to form a conclusion, materiality considerations and confirming the actual materiality figure.

P.S KTD

Duties of and standards applicable to auditors of public entities where the AGSA has opted not to perform the audit

21. When auditing in the public sector, the auditor must do so in accordance with the requirements, duties and responsibilities as legislated and assigned to him/her in part 2 of chapter 3 of the PAA. The auditor and auditee must take cognisance of the content of the PAA and must adhere to the following requirements:

21.1 Appointment of auditors must be done in accordance with the process prescribed in section 25 of the PAA.

21.2 Discharge of auditors must comply with the process prescribed in section 26 of the PAA.

21.3 The auditor must comply with the duties ascribed and may use the powers provided for in section 27 of the PAA.

21 4 The format and content of the auditor's report must adhere to the requirements set by section 28(1) and (2) of the PAA, read with the AGSA's Reporting Guide (attached hereto as **"PS2"**), auditor's report template (attached hereto as **"PS3"**) and any other guidance that the AGSA may publish from time to time.

21 5 The auditor's report must be submitted to the auditee, the relevant executive authority, if any, the AGSA and the National Treasury in accordance with section 28(3) of the PAA.

P.S KTD

21.6 The auditor must comply with relevant sections of the AGSA's Audit Directive. The latest Audit Directive was published in Government Gazette Number 41321 of 15 December 2017 and a copy is attached hereto as Annexure **"PS4(1)"**. For reference purposes, I also attach a copy of the Audit Directive that applied for the 2011-12 financial year when PWC and Nkonki Inc. commenced the joint audit assignment of SAA. The copy is attached as Annexure **"PS4(2)"**. The Audit Directive stipulates the duties and responsibilities of external auditors auditing in the public sector, both for the AGSA and auditors in private practice. The Audit Directive contains a section specifically dedicated to the audit of public entities and other institutions by auditors other than the AGSA. In this respect, the Commission's attention is drawn to the section titled *Audits of public entities and other institutions not performed by the AGSA – section 4(3) of the PAA* on page 50 of the relevant Government Gazette.

22. The Independent Regulatory Board for Auditors (the "IRBA") develops guidance to assist auditors in conducting audits in the public sector. The most relevant documents from a public sector perspective are:

22.1 Guide for registered auditors: auditing in the public sector (attached hereto as Annexure **"PS5"**).

22.2 Guide for registered auditors: guidance on performing audits on behalf of the AGSA (attached hereto as Annexure **"PS6"**).

P.S KTD

22.3 Guide for registered auditors: guidance on performing audits where the AGSA has opted not to perform the audit (attached hereto as Annexure **"PS7"**).

22.4 South African Auditing Practice Statement (SAAPS) 2, Financial reporting frameworks and the auditor's report (attached hereto as Annexure **"PS8"**).

22.5 SAAPS 3, Illustrative reports (attached hereto as Annexure **"PS9"**).

23. Further to the mandatory requirements listed in paragraph 21 *supra* and the guidance referred to in paragraph 22 *supra*, the AGSA makes available all information on the AGSA audit methodology to audit firms on the AGSA's website (extract of the guidance attached hereto as Annexure **"PS10"**).

24. Once an auditee has appointed a private auditor in accordance with section 25(1)(b), the AGSA monitors the private auditor's compliance with the provisions of the PAA and the Audit Directive. This monitoring is done by means of the completion of a checklist annexed to the Audit Directive, Annexure D: Monitoring Checklist for Audits not conducted by the Auditor-General of South Africa (refer to Annexure **"PS4"**).

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PROCESS FOLLOWED AND FACTORS TAKEN INTO ACCOUNT TO DETERMINE WHETHER TO REJECT THE APPOINTMENT OF PRIVATE AUDITORS

Process followed to determine whether to concur with or reject the appointment of private auditors

25. Prior to the commencement of the PAA on 1 April 2004, the process for the appointment of external auditors of public entities was regulated in sections 58 to 62 of the PFMA. With the introduction of the AGSA's mandate to audit public entities in the PAA, sections 58 to 62 of the PFMA had become redundant. For this reason, section 53 of the PAA, read with the Schedule: Repeal of Legislation, effectively repealed sections 58 to 62 of the PFMA.

26. The process for the appointment of external auditors for public entities where the AGSA has opted not to perform such audit is now regulated by section 25 of the PAA. Section 25 reads as follows:

(1) If the Auditor-General has opted not to perform the audit of an auditee referred to in section 4(3) —

(a) the Auditor-General must give notice of his or her decision to that auditee before the start of the auditee's financial year for which the appointment is to be made; and

P.S KTD

(b) the auditee must appoint as its auditor a person registered in terms of the Public Accountants' and Auditors' Act [repealed and substituted in 2005 by the APA] *as an accountant and auditor and engaged in public practice as such.*

(2) Before appointing an auditor in terms of subsection (1), the auditee must give notice of the suggested appointment to the Auditor-General, including information on the extent to which the auditor would provide other services than audit services during the duration of the appointment, and any other information required by the Auditor-General.

(3) If the Auditor General, within 14 days of receiving a notice in terms of subsection (2), or such longer period as may be agreed to, rejects the auditee's appointment, the auditee must in terms of that subsection recommence the process to appoint another person as its auditor.

(4) Appointments in terms of this section may not be for a longer period than one financial year of the auditee.

27. Since the commencement of the PAA on 1 April 2004, the AGSA had followed a process of engagement with the affected stakeholders. This process includes the following procedural steps:

27.1 Prior to the commencement of the financial year of the auditee, the AGSA consider whether to perform the audit of a public entity, or not.

27.2 In the event that the AGSA opts to perform the audit of a public entity that it has not audited during the previous audit cycle, it notifies such

P.S KTD

auditee of its decision to perform that audit. The notification to the auditee would be given prior the commencement of the financial year of that auditee.

27.3 The affected auditee must, prior to the commencement of the next audit, and before the commencement of its financial year, select an external auditor after following a public procurement process in accordance with that auditee's supply chain management policy and procedures. The financial year end of public entities is usually 31 March and the appointment of re-appointment of auditors occurs at the entity's annual general meeting, approximately in June or July every year. The selected auditor must be an auditor in private practice that is registered with the IRBA.

27 4 Once the auditee has selected a suitable external auditor in accordance with the public procurement process and its supply chain management processes, and prior to the appointment of such auditor by the responsible board or executive authority, the auditee must notify the AGSA in writing of the name of the selected auditor and provide all information required by the AGSA as provided for in the Audit Directive (refer to Annexure **"PS4"**).

27.5 The AGSA must within 14 days of receiving the notification by the auditee evaluate such notification and notify the auditee of its decision to concur with or reject the proposed appointment, and of any appropriate conditions that the AGSA may have determined.

P.S KTD

27.6 If the AGSA has no objection to the appointment of the auditor selected by the auditee, the auditee must proceed with the appointment of such auditor. Once appointed, the auditee must inform the auditor of such appointment, as well as any conditions that the AGSA may have determined.

27.7 Once the board or executive authority responsible for the auditee has appointed the selected auditor, the auditee must notify the AGSA of such appointment and acknowledge acceptance of the conditions set by the AGSA.

The factors considered when determining to concur with or to reject to appointment of private auditors

28. Since the commencement of the PAA on 1 April 2004, the factors considered when determining to concur with or to request the appointment of a private audit firm have fallen into the following main categories:

28.1 *Independence considerations* - The AGSA assesses whether the recommended audit firm is sufficiently independent to perform the audit of the public entity. In this regard, the AGSA is guided by relevant provisions of the *Code of ethics for professional accountants* issued by the International Ethics Standards Board for Accountants (the "IESBA") of the International Federation of Accountants (the "IFAC").

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28.2 *Compliance with public procurement prescripts* - At a high level, the AGSA determines whether the auditee has sourced the services of the private audit firm through public procurement processes and has complied with its own supply chain management policy and procedures.

28.3 *Audit quality* - The AGSA considers how the quality of the audit firm's work had been assessed. In this regard, the assessment conducted by the auditee's audit and risk committee, as well as any firm and engagement inspections performed by the IRBA are taken into consideration.

28.4 *Adherence to formal and procedural requirements* – The AGSA verifies the auditee's adherence to the procedural requirements for the appointment of its external auditors that are outlined in section 25 of the PAA. Furthermore, the AGSA verifies that the firm is registered with the IRBA.

29. Criteria additional to those listed in paragraph 27 *supra* have recently been adopted. These additional criteria are listed in regulation 3(2)(a) to (f) of the Regulations on Audits Conducted by Auditors in Private Practice, 2019. These regulations commenced on 1 April 2019 and, moving forward, will be applied to all considerations as to whether to concur with or reject the appointment of audit firms by public entities.

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THE VIEWS OF THE AGSA ON THE PRACTICE TO APPOINT EXTERNAL AUDITORS FOR A PERIOD OF FIVE (5) YEARS AS OPPOSED TO ONE (1) YEAR AS REQUIRED BY SECTION 25(4) OF THE PAA

30. The maximum term of five (5) years for the appointment of external auditors stems from relevant provisions in the Companies Act, 2008 (Act No. 71 of 2008) (the Companies Act). The appointment and rotation of external auditors are regulated by sections 90 and 92 of the Companies Act, respectively. At this juncture, the Commission should note that the five (5) year term applies to the director of a firm that is responsible for the audit and not to the firm. This in practice means that a firm may be appointment for a term that exceeds five (5) years, but the director responsible for the audit must be rotated after five (5) years.

31. The Commission's attention is further drawn to the fact that the independence and the capability to deliver the audit is still evaluated on an annual basis. The five (5) year appointment does not impact the annual considerations for re-appointment, since considerations to retain the auditors are done each year, irrespective of the procurement process that may have been followed. It follows logically that the five (5) year appointment will contain different provisions than an appointment made for one (1) year only. Ideally, a five (5) year appointment should contain a prohibition against re-appointment of the firm in the event that one (1) or more conditions for re-appointment are not met. Often a clause of this nature indicates the annual concurrence of the AGSA as one of the conditions.

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THE AGSA'S CONCURRENCE WITH THE APPOINTMENT OF PWC AND NKONKI INC. AS JOINT AUDITORS OF SAA FOR THE FINANCIAL YEARS 2011-12 TO 2015-16

The period 2011-12 to 2014-15

32. The AGSA opted not to perform the audit of SAA for the 2011-12 financial year. On 5 September 2011, SAA consulted the AGSA on the appointment of PWC and Nkonki Inc. as joint auditors, for a period of five (5) years. The AGSA concurred in writing with such one (1) year appointment and notified the chairperson of the accounting authority of SAA on 12 September 2011 . No issues of concern were identified. A copy of the AGSA's concurrence letter is attached here to as Annexure **"PS11"**.

33. On 23 July 2012, SAA consulted the AGSA on the re-appointment of PWC and Nkonki Inc. for the 2012-13 financial year. The AGSA concurred in writing with such re-appointment and notified the chairperson of the accounting authority of SAA on 29 July 2012. No issues of concern were identified. A copy of the AGSA's concurrence letter is attached here to as Annexure **"PS12"**.

34 . On 20 August 2013, SAA consulted the AGSA on the re-appointment of PWC and Nkonki Inc. for the 2013-14 financial year. The AGSA concurred in writing with such re-appointment and notified the chief executive officer of SAA on 23

P.S KTD

August 2013. No issues of concern were identified. A copy of the AGSA's concurrence letter is attached here to as Annexure **"PS13"**.

35. On 2 September 2014, SAA consulted the AGSA on the re-appointment of PWC and Nkonki Inc. for the 2014-15 financial year. The AGSA concurred in writing with such re-appointment and notified the chief executive officer of SAA on 15 September 2014. No issues of concern were identified. A copy of the AGSA's concurrence letter is attached here to as Annexure **"PS14"**.

The 2015-16 financial year

36. On 24 July 2015, SAA consulted the AGSA on the appointment of Nkonki Inc. as the sole external auditors of SAA for the 2015-16 financial year. On 11 August 2015, the AGSA requested further information from SAA to clarify the recommendation to appoint Nkonki Inc. in this capacity. The e-mail from Nicholas Mokwena is attached as Annexure **"PS15"**. The information requested was:

    36.1 The audit committee resolution to the board for the recommendation to appoint Nkonki Inc. as the sole external auditors for SAA.

    36.2 The board's resolution to the shareholder, recommending the appointment of Nkonki Inc. as the sole external auditor of SAA.

    36.3 SAA's policy on the appointment of external auditors.

P.S KTD

37. On 12 August 2015, SAA responded to the AGSA's request for the information referred to in 36.1 to 36.3 *supra* and submitted the following documents for the AGSA's consideration:

37.1 An undated letter by the company secretary, explaining the appointment of Nkonki Inc. as the sole external auditors of SAA. A copy of the letter is attached as Annexure **"PS16"**.

37.2 An excerpt from the draft minutes of the continuation of the SAA SOC Ltd board of directors' meeting No. 2015/04 held on Friday, 10 July 2015. A copy of the excerpt is attached as Annexure **"PS17"** .

37.3 The SAA supply chain management policy.

38. The AGSA evaluated the information referred to in paragraphs 37 1 to 37.3 and could not confirm whether or not the appointment of Nkonki Inc. complied with the supply chain management policy of SAA. The AGSA requested SAA to furnish it with evidence to confirm that the Nkonki Inc. appointment complied with SAA's supply chain management policy. In response, SAA furnished the AGSA with the following documents:

38.1 The SAA board resolution number 2011/B24 of 22 November 2011 in respect of the appointment of external auditors for the 2011-12

P.S KTD

financial year. A copy of the board resolution is attached as Annexure "**PS18**".

38.2 SAA's Bid Adjudication Council's report dated 22 August 2011, recommending the appointment of PWC for the 2011-12 financial year. The report is attached as Annexure **"PS19"**.

38.3 An extract from the in-committee minute of SAA's audit and risk committee meeting held on 24 August 2015 for the ratification of Nkonki Inc. as the external auditors for SAA. A copy of the extract is attached as Annexure "**PS20**".

39. The AGSA's assessment of the documentation and company secretary letter revealed the following:

39.1 SAA did not have a separate policy for the appointment of external auditors. Therefore, the AGSA's view was that the appointment of external auditors had to be treated like any other service provider in terms of its supply chain management policy.

39.2 In terms of the Bid Adjudication Council report of 22 August 2011, PWC had been recommended, on condition that an SMME consortium plan has to be incorporated into the contract between SAA and PWC.

40. Board resolution 2011/B24 of 22 November 2011 (Annexure "**PS18"**) confirmed the resolution to appoint PWC and Nkonki Inc. as the external auditors of SAA

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for the 2011-12 financial year, jointly and on a 60/40 basis in favour of Nkonki Inc.

41. The excerpt from the draft minutes of the board meeting of 10 July 2015 (**"PS17"**) confirmed the appointment of Nkonki Inc. as external auditors of SAA for a period of five (5) years. However, there was no evidence that SAA applied the principles in its supply chain management policy for this appointment. Furthermore, the Bid Adjudication Council of 22 August 2011 recommended the appointment of PWC, on condition that it formed an SMME consortium. Subsequent to that PwC and Nkonki was appointed jointly for a period of five (5) years, commencing from the 2011/12 financial year. The AGSA held the view that the appointment of Nkonki Inc. as the sole provider of the SAA's external audit services required a new procurement process.

42. The AGSA raised its concerns with regard to the appointment of Nkonki Inc. as the sole external auditors without following a procurement process with the company secretary of SAA at a meeting held on 15 September 2015. Following the meeting, I personally summarised the AGSA's concerns in an e-mail and made the following recommendations to address these concerns:

42.1 SAA should reconsider the process followed to appoint Nkonki Inc. as the sole external auditors for SAA to ensure its compliance with the SAA's supply chain management policy. Once done, SAA could resubmit its request to the AGSA to concur with the appointment.

42.2 SAA should consider the adoption of a policy specifically for the appointment and re-appointment of external auditors for future use. A

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copy of my e-mail of 15 September 2015 is attached as Annexure **"PS21"**.

43. On 14 December 2015, SAA submitted the following documents to the AGSA:

43.1 An excerpt from the draft minutes of the continuation meeting of the SAA board of directors (No. 2015/07) held on 9 December 2015, confirming the re-appointment of PWC and Nkonki Inc. for the financial year 2015-16. The appointment was made on the basis of a 50/50 workload split and subject to the concurrence of the AGSA in terms of section 25(2) of the PAA. A copy of the excerpt from the draft minutes is attached as Annexure **"PS22"**.

43.2 A letter signed by the company secretary and dated 11 December 2015 informed the AGSA of the board's resolution to re-appoint PWC and Nkonki Inc. as joint auditors for the 2015-16 financial year and requested the AGSA's concurrence with such appointment. The letter was accompanied by the prescribed consultation checklist. A copy of the letter is attached as Annexure **"PS23"**.

43.3 The AGSA evaluated the consultation checklist and noted that the board resolved to appoint PWC and Nkonki Inc. as joint auditors in accordance with the open tender process of 2011 .On 11 April 2016, the AGSA informed the chairperson of the board of SAA that it had no objection to the re-appointment of PWC and Nkonki Inc. for the financial year 2015-16. A copy of the letter is attached as Annexure **"PS24"** .

P.S KTP

OVERSIGHT OVER THE PERFORMANCE OF SECTION 4(3) AUDITS WHERE THE AGSA HAS OPTED NOT TO PERFORM THE AUDIT

44. Once the AGSA has opted in accordance with section 4(3) not to perform the audit of a public entity, it retains a degree of involvement in that audit. However, this involvement does not take away, or in any way dilutes, the responsibilities of the auditors appointed by the public entity.

45. Prior to the 2016-17 financial year when the AGSA opted to perform the audit of SAA, we stayed engaged during the performance of the external audit each year. This involvement is in line with our established practice to not step away from section 4(3) audits completely.

46. Although I have a good understanding of what the AGSA's involvement in section 4(3) audit entail, I was not personally involved in the audit oversight of SAA the entire time. I only became involved in the audit oversight function in 2014-15. I therefore respectfully point out to the Commission that the content of paragraphs 46.1 to 46.9 does not fall within my personal knowledge, but was shared with me by Sybrand Struwig, a Senior Manager employed in the business unit responsible for the audit of SAA. Mr. Struwig has been closely involved with the oversight of the SAA audit, firstly in the capacity as Product Champion (2009 to 2011), and thereafter as Audit Senior Manager (2012 to 2015). Mr Struwig explained the nature of the AGSA's involvement in the audit as follows:

46.1 During the period 2011 to 2015, Mr. Struwig was responsible to annually facilitate the consultation of SAA with the AGSA on the appointment and re-appointment of external auditors. He would firstly receive the completed consultation checklist as per the Audit Directive from the SAA office of the Chief Financial Officer (the "CFO").

46.2 Thereafter, Mr Struwig would consider the information relevant to the procurement process that SAA followed to select the preferred external auditors. If necessary, he would request further information for purposes of a high level assessment. At this juncture, I must point out to the Commission that the latter assessment did not constitute an audit of the procurement process.

46.3 The next step would be to confirm the independence of the selected audit firm and the registration status with the IRBA.

46.4 Once the confirmation of independence was completed, Mr Struwig would make a submission for consideration of concurrence to his direct line manager at the time, the Business Executive of the National E business unit.

46.5 Once the AGSA had concurred with the appointment of the selected auditors, and the appointment process had been completed, Mr Struwig would attend the quarterly SAA group audit and risk committee meetings. The reason for attending these meetings was to obtain relevant information pertaining to the overall status of the audit and the audit outcomes. This information was required to equip the AGSA to fully comply with its statutory duties contained in section 28 of the PAA and the Audit Directive.

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46.6 Mr Struwig informed me that the AGSA would request information from SAA and its appointed external auditors at least twice per year. The first request would relate to information needed for the AGSA's annual National Treasury consolidation audit. The second annual request would be to source information during the general reporting cycle for purposes of presenting the audit outcomes at engagements with the responsible executive authority and Parliament's portfolio committee on public enterprises.

46.7 There were also two (2) instances where Mr Struwig assisted the appointed external auditors to prepare and submit information to SCOPA. These submissions had been done in preparation of SCOPA's hearings on SAA.

46.8 Mr Struwig recalled two (2) very specific instances where he assisted the appointed external auditors to execute their audit function. In the first instance, he assisted the auditors to gain a solid understanding of the audit effort that was required to assess the auditee's internal control environment, also known as the "dashboard" report. The second instance was the guidance he gave during the audit of SAA's reported information on its performance against predetermined objectives.

46.9 Lastly, Mr Struwig used to attend SAA's annual general meetings in the capacity as an AGSA representative as an observer.

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THE AGSA'S APPROACH TOWARDS THE SAA AUDIT

The decision to take over the audit of SAA

47. The AGSA did not initiate the takeover of the audit of SAA. It was a request in 2015 by the erstwhile Minister of Finance, Nhlanhla Nene, that the audit of SAA would be performed by the AGSA from the 2016-17 financial year onwards.

48. Following the request by the Minister of Finance, the AGSA conducted a risk assessment to consider:

    48.1 The professional and legal requirements associated with the audit of SAA

    48.2 Skills and resources required to conduct the audit assignment

    48.3 Quality assurance measures suitable for the extent and complexity of the audit

    48.4 Degree of access to PWC and Nkonki In., the predecessor auditors

    48.5 Independence and ethical requirements

49. Once the AGSA completed the internal risk assessment, a formal decision was taken in accordance with section 4(3) of the PAA to perform the audit of SAA and its subsidiaries from the 2016-17 financial year onwards.

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Leadership

50. The Auditor-General (the "AG"), Thembekile Makwetu, officially took the decision to audit the books and financial management of SAA. He led most of the high level engagements prior to the decision to take over the audit, including personally leading the AGSA delegation when the audit strategy was presented to the audit and risk committee of SAA.

51. To date, the AG continues his leadership role in the audit of SAA and holds regular engagements, not only with the AGSA engagement team on the audit, but also with other key stakeholders and relevant oversight structures.

52. Cognisant of the complexity and the risk profile of the audit, the AG delegated the sign-off on the SAA audit report to the level of National Leader: Audit Services. This is the highest level at which any audit has been signed off in the recent history of the AGSA.

Human resources allocated to the SAA audit

53. The AGSA's preparation for the 2016-17 audit of SAA kicked off with the selection of audit professionals to form the SAA audit engagement team. These professionals had sufficient audit experience, technical knowledge and performance drive to successfully deliver on the task. The core SAA regularity

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audit team that was responsible for the entire engagement consisted of the following:

53.1 One (1) business executive

53.2 One (1) engagement manager on a senior manager level

53.3 One (1) support senior manager

53.4 Five (5) managers

53.5 Five (5) assistant managers

53.6 25 trainee auditors

54. A core information systems audit team was established to gain a deep understanding of the information technology aspects of SAA's business model. The core information systems audit team consisted of the following:

54.1 One (1) business executive

54.2 Four (4) senior managers

54.3 Four (4) managers

54.4 Four (4) assistant managers

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55. The core regularity and information systems teams had been supplemented during the peak execution period by several audit staff members from the provincial and national business units of the AGSA.

56. The AGSA's Investigations business unit performed data analytics and analysed complex SAA contracts.

57. The audit engagement team was also supported by the AGSA's Audit Research and Development business unit. Our researchers interrogated SAA's prior year published audit report and formulated the overall risks at a financial statement level that the engagement team needed to be aware of. Furthermore, the Audit Research and Development team provided technical advice for the duration of the audit.

58. The AGSA's Legal Services business unit advised on a number of SAA contracts and specific matters relating to the audit.

Significant investment to understand the client's business

59. The AGSA took the preparation for the SAA audit very seriously. It was a conscious decision to invest sufficient time and resources to successfully deliver on the assignment. Once the teams had been selected, the first engagements with the client and its predecessor audits commenced. A series of meetings and other interactions were conducted from December 2016 onwards and were aimed at understanding the client and its operating environment.

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60. A focused, preparatory phase ensued in January 2017 and continued until the end of May 2017. The team aimed to learn as much as they could of SAA's business and operating environment through stakeholder engagement, training and consultation. The following investments are worth mentioning:

60.1 The engagement team attended training conducted by a private sector audit firm that audits a network of airline clients. The training was presented by an aviation expert from London. Numerous consultations with aviation experts had been conducted throughout the audit.

60.2 The engagement team regularly interacted with PWC and Nkonki Inc., the predecessor auditors of SAA, to gain insights into the risk areas that required attention. This is also a requirement of the auditing standards.

60.3 The SAA executive leadership assisted the audit teams to form a solid understanding of its business. The leadership team took the auditors through introductory presentations that focused not only on the SAA's history and past achievements, but also its strategy and role in the South African aviation economy. These presentations further clarified the responsibilities and contributions of the different divisions in the SAA structure, as well as the SAA subsidiaries and their respective roles in the group.

60.4 The engagement team conducted regular, integrated group discussions and groups consistency meetings to ensure alignment of the audit approach throughout the group.

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60.5 The AGSA appointed a private firm with significant experience in the aviation industry to review high risk components in the audit. These high risk components included, *inter alia*, the going concern assumptions, airline revenue, maintenance services, property, aircraft and equipment and provision for lease liabilities.

60.6 The AGSA's internal Quality Control business unit performed proactive quality control reviews after the completion of each stage of the audit. The AGSA furthermore appointed a private audit firm partner with aviation experience to conduct a pre-issuance review. This is a form of an independent quality review that takes place after completion of the audit, but prior to signing the audit report.

60.7 The AGSA furthermore appointed tax experts, actuaries and corporate financiers to assist the engagement team with the auditing of complex areas.

60.8 Throughout the audit, the AGSA kept SAA and its governance structures informed of the progress and challenges experienced during the audit. Regular meetings were held with management (up to CEO level) and the audit and risk committee. Regular meetings were also held with the chairperson of the SAA board and, on occasion, with the responsible Minister.

61. Learning the business and operating environment came with a significant financial investment. The AGSA had budgeted more than 5 500 investment hours which translated to an investment budget of more than R7 million. The

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actual number of investment hours were significantly more, amounting to more than 14 000 hours. R14 million had been written off and not billed to SAA.

Completion of the 2016-17 SAA audit

62. The 2016-17 audit of SAA took significant time to finalise, mostly due to several adjustments to the annual financial statements and sporadic delays in the submission of requested information and responses to findings. The going concern assumption was one of the main reasons for the delays in signing off on the 2016-17 annual financial statements.

63. The audit was eventually concluded on 8 December 2017 .

Progress with the 2017-18 and 2018-19 audits of SAA

64. Due to the significant financial difficulty that SAA finds itself in, the annual financial statements for the 2017-18 and 2018-19 financial years are still outstanding and not available for auditing purposes.

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SUMMARY OF THE AREAS OF CONCERN IDENTIFIED DURING THE 2016-17 AUDIT OF SAA

65. As the Commission is aware, the 2016-17 financial year was the first time ever that the AGSA audited SAA. The annual financial statements were only received on 31 October 2017, whilst the annual statutory deadline for submission of its financial statement is 31 May. The reason for the delay in submission of the annual financial statements was SAA's difficulty to confirm the going concern assumption. SAA had to obtain a formal commitment from the shareholder (the South African Government) to inject further equity into the entity and the banks had to confirm the extension of the expiry of loan agreements in place at the time. The AGSA, nevertheless, completed the audit within the two (2) months' timeline set by the PFMA and issued the audit report on these financial statements on 8 December 2017.

66. The overall audit outcome of SAA regressed from an unqualified opinion with no findings on performance information and/or compliance for the financial years 2013-14, 2014-15 and 2015-16, to a qualified audit opinion in 2016-17 with significant findings in the areas of supply chain management, compliance with legislation and the annual performance report.

67. The AGSA summarised the key areas of concern in an executive summary to the 2016-17 management report. This summary was communicated to the SAA board on 1 December 2017. The executive summary is attached as Annexure **"PS25"**. I draw the attention of the Commission to the overall message on

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page 6 of the executive summary where the following key outcomes have been listed:

67.1 At the time of reporting, SAA experienced serious instability in its leadership structures. Vacancies on the executive committee, where approximately 40% of the key positions were filled in an acting capacity, contributed to the weak control environment (refer to paragraph 7 of **"PS25"**).

67.2 The board had been appointed only six (6) months prior to the issuing of the management report and audit report and had no aviation expert on the board during the period under review. This might have had a negative impact, especially in key sub-committees such as the audit and risk committee and the financial committee. At the time of issuing the audit report, the board included an aviation expert, but the financial experience of the board was still inadequate (refer to paragraph 8 of **"PS25"**).

67.3 Key officials responsible for the preparation of the annual financial statements lacked appropriate skills and competencies for the task. Lack of appropriate skills and competencies covered areas such as the International Financial Reporting Standards (the "IFRS"), PFMA, supply chain management, public sector reporting and reporting of performance information as was particularly evident from the significant findings arising from the draft financial statements (refer to paragraphs 6 and 12 of **"PS25"**).

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67.4 Compliance with applicable legislation was a serious challenge at SAA, especially in areas of supply chain management, the prevention of irregular, fruitless and wasteful expenditure, the Companies Act, and consequence management. For example, for the year under review, SAA incurred R125 922 818 (identified by management) in irregular expenditure as a result of non-compliance with its procurement policy, which was significantly higher than the previous year (refer to paragraph 9 of **"PS25"**). This figure was not complete and the audit opinion was modified to include a qualification paragraph to express the understatement of this figure.

67.5 The legal division and office of the company secretary were severely under capacitated. The legal division did not have the capacity to ensure that there were signed contracts for all contracts awarded. The SAA used letters of award instead of formal contracts. This exposed SAA to significant risk that suppliers would not deliver as expected. Similarly, the office of the company secretary was unable to advise the board on non-compliance with legislation, which exposed the board to the risk of contravening legislation when making resolutions (refer to paragraph 10 of **"PS25"**).

67.6 Record keeping was inadequate and officials responded slowly to requests for information. This resulted in a limitation of scope in areas such as supply chain management and assets (refer to paragraph 11 of **"PS25"**).

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67.7 The status of key controls indicated that intervention was required in the areas of leadership, financial and performance management and governance. Contributing factors included the lack of properly documented policies and procedures and a slow response to implementing action plans to address audit findings. A lack of consequences for transgressions was also clearly visible (refer to paragraph 14 of **"PS25"**).

67.8 The quality of the annual performance report was poor, resulting in significant findings on the usefulness and reliability of the performance indicators and targets. This was partly due to the lack of a policy on performance information that clarified standard operating procedures on performance reporting. Management also lacked a sound understanding of the National Treasury's Framework for Managing Programme Performance Information and senior management failed to oversee and monitor performance reporting (refer to paragraph 15 of **"PS25"**).

67.9 The auditors noted an ineffective information technology environment and infrastructure. SAA did not have a coherent information technology governance framework that would allow for effective alignment of processes, projects and structures to support its business. The audit and risk committee was mandated to implement information technology governance in the group, but did not have a technical representative on the committee. The absence of a technical representative severely hampered the ability of the audit and risk committee to provide

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direction and oversight in relation to information technology governance (refer to paragraphs 17 and 18 of **"PS25"**).

67.10 The risk management processes of SAA lacked maturity and the delegations of authority in the entity did not function optimally, resulting in tardy decision making. The long turnaround, in practice, meant that by the time a decision was made, the risk had already materialised in some instances (refer to paragraph 19 of **"PS25"**).

67.11 Inadequate segregation of duties was identified, especially as far as the maintenance reserves and provision for lease liabilities were concerned. The auditors detected material differences between the annual financial statements and the calculations for both maintenance reserves and lease liabilities. This led to material misstatements. Changes made to the calculations were not reflected in the financial statements submitted for audit (refer to paragraphs 20 to 22 of **"PS25"**).

ISSUES OF CONCERN SET OUT IN THE FINAL AUDIT REPORT PARTICULARLY EACH QUALIFICATION IDENTIFIED AND EACH RESTATEMENT ISSUED)

68. The issues of concern as set out in the final audit report were reflected in the executive summary of the signed management report (**"PS25"**). The section titled "Key insights in audit report modification areas" on page 10 to 12 of **"PS25"** lists the following concerns:

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68.1 Property aircraft and equipment had been modified as a result of a number of material audit findings raised in this line item in the annual financial statements (refer to paragraphs 24 to 30 of **"PS25"**).

68.2 Maintenance costs were modified due to the findings which were not individually material, but material when aggregated within the maintenance component (refer to paragraphs 31 and 32 of **"PS25"**).

68.3 As far as inventory was concerned, sufficient internal controls and processes were not developed and implemented by South Africa Airways Technical (SAAT) to ensure a proper implementation of the AMOS system and that all entity data regarding inventories was transferred and accounted for appropriately (refer to paragraph 33 of **"PS25"**).

68.4 Irregular expenditure incurred by SAA and identified by the auditors (as opposed to being identified by the entity) was predominantly as a result of irregularities and/or non-compliance with the supply chain management policy of SAA, the PFMA and the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (refer to paragraphs 34 to 38 of **"PS25"**).

68.5 The audit coverage also included six (6) SAA foreign operations, referred to as "outstations", across different countries, namely the Namibia office (at management's request), the Nigeria office, the London office, the Brazil office, the Ghana office and the United states of America office. The issues of concern emanating from the foreign

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operations visits were summarised in the Outstations executive summary, refer to **PS26** and the detailed findings were included in the separate Outstations management report refer to **PS27**. The issues of concern highlighted above were also prevalent at the outstations that we visited.

69. The Commission is referred to Annexure A of the signed management report for extensive detail on the areas of concern. The Commission is already in possession of the signed 2016-17 management report.

ENGAGEMENTS BETWEEN THE AGSA AND SAA REGARDING ISSUES IDENTIFIED DURING THE COURSE OF THE 2016-17 AUDIT, AND SAA's RESPONSES THERETO

70. There were various engagements between the AGSA and the SAA management, the audit and risk committee and the chairperson of the board during the audit process. These engagements were in the form of meetings and communication of audit findings as and when issues were identified on the audit. A summary of all the issues or audit findings and SAA responses to the issues are included in the management report detailed audit findings and it is attached as Annexures A, B and C to the executive summary of the management report, which is annexed as "**PS25**").

71. As indicated above, all the issues or audit findings were included in the management report of SAA and material audit findings that resulted in material misstatements in the financial statements, predetermined objectives and

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compliance with legislation were reported in the audit report which formed basis of the audit opinion. The management report and audit report of SAA were discussed with management and tabled at the audit and risk committee of SAA before it was signed.

72. Furthermore, these engagements happened throughout the audit from planning the audit, discussions of the audit strategy and plan with management and the audit committee, communication of audit findings, progress reports, formal letters and meetings with management, audit committee and the chairperson of the board. The following correspondence between AGSA and SAA have been included:

72.1 Annexure A, B, C for the SAA company detailed audit findings and detailed findings for the SAA Outstations. The structure of the findings comprises of the factual finding, the management response and auditor's conclusions. Management is expected to indicate their agreement or disagreement to the factual findings, refer to "**PS28**". I also attach the minutes of the meeting where the draft management report was discussed with the CFO as Annexure "**PS29**".

72.2 The progress update letters written to the audit and risk committee as Annexure "**PS30**"

72.3 Correspondence with the board chairperson as Annexure "**PS31**"

72.4 Correspondence between the SAA board chairperson and the SAA audit and risk committee chair attached as Annexure "**PS32**"

72.5 Correspondence with the shareholder of SAA, the then Minister of Finance which as attached as Annexure "**PS33**"

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72.6 After the 2016-17 audit was signed, a debrief meeting was held with the SAA management to reflect on the lessons learnt and particularly on improvements that we required. The Commission is referred to Annexure **"PS34"** in this regard.

DATED AND SIGNED at PRETORIA on this 18th day of DECEMBER 2019.

DEPONENT

THUS SWORN and SIGNED before me at Pretoria on this 18th day of December 2019. The Deponent having declared that he is conversant with the contents of this affidavit, understands same and that the contents are true, and that he has no objection to taking the prescribed oath, and that he considers the prescribed oath as binding on his conscience.

COMMISSIONER OF OATHS

FULL NAMES:

ADDRESS:

K EMTUMBA DIONG
MacRobert Incorporated Attorneys
C/o Jan Shoba & Justice Mahomed St. Brooklyn, PTA
Commissioner Of Oaths / Kommissaris Van Ede
Ex Officio
Practising Attorney / Praktiserende Prokureur
Republic Of South Africa / Republiek Van Suid-Afrika

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PS 1

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

MEMOrandum

To	Polani Sokombela (Business Executive: National B)
From	Kimi Makwetu (Auditor-General)
Date	10 December 2019
Subject	Delegation of authority – Commission of Inquiry into State Capture for the Auditor-General of South Africa

Delegation of authority

1. By signing this memorandum, I, **Kimi Makwetu, Auditor-General**, delegate the authority to **Polani Sokombela, Business Executive –**

1.1 to accede to the request from the Commission of Inquiry into State Capture for the Auditor-General of South Africa (AGSA) to disclose and submit information in the form of an affidavit addressing the issues set out in paragraph 1.2. The request is that the deponent to the affidavit should be someone with personal knowledge of the South African Airways audit and the issues set out in paragraph 1.2. The request includes attendance of the aforementioned deponent as a witness to present oral evidence at the Commission's hearings, such attendance will be necessary should the Commission of Inquiry so insist where written representations are deemed insufficient.

1.2 the particulars of the request that form part of the affidavit and presentation of oral evidence at the hearings are limited to:

1.2.1 the duties of auditors when conducting audits of public entities, and how, if at all, the duties and standards with which private audit firms must comply differ from those applicable to the Auditor-General of South Africa.

1.2.2 the process by which the Auditor-General determines whether to reject the appointment of private auditors of public entities each year (in terms of section 25(2) and (3) of the Public Audit Act (PAA)), and the factors that it takes into account in making such a determination.

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1.2.3 the process by which the Auditor-General decided not to reject the appointment, each year, of PricewaterhouseCoopers and Nkonki Inc as joint auditors of SAA, and any issues that the Auditor-General identified and/or raised regarding their appointment for each year of the joint audit.

1.2.4 the process by which the Auditor-General carried out the SAA audit (including, for example, the fact that Auditor-General personnel spent many months at SAA getting to know the business).

1.2.5 a summary of the areas of concern identified by the Auditor-General in the 2017 SAA audit. This summary should include:

1.2.5.1 the issues identified by the Auditor-General personnel who spent time getting to know the SAA business (which we understand to include, inter alia, the absence of adequate policies and procedures, the existence of numerous acting positions, the lack of appropriate competencies, and the like); and

1.2.5.2 the issues of concern set out in the final audit report (including, in particular, each qualification identified and each restatement issued).

1.2.6 any engagements between the Auditor-General and SAA regarding issues identified by the Auditor-General (whether by way of management reports or otherwise), and the responses provided by SAA to these issues.

1.2.7 the role of external auditors, especially in light of the reliance that is placed on the work that they do in the state owned enterprises (the "SOEs") space.

1.2.8 the purpose of the AGSA's oversight over audits that the AGSA opted not to perform, and what exactly this oversight role entails.

1.2.9 the view of the AGSA in respect of appointments of auditors for a period of five (5) financial years while section 25(4) of the PAA limits the appointment to no longer than one (1) financial year of the auditee. The Commission sought specific clarity on what would constitute a "proper" appointment where such appointment is made for one (1) financial year, and how it would differ when an appointment is made for five (5) financial years.

1.2.10 the supporting documents referred to in the affidavit.

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1.2.11 if there are further requests to supplement the affidavit, such a request will be responded to through a supplementary affidavit.

2. The delegation of authority is subject to the following terms and conditions:

2.1 The delegated authority may not be re-delegated;

2.2 The delegated authority is only for the disclosing and submission of the information as per the request from the Commission into State Capture;

2.3 The delegated authority will be revoked after the signing of the affidavit and the aforementioned hearings

11/12/2019.

Auditor-General - Mr Kimi Makwetu

11/12/2019.

Date

Acknowledge and agreed:

Business Executive – Mr Polani Sokombela

11/12/2019

Date

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PS 2

REPORTING GUIDE 2018-19

March 2019

AUDITOR-GENERAL SOUTH AFRICA

Auditing to build public confidence

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Reporting guide 2018-19

Contents

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1. INTRODUCTION

A. Introduction

1. The reporting guide sets out the requirements for, and provides guidance on, reporting to the auditee through the auditor's report and management report. The templates for the auditor's and management reports are updated annually and provided to the audit engagement teams in technical updates.

B. Auditor's report

2. The auditor's report template applies to all public sector auditees. A separate, specific auditor's report template is provided for use at auditees not audited by the AGSA in accordance with section 4(3) of the Public Audit Act, 2004 (Act no. 25 of 2004) (PAA).
3. The auditor's report template promotes consistent reporting that enhances credibility, ease of use and reports that are simple, clear and relevant.
4. Explanatory notes are included in the template to assist the auditor to prepare the auditor's report.

C. Management report

5. The management report template applies to public sector auditees audited by the AGSA. The report on the annual performance report section also applies to public sector auditees not audited by the AGSA in accordance with section 4(3) of the PAA. We encourage the application of the rest of the management report template for these auditees.
6. The management report template promotes timely communication of observations that arise from the audit and are significant and relevant to management's responsibilities for the financial and performance management reporting process and compliance with legislation.
7. The management report is addressed and provided to the accounting officer/ accounting authority. The report should also be shared with the executive authority, the audit committee and the head of the internal audit unit. In addition, the report may be shared with legislatures, municipal councils or their internal committees, if requested, in which case the separate guidance on sharing of the management report should be followed. Any request for the management report by other state institutions must be dealt with in terms of paragraph 5.6.10 of the "AGSA: Audit engagement performance policy".
8. Explanatory notes are included in the template to assist the auditor to prepare the management report.

D. Chapters in the reporting guide

9. Detailed guidance and examples on information to be included in the auditor's report and management report are provided in the chapters of this guide:
   - Chapter 2 contains the requirements and examples for drafting a basis for modified opinion paragraph on the financial statements.
   - Chapter 3 contains requirements and examples on:
     - Emphasis of matter and going concern paragraphs included in the auditor's report on the financial statements
     - Other matters and other information paragraph in the auditor's report on the financial statements and annual performance reports

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- Chapter 4 contains the requirements and examples for drafting a basis for modified opinion paragraph on the annual performance report. These paragraphs will be used for the auditor's report and management report.
- Chapter 5 contains requirements and examples for drafting findings on compliance with legislation to be included in the auditor's report.
- Chapter 6 contains guidance on specific focus areas relevant to the information included in the management report and auditor's report.

10. The requirements and guidance relating to forming the auditor's opinion/ conclusion are described in the *Public audit manual* (PAM), chapters 18.1 to 18.4 - *Concluding and forming the audit opinion.*

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2. FINANCIAL STATEMENTS – EXAMPLES OF BASIS FOR MODIFIED OPINION PARAGRAPHS ON THE FINANCIAL STATEMENTS

A. Introduction

1. This chapter provides the required wording and examples of the basis for modified opinion paragraphs for circumstances when the auditor cannot express an unmodified opinion on the financial statements. The chapter promotes consistent reporting, which in turn strengthens the credibility and the users' understanding of the auditor's report.
2. This chapter applies to all public sector auditees including those not audited by the AGSA in accordance with section 4(3) of the PAA.
3. Section C indicates what a basis for modified opinion paragraph should consist of and a table of Do's and Don'ts to assist auditors in drafting these paragraphs.
4. Section D includes examples of the basis for modified opinion paragraphs.

B. International Standards on Auditing

5. ISA 705, ISSAI 1705

C. Matters required to be included in the Basis for modified opinion paragraph

6. The following illustrates what the basis for modified opinion paragraphs should consist of:

- Heading that describes the type of opinion expressed

  Basis for [qualified/ adverse/ disclaimer of] opinion

- Heading that describes the financial statement item/ disclosure note

  Property, plant and equipment

For qualified/ adverse opinions

- Describe what the entity did not do which is required in accordance with the applicable accounting standard or legislation

  The entity did not classify lease agreements as finance leases where substantially all the risks and rewards incidental to ownership were transferred to the entity in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) 13, *Leases*.

- Describe the misstatement

  The entity is party to a number of lease agreements that constitute finance leases, but which have been accounted for as operating leases.

- Quantify the misstatement, state its effect on all the other classes of transactions/ account balances and state that there is an impact on the surplus/ deficit for the period. If it is not possible to quantify, state that it is impracticable to do so.

  Consequently, property, plant and equipment and long-term liabilities are understated by R... (201x: R...) and R... (201x: R...) respectively, and the current portion of long-term liabilities is understated by R... (201x: R...). This also has an impact on the surplus for the period and on the accumulated surplus.

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For qualified/ disclaimer of opinions

- Describe the limitation

  I was unable to obtain sufficient appropriate audit evidence for movable tangible assets, as I was denied access to certain premises.

- State that it was not possible to confirm the item by alternative means

  I was unable to confirm the physical assets by alternative means.

- State that you are unable to determine whether any adjustments are required to the item

  Consequently, I was unable to determine whether any adjustment relating to movable tangible assets, stated at R... in the financial statements, was necessary.

7. The most important matters mentioned above are listed as do's and don'ts in the table below:

Do's	Don'ts
General	
Include the paragraphs in order of most significant to least significant.	Include excuses for the auditee's misstatement or information not obtained.
Include a heading: Basis for qualified/ adverse/ disclaimer of opinion.	Include the assertions affected.
Include the heading of the specific financial statement item with the material misstatement.	Include root causes (these are included under internal control) or a progress report on how the matter is being rectified (reserved for management report).
Communication should be uncluttered (simple and clear).	Include a basis for modification paragraph on accumulated surplus, as this misstatement is the consequence of a misstatement in a class of transactions or account balance.
When a misstatement relates to non-disclosure of information, describe the nature of the omission, provided that it is practicable to do so and that the auditor has obtained sufficient appropriate audit evidence about the omitted information.	Include a basis for modification paragraph on an item titled journal entries – it is the respective class of transactions, account balance or disclosure that is misstated because of the journal entry.
	Include a basis for modification paragraph on the cash flow statement when the misstatement is the consequence of a misstatement in a class of transactions or account balance. (If the cash flow statement was, for example, force balanced; there could be a basis for modification paragraph. However, this paragraph cannot be at the level of cash flow statement but at the level of one of the items in the cash flow that are incorrect or do not agree with the underlying financial statements.)
	Include a basis for modified opinion paragraph on the statement of changes in net assets when the misstatement is the consequence of a misstatement in a class of transactions or account balance.
	Use the wording of the disagreement misstatement to describe a limitation misstatement and vice versa.

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Do's	Don'ts
Disagreements	
Include the title of the standard of the financial reporting framework/ legislation that the auditee did not comply with, where applicable.	
Include a concise description of the misstatement.	
Include the value of the misstatement (based on our best estimate which is the projected misstatement, anomalous misstatements and any misstatements from items specifically selected) and state which financial statement items are understated/ overstated or state that it was impracticable to determine the value of the misstatement.	
If consolidated financial statements are applicable and the misstatement affects the consolidated and separate financial statements: • Where the value of the misstatement is the same in the consolidated and separate financial statements: include the value of the misstatement, the item affected and state 'in the consolidated and separate financial statements'. • Where the value of the misstatement is not the same in the consolidated and separate financial statements (i.e. the same type of misstatement occurred at the subsidiaries), include both values of the misstatement and state 'in the consolidated and separate financial statements, respectively'.	
Include a statement that there is a consequential impact on the surplus/ deficit for the period and accumulated surplus/ deficit.	
If the misstatement also occurred in the previous year, remains unresolved and is material, include the corresponding amount for the previous year in brackets.	
Limitations	
Include a statement that sufficient appropriate audit evidence could not be obtained.	Include the estimated value of the limitation misstatement.
Include a brief description why it could not be obtained.	
Include a statement that the financial statement item could not be confirmed by alternative means.	
Include a statement that you were unable to determine whether adjustments were necessary to the financial statement item and include the value of the item in the financial statements.	
If consolidated financial statements are applicable and the misstatement affects the consolidated and separate financial statements, state that you are unable to determine whether any adjustment to the financial statement item is necessary and state the values of the item in the consolidated and separate financial statements.	
If the limitation also occurred in the previous year, remains unresolved and is material, include the corresponding figure for the previous year in brackets.	

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For consolidated financial statements

8. Careful consideration must be given to the wording of both the 'qualified/ adverse/ disclaimer of opinion' and the 'basis for qualified/ adverse/ disclaimer of opinion' paragraphs in the auditor's report, when the auditor expresses a modified opinion on the consolidated financial statements of an economic entity (group).

9. Consolidated financial statements are presented in four-column format and include:
   - the separate financial figures of the controlling entity (parent)
   - the consolidated financial figures of the group that comprise the consolidated financial results of both:
     - the controlling entity (parent)
     - the controlled entity (subsidiary)

10. In order to appropriately word the auditor's report, it is important to understand both where the misstatement/ limitation originates (i.e. in the financial results of the parent or in the financial results of the subsidiary), as well as what the misstatement/ limitation impacts (i.e. the separate financial figures, the consolidated financial figures or both):
    - If the misstatement/ limitation originates in the financial results of the subsidiary, the misstatement/ limitation can only impact on the consolidated financial figures of the group. This implies the following:
      - The 'qualified/ adverse/ disclaimer of opinion' section of the auditor's report includes two separate opinions; a modified opinion on the consolidated financial figures of the group and an unmodified opinion on the separate financial figures of the parent.
      - The 'basis for qualified/ adverse/ disclaimer of opinion' paragraph of the auditor's report is worded with reference to the misstatement/ limitation of the consolidated financial statements (figures) of the group.

      See example vii in section D.d below.
    - If the misstatement/ limitation originates in the financial results of the parent, the misstatement/ limitation can impact on either the separate financial results of the parent only, or on both the separate financial results of the parent and on the consolidated financial figures of the group. This implies the following:
      - If only the separate financial results of the parent are impacted:
        - The 'qualified/ adverse/ disclaimer of opinion' section of the auditor's report includes two separate opinions; an unmodified opinion on the consolidated financial figures of the group and a modified opinion on the separate financial figures of the parent.
        - The 'basis for qualified/ adverse/ disclaimer of opinion' paragraph of the auditor's report is worded with reference to the misstatement/ limitation of the separate financial statements (figures) of the parent.

        See example viii in section D.d below.
      - If both the separate financial results of the parent, as well as the consolidated financial figures of the group, are impacted:
        - The 'qualified/ adverse/ disclaimer of opinion' section of the auditor's report only one modified opinion.
        - The 'basis for qualified/ adverse/ disclaimer of opinion' paragraph of the auditor's report is worded with reference to the both the misstatement/ limitation of the consolidated financial statements (figures) of the group and the misstatement/ limitation of the separate financial statements (figures) of the parent. I.e. the R-values for both the group and the parent are included in the 'basis for qualified/ adverse/ disclaimer of opinion' paragraph.

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See example ix in section D.d below.

11. Refer to section D of this chapter and SAAPS 3, *Illustrative auditor's reports on financial statements* for examples.

D. Examples – Basis for modification paragraphs

12. The following basis for modification paragraphs are examples only and illustrate the requirements of ISA 705.

a. Disagreement misstatements that could result in a qualified or adverse opinion, depending on the circumstances

i.

- **The auditee did not meet the requirements of the financial reporting framework as it incorrectly classified leases.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

The [type of auditee] did not classify lease agreements as finance leases where substantially all the risks and rewards incidental to ownership were transferred to the [type of auditee], in accordance with GRAP 13, *Leases*. The [type of auditee] was party to a number of lease agreements that constituted finance leases, which were accounted for as operating leases. Consequently, property, plant and equipment and long-term liabilities were understated by R... (201x: R...) and R... (201x: R...), respectively, and the current portion of long-term liabilities was understated by R... (201x: R...). Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

ii.

- **The auditee did not meet the requirements of the financial reporting framework to review the residual value and useful life of a building.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

The [type of auditee]'s practice is to use its building for its entire economic life, however, the [type of auditee] did not review the building's residual value and useful life at the reporting date in accordance with GRAP 17, *Property, plant and equipment*. The building is depreciated over a period of 20 years with the remaining useful life at [31 March 20XX/ 30 June 201XX] assessed as four years. An independent valuer has assessed the remaining economic life of the building at 50 years. Consequently, land and buildings included in note [XX] to the financial statements is understated by R… ((201x: R…), while income tax, net income and shareholders' equity is understated by R… ((201x: R..), R… (201x: R…) and R… (201x: R…), respectively. These required adjustments are considered material and pervasive to the financial statements as a whole.

iii.

- **The auditee did not meet the requirements of the financial reporting framework to impair inventory.**

The [type of auditee]'s inventories are carried in the statement of financial position at R…. Management did not state the inventories at the lower of cost and net realisable value but stated them solely at cost, which constitutes a departure from GRAP 12, *Inventories*. The [type of auditee]'s records indicate that, had management stated the inventories at the lower of cost

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and net realisable value, an amount of R… would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by R…, and surplus for the period and accumulated surpluses would have been reduced by R... and R…, respectively.

iv.

- **The auditee did not meet the requirements of legislation, which had an effect on the financial statements.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

The [type of auditee] did not include the required information on irregular expenditure in the notes to the financial statements, as required by section [40(3)(i)/ 55(2)(b)(i) of the PFMA/ section 125(2)(d) of the MFMA]. The [type of auditee] made payments in contravention of the supply chain management requirements, resulting in irregular expenditure of R... (201x: R...).

v.

- **The subsidiary did not meet the requirements of the financial reporting framework, which had an effect on the consolidated financial statements. While the consolidated and separate financial statements were presented together, the separate financial statements of the controlling entity are unmodified.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**
- **This example requires separate opinions for the separate and the consolidated financial statements.**

Qualified opinion on the consolidated financial statements and unmodified opinion on the separate financial statements

In my opinion, except for the effects of the matter described in the basis for qualified opinion section of my report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of [insert name of auditee] as at [insert date] and its consolidated financial performance and consolidated cash flows for the year then ended, in accordance with the [insert applicable financial reporting framework] and the requirements of the [insert applicable legislation].

In my opinion, the separate financial statements present fairly, in all material respects, the financial position of [insert name of auditee] as at [insert date] and its separate financial performance and separate cash flows for the year then ended, in accordance with the [insert applicable financial reporting framework] and the requirements of the [insert applicable legislation].

Basis for qualified opinion on the consolidated financial statements

Property, plant and equipment

The financial statements of XYZ subsidiary were materially misstated, as the subsidiary did not depreciate property, plant and equipment, as required by IAS 16, *Property, plant and equipment*. The effect on the consolidated financial statements was that property, plant and equipment was overstated by R... (201x: R...) and depreciation was understated by R… (201x: R…). Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

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vi.
• **The controlling entity did not meet the requirements of the financial reporting framework, which had an effect on the controlling entity's financial statements. While the consolidated and separate financial statements were presented together, the consolidated financial statements are unmodified.**
• **This example requires separate opinions for the separate and the consolidated financial statements.**

Unmodified opinion on the consolidated financial statements and qualified opinion on the separate financial statements

In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of [insert name of auditee] as at [insert date] and its consolidated financial performance and consolidated cash flows for the year then ended, in accordance with the [insert applicable financial reporting framework] and the requirements of the [insert applicable legislation].

In my opinion, except for the effects of the matter described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the separate financial position of [insert name of auditee] as at [insert date] and its separate financial performance and separate cash flows for the year then ended, in accordance with the [insert applicable financial reporting framework] and the requirements of the [insert applicable legislation].

Basis for qualified opinion on the separate financial statements

Accruals

The [controlling entity] did not accrue for operating lease charges and municipal property rates and taxes in arrears, as required by GRAP 19, *Provisions, contingent liabilities and contingent assets*. The effect on the separate financial statements was that accruals was understated by R.... Additionally, there was an impact on the surplus for the period and the accumulated surplus. The effect of the matter was not considered material to the consolidated financial statements.

vii.
• **The controlling entity did not meet the requirements of the financial reporting framework, which had an effect on both the controlling entity and the consolidated financial statements.**

The [name of controlling entity] did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Additions to property, plant and equipment were incorrectly recognised as expenditure. Consequently, property, plant and equipment was understated and the total expenditure was overstated by R... in the consolidated and separate financial statements. Additionally, there was an impact on the surplus for the period and on the accumulated surplus in the consolidated and separate financial statements.

viii.
• **The controlling entity and some subsidiaries did not meet the requirements of the financial reporting framework, which had an effect on both the controlling entity and the consolidated financial statements.**

The [name of group of entities] did not recognise all property held to earn rental or for capital appreciation as investment property in accordance with GRAP 16, *Investment property*. Additions to investment property were incorrectly recognised as property, plant and equipment. Consequently, investment property was understated by R... and property, plant and equipment

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was overstated by R... in the consolidated and separate financial statements. Additionally, there was an on the surplus for the period and on the accumulated surplus in the consolidated and separate financial statements.

ix.

- **The auditee did not meet the disclosure requirements of the financial reporting framework.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

The [type of auditee] did not disclose the remuneration of key management personnel in accordance with IAS 24, *Related-party disclosures*. The remuneration of key management personnel should be disclosed in total and for each of the following categories: short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits and share-based payments. The remuneration should have been disclosed as follows:

Related-party disclosures

Key management personnel compensation 20XX

	R	R
Short-term employee benefits	...	...
Post-employment benefits	...	...
Other long-term benefits	...	...
Termination benefits	...	...
Share-based payments	...	...
Total	...	...

x.

- **The auditee did not meet the disclosure requirements of the financial reporting framework.**
- **The auditor does not identify those non-disclosures in the auditor's report as it is impracticable to do so due to the extent of the disclosures.**

The [type of auditee] is part of a large group of entities and has extensive related party transactions with other companies in the group, as well as with other government entities on non-standards terms and conditions. Contrary to the requirements of GRAP 20, *Related party disclosures*, management did not disclose the [type of auditee]'s related party relationships with other entities, or the transactions and balances with these parties in the accompanying financial statements. I have not included the omitted information in this auditor's report as it was impracticable to do so.

xi.

- **The auditee did not meet the requirements of the financial reporting framework to review the residual values and useful lives of specialised underground water-piping infrastructure assets.**
- **It is impracticable for the auditor to determine the appropriate amount of the misstatement.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

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The [type of auditee] did not review the residual values and useful lives of specialised underground water-piping infrastructure assets at each reporting date in accordance with GRAP 17, *Property, plant and equipment*. As a result, infrastructure assets with a gross carrying amount of R... (201x: R...) had a zero net carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of infrastructure assets as it was impracticable to do so.

xii.

- **The auditee did not meet the requirements of the financial reporting framework to recognise all outstanding liabilities.**
- **It is impracticable for the auditor to determine the appropriate amount of the misstatement.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

The [type of auditee] did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*. As the [type of auditee] did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end, I was unable to determine the full extent of the understatement of trade creditors and accruals as it was impracticable to do so.

xiii.

- **The consolidated financial statements were materially misstated due to the non-consolidation of a subsidiary.**
- **The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so**

As explained in note [XX], the [name of group of entities] has not consolidated subsidiary XYZ that the it acquired during 20X1 because it has not yet been able to determine the fair values of some of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under IFRSs, the [name of group of entities] should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had subsidiary XYZ been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

b. More than one material and/or immaterial misstatements relating to one financial statement item

i.

- **The auditee did not meet the requirements of the financial reporting framework in two instances relating to one financial statement item.**
- **The misstatement can be quantified.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

The [type of auditee] did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Additions to property, plant and equipment were incorrectly recognised as expenditure. Consequently, property, plant and equipment was understated and total expenditure was overstated by R... (201X: R...). There

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was an impact on the surplus for the period and on the accumulated surplus. Additionally, the residual values and useful lives of property, plant and equipment were not reviewed at each reporting date in accordance with GRAP 17. I was unable to determine the impact on the net carrying amount of plant and equipment as it was impracticable to do so.

ii.
• **The auditee did not meet the requirements of the financial reporting framework in two instances relating to one financial statement item.** • **It is impracticable for the auditor to determine the appropriate amount of the misstatement.** • **The misstatement also occurred in the previous year, remains unresolved and is material.**

The [type of auditee] did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Additions to property, plant and equipment were incorrectly recognised as expenditure. Some of these additions were further recorded at incorrect amounts. Consequently, property, plant and equipment was understated and total expenditure was overstated by R... (201X: R...). Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

c. **Limitation misstatement**

i.
• **The auditee denied the auditor access to certain premises and thus imposed a limitation on the scope of the audit.**

I was unable to obtain sufficient appropriate audit evidence for movable tangible assets, as I was denied access to certain premises. I was unable to confirm these physical assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to movable tangible assets stated at R... in note [XX] to the financial statements.

ii.
• **The auditee was unable to provide supporting documents for recorded transactions.**

I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for accounts receivable. As described in note [XX] to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the accounts receivable corresponding figure stated at R... in the financial statements.

iii.
• **The auditor was unable to obtain sufficient appropriate audit evidence due to the introduction of a new system.**

The introduction of a new computerised accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of this auditor's report, management was still in the process of rectifying the system deficiencies and correcting the errors. I was unable to confirm or verify by alternative means accounts receivable of R… included in the statement of financial position at a total amount of R… as at [31 March 20XX/ 30 June 20XX]. As a result, I was unable to determine whether any adjustments were

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necessary to recorded or unrecorded accounts receivable, and the related elements in the statement of financial performance, statement of changes in net assets and cash flow statement.

iv.
• **The auditee was unable to provide sufficient appropriate evidence that all transactions had been recorded.**   • **The misstatement also occurred in the previous year, remains unresolved and is material.**

I was unable to obtain sufficient appropriate audit evidence that consumer deposits for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumer deposits stated at R... (201X: R...) in the financial statements.

v.
• **The auditee did not implement controls over cash revenue receipts, which had an effect on the completeness of revenue.**

I was unable to obtain sufficient appropriate audit evidence for cash donations received, as internal controls had not been established for the collection of cash donations before their initial entry in the financial records. I could not confirm whether all cash donations had been recorded by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to cash donations stated at R... in the financial statements.

vi.
• **The auditor was unable to obtain sufficient appropriate audit evidence about a significant aspect of the internal controls and to evaluate the possible effects on the financial statements.**

Included in accounts payable is R… for goods and services received but not yet paid. The [type of auditee] did not have adequate internal controls to maintain records of accounts payable for goods and services received but not yet paid. I was unable to obtain sufficient appropriate audit evidence to substantiate the accruals disclosed in note [XX] to the financial statements. As a consequence, I was unable to determine whether any adjustments were required to the financial statements arising from accounts payable and accruals not brought to account or incorrectly stated.

vii.
• **The subsidiary was unable to provide supporting documents for recorded transactions, which had an effect on the consolidated financial statements. While the consolidated and separate financial statements are presented together, the controlling entity's financial statements are unmodified.**   • **This example requires separate opinions for the separate and the consolidated financial statements.**

Unmodified opinion on the separate financial statements and qualified opinion on the consolidated financial statements

In my opinion, the separate financial statements present fairly, in all material respects, the separate financial position of [insert name of auditee] as at [insert date] and its separate

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financial performance and separate cash flows for the year then ended, in accordance with the [insert applicable financial reporting framework] and the requirements of the [insert applicable legislation].

In my opinion, except for the possible effects of the matter described in the basis for qualified opinion section of this report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of [insert name of auditee] as at [insert date] and its consolidated financial performance and consolidated cash flows for the year then ended, in accordance with the [insert applicable financial reporting framework] and the requirements of the [insert applicable legislation].

Basis for qualified opinion on the consolidated financial statements

Accounts receivable – restatement in corresponding amounts

I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for accounts receivable in the consolidated financial statements. As described in note [XX] to the financial statements, the restatement was made to rectify a previous year misstatement, but it could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the accounts receivable corresponding amount stated at R... in the consolidated financial statements. The possible effect of the matter was not considered material to the separate financial statements.

viii.

- **The controlling entity was unable to provide supporting documents for recorded transactions, which imposed a limitation of scope on the controlling entity's financial statements. While the consolidated and separate financial statements are presented together, the consolidated financial statements are unqualified.**
- **This example requires separate opinions for the separate and the consolidated financial statements.**

Unmodified opinion on the consolidated financial statements and qualified opinion on the separate financial statements

In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of [insert name of auditee] as at [insert date] and its consolidated financial performance and consolidated cash flows for the year then ended, in accordance with the [insert applicable financial reporting framework] and the requirements of the [insert applicable legislation].

In my opinion, except for the possible effects of the matter described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the separate financial position of [insert name of auditee] as at [insert date] and its separate financial performance and separate cash flows for the year then ended, in accordance with the [insert applicable financial reporting framework] and the requirements of the [insert applicable legislation].

Basis for qualified opinion on the separate financial statements

Accounts receivable – restatement in corresponding amounts

I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for accounts receivable in the separate financial statements. As described in note [XX], the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the accounts receivable corresponding figure stated at R... in the separate financial statements. The possible effect of the matter was not considered material to the consolidated financial statements.

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ix.

- **The controlling entity was unable to provide sufficient appropriate evidence that all transactions had been recorded, which had an effect on both the controlling entity's and the consolidated financial statements. The consolidated and separate financial statements are presented together.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

I was unable to obtain sufficient appropriate audit evidence that [name of group of entities] had properly charged and accounted for all consumer deposits for the current and previous year, due to the status of the accounting records. I was unable to confirm the consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumer deposits stated at R... (201X: R...) and R... (201X: R...) in the consolidated and separate financial statements, respectively.

x.

- **The controlling entity and some subsidiaries did not implement controls over cash revenue receipts, which had an effect on the completeness of revenue for both the controlling entity and the group. The consolidated and separate financial statements are presented together.**

I was unable to obtain sufficient appropriate audit evidence for cash donations received by the [name of group of entities], as internal controls had not been established for the collection of cash donations before their initial entry in the financial records. I could not confirm whether all cash donations had been recorded by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to cash donations stated at R... and R... in the consolidated and separate financial statements.

xi.

- **The department could not provide audit evidence that all revenue received had been recorded.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

I was unable to obtain sufficient appropriate audit evidence for departmental revenue due to the status of the accounting records. The department did not have adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions and events to the financial statements. I could not confirm departmental revenue by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to departmental revenue stated at R... (201X: R...) in the financial statements.

xii.

- **The department could not provide audit evidence relating to movable tangible capital assets.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for movable tangible capital assets and minor assets, due to the status of the accounting records and non-submission of information in support of these assets. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to movable tangible capital assets stated at R...

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(201X: R...) and minor assets stated at R... (201X: R...) in note [XX] to the financial statements.

xiii.
• **The department could not provide audit evidence relating to commitments.**

I was unable to obtain sufficient appropriate audit evidence for commitments, as the department did not maintain accurate and complete records of the contractual information used to determine commitments. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments stated at R... in the financial statements.

xiv.
• **The auditee was unable to provide supporting documents for transactions recorded during the previous year.**
• **The matter remains unresolved and material but did not recur in the current year.**

Qualified opinion

In my opinion, except for the possible effects on the corresponding amounts of the matter described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the [name of auditee] [and its subsidiaries] as at [31 March 20XX/ 30 June 20XX] and [its/ their] financial performance and cash flows for the year then ended, in accordance with the [applicable financial reporting framework] and the requirements of the [insert applicable legislation].

Basis for qualified opinion

During 201X, I was unable to obtain sufficient appropriate audit evidence for operating expenditure and to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to operating expenditure stated at R.... My audit opinion on the financial statements for the period ended [insert date 201X] was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the operating expenditure for the current period.

xv.
• **Management did not provide the written representations required by ISA 580.10 and .11.**
• **Disclaimer of opinion required.**

Preparation of the financial statements

I was unable to obtain sufficient appropriate audit evidence that the accounting [officer/ authority] [has/ have] fulfilled [his/ her/ its] responsibility for the preparation [and fair presentation] of the financial statements in accordance with the [insert applicable financial reporting framework], as written representations in this respect were not provided. I was also unable to obtain written representations from the accounting [officer/ authority] that I had been provided with all relevant information and access as agreed in terms of the audit engagement, and that all transactions had been recorded and were reflected in the financial statements. I could not determine the effect of the lack of such representations on the financial position of the [type of auditee] at [insert date] or the financial performance and cash flows for the year then ended.

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xvi. • **The auditee submitted financial statements without complete and accurate underlying records; for example, no trial balance or general ledger was provided.** • **The auditor could not continue with the audit.** • **Disclaimer of opinion required.**

Financial statements submitted without complete and accurate underlying records

I was unable to obtain sufficient appropriate audit evidence regarding the financial statements as a whole, as the financial statements were presented for audit purposes without accurate and complete underlying accounting records. I was unable to audit the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the financial statements as a whole.

d. Disagreement and limitation misstatement relating to one financial statement item

When evaluating the results of the audit work performed, the auditor is concerned with whether a particular class of transactions, account balance or disclosure (at the level of the individual financial statement line item) is materially misstated, which requires the audit opinion to be modified. This assessment is performed in the evaluation of uncorrected misstatements and concluding working paper.

- For purposes of assessing whether a particular financial statement line item is quantitavely materially misstated, the auditor compares the total misstatement amount for the individual financial statement line item with the relevant materiality figure. The auditor's qualitative evaluation of misstatements is informed by information about the nature, cause and circumstances of the misstatements.
- For purposes of reporting in the auditor's report and for wording the audit opinion modification paragraph, the total misstatement amount is still distinguished between disagreement and limitation misstatements in the evaluation of uncorrected misstatements and concluding working paper. The modification paragraph in the auditor's report must describe both the limitation and the disagreement that led to the modification, as well as quantify the disagreement misstatement amount, which will not be possible if the total misstatement amount is not distinguished between its disagreement and limitation portions.

i. • **The auditee was unable to provide supporting documents for a disclosure item and also did not record all the transactions that had occurred during the year.**

The [type of auditee] did not have adequate systems to maintain records of accounts payable for goods and services received but not yet paid for. This resulted in accruals being understated by R.... In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as accruals. I could not confirm accruals by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to accruals stated at R... in the financial statements.

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ii.

- **The auditee was unable to provide supporting documents that all transactions had been recorded, and evidence was obtained of transactions that should have been recorded.**

The [type of auditee] did not record all other goods and services received but not yet paid for, which resulted in accruals of R.... disclosed in note [XX] to the financial statements being understated by R.... In addition, I was unable to obtain sufficient appropriate audit evidence that all accruals had been recorded, as the [type of auditee] did not have adequate systems and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to accruals stated at R... in financial statements.

iii.

- **The auditee was unable to provide supporting documents for revenue from service charges and also did not comply with the financial reporting framework in this regard.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

The municipality recognised items that did not meet the definition of revenue in accordance with GRAP 9, *Revenue from exchange transactions*, and also did not measure revenue at the fair value of the consideration received or receivable, as required by the standard. Consequently, service charges revenue was overstated by R... (201X: R...) and other receivables was overstated by R.... (201X: R...).

iv.

- **The department could not provide audit evidence relating to immovable tangible capital assets and misstatements occurred due to inadequate systems in place.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

I was unable to obtain sufficient appropriate audit evidence for additions to immovable tangible capital assets, as the department did not have adequate systems to record additions. Furthermore, not all additions to buildings and other fixed structures were recorded resulting in buildings and other fixed structures being understated by R.... (201X: R...). I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the buildings and other fixed structures stated at R... (201X: R...) in immovable tangible capital assets disclosed in note [XX] to the financial statements.

v.

- **The auditee did not follow all the disclosure requirements of GRAP 3 relating to previous period errors.**
- **The auditee could not provide audit evidence relating to the previous period errors disclosed in the note.**

The [type of auditee] did not disclose previous period errors in note [XX] to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the previous period errors disclosed,

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as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the previous period errors disclosed in the financial statements.

vi.

- **The auditee did not meet the requirements of legislation, which had an effect on the financial statements; however, the amounts disclosed cannot be substantiated.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

The [type of auditee] did not include irregular expenditure in the notes to the financial statements, as required by section [40(3)(i)/ 55(2)(b)(i) of the PFMA/ section 125(2)(d) of the MFMA]. This was due to payments made in contravention of the supply chain management requirements, which resulted in irregular expenditure of R... (201x: R...). In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in the notes to the financial statements as sufficient appropriate audit evidence was not provided. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R... (201x: R...) in the financial statements.

vii.

- **The auditee disclosed unauthorised expenditure for the current year at incorrect amounts (immaterial disagreement) and did not provide supporting documents for a restatement in unauthorised expenditure.**
- **The misstatement also occurred in the previous year, remains unresolved and is material.**

The municipality incorrectly calculated unauthorised expenditure in the current year by netting off savings from different votes against each other, resulting in the current year unauthorised expenditure being understated by R.... In addition, I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of unauthorised expenditure, as the supporting information was not provided. I was unable to confirm the opening balance by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the unauthorised expenditure stated at R... (201x: R...) in the financial statements.

viii.

- **Trade and other payables were materially misstated due to a limitation.**
- **In addition, there was an immaterial disagreement misstatement. The other side of the journal was not mentioned, as it was not materially misstated.**

I was unable to obtain sufficient appropriate audit evidence for trade and other payables due to the poor status of the accounting records. I could not confirm the trade and other payables by alternative means. In addition, interest on other financial liabilities was duplicated resulting in trade and other payables from exchange transactions being overstated by R.... Consequently, I was unable to determine whether any further adjustments were necessary to trade and other payables from exchange transactions stated at R... in the financial statements.

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e. **Aggregation/ accumulation of immaterial uncorrected misstatements**

i.

- **Immaterial misstatements (due to disagreements) were identified, which are material in aggregate.**
- **Depending on the circumstances, the information can be described in one paragraph.**
- **Misstatements that are clearly trivial should not be included.**

[Total/ non-current/ current] assets

[In addition to the individually material uncorrected misstatement on (account balance e.g. PPE)], [total/ non-current/ current] assets was materially misstated by R… due to the cumulative effect of individually immaterial uncorrected misstatements in [non-current assets and current assets]/ [the following items]:

Non-current assets

- [List the non-current assets with misstatements] stated at [insert R value] was [overstated/ understated] by [R value of misstatement] (insert previous year if applicable).

Current assets

- [List the current assets with misstatements] stated at [insert R value] was [overstated/ understated] by [R value of misstatement] (insert previous year if applicable).

ii.

- **Immaterial misstatements (due to both disagreement and limitation) were identified, which are material in aggregate.**
- **Misstatements that are clearly trivial should not be included.**

[Total/ non-current/ current] liabilities

[Total/ non-current/ current] liabilities was materially misstated by R… due to the cumulative effect of individually immaterial uncorrected misstatements in [non-current liabilities and current liabilities]/ [the following items]:

Non-current liabilities

- [List the non-current liabilities with misstatements] stated at [insert R value] was [overstated/ understated] by [R value of misstatement] (insert previous year if applicable).

Current liabilities

- [List the current liabilities with misstatements] stated at [insert R value] was [overstated/ understated] by [R value of misstatement] (insert previous year if applicable).

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm [non-current liabilities and current liabilities]/ [the following items] by alternative means:

Non-current liabilities

- [List the non-current liabilities for which evidence could not be obtained] of R... as included in the disclosed balance of R...

Current liabilities

- [List the current liabilities for which evidence could not be obtained] of R... as included in the disclosed balance of R...

Consequently, I was unable to determine whether any further adjustment was necessary to [total/ non-current/ current] liabilities.

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iii.

- **Immaterial misstatements (limitation only) were identified, which are material in aggregate.**
- **Depending on the circumstances, the information can be described in one paragraph.**
- **Misstatements that are clearly trivial should not be included.**

[Total/ non-current/ current] assets

I was unable to obtain sufficient appropriate audit evidence regarding [non-current and current assets]/ [the following items], which had a material cumulative effect on [total/ non-current/ current] assets:

Non-current assets (only if total assets are misstated)

- [List the non-current assets for which evidence could not be obtained] of R... as included in the disclosed balance of R...

Current assets (only if total assets are misstated)

- [List the current assets for which evidence could not be obtained] of R... as included in the disclosed balance of R...

I was unable to confirm [total/ non-current/ current] assets by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to [total/ non-current/ current] assets.

iv.

- **Immaterial misstatements (disagreement only) in the income statement were identified, which are material in aggregate.**
- **Depending on the circumstances, the information can be described in one paragraph.**
- **Misstatements that are clearly trivial should not be included.**

Total [revenue/ expenditure]

Total [revenue/ expenditure] was materially misstated by R… due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- [List each revenue/ expenditure item with misstatements] stated at [insert R value] was [overstated/ understated] by [R value of misstatement] (insert previous year if applicable).

v.

- **Immaterial misstatements (both disagreement and limitations) in the income statement were identified, which are material in aggregate.**
- **Misstatements that are clearly trivial should not be included.**

Total [revenue/ expenditure]

Total [revenue/ expenditure] was materially misstated by R… due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- [List each revenue/ expenditure item with misstatements] stated at [insert R value] was [overstated / understated] by [R value of misstatement] (insert previous year if applicable).

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm [total revenue/ expenditure] by alternative means:

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- [List each revenue/ expenditure item for which evidence could not be obtained] of R... as included in the disclosed balance of R...

Consequently, I was unable to determine whether any further adjustment was necessary to [total revenue/ expenditure].

vi.

- **Immaterial misstatements (limitation only) in the income statement were identified, which are material in aggregate.**
- **Depending on the circumstances the information can be described in one paragraph.**
- **Misstatements that are clearly trivial should not be included.**

Total [revenue/ expenditure]

I was unable to obtain sufficient appropriate audit evidence regarding the following items, which had a cumulative effect on total [revenue/ expenditure]:

- [List each revenue/ expenditure item for which evidence could not be obtained] of R... as included in the disclosed balance of R...

I was unable to confirm total [revenue/ expenditure] by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to total [revenue/ expenditure].

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3. FINANCIAL STATEMENTS – EMPHASIS OF MATTER, OTHER MATTER, OTHER INFORMATION AND GOING CONCERN

A. Introduction

1. This chapter applies to all public sector auditees including those auditees not audited by the AGSA in accordance with section 4(3) of the PAA. It deals with the following paragraphs in the auditor's report template:
   - Emphasis of matter paragraphs are described in section B
   - Other matter paragraphs are described in section C
   - Other information paragraph is described in section D
   - Material uncertainty relating to going concern is described in section E
2. Responsibilities of the auditor relating to other information are described in the PAM, chapter 13 - *Subsequent events and other information included in the annual report.*
3. Responsibilities of the auditor relating to going concern are described in the PAM, chapter 11 - *Audit evidence from specific considerations.*

B. Emphasis of matter paragraph

a. International Standards on Auditing

4. ISA 706, ISSAI 1706

b. Overview of general principles, requirements and procedures

5. The auditor includes an emphasis of matter paragraph, if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements.
6. The auditor must meet the following requirements if an emphasis of matter paragraph is included in the auditor's report:
   - Include the paragraph within a separate section of the auditor's report.
   - Use an appropriate heading that includes the term 'emphasis of matter'.
   - Include the statements 'I draw attention to the [matter/ matters] below. My opinion is not modified in respect of [this/ these] [matter/ matters],' to indicate that the opinion is not modified in respect of the matters emphasised.

Example
Emphasis of matter(s)
I draw attention to the [matter/ matters] below. My opinion is not modified in respect of [this/ these] [matter/ matters].

   - Use an appropriate heading for each matter.
   - Include in the paragraph a clear reference to the matter being emphasised and where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph must refer only to information presented or disclosed in the financial statements.
7. The inclusion of an emphasis of matter paragraph in the auditor's report is not appropriate if:
   - the auditor is required to modify the opinion based on this matter

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- the matter has been determined to be a key audit matter (if key audit matters are applicable).

8. The auditor is required to include an emphasis of matter paragraph if the following instance is applicable during the specific audit engagement:

    - Revision of previously issued financial statements (ISA 560.16)

      Subsequent events refer to events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

      If the financial statements were amended for the subsequent event(s) after the financial statements were issued, the auditor is **required** to include an emphasis of matter paragraph in the auditor's report on the revised and reissued financial statements, referring to a note to the revised and reissued financial statements that extensively discusses the reason for the amendment of the previously issued financial statements.

      The auditor is required to include another matter paragraph if the note to the financial statements has been excluded. Refer to the example in section C of this chapter.

Example
Note [XX] to the financial statements indicates that the previously issued financial statements of [type of auditee] for the year ended 31 March 20XX/ 30 June XX have been revised and reissued, and provides reason(s) for the amendments.

9. The auditor may include an emphasis of matter paragraph in the following instances, however, the widespread use of emphasis of matter paragraphs diminishes the effectiveness of the auditor's communication of such matters:

    - Restatement of corresponding figures (ISA 710.A6)

      The auditor **may** highlight a restatement of corresponding figures that are disclosed in the current year financial statements, as a result of material misstatements that the auditor identified during the current year audit.

Example
As disclosed in note [XX] to the financial statements, the corresponding figures for [previous balance sheet date] were restated as a result of an error in the financial statements of the [type of auditee] at, and for the year ended, [current balance sheet date].

    - Matters important to the users of the financial statements (ISA 706.6) for example:
        - An uncertainty relating to the future outcome of exceptional litigation or regulatory action

Example
With reference to note [XX] to the financial statements, the department is the defendant in a land-claim lawsuit. The department is opposing the claim, as it believes that the claim is fraudulent. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

        - A significant subsequent event that occurred between the date of the financial statements and the date of the auditor's report
        - Early application (where permitted) of a new accounting standard that has a material effect on the financial statements
        - A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position

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- Material losses/ impairments

  The auditor **may** highlight instances of material losses, as already disclosed in the financial statements or the appropriation statement of a department. A loss relates to instances where inventory or assets were destroyed, written off or misappropriated. Impairments relate to impairment provisions for doubtful debts, loans, assets, inventory and investments.

  This paragraph should contain details of losses and impairments incurred due to actions taken or not taken by management. These would typically include losses through criminal conduct, losses of electricity and water inventory at municipalities, losses at departments, the under-collection of revenue, warranty losses and the significant impairment of debtors due to poor collection practices.

  If the disclosed losses for water and electricity are above the maximum percentages in terms of the National Treasury's MFMA circular 71, the auditor may consider including an emphasis of matter.

Examples
Material losses/ impairments – trade debtors
As disclosed in note [XX] to the financial statements, material losses of R… was incurred as a result of [a write-off of irrecoverable trade debtors].
Or
Material losses – electricity
As disclosed in note [XX] to the financial statements, material electricity losses of R… (20xx-20yy: R….) was incurred, which represents xx% (20xx-20yy: xx%) of total electricity purchased. Technical losses amounted to R…. (20xx-20yy: R828 953 000) and was due to [provide reasons for the technical losses]. Non-technical losses amounted to R…. (20xx-20yy: R…) and were due to [provide reasons for non-technical losses].
Or
Material losses – water
Same structure and similar wording as above may be used.

- Underspending of the [budget/ vote/ conditional grant]

  The auditor **may** highlight the following instances of material underspending, as already disclosed in the financial statements / appropriation statement:

  - Material underspending of the vote by the department
  - Material underspending of government grants/ transfer payments by an auditee (may also be due to the late receipt from the transferring auditee)
  - High expenditure in the final months of the year, indicating that the budget was not effectively managed
  - Late payment of transfer payments by a department
  - Large amounts held by public entities unspent due to amounts received late or not paid back to the department or the revenue fund
  - Impact of payment in the current year of the previous year's large accruals where unauthorised expenditure was avoided, resulting in an inability to achieve the service delivery targets for the current year.

  The consequences of the underspending should also be evident in the report on predetermined objectives.

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> Example
>
> As disclosed in the appropriation statement, the department materially underspent the budget by R…on (refer to the relevant programme / sub-programme).

- Payables (departments only)

  The auditor **may** include an emphasis of matter paragraph if the aging of the payables indicates that the amount of the payables which had not been paid within 30 days, as per treasury regulation 8.2.3, exceeds the voted funds to be surrendered and that unauthorised expenditure would have resulted had the amounts been paid on the due date.

> Example
>
> As disclosed in note [XX] to the financial statements, payables of R… exceeded the payment term of 30 days, as required by treasury regulation 8.2.3. This amount, in turn, exceeded the R… of voted funds to be surrendered by R…as per the statement of financial performance. The amount of R… would therefore have constituted unauthorised expenditure had the amounts due been paid in time.

- Unauthorised, irregular and fruitless and wasteful expenditure

  The auditor **may** draw attention to material instances of unauthorised, irregular and fruitless and wasteful expenditure, as already disclosed in the financial statements.

> Examples
>
> As disclosed in note [XX] to the financial statements, the [type of auditee] incurred irregular expenditure of R…, as it did not follow a proper tender process.
>
> *Or*
>
> As disclosed in note [XX] to the financial statements, irregular expenditure of R… that was incurred in the previous years was still under investigation/ was not investigated.

- Other (please insert appropriate heading)

  The auditor **may** highlight or report additional emphasis of matter paragraphs, provided that the matters are significant, in the public interest and properly disclosed and clearly distinguishable in the financial statements including the following:

  - Environmental issues
  - Corporate social responsibility issues.

  If the matters, the auditor wants to emphasise, are relevant to the audit but are not disclosed in the financial statements, the auditor may include them as another matter paragraph.

C. Other matter paragraphs

a. International Standards on Auditing

10. ISA 706.

b. Overview of general principles, requirements and procedures

11. The auditor includes another matter paragraph if s/he considers it necessary to communicate a matter other than those presented or disclosed in the financial statements, which is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

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12. The following requirements must be met if another matter paragraph is included in the auditor's report:

- Include the paragraph in a separate section of the auditor's report.

  The other matter paragraph should be included as a separate paragraph in the section of the auditor's report to which the matter relates, for example:

  - When relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the other matter paragraph may be included as a separate section following the report on the audit of the financial statements and the report on other legal and regulatory requirements
  - When another matter paragraph is included to draw users' attention to a matter relating to other reporting responsibilities addressed in the auditor's report, the paragraph may be included in the report on other legal and regulatory requirements section.

- Use the heading 'other matter'.
- Include the statement 'I draw attention to the [matter/ matters] below. My opinion is not modified in respect of [this/ these] [matter/ matters]' to indicate that the opinion is not modified in respect of the matters emphasised.

Example
Other matter(s)
I draw attention to the [matter/ matters] below. My opinion is not modified in respect of [this/ these] [matter/ matters].

- Use an *appropriate sub-heading* for each matter being referred to.

13. The other matter paragraph does not deal with circumstances where the auditor has additional reporting responsibilities that are supplementary to his/her responsibility to express an opinion on the financial statements, or where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters. Such additional reporting responsibilities are dealt with in the other reporting responsibilities section of the auditor's report. In the public sector this relates to the AGSA's reporting responsibilities for the audit of predetermined objectives and compliance with legislation.

14. The auditor is required to include another matter paragraph if the following instances are applicable during the specific audit engagement:

- Previous period audited by a predecessor auditor (ISA 710.13)

  The auditor is required to include another matter in the circumstance when the previous year audit was performed by a private firm in terms of section 4(3) of the PAA and the auditor-general has opted to audit the public entity in the current year.

Example
The financial statements of the previous year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act on [insert auditor's report date]. [The [qualified/ disclaimer of/ adverse] opinion was expressed due to the following: [insert reason(s)].]

- Unaudited disclosure notes (MFMA125)

  Section 125 of the MFMA describes disclosures that management should include in the financial statements. Section 125(2)(e) specifically requires the disclosure of particulars of non-compliance with the MFMA. The auditor cannot audit compliance with all the requirements of the MFMA. It is therefore not practicable for the auditor to determine the completeness of such disclosure and to provide assurance on this. However, the AGSA does report material findings on compliance with specific matters in key legislation, as set out in the *AG directive*.

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For this reason, the auditor includes another matter paragraph, in every auditor's report of an MFMA auditee, stating that this disclosure is not covered by the auditor's opinion.

> Example
>
> In terms of section 125(2)(e) of the MFMA, the [type of auditee] is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

- Unaudited supplementary schedules (ISA 700.53)

  If the supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, the supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.

  However, if the supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited. The examples below may be used to indicate that such supplementary information has not been audited.

> Examples
>
> The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this/ these schedule(s) and, accordingly, I do not express an opinion on it/ them.
>
> *Or*
>
> The [type of auditee] provided supplementary information in the financial statements on whether resources were obtained and used according to the legally adopted budget. The supplementary budget information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion on it.

- Revision of previously issued financial statements (ISA 560.16)

  If the financial statements were amended for a subsequent event after the financial statements were issued to the executive authority or the municipal council, the auditor is required to include another matter(s) paragraph in the new auditor's report on the revised and reissued financial statements if the revised and reissued financial statements do not discuss the reason for the amendment of the previously issued financial statements and the earlier report issued by the auditor.

> Example
>
> The previously issued financial statements of the [type of auditee] for the year ended [insert date] were revised and re-issued because of [provide details of the subsequent event]. Financial statements were not revised to include a note with the reasons for the amendments.

- AoPO - Achievement of planned targets

  This example report paragraph must be reported in the management report with the audit opinion/ conclusion and in the auditor's report in all instances. The reporting paragraph is applicable to scoped-in subject matters.

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- AoPO - Adjustment of material misstatements
  - **For PFMA:** With regard to the auditing of financial statements, sections 40(1)(a) and 55(1)(a) of the PFMA require that the auditee maintain full and proper records of its financial affairs; hence, if material adjustments are made to the financial statements that stem from the audit, this is reported as an issue of non-compliance with the PFMA. However, considering that the PFMA requirement for maintenance of full and proper records is limited to financial and **not performance** management affairs, a material adjustment to the annual performance report cannot be reported as an issue of non-compliance with the PFMA, and must therefore be reported as another matter paragraph.
  - **For MFMA**: With regard to the auditing of financial statements, section 122(1) of the MFMA requires the auditee to prepare financial statements that fairly present its state of affairs; hence, if material adjustments are made to the financial statements that stem from the audit, this is reported as an issue of non-compliance with the MFMA. However, considering that the MFMA requirement for fair presentation of information is limited to the financial statements and **not the annual performance report**, a material adjustment to the annual performance report cannot be reported as an issue of non-compliance with the MFMA, and must therefore be reported as an additional matter paragraph.

  NB: Material adjustments refer to those adjustments made by management to the reported indicators and targets in the annual performance report based on material misstatements identified during the audit.

15. The auditor may include another matter paragraph in the following instances:
    - Withdrawal from the audit engagement

      There are a number of circumstances in the ISAs where the auditor is required to either withdraw from the engagement or disclaim the auditor's opinion. ISA 706.A5 states that the auditor may consider it necessary to include another matter paragraph in the auditor's report to explain why it is not possible to withdraw from the engagement.

      The following ISA paragraphs refer to withdrawal:
      - ISA 210.7
      - ISA 240.38
      - ISA 250.A18
      - ISA 580.A24
      - ISA 600.13
      - ISA 705.13(b)

      This other matter paragraph should only be included under exceptional circumstances. The following are examples of exceptional circumstances:
      - The auditee does not take the appropriate remedial action regarding fraud or non-compliance with legislation that the auditor considers necessary in the circumstances, even where the fraud or non-compliance is not material to the financial statements.
      - The auditor's consideration of the risks of material misstatement due to fraud and the results of audit tests indicate a significant risk of material and pervasive fraud.
      - The auditor has significant concern about the competence, integrity, ethical values or diligence of management or those charged with governance.

Examples
Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. However, for the legislated

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requirement to perform the audit of [insert type of auditee], I would have withdrawn from the engagement in terms of the ISAs. *Or* The numerous misstatements identified in the financial statements are indicative of significant fraud, which calls into question the reliability of evidence obtained and the genuineness of the accounting records and documentation. However, for the legislated requirement to perform the audit of [insert type of auditee], I would have withdrawn from the engagement in terms of the ISAs.

D. Other information paragraphs

a. International Standards on Auditing

16. ISA 720.

b. Overview of general principles, requirements and procedures

17. Other information is defined as financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.
18. The auditor is required to report on other information in a separate section of the auditor's report after reading and considering the other information for material inconsistencies.
19. An annual report refers to a document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements.
20. An annual report contains or accompanies the financial statements and auditor's report and usually includes information about the entity's developments, its outlook and risks and uncertainties, a statement by the entity's governing body and reports covering governance matters.
21. Based on the information mentioned above, the following table illustrates what is regarded as other information in the public sector:

Requirement	Explanation
Sections 40 and 55 of the PFMA contain requirements relating to the annual report. The annual report template of a national/ provincial department or public entity, issued by National Treasury, includes the following information: • General information (including a report of the accounting officer) • Reported performance information • Governance information (including the audit committee report in terms of treasury regulations 3.1.13, 18.3.1(g), 27.1.10 and 28.2) • Human resource management information • Financial information (including the annual financial statements and auditor's report).	All information listed in these sections is other information except for the following: • The financial statements • The auditor's report • Reported performance information on the selected programmes /objectives. The Modified Cash Standard specimen financial statements include additional annexures/ schedules that relate to the notes to the financial statements. These additional annexures/ schedules do not form part of the financial statements and are other information.
Paragraph 5.7 of the JSE Debt Listings Requirements require the financial information prepared by the applicant issuer must also include how the issuer has implemented the King Code	A narrative explanation of specific disclosures recommended by King IV should be included for each principle in the annual report.

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Requirement	Explanation
through the application of the King Code disclosure and application regime.	The JSE requires compliance with the principles of King IV by JSE debt listed entities, non - compliance with any disclosure requirement should be reported in management report only. Any inconsistencies identified between a statement of compliance with King IV and other information should be reported in the other information section in the audit report.
The information disclosure requirements in terms of SA Standards of Generally Recognised Accounting Practice (GRAP): • Certain SA Standards of GRAP permit disclosures to be made in a report or other public document issued before, at the same time as, or in conjunction with the financial statements. A cross reference to the report or public document must be included in the notes to the financial statements.	The information relating to SA Standards of GRAP does not meet the definition of other information as it forms part of the financial statements. ISA 720.A9 addresses this type of scenario.
Section 121(3) and (4) of the MFMA contains the information that should be included in the annual report of municipalities and municipal entities. National Treasury MFMA Circular 63 also provides guidance on the format in which the annual report should be presented: • Mayor's foreword and executive summary • Governance • Service delivery performance • Organisational development performance • Financial performance • Auditor-general's findings (including the auditor's report) • Appendices (including recommendations by the municipal audit committee) • Financial statements.	All information listed in these sections is other information except for the following: • The financial statements • The auditor's report. • Reported performance information on the selected development priorities / objectives.
Section 125(2) (e) of the MFMA requires that the particulars of non-compliance with the MFMA be disclosed in the financial statements.	This information forms part of the financial statements. The AGSA includes an 'other matter' paragraph in the auditor's report stating that these disclosures are not covered by the auditor's opinion. These disclosures are therefore regarded as other information.

22. Material misstatements of the other information should be reported in the following circumstances:
    - There is a material uncorrected misstatement in the other information.
    - There is a basis for a qualified/ adverse opinion on the financial statements that affects the other information as the matter is included or otherwise addressed in the other information.
    - There is a reported material finding on performance information and/or compliance with legislation that affects the other information as the matter is included or otherwise addressed in the other information.

23. When the auditor expressed a disclaimer of opinion on the financial statements, the auditor does not include identified material inconsistencies that relate to the financial statements.

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However, the auditor still includes other inconsistencies that relate to reported performance information and compliance as described in bullet 3 above or as applicable.

24. When the auditor expressed a disclaimer of opinion on the audited reported performance information in the management report, the findings will be reported as set out in the examples below.

25. The following requirements must be met with regard to the placement and identification of the other information paragraph:

- Include the paragraph within a separate section of the auditor's report.

  In the public sector, other information could apply to all three types of audits. Other information is included as a separate section after the report on the audit of the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation.

- Use the heading 'other information'.

26. The following requirements must be met with regard to the standard wording of the other information paragraph:

- Include a statement that management is responsible for the other information.
- An identification of other information obtained prior to the date of the auditor's report and other information expected to be obtained after the date of the auditor's report. (Where relevant).
- A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express an audit opinion or any form of assurance conclusion thereon.
- A description of the **auditor's responsibilities** relating to reading, considering and reporting on other information.

> <u>Examples</u>
>
> The accounting [officer/ authority] is responsible for the other information. The other information comprises the information included in the annual report [which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act)]. *[This should be excluded if the auditee is not a company registered in terms of the Companies Act.]*
>
> The other information does not include the [consolidated and separate] financial statements, the auditor's report and those selected [programmes/ objectives/ development priorities] presented in the annual performance report that have been specifically reported in the auditor's report.
>
> My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
>
> In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the [consolidated and separate] financial statements and the selected [programmes/ objectives/ development priorities] presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

27. Additional wording is required based on the specific scenario applicable at the specific auditee (these scenarios are not exhaustive and if another scenario is encountered ARD should be consulted):

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- **The other information was received, read and considered**

> Example
>
> [Applicable where **unmodified opinions on the financial statements and selected programmes / objectives /development priorities were expressed]**
>
> If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.
>
> [*Insert the appropriate findings with reference to the examples below*].

- **The other information or parts thereof were not received before the date of the auditor's report**

> Examples
>
> [Applicable to a scenario where **only parts of other information were received, read and considered]**
>
> The other information I obtained prior to the date of this auditor's report is/are [include specific reports or description of other information obtained], and the [insert specific reports or description of outstanding information] is/are expected to be made available to us after [insert auditor's report date].
>
> If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. [*Insert the appropriate findings with reference to the examples below*].
>
> When I do receive and read the [insert specific reports or description of outstanding information], if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.
>
> *Or*
>
> [Applicable to a scenario where **no other information received]**
>
> I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

- The auditor **expressed a disclaimer of opinion on the financial statements** but findings on reported performance information/ compliance are applicable and affect the other information

> Example
>
> As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.
>
> *[Insert the appropriate findings relating to audited performance information and compliance with legislation with reference to the examples below.]*

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- The auditor **expressed a disclaimer of opinion on the reported performance information** but findings on the financial statements/ compliance are applicable and affect the other information

> Example
>
> **[Disclaimer of opinion is expressed for the APR as a whole (i.e. limitation scenario 2 of PAM chapter 9.2 applies) or for ALL the selected programmes /objectives /development priorities]**
>
> [I am unable to conclude whether the [insert specific other information] is materially misstated because I was unable to obtain sufficient appropriate audit evidence of the reported performance information [presented in the annual performance report] / [of [insert names of the selected programmes /objectives /development priorities]].
>
> *[Insert the appropriate findings relating to the financial statements and compliance with legislation with reference to the examples below.]*
>
> Or
>
> **[Disclaimer of opinion is expressed for SOME of the selected programmes /objectives /development priorities]**
>
> [I am unable to conclude whether the [insert specific other information] is materially misstated because I was unable to obtain sufficient appropriate audit evidence for [insert name of programme/ objective/ development priority].
>
> *[Insert the appropriate findings relating to the financial statements and compliance with legislation with reference to the examples below.]*

- **No annual performance report was prepared or submitted for audit – i.e. limitation scenario 1 of PAM chapter 9.2 applies**

> Example
>
> I am unable to conclude whether the [insert specific other information] is materially misstated because I was unable to audit the performance information as no annual performance report was prepared.
>
> *[Insert the appropriate findings relating to the financial statements and compliance with legislation with reference to the examples below.]*

28. Based on the review performed the auditor is required to report if a material misstatement in the other information was identified. Below are examples of the findings that could be reported based on the specific circumstances applicable at the auditee. (These examples are not exhaustive and if another example is encountered ARD should be consulted):

- **No material inconsistencies were identified**

> Example
>
> I have nothing to report in this regard.

- **A single material misstatement of the other information statement was identified**

> Examples
>
> I have concluded that the [insert specific other information] is materially misstated due to [*describe* the material misstatement in the other information/ *insert:* the material [misstatement/ finding] that has been identified [in the basis for [qualified/ adverse] opinion paragraph relating to [insert heading of each paragraph]/ [for [insert name of indicator /insert name of…] as described under [insert name of programme/ objective/ development priority]/ [insert name of subject matter].
>
> *Or*

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> I am unable to conclude whether the [insert specific other information] is materially misstated due to the fact that I was unable to obtain sufficient appropriate audit evidence for [[insert financial statement item] as described in [the basis for [qualified/ adverse] opinion paragraph] or [insert name of indicator/ insert name of…]as described under [insert name of programme/ objective/ development priority]/ [insert name of subject matter].

- **Multiple material misstatements of the other information statement were identified**

> Example
>
> I have concluded as follows regarding other information:
>
> - [[Insert specific other information] contains a material misstatement as [describe the material misstatement]
> - [[Insert specific other information] contains a material misstatement due to the material misstatement of [insert financial statement item] as described in the basis for [qualified/ adverse] opinion.
> - [[Insert specific other information] contains a material misstatement due to the material finding under [insert name of indicator] as described in [insert name of programme/ objective/ development priority].
> - [[Insert specific other information] contains a material misstatement due to the material finding under [insert name of…] as described in [insert name of subject matter].
> - [I am unable to conclude whether the [insert specific other information] is materially misstated because I was unable to obtain sufficient appropriate audit evidence for [insert financial statement item] as described in the basis for [qualified/ adverse] opinion paragraph[s].
> - [I am unable to conclude whether the [insert specific other information] is materially misstated because I was unable to obtain sufficient appropriate audit evidence for [insert name of indicator] as described under [insert name of programme/ objective/ development priority].
> - [I am unable to conclude whether the [insert specific other information] is materially misstated because I was unable to obtain sufficient appropriate audit evidence for [insert reference to requirement] as described under [insert name of the compliance subject matter].

E. Material uncertainty relating to going concern/ financial sustainability

a. International Standards on Auditing

29. ISA 570.

b. Overview of general principles, requirements and procedures

30. In terms of ISA 700, the auditor is required to report in terms of ISA 570, where applicable.

31. The PAM, chapter 11 - *Audit evidence from specific considerations*, paragraphs 106 to 110, and the decision tree describe the impact of different going concern scenarios on the auditor's report. This section illustrates the reporting requirements if a material uncertainty related to going concern exists and appropriate disclosures have been included in the financial statements.

32. The following requirements must be met with regards to the placement and identification of the paragraph:

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- Include the paragraph within a separate section of the auditor's report.

  In the public sector the paragraph is included below the section that provides context about the auditor's opinion under the report on the audit of the financial statements.
- Use the heading 'material uncertainty related to going concern'.
- Include an introductory paragraph or sentence.

> Example
>
> **Material uncertainty related to going concern**
>
> I draw attention to the matter below. My opinion is not modified in respect of this matter.

33. The following requirements must be met with regard to the standard wording of the paragraph:

- Draw attention to the note to the financial statements that discloses the following:
  - The principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
  - Management's plan to deal with these events or conditions.
  - That there is a material uncertainty and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.
- State that these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.
- State that the auditor's opinion is not modified in respect of the matter.

> Examples
>
> I draw attention to note [XX] to the financial statements, which indicates that the [type of auditee] incurred a net loss of R… during the year ended [insert date] and, as of that date the [type of auditee]'s current liabilities exceeded its total assets by R…. As stated in note [XX], these events or conditions, along with other matters as set forth in note [XX], indicate that a material uncertainty exists that may cast significant doubt on the [type of auditee]'s ability to continue as a going concern.
>
> *Or*
>
> I draw attention to note [XX] to the financial statements, which indicates that [brief description of events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern]. As stated in note [XX], these events or conditions, along with the other matters as set forth in note [XX], indicate that a material uncertainty exists that may cast significant doubt on the [type of auditee]'s ability to continue as a going concern.

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4. ANNUAL PERFORMANCE REPORT – BASIS FOR MODIFIED OPINION PARAGRAPHS

A. Introduction

1. The audit opinion on the usefulness and reliability of the reported information on performance against predetermined objectives is currently included in the report to management, with material findings being reported in the auditor's report.
2. One audit opinion is expressed on the usefulness and reliability per selected subject matter in the management report. In other words, multiple opinions will be expressed if more than one subject matter is selected for audit.
3. This chapter applies to all public sector auditees, including those auditees not audited by the AGSA in accordance with section 4(3) of the PAA, and deals with the following:
   - **Section B** – An overview of the general principles and requirements applicable to the structure of the basis for modification paragraphs to be included in the management report.

     NB: Audit findings included under the basis for modified opinions in the management report are reported as material findings in the auditor's report; therefore, the guidance applied to the modification paragraphs also applies to material findings reported in the auditor's report.

     This section also contains a table of Do's and Don'ts to assist auditors in drafting the modification paragraphs.
   - **Section C** – The standard wording of the basis for disclaimer of opinion when limitation scenario 2 is applicable.
   - **Section D** – Example basis for modification paragraphs for single material misstatements/ findings.
   - **Section E** – Examples of multiple material misstatements/ findings.
   - **Section F** – Standard wording for reporting on the phased misstatement conditions and other findings **only** reported in the annexure to the management report.
   - **Section G** – Quick reference guide to examples for AoPO reporting.
4. This chapter should be read with the auditor's report and management report templates, and the requirements and guidance contained in the following PAM chapters on which the examples are based:
   - Chapter 15.2 - AoPO: Evaluate the results of audit procedures, including misstatements – reasonable assurance
   - Chapter 15.3 - AoPO: Evaluate the results of audit procedures, including misstatements – limited assurance
   - Chapter 18.2 - AoPO: Concluding and forming the audit opinion – reasonable assurance
   - Chapter 18.3 - AoPO: Concluding and forming the auditor's assurance conclusion – limited assurance.
5. The following should be noted when reading this chapter:
   - Any reference in the chapter to 'subject matters' includes programme, objective or development priority.
   - The term 'opinion' is used for reasonable assurance engagements and 'conclusion' is used for limited assurance engagements. In this chapter, any reference to 'opinion' includes 'conclusion' for limited assurance engagements.
   - Any reference in the chapter to 'indicators' includes 'measures' where applicable.

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6. Where there are no findings for a particular paragraph heading, the heading should be deleted from the final version of the report.
7. Where wording appears in square [ ] brackets, the appropriate wording for the circumstances should be selected or inserted and other non-applicable wording should be deleted from the final version of the report.
8. Wording that appears in round ( ) brackets is explanatory information and should be deleted from the final version of the report.

B. Matters to be included in the basis for modified opinion paragraph in the management report and when reporting material findings in the auditor's report

a. Applicable to management report only

Include a heading for each subject matter that describes the type of opinion expressed.

E.g. Basis for [qualified/ adverse/ disclaimer of] opinion

b. Applicable to management and auditor's reports

Include a heading that describes each misstated material indicator.

E.g. Indicator: Number of awareness and education programmes implemented

9. If the name or description of the indicator is too long and it does not have a number, summarise it so that the user will be able to identify the indicator in the annual report.
10. If multiple indicators have the same finding, use the heading 'Various indicators'. Multiple indicators with the same finding can only be combined per subject matter. Refer to the examples in section E of this chapter for guidance on how to write these findings.

c. For qualified/ adverse opinions

Describe what the entity did not do (i.e. the misstatement), but which is required by the performance management and reporting framework.

11. When reporting on material misstatements the auditor describes the identified misstatements in sufficient detail to provide context to the finding but without a reference to the specific requirements of the performance management and reporting framework not adhered to.

Quantify and provide the effect of the misstatement

12. Disagreement misstatements on reliability should be quantified for reporting. If it is not possible to quantify the effects of the misstatement, state that it is impracticable to determine the value of the misstatement. The audited value must be reported, where applicable.

    E.g. (a) The reasons for not achieving the planned patient satisfaction rate target of 90% were not reported in the annual performance report.

    E.g. (b) The reported achievement for the target was misstated as the audit evidence provided indicated that a patient satisfaction rate of 62% was obtained while a patient satisfaction rate of 88% was reported in the annual performance report.

d. For qualified/ disclaimer of opinions

Describe the limitation

E.g. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target. This was due to limitations on the scope of my work.

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State that it was not possible to confirm the item by alternative means

E.g. I was unable to confirm the reported achievement by alternative means.

State that you were unable to determine whether any adjustments were required to the indicator and its related targets being audited. The term 'consequently' should be used to describe the effects of limitation misstatements.

E.g. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 85% TB client treatment success rate.

13. The most important matters mentioned above are listed as do's and don'ts in the table below:

Do's	Don'ts
General	
Include the paragraphs in order of most significant to least significant.	Include excuses for the auditee's misstatement or information not obtained.
Include a heading: Basis for qualified/ adverse/ disclaimer of opinion.	Include the assertions affected.
Include the heading of the specific indicator with the material misstatement.	Include root causes (these are included under internal control) or a progress report on how the matter is being rectified (reserved for management report).
Communication should be uncluttered (simple and clear).	Use the wording of the disagreement misstatement to describe a limitation misstatement and vice versa.
When a misstatement relates to non-disclosure of information, describe the nature of the omission, provided that it is practicable to do so and that the auditor has obtained sufficient appropriate audit evidence about the omitted information.	
Disagreements	
Include a concise description of the misstatement.	
Include the audited value (based on the difference between the value of the reported achievement and our best estimate, which is the projected misstatement, anomalous misstatements and any misstatements from items specifically selected) or state that it was impracticable to determine the value of the misstatement.	
Limitations	
Include a statement that sufficient appropriate audit evidence could not be obtained.	Include the estimated value of the limitation misstatement.
Include a brief description of why it could not be obtained.	
Include a statement that the indicator could not be confirmed by alternative means.	
Include a statement that you were unable to determine whether adjustments were necessary to the indicator and include the value of the reported achievement for the indicator and target in the annual performance report.	

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C. Standard paragraphs – Basis for disclaimer of opinion when limitation scenario 2 is applicable

14. Refer to the PAM, chapter 9.2 - *AoPO: Audit plan and risk response at the assertion level – reasonable assurance* for detailed guidance on limitation scenario 2 and when these reporting paragraphs will apply.
15. These modification paragraphs are included for the audit as a whole when all the subject matters are affected.
16. **For reporting in the auditor's report:** include paragraph C.1 or C.2 immediately after the heading 'Report on the audit of the annual performance report'. A heading is not required.
17. **For reporting in the management report:** refer to the guidance on reporting disclaimers of opinion contained in the management report template. One disclaimer of opinion will be reported for the APR as a whole.

C.1
• **Approved planning documents not submitted for audit**

I was unable to obtain sufficient appropriate audit evidence to confirm the usefulness and reliability of the reported performance information because the annual performance report was presented without the approved [strategic and annual performance plan/ shareholders compact and corporate plan/ integrated development plan and service delivery budget implementation plan/ service delivery agreement] for the year under review, as required by [treasury regulation 5 (for departments, trading entities and constitutional institutions)/ treasury regulation [29/30] (for public entities)/ section 25 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) and section 1, 21 and 53 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) (for municipalities)/ section 93 ([A/B]) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (for municipal entities)]. I was unable to audit the usefulness and reliability of the reported performance information by alternative means.

C.2
• **Annual performance report was submitted without complete and accurate underlying records for all subject matters**

I was unable to obtain sufficient appropriate audit evidence for the [annual performance report as whole/ selected [programmes/ objectives/ development priorities] listed below] as the annual performance report was presented without accurate and complete underlying (performance) records. I was therefore unable to audit the usefulness and reliability of the reported performance information. This was due to [limitations placed on the scope of my work and/or (include other appropriate reasons for misstatement)]. I was unable to audit the reported performance information for [the annual performance report as a whole/ [this/these] selected [programmes/ objectives/ development priorities]] by alternative means.

- [Programme/ objective/ development priority x (include number)]: (include name)
- [Programme/ objective/ development priority x (include number)]: (include name)

D. Example paragraphs - Basis for modification paragraphs for single material misstatements/ findings

18. It is important to note that while the standard example report paragraphs are written to cater for various scenarios, the examples provided are not an exhaustive list.
19. It is very likely that in practice the standard example paragraphs for each scenario will need to be combined, as more than one finding may be applicable to each indicator. Refer to section E for examples on multiple material misstatements/findings per indicator.

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20. The standard wording in the example report paragraphs provided should be contextualised by including clear and appropriate references to the audit results and circumstances at the auditee.

21. Tables can be used when reporting on multiple material indicators with the same material misstatement/finding or the same combination of multiple material misstatements/findings to make reporting clearer. Refer to section E for examples.

a. Disagreement misstatements that could result in a qualified or adverse opinion, depending on the circumstances

Da.1
• **Reported strategic or development objectives were not consistent or complete when compared with the planned strategic or development objectives**
NB: Where there is inconsistency between the planned and reported objectives, the heading should describe the objective that is misstated

Objective X

The [strategic/development] objective approved in the [strategic/ corporate/ annual performance/integrated development plan/ service delivery agreement] was X (include details). However, the objective reported in the annual performance report was Y (include details).

Da.2
• **Changes to strategic or development objectives not approved**
NB: If changes to objectives were not approved, the heading should describe the objective that is misstated.

Objective X

The [strategic/development] objective approved in the [strategic/ corporate/ annual performance/integrated development plan/ service delivery agreement] was X (include details). However, the objective was changed to Y (include details) without the necessary approval.

Da.3
• **Reported indicators and/or targets were not consistent or complete when compared with planned indicators and/or targets**

Indicator X

The [indicator and/or target] approved in the [strategic/ corporate/ annual performance/ integrated development plan/ service delivery agreement] was X (include details). However, the [indicator and/or target] reported in the annual performance report was Y (include details).

Da.4
• **Changes to indicators or targets not approved**

Indicator X

The [indicator and/or target] approved in the [strategic/ corporate/ annual performance/ integrated development plan/ service delivery agreement] was X (include details). However, the [indicator and/or target] was changed to Y (include details) without the necessary approval.

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Da.5

- **Reported achievement(s) were not consistent with the planned and reported indicator and target**

Indicator X

The planned indicator and target were Y (include details e.g. to build a dam), but the reported achievement(s) referred to was X (include details e.g. infrastructure plan completed).

Da.6

- **Performance indicators were not well-defined and/or targets were not specific, and/or measurable and/or time bound**

Indicator X

The [source information and/or evidence and/or method of calculation] for achieving the planned indicator was not clearly defined.

Or

Indicator X

The planned target [or target X] for this indicator was not [specific in clearly identifying the nature and required level of performance and/or measurable and/or did not specify the period or deadline for delivery].

Da.7

- **Performance indicators were not verifiable**

Indicator X

The systems and processes that enable reliable reporting of achievement against the indicator were not adequately designed (include details of the inadequacies of the systems and/or processes).

Da.8

- **Performance indicators did not relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives**

Indicator X

There was no clear and logical link between the indicator [and target X] (include details) and the strategic objective to which it relates. The indicator [and related target] focused on X (include details), while the strategic objective aimed to achieve (include details of the strategic objective).

Da.9

- **Reasons for variances between planned and actual performance not disclosed – applicable to departments and schedule 3A and 3C public entities only**

NB: As per the *Annual report guide for national and provincial departments and schedule 3A and 3C public entities*, auditees are required to report and comment on deviations between planned targets and actual achievements. For audit purposes, the term 'variance' equates to 'deviation'. For audit reporting purposes, use the terminology as per the annual performance report of the auditee. Material misstatements in relation to over- and underachievement against planned targets must be reported.

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Indicator X

The reason for the variance between the planned target of X (include details) and the reported achievement of Y (include details) was not reported in the annual performance report.

Da.10
• **Reasons for variances do not agree with the evidence / source documentation provided - applicable to departments and schedule 3A and 3C public entities only**

Indicator X

The reason provided for the variance between the planned target of X (include details) and the reported achievement of Y (include details), did not agree with the supporting evidence provided. Based on the supporting evidence provided, the reason for the variance was (include details of what was audited reasons) and not (include details) as reported in the annual performance report.

Da.11
• **Changes to planned objectives or indicators or targets not disclosed – applicable to departments and schedule 3A and 3C public entities only**

Indicator X

The [indicator and the related objective and/or target] approved in the [strategic/ corporate/ annual performance/integrated development plan/ service delivery agreement] was X (include details). However, the indicator [and the related objective and/or target] were reported in the annual performance report as Y (include details). The change(s) made were not disclosed in the annual performance report.

Da.12
• **Comparison between planned and actual performance/ performance of the year under review and previous year – applicable to municipalities only**

Indicator X

A comparison between the [planned and actual performance/ performance of the year under review and previous year] was not included in the annual performance report.

Da.13
• **Measures taken to improve performance not disclosed – applicable to municipalities only**

Indicator X

The measures taken to improve performance against target X (include details) were not included in the annual performance report.

Da.14
• **Measures taken to improve performance did not agree with the evidence provided – applicable to municipalities only**

Indicator X

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The reported measures taken to improve performance against the planned target, did not agree to the supporting evidence provided. Based on the supporting evidence provided, the measures taken to improve performance were (include details of what was audited measures) and not (include details) as reported in the annual performance report.

Da.15
• **Reported achievement did not agree with the evidence provided, i.e. not valid and/or accurate and/or complete**

Indicator X

The achievement for target X (include details of planned target) reported in the annual performance report was Z (include reported value). However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of Y (include audited value).

b. Limitation misstatements that could result in a qualified opinion or disclaimer of opinion, depending on the circumstances

Db.1
• **Performance indicators were not well-defined and targets were not specific, measurable and time bound**

Indicator X

I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined [source information and/or evidence and/or method of collection] to be used when measuring the actual achievement for the indicator. This was due to [a lack of technical indicator descriptions and/or formal standard operating procedures or documented system descriptions]/ (include other relevant reasons for misstatement)]. I was unable to test whether the indicator was well-defined by alternative means.

Or

I was unable to obtain sufficient appropriate audit evidence for target X (include details) that clearly defined the predetermined [nature and required level of performance and/or method of calculation and/or deadline for delivery]. This was due to [a lack of technical indicator descriptions and/or proper systems and processes and/or formal standard operating procedures or documented system descriptions]/ (include other relevant reasons for misstatement)]. I was unable to test whether the target for this indicator was clearly defined by alternative means.

Db.2
• **Performance indicators were not verifiable**

Indicator X

I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator. This was due to [a lack of technical indicator descriptions and/or formal standard operating procedures or documented system descriptions]/ (include other relevant reasons for misstatement)]. I was unable to validate the existence of systems and processes by alternative means.

Db.3

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- **Performance indicators did not relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives**

Indicator X

I was unable to obtain sufficient appropriate audit evidence that clearly explained the logical link between the indicator, [and target X] (include details) and the related strategic objective. This was due to (include relevant reasons for the misstatement). I was unable to confirm the relevance of the indicator to the strategic objective by alternative means.

Db.4

- **No evidence was provided for reasons for variances between planned and actual performance – applicable to departments and schedule 3A and 3C public entities only**

Indicator X

I was unable to obtain sufficient appropriate audit evidence to support the reason for the variance between the planned target of X (included details) and the achievement of Y (include details) reported in the annual performance report. This was due to [limitations placed on the scope of my work and/or (include other appropriate reasons for misstatement)]. I was unable to confirm the reported reason for the variance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported reason for the variance.

Db.5

- **No evidence was provided for the measures reported to improve performance – applicable to municipalities only**

Indicator X

I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against target X (include details) as reported in the annual performance report. This was due to [limitations placed on the scope of my work and/or (include appropriate reasons for the misstatement)]. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Db.6

- **Reported achievement not supported by sufficient appropriate audit evidence, i.e. not valid and/or accurate and/or complete**

Indicator X

I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target X (include details). This was due to [limitations placed on the scope of my work and/or (include other appropriate reasons for misstatement)]. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of [include reported value] as reported in the annual performance report.

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c. **Disagreement and limitation misstatements relating to one indicator**

Dc.1
• **The auditee was unable to provide supporting documents for the reported achievements and also did not record all the information for the reported achievements that had occurred during the year**
NB: If the disagreement misstatement is not material, the reporting paragraph is treated as a limitation misstatement only and no audited value should be disclosed. Refer to reporting paragraph Db.6 above.

Indicator X

The reported achievement of X (include details) for target Y (include details of planned target) is not reliable as the [type of auditee] did not [have an adequate performance management system to maintain records/ (include other reasons for the misstatements)] to enable reliable reporting on achievement of targets. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances while in other cases the supporting evidence provided did not agree to the reported achievement. Based on the supporting evidence that was provided, the achievement was Y (include audited value), but I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

E. Example paragraphs – Basis for opinion paragraphs with multiple material misstatements/ findings

22. The practical examples in this section demonstrate how the principles in section D can be applied in different scenarios.

23. This is not an exhaustive list of practical examples and principles should be applied to other combinations of findings that may exist.

a. **Multiple material indicators with the same single material misstatement/ finding**

Ea.1
• **<u>Presentation and disclosure</u>: Reasons for variances not disclosed (refer to Da.9)**

Various indicators

The reasons for the variance between the planned targets and the reported achievements were not explained in the annual performance report for the indicators listed below:

- Reports on number of tourist guides registered for compliance
- Number of reports on skills development initiatives implemented
- Report on number of tourism businesses registered
- Report on implementation of BBBEE tourism codes
- Number of reports on tourist complaints
- Number of community tourism projects facilitated and supported

Ea.2
• **<u>Consistency</u>: Changes to targets not approved (refer to Da.4)**

Various indicators

The targets for the indicators listed below were changed without obtaining the necessary approval.

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Indicator number	Indicator description	Initial target	Revised target
1.7.5	Children under five years diarrhoea case facility rate	4%	3,2%
3.3.1	School grade 1 screening average	8%	14 822
3.3.2	School grade 8 screening average	8%	10 180

Ea.3

- **Reliability: Disagreement misstatements (refer to Da.15)**

Various indicators

The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator description	Reported achievement	Audited value
TB client treatment success rate	85,4%	65,8%
TB/HIV co-infected client on ART rate	37,7%	43,2%
TB client death rate	5,7%	5,2%

Ea.4

- **Reliability: Combination of limitation and disagreement misstatements per indicator (refer to Dc.1)**

NB: If the disagreement misstatements for some of the indicators are not material:

- it can be treated and reported separately as a limitation misstatement only and no audited value should be disclosed. Refer to reporting paragraph Db.6 above.

Or

- it can be combined in one paragraph but no audited values should be disclosed for the affected indicators

Various indicators

The department did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances, while in other cases the supporting evidence provided did not agree to the reported achievements. Based on the supporting evidence that was provided, the achievement of these indicators was different to the reported achievement in the annual performance report. I was also unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below.

Indicator description	Reported achievement	Audited value
Compliant resolution within 25 working days rate – district health services	95%	98%
Compliant resolution rate – specialised hospitals	87,7%	64,2%
PHC utilisation rate – district health services	84,6%	39,5%

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Ea.5

- **Reliability: Limitation misstatements (refer to Db.6)**

NB: If a large number of material indicators has the same finding it may be more appropriate to include a summarised list of indicators in the table. The summary could be based on the sub-programmes under which the indicators report or just by grouping indicators with a similar name or objective together – for example 'TB indicators'.

Various indicators

I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 47 of the 57 indicators relating to this programme. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

Indicator number	Indicator description	Number of indicators
1.7.5/ 1.7.9/ 1.8.5	Client satisfaction rate	3
1.1.1	PHC utility rate	1
1.6.1/ 1.6.2/ 1.6.3/ 1.7.12/ 1.6.5	Maternal health-related indicators	5
1.4.2/ 1.4.3/ 1.4.8/ 1.4.9/ 1.5.2/ 1.5.3 …	HIV and TB-related indicators	12
…	…	…

b. **Multiple material misstatements/ findings relating to material indicators**

Eb.1

- **Presentation and disclosure: Reasons for variances not disclosed (refer to Da.9)**
- **Reliability: Disagreement misstatements (refer to Da.15)**

Indicator X

The achievement for target X (include details of planned target) reported in the annual performance report was Z (include reported value). However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of Y (include audited value). The reason for the variance between the planned target and the reported achievement was also not explained in the annual performance report.

Eb.2

- **Findings on measurability (i.e. well-defined AND verifiable) of an indicator are so severe that the auditor is unable to audit the reliability of the reported achievement i.e. the assessment criteria was applied and limitation scenario 3 is applicable. (Refer to Dc.1)**
- **Measurability: Not well-defined and verifiable – disagreement (refer to Da.6) OR**
- **Measurability: Not well-defined and verifiable – limitation (refer to Db.1) AND**
- **Reliability: Limitation misstatement (refer to Db.6)**

Indicator X

I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of target X (include details)]. This was due to [a lack of technical indicator descriptions and/or proper performance management systems and processes and/or formal standard operating procedures or documented systems descriptions]/ [inadequate technical

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indicator descriptions and/or proper performance management systems and processes and/or formal standard operating procedures or documented system descriptions] that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of [include reported value] as reported in the annual performance report.

Eb.3

- **Consistency: Indicator inconsistent (refer to Da.3)**
- **Consistency: Changes to indicator not approved (refer to Da.4)**
- **Relevance: Indicator not relevant (refer to Da.8)**
- **Measurability: Indicator not well-defined – disagreement (refer to Da.6)**
- **Presentation and disclosure: Reason for variance not corroborated – limitation (refer to Db.4)**
- **Reliability: Disagreement misstatement (refer to Da.15)**

Indicator: number of awareness and education programmes implemented

The indicator was initially approved in the annual performance plan as 'number of education programmes implemented'. However, the indicator was changed without approval and reported in the annual performance report as 'number of awareness and education programmes implemented'. There was also no clear and logical link between the indicator and the related strategic objectives and priorities as information could not be provided to explain how the indicator would contribute to the key provincial priority of attracting tourists to the province.

The source information and method of calculation for the achievement of the planned indicator was not clearly defined and the type of awareness and education programmes was not specified. Due to these significant inconsistencies, I was unable to obtain sufficient and appropriate audit evidence for the variance between the planned target and reported achievement in the annual performance report. Limitations were placed on the scope of my work as I was unable to confirm the reported reason for the variance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reason for the variance reported.

The achievement for the target was reported in the annual performance report as five awareness and education programmes that were implemented. However, the supporting evidence provided indicated that only two awareness and education programmes were implemented.

Eb.4

- **Consistency: Indicator not consistent (refer to Da.3)**
- **Consistency: Changes to indicator not approved (refer to Da.4)**
- **Measurability: Indicator not well-defined (refer to Da.6)**
- **Reliability: Limitation misstatements (refer to Db.6)**

Indicator: Provision of water to 6 villages through ground water optimisation

The indicator was initially approved as "Provision of water to 6 villages through ground water optimisation" in the integrated development plan. However, it was changed without approval and included in the annual performance report as "Provision of water to 4 villages through ground water optimisation".

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The method of calculation for the achievement of this indicator was not clearly defined. As a result, I was unable to obtain sufficient appropriate audit evidence for the reported achievement. Limitations were placed on the scope of my work as I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of three villages provided with water as reported in the annual performance report.

Eb.5

- **Relevance: Indicator and target not relevant (refer to Da.8)**
- **Reliability: Disagreement misstatements (refer to Da.15)**

Indicator: Progress reports submitted to municipal manager on the installation of 10MVA transformer

The indicator and related target did not relate to the realisation of the strategic objective of the municipality. This is because the achievement of the indicator was measured through the number of progress reports submitted to the municipal manager, instead of measuring the actual installation of the 10 MVA transformer. The achievement reported in the annual performance report indicated that four progress reports were submitted. However, the supporting evidence provided indicated that only two progress reports were submitted.

c. **Reporting on an indicator with multiple targets**

Ec.1

- **Measurability: Indicator not well defined – limitation (refer to Da.6)**
- **Reliability: Disagreement misstatements (refer to Da.15)**

Indicator: Improve mental health treatment

I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection to be used when measuring the actual achievement for the indicator. This was due to a lack of technical indicator descriptions and I was unable to test whether the indicator was well-defined by alternative means.

In addition, the reported achievements in the annual performance report did not agree to the supporting evidence provided for the targets listed below:

Planned target	Reported achievement	Audited value
55% mental health admission rate	50%	32%
Approved policy on mental health by 31 March	Approved	Not approved by designated authority
90% patient satisfaction rate	88%	62%

d. **Multiple material indicators with multiple material misstatements/ findings**

Ed.1

- **Measurability: Indicator not verifiable – limitation (refer to Db.2)**
- **Presentation and disclosure: Reasons for variances not corroborated – limitation (refer to Db.4)**
- **Reliability: Limitation misstatement (refer to Db.6)**

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Various indicators

I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator. Due to this limitation placed on my work, I was also unable to obtain sufficient appropriate audit evidence for the variances and the reported achievements of the indicators listed below. I was unable to validate the existence of the systems or to confirm the reasons for the variances and the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reasons for the variances and to the reported achievements in the annual performance report.

Indicator description	Reported achievement
Patient satisfaction rate – regional hospitals	68%
Patient experience of care rate – specialised hospitals	62%
Complaints resolution rate	57%

Ed.2

- **<u>Relevance</u>: Indicator and target not relevant (refer to Da.8)**
- **<u>Measurability</u>: Severe limitation misstatements resulting in a limitation on reliability (refer to Eb.2)**

Various indicators

I was unable to obtain sufficient appropriate audit evidence for the reported achievements in the annual performance report of the indicators listed below. This was due to a lack of technical indicator descriptions, proper performance management systems and processes with formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm that the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements. In addition, these indicators did not relate to the strategic objective, which they aimed to achieve.

Indicator description	Strategic objective	Reported achievement
Number of reports on skills development initiatives implemented	Attract tourists to the province	4
Number of reports on quality assurance initiatives implemented	Attract tourists to the province	1

Ed.3

- **<u>Consistency</u>: Indicators and targets not consistent (refer to Da.3)**
- **<u>Consistency</u>: Changes to indicators not approved (refer to Da.4)**
- **<u>Relevance</u>: Indicator and target not relevant (refer to Da.8)**

Various indicators

The indicators listed below were approved in the service delivery and budget implementation plan (SDBIP) but were not included in the annual performance report. This change was also not approved. In addition, there was no clear and logical link between the indicators and targets and the strategic objective of 'provision of electricity' to which it relates. The indicators focused on monitoring of reports, while the strategic objectives aimed to achieve service delivery.

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Indicator description	Planned target
Number of monitoring reports on power cables to be installed at the CBD substation	4 monitoring reports
Number of monitoring reports on the substation to be built at X	4 monitoring reports

Ed.4

- **Relevance: Indicator and target not relevant (refer to Da.8)**
- **Measurability: Indicator not verifiable – disagreement (refer to Da.7)**
- **Reliability: Limitation misstatement (refer to Db.6)**

Various indicators

There was no clear and logical link between the indicators and targets listed below and the strategic objective to which it relates. The indicators focused on monitoring reports, while the strategic objective aimed to achieve service delivery. The systems and processes that enable reliable reporting of the achievement against these targets was also not adequately designed. As a result, I was unable to obtain sufficient appropriate audit evidence for the reported achievements. Limitations were placed on the scope of my work as I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report.

Indicator description	Reported achievement
Patient satisfaction rate – regional hospitals	68%
Patient experience of care rate – specialised hospitals	62%
Complaints resolution rate	57%

Ed.5

- **Measurability: Indicators not verifiable – limitation (refer to Db.2)**
- **Reliability: Disagreement and limitation misstatement (refer to Dc.1)**

Various indicators

I was unable to obtain sufficient appropriate audit evidence to validate the existence of a system and processes that enable reliable reporting of actual achievement against the indicators listed below.

Sufficient appropriate audit evidence could not be provided in some instances while in other cases, the supporting evidence provided did not agree to the reported achievements in the annual performance report. Based on the supporting evidence provided, the achievement was different from those reported in the annual performance report, but I was unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below.

Indicator description	Reported achievement	Audited value
Number of electricity house connections	350	330
New houses connected to water borne sanitation	700	129

Ed.6

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KTb

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- **Presentation and disclosure: Measures taken to improve performance not corroborated (refer to Db.5)**
- **Reliability: Limitation misstatement (refer to Db.6)**

Various indicators

I was unable to obtain sufficient appropriate audit evidence for the achievement and the related measures taken to improve performance as reported in the annual performance report for the indicators listed below. Limitations were placed on the scope of my work as the actual level of achievement for the year was not quantified. I was unable to confirm the reported achievement and the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements and the reported measures taken to improve performance.

Indicator description	Planned target	Reported achievement
Block 6 water supply	Block 6 supply completed by June 2017	Not achieved
Turnaround time for attending to incidents upon reporting	Incidents attended to within 24 hours of reporting	Not achieved

F. Standard wording for reporting on the phased misstatement conditions and other findings only reported in the annexure to the management report

a. Phased misstatement conditions

24. Phased implementation applies to the following two criteria as developed from the Performance Management and Reporting Framework (PMRF):
    - Overall presentation of the performance information in the annual performance report is comparable and understandable
    - Completeness of relevant indicators in terms of the mandate of the auditee, including:
        - relevant core functions are prioritised in the period under review
        - relevant performance indicators are included for the core functions prioritised in the period under review
        - customised indicators related to the core functions prioritised for the year under review are included in planning documents – provincial departments only.
25. Any material audit findings in this regard will only be reported as emerging risks in the management report as well as in the annexure to the management report. These findings will not have an impact on the audit opinion in the management report and will not be reported in the auditor's report.
26. Below is the standard wording to be used for reporting on the two phased misstatement conditions.
27. These findings are reported overall for the subject matter as a whole.

Fa.1

- **Overall presentation of the performance information in the annual performance report is not comparable and understandable.**

The performance information included in the annual report was not [comparable and/or understandable] in the context of the overall performance measurement and reporting framework applicable to the [type of auditee] as (include details of the misstatements identified).

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b. Completeness of relevant indicators in terms of the mandate of the auditee

Fa.2

- **Relevant core functions were not prioritised. (Not applicable to Parliament and provincial legislatures)**

The (include name or description of core function), which the (type of auditee) is primarily responsible for in terms of its [legislative and /or political mandate], was not prioritised and included in the approved [annual performance plan and strategic plan/ shareholder's compact and corporate plan/ service delivery and budget implementation plan and integrated development plan]. The reasons provided by management were (include details) but (include reasons for the misstatements based on supporting evidence).

Or

All core functions, which the (type of auditee) is primarily responsible for in terms of its [legislative and/or political mandate], were not prioritised and included in the approved [annual performance plan and strategic plan/ shareholder's compact and corporate plan/ service delivery and budget implementation plan and integrated development plan]. The reasons provided by management were (include details) but (include reasons for the misstatements based on supporting evidence). These functions include:

- (list the core functions – include name or description)

Fa.3

- **Relevant performance indicators were not included for the core functions prioritised. (Not applicable to Parliament and provincial legislatures)**

Performance indicators and targets were not included in the approved [annual performance plan and strategic plan/ shareholder's compact and corporate plan/ service delivery and budget implementation plan and integrated development plan] to measure the actual service delivery of the (include name or description of core function) prioritised.

Or

No performance indicators and targets were included in the approved [annual performance plan and strategic plan/ shareholder's compact and corporate plan/ service delivery and budget implementation plan and integrated development plan] to measure the achievement for the following core functions prioritised:

- (list the core functions – include name or description)

Fa.4

- **Customised indicators relating to the core functions prioritised for the year were not included in planning documents. (Applicable to provincial departments only)**

The customised indicators, as predetermined for the (include details of relevant sector e.g. environmental affairs) sector, were not included in the approved strategic and annual performance plan to measure the actual service delivery of the related core function(s) prioritised. These indicators were:

- (Include list of customised indicators)

Fa.5

- **MTSF indicators relating to the core functions prioritised were not included**

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NB: Only applicable if no relevant performance indicators were included for the core function i.e. only to be reported in addition to paragraph Fa.4 to indicate that there are also MTSF indicators for the core function that were not included.

In addition, indicators from the Medium Term Strategic Framework (MTSF) relating to [this/ these] core function(s) [was/were] also not included. These indicators were:

- (Include list of MTSF indicators)

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c. **Reporting on other findings in the annexure to the management report**

28. Below are further examples for reporting on other findings in the annexure to the management report.

29. These findings are reported overall for the subject matter as a whole.

Fb.1
• **Reporting for limitation scenario 1 if decision was taken to audit measurability and relevance in the plan – refer to the PAM, chapter 9.2 – *AoPO: audit plan and risk response at the assertion level – reasonable assurance* for detailed guidance**
NB: Only applicable if material findings were identified

[The annual performance report included in the annual report was not presented in time for auditing / The annual performance report was not presented for auditing]. I performed limited procedures on the measurability and relevance of the planned performance information for the following selected [programmes/ objectives/ development priorities]:

- [Programme/ objective/ development priority x (include number)]: (include name)
- [Programme/ objective/ development priority x (include number)]: (include name)

The material findings in respect of the selected [programmes/ objectives/ development priorities] are as follows:] / [I did not raise any material findings on the measurability and relevance of performance information for the selected [programmes/ objectives/ development priorities].

Fb.2
• **No link between budget and strategic/ corporate/ annual performance plan. (Applicable to PFMA only)**

The National Treasury's budget guidelines provide for a high-level alignment between the strategic objectives and associated targets in the [strategic/ annual performance/ corporate] plan and the resource allocation as per the budget. As [no/ a limited/ an unclear] link existed between the [strategic/ annual performance/ corporate] plan and the budget, I could not confirm that the key objectives and priorities had been budgeted for.

Fb.3
• **Objectives/ Indicators not consistent between integrated development plan and/or service delivery and budget implementation plan and budget. (Applicable to municipalities only)**

Planned [objectives and/or indicators] included in the integrated development plan were not consistent with the [service delivery and/or budget implementation plan and/or budget]. Planned [objectives and/or indicators] specified in the [service delivery and/or budget implementation plan and/or budget] for the year under review were not consistent with the integrated development plan submitted for audit purposes.

P.S

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G. Quick reference guide to examples for AoPO reporting

Quick reference guide – AoPO report findings																						
Reporting paragraph references	Consistency					Measurability				Relevance		Presentation and disclosure								Reliability		
	Objective - Inconsistent	Objective -Change not approved	Indicator/target inconsistent	Indicator/target - change not approved	Reported achievement inconsistent	Indicator not well defined	- target not specific/time-bound measurable	Indicator not verifiable		Indicator/target not relevant		Reasons not disclosed	Reasons for variance not corroborated		Changes to plans not disclosed	Comparison not disclosed	Measures taken not disclosed	Measures taken not corroborated		Reliability		
Type of misstatement	D	D	D	D	D	D	L	D	L	D	L	D	D	L	D	D	D	D	L	D	L	D&L
Single misstatement	Da.1	Da.2	Da.3	Da.4	Da.5	Da.6	Db.1	Da.7	Db.2	Da.8	Db.3	Da.9	Da.10	Db.4	Da.11	Da.12	Da.13	Da.14	Db.5	Da.15	Db.6	Dc.1
Multiple indicators with single misstatement				Ea.2								Ea.1								Ea.3	Ea.5	Ea.4
A material indicator with multiple material misstatements																						
Combined - Eb.1												x								x		
Combined - Eb.2 (Assessment criteria)						x	x	x	x												x	
Combined - Eb.3			x	x		x				x				x						x		
Combined - Eb.4			x	x		x															x	
Combined - Eb.5										x										x		
Combined for multiple targets - Ec.1						x														x		
Multiple material indicators with multiple material misstatements																						
Combined - Ed.1									x					x							x	
Combined - Ed.2							x		x	x											x	
Combined - Ed.3			x	x						x												
Combined - Ed.4								x		x											x	
Combined - Ed.5									x													
Combined - Ed.6																			x		x	x

D – Disagreement misstatement L – Limitation misstatement

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Other findings

Paragraph reference	Description
Disclaimer of opinion/ conclusion – limitation scenario 2	
C1	Approved planning documents not submitted for audit
C2	APR submitted without complete and accurate underlying records for the audit as a whole
Phased misstatement conditions - reporting in the Annexure to the management report	
Fa.1	**Overall presentation** of performance information in the APR not comparable and understandable
	Completeness of relevant indicators:
Fa.2	Relevant core functions not prioritised in the period under review
Fa.3	Relevant performance indicators/ measures were not included for the core functions prioritised in the period under review
Fa.4	Customised indicators not included for core functions prioritised in the period under review
Fa.5	MTSF indicators not included for the core functions prioritised in the period under review
Reporting in Annexure to management report	
Fb.1	Material measurability and relevance findings reported under limitation scenario 1
Fb.2	No link between the budget and the planning documents (PFMA only)
Fb.3	No link between the budget and the planning documents (MFMA only)

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5. COMPLIANCE WITH LEGISLATION

A. Introduction

1. The purpose of this chapter is to provide requirements and guidance on reporting findings on compliance with legislation in the management and auditor's reports.
2. This chapter applies to all public sector auditees including those auditees not audited by the AGSA in accordance with section 4(3) of the PAA.
3. In terms of sections 20(2)(b) and 28(1)(b) of the PAA, the auditor's report must reflect an opinion or conclusion on the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters. Currently, the auditor's report only reflects material findings on non-compliance identified.

B. Scope and nature of the compliance audit

4. The PAM, chapter 15.4 - *Compliance: Evaluate the results of audit procedures, including instances of non-compliance* provides principles and guidance for evaluating materiality of compliance findings. The chapter also includes principles for evaluating materiality of compliance findings in small populations.
5. Material compliance findings are reported in the auditor's report under the *Report on the audit of compliance with legislation* section. The findings are reported under the applicable subject matters headings as per paragraphs 6 to 9. This section does not apply to material misstatements in the financial statements resulting from non-compliance with legislation. These are dealt with in accordance with the provisions of ISA 250.25 - 27.
6. For the audit report on the consolidated financial statements, only the following material non-compliance may be included:
   - Material non-compliance relating to the consolidation. E.g. material misstatements identified on submitted consolidated financial statements; and/or
   - The material non-compliance included in the audit report of the parent entity/ municipality.
   - Material non-compliance included in the separate audit report of any subsidiary/ municipal entity must not be included in the consolidated audit report as the individual audit report of a subsidiary/ municipal entity must always be published.
7. The paragraph in the auditor's report should clearly state the requirement not complied with, the nature of the deviation and reference to applicable legislation.
   - *E.g. Expenditure was incurred without an approved budget, in contravention of section 53(4) of the PFMA.*
   - *E.g. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value below R500 000 were procured by means of obtaining the required price quotations, as required by Treasury Regulation 16A6.1.*
8. Examples of the auditor's report paragraphs are provided as part of the *Compliance working papers*. If the results of an evaluation yield a material non-compliance / limitation, the standard audit report paragraph provided for the requirement must be included in the audit report. The wording of the standard paragraphs can be altered for specific circumstances of the auditee but should, as far as possible, remain consistent with the standard wording.
9. Some criteria allow the audit team to provide additional context to the non-compliance finding. Guidance for contextualisation is provided in the compliance testing working paper for each audit report paragraph that can be contextualised.

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6. SPECIFIC FOCUS AREAS

A. Introduction

1. The purpose of this chapter is to provide general requirements and guidance on reporting on the focus areas, together with specific guidance on reporting on financial viability.
2. This chapter should be read in conjunction with the auditor's and management report templates and the technical guidance provided each cycle on scoping the audits.
3. Reporting on the focus areas is encouraged for public sector auditees not audited by the AGSA in accordance with section 4(3) of the PAA, but is not mandatory for such auditees.

B. Scope

4. The focus areas are confirmed for each audit cycle through the technical guidance provided on scoping the audits.
5. The focus areas are audited and reported on as part of the annual audit process using procedures and guidance as provided.
6. The AGSA's general reports include the audit outcomes on the focus areas and regular interactions take place with the relevant stakeholders to ensure commitments are made to take corrective action where necessary.

C. Management report

7. A summary of the significant findings and related information should be included in the management report. Standard wording and the format of the summary is provided in the management report template.
8. The summary should not be included if there were no findings relating to a focus area. If there were no findings on a specific matter, the applicable matter should be deleted - do not include the words "no matters to report". Additional findings may also be added and changes made to provide context and create understanding.
9. The detailed findings on non-compliance, misstatements and internal control deficiencies should be included in the annexure to the management report and classified as either *Matters affecting the auditor's report* or *Other important matters*, depending on the impact of the finding.
10. If material instances of non-compliance with legislation were identified for reporting in the auditor's report, they should also be included in the section of the management report on *Matters relating to the auditor's report.*

D. Audit report

11. Audit findings arising from the audit of the focus areas may include non-compliance with legislation. Findings relating to non-compliance must be evaluated for materiality using the guidance provided in the PAM, chapter 15.4 - *Compliance: Evaluate the results of audit procedures, including misstatements* and the relevant compliance evaluation guidance included in the working papers provided for each audit cycle.

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E. Financial viability reporting

a. Applicability

12. This focus area must be reported on for all PFMA and MFMA auditees, except for:

- auditees that meet the criteria to apply the reduced audit approach for small auditees, dormant auditees or repeat disclaimer auditees
- if the auditee is in the process of being wound-up/ liquidated

13. The financial viability reporting is only required to be completed at entity level. It is not required at consolidation level for auditees that have control over one or more entities.

14. Completion of the financial viability reporting, is also encouraged for public sector auditees not audited by the AGSA in accordance with section 4(3) of the PAA, but is not mandatory for such auditees.

b. Background

15. Financial viability reporting was identified and has been reported on by the AGSA as a focus area since 2012, as it provides a high-level overview of the auditee's financial viability as at year-end. It emphasises potential financial viability uncertainties, as well as possible financial viability implications of current financial and service delivery decisions through focused scrutiny of prudent, responsible and transparent financial management.

16. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy-reforms where financial viability may be at risk and to highlight to management those issues that may require corrective action, as well as the urgency and magnitude of the reforms and decisions necessary for operations to be maintainable.

17. Financial viability reporting should be distinguished from reporting on financial sustainability, which has a predictive, forward-looking role and requires such information as future forecasts and projections. Financial viability reporting on the other hand does not require forward-looking information and instead provides a snapshot view as at the reporting date.

18. Further, sustainability information is broader than information derived from the financial statements and includes information about future economic and demographic conditions, country and global trends (e.g. productivity, relative competitiveness, etc.), the nature and extent of risks, and expected changes in variables (e.g. age, population growth, income, workforce participation, etc.). This is in contrast to financial viability reporting which is restricted to an analysis of the audited information in the financial statements that is available to any user who may want to perform a similar analysis.

19. Financial viability reporting is also not intended to reflect on compliance and/or internal controls. However, for some of the indicators there may be some correlation with compliance and/or internal controls. Care should be taken to ensure that, where relevant, there is consistency between what is expressed as part of the financial viability reporting and what is reported elsewhere on compliance and internal controls.

20. Management is responsible for the sound and sustainable management of the auditee's affairs and to implement an efficient, effective and transparent financial management system for this purpose. Therefore, some or all of the financial viability information may already have been prepared by the auditee and in this case, the auditor's assessment should include reference thereto.

21. The financial viability assessment considers only a few key indicators that are, in the AGSA's view, essential to assessing the auditee's financial viability and is not expected to involve additional audit work. It requires the auditor to analyse the auditee's reported information in the audited financial statements, adjusted only for material uncorrected disagreement

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misstatements, in order to reflect on the auditee's financial viability in the management report based on an understanding of the auditee's business and discussions with management.

c. Financial viability and going concern

22. Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation for the foreseeable future. When preparing its financial statements, an auditee must make an assessment of its ability to continue as a going concern. The financial statements cannot be prepared on a going concern basis, if the entity has either the intention or no realistic alternative but to:

    - liquidate its operations
    - cease its operations

    in the foreseeable future.

23. Management is required to assess, at the time of preparing the financial statements, the entity's ability to continue as a going concern and this assessment must cover the entity's prospects for at least 12 months from the reporting date. The 12-month period for considering the entity's future is a minimum requirement; an entity cannot, for example, prepare its financial statements on a going concern basis if it intends to cease operations 18 months from the reporting date.

24. Public sector auditees may spend more in one year than they have resources to cover, such that their income may be less than their expenditure or there is an excess of liabilities over assets. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the auditee is nonetheless a going concern. For example:

    - In assessing whether an auditee is a going concern, a legislative right to levy rates or taxes may enable some auditees to be considered as a going concern even though they may operate for extended periods with negative net assets.
    - An assessment of an auditee's statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements in place or there may be a likelihood of continued government funding that will ensure the continued operation of the auditee.

25. It is uncommon for the operational existence of a public sector auditee to cease as a result of the auditee's inability to finance its operations (commercial insolvency) or as a result of a net liability position (factual insolvency). Rather, the cessation of a public sector auditee will most likely be the result of a government policy decision to wind up and dissolve the auditee and the assessment of the going concern assumption is not based solely on the solvency test usually applied to business enterprises. Therefore, only in the case of dissolution without any continuation of the auditee will the going concern basis cease to be appropriate. I.e. unless management either intends to liquidate the auditee or to cease operations, or has no realistic alternative but to do so, the financial statements are prepared on a going concern basis.

26. In the case of entities whose operations are substantially budget-funded by government, going concern issues generally only arise if government announces its intention to cease funding the entity. However, for entities that are required to be fully or substantially self-funding and to recover the cost of goods and services from users, deterioration in financial performance and financial position after the reporting date may indicate a need to consider whether the going concern assumption is still appropriate.

27. The degree of consideration depends on the facts in each case, including the size and complexity of the entity, the nature and condition of its operations/ business and the degree to which it is affected by external factors. The consideration of whether the going concern assumption is still appropriate must also consider events and conditions that occur after the reporting date and that may cast doubt on the entity's ability to continue as a going concern.

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28. In the public sector, there may be circumstances where the usual going concern tests of liquidity and solvency used in the private sector appear unfavourable, but other factors suggest that the entity is nonetheless a going concern. In assessing whether the going concern basis is appropriate, management may need to consider a wide range of factors, including:

- the entity's current and expected performance
- the expected short and medium term economic environment in which the entity operates
- potential and announced restructurings of organisational units
- estimates of revenue
- detailed cash flow and profit forecasts
- the power to levy rates and taxes
- the likelihood of continued government funding or the reduction or withdrawal of government support
- potential sources of replacement financing
- multi-year or other funding agreements that are in place

29. Based on the above, the auditor considers two factors when assessing an auditee's financial viability and going concern:

- the risk associated with changes in government policy direction/ decisions
- the financial/ operational risk

30. The first factor generally impacts the assessment that the financial statements should not be prepared on a going concern basis, whereas the second factor generally points to material uncertainties about the auditee's ability to continue as a going concern and/or to financial viability concerns.

31. Due to the close correlation between going concern and financial viability the calculations and analyses that are used for the going concern and financial viability assessments have been combined in one working paper, referred to as the *Going concern and financial viability* working paper. This working paper now serves a dual purpose, i.e. to evaluate management's assessment of the going concern assumption, as well as to provide the information necessary to complete the financial viability table in the management report.

32. The *Going concern and financial viability* working paper requires the auditor to evaluate whether management's going concern assessment includes matters that the auditor is aware of regarding the auditee's ability to continue as a going concern. For this purpose, the auditor refers to the relevant financial viability sheet that has been included in the *Going concern* working paper and that should be completed as part of the going concern assessment.

33. The results of the calculations/ ratios/ indicators performed in the *Going concern and financial viability* working paper are assessed at the bottom of the relevant financial viability sheet to determine whether the entity has cash flow difficulties and if so, whether it forms part of management's going concern assessment. The calculations/ ratios/ indicators are therefore used for dual purposes:

- to inform the auditor's evaluation of management's going concern assessment
- to complete the financial viability table and accompanying comments in the management report

34. Reference should be made to the *Going concern* section in the public audit manual chapter 11 *Audit evidence from specific considerations* for further guidance on the auditor's responsibility and assessment of management's use of the going concern assumption in the preparation of the financial statements.

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d. **Layout and completion of the financial viability assessment in the management report**

35. Financial viability reporting is included in the *Specific focus areas* section of the management report and comprises three parts:

- a financial viability table, with the indicators organised around the following areas:
  - expenditure management
  - revenue management
  - asset and liability management
  - cash management
- an "Overall assessment" that is based on an evaluation of the results of the financial indicators, as follows:
  - **Red (Unfavourable – Intervention required)**
  - **Yellow (Concerning)**
  - **Green (Good)**
- overall high-level comments on the implications of and the risks posed by the financial viability assessment

36. The above financial viability information is contained in the management report and is set-out in three separate templates for:

- Departments
- PFMA auditees other than departments
- MFMA auditees

i. Financial viability table

37. The financial viability table should be completed by selecting the appropriate wording in the assessment outcome block for each of the indicators, and where:

- the indicator assesses a percentage, the actual percentage, rounded to one decimal place, should be included the appropriate assessment outcome block
- the indicator assesses the number of days, the actual number of days, rounded to full days, should be included in the appropriate assessment outcome block

38. In instances where an indicator is not applicable to a specific auditee; i.e. none of the possible assessment outcomes are relevant to the auditee, the auditor should delete the particular indicator from the financial viability table in the management report. (However, the "N/A" option must be captured on ASMIS in these instances.)

39. Negative percentages/ days should not be included in the financial viability table (or on ASMIS).

40. Where appropriate, the Rand amounts relevant to each indicator are also included in the financial viability table to contextualise the "Yes/No" responses and percentages reported.

41. The financial viability table includes columns for the assessment of the indicators for both the current year and the prior year. If the corresponding figures, as included in the current period financial statements, have been restated, the prior year indicators affected by the restatement must be recalculated and amended accordingly in the financial viability table. (The amended assessment of the prior year indicators must also be captured on ASMIS.)

42. A *Going concern and financial viability* working paper is provided that should be used to complete the financial viability table. The working paper contains a separate sheet for departments, PFMA auditees other than departments, and MFMA auditees. The working paper also caters for the recalculation of the prior year indicators, in instances where the

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corresponding figures have been restated. The auditor is not expected to raise any detailed audit findings based on the analyses or the results of the assessment.

43. The indicators in the financial viability table, as well as the input information and calculations in the working paper, should be used as is and should not be amended or deleted.

Including additional indicators

44. Some auditees operate in a regulated industry where a regulatory body prescribes and/or monitors auditees within the industry for compliance with certain industry ratios and norms. (For example, banking institutions operating in the financial sector.)

45. For auditees that operate in a regulated industry, the auditor may be of the view that the existing indicators in the financial viability table do not sufficiently reflect on the industry-specific ratios and norms prescribed and/or monitored in that industry. Should the auditor, based on his/her professional judgement, want to include any of these industry-specific indicators in the financial viability table, in addition to the existing indicators, the auditor may do so. However, the following should be kept in mind:

- The auditor bases the inclusion of additional industry-specific indicators on his/her experience with and knowledge and understanding of the auditee and its business and operations.
- Adding additional industry-specific indicators should only happen in limited instances where the auditee operates in a regulated industry with a regulatory body that prescribes and/or monitors the auditee's compliance with certain industry-specific ratios and norms.
- Including additional industry-specific indicators in the financial viability table is voluntary. Where the auditee operates in a regulated industry, it is likely that the auditee would in any case have reported certain industry-specific information in its annual report, and it may be sufficient for the auditor to include a reference to this information in the financial viability comments section in the management report. Even if the auditee does not report industry-specific information, the inclusion of additional industry-specific indicators in the financial viability table is optional and remains at the auditor's discretion.
- The PC must be consulted before any additional industry-specific indicators are added to the financial viability able. (The PC may consult with ARD, as necessary.) In this regard the auditor and PC must consider the potential impact of amending the indicators on the GR financial health analysis.
- The additional industry-specific indicators should be taken into account when the auditor makes the overall financial viability assessment. The auditor applies professional judgement when considering the impact of the industry-specific indicators on the overall financial viability assessment. This should be based on the auditor's experience with and knowledge and understanding of the auditee, its business and operations, regarding what would constitute acceptable assessment levels for the additional industry-specific indicators included.
- The assessment of the additional industry-specific indicators will not be captured on ASMIS.

46. The additional industry-specific indicators should be included in the financial viability table after the existing indicators, before the overall assessment, as follows:

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 201X	AS AT 31 MARCH 201(X-1)
EXISTING INDICATORS			
	Existing indicator 1 Existing indicator 2 Existing indicator 3		

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FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 201X	AS AT 31 MARCH 201(X-1)
	…		
INDUSTRY-SPECIFIC INDICATORS			
	Industry-specific indicator 1		
	Industry-specific indicator 2		
	Industry-specific indicator 3		
	…		
OVERALL ASSESSMENT			
Overall the financial viability is assessed as:		Red (Unfavourable – Intervention required) Yellow (Concerning) Green (Good)	Red (Unfavourable – Intervention required) Yellow (Concerning) Green (Good)
* *This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree to the financial statement amounts.*			

ii. Overall assessment

47. The AGSA's general reports include a discussion on the financial health of government auditees. The information included in the general reports should not come as a surprise to auditees. As such, the financial viability table concludes with an overall assessment of the results of the indicators applicable to the specific auditee. The overall assessment should be made as follows by deleting the colours that are not applicable:

Red (Unfavourable – Intervention required)	The auditee has **one or more** of the following findings: • The audit report includes a "going concern/ financial sustainability" emphasis of matter or qualification. • The auditee has a disclaimer or adverse opinion.
Yellow (Concerning)	The auditee has **30% or more** of the following findings: • "Percentage" indicators > 10%, except for: ○ "Creditors as a percentage of cash and cash equivalents" > 100% • "Days" indicators > 90 days • "Yes/No" indicators = Yes
Green (Good)	The auditee has **less than 30%** of the following findings: • "Percentage" indicators > 10%, except for: ○ "Creditors as a percentage of cash and cash equivalents" > 100% • "Days" indicators > 90 days • "Yes/No" indicators = Yes

48. The financial viability table includes overall conclusions for both the current year and the prior year. If the corresponding figures, as included in the current period financial statements, have been restated, the prior year indicators affected by the restatement must be recalculated and amended accordingly in the financial viability table. The auditor should consider whether the amended prior year indicators changes the prior year overall assessment and update the prior

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year overall assessment accordingly, if necessary. (The amended prior year overall assessment must also be captured on ASMIS.)

Disregarding indicators

49. The auditor may be of the view that the assessment of an existing indicator, as included in the financial viability table, does not make sense and is misleading, due to the auditee or a particular group of similar auditees:

- being subject to certain peculiarities. For example, the SETAs are dependent on SARS regarding the timing of receipt of their skills development levy revenue and the "Debtor-collection period" indicator may therefore not make sense as the SETAs may not have control over the collection of levies from SARS; or
- operating in a regulated industry with a regulatory body that prescribes and/or monitors certain ratios and norms for that industry. For example, banking institutions in the financial sector report on their liquidity using the "net stable funding" ratio and the "A net current liability position was realised (total current liabilities exceeded total current assets)" indicator may therefore not make sense in the context of the banking sector.

50. In these circumstances where the assessment of an existing indicator does not make sense and is misleading, the auditor may disregard the indicator when making the overall assessment. However, the following should be kept in mind:

- Disregarding an indicator when making the overall assessment should be the exception and not the rule and should only happen in very limited instances.
- An indicator should not be disregarded simply because its assessment is unfavourable. An indicator can only be disregarded if its assessment does not make sense because of the auditee's or group of similar auditees' specific circumstances, as compared to what would typically be expected when assessing the indicator for other auditees. For example, if a public entity lending institution provides 20 year loans to customers, the assessment of the "Debtor-collection period" indicator will be very high compared to the 90 debtors-day assessment generally applicable to regular auditees. This indicator therefore does not make sense in the context of the specific lending institution and may be disregarded when making the overall assessment.
- The PC must be consulted before any indicator is disregarded from the overall assessment. (The PC may consult with ARD, as necessary.) In this regard the auditor and PC must consider the potential impact of amending the indicators on the GR financial health analysis.
- An indicator that is disregarded for purposes of making the overall assessment should be deleted from the financial viability table in the management report. (However, the "N/A" option must be captured on ASMIS in these instances.)

51. Illustration of performing the overall assessment:

- If the total number of indicators for the type of the auditee is 12 and:
    - the auditor determined that the "Guarantees issued by the department as a percentage of next year's budget" indicator is not applicable to the specific auditee because it has not issued any guarantees;
    - the auditee received a "Yes" assessment for "The year-end bank balance was in overdraft" indicator;
    - the auditee received a "14.9%" assessment for the "Debtors impairment provision as a percentage of receivables" indicator; and
    - the auditee received favourable assessments for all the other indicators

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then the overall assessment should be indicated as **Green (Good)**, as the number of unfavourable indicators (two) as a percentage of the total number of indicators (11 = 12 - 1) is less than 30% (2/11 = 18%).

- If the total number of indicators for the type of the auditee is 9 and:
  - the auditor determined that all the indicators are applicable to the specific auditee;
  - the auditee received a "Yes" assessment for "The year-end bank balance was in overdraft" indicator;
  - the auditee received a "130 days) assessment for the "Debtor-collection period (after impairment)" indicator;
  - the auditee received a "14.9%" assessment for the "Debtors impairment provision as a percentage of receivables" indicator;
  - the auditee received a "95 days" assessment for the "Creditor-payment period" indicator; and
  - the auditee received favourable assessments for all the other indicators

  then the overall assessment should be indicated as **Yellow (Concerning)**, as the number of unfavourable indicators (four) as a percentage of the total number of indicators (9) is more than 30% (4/9 = 44%).
- If the total number of indicators for the type of the auditee is 9 and:
  - the auditor determined that the "Debtor-collection period" indicator should be disregarded from the overall assessment as it does not make sense and is misleading;
  - the auditee received a "Yes" assessment for "Net cash flows for the year from operating activities were negative" indicator;
  - the auditee received favourable assessments for all the other indicators

  then the overall assessment should be indicated as **Green (Good)**, as the number of unfavourable indicators (one) as a percentage of the total number of relevant indicators (8 = 9 - 1) is less than 30% (1/8 = 13%).

iii. <u>Overall high-level comments</u>

52. The financial viability reporting concludes with a comments section. In this section the auditor should provide an overall, high-level reflection on the implications of and the risks posed by the assessment in respect of the auditee's prudent, responsible and transparent financial management, according to the guidance in the template.

53. Due to the close correlation between going concern and financial viability, the overall high-level comments must link to and comment on the auditee's going concern assessment and on any significant uncertainties that may exist regarding the auditee's ability to continue as a going concern. Reference should also be made to any guarantees issued in favour of or by the auditee and the impact thereof on the auditee's possible going concern/ financial viability uncertainties. Where the auditee is part of a group, mention should further be made of instances where the auditee is dependent on financial support from or must provide financial support to other entities in the group. The requirement to link the financial viability comments to the going concern assessment is particularly relevant and important for public entities that are required to be fully or substantially self-funding and to recover the cost of goods and services from users (e.g. the SOEs). However, because the financial viability assessment does not consider predictive, forward-looking information such as forecasts and projections, but rather provides a snapshot view as at the reporting date, the financial viability assessment on its own cannot be used to reach a conclusion as to the auditee's ability to continue as a going concern. For this

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purpose, the auditor performs the going concern procedures in the *Going concern and financial viability* working paper.

54. In order to improve focus and achieve integration, the overall high-level comments may also link to the possible impact on effective and efficient service delivery, as contained in the reported performance information, as well as on the outcomes in other audit areas (e.g. compliance work on budget and grant management).

55. The comments should be:

- focussed on the possible reasons for and impact of the assessment of the financial indicators, and should also consider the links between different indicators.
- informed and contextualised for the facts and circumstances specific to the auditee. Generic information that does not relate to the specific operations, practices and circumstances of the auditee is unlikely to be relevant and should not be included in the discussion.
- clear and concise. The most important and significant matters must be included, descriptions should not be overly technical and an appropriate but not excessive level of detail should be provided.
- consistent with the following:
  - the underlying financial statements
  - the report on performance against predetermined objectives
  - the findings compliance with laws and regulations

  Where possible and where there is a clear link, the comments should be the same, similar or related to the financial viability information and related explanations reported by the auditee in its annual report. The comments should also be contextualised for what is reported elsewhere in the management report. It should correlate with and not go beyond or contradict such information.
- based on currently-known facts, decisions and conditions.
- free from excuses for unfavourable assessment results or for instances where controls are not functioning appropriately, as the financial viability reporting is specifically intended to high-light such shortcomings in order for management to take appropriate corrective actions.

56. In order to assist the auditor in drafting the overall high-level comments, the *Going concern and financial viability* working paper provides interpretation guidance for each of the indicators. The auditor should use this interpretation guidance regarding the meaning, purpose and implications of each of the indicators when writing the comments on the financial viability assessment.

iv. <u>Financial viability assessment for auditees with a disclaimer or adverse audit opinion</u>

57. A disclaimer or adverse audit opinion on the financial statements is indicative of the fact that the information in the financial statements is not sufficiently reliable to allow for meaningful financial viability analyses of the individual indicators to be performed.

58. As a result, if a disclaimer or adverse audit opinion is expressed on the financial statements, the financial viability assessment should be limited to the overall assessment and high-level comments, and the individual indicators should be omitted from the financial viability assessment table.

59. In these instances, the following should be included in the management report:

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FINANCIAL VIABILITY ASSESSMENT		
	AS AT 31 MARCH 201X	AS AT 31 MARCH 201(X-1)
OVERALL ASSESSMENT		
Overall the financial viability is assessed as:	Red (Unfavourable – Intervention required)	Red (Unfavourable – Intervention required) Yellow (Concerning) Green (Good)

High-level comments

We have expressed an [adverse/ disclaimer of] audit opinion on the financial statements. Consequently, the information in the financial statements is not sufficiently reliable to enable us to perform meaningful analyses of individual financial viability indicators. Our assessment of the [type of auditee]'s financial viability is therefore limited to an 'unfavourable' overall assessment, indicating that intervention is required.

e. General completion considerations

60. The auditor should keep the following in mind when completing the financial viability assessment:

- If a qualified audit opinion is expressed, the financial viability working paper and table should be completed for those indicators that are impacted by account balances/ classes of transactions/ disclosures that are subject to material disagreement and/or limitation misstatements:
  - The financial statement amounts, after adjustments for those material uncorrected disagreement misstatements that resulted in the qualified audit opinion, should be used for assessment purposes.
  - Where the financial statement amounts are subject to limitation misstatements that resulted in the qualified audit opinion, the amounts in the working paper are not adjusted for these limitation misstatements. The auditor should also refer to the implications of such limitations in the financial viability comments section; i.e. that the effected financial indicators may be unreliable or distorted as a result of the limitations.
- For departments the accrual-adjusted amounts should be used for analysis purposes. The department's modified-cash position and performance and its accrual position and performance are based on the same underlying activities, but differences arise due to the timing of when the costs of certain activities are recognised. For some departments the timing differences may be small, for others the timing differences may amount to millions. These differences can cause the modified-cash position and performance, and accrual position and performance, to send different signals about the department's financial position and its ability to perform in accordance with its mandate. (Refer to the *Going concern and financial viability* working paper for reconciliation between the department's modified-cash statements of financial performance and position and its accrual statements of financial performance and position, as well as explanatory comments thereon.)
- The financial viability assessment should be included in the management report even if the auditee reports the same, similar or related information in its annual report. The auditor should consider the requirements of ISA 720 *The auditor's responsibilities relating to other information in documents containing audited financial statements* in respect of such information. A reference to the information disclosed in the annual report may be included with the financial viability comments section.

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AUDITOR'S REPORT TEMPLATE – AGSA AUDITEES

Report of the auditor-general to [the appropriate addressee][1] on [vote no. X:] [name of auditee]

Report on the audit of the [consolidated and separate][2] financial statements

[Opinion]/ [[Qualified/ Adverse/ Disclaimer of] opinion][3]

1. I have audited the [consolidated and separate] financial statements of the [name of auditee] [and its subsidiaries (the group)] set out on pages … to …[4], which comprise [the appropriation statement,] the [consolidated and separate] statement of financial position as at [applicable year-end date], the [consolidated and separate] statement of [financial performance/ profit or loss and other comprehensive income], statement of changes in [net assets/ equity][,] [and] [cash flow statement/ statement of cash flows] [and] [insert title of the statement of comparison of budget information with actual information][5] for the year then ended, as well as the notes to the [consolidated and separate] financial statements, including a summary of significant accounting policies.

2. In my opinion, the [consolidated and separate] financial statements present fairly, in all material respects, the [consolidated and separate] financial position of the [name of auditee/ group] as at [applicable year-end date], and [its/their] financial performance and cash flows for the year then ended in accordance with [the applicable financial reporting framework][6] and the requirements of the [insert applicable legislation][7].

Basis for [opinion]/ [[qualified/ adverse/ disclaimer of] opinion][8]

[Insert financial statement item]

3. [Insert description of the misstatement.]

Context for the opinion[9]

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the [consolidated and separate] financial statements section of this auditor's report.

5. I am independent of the [type of auditee/ group] in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my [qualified/ adverse] opinion.

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Key audit matters[10]

(This section is only applicable to JSE-listed entities.)

7. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the [consolidated and separate] financial statements of the current period. These matters were addressed in the context of my audit of the [consolidated and separate] financial statements as a whole and in forming my opinion, and I do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit
[Key audit matter heading]	
[Insert description of the key audit matter.]	
[Key audit matter heading]	
[Insert description of the key audit matter.]	

[Or]

(Where there are no KAM to communicate or the only KAM to communicate are the matters that gave rise to a modified opinion or a material uncertainty relating to events or conditions that may cast significant doubt on the auditee's ability to continue as a going concern.)

8. [Except for the matter(s) described in the basis for qualified (adverse) opinion section or material uncertainty relating to going concern section,] I have determined that there are no [other] key audit matters to communicate in this auditor's report.

Material uncertainty relating to going concern/ financial sustainability[11]

9. I draw attention to the [matter/s] below. My opinion is not modified in respect of [this/these] [matter/s].

10. [Insert description of the uncertainty.]

Emphasis of [matter/s][12]

11. I draw attention to the [matter/s] below. My opinion is not modified in respect of [this/these] [matter/s].

[Insert heading per matter]

12. [Describe the emphasis of matter.]

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Other [matter/s][13]

13. I draw attention to the [matter/s] below. My opinion is not modified in respect of [this/these] [matter/s].

[Insert heading per matter]

14. [Describe the other matter.]

Responsibilities of [the party] for the financial statements[14]

15. The [board of directors, which constitutes the accounting officer/ accounting authority/ [insert other]] is responsible for the preparation and fair presentation of the [consolidated and separate] financial statements in accordance with [the applicable financial reporting framework][15] and the requirements of the [insert applicable legislation],[16] and for such internal control as the [accounting officer/ accounting authority/ [insert other]] determines is necessary to enable the preparation of [consolidated and separate] financial statements that are free from material misstatement, whether due to fraud or error.

16. In preparing the [consolidated and separate] financial statements, the [accounting officer/ accounting authority/ [insert other]] is responsible for assessing the [name of auditee/ group]'s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the [type of auditee/ group] or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the [consolidated and separate] financial statements[17]

17. My objectives are to obtain reasonable assurance about whether the [consolidated and separate] financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these [consolidated and separate] financial statements.

18. A further description of my responsibilities for the audit of the [consolidated and separate] financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report[18]

(Auditees/ funds not required to report on performance against predetermined objectives - applicable to PFMA audits only.)

19. [The [entity/ fund] is not required to prepare a report on its performance against predetermined objectives, as it does not fall within the ambit of the PFMA and such reporting is also not required in terms of the entity's specific legislation.

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[Or]

(The annual performance report was not prepared and submitted for auditing.)[19]

20. [I was unable to audit the usefulness and reliability of the performance information, as the annual performance report of the [type of auditee] was not prepared as required by [section 40(3)(a) of the PFMA (for departments, trading entities and constitutional institutions)/ section 55(2)(a) of the PFMA (for public entities)/ section 55(3)(d) of the Financial Management of parliament and provincial legislature Act (for parliament and provincial legislatures) / section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (Municipal Systems Act) and section 121(3)(c) of the MFMA (for municipalities)/ section 121(4)(d) of the MFMA (for municipal entities)/ [insert entity specific legislation for any other auditees]].

[Or]

(The performance information of the auditee is prepared and reported in the annual performance report of the holding/ parent/ controlling auditee.)[20]

21. [In terms of [section 40(3)(a) of the PFMA (for departments, trading entities and constitutional institutions)/ section 55(2)(a) of the PFMA (for public entities)/ section 121(4)(d) of the MFMA (for municipal entities)/ [insert entity specific legislation for any other auditees]], the [type of auditee] is required to prepare an annual performance report. The performance information of the [type of auditee] was reported in the annual performance report of [name of holding/ parent/ controlling entity]. The usefulness and reliability of the reported performance information was tested as part of the audit of [name of holding/ parent/ controlling entity] and any audit findings are included in the management and auditor's reports of [name of holding/ parent/ controlling entity].

[Or]

Introduction and scope[21]

22. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected [programmes/ objectives/ development priorities] presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

23. My procedures address the reported performance information, which must be based on the approved performance planning documents of the [type of auditee]. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

24. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting

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framework, as defined in the general notice, for the following selected [programmes/ objectives/ development priorities][22] presented in the annual performance report[23] of the [type of auditee] for the year ended [applicable year-end date]:

[Programmes/ objectives/ development priorities]	Pages in the annual performance report
[Programme/ objective/ development priority (include number)] – (include name)	x – x
[Programme/ objective/ development priority (include number)] – (include name)	x – x

25. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

26. [The material findings in respect of the usefulness and reliability of the selected [programmes/ objectives/ development priorities] are as follows:][24]

[Insert (programme/ objective/ development priority) (include number) – (include name)][25]

27. [Insert material findings per indicator or per group of indicators with similar findings.]

    [Or]

(For a selected programme/ objective/ development priority with no material findings to report.)[26]

28. I did not raise any material findings on the usefulness and reliability of the reported performance information for [this/these] [programme(s) / objective(s) / development priority(ies)]:

Other [matter/s]

29. I draw attention to the [matter/s] below.

Achievement of planned targets

30. Refer to the annual performance report on pages … to … for information on the achievement of planned targets for the year [and explanations provided for the [under/ over achievement] of a [significant] number of targets (only applicable to PFMA, excluding schedule 2, 3B and D public entities)]. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) [x to x] of this report.

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Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of [name[s] of programme/ objective/ development priority.]/ [As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.]/ [As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope[27]

32. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the [type of auditee] with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

33. [The material findings on compliance with specific matters in key legislations are as follows:]

[Insert heading per subject matter]

34. [Insert finding.][28]

    [Or]

35. [I did not raise material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.]

Other information[29]

36. The [accounting officer/ accounting authority] is responsible for the other information. The other information comprises the information included in the annual report [which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act)].[30] The other information does not include the [consolidated and separate] financial statements, the auditor's report and those selected [programmes/ objectives/ development priorities] presented in the annual performance report that have been specifically reported in this auditor's report[31].

37. My opinion on the financial statements and findings on the reported performance information[32] and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

38. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the [consolidated and separate] financial statements and the selected [programmes/ objectives/ development priorities] presented in the annual performance report[33], or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

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39. [Insert the appropriate paragraph based on the appropriate scenario per the reporting guide.][34]

Internal control deficiencies[35]

40. I considered internal control relevant to my audit of the [consolidated and separate] financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. [The matters reported below are limited to the significant internal control deficiencies that resulted in [the basis for the [qualified/ adverse/ disclaimer of] opinion], [the findings on the [name of performance report]] [and the findings on compliance with legislation] included in this report.]/ [I did not identify any significant deficiencies in internal control.]

[Insert matters to be reported.]

Other reports[36]

41. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the [type of auditee]'s financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

42. [Insert detailed information of reports on performance, investigations or other audit-related services or special audits conducted by various parties.]

[Sign as 'Auditor-General'][37]

Place of signing

Date of signing

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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Annexure – Auditor-general's responsibility for the audit[38]

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the [consolidated and separate] financial statements, and the procedures performed on reported performance information for selected [programmes/ objectives/ development priorities] and on the [type of auditee]'s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the [consolidated and separate] financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the [consolidated and separate] financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [type of auditee]'s internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [board of directors, which constitutes the accounting officer/ accounting authority/ [insert other]
   - conclude on the appropriateness of the [board of directors, which constitutes the accounting officer/ accounting authority/ [insert other]]'s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [name of the auditee] [and its subsidiaries] ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a [type of auditee] to cease continuing as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
   - [obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion][39]

Communication with those charged with governance

3. I communicate with the [accounting officer/ accounting authority] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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4. I also confirm to the [accounting officer/ accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

5. (This paragraph is only applicable to JSE-listed entities.) [From the matters communicated to those charged with governance, I determine those matters that were of the most significance in the audit of the [consolidated and separate] financial statements of the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.]

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Explanatory information and examples

General

[1] Addressee

Whenever practical, the auditor's report is addressed to all of its intended users. Normally, those for whom the report has been prepared are most often those charged with the governance of the auditee. In the public sector, many people (such as the general public) have access to the published auditor's report; however, it is not practical to address the auditor's report to society at large. The auditor's report is thus addressed to Parliament or the provincial legislature to represent society at large and as the intended user of the auditor's report.

The following indicates the appropriate addressee per auditee where the PFMA or MFMA is applicable:

- for national departments, public entities, constitutional institutions, trading entities and Parliament – Parliament
- for provincial departments, public entities, trading entities and provincial legislatures – the [name of province] Provincial Legislature
- for local government municipalities and municipal entities – the [name of province] Provincial Legislature and the council.

If an auditee falls outside the above categories and the financial statements have to be tabled in Parliament or the provincial legislature, the applicable addressee should be determined based on the nature of the auditee and the legislation that applies to that auditee. Normally this is either the shareholders (represented by the responsible department) or those charged with the auditee's governance.

If the PFMA or MFMA is not applicable to an auditee and the financial statements are not required to be tabled in Parliament or the provincial legislature, the auditor's report should be addressed to the appropriate level of oversight, normally the responsible minister.

Report on the audit of the [consolidated and separate] financial statements

[2] Consolidated and separate financial statements

The words 'consolidated and separate' and 'group' should only be included if the auditor's report is issued on the consolidated financial statements of the auditee. This applies to all instances where this wording is included in [ ] brackets in the report.

As the auditee has a further month to prepare the consolidated financial statements in terms of the MFMA, the auditor's report on the separate financial statements presented on 30 November should be:

- signed by the report signatory
- issued with a 'not for publishing' watermark
- presented to the accounting officer or accounting authority representative on or before the legislated reporting deadline.

[3] [Opinion]/ [[Qualified/ Adverse/ Disclaimer of] opinion]

If the auditor's opinion is modified, the appropriate modification should be used in the heading.

If a disclaimer of opinion is expressed, the introductory paragraph should be replaced with the following:

> I was engaged to audit the [consolidated and separate] financial statements of the [name of auditee] [and its subsidiaries (the group)] set out on pages … to …, which comprise [the

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appropriation statement,] the [consolidated and separate] statement of financial position as at [applicable year-end date], the [consolidated and separate] statement of [financial performance/ profit or loss and other comprehensive income], statement of changes in [net assets/ equity][,] [and] [cash flow statement/ statement of cash flows] [and] [insert title of the statement of comparison of budget information with actual information] for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

If the auditor's opinion is modified, the appropriate wording below should be used:

- Qualified opinion

  In my opinion, except for the [possible] effects of the matter[s] described in the basis for qualified opinion section of this auditor's report, the [consolidated and separate] financial statements present fairly, in all material respects, the [consolidated and separate] financial position of the [name of auditee/ group] as at [applicable year-end date], and [its/ the group's] financial performance and cash flows for the year then ended in accordance with [applicable financial reporting framework] and the requirements of the [insert applicable legislation].

- Adverse opinion

  In my opinion, because of the significance of the matter[s] described in the basis for adverse opinion section of this auditor's report, the [consolidated and separate] financial statements do not present fairly, in all material respects, the [consolidated and separate] financial position of the [name of auditee/ group] as at [applicable year-end date], and [its/ the group's] financial performance and its [consolidated and separate] cash flows for the year then ended in accordance with [applicable financial reporting framework] and the requirements of the [insert applicable legislation].

- Disclaimer of opinion

  I do not express an opinion on the financial statements of the [type of auditee]. Because of the significance of the matter[s] described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these [consolidated and separate] financial statements.

[4] Page numbers

Supplementary information that has not been audited is distinguished from the financial statements that have been audited by indicating the page numbers relating to the financial statements. In the public sector, particular attention should be given to these page numbers, as the report of the accounting officer or authority does not form part of the financial statements and is not audited as part of the audit of the financial statements. There may also be a number of other documents containing financial information that are attached to the financial statements but not covered by the audit. Furthermore, the index to the financial statements should clearly indicate additional annexures that have not been audited.

[5] Statement of comparison of budget information with actual information

This statement should be included for auditees that applied the standards of GRAP when preparing their financial statements.

[6] Applicable financial reporting framework

Refer to the detailed guidance in the applicable annual technical update and the applicable ASB directive.

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[7] Applicable legislation

In accordance with ISA 210.18 and ISA 700.A31, reference must be made to legislation if the financial reporting framework is supplemented by legal or regulatory requirements that set out additional financial reporting requirements. Under these circumstances, the complete framework is identified by reference to the financial reporting standards (e.g. GRAP) and the legislation that contain the additional financial reporting requirements (e.g. the Companies Act, the PFMA/ MFMA/ Dora or other legislation applicable to the auditee).

The full title of an act, as well as its jurisdiction, number and year should be used when referring to legislation for the first time in a report. If reference is made to the same act further on in the report, an abbreviation or shortened form should be included in brackets after the first reference to the act and then used on its own thereafter, e.g. Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Insert the following wording according to the applicable legislation:

- If the auditee falls within the scope of the PFMA or MFMA – [and the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA)/ Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)]
- If the auditee falls within the scope of Dora – [and the Division of Revenue Act of South Africa, 201X (Act No. XX of 20XX) (Dora)]
- If the auditee falls within the scope of the Companies Act – [and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (the Companies Act)]
- If other legislation applicable to the auditee supplements the financial reporting framework with additional financial reporting requirements – [and insert applicable legislation] of South Africa, YYYY (Act No. XX of YYYY)
- Auditees for which legislation is not prescriptive in respect of the financial reporting framework and which fall under the scope of the general notice issued in terms of the PAA – [and the general notice issued in terms of the PAA].

[8] Basis for [opinion]/ [[qualified/ adverse/ disclaimer of] opinion]

If a disclaimer of opinion is expressed, the auditor must include the misstatements per financial statement item and exclude paragraphs 4, 5 and 6 of the auditor's report template.

Refer to the reporting guide for examples on writing the basis for modification paragraphs.

[9] Context for the opinion

The heading 'context for the opinion' should be omitted if an unmodified opinion is expressed. Therefore, paragraphs 4, 5 and 6 of the auditor's report template should follow directly after the 'basis for opinion' heading.

[10] Key audit matters

The form and content of this section of the auditor's report are dealt with in the key audit matters (KAM) guideline.

[11] Material uncertainty related to going concern/ financial sustainability

If a material uncertainty exists and the disclosure in the financial statements is adequate, the auditor includes a paragraph describing the uncertainty. Refer to the reporting guide for examples.

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The section should be excluded when there is no material uncertainty relating to going concern. It should also be excluded where the appropriate disclosures on a going concern uncertainty have not been made, which could result in a qualification of the financial statements.

[12] Emphasis of [matter/s]

The form and content of this section of the auditor's report are dealt with in the reporting guide.

[13] Other [matter/s]

The form and content of this section of the auditor's report are dealt with in the reporting guide.

[14] Responsibilities of the party responsible for the financial statements

The auditor's report refers to the party responsible for the financial statements based on the following PFMA and MFMA requirements:

- Public entities – accounting authority (section 55(1) of the PFMA)
- Public entities that are registered as a company – the board of directors, which constitutes the accounting authority
- Public entities that are registered as a trust – the trustees, which constitutes the accounting authority
- Departments, trading entities and constitutional institutions – accounting officer (section 40(1) of the PFMA)
- Municipalities – accounting officer (sections 60, 61, 77 and 126(1) of the MFMA)
- Municipal entities – accounting officer (section 104 of the MFMA)
- If the PFMA or MFMA is not applicable to an auditee, the party responsible for preparing the financial statements based on the legislation that governs that auditee should be inserted.

[15] Applicable financial reporting framework

Refer to detailed guidance in the applicable annual technical update and the applicable ASB directive.

[16] Applicable legislation

In accordance with ISA 210.18 and ISA 700.A31, reference must be made to legislation if the financial reporting framework is supplemented by legal or regulatory requirements that set out additional financial reporting requirements. Under these circumstances, the complete framework is identified by reference to the financial reporting standards (e.g. GRAP) and the legislation that contains the additional financial reporting requirements (e.g. the Companies Act, the PFMA/ MFMA/ Dora or other legislation applicable to the auditee).

The full title of an act, as well as its jurisdiction, number and year should be used when referring to legislation for the first time in a report. If reference is made to the same act later in the report, an abbreviation or shortened form should be included in brackets after the first reference to the act and then used on its own thereafter, e.g. Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Insert the following wording according to the applicable legislation:

- If the auditee falls within the scope of the PFMA or MFMA – [and the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA)/ Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)]

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- If the auditee falls within the scope of Dora – [and the Division of Revenue Act of South Africa, 201X (Act No. XX of 201X) (Dora)]
- If the auditee falls within the scope of the Companies Act – [and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act)]
- If other legislation applicable to the auditee supplements the financial reporting framework with additional financial reporting requirements – [and insert applicable legislation] of South Africa, YYYY (Act No. XX of YYYY)
- Auditees for which legislation is not prescriptive in respect of the financial reporting framework and which fall under the scope of the general notice issued in terms of the PAA – [and the general notice issued in terms of the PAA].

[17] Auditor-general's responsibilities for the audit of the financial statements

If a disclaimer of opinion is expressed, the auditor only includes the paragraphs below and excludes the paragraphs from the template.

> My responsibility is to conduct an audit of the [consolidated and separate] financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matter[s] described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
>
> I am independent of the [type of auditee/ group] in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit of the [consolidated and separate financial statements [in South Africa]. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

[18] Report on the audit of the annual performance report

Where the auditee is not required to report on performance information or where the annual performance report was not prepared and submitted for auditing, amend the heading to this part of the auditor's report to 'performance information reporting'.

[19] Report on the audit of the annual performance report

Refer to the *Public audit manual* (PAM), chapter 9.2 – *Limitation scenario 1*, for detailed guidance.

[20] Report on the audit of the annual performance report

Refer to PAM, chapter 14.2 – *Reported performance information in group structures*, for detailed guidance on the different group scenarios that may be encountered and when this reporting paragraph is applicable.

[21] Introduction and scope

There may be different scenarios applicable to the audit of the annual performance report, depending on the information made available by the auditee.

If a disclaimer of opinion is expressed in the management report on all selected programmes/ objectives/ development priorities, the auditor only includes the paragraphs below as the Introduction and scope of the auditor's report and excludes the paragraphs from the template.

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In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected [programmes/ objectives/ development priorities] presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.

I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected [programmes/ objectives/ development priorities] presented in the annual performance report of the [type of auditee] for the year ended [applicable year-end date]:

[Programmes/ objectives/ development priorities]	Pages in the annual performance report
[Programme/ objective/ development priority (include number)] – (include name)	x – x
[Programme/ objective/ development priority (include number)] – (include name)	x – x

[22] Terminology used

Different terminology may be used in the annual performance report; the same terminology should be used in the auditor's report. Scoping is done at the highest level of reporting: programmes are relevant to departments and public entities with programme structures; objectives are relevant mainly to entities; and development priorities are relevant to municipalities.

[23] Programmes/ objectives/ development priorities selected for auditing but not included in the annual performance report

If programmes/ objectives were selected for auditing but were not included in the annual performance report, the following paragraph should be added after paragraph 26:

> I was unable to evaluate the usefulness and reliability of the reported information of the following [include name and number of programme(s)/ objective(s)/ development priority(ies)] as the annual performance report submitted for auditing did not include the reported performance information on [this/these programmes/ objectives/ development priorities].

[24] Reporting if no material findings were identified

If no material findings are reported (i.e. unqualified opinion /conclusion for all selected programmes / objectives /development priorities in the management report), delete this sentence and only report the following paragraph:

> I did not raise any material findings on the usefulness and reliability of the reported performance information for the following [programmes/ objectives/ development priorities]:

- [Insert names of selected [programmes/ objectives/ development priorities].]

[25] Form and content of reporting findings

The form and content for reporting findings on reported performance information is dealt with in the reporting guide.

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[26] **Reporting if no material findings were identified**

If more than one (but not all) of the selected programmes / objectives / development priorities had no material findings to be reported, it can be combined in one reporting paragraph. In this instance the programme / objective / development priority name and number of all of the affected programmes / objectives / development priorities should be listed in the heading.

Report on the audit of compliance with legislation

[27] **Introduction and scope**

The relevant acts and the form and content for reporting findings on compliance with legislation are dealt with in the reporting guide and the general notice issued in terms of the PAA.

[28] **Form and content of reporting findings**

The form and content for reporting findings on compliance with legislation are dealt with in the reporting guide.

Other information

[29] **Other information**

When a disclaimer of opinion is expressed for both the financial statements and audited performance information (i.e. the selected development priorities /objectives) the section on "Other information" **should be excluded** from the report. This is required since providing further details about the audit, including a section to address other information, may overshadow the disclaimer of opinion on the financial statements and the selected development priorities /objectives.

[30] **Other information**

The wording [which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act of South Africa] should only be included for the audits of companies.

[31] **Other information**

In the event that the annual performance report was not prepared or submitted for audit (refer to PAM chapter 9.2 – Limitation scenario 1 for detailed guidance), the following information should be removed from this paragraph:
"…those selected [programmes/objectives/development priorities] presented in the annual performance report that have been specifically reported in the auditor's report."

[32] **Other information**

In the event that the annual performance report was not prepared or submitted for audit (refer to PAM chapter 9.2 – Limitation scenario 1 for detailed guidance), the following information should be removed from this paragraph: ".….and findings on the reported performance information".

[33] **Other information**

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In the event that the annual performance report was not prepared or submitted for audit (refer to PAM chapter 9.2 – Limitation scenario 1 for detailed guidance), the following information should be removed from this paragraph: "…..and the selected [programmes/objectives/development priorities] presented in the annual performance report.."

[34] Other information

Refer to chapter 3 of the reporting guide for guidance and illustrative examples of the other information paragraphs to be used when the following scenarios are encountered:

- Where unmodified opinions were expressed for the financial statements and the audited performance information AND the other information was received, read and considered.
- Where only part of the other information was received, read and considered.
- Where no other information was received.
- Where a disclaimer of opinion was expressed on the financial statements and/or audited performance information.

Include the findings identified from the management report template, which feeds into this report.

Internal control deficiencies

[35] Internal control deficiencies

At the request of the various consultative forums or structures, separate headings "leadership" etc. were removed as it was indicated that they create tension and unnecessary push-backs during the discussion of the audit report with auditees' leadership. The deficiencies can still be grouped together for reporting in the three categories. For further details, the form and content of this section of the auditor's report are dealt with in detail in the management report template, which feeds into this report.

Other reports

[36] Other reports

Reports to be included under the other reports section relate to performance audits, investigations and audit related services engagements. Engagements that are in progress or that have been finalised, including those performed by other parties, should be included. Investigations by accounting officers and authorities into unauthorised, irregular or fruitless and wasteful expenditure, as required by the PFMA or MFMA, should not be included unless a specific investigation has been commissioned due to a suspicion of fraud or theft.

Each paragraph should consist of the following elements:

- A description of the engagement (do not include the names of parties involved in investigations)
- Who performed the engagement (do not refer to the name of the auditee that is performing an investigation unless it is a state institution, e.g. the Public Protector or the South African Police Service)
- The period covered
- Whether the engagement has been completed or is in progress
- When the report was tabled/ issued or is planned to be tabled/ issued.

Example paragraphs relating to:

- Performance audits

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A performance audit was conducted during the year under review on the [type of auditee]'s turnaround time for delivering services to departments. The report covered the period [insert date] to [insert date], and was tabled on [insert date].

A performance audit was being conducted on the infrastructure delivery process at the [type of auditee]. The audit covered the period [insert date] to [insert date], and the report was expected to be tabled by [insert date].

- Investigations

An independent consultant investigated an allegation of possible misappropriation of the [type of auditee]'s assets at the request of the [type of auditee], which covered the period [insert date] to [insert date]. The investigation concluded on [insert date] and resulted in criminal proceedings against two employees. These proceedings were in progress at the date of this auditor's report.

An independent consultant was investigating an allegation of the possible misappropriation of the [type of auditee]'s assets at the request of the [type of auditee], covering the period [insert date] to [insert date]. The outcome of the investigation was expected by [insert date].

- Audit-related services

An agreed upon procedures engagement was performed on donor funding. [Include a brief description of the engagement without listing the procedures performed.] The report covered the period [insert date] to [insert date], and was issued to [...] on [insert date].

At the request of the [type of auditee], an audit was performed on [include a brief description of the audit-related service engagement without listing the procedures performed.] The report covered the period [insert date] to [insert date], and was issued to [...] on [insert date].

At the request of the [person/ body that requested the audit], a special audit was performed on [include a brief description of the special audit without listing the procedures performed.] The report covered the period [insert date] to [insert date], and was tabled on [insert date].

General

37 The auditor's signature

In the public sector, the auditor is required to sign as the 'auditor-general' and to include the AGSA logo and pay-off line.

Annexure – Auditor-general's responsibility for the audit

38 Auditor-general's responsibilities for the audit of the financial statements

The annexure describing the auditor-general's responsibility for the audit must be included with the auditor's report. This means that the annexure must be included directly after/ together with the auditor's report when included in the auditee's annual report for printing; it cannot be located elsewhere in the annual report.

The annexure to the auditor's report should be omitted when the opinion is disclaimed.

39 Consolidated and separate financial statements

This paragraph should be omitted where the financial statements are not presented for a group.

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AUDITOR-GENERAL OF SOUTH AFRICA

NO. 1401 **15 DECEMBER 2017**

DIRECTIVE ISSUED IN TERMS OF THE PUBLIC AUDIT ACT, 2004

Under the powers vested in me by section 13(3)(b) of the Public Audit Act, 2004 (Act No. 25 of 2004) (hereafter referred to as the PAA), I, Thembekile Kimi Makwetu, Auditor-General of the Republic of South Africa (hereafter referred to as the AGSA), hereby issue the following directive.

CONTENT OF THE NOTICE

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AUDIT FUNCTIONS PERFORMED IN TERMS OF THE PAA

ANNUAL AUDIT

1. Financial and performance management and compliance with legislation are audited as part of the annual audit process. The auditor's report reflects an opinion or material findings on the following:
   - The financial statements or similar financial reporting.
   - Reported performance information if applicable.
   - Compliance with specific matters in key legislation
   - Internal control deficiencies that resulted in:
     - qualifications of the opinion on the financial statements
     - findings on the reported information on performance against predetermined objectives
     - findings on compliance with legislation.

AUDITING STANDARDS AS WELL AS THE NATURE AND SCOPE OF AUDITS – SECTION 13(1)(a) AND (b) OF THE PAA

Auditing standards

2. The International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements issued by the International Auditing and Assurance Standards Board (IAASB)[1] of the International Federation of Accountants (IFAC), as well as the *Code of ethics for professional accountants* issued by IFAC's International Ethics Standards Board for Accountants (IESBA)[2] are applied in the audits.

3. In addition, relevant principles contained in the International Standards of Supreme Audit Institutions (ISSAIs) published by the International Organization of Supreme Audit Institutions (INTOSAI)[3] are applied.

Audit of financial statements or similar financial reporting – section 20(2)(a) of the PAA

4. In terms of section 20(2)(a) of the PAA, the auditor's report must reflect whether the annual financial statements fairly present, in all material respects, the financial position and results of operations and cash flow in accordance with the applicable financial reporting framework and legislation. This assurance is provided in the auditor's report.

5. The audit is performed in accordance with the International Standards on Auditing (ISAs).

Audit of compliance with applicable legislation relating to financial matters, financial management and other related matters – sections 20(2)(b) and 28(1)(b) of the PAA

6. In terms of sections 20(2)(b) and 28(1)(b) of the PAA, the auditor's report must reflect an opinion or conclusion on the auditee's compliance with any applicable legislation relating

[1] http://www.ifac.org/IAASB
[2] https://www.ifac.org/ethics

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to financial matters, financial management and other related matters. Currently, the auditor's report reflects material findings on noncompliance with specific matters in key legislation but does not provide assurance by way of an opinion or conclusion.

7. The audit of compliance with legislation is performed in accordance with principles in the applicable ISSAIs and the International Standard on Assurance Engagements (ISAE) 3000, *Assurance engagements other than audits or reviews of historical financial information.*

8. The determination of compliance subject matters to be included in the scope of the compliance audit is undertaken on an annual basis as follows:
   - Predetermined at AGSA level for each category of auditee.
   - Further refinement at engagement level taking into account the specific circumstances of the auditee, including the nature and extent of its business and operations, and the impact of specific actions, transactions or events.

9. The AGSA applies the following scoping criteria in selecting the subject matters for the audit of compliance:
   - Specific areas of relevance to intended users; matters of significant national, community or public interest – as identified through consultation with internal and external parties.
   - Government priorities in all three spheres of government – as communicated in the state of the nation address, the national budget speech, the Medium Term Strategic Framework or other similar documents.
   - Results of previous assurance engagements (i.e. past experience) and how this may affect intended users' expectations about compliance, including improvement.
   - Enhancement of effective legislative oversight; enhancement of transparency, accountability and good governance; focus on continuous improvement and public confidence.

10. The auditor's report reflects material findings on compliance with relevant legislation in respect of the following subject matters selected in accordance with the criteria in paragraph 9:
    - Strategic planning and performance management
    - Financial statements, performance reports and annual reports
    - Procurement and contract management – including procurement and contract management functions performed on behalf of another organ of state (e.g. as procurement or implementing agents)
    - Human resource management and compensation
    - Expenditure management
    - Utilisation of conditional grants
    - Revenue management
    - Asset management
    - Liability management
    - Consequence management
    - Governance and oversight

11. Annexure A contains details on the applicability of the subject matters to the different categories of auditees. Where there is nothing to be reported for any of the applicable subject matters, a statement to this effect will be included in the auditor's report.

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12. The criteria used to evaluate the above subject matters are derived from the applicable legislation, with specific focus on the following:
    - Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and regulations and instructions issued in terms of the act
    - Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and regulations issued in terms of the act
    - Financial Management of Parliament and Provincial Legislatures Act, 2009 (Act No. 10 of 2009) (FMPPLA) and regulations issued in terms of the act
    - Division of Revenue Act (DoRA)
    - Appropriation Act
    - Municipal Structures Act, 1998 (Act No. 117 of 1998) and regulations and instructions issued in terms of the act
    - Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and regulations and instructions issued in terms of the act
    - Municipal Property Rates Act, 2004 (Act No. 6 of 2004) and regulations and instructions issued in terms of the act
    - Companies Act, 2008 (Act No. 71 of 2008) and regulations and instructions issued in terms of the act
    - Public Service Act, 1994 (Act No. 103 of 1994) and regulations issued in terms of the act
    - Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and regulations and instructions issued in terms of the act
    - Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) and regulations issued in terms of the act
    - State Information Technology Agency Act, 1998 (Act No. 88 of 1998) and regulations issued in terms of the act
    - Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004)
    - Auditee-specific enabling legislation

Audit of reported information on performance against predetermined objectives – sections 20(2)(c) and 28(1)(c) of the PAA

13. In terms of sections 20(2)(c) and 28(1)(c) of the PAA, the auditor's report must reflect an opinion or conclusion on the auditee's reported information on performance against predetermined objectives. Assurance in the form of an audit opinion or conclusion on the usefulness and reliability of the reported information on performance against predetermined objectives is currently included in the report to management, with material findings being reported in the auditor's report.
14. The level of assurance provided may be reasonable or limited as predetermined by the AGSA based on the following:
    - The importance of the mandate of the auditee
    - The size and nature of the auditee's business
15. Where the entity is not required to report of its performance or where it has nothing to report in the case of a dormant entity, a statement to this effect will be included in the auditor's report.

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16. The audit of reported information on performance against predetermined objectives is performed in accordance with ISAE 3000 and the criteria developed from the Performance Management and Reporting Framework (PMRF), consisting of the following:

    - Legislation applicable to performance planning, management and reporting, which includes the following:
        - PFMA
        - Treasury Regulations (TR), 2005, issued in terms of the PFMA
        - National Treasury (NT) Practice Note 4 of 2009/10
        - Public Service Act, 1994 (PSA)
        - Public Service Regulations, 2016, issued in terms of the PSA
        - MFMA
        - Municipal Systems Act, 2000 (MSA)
        - Regulations for Planning and Performance Management, 2001, issued in terms of the MSA
        - Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006, issued in terms of the MSA
        - FMPPLA
        - Regulations for reporting by public higher education institutions, 2014, issued in terms of the Higher Education Act, 1997 (applicable to universities only).
    - Framework for the Managing of Programme Performance Information (FMPPI), issued by the NT. This framework is applicable to all spheres of government.
    - Framework for Strategic Plans and Annual Performance Plans (FSAPP), issued by the NT. This framework is applicable to all national and provincial departments, constitutional institutions and those public entities listed in parts A and C of schedule 3 of the PFMA.
    - Circulars and guidance issued by the NT, Department of Public Service and Administration (DPSA) and supported by the Department of Planning, Monitoring and Evaluation (DPME) regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

17. The criteria applicable to the different categories of auditees, as derived from the PMRF, are detailed in annexure B. Material findings on the completeness of planned performance information and overall presentation of reported information will only be included in the management report and not in the auditor's report.

18. The AGSA applies the following scoping criteria in selecting the subject matters (programmes / objectives / development priorities) for the audit:

    - Qualitative and quantitative considerations such as the following considered individually and in combination:
        - Subject matters that are a requirement of a law, regulation or sector determination.
        - Subject matters that relate to the primary functions or purposes of the entity, i.e. its reason for being.
        - Subject matters that could be of significant national, community or public interest.

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- Subject matters that relate to outputs of significant importance to the public, such as those with an impact on public health, safety as well as social, economic or environmental well-being.
- Any individual subject matter with a budgeted or actual expenditure or revenue amount constituting 30% or more of the total budgeted or actual expenditure or revenue amount.

Internal control deficiencies, as indicated by the reference to financial management in section 4(1) and (3) of the PAA

19. In terms of section 4(1) and (3) of the PAA, financial management must be audited and reported on. Deficiencies in internal control that resulted in the qualification of the opinion on the financial statements and in material findings on the reported performance information and compliance with legislation are included in the auditor's report.
20. The criteria used to evaluate internal control are set out in annexure C.

Focus areas – section 13(1)(b) of the PAA

21. Additional specific audit focus areas are identified based on an annual risk assessment. Guidance on the scoping of the focus areas is provided annually in a technical update. Significant findings arising from the audits are included in the reports to management and in the AGSA's general reports.

Discretionary engagements – section 5(1)(a) and (d) of the PAA

22. The AGSA may, at its discretion, perform audit-related services and special audits, including performance audits, investigations and other defined types of engagements. In addition to the International Standard on Quality Control (ISQC) 1, *Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements*, the following standards guide these audits:

- Performance audits

  These audits are conducted in accordance with ISSAI 300, *Fundamental principles of performance auditing* and the *Performance audit manual* developed by the AGSA.

- Investigations

  Investigations are conducted in accordance with *Standards and guidelines: Investigations* developed by the AGSA.

- Other defined engagements

  These audits are conducted in accordance with ISA 805, *Audits of single financial statements and specific elements, accounts or items of a financial statement*, ISAE 3000, *Assurance engagements other than audits or reviews of financial information* or International Standard on Related Services (ISRS) 4400, *Engagements to perform agreed-upon procedures regarding financial information*, as appropriate.

Complaints against the AGSA - section 13(1)(c) of the PAA

23. The AGSA's complaints mechanism in terms of section 13(1)(c) of the PAA accommodates complaints pertaining to the following:

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- The exercising of powers, the performance of duties and the administration of the AGSA pertaining to the performance of audits and any other functions in terms of section 11 of the PAA.
- Work performed during an audit by the AGSA, authorised auditors and other personnel where it is alleged that such work does not meet professional standards and regulatory and legal requirements.
- Complaints of non-compliance by the AGSA, authorised auditors and other personnel with the AGSA's internal system of quality control.
- Complaints pertaining to the auditor-general as a person.

24. Complaints against the AGSA should be addressed in writing to the:

    Complaints manager, Auditor-General of South Africa

    Physical address: 300 Middel Street, New Muckleneuk, Pretoria

    Postal address: PO Box 446, Pretoria, 0001

    Email: ethics@agsa.co.za

AUDITS OF PUBLIC ENTITIES AND OTHER INSTITUTIONS NOT PERFORMED BY THE AGSA – SECTION 4(3) OF THE PAA

Audits that the AGSA has opted not to perform – section 25(1)(a) of the PAA

25. In terms of section 4(3)(a) and (b) of the PAA, the AGSA may audit and report on the accounts, financial statements and financial management of any public entity listed in the PFMA and any other institution not mentioned in section 4(1) of the PAA and which is:
    - funded from the national revenue fund or a provincial revenue fund or by a municipality, or
    - authorised in terms of any legislation to receive money for a public purpose.
26. In terms of section 25(1)(a) of the PAA, the AGSA opts not to perform the audits of any auditees within the ambit of section 4(3) of the PAA, which are not already being audited by the AGSA for the 2018-19 financial year, unless the auditee is advised otherwise before the start of that financial year.

Appointment of registered auditors – section 25(1)(b), (2), (3) and (4) of the PAA

27. An auditee should proceed to appoint an audit firm registered with the Independent Regulatory Board for Auditors (IRBA) as stipulated by section 25(1)(b), read with section 25(4), of the PAA, if not advised before the start of the financial year that the AGSA will perform the audit.
28. The auditee may not appoint alternative auditors if the AGSA has opted to perform the audit or if auditee-specific legislation prescribes that the audit should be conducted by the AGSA.
29. Before appointing the auditor, the auditee must, in terms of section 25(2) of the PAA, notify the AGSA via email to section4@agsa.co.za of the suggested appointment in order to obtain concurrence of the AGSA with the appointment. In this regard, part 1 of the document entitled *Consultation with the Auditor-General of South Africa on the appointment or discharge of the registered auditor*, attached as annexure E, must be completed and submitted together with the required supporting documentation. The AGSA may consult with the responsible executive authority on the appointment of the

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audit firm. Should the auditee not comply with this requirement on the appointment of auditors the matter will be reported to the executive authority.

30. If the AGSA, within 14 days of receiving a notice by the auditee of the suggested appointment of an auditor, or such longer period as may be agreed to, rejects the auditee's appointment, the auditee must in terms of section 25(3) of the PAA recommence the process to appoint another person as its auditor.

31. If an audit firm is contracted by the auditee for a period longer than one financial year, the appointment must be reaffirmed with the AGSA for each financial year in terms of section 25(4) of the PAA by submission of Part 2 of annexure E to section4@agsa.co.za.

Discharge of registered auditors – section 26 of the PAA

32. In terms of section 26(1) of the PAA, an auditee may discharge an auditor before the term of appointment expires with the consent of the AGSA and the relevant executive authority, where applicable.

33. Before discharging the auditor, the auditee must provide the auditor with:

- a written notice setting out the reasons for the discharge
- an opportunity to make written representations to the AGSA within 20 days of receipt of the notice.

34. The auditee must at the same time notify the AGSA of its intention to discharge the appointed auditor by completing part 3 of the document entitled *Consultation with the Auditor-General of South Africa on the appointment or discharge of the registered auditor*, attached as annexure E, and submit it via email to section4@agsa.co.za.

35. The AGSA will consider the document and communicate its consent or otherwise to the auditee. The AGSA may consult with the relevant executive authority on this matter.

36. The AGSA will report any discharge of an audit firm to the relevant legislature.

Responsibilities of registered auditors – part 2 of chapter 3 of the PAA

37. When auditing in the public sector, the auditor must do so in accordance with the requirements, duties and responsibilities as legislated and assigned to him/her in part 2 of chapter 3 of the PAA. The auditor must take cognisance of the content of the PAA and must adhere to the following requirements when auditing auditees where the AGSA has opted not to perform the audit:

- Appointment of auditors – section 25 of the PAA
- Discharge of auditors – section 26 of the PAA
- Duties and powers of auditors – section 27 of the PAA
- The format and content of the auditor's report, as set out in the AGSA's *Reporting guide*, Auditor's report template, and any other guidance that may be published by the AGSA from time to time concerning the conducting of audits in the public sector– section 28(1) and (2) of the PAA
- Submission of the auditor's report to the AGSA – section 28(3)(c) of the PAA
- The requirements of this notice, as applicable

38. To assist auditors in conducting audits in the public sector, they should consider the following documents made available by IRBA that provide a perspective on auditing in the public sector:

- *A guide for registered auditors: Auditing in the public sector*

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- *Guide for registered auditors: Guidance on performing audits on behalf of the AGSA*
- *Guide for registered auditors: Guidance on performing audits where the AGSA has opted not to perform the audit*
- South African Auditing Practice Statement (SAAPS) 2, *Financial reporting frameworks and the auditor's report*
- SAAPS 3, *Illustrative reports*

39. The AGSA makes available all information on the AGSA audit methodology to audit firms on the AGSA's website[4].

40. The AGSA monitors compliance with the provisions of the PAA and this notice concerning the performance of an audit in terms of section 25(1)(b) of the PAA. In this regard, the appointed auditor must complete the document entitled Monitoring checklist for audits not conducted by the AGSA, attached as annexure D.

Request for information – sections 27(5) and 28(3)(c) of the PAA

41. The AGSA may request information regarding the audit from an auditor appointed in terms of section 25(1)(b) of the PAA.

42. The AGSA interacts proactively with executive authorities and oversight bodies, such as the parliamentary portfolio and accounts committees. The aim of these engagements is to promote and encourage clean audit outcomes and enhance effective public governance.

43. The audit firm may be invited to attend such meetings. In terms of section 27(5) of the PAA, the AGSA may further request the audit firm to submit any information regarding the audit relevant to such meetings, including the auditor's communications with those charged with governance. The invitation to meetings and/or request for information will be communicated by the contact person at the AGSA business unit responsible for the audit of the controlling department to which the auditee reports.

44. Due to the role of the AGSA in establishing the duties and powers of appointed auditors in the public sector, the AGSA may, in addition to the above, request to attend meetings with those charged with governance of the auditee.

45. In terms of the requirements of section 28(3)(c) of the PAA, read with section 55(1)(d) of the PFMA, and in order to facilitate analysis in the AGSA's general reports, the audit firm must submit , either in hard copy or electronically, the following as soon as the annual report of the auditee has been tabled but not later than five months after the financial year-end :

    - Three copies of the auditee's annual report that contain the auditor's report and audited financial statements of the auditee
    - The completed monitoring checklist (annexure D)

46. The information should be addressed to Section 4(3), 300 Middel Street Brooklyn, Pretoria, 0001, or be submitted electronically to section4@agsa.co.za.

Complaints against registered auditors

47. Should a registered auditor appointed in terms of section 25(1)(b) of the PAA be found to be in contravention of the requirements in this notice or any provision of the PAA, the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA) or any act with which it is

[4] http://www.agsa.co.za

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his/her duty to comply in his/her capacity as a registered auditor, the AGSA may lodge a complaint of improper conduct against such auditor with IRBA.

48. In addition, a complaint of improper conduct may be lodged with IRBA against a registered auditor appointed in terms of section 25(1)(b) of the PAA if it comes to the attention of the AGSA that the auditor has conducted himself/herself in a manner that is improper, discreditable, unprofessional, dishonourable or unworthy or which brings the accounting profession into disrepute.

AUDITEES FOR WHICH LEGISLATION IS NOT PRESCRIPTIVE IN RESPECT OF THE FINANCIAL STATEMENTS – SECTION 14(2)(b) OF THE PAA

49. The financial statements of an auditee, as defined in section 1(1) of the PAA, that are not subject to the PFMA, the MFMA or any other legislation that is prescriptive in respect of the financial statements, must:

- be prepared in accordance with the Generally Recognised Accounting Practice (GRAP) reporting framework issued by the Accounting Standards Board (ASB)[5]
- comply with the PFMA requirements applicable to entities as they pertain to the information to be contained in the financial statements, as well as the period within which the financial statements are to be submitted for auditing.

50. The above requirement regarding the application of the GRAP reporting framework is not applicable where the auditee is not required to prepare full financial statements comprising a statement of financial position, a statement of financial performance, a statement of changes in net assets, a cash flow statement and notes, including a summary of significant accounting policies and other explanatory notes.

51. Where an entity is not listed in the PFMA, even though they appear to comply with the criteria of a public entity, they should comply with paragraph 49.

TIMING AND SUBMISSION OF INFORMATION FOR AUDIT PURPOSES – AND CONFIDENTIALITY OF INFORMATION - SECTION 15(2)(b) and 50 OF THE PAA

52. In compliance with applicable legislated submission, auditing and tabling deadlines in the PFMA and the MFMA, as well as to allow adequate time for conducting the audit in accordance with the relevant auditing standards, auditees must adhere to the following:

- The annual performance reports must be submitted not later than the legislated submission date for the financial statements.
- The trial balance and general ledger that agree with the financial statements, together with the supporting asset register, inventory register and subsidiary ledgers for receivables and payables, must be submitted together with the financial statements. All information in support of disclosures in the financial statements not included in the general and subsidiary ledgers must also be submitted concurrently with the financial statements.
- The strategic development plan and all other documentation and information in support of the annual performance report must be submitted at the latest with the annual performance report.
- All documentation and information in support of the financial statements, reported performance against predetermined objectives and compliance with legislation must be available on request and be retrievable within a reasonable time, as agreed per the engagement letter. If this information is not provided in the time agreed, it will be

[5] http://www.asb.co.za

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regarded as a limitation on the audit, which could result in a modification of the audit opinion.

- As agreed in the audit engagement letter, the other financial and non-financial information to be included in the annual report should be made available on or before the date contained therein. If this other information is not provided before the date of the auditor's report, management will be requested to provide written representation that the information will be provided as soon as possible and before the annual report is published; this confirmation will be referred to in the auditor's report. The fact that the other information is not provided before the date of the auditor's report does not prevent the auditor from issuing the auditor's report, but the other information will be read and considered when it becomes available, which may require amendments to the auditor's report if inconsistencies or material misstatements are identified.
- The withdrawal and re-submission of financial statements and performance reports submitted for auditing are not permitted; the financial statements and performance reports may only be adjusted for matters identified during the audit.

53. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the PAA and the code of ethics, the AGSA or an audit firm appointed in terms of section 25 of the PAA, will not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party unless this is to a state institution and the disclosure has been approved by the auditee and the auditor-general.

ASSESSMENT AND RECOGNITION OF THE FINANCIAL REPORTING FRAMEWORKS APPLICABLE IN THE PUBLIC SECTOR – SECTION 20(2)(a) OF THE PAA

54. The applicable financial reporting framework provides the criteria against which the auditor audits the financial statements. As one of the preconditions for an audit, the auditor is required to determine whether the financial reporting framework applied in preparing the financial statements is acceptable. This is done by considering the requirements of the ISAs and the guidance set out in SAAPS 2, Financial reporting frameworks and the auditor's report. The following financial reporting frameworks are recognised in the public sector and are considered fair presentation frameworks:
    - International Financial Reporting Standards (IFRS)
    - South African Statements of Generally Accepted Accounting Practice (SA GAAP) only for those specific entities as set out by the ASB. SA GAAP will no longer be available after the 2017-18 financial year.
    - Standards of GRAP
    - Modified Cash Standard (MCS) prescribed by the NT
55. Departures or exemptions from the applicable financial reporting framework are granted in terms of sections 79 and 92 of the PFMA, respectively, and sections 170 and 177 of the MFMA, respectively.
56. Should an auditee be granted a departure or exemption from the applicable financial reporting framework in accordance with the requirements of the PFMA or the MFMA, additional disclosure of the nature and reasons for, the period of, and the items affected by, the departure or exemption from the applicable financial reporting framework is required in the financial statements to mitigate any possible misunderstanding by the users of the financial statements.
57. The departure or exemption or use of a financial reporting framework other than that prescribed, may affect the acceptability of the financial reporting framework and, as a

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consequence, the wording of the audit opinion. This is assessed on a case-by-case basis in terms of the ISAs.

REPEAL OF PREVIOUS GOVERNMENT GAZETTES

58. General Notice 618, issued in Government Gazette No. 40515 of 23 December 2016, is hereby withdrawn and replaced by the requirements as set out in this notice.

EFFECTIVE DATE

59. This notice is effective for financial periods beginning on or after 1 April 2017 and is applicable until further notice. A similar notice will not necessarily be issued annually.

ENQUIRIES

60. Any enquiry related to this notice should be addressed to the following office:

Business executive: Audit Research and Development, Auditor-General of South Africa

Telephone: 012 426 8000

Fax: 012 426 8333

Email: ARDsupport@agsa.co.za

Signed and approved:

TK Makwetu

Auditor-General

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ANNEXURE A: APPLICABILITY OF COMPLIANCE SUBJECT MATTERS TO DIFFERENT CATEGORIES OF AUDITEES

SUBJECT MATTER	OBJECTIVE	APPLICABLE TO (General applicability rule: compliance audits do not apply to dormant entities) (All references to materiality include both quantitative and qualitative aspects)							
		Departments	Constitutional institutions	Trading entities	Public entities	Parliament & legislatures	Municipalities	Municipal entities	Higher learning institutions
Annual financial statements, performance reports and annual reports	Transparency and accountability through reporting on an annual basis on the state of affairs of the institution, its business, its financial results, its performance against predetermined objectives and its financial positions for the year.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Expenditure management	Management of expenditure to ensure that resources are used in an effective, efficient, economical and transparent manner and that all expenditure is necessary, appropriate and paid promptly and is adequately recorded and reported. Effective / reasonable measures to prevent unauthorised, irregular as well as fruitless and wasteful expenditure.	Yes	Yes	Yes	Yes – except if total expenditure is not material	Yes	Yes	Yes – except if total expenditure is not material	Yes
Revenue management	Effective and efficient revenue management that provides for the identification, collection, recording and reconciliation of revenue.	Yes – only departments that generated material revenue other than voted and donor funds	No	Yes – only entities that generated material revenue other than voted and donor funds	Yes – only public entities that generated material revenue	No	Yes – only municipalities that generated any revenue from municipal services	Yes – only municipal entities that generated any revenue from municipal services	Yes – only institutions that generated material revenue
Asset management	Effective asset management, including the safeguarding and maintenance of assets to eliminate theft, losses, wastage and misuse and a management and	No	No	No	Yes – except if it is a small auditee	No	Yes	Yes – except if it is a small auditee	Yes

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SUBJECT MATTER	OBJECTIVE	APPLICABLE TO (General applicability rule: compliance audits do not apply to dormant entities) (All references to materiality include both quantitative and qualitative aspects)							
		Departments	Constitutional Institutions	Trading entities	Public entities	Parliament & legislatures	Municipalities	Municipal entities	Higher learning institutions
	accounting information system that accounts for the assets. The disposal of significant assets is properly dealt with in terms of applicable legislation.								
Liability management	Effective liability management, including an accounting information system that accounts for liabilities. The focus is on borrowings (long term and short term), credit cards, guarantees, indemnities and securities.	No	No	No	Yes – except if the entity has no liabilities or liabilities are not material	No	Yes – except if the municipality has no liabilities or liabilities are not material	Yes – except if the entity has no liabilities or liabilities are not material	No
Strategic planning and performance management	Strategic planning that identifies strategically important outcome-orientated goals and objectives against which the institution's medium-term results can be measured and evaluated. Effective system for performance planning, monitoring, measurement, review, reporting and improvement.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Procurement and contract management	Procurement of goods and services in accordance with a system that is fair, equitable, transparent, competitive and cost effective.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Human resource management	Effective human resource management to ensure that adequate and sufficiently skilled resources are in place.	No	No	No	No	No	Yes	Yes – unless if it is a small auditee	Yes
Utilisation of conditional grants (DoRA)	Utilisation of grants in accordance with the conditions of the allocation.	Yes – only departments that received / utilised DoRA conditional grants	No	No	No	No	Yes – only municipalities that received DoRA conditional grants	No	No

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SUBJECT MATTER	OBJECTIVE	APPLICABLE TO (General applicability rule: compliance audits do not apply to dormant entities) (All references to materiality include both quantitative and qualitative aspects)							
		Departments	Constitutional institutions	Trading entities	Public entities	Parliament & legislatures	Municipalities	Municipal entities	Higher learning institutions
Consequence management	Allegations of financial misconduct (including possible fraud and improper conduct relating to supply chain management); unauthorised, irregular as well as fruitless and wasteful expenditure; and other transgressions are investigated and appropriate action is taken based on the outcome of the investigation.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Governance and oversight	Exercise of ethical and effective leadership by governing and oversight bodies towards the achievement of ethical culture, good performance, effective control, and legitimacy	No	No	No	Yes- only schedule 2 entities	No	No	No	No

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ANNEXURE B: APPLICABILITY OF CRITERIA DEVELOPED FROM THE PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK TO DIFFERENT CATEGORIES OF AUDITEES

The criteria developed from the above framework are applicable to audits in all three spheres of government unless otherwise indicated.

Criteria	References to PMRF per type of institution					
	Departments/ Constitutional institutions / Trading entities	Public entities	Municipalities	Municipal entities	Parliament / Provincial legislatures	Universities
Consistency: Objectives, performance indicators and targets are consistent between planning and reporting documents.						
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives	Section 40(3)(a) of the PFMA TR 5.2.4 NT Instruction Note 33: Implementation of the FSAPP Section 25(1) and 31(1) of the PSR	Section 55(2)(a) of the PFMA TR 28.2.2 Applicable to 3A & 3C public entities: TR 30.1.3(g) NT Instruction Note 33: Implementation of the FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA	Section 55(3)(d) of the FMPPLA	Section 5(2)(k) & 7(4)(a)of the regulations for reporting by Public Higher Education Institutions
2. Changes to strategic or development objectives are approved	TR 5.1.1 NT Instruction Note 33: Implementation of the FSAPP Section 4 of FSAPP	Applicable to 3A & 3C public entities: TR 30.1.1 NT Instruction Note 33: Implementation of the FSAPP Section 4 of FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	Section 15(1) & (2)(b) of the FMPPLA	Section 5(2)(m) & 7(4)(a) of the regulations for reporting by Public Higher Education Institutions

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Criteria	References to PMRF per type of institution					
	Departments/ Constitutional institutions / Trading entities	Public entities	Municipalities	Municipal entities	Parliament / Provincial legislatures	Universities
3. Reported indicators are consistent or complete when compared to planned indicators	Section 40(3)(a) of the PFMA TR 5.2.4 NT Instruction Note 33: Implementation of the FSAPP Section 25(1) of the PSR	Section 55(2)(a) of the PFMA TR 28.2.2 Applicable to 3A & 3C public entities: TR 30.1.3(g) NT Instruction Note 33: Implementation of the FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & section 46 of the MSA	Section 121(4)(d) of the MFMA	Section 55(3)(d) of the FMPPLA	Section 5(2)(k) & 7(4)(a) of the regulations for reporting by Public Higher Education Institutions
4. Changes to indicators are approved	TR 5.1.1 NT Instruction Note 33: Implementation of the FSAPP Section 4 of FSAPP	Applicable to 3A & 3C public entities: TR 30.1.1 NT Instruction Note 33: Implementation of the FSAPP Section 4 of FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	Section 15(1) & (2)(b) of the FMPPLA	Section 5(2)(m) of the regulations for reporting by Public Higher Education Institutions
5. Reported targets are consistent or complete compared to planned targets	Section 40(3)(a) of the PFMA TR 5.2.4 NT Instruction Note 33: Implementation of the FSAPP Section 25(1) of the PSR	Section 55(2)(a) of the PFMA TR 28.2.2 Applicable to 3A & 3C public entities: TR 30.1.3(g) Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & section 46 of the MSA	Section 121(4)(d) of the MFMA	Section 55(3)(d) of the FMPPLA	Section 5(2)(k) & 7(4)(a) of the regulations for reporting by Public Higher Education Institutions

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Criteria	References to PMRF per type of institution					
	Departments/ Constitutional institutions / Trading entities	Public entities	Municipalities	Municipal entities	Parliament / Provincial legislatures	Universities
6. Changes to targets are approved	TR 5.1.1 NT Instruction Note 33: Implementation of the FSAPP Section 4 of FSAPP	Applicable to 3A & 3C public entities: TR 30.1.1 NT Instruction Note 33: Implementation of the FSAPP Sec 4 of FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	Section 15(1) & (2)(b) of the FMPPLA	Section 5(2)(m) of the regulations for reporting by Public Higher Education
7. Reported achievements are consistent with the planned and reported indicator and target	Section 40(3)(a) of the PFMA	Section 55(2)(a) of the PFMA	Section 121(3)(f) of the MFMA	Section 121 (4)(d) of the MFMA	Section 55(3)(d) of the FMPPLA	Section 7(4)(a) of the regulations for reporting by Public Higher Education Institutions
Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound.						
8. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use	FMPPI chapter 3.2				Criteria not applicable	Section 1(d) of the regulations for reporting by Public Higher Education Institutions
9. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator	FMPPI chapter 3.2				Criteria not applicable	
10. A target is specific when the nature and required level of performance of the target is clearly identifiable.	FMPPI chapter 3.3				Criteria not applicable	Section 1(a) of the regulations for reporting by Public Higher Education Institutions

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Criteria	References to PMRF per type of institution					
	Departments/ Constitutional institutions / Trading entities	Public entities	Municipalities	Municipal entities	Parliament / Provincial legislatures	Universities
11. A target is measurable when the required performance can be measured.	FMPPI chapter 3.3				Criteria not applicable	Section 1(b) of the regulations for reporting by Public Higher Education Institutions
12. A target is time bound when the timeframes for achievement of targets are indicated.	FMPPI chapter 3.3				Criteria not applicable	Section 1(c) of the regulations for reporting by Public Higher Education Institutions
Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.						
13. The performance indicator and target relates logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives	FMPPI chapter 3.2				Criteria not applicable	Section 1(e) of the regulations for reporting by Public Higher Education Institutions
Presentation and disclosure: Performance information in the annual performance report are presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance.						
14. Reasons for variances between planned and actual performance are disclosed in the annual performance report.	NT annual report guide for national and provincial departments Section 31(1) of the PSR	Applicable to 3A & 3C public entities: NT annual report guide for schedule 3A and 3C public entities	Criteria not applicable			
15. Reasons for variances are corroborated by source documentation.	NT annual report guide for national and provincial departments Chapter 5 of the FMPPI	Applicable to 3A & 3C public entities: NT annual report guide for schedule 3A and 3C public entities Chapter 5 of the FMPPI	Criteria not applicable			

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Criteria	References to PMRF per type of institution					
	Departments/ Constitutional institutions / Trading entities	Public entities	Municipalities	Municipal entities	Parliament / Provincial legislatures	Universities
16. Changes to objectives, performance indicators and performance targets are disclosed in the annual performance report	NT annual report guide for national and provincial departments Section 31(1) of the PSR	Applicable to 3A & 3C public entities: NT annual report guide for schedule 3A and 3C public entities	Criteria not applicable			
17. Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report.	Criteria not applicable		Section 46 of the MSA	Section 46 of the MSA	Criteria not applicable	
18. Measures taken to improve performance are disclosed in the annual performance report.	Criteria not applicable		Section 46 of the MSA	Section 46 of the MSA	Criteria not applicable	
19. Measures taken to improve performance are corroborated with audit evidence.	Criteria not applicable		Section 46 of the MSA	Section 46 of the MSA	Criteria not applicable	
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.						
20. Reported performance occurred and pertains to the reporting entity. 21. Amounts, numbers and other data relating to reported performance is recorded and reported correctly. 22. All actual performance that should have been recorded is included in the reported performance information.	Section 40(3)(a) of the PFMA Chapter 5 of the FMPPI Section 25(1)(e) of the PSR	Section 55(2)(a) of the PFMA Chapter 5 of the FMPPI	Section 45 of the MSA Chapter 5 of the FMPPI	Section 45 of the MSA Chapter 5 of the FMPPI	Section 55 of the FMPPLA	Section 7 of the regulations for reporting by Public Higher Education Institutions

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ANNEXURE C: CRITERIA USED TO EVALUATE INTERNAL CONTROL

LEADERSHIP

- Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the auditee.
- Exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls.
- Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
- Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.
- Develop and monitor the implementation of action plans to address internal control deficiencies.
- Establish an information technology (IT) governance framework that supports and enables the business, delivers value and improves performance.

FINANCIAL AND PERFORMANCE MANAGEMENT

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable legislation.
- Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

GOVERNANCE

- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.
- Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.

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ANNEXURE D: MONITORING CHECKLIST FOR AUDITS NOT CONDUCTED BY THE AUDITOR-GENERAL OF SOUTH AFRICA

INSTRUCTIONS

1. This checklist should be completed by the appointed audit firm for each audit it has conducted and should be submitted together with the information required in terms of section 27(5) and 28(3)(c) above within five months after the financial year-end, i.e. 31 August.

DETAILS OF AUDITEE	
Name of auditee	
Controlling department	
Type of auditee (schedule number)	
Holding company (if applicable)	
Subsidiaries (if applicable)	
DETAILS OF AUDIT FIRM	
Engagement firm	
Engagement firm's address	
Engagement firm's contact details	
Engagement partner	
Engagement partner's contact details	
AGSA DETAILS	
Audit business unit	
Business executive	

No.	Requirements	Complied Yes / no* / not applicable	Remarks / comments
	Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)		
1.	All the requirements of the PAA and this general notice were complied with		
2.	The auditor's report to the accounting authority was submitted within the time frame prescribed by the PFMA		
3.	Three copies of the annual report, containing the auditor's report and the audited financial statements were submitted to the AGSA by 31 August		

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No.	Requirements	Complied Yes / no* / not applicable	Remarks / comments
	Audit		
4.	The auditor's report complied with the template and reporting guide provided by the AGSA.		
5.	Other technical guidance provided by the AGSA as applicable to the auditee has been complied with		
6.	Separate financial statements were audited and an auditor's report was submitted for all subsidiaries		
*	Where a 'no' answer is provided, comments must be included.		

7. General comments:

Insert details

Completed by engagement partner:	Signature:	
	Name:	
	Date:	

CONCLUSION *(to be completed by the audit business unit after receipt of all information)*

No.	Requirements	Complied Yes / no*	Remarks / comments
1.	Did the auditors and the auditee satisfy the requirements of sections 25 to 27 of the PAA, relating to the following:		
	• Appointment of auditors		
	• Discharge of auditors		
	• Duties and powers of auditors		
2.	Has the engagement firm satisfied the		

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No.	Requirements	Complied Yes / no*	Remarks / comments
	reporting requirements of the following:		
	• The PAA		
	• This general notice		
	• The AGSA's *Reporting* guide and reporting template		
	• Other technical guidance applicable to the auditee		
*	Where a 'no' answer is provided, comments must be included		

3. General comments:

Insert details

4. Recommended further action in terms of this notice:

Insert details

Evaluated by AGSA business executive /senior manager	Signature:
	Name:
	Date:

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ANNEXURE E: CONSULTATION WITH THE AUDITOR-GENERAL OF SOUTH AFRICA ON THE APPOINTMENT OR DISCHARGE OF THE REGISTERED AUDITOR IN TERMS OF SECTIONS 25 AND 26 OF THE PUBLIC AUDIT ACT

INSTRUCTIONS

The auditee should submit the following details and complete the applicable sections as follows:

- PART 1 - When the auditee has not received confirmation that the AGSA has opted to perform the audit prior to the commencement of the financial year and is appointing a new audit firm
- PART 2 - When the auditee has not received confirmation that the AGSA has opted to perform the audit prior to the commencement of the financial year and the current audit firm is to be reappointed
- PART 3 - When the auditee wishes to discharge the current audit firm

Particulars of auditee		
Name		
Postal address		
Physical address		
Fax number		
Telephone number		
Email address of chief financial officer		
Accounting authority chairperson	**Name**	
	Contact details	
Responsible minister (executive authority)	**Name**	
	Contact details	
Responsible department		
Contact person at department		
Financial year in question		
PFMA schedule (2, 3A, 3B, 3C or 3D)		
Name of holding entity (if applicable)		

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PART 1 - Appointment of new audit firm

Information to be supplied

1. Submit the following via email to section4@agsa.co.za:.

- Completed information sheet (see below)
- Declaration of independence from the proposed audit firm (see section 3 below)
- Confirmation and details of the process followed for procurement of the external audit services
- BBBEE certificate of the audit firm
- Confirmation of the IRBA registration of the audit firm
- Approved minutes of the meeting where the appointment of the auditors was discussed
- Proposal received from the audit firm

Information sheet

Particulars of audit firm	
Name of audit firm	
Address and contact details	
Engagement partner	
Proposed audit fee	

2. Details of how the quality of the audit firm's work has been assessed, e.g. results of IRBA reviews, as well as confirmation from IRBA that the appointed audit firm is in good standing at IRBA:

Insert details

3. Matters that may influence a decision regarding the independence, objectivity or perceived independence of the audit firm:

Insert details

4. Confirmation from the accounting authority / board that a procurement process was followed and no exceptions were noted:

Insert details

5. Costs of any audit or non-audit services provided by the audit firm during the last three years:

Financial year			
Audit fees			
Fees for other services			

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Total fees			
Non-audit fees as a percentage of total fees			
Nature of services performed			

Declaration of independence by audit firm

Particulars of audit firm	
Name of audit firm	
Address and contact details	
Engagement partner	

We hereby confirm the following concerning our proposed appointment as auditors of ………………… for the financial year ……

- We, nor any related network firm, undertake any audit or non-audit services at the auditee and have not done so for the preceding five years.
- We have the necessary competencies and capabilities to undertake the audit.

Completed by engagement partner:	Signature:
	Name:
	Date:

Information submitted by:

Completed by auditee:	Signature:
	Name and designation:
	Date:

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PART 2 – Reappointment of audit firm

Information to be supplied

6. In this regard the following information should be submitted via email to section4@agsa.co.za:.

Information sheet

Particulars of audit firm	
Name of audit firm	
Address and contact details	
Engagement partner	
Financial years previously audited	

7. Details of the audit committee's assessment of the effectiveness and efficiency of the performance of the external auditors, including IRBA review results:

Insert details

8. Details of significant disagreements between the external auditors and the accounting authority during the preceding financial year, if any:

Insert details

9. Indicate any matter that may influence a decision regarding the independence, objectivity or perceived independence of the auditors:

Insert details

10. Name of partner in charge of the audit for the last five years:

Year	Name of partner
1	
2	
3	
4	
5	

11. Name of senior audit manager in charge of the audit for the last five years:

Year	Name of senior audit manager

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Year	Name of senior audit manager
1	
2	
3	
4	
5	

12. Costs of audit and non-audit services provided by the audit firm during the last three years:

Financial year			
Audit fees			
Fees for other services			
Total fees			
Non-audit fees as a percentage of total fees			
Nature of services performed			

Information submitted by:

Completed by auditee:	Signature:
	Name and designation:
	Date:

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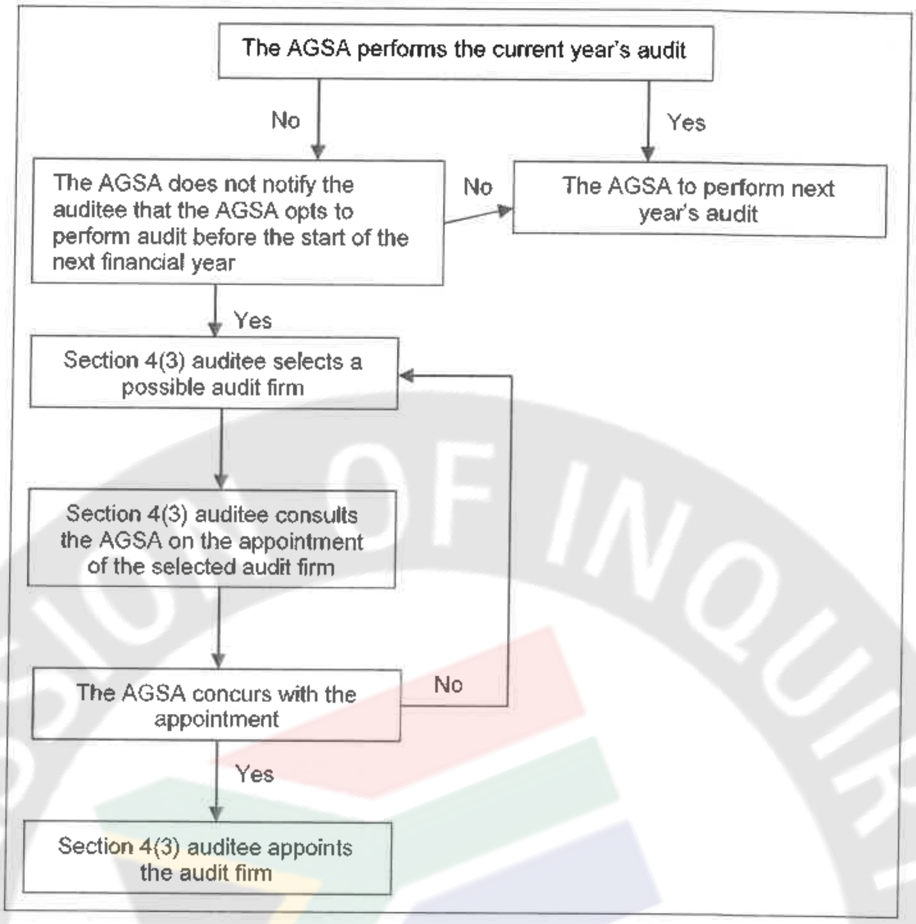
SCHEMATIC ILLUSTRATION OF THE AUDITOR APPOINTMENT PROCESS



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PART 3 – Discharge of audit firm

Information to be supplied

13. In this connection the following information should be submitted via email to section4@agsa.co.za:

- Information sheet
- Notice to the auditor, giving the reasons for the impending discharge
- Written concurrence by the executive authority for the planned discharge.

Information sheet

Particulars of audit firm	
Name of audit firm	
Address and contact details	
Engagement partner	
Financial years previously engaged on the audit	

14. Costs of audit and non-audit services provided by the audit firm during the last three years:

Financial year			
Audit fees			
Fees for other services			
Total fees			
Non-audit fees as a percentage of total fees			
Nature of services performed			

Completed and submitted by:	Signature:
	Name and designation:
	Date:

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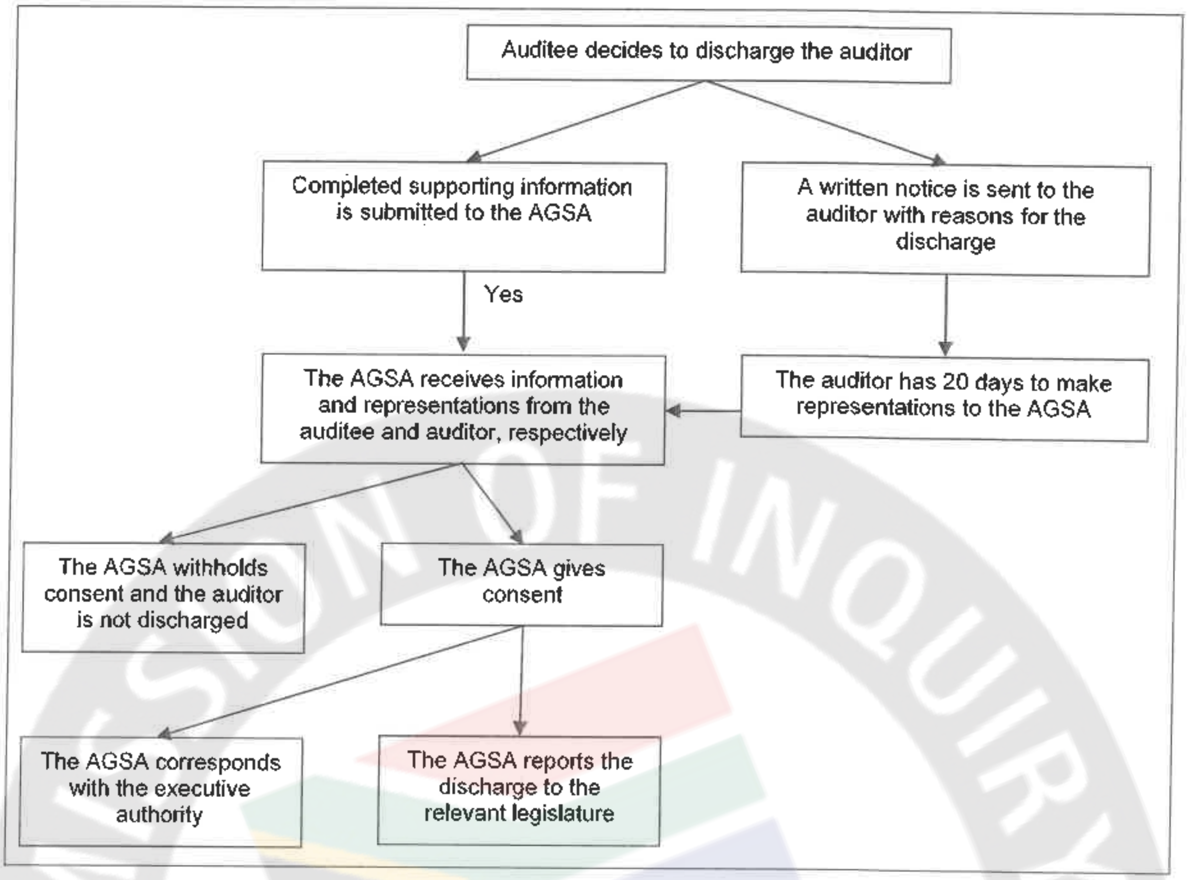
SCHEMATIC ILLUSTRATION OF THE AUDITOR DISCHARGE PROCESS



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ANNEXURE F: RELEVANT EXTRACTS FROM THE PUBLIC AUDIT ACT

2. Objects of this act

The objects of this Act are -

(b) to provide for the auditing of institutions and accounting entities in the public sector;

4. Constitutional functions

(1) The Auditor-General must audit and report on the accounts, financial statements and financial management of -

(a) all national and provincial state departments and administrations;

(b) all constitutional institutions;

(c) the administration of Parliament and of each provincial legislature;

(d) all municipalities;

(e) all municipal entities; and

(f) any other institution or accounting entity required by other national or by provincial legislation to be audited by the Auditor-General.

(2) The Auditor-General must audit and report on the consolidated financial statements of -

(a) the national government as required by section 8 of the PFMA;

(b) all provincial governments as required by section 19 of the PFMA; and

(c) a parent municipality and all municipal entities under its sole or effective control as required by section 122 (2) of the MFMA.

(3) The Auditor-General may audit and report on the accounts, financial statements and financial management of -

(a) any public entity listed in the PFMA; and

(b) any other institution … which is -

(i) funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or

(ii) authorised in terms of any legislation to receive money for a public purpose.

5. Other functions

(1) The Auditor-General may, at a fee, and without compromising the role of the Auditor-General as an independent auditor, provide -

(a) audit-related services to an auditee … or other body, which is commonly performed by a supreme audit institution on condition that -

(i) no services may be provided in respect of any matter that may subsequently have to be audited by the Auditor-General;

(ii) such service will not directly result in the formulation of policy; and

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(iii) there must be full and proper disclosure of (the categories of) such services (in the report annually submitted by the Auditor-General to the National Assembly).

(d) carry out an appropriate investigation or special audit of any institution ..., if the Auditor-General considers it to be in the public interest or upon the receipt of a complaint or request.

(3) The Auditor-General may, in the public interest, report on any matter within the functions of the Auditor-General and submit such a report to the relevant legislature and to any other organ of state with a direct interest in the matter.

11. Application of this part

This part applies to all audits of auditees which the Auditor-General -

(a) must perform in terms of section 4 (1) or (2); or

(b) opts to perform in terms of section 4 (3).

13. Standards for audits

(1) The Auditor-General, after consulting the oversight mechanism, must determine -

(a) the standards to be applied in performing audits ...

(b) the nature and scope of such audits; and

(c) procedures for the handling of complaints when performing such audits.

(3) The Auditor-General may -

(a) make different determinations on the matters mentioned in subsection (1) for different categories of audits based on recognised best practice; or

(b) issue specific directives on those matters in any specific case.

14. Submission of financial statements

(2) Financial statements submitted by an auditee which is not subject to the PFMA or the MFMA must be submitted within the period, be in a format, contain the information and otherwise comply with any requirements determined -

(a) by any legislation applicable to that auditee; or

(b) in the absence of such legislation, by the Auditor-General.

15. General auditing powers

(2) The Auditor-General or an authorised auditor may for the purpose of an audit -

(b) direct a person to produce or to deliver at a specified place and time and in a specified format -

(i) any such document, book or written or electronic record or information ...

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20. Audit reports

(2) An audit report must reflect such opinions and statements as may be required by any legislation applicable to the auditee which is the subject of the audit, but must reflect at least an opinion or conclusion on -

(a) whether the annual financial statements of the auditee fairly present, in all material respects, the financial position at a specific date and results of its operations and cash flow for the period which ended on that date in accordance with the applicable financial framework and legislation;

(b) the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters; and

(c) the reported information relating to the performance of the auditee against predetermined objectives.

(3) In addition, the Auditor-General may report on whether the auditee's resources were procured economically and utilised efficiently and effectively.

25. Appointment of auditors

(1) If the Auditor-General has opted not to perform the audit of an auditee ...

(a) the Auditor-General must give notice of his or her decision to that auditee before the start of the auditee's financial year for which the appointment is to be made; and

(b) the auditee must appoint as its auditor a person registered in terms of the Public Accountants' and Auditors' Act as an accountant and auditor and engaged in public practice as such.

(2) Before appointing an auditor in terms of subsection (1), the auditee must give notice of the suggested appointment to the Auditor-General, including information on the extent to which the auditor would provide other services than audit services during the duration of the appointment, and any other information required by the Auditor-General.

(3) If the Auditor-General, within 14 days of receiving a notice in terms of subsection (2) or such longer period as may be agreed to, rejects the auditee's appointment, the auditee must in terms of that subsection recommence the process to appoint another person as its auditor.

(4) Appointments in terms of this section may not be for a longer period than one financial year of the auditee.

26. Discharge of auditors

(1) An auditee ... may discharge an auditor ... before the expiry of that auditor's term of appointment, but only with the consent of the Auditor-General and, if that auditee has an executive authority within the meaning of the PFMA, also of the relevant executive authority.

(2) If such an auditee intends discharging an auditor in terms of subsection (1), it must -

(a) give the auditor notice, in writing, setting out the reasons for the discharge; and

(b) give the auditor an opportunity to make representations, in writing, to the Auditor-General within 20 days of receipt of the notice.

(3) The Auditor-General must report any discharge of an auditor in terms of subsection (1) to the relevant legislature.

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27. Duties and powers of auditors

(1) An auditor ... must perform the functions of office as auditor in terms of section 20 of the Public Accountants' and Auditors' Act.

(2) In performing those functions as the auditor of an auditee, the auditor has the powers assigned to the Auditor-General in terms of section 15 (of the PAA).

(3) An auditor may consult the Auditor-General or a person designated by the Auditor-General concerning any matter relating to the auditing of the auditee concerned.

(4) An auditor -

(a) must be given notice of every meeting of the auditee's audit committee, if the auditee has such a committee; and

(b) may attend, and participate in, any meeting of such an audit committee at the expense of the auditee.

(5) The Auditor-General or a person designated by the Auditor-General may request information regarding the audit from an auditor ...

28. Audit reports and other reports

(1) The report of an auditor ... must reflect such opinions and statements as may be required by any legislation applicable to the auditee which is the subject of the audit, but must reflect at least an opinion or conclusion on -

(a) whether the financial statements of the auditee fairly present, in all material respects, the financial position at a specific date and results of its operations and cash flow for the period which ended on that date in accordance with the applicable financial framework and legislation;

(b) the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters; and

(c) the reported information relating to the performance of the auditee against predetermined objectives.

(3) The auditor must submit copies of the audit report referred to in subsection (1) -

(a) to the auditee;

(b) if the auditee has an executive authority within the meaning of the PFMA, to that executive authority for submission to the relevant legislature;

(c) to the Auditor-General; and

(d) to the National Treasury or the relevant provincial treasury, as may be appropriate.

50. Disclosure of information

No authorised auditor, person assisting an authorised auditor or a member of the staff of the Auditor-General may, without the permission of the Auditor-General, disclose information obtained in the course of an audit or the carrying out of duties in terms of this Act otherwise than in an audit report or in accordance with section 18(4).

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4(2)

GENERAL NOTICE

NOTICE 1111 OF 2010

PUBLIC AUDIT ACT, 2004 (ACT NO. 25 OF 2004)

1. Under the powers vested in me by section 2(b) read with section 52(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) (hereafter referred to as the PAA), I, Terence Mncedisi Nombembe, Auditor-General of the Republic of South Africa (hereinafter referred to as the AGSA), hereby determine the following:

A. AUDIT FUNCTIONS PERFORMED BY THE AGSA IN TERMS OF THE PUBLIC AUDIT ACT, 2004 (ACT NO. 25 OF 2004)

a. Evaluation of public finance management

2. The success of transformation in public sector financial management is evaluated as part of the outcomes of the annual regularity audit process. Accordingly, the auditor's report reflects views on:

- financial information (through the auditor's opinion on the financial statements)
- performance against predetermined objectives (based on the findings on reporting on performance against predetermined objectives reflected under *Report on other legal and regulatory requirements* in the auditor's report)
- compliance with applicable laws and regulations relating to financial matters, financial management and other related matters (reflected under *Report on other legal and regulatory requirements* in the auditor's report)
- internal control as indicated by the status of internal control that resulted in qualifications of the opinion on the financial statements, and the findings on the report on predetermined objectives, and compliance with laws and regulations (reflected under *Report on other legal and regulatory requirements* in the auditor's report).

b. Auditing standards

3. In terms of section 13(1)(a) of the PAA, the entire suite of auditing pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) will be applied in all regularity audits conducted by public sector auditors.

4. The International Organization of Supreme Audit Institutions (INTOSAI) publishes professional standards and best practice guidelines for public sector auditors. These consist of:

- the International Standards of Supreme Audit Institutions (ISSAIs) stating the basic prerequisites for the proper functioning and professional conduct of supreme audit institutions and the fundamental principles of auditing in the public sector
- the INTOSAI Guidance for Good Governance (INTOSAI GOVs) providing guidance to public authorities on the proper administration of public funds.

5. The AGSA is in the process of incorporating the principles contained in the above into its audit methodology.

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c. Auditing of performance against predetermined objectives – sections 20(2)(c) and 28(1)(c) of the PAA

6. All public sector entities are required to submit their annual performance reports for auditing together with the annual financial statements within two months after the end of the financial year.

7. The objective of an audit of performance against predetermined objectives is to enable the auditor to conclude whether the reported performance against predetermined objectives is useful and reliable, in all material respects, based on predetermined criteria. The auditing of reporting against predetermined objectives has been phased in over a couple of years and has now reached a stage of maturity as indicated below.

8. The following are the sources of criteria against which the subject matter will be evaluated as a basis for the audit conclusions:

- All relevant laws and regulations
- *Framework for the managing of programme performance information*, issued by the National Treasury
- Relevant frameworks, circulars and guidance issued by the National Treasury and the Presidency regarding the planning, management, monitoring and reporting of performance against predetermined objectives

9. Material findings that come to the attention of the auditor and may impact on the public interest will be reported in the *Report on other legal and regulatory requirements* section of the auditor's report until such time as the environment shows a state of readiness to provide reasonable assurance in the form of an audit conclusion.

10. In addition to the above and as part of the readiness strategy, an audit conclusion on the reporting of performance against predetermined objectives will be included in the management report for the following categories of entities:

- National and provincial departments, constitutional institutions and trading entities
- National and provincial public entities
- Parliament and provincial legislatures
- High-capacity municipalities (which include the metropolitan councils) and their related municipal entities
- Other entities as per section C below

11. The audit conclusions on performance against predetermined objectives will be prepared in terms of the International Standard on Assurance Engagements (ISAE) 3000 *Assurance engagements other than audits or reviews of historical financial information*.

d. Auditing of compliance with applicable legislation relating to financial matters, financial management and other related matters – sections 20(2)(b) and 28(1)(b) of the PAA

12. In terms of sections 20(2)(b) and 28(1)(b) of the PAA, the auditor's report must reflect an opinion or conclusion on the entity's compliance with any applicable legislation relating to financial matters, financial management and other related matters.

13. This will be achieved by reporting of material findings that come to the attention of the auditor in the *Report on other legal and regulatory requirements* section of the auditor's report.

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e. Other legislative functions

14. In terms of the PAA, public sector auditors also fulfil other responsibilities such as performance audits, investigations, special audits and related services. The standards that guide these audits are as follows:

Performance audits – section 20(3) of the PAA

15. In terms of section 13(1)(a) of the PAA, the ISSAIs, with specific reference to the ISSAI 3000 series, issued by INTOSAI's Professional Standards Committee (PSC), have been adopted for application in all performance audits conducted in the public sector.

Investigations – section 5(1)(d) of the PAA

16. In terms of section 13(1)(a) of the PAA, the AGSA has developed *Standards and guidelines: investigations* for conducting investigations.

Special audits – section 5(1)(d) of the PAA

17. In terms of section 13(1)(a) of the PAA, these audits are conducted in accordance with the International Standard on Related Services (ISRS) 4400 *Engagements to perform agreed-upon procedures regarding financial information* issued by the IAASB.

Audit-related services – section 5(1)(a) of the PAA

18. In terms of section 13(1)(a) of the PAA, these audits are conducted in accordance with ISRS 4400 *Engagements to Perform agreed-upon procedures regarding financial information* issued by the IAASB and *Audit-related services: policy and guideline* developed by the AGSA.

Donor funding

19. Public sector reports on donor funds are issued in accordance with ISA 800 *Special Considerations – Audits of Financial Statements prepared in accordance with special purpose frameworks* or in terms of ISA 805 *Special considerations – Audits of single financial statements and specific elements, accounts or items of a financial statement.*

B. AUDITS OF PUBLIC ENTITIES AND OTHER INSTITUTIONS NOT PERFORMED BY THE AGSA

a. Audits of public entities listed in the Public Finance Management Act, 1999 (Act No. 1 of 1999) and any other institutions envisaged by section 4(3)(b) of the PAA

20. In terms of section 25(1)(a) of the PAA, I opt not to perform the audits of any entities referred to in section 4(3) of the PAA, which are not already being audited by me, for the 2011-12 and following financial years, unless advised otherwise by me prior to the start of the entity's financial year.

b. Appointment of auditors – section 25 of the PAA

21. An entity may proceed to appoint its own auditors as stipulated by section 25(1)(b) read with section 25(4) of the PAA, if not advised before the start of the financial year that the AGSA will perform the audit.

22. In this regard, the document *Consultation of the Auditor-General on the appointment of an auditor*, attached hereto as appendix A, should be completed in full as indicated.

23. If I have opted to perform the audit of an entity, such entity may not seek to or appoint alternative auditors.

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c. Responsibilities of auditors in public practice – part 2 of chapter 3 of the PAA

24. In terms of section 4(3)(b) of the PAA, I may audit and report on the accounts, financial statements and financial management of any public entity listed in the Public Finance Management Act, 1999 (Act No. 1 of 1999) (hereafter referred to as the PFMA) and any other institution not mentioned in section 4(1) of the PAA and which is:

- funded from the National Revenue Fund or a provincial revenue fund or by a municipality; or
- authorised in terms of any legislation to receive money for a public purpose.

25. When conducting audits in the public sector, auditors in public practice appointed in terms of section 25(1)(b) of the PAA to audit entities falling within the ambit as envisaged above, including institutions of higher education, should take cognisance of, and must apply, the content of this general notice where applicable, as well as the requirements contained in sections 25 to 27 of the PAA dealing with the following matters:

- Appointment of auditors (section 25)
- Discharge of auditors (section 26)
- Duties and powers of auditors (section 27)

26. Compliance with the provisions of the PAA and this general notice in conducting an audit in terms of section 25(1)(b) of the PAA will be monitored by the AGSA. In this regard, the appointed auditor must complete the *Section 4(3) audit monitoring checklist*, attached hereto as appendix B.

27. Should a registered auditor be found to be in contravention of these requirements or any provision of the PAA, the Auditing Profession Act, 2005 (Act No. 26 of 2005) (hereafter referred to as the APA) or any act with which it is his/her duty to comply in his/her capacity as a registered auditor, a complaint or charge of improper conduct may be made to the investigating committee against auditors in public practice of the Independent Regulatory Board for Auditors (IRBA), appointed in terms of section 25(1)(b) of the PAA.

28. In addition, a complaint or a charge of improper conduct may be lodged with IRBA's investigating committee against auditors appointed in terms of section 25(1)(b) of the PAA if it comes to the attention of the AGSA that the registered auditor has conducted himself/herself in a manner that is improper, discreditable, unprofessional, dishonourable or unworthy of a registered auditor or which brings the accounting profession into disrepute.

29. In terms of the requirements of section 28 of the PAA, the appointed auditor must:

- in respect of subsections (1)(a), (b) and (c), comply with the matters as stipulated in this gazette
- in respect of subsection (3)(c), furnish the responsible audit business unit (ABU) in the AGSA, either in hard copy or on CD, with:
  - three copies of the auditor's report, together with a copy of the audited financial statements, within five months after the financial year-end
  - three copies of the annual report, within five months after the financial year-end
  - the completed checklist as per annexure B within five months after the financial year-end, i.e. 31 August.

30. The outcomes of these audits will be included in the AGSA's general reports.

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C. ENTITIES FOR WHICH LEGISLATION IS NOT PRESCRIPTIVE IN RESPECT OF THE FINANCIAL STATEMENTS – SECTION 14(2)(b) OF THE PAA

31. In the absence of guidance having been issued by the National Treasury for such entities, and in terms of section 14(2)(b) of the PAA, the financial statements of an entity that is not subject to the PFMA or the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (hereafter referred to as the MFMA) must be submitted within the period, be in a format, contain the information and otherwise comply with any legislation applicable to the entity, or, in the absence of such legislation, any requirements determined by the AGSA.

32. This notice is in no way intended to supersede the requirements of any applicable legislation. Consequently, where an entity is subject to legislation such as the PFMA, the MFMA, entity-specific enabling legislation or any other applicable legislation that is prescriptive in terms of the financial statements, such legislation takes precedence over this notice.

33. The accounting authority or accounting officer should identify the entity's legal form, i.e. public entity, trading entity, municipal entity, and ensure compliance with all applicable legislation. Only in instances where the applicable legislation is not prescriptive in terms of the financial statements are entities required to:

    - prepare financial statements in accordance with the Generally Recognised Accounting Practice (GRAP) reporting framework issued by the Accounting Standards Board (ASB)
    - comply with the PFMA requirements as they pertain to the format of, and information to be contained in the financial statements, as well as the period within which the financial statements are to be submitted
    - include a performance report on the entity's performance against predetermined objectives in an annexure to the financial statements, specifically containing the following:
        - particulars of the entity's strategic objectives and outcomes as identified and agreed on by the executive authority
        - the key performance indicators and targets for assessing the entity's performance in delivering the desired outcomes and objectives
        - the entity's actual performance against the agreed strategic objectives, indicators and targets.

34. In the case of an audit conducted in terms of the PAA where there is no applicable legislation setting out the period within which the auditor's report is to be submitted to the relevant legislature, the Auditor-General must, in terms of section 21(2) of the PAA, submit such auditor's report to the relevant legislature as per the requirements of the PFMA in this regard.

D. ASSESSMENT AND RECOGNITION OF THE FINANCIAL REPORTING FRAMEWORKS APPLICABLE IN THE PUBLIC SECTOR

35. The applicable financial reporting framework provides the criteria against which the auditor audits the financial statements. As one of the preconditions for an audit, the auditor is required to determine whether the financial reporting framework applied in preparing the financial statements is acceptable and to assess whether it is a general purpose or compliance framework. This is done by considering the requirements of the ISAs and the guidance set out in the revised *South African Auditing Practice Statement (SAAPS) 2: Financial Reporting Frameworks and the Auditor's Report*, which is based on the clarified ISAs.

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36. Section 20(2)(a) of the PAA requires me to express an opinion on the fair presentation of the financial statements regardless of whether the entity prepared its financial statements in terms of a fair presentation framework or not. Where the applicable financial reporting framework applied is not assessed to be a fair presentation framework, an *Additional matter* paragraph will be included in the auditor's report to mitigate any possible misunderstanding that the financial statements have been prepared in terms of a fair presentation framework.

37. Depending on my assessment of the acceptability of the applicable financial reporting framework, additional disclosure may be required in the financial statements of the entity to which attention will be drawn in the auditor's report by the inclusion of an *Emphasis of matter* paragraph. Non-adherence to this requirement may result in a qualification of the auditor's opinion.

38. Should an entity be granted an exemption, departure or deviation from the applicable financial reporting framework in compliance with the requirements of the PFMA or MFMA, additional disclosure of the reasons for the exemption, departure or deviation from the applicable financial reporting framework will be required, in order to avoid the financial statements being misleading. Attention to this disclosure will be drawn in the auditor's report by the inclusion of an emphasis of matter paragraph. Non-adherence to this requirement may result in a qualification of the auditor's opinion. In addition the principle in paragraph 37 will also apply. If the exemption, departure or deviation from the applicable financial reporting framework is not granted in compliance with the requirements of the PFMA or MFMA this may result in the auditor's opinion being qualified.

E. REPEAL OF PRIOR *GOVERNMENT GAZETTES*

39. *General Notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*, is hereby withdrawn and replaced by the requirements as set out in this general notice.

F. EFFECTIVE DATE

40. This general notice is effective for financial periods beginning on or after 1 April 2010 and will apply until further notice. A similar general notice will not necessarily be issued annually.

G. ENQUIRIES

41. Any enquiry related to this notice should be addressed to the following office:

Business Executive: Audit Research and Development, Auditor-General of South Africa

Telephone: 012 422 9823

Fax: 012 422 9822

Email: auditsupport@agsa.co.za

Signed and approved:

T M Nombembe

Auditor-General

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APPENDIX A: CONSULTATION OF THE AUDITOR-GENERAL ON THE APPOINTMENT OR DISCHARGE OF AN AUDITOR IN TERMS OF SECTIONS 25 AND 26 OF THE PUBLIC AUDIT ACT, 2004 (ACT NO. 25 OF 2004)

INSTRUCTIONS TO ENTITY

1. This checklist should be completed and submitted with supporting documentation to the responsible audit business unit within the AGSA.

2. The checklist should be accompanied by a copy of your policy on the appointment of auditors and the allocation of non-audit services to auditors.

INFORMATION REQUIRED

3. Particulars of entity:

Name		
Postal address		
Physical address		
Fax number		
Telephone number		
Email address of CFO		
Accounting authority chairperson	Name	
	Contact details	
Responsible minister (executive authority)	Name	
	Contact details	
Responsible department		
Contact person at department		
Financial year in question		

DISCHARGE OF AUDITOR

4. Particulars of the audit firm discharged:

	Name(s) of audit firm(s)	Number of years engaged to date
Firm 1		
Firm 2		
Firm 3		
Firm 4		
Firm 5		

5. Provide the notice to the auditor, giving the reasons for the impending discharge.

6. Provide written concurrence by the executive authority for the planned discharge.

7. Costs of audit and non-audit services provided by the auditors during their term of office (last three years):

Financial year			
Audit fees			
Fees for other services			
Total fees			
Non-audit fees as a percentage of total fees			
Nature of services performed			

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APPOINTMENT OF NEW AUDITORS

8. Particulars of audit firms shortlisted for appointment:

	Name(s) of audit firm(s)	Estimated audit fee	Estimated fee for other services
Firm 1			
Firm 2			
Firm 3			
Firm 4			
Firm 5			
Nature of other services to be performed:			
Insert details			

9. Audit firm proposed and anticipated date of appointment:

	Name(s) of audit firm(s)	Anticipated date of appointment
Firm 1		
Firm 2		
Firm 3		
Firm 4		
Firm 5		

10. Details of any prior involvement with the entity, including the costs:

Insert details

11. Provide details of how the quality of the audit firm's work has been assessed, e.g. results of IRBA reviews:

Insert details

12. Indicate any matter that may influence a decision regarding the independence or objectivity or perceived independence of any of the auditors:

Insert details

REAPPOINTMENT OF AUDITORS

13. Details of firm to be reappointed:

	Name(s) of audit firm(s)	Financial year(s) previously appointed
Firm 1		
Firm 2		
Firm 3		
Firm 4		
Firm 5		

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14. Provide details of the audit committee's assessment of the effectiveness and efficiency of the performance of the external auditors, including IRBA review results:

Insert details

15. Provide details of significant disagreements between the external auditors and the accounting authority during the preceding financial year, if any:

Insert details

16. Indicate any matter that may influence a decision regarding the independence or objectivity or perceived independence of the auditors:

Insert details

17. Indicate name of partner in charge of audit for the last five years:

Insert details

18. Indicate name of audit manager in charge of audit for the last five years:

Insert details

Completed by: ______________________________
(signature)

Completed by: ______________________________
(name)

Designation: ______________________________

Date: ______________________________

INFORMATION:

PAA S25 (2) Must give notice of the suggested appointment, including information on the extent to which the auditor would provide other services than audit services during the duration of the appointment and any other information required by the AG.

(3) If the AG, within 14 days of receiving notice in terms of subsection 2 or such longer period as agreed to, rejects the entity's appointment, the entity must, in terms of that subsection, recommence the process to appoint another person as its auditor.

Appointment may only be for one year.

PAA S26 (1) Discharge before expiry of term – only with consent of the AG and the relevant executive authority if applicable.

(2)(a) Give the auditor notice in writing setting out the reasons.

(2)(b) Give the auditor opportunity to make written representation to the AG within 20 days of receipt of the notice.

(3) The AG must report any discharge of the auditor to the relevant legislature.

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INSTRUCTIONS TO THE AGSA

Issue a letter setting out the response to the request indicating whether the appointment has been approved or not, with reasons if the appointment has not been approved.

TIMELINES FOR THIS PROCESS

The timelines for this process are:

- Submit proposal to the AGSA at least six months prior to the financial year-end, i.e. 30 September.
- Response from the AGSA to be submitted within one month of receipt of proposal.

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APPENDIX B: MONITORING CHECKLIST FOR AUDITS NOT CONDUCTED BY THE AGSA

PURPOSE

1. The purpose of this checklist is to confirm compliance with the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and this general notice.

INSTRUCTIONS

2. This checklist should be completed by the appointed audit firm for each audit conducted by it and should be submitted to the audit business unit within the AGSA responsible for the audit of the controlling department within five months of the financial year-end, i.e. 31 August.

INFORMATION REQUIRED

Name of the entity	
Controlling department	
Type of entity (schedule number)	
Holding company (if applicable)	
Subsidiaries (if applicable)	
Audit business unit (ABU)	
Business executive	
Engagement firm	
Engagement firm's address	
Engagement firm's contact details	
Engagement partner	
Engagement partner's contact details	

No.	Requirements	Complied Yes/No*/Not applicable	Remarks/Comments
	Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)		
1.	All the requirements of the PAA and this general notice, were complied with concerning:		
	• Appointment of auditors (section 25)		
	• Discharge of auditors (section 26)		
	• Duties and powers of auditors (section 27)		
2.	The auditor's report to the accounting authority was submitted within the time frame prescribed by the PFMA.		
3.	Three copies of the auditor's report, together with a copy of the financial statements, were submitted to the AGSA by 31 August.		
4.	Three copies of the annual report were submitted to the AGSA by 31 August.		
	Management report		
5.	The management report contained an audit conclusion on reporting on predetermined objectives under the following headings:		
	• Introduction		
	• Scope of the assurance engagement		

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No	Requirements	Complied Yes/No*/Not applicable	Remarks/Comments
	• Work performed		
	• Basis for conclusion		
	• Conclusion		
	• Other matters		
	Auditor's report		
6.	The auditor's report was addressed to the appropriate addressee as per the AGSA guidance.		
7.	The auditor's report distinguished clearly between the report on the financial statements and the report on other legal and regulatory requirements as per the AGSA guidance.		
8.	The auditor's report correctly described the financial statements as "financial statements" or "consolidated financial statements" and not as "annual financial statements" or "group annual financial statements".		
9.	Where the public entity is registered as a company in terms of the Companies Act, the auditor's report included reference to the accounting authority's report (in terms of section 299 of the Companies Act, a complete set of financial statements includes the board of directors' or accounting authority's report).		
10.	The auditor's report distinguished between the supplementary information that has not been audited and the financial statements that have been audited by indicating the page numbers relating to the financial statements.		
11.	The auditor's report correctly referred to the accounting authority as the party responsible for the preparation of the financial statements or consolidated financial statements.		
12.	The auditor's report made reference to the correct financial reporting framework for the type of entity audited and reported on.		
13.	The auditor's report was prepared in line with the guidance in this general notice and in the revised SAAPS 2: *Financial Reporting Frameworks and the Auditor's Report*, which is based on the clarified ISAs, as applicable.		
14.	The audit findings on predetermined objectives were reported under the following headings (if relevant) in the auditor's report:		
	• Presentation of reported performance information		
	• Timeliness of reported performance information		
	• Usefulness of reported performance		

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No.	Requirements	Complied Yes/No*/Not applicable	Remarks/Comments
	information		
	• Reliability of reported performance information		
15.	Findings related to material non-compliance with applicable laws and regulations were reported under headings as per the AGSA reporting guide.		
16.	The auditor's report included a narrative discussion under each of the following three fundamentals of internal control, which reflected the deficiencies in internal control identified during the audit as they relate to the qualifications on the financial statements as well as the findings on predetermined objectives and compliance with applicable laws and regulations as per the AGSA reporting guide:		
	• Leadership		
	• Financial and performance management		
	• Governance		
17.	The auditor's report included information on the following other reports:		
	• Investigations		
	• Performance audits		
	• Agreed-upon procedures engagements		
	• Special audits		
	• Donor funding		
18.	Separate financial statements and reports on predetermined objectives were prepared and audited for all the subsidiaries listed in the notes to the consolidated financial statements.		

* Where a "No" answer is provided, comments must be included below.

3. General comments by the appointed auditor:

Insert details

Engagement partner: ______________________________
(signature)

Completed by: ______________________________
(name)

Date: ______________________________

CONCLUSION *(To be completed by the ABU)*

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No.	Requirements	Complied Yes/No*	Remarks/ Comments
1.	Did the auditors and entity satisfy the requirements of sections 25 to 27 of the PAA relating to the following:		
	• Appointment of auditors		
	• Discharge of auditors		
	• Duties and powers of auditors		
2.	Has the engagement firm satisfied the reporting requirements of the following:		
	• PAA		
	• This general notice		
	• *R3 Reporting* guide (AGSA)		
*	Where a "No" answer is provided, comments must be included below.		

4. General comments:

Insert details

5. Recommended further action in terms of this notice:

Insert details

Evaluated by BE/SM: ______________________________

(signature)

Completed by: ______________________________

(name)

Date: ______________________________

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PS 5

Guide (Revised August 2019)

IRBA
INDEPENDENT REGULATORY BOARD FOR AUDITORS

Guide for Registered Auditors

AUDITING IN THE PUBLIC SECTOR (REVISED AUGUST 2019)

P.5 KTD

DD20-PS-0194

Independent Regulatory Board for Auditors
Committee for Auditing Standards
PO Box 8237, Greenstone, 1616
Johannesburg

Auditor-General South Africa
PO Box 446
Pretoria 0001

This *Guide for Registered Auditors: Auditing in the Public Sector (Revised August 2019)* (this Revised Guide) has been developed by the Committee for Auditing Standards (CFAS), a statutory committee of the Independent Regulatory Board for Auditors (IRBA), jointly with the Auditor-General of South Africa (AGSA). It provides information that will assist registered auditors from audit firms (auditors)[1] in understanding the public sector environment, within which public sector audits are conducted. This Revised Guide was approved for issue in August 2019 and replaces the previous IRBA Guide – *Guide for Registered Auditors: Auditing in the Public Sector* – that has been withdrawn.

This Revised Guide is approved by the IRBA for joint publication with the AGSA to help improve the understanding and enhance the performance of quality public sector audits by registered auditors in public practice (registered with the IRBA), who are contracted by the AGSA or appointed as auditors of public institutions where the AGSA has opted not to perform the audit, in accordance with Section 4(3) and 4(3A) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

Section 12(3)(a) of the PAA requires the AGSA to determine "the minimum qualifications, experience and competence for authorised auditors". Auditors performing public sector engagements shall ensure that they have the professional competence to perform such audit engagements in accordance with the applicable professional standards, additional extensive legal and regulatory requirements as well as the unique circumstances of the public sector. The guidance herein is intended to assist auditors to meet these requirements.

The information included in this Revised Guide, with regard to the audit of financial statements, only refers to reasonable assurance engagements performed in accordance with the International Standards on Auditing and excludes other types of engagements which may be performed in accordance with Section 20(2)(a) of the PAA.

As this is only a guide, auditors should refer to the legislation, which is the primary source of information in order to obtain a comprehensive understanding regarding the requirements for public sector audits.

This *Guide for Registered Auditors: Auditing in the Public Sector (Revised August 2019)* may be downloaded free of charge in both Word and PDF formats from the IRBA website.

[1] The term "auditor" is generally used in this Revised Guide when referring to registered auditors from audit firms. In certain instances, reference is made to an "audit firm", where appropriate.

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GUIDE FOR REGISTERED AUDITORS: AUDITING IN THE PUBLIC SECTOR (REVISED AUGUST 2019)

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FOREWORD

1. In general, public sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. Public sector auditing is essential in that it provides legislative and oversight bodies, those charged with governance and the general public with information as well as independent and objective assessments concerning the stewardship and performance of government policies, programmes or operations[2].

2. The mandate of the AGSA[3] to audit public sector institutions, is derived from the Constitution of the Republic of South Africa (Constitution). In addition, the Public Audit Act (PAA) prescribes the functions of the AGSA. The scope of the annual audit in the public sector includes the audit of the financial statements, reported performance information and compliance with key legislation. Furthermore, the AGSA may perform discretionary engagements such as performance audits, investigations and special audits.

3. The International Organisation of Supreme Audit Institutions (INTOSAI)[4] operates as an umbrella organisation for the external government audit community. It provides an institutionalised framework for supreme audit institutions (SAIs) to promote development, transfer knowledge and improve government auditing worldwide. The AGSA is a member of INTOSAI and is South Africa's SAI.

4. Key stakeholders in the public sector include Parliament, provincial legislatures and their respective committees, national and provincial treasuries, executive authorities, municipal councils, accounting officers and the public at large. When auditing in the public sector, it is important to have an understanding of the three different spheres of government, i.e. national, provincial and local, and how they interact with one another.

5. Public sector institutions operate within a complex legislative framework. Therefore, it is important for public sector auditors to understand the legislation applicable to the institutions they audit.

6. The term "auditor" is generally used in this Revised Guide when referring to registered auditors from firms. In certain instances, reference is made to a "firm", where appropriate.

7. Audits are generally undertaken in various legislative cycles, for example, national and provincial governments are subject to the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA), while local government is subject to the Local Government: Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA). In order to conduct these audits within the prescribed timeframes, the AGSA works in conjunction with auditors to help achieve its mandate.

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2 Definition of public sector auditing as per International Standards on Supreme Audit Institutions (ISSAI) 100, paragraph 18. ISSAIs can be located at http://www.issai.org.

3 http://www.agsa.co.za.

4 http://www.intosai.org.

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8. This Revised Guide is complemented by further guidance that explains the various ways in which firms may be involved in the audits of public sector institutions. This additional guidance also addresses the process for consulting the AGSA on technical matters. The additional guidance is outlined below:

    - Engagements where audits are performed on behalf of the AGSA. These are dealt with in the *Guide for Registered Auditors: Guidance on performing audits on behalf of the AGSA*[5].
    - Engagements where the AGSA has opted not to perform the audit of a public sector institution. The relationship with registered auditors is dealt with in the *Guide for Registered Auditors: Guidance on performing audits where the AGSA has opted not to perform the audit*[6].
    - Engagements where auditors are contracted in by, or seconded to, the AGSA from firms. This relationship with the auditors is managed by the responsible AGSA engagement manager from whom additional guidance can be sourced.

9. The role of the IRBA regarding all auditors including those who perform public sector engagements, is to:

    - Develop and maintain auditing and ethics standards which are internationally comparable;
    - Monitor compliance with professional standards;
    - Monitor compliance with reportable irregularities and anti-money laundering; and
    - Investigate and take appropriate action against auditors in respect of improper conduct.

5 http://www.agsa.co.za and http://www.irba.co.za.
6 http://www.agsa.co.za and http://www.irba.co.za.

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1. AUDITING IN THE PUBLIC SECTOR IN SOUTH AFRICA

Introduction

1.1 This Revised Guide provides information that will assist auditors in understanding the public sector environment within which public sector audits are conducted. Auditors performing public sector engagements should ensure that they have the appropriate knowledge to perform the audit in accordance with the applicable professional standards as well as legal and regulatory requirements, taking cognisance of the unique demands of the public sector.

1.2 SAIs are generally established by the supreme law-making body of the country or by constitutional provision. Commonly, the establishing law or regulation sets out the form of the SAI, the terms and conditions of incumbency, tenure, powers, duties, functions, general responsibilities as well as other matters governing the holding of office and the discharge of the functions and duties to be performed. Whatever the arrangements, the essential function of the SAI is to uphold and promote public accountability. The International Standards on Supreme Audit Institutions (ISSAIs) are the international standards on public sector auditing. The AGSA is South Africa's SAI and was established by the Constitution.

1.3 The AGSA adopted ISSAI 12[7] principles that are constructed around the fundamental expectation of SAIs making a difference to the lives of citizens. The extent to which a SAI is able to make a difference to the lives of citizens depends on the SAI; but the overall objectives are:

- Strengthening the accountability, transparency and integrity of government and public sector institutions.
- Demonstrating ongoing relevance to citizens, Parliament and other stakeholders.
- Being a model organisation through leading by example.

1.4 The ISSAI 12[8] principles are set out in the diagram below.

[7] Refer to http://www.intosai.org for the full standard.
[8] Refer to http://www.intosai.org, ISSAI 12, Annexure B (page 13).

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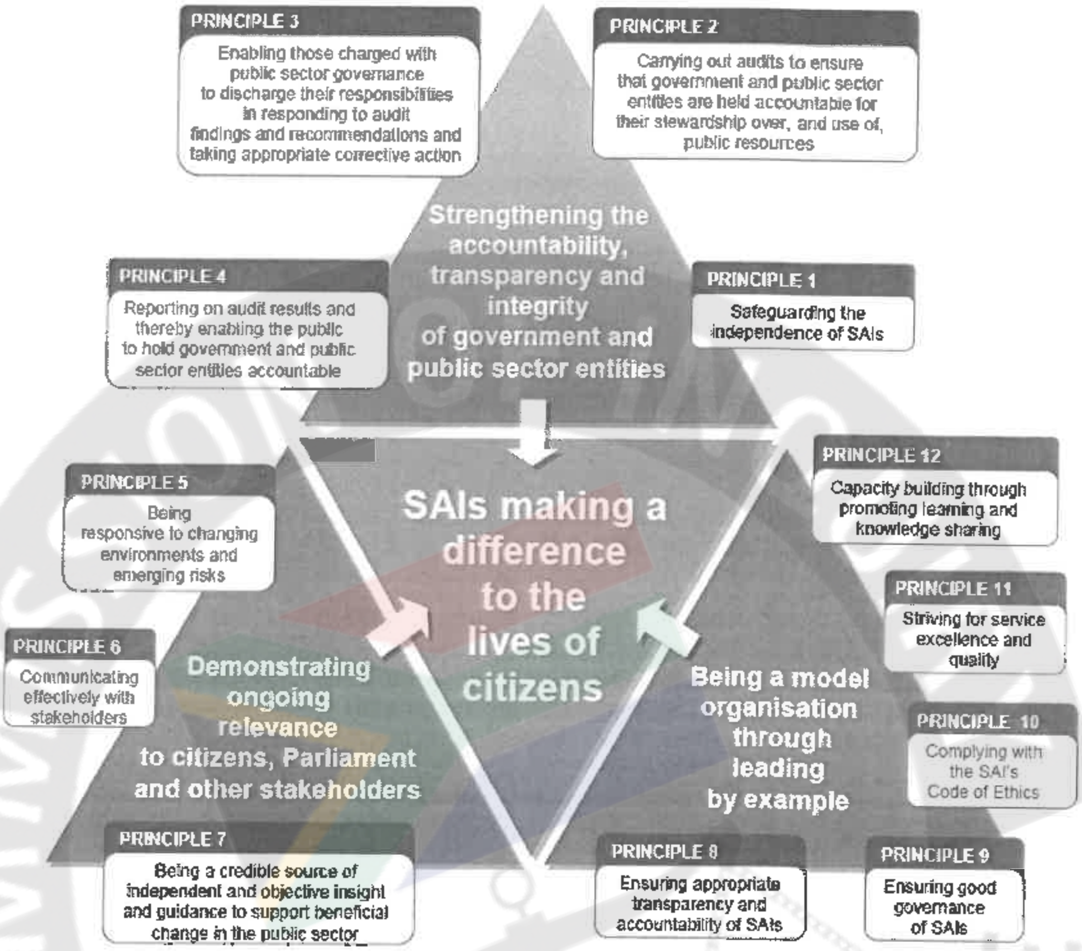
The 12 principles of the value and benefits of SAIs under each of the three objectives are:



2. SCOPE OF AUDITING IN THE PUBLIC SECTOR IN SOUTH AFRICA

Mandate of the AGSA

2.1 The AGSA[9] is a Chapter 9 institution because its mandate is derived from Chapter 9 of the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)[10]. In terms of Section 181(1) of the Constitution, the Auditor-General is a state institution that supports constitutional democracy in the Republic.

2.2 In terms of Section 188 of the Constitution, the Auditor-General is responsible for auditing and reporting on the accounts, financial statements and financial management of the public sector.

[9] http://www.agsa.co.za.
[10] The Constitution can be obtained from https://www.gov.za.

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2.3 Section 181, subsections (2) to (5) of the Constitution provides for the following in respect of the AGSA's independence:

- The AGSA is independent and subject only to the Constitution and other relevant legislation, it must be impartial and must exercise its powers and perform its functions without fear, favour or prejudice.
- Other organs of state, through legislative and other measures, must assist and protect the AGSA to ensure the independence, impartiality, dignity and effectiveness of the AGSA.
- No person or organ of state may interfere with the functioning of the AGSA.
- The AGSA is accountable to the National Assembly (NA) and must report on its activities and the performance of its functions to the NA at least once a year.

2.4 In 1993 the AGSA gained autonomy from government; it is independent and reports directly to Parliament. The AGSA is regulated by its own Act, the Public Audit Act (PAA) and the Constitution. The Auditor-General is an individual who is appointed by the President on the recommendation of the NA.

2.5 The reputation promise of the AGSA states that the AGSA has a constitutional mandate and exists to strengthen our constitutional democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

Public Audit Act

2.6 In terms of Section 39 of the PAA the oversight mechanism established in terms of Section 10(3) of the PAA must annually appoint an auditor to audit the accounts, financial statements, and financial management and performance information of the Auditor-General.

2.7 In addition to the Constitution, the requirements of the PAA set out below prescribe the functions of the AGSA.

2.8 The PAA[11] requires the AGSA to audit and report on the accounts, financial statements and financial management of:

- All national and provincial state departments and administrations.
- All constitutional institutions.
- The administration of Parliament and of each provincial legislature.
- All municipalities.
- All municipal entities.
- Any other institution or accounting entity required by other national or by provincial legislation to be audited by the Auditor-General.

2.9 The AGSA is further required[12] to audit and report on the consolidated financial statements of:

- The national government, as required by Section 8 of the PFMA.
- All provincial governments, as required by Section 19 of the PFMA.

11 PAA, Section 4(1).
12 PAA, Section 4(2).

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- A parent municipality and all municipal entities under its sole or effective control, as required by Section 122(2) of the MFMA.

2.10 In terms of Section 4(3)(a) and (b) of the PAA, the AGSA may audit and report on the accounts, financial statements and financial management of any public entity listed in the PFMA and any other institution not mentioned in Section 4(1) of the PAA and which is:

- Funded from the national revenue fund or a provincial revenue fund or by a municipality; or
- Authorised in terms of any legislation to receive money for a public purpose.

2.11 In terms of Section 4(3A) of the PAA, the discretion of the Auditor-General as contemplated in Section 4(3) of the PAA applies to any public entity contemplated in subsection 4(3)(a) and any other institution contemplated in subsection 4(3)(b) of the PAA that meets the prescribed criteria. Prescribed criteria refer to criteria included in the regulations.

2.12 In terms of Section 25(1)(a) of the PAA, the AGSA may opt not to perform the audit of an auditee, in accordance with Section 4(3) of the PAA.

2.13 An audit report, as required by the PAA, must reflect such opinions and statements as may be required by any legislation applicable to the auditee which is the subject of the audit, but must at least reflect an opinion, conclusion or findings on[13]:

- The financial statements of the auditee in accordance with the applicable financial reporting framework and legislation (referred to as the audit of financial statements in this Revised Guide).
- Compliance with any applicable legislation relating to financial matters, financial management and other related matters (referred to as the audit of compliance with key legislation in this Revised Guide).
- Reported performance of the auditee against its predetermined objectives (referred to as the audit of reported performance information in this Revised Guide).

2.14 Consequently, the scope of an annual audit in the public sector is broader than in the private sector and includes the audit of financial statements, reported performance information and compliance with key legislation.

2.15 The AGSA may perform performance audits (refer to paragraph 3.25), investigations, special audits and other audit-related services. The AGSA may also provide audit and audit related services commonly performed by an independent audit institution to an international association, body, institution or organisation[14]. The AGSA may not perform non-audit or consulting services.

2.16 In addition to the AGSA mandate to audit and report, the AGSA can also take specific action in response to material irregularities identified during the audits. The extended mandate is included in the PAA (as detailed below) and the processes and requirements in this regard are prescribed in the regulations relating to material irregularities.

2.17 In terms of Section 5(1A) of the PAA, the Auditor-General may, as prescribed, refer any suspected material irregularity[15] identified during an audit, to a relevant public body for

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13 PAA Section 20(2).
14 PAA Section 5(1)(a).
15 PAA Section 1 (definitions).

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investigation, and the relevant public body must keep the Auditor-General informed of the progress and the final outcome of the investigation.

2.18 In terms of Section 5A(1) of the PAA, the Auditor-General must, within a reasonable time after the issuing of an audit report in terms of Section 20 of the PAA, follow up on whether the accounting officer or accounting authority has implemented the recommendations contained in the audit report relating to any material irregularity, within the timeframe stipulated in the audit report.

2.19 In terms of Section 5A(2) of the PAA, if the accounting officer or accounting authority has failed to implement the recommendations contained in the audit report referred to in subsection (1), the Auditor-General must take appropriate remedial action to address the failure to implement the recommendations.

2.20 In terms of Section 5A(3) of the PAA, where a material irregularity resulted in a financial loss to the State, and the accounting officer or accounting authority failed to implement the recommendations contained in the audit report referred to in subsection (1), the remedial action taken by the Auditor-General in terms of subsection (2) must include a directive to the accounting officer or accounting authority to determine the amount of the loss, if not yet determined, and to recover such loss as required in terms of any applicable legislation, from the responsible person.

2.21 In terms of Section 5B(1) of the PAA, the Auditor-General is further mandated to issue a certificate of debt if the directive was not implemented and requires the accounting officer or authority to repay the amount stipulated in the certificate of debt to the State. Such a certificate is only issued after a number of processes are completed in accordance with the PAA and the relevant regulations to ensure a fair process.

3. CONDUCTING AUDITS IN THE PUBLIC SECTOR

Quality control

3.1 The AGSA maintains a system of quality control to ensure it complies with all the relevant requirements of the International Standards on Quality Control issued by the International Auditing and Assurance Standards Board (IAASB)[16]. This is achieved through the implementation of the AGSA's policy on quality control. The requirements of this policy can be sourced from each responsible AGSA engagement manager.

3.2 The AGSA's quality control system does not in any way absolve auditors from maintaining their own systems of quality control at firm, network firm and engagement level, in accordance with the International Standards on Quality Control, when performing audits in the public sector.

The Directive, regulations and powers of the AGSA

3.3 In terms of the PAA, and to promote consistency in reporting in the public sector, the Auditor-General may clarify or prescribe the following matters, inter alia, through issuing a Directive (referred to as the Directive)[17] or regulations:

- The standards to be applied for audits performed by the Auditor-General.

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16 http://www.ifac.org/IAASB. ISAs (International Standards on Auditing) can also be located at http://www.irba.co.za.

17 http://www.agsa.co.za.

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- The frequency, nature and scope of such audits.
- The criteria and processes for performing audits in the public sector.
- The responsibilities of auditors and their firms and the manner in which such auditors are required to perform audits in the public sector[18].
- Procedures for the handling of complaints against the AGSA when performing such audits.
- The material irregularity process.
- Scope and level of assurance for specific engagements.
- The criteria to opt in or out of discretionary audits.

3.4 Auditors and their firms are, therefore, required to exercise their functions and powers subject to the Directive and regulations issued by the Auditor-General.

3.5 The Directive is updated from time to time, as needed, and remains effective until a new one is issued. Auditors need to ensure that they apply the requirements of the Directive effective for the financial year or period subject to the audit.

Standing Committee on the Auditor-General (SCOAG)

3.6 The SCOAG is the mechanism provided by the NA to maintain oversight over the AGSA. This committee oversees the performance of the AGSA on behalf of the NA.

Annual audits

3.7 The Public Audit Manual developed by the AGSA provides detailed guidance on conducting annual audits. All the information relevant to these audits is available on the AGSA's website[19] for auditors and their firms performing audit work in the public sector. The information available on the website includes:

- The Act and Regulations.
- The Directive.
- Technical updates.
- The Public Audit Manual.
- Working papers.

Applicability of professional standards to audits in the public sector

3.8 The International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements issued by the IAASB are applied in the annual audits.

3.9 While Section 22 of the PAA provides for other types of engagements such as a review to be performed on the financial statements, this Revised Guide only addresses an audit performed in accordance with the ISAs as this is the current approach of the AG.

3.10 Auditors performing audits in the public sector are subject to the IRBA *Code of Professional Conduct for Registered Auditors (Revised November 2018)*, as amended (IRBA Code), which is consistent with the *International Code of Ethics for Professional*

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18 In terms of Section 12(3)(a) of the PAA, the AGSA must determine the minimum qualifications, experience and competence for authorised auditors, as defined in the PAA.

19 http://www.agsa.co.za.

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Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA)[20]. Relevant ethical principles contained in the ISSAI 30, *Code of Ethics* (ISSAI 30),[21] published by the INTOSAI are also applicable.

Audit of financial statements

3.11 The objective of an audit of financial statements is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting and regulatory framework[22].

Audit of compliance with key legislation

3.12 The overall objective of an audit of compliance with key legislation is to obtain assurance about whether the auditee, with respect to the individual compliance subject matters scoped into the audit, has complied with specific provisions of key legislation that have been selected as the compliance requirements/criteria for the engagement. This will enable the auditor to express a conclusion on whether, based on the procedures performed and the evidence obtained, anything has come to the auditor's attention to cause the auditor to believe that the auditee has not complied, in all material respects, with the identified compliance requirements/criteria.

3.13 The compliance subject matters that form part of the audit of compliance with key legislation are determined by the AGSA and communicated through the Directive. Auditors should not include any other subject matters in the audit of compliance with key legislation.

3.14 The audit of compliance with key legislation is performed in accordance with the standards determined in the Directive.

3.15 The respective criteria for each compliance subject matter are included in the work programmes issued by the AGSA. Although no additional compliance subject matters/focus areas may be determined at auditee level, the auditor may decide that it is appropriate to scope in additional provisions from entity specific legislation that fall within the prescribed subject matter. This decision may be based on their importance in terms of the mandate or service delivery objectives of the entity.

3.16 Auditors should ensure that they consistently apply the principles in ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* (ISA 250 (Revised)), in executing any audit of financial statements, and should not confuse the objectives of that standard with the audit of compliance with key legislation.

3.17 Auditors need to understand how the relevant legislation links with the audit of compliance with key legislation, as explained above. The PAA necessitates the audit of compliance with key legislation[23] over and above what may have been considered under ISA 250 (Revised). Auditors should refer to the Directive for more information in this regard.

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20 https://www.ifac.org/ethics.

21 ISSAI 30 can be located at http://www.issai.org.

22 ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.*

23 PAA, Section 20.

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3.18 Auditors should further consider any professional responsibilities in respect of identified instances of non-compliance with laws and regulations, including the IRBA Code and the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA).

Audit of reported performance information

3.19 The objective of the audit is to obtain assurance on whether the reported performance information for the selected programmes/objectives/development priorities presented in the annual performance report is free from material misstatement, i.e. the reported performance information is useful and reliable in all material respects, in accordance with the applicable criteria as developed from the performance management and reporting framework set out in the Directive.

3.20 Relevant audit procedures are performed to determine whether the reported performance information was properly presented; the reported performance was consistent with the approved performance planning documents; the indicators and related targets were measurable and relevant; and to assess the reliability of the reported performance information to determine whether it was valid, accurate and complete.

3.21 The audit of reported performance information is performed in accordance with the standards determined in the Directive.

Material irregularities

3.22 Material irregularities may be identified during the annual audits. The identification, consideration, reporting and subsequent processes relating to remedial action and the referral process in accordance with the PAA are defined in the relevant regulations on material irregularities, the Directive, PAM and policies and procedures of the AGSA. Where auditors perform audits of public sector auditees that the AGSA opted not to perform, the process as outlined in Section 45 of the APA in respect of reportable irregularities should be followed.

National and provincial consolidation

3.23 The relevant treasury is responsible for preparing consolidated financial statements on behalf of the national or provincial government, in accordance with the PFMA. The AGSA audits the consolidated financial statements. In support of this process, auditors and their firms should follow the instructions received from the AGSA.

Specific focus areas

3.24 In order to improve the efficiency and effectiveness of audits in the public sector, specific audit focus areas are identified annually by the AGSA. This process is based on an annual risk assessment performed by the AGSA and careful consideration of areas on which the AGSA could focus for additional useful information to be brought across in reports for users such as oversight bodies. Guidance on the scoping of the focus areas is provided annually in technical updates issued by the AGSA.

Performance audits

3.25 Performance audits might be confused with the audit of reported performance information due to similar terminology being used. However, a performance audit is different from the three components of the annual audit set out in the preceding paragraphs. It is described as an audit to determine whether appropriate and adequate

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measures have been implemented by management to ensure that resources are procured economically and are utilised efficiently and effectively.

3.26 Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits provide new knowledge or value by:

- Providing new analytical insights (broader or deeper analysis or new perspectives).
- Making existing information more accessible to various stakeholders.
- Providing an independent and authoritative view or conclusion based on audit evidence.
- Providing recommendations based on an analysis of audit findings.

3.27 External performance audits in the public sector are only conducted by the AGSA. These audits are conducted in accordance with the relevant standards, as adopted by the AGSA.

Understanding the difference between the audit of reported performance information and performance auditing

3.28 Audit of reported performance information is a mandatory audit (refer to Sections 20(2)(c) and 28(1)(c) of the PAA and paragraphs 3.19 to 3.21 of this Revised Guide).

3.29 Performance auditing is a discretionary audit (refer to Section 5(1)(aA) of the PAA). The following are the main elements to note regarding performance auditing:

- Reporting is based on findings and does not include an opinion.
- Reporting is not limited to annual information and can cover more than one financial year.
- The audit is conducted by performance auditors and may include subject matter experts.
- Focus on a specific government programme, project or management process.
- Performance audit criteria are designed to evaluate and assess the economy, efficiency and effectiveness of operations.
- A report on whether goods and services have been acquired economically, applied efficiently and managed effectively towards achieving the desired goals.

Identification of internal control deficiencies

3.30 As part of the annual audit the auditor evaluates the implementation of internal controls in the areas of financial statements, reported performance information and compliance with key legislation, and the outcome of this is included in the management report of the auditee.

3.31 The auditor's report includes reporting on internal controls that resulted in the basis for a modified opinion on financial statements, the findings on the annual performance report and the findings on compliance with key legislation.

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Stakeholder engagements

3.32 In line with principle 6 of the *Value and Benefits of SAIs*[24] regarding effective communication, stakeholder engagements take place on a regular basis. Meaningful and continual engagements with stakeholders have become an important instrument for the AGSA to encourage and enable actions for improvements in the public sector. For this purpose, accounting officers/authorities are engaged on the status of the key controls at their institutions, among other relevant matters, on a regular basis. These engagements are performed at certain auditees as identified through stakeholder engagement planning.

3.33 These engagements are in addition to the annual audit and are aimed at assisting the accounting officer/authority in improving the audit outcomes or maintaining the status quo (in instances where the auditee has a clean audit[25] outcome) by communicating the key areas of concern that may affect the auditee's progress in relation to the preparation of their financial and performance reports, including compliance with the relevant legislation, well in advance to enable them to take the necessary corrective action or put measures in place to prevent key risks from materialising. For additional guidance on what is expected to be discussed at these engagements, refer to the guidance provided by the AGSA on engaging accounting officers/authorities[26]. The requirements for these engagements can be sourced from each responsible AGSA engagement manager.

3.34 Effective interaction with legislative oversight mechanisms, executive authorities and those charged with governance of the auditee is aimed at leading to commitments for corrective actions required to improve audit outcomes, improved oversight, effective accountability and, ultimately, clean administration.

General report and other reports

3.35 The AGSA annually produces audit reports on all public institutions. In addition to these auditee-specific reports, the AGSA collates and analyses the audit outcomes of public institutions. It then issues reports on the audit outcomes and progress made since the previous financial years in the financial and performance management of the public sector in general[27]. A general report may also be issued to the NA as additional information. The AGSA has the discretion to issue reports related to specific sectors and focus areas that need to be communicated to stakeholders.

Legislated dates

3.36 Generally, legislation requires that the financial statements and the audit thereof be finalised within certain deadlines. For example, the PFMA and MFMA prescribe clear deadlines in this regard for the entities to which they apply.

3.37 The following table provides the legislated dates prescribed by the PFMA, MFMA and other relevant Acts.

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24 Refer to http://www.intosai.org for the full ISSAI 12 in which principle 6 can be located.

25 The AGSA categorises a clean audit as an annual audit where there was an unqualified opinion on the annual financial statements and no material findings from the audit of compliance with key legislation and reported performance information.

26 http://www.agsa.co.za.

27 General reports and other reports can be obtained from http://www.agsa.co.za.

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	Date of financial year-end	Date of submission of the financial statements and annual performance report (where applicable) for auditing	Date of the auditor's report	Submission to the executive authority/council	Tabling of the annual report
PFMA	31 March	31 May	31 July (refer to Note 1)	31 August by the accounting officer/authority to the executive authority	30 September by the executive authority in Parliament/ provincial legislature
Technical and vocational education and training (TVET) colleges (CET Act, refer to Note 2)	31 December	31 March	31 May	1 June	Not applicable (annual reports only need to be sent to the Minister of the Department of Higher Education and Training (DHET) by 30 September)
Public higher education institution (HE Act, refer to Note 3)	31 December	Not prescribed	Not prescribed	30 June	Not applicable (annual reports only need to be sent to the Minister of the DHET by 30 June)
MFMA	30 June	31 August/30 September (consolidated)	30 November/ 31 December (consolidated)	31 January tabled by the mayor in the council	In the provincial legislature within seven days after the council has adopted the relevant oversight reports

Note 1: *For public entities, although the date is not legislated, cognisance should be taken of any deadlines set by National Treasury (NT).*

Note 2: *The date is gazetted by the Minister of Higher Education and Training in accordance with the Continuing Education and Training Act, No. 16 of 2006 (CET Act) on a yearly basis.*

Note 3: *The dates are as per the regulations dated 9 June 2014 for Reporting by Public Higher Education Institutions in terms of Section 41, read with Section 69, of the Higher Education Act, No. 101 of 1997.*

4. AUDITS NOT PERFORMED BY THE AGSA

4.1 In terms of Section 4(3) of the PAA, if the AGSA has opted not to perform the audit of an auditee, the auditee appoints a firm to perform the audit. In this regard, the Directive and regulations set out the process to be followed.

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4.2 When electing not to perform an audit of a public institution in terms of Section 4(3) of the PAA, the AGSA imposes certain duties on the auditors and their firms appointed by these auditees. For more information, auditors and their firms may refer to the PAA, read with the Directive and regulations. Further guidance on the relationship with auditors and their firms where the AGSA has opted not to perform the audit of a public sector institution is included in the *Guide for Registered Auditors: Guidance on Performing Audits where the AGSA has Opted not to Perform the Audit*[28].

5. LEGISLATION, GUIDANCE, CIRCULARS AND REPORTING FRAMEWORKS APPLICABLE IN THE PUBLIC SECTOR

5.1 ISA 250 (Revised) deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements.

5.2 Legislation is particularly important in the public sector as it prescribes the operations of public sector institutions, ensuring that taxpayers' money is spent effectively and efficiently for the benefit of the public.

5.3 It is essential that auditors of public sector institutions obtain an understanding of legislation applicable to the auditee during the planning phase of the audit.

Common applicable legislation

5.4 Legislation listed in this section is not an exhaustive list, but examples of some of the most common legislation applicable to the public sector are provided. Auditors must identify and familiarise themselves with the relevant legislation that is applicable to the auditee being audited. Due to there being different types of auditees, care must be taken to ensure that only relevant sections of the applicable Act are referred to.

5.4.1. Constitution of the Republic of South Africa[29]

The Constitution establishes, inter alia, the following:

- Cooperative government;
- Parliament;
- The President and the national executive;
- Provinces;
- Local government;
- State institutions supporting constitutional democracy; and
- Public administration.

5.4.2. PFMA, regulations and instructions issued in terms of this Act

The Act promotes the objective of good financial management in order to maximise delivery through the efficient and effective use of limited resources. It also forms the basis for a more effective corporate governance framework and covers, inter alia, the following:

- The establishment of the NT, provincial treasuries and the Accounting Standards Board (ASB) as well as their functions and powers.

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28 http://www.agsa.co.za and http://www.irba.co.za.
29 The Constitution can be obtained from https://www.gov.za.

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- The national and provincial budgets and the appropriation of money by Parliament and the provincial legislatures for each financial year for the requirements of the state and the provinces, respectively.
- The requirements for departments and constitutional institutions regarding the responsibilities and powers of accounting officers.
- The fiduciary duties, general responsibilities, annual budgets, information to be submitted as well as annual reports and financial statements to be prepared by accounting authorities of public entities.
- The financial responsibilities of executive authorities.
- The submission of financial statements by departments, trading entities and constitutional institutions within two months after the end of the financial year to the AGSA and relevant treasury.
- The submission of an auditor's report by the AGSA on the above financial statements within two months of their receipt.
- The submission of an annual report, financial statements and the AGSA's auditor's report by departments, trading entities and constitutional institutions within five months after the end of the financial year to the relevant treasury and, in the case of a department and trading entity, to the executive authority.
- The submission of the annual report, financial statements and auditor's report by a constitutional institution to Parliament within one month of receipt of the AGSA's auditor's report.
- The submission of financial statements by public entities within two months after the financial year-end to their auditors. If the public entity is a business enterprise or under the ownership control of a national or provincial government, the financial statements must also be submitted to the relevant treasury.
- The submission of an annual report, financial statements and the auditor's report by public entities within five months after the financial year-end to the relevant treasury, executive authority and the AGSA, if the AGSA is not the auditor of the auditee.

In general, auditees to which the PFMA applies are listed in the schedules to the Act, which may be updated from time to time and published on the NT's website.

5.4.3. *Appropriation Act (changes regularly)*

This Act provides for the appropriation of money from the National Revenue Fund (NRF) for the requirements of the state.

5.4.4. *Division of Revenue Act (changes regularly) (DORA)*

The Act provides for the equitable division of revenue raised nationally among the national, provincial and local spheres of government and the responsibilities of all three spheres pursuant to such division.

5.4.5. *MFMA and regulations issued in terms thereof*

The Act aims to modernise budget and financial management practices by placing local government finances on a sustainable footing in order to maximise

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the capacity of municipalities to deliver services to all its residents, customers, users and investors. The MFMA covers, among other things, the following:

- The requirements for the opening and control of, and withdrawals from, municipal bank accounts.
- The appropriation of funds for expenditure and annual budgets of municipalities.
- The responsibilities of mayors and municipal officers.
- The establishment, financial governance and accounting officers of municipal entities.
- The submission of the financial statements by the accounting officer of a municipality within two months after the financial year-end to the AGSA (three months for consolidated financial statements).
- The submission of the financial statements by the accounting officer of a municipal entity within two months after the financial year-end to the AGSA and the parent municipality.
- The submission of the auditor's report by the AGSA within three months after receipt of the financial statements of a municipality or municipal entity.
- The submission of the annual report by the accounting officer of a municipal entity within six months after the financial year-end to the municipal manager of the parent municipality.
- The tabling of the annual report by the mayor of a municipality and any municipal entity under the municipality's control within seven months after the financial year-end in the municipal council.

5.4.6. Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

The Act provides for the following:

- The core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities, and ensures universal access to essential services that are affordable for all.
- The legal nature of a municipality, including the local community within the municipal area, working in partnership with the municipality's political and administrative structures.
- The manner in which municipal powers and functions are exercised and performed to provide for community participation.
- A simple and enabling framework for the core processes of planning, performance management, resource mobilisation and organisational change, which underpin the notion of developmental local government.
- A framework for local public administration and human resource development.
- Empowerment of the poor and ensuring that municipalities put in place service tariffs and credit control policies that take their needs into account by providing a framework for the provision of services, service delivery agreements and municipal service districts.
- Credit control and debt collection.
- A framework for support, monitoring and standard setting by other spheres of government in order to progressively build local government into an efficient, frontline development agency capable of integrating the activities of all

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spheres of government for the overall social and economic upliftment of communities in harmony with their local natural environment.

5.4.7. *Municipal Structures Act, 1998 (Act No. 117 of 1998)*

The Act provides for the establishment of municipalities in accordance with the requirements relating to categories and all municipality types. It further establishes criteria for determining the category of municipality to be set up in an area and defines the municipality types that may be established within each category. It also provides for an appropriate division of functions and powers between municipality categories. It regulates the internal systems, structures and office-bearers of municipalities and provides for appropriate electoral systems.

5.4.8. *Municipal Property Rates Act, 2004 (Act No. 6 of 2004)*

The Act regulates the power of a municipality to impose rates on properties and exclude certain properties from rating in the national interest. It also makes provision for municipalities to implement a transparent and fair system of exemptions, reductions and rebates through their rating policies, fair and equitable valuation methods of properties as well as an objections and appeals process.

5.4.9. *Public Service Act, 1994 (Act No. 103 of 1994) (PSA)*

The Act provides for the organisation and administration of the public service of South Africa as well as the regulation of the conditions of employment, terms of office, discipline, retirement and discharge of members of the public service.

5.4.10. *Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)*

The Act provides a framework for the implementation of the procurement policy contemplated in Section 217(2) of the Constitution.

5.4.11. *Construction Industry Development Board Act, 2000 (Act No. 38 of 2000)*

The Act provides for the establishment of the Construction Industry Development Board and the implementation of an integrated strategy for the reconstruction, growth and development of the construction industry.

5.4.12. *State Information Technology Agency Act, 1998 (Act No. 88 of 1998)*

The Act provides for the establishment of a company that will provide information technology, information systems and related services to, or on behalf of, participating departments and, with regard to these services, act as an agent of the South African government.

5.4.13. *Continuing Education and Training Act, 2006 (Act No. 16 of 2006)*

The Act provides for the regulation of continuing education and training; the establishment, governance and funding of public technical and vocational education and training colleges, in addition to public community education and training colleges; the employment of staff at those colleges; and the registration of private colleges that offer continuing education and training qualifications and part qualifications.

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5.4.14. Higher Education Act, 1997 (Act No. 101 of 1997)

The Act provides for the regulation of higher education; the establishment, composition and functions of a Council on Higher Education; the establishment, governance and funding of public higher education institutions; the appointment and functions of an independent assessor; the registration of private higher education institutions; and quality assurance and quality promotion in higher education.

5.4.15. South African Schools Act, 1996 (Act No. 84 of 1996)

The Act provides for a uniform system for the organisation, governance and funding of schools and matters connected therewith.

5.4.16. Specific enabling legislation of an auditee (if any)

This is auditee-specific legislation that establishes the mandate, the governing of the mandate and operational activities of the auditee. Such legislation could define functions or disclosures that impact the annual audit.

Guidance and circulars issued by the NT

5.5 The NT issues instruction notes, handbooks, guidance, practice notes, frameworks and circulars on various topics from time to time, and these should be taken into consideration when auditing public sector institutions. These can generally be obtained from the NT website.

6. FINANCIAL REPORTING FRAMEWORKS APPLICABLE IN THE PUBLIC SECTOR

6.1 It is important for auditors to identify the financial reporting framework applicable to the institution being audited and ensure they have sufficient experience and knowledge about the financial reporting framework to perform the audit.

6.2 The financial reporting frameworks recognised in the public sector are set out in the South African Auditing Practice Statements (SAAPS) 2, *Financial Reporting Frameworks and the Auditor's Report*[30] (Revised 2018) issued by the IRBA.

7. KEY STAKEHOLDERS AND ROLE PLAYERS IN THE PUBLIC SECTOR

7.1 The key stakeholders and role players in the public sector are discussed in summary below; however, applicable legislation and the websites listed below may be referred to for more details on their roles and responsibilities. The list below is not intended to be exhaustive.

- https://www.gov.za – South African government.
- https://www.parliament.gov.za – Parliament.
- http://www.treasury.gov.za – National Treasury.
- http://www.dpsa.gov.za – Department of Public Service and Administration.

30 http://www.irba.co.za.

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- http://www.asb.co.za – Accounting Standards Board
- http://www.cogta.gov.za – Department of Cooperative Governance and Traditional Affairs.

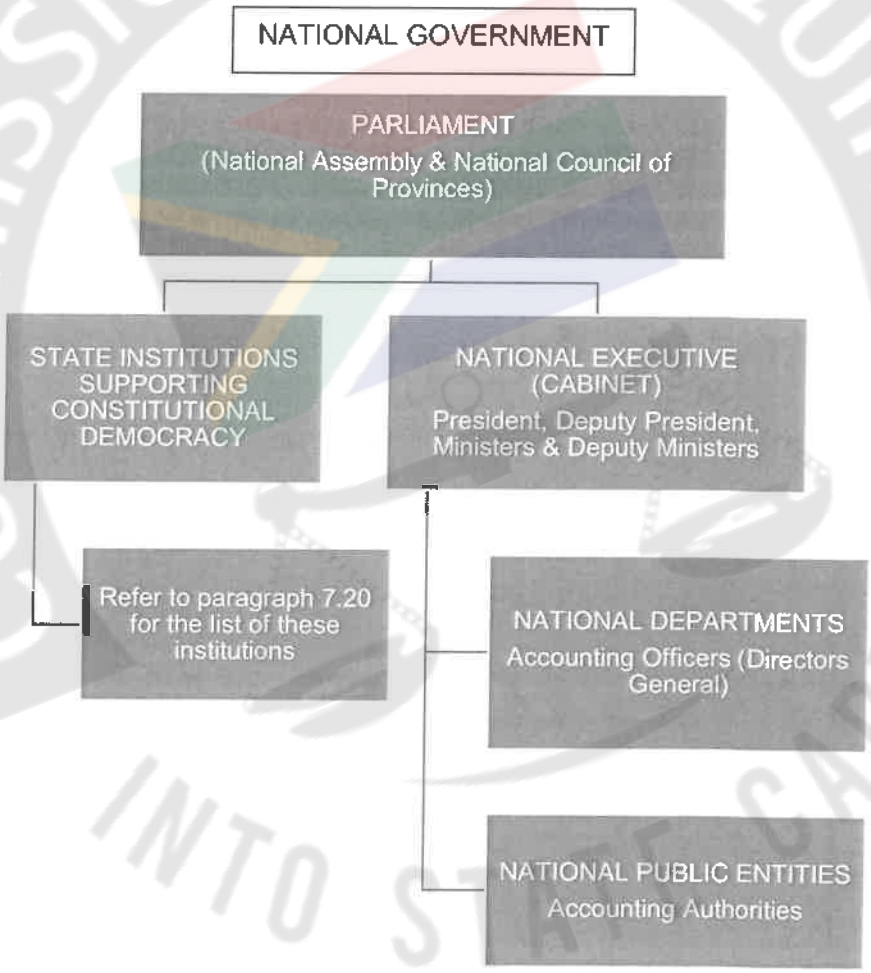
7.2 The Constitution sets out the values and rights of our society and the role, powers and functions of government. The government is responsible for making policies and legislation about the rights and responsibilities of citizens and the delivery of government services. The government collects revenue (income) from taxes and uses this money to provide services and infrastructure to improve the lives of citizens.

7.3 There are three spheres of government in South Africa:

- National government;
- Provincial government; and
- Local government.

7.4 The Constitution states that the spheres of government are distinctive, interrelated and interdependent. Different spheres of government have different functions and responsibilities.

7.5 The national, provincial and local governance structures are depicted in the figures below.



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PROVINCIAL GOVERNMENT
PROVINCIAL LEGISLATURE
PROVINCIAL EXECUTIVE (EXECUTIVE COUNCIL)
Premier & Members of the Executive Council
PROVINCIAL DEPARTMENTS
Accounting Officers (Heads of Departments)
PROVINCIAL PUBLIC ENTITIES
Accounting Authorities
LOCAL GOVERNMENT
COUNCIL
EXECUTIVE MAYOR/MAYORAL COMMITTEE
MUNICIPALITY
Accounting Officer (Municipal Manager), Heads of Departments
MUNICIPAL ENTITIES
Accounting officers

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7.6 Relevant legislation and policies should be referred to in order to obtain an understanding of the relevant roles and responsibilities of government employees or officials, as may be applicable to the auditee.

7.7 The government is made up of three parts:

- The elected members (legislatures) – who represent the public, approve policies and legislation, and monitor the work of the executive and departments.
- The cabinet or executive committee (executive) – which coordinates the making of policies and legislation and oversees implementation by government departments.
- The public servants – who are responsible for doing the work of government and account to the executive.

7.8 The judiciary is also defined as part of government, but is independent so that the courts can protect citizens without being influenced or pressurised by government. The independence of the judiciary is a cornerstone of constitutional democracy. It guarantees the supremacy of the Constitution. The judiciary is not dealt with further in this document since it is not formally part of the policymaking or implementation machinery of government.

7.9 The government typically plans strategically for its electoral term based on commitments made in its election manifesto.

National government

Parliament

7.10 Parliament consists of the NA and the National Council of Provinces (NCOP), which participate in the legislative process in the manner set out in the Constitution.

National assembly and the NCOP

7.11 The NA is made up of members of Parliament who get elected every five years to represent the people. It elects the President, provides a national forum for public consideration of issues, passes legislation as well as scrutinises and oversees the actions of the executive.

7.12 The NCOP represents the provinces to ensure that provincial and local government interests are taken into account in the national sphere of government. It does this mainly by participating in the national legislative process and by providing a national forum for public consideration of issues affecting provinces and local government.

7.13 In exercising legislative powers, the NA and the NCOP may consider, pass, amend or reject any legislation before them and initiate or prepare any legislation except for money bills.

7.14 The NA and the NCOP, or any of their committees, may:

- Summon any persons to appear before them to give evidence on oath or affirmation, or to produce a document
- Require any persons or institution to report to them
- Compel, in terms of national legislation or rules of orders, any person or institution to comply with a summons or request to appear before them
- Receive petitions, representations or submissions from any interested persons or institutions.

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The President

7.15 The executive authority of the republic is vested in the President, who is elected by Parliament and appoints a cabinet of ministers. The cabinet of ministers acts as the executive committee of government.

7.16 The President exercises the executive authority, together with the other members of the cabinet, by:

- Implementing national legislation, except where the Constitution or an act of Parliament provides otherwise.
- Developing and implementing national policy.
- Coordinating the functions of state departments and administrations.
- Preparing and initiating legislation.
- Performing any other executive function provided for in the Constitution or in national legislation.

Constitutional institutions

7.17 These are institutions listed in Schedule 1 of the PFMA.

7.18 These institutions are independent and subject only to the Constitution and the law; and they must be impartial, exercise their powers and perform their functions without fear, favour or prejudice.

7.19 These institutions are accountable to the NA and must report on their activities and the performance of their functions to the NA at least once a year.

State institutions that strengthen constitutional democracy

7.20 The following state institutions strengthen constitutional democracy in South Africa[31]:

- The Public Protector;
- The South African Human Rights Commission;
- The Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities;
- The Commission for Gender Equality;
- The Auditor-General; and
- The Electoral Commission.

Department

7.21 Means a national department, a national government component, the office of a premier, a provincial department or a provincial government component, as defined in the PSA.

National departments

7.22 Means a national department referred to in Section 7(2) of the PSA.

7.23 Each department is responsible for implementing the legislation and policies decided on by Parliament or the cabinet.

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[31] The Constitution can be obtained from https://www.gov.za.

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Coordinating, regulating, and/or monitoring departments

7.24 Certain departments play a coordinating, regulating and/or monitoring role, as defined in legislation and in their mandates. These departments include, for example, the NT, provincial treasuries, offices of the premiers, the Department of Planning, Monitoring and Evaluation (DPME) and the Department of Cooperative Governance (DCoG). Provincial governments may include different structures.

National Treasury[32]

7.25 The NT is responsible for coordinating macroeconomic policy and promoting the national fiscal policy framework. Its role is defined by the Constitution and in the PFMA. The NT coordinates intergovernmental financial relations, manages the budget preparation process and exercises control over the implementation of the annual national budget, including any adjustment budgets. The NT also performs functions assigned to it in other legislation.

7.26 The Office of the Accountant-General (OAG) is a directorate within the NT and its responsibility is to promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of institutions in all three spheres of government. The OAG also develops policies and guidelines on accounting and related matters.

7.27 The NT, through the Office of the Chief Procurement Officer (OCPO), regulates procurement. The purpose of the OCPO is to:

- modernise the state supply chain management system and ensure it is fair, equitable, transparent, competitive and cost-effective. It also has to enable the economic, effective and transparent utilisation of financial and other state resources, including assets, for improved service delivery
- promote, support and enforce the transparent and effective management of state supply chain and the sound stewardship of government assets and resources.

Accounting Standards Board

7.28 The ASB determines the financial reporting framework for public sector entities. It sets (and publishes) standards of generally recognised accounting practice (GRAP) for the annual financial statements of public institutions listed in Section 89 of the PFMA. The ASB also:

- Promotes the adoption of Standards of GRAP
- Monitors the implementation of Standards of GRAP
- Influences development of international standards

National government component

7.29 A national government component is an auditee listed in Part A of Schedule 3 to the PSA.

7.30 Government components may be established subject to the requirements of the PSA in support of a departmental mandate.

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32 http://www.treasury.gov.za.

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Key committees of Parliament

7.31 The key committees are detailed below.

Standing Committee on Appropriations

7.32 The Standing Committee on Appropriations (SCoA) considers and reports on:

- Spending issues
- Amendments to the Division of Revenue Bill, the Appropriation Bill, Supplementary Appropriations Bill and the Adjustment Appropriations Bill
- Actual expenditure published by the NT.

National portfolio committees

7.33 These are appointed from members of the legislature to shadow the work of the various government departments.

7.34 A portfolio committee:

- Deals with bills and other matters falling within its portfolio and that are referred to it, where applicable
- Maintains oversight of:
    - The exercise of the executive authority within its portfolio, including the implementation of legislation
    - Any executive organ of state falling within its portfolio
    - Any constitutional institution falling within its portfolio
    - Any other body or institution in respect of which oversight was assigned to it
- May monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution.

Standing Committee on Public Accounts

7.35 The Standing Committee on Public Accounts (SCOPA) is the mechanism through which the NA exercises oversight over the expenditure of public money that it annually appropriates to executive organs of state in the national sphere of government.

7.36 SCOPA:

- Considers the financial statements of all executive organs of state and constitutional institutions or other public bodies when those statements are submitted to Parliament
- Considers any audit reports issued on those statements
- Considers any reports issued by the Auditor-General on the affairs of any executive organ of state, constitutional institution or other public body
- Considers any reports reviewing the expenditure of public funds by any executive organ of state and constitutional institution or other public body
- Considers any other financial statements or reports referred to the committee in terms of the NA rules

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- May report on any of those financial statements or reports to the NA
- May initiate any investigation within its area of competence.

Provincial government

Provincial legislatures

7.37 There are nine provincial governments. Every province has a legislature made up of between 30 and 80 members of the provincial legislature (MPLs). The legislative authority of a province is vested in its provincial legislature.

7.38 The provincial legislature is assigned legislative powers in accordance with the Constitution and may establish a constitution for its province.

7.39 A provincial legislature provides for mechanisms to ensure that all provincial executive organs of state in the province are accountable to it and maintain oversight of the exercise of the provincial executive authority in the province, and any provincial organ of state, including the implementation of legislation.

7.40 The provincial legislature or any of its committees may:

- Summon any persons to appear before it to give evidence on oath or affirmation, or to produce a document
- Require any person or institution to report to it
- Compel, in terms of national legislation or rules of orders, any person or institution to comply with a summons or request to appear before it
- Receive petitions, representations or submissions from any interested persons or institutions.

7.41 A premier is elected by the legislature and appoints MECs to be the political heads of each provincial department. The executive council of a province consists of the premier as head of the council and members appointed by the premier from among the members of the provincial legislature.

7.42 Provincial departments are headed by an accounting officer who is the head of the department.

7.43 In each of the nine provinces, there are multiple provincial departments. The names may differ slightly and combinations of the functions in each province may also differ from one province to another.

Premier

7.44 The executive authority of a province is vested in the premier of a province who is elected by the legislature.

7.45 Together with the executive council, the premier exercises the executive authority by, among others:

- Implementing provincial legislation in a province
- Implementing all national legislation within the functional areas listed in Schedules 4 and 5 of the Constitution
- Administering, in the province, national legislation outside the functional areas in Schedules 4 and 5 assigned to the provincial executive in terms of an act of Parliament
- Developing and implementing provincial policy

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- Coordinating the functions of the provincial administration and its departments
- Preparing and initiating provincial legislation
- Performing any other functions assigned to the provincial executive in terms of the Constitution
- Facilitating the assistance by the national government to ensure that the province has the necessary administrative capacity for the effective exercising of its powers and performance of its functions.

Provincial departments

7.46 Means a provincial department referred to in Section 7(2) of the PSA.

7.47 Each department is responsible for implementing legislation and policies.

Provincial treasury

7.48 Each province has its own provincial treasury department headed by the MEC for finance. The provincial treasury is the department responsible for managing and allocating financial resources on behalf of the provincial government. Similar to the role of NT, it also monitors and regulates the implementation of procurement legislation for provincial government, prepares the provincial government budget and consolidated financial statements, as well as promotes and supports financial management in the province.

Provincial government component

7.49 A provincial government component is an entity listed in Part B of Schedule 3 to the PSA.

7.50 Government components may be established subject to the requirements of the PSA and in support of a departmental mandate.

MEC

7.51 An MEC is a member of the executive council of a province.

Provincial Public Accounts Committee

7.52 Provincial public accounts committees (PPACs) are the provincial equivalents of the NA's SCOPA.

Provincial Portfolio Committee

7.53 Provincial Portfolio Committees are the provincial equivalents of the National Portfolio Committee.

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Other national and provincial government role players

Executive authority[33]

7.54 *The executive authority:*

- In relation to a national department, is the cabinet member who is accountable to Parliament for that department.
- In relation to a provincial department, is the MEC of a province who is accountable to the provincial legislature for that department.
- In relation to a national public entity, is the cabinet member who is accountable to Parliament for that public entity or in whose portfolio it falls.
- In relation to a provincial public entity, is the member of the provincial executive council who is accountable to the provincial legislature for that public entity or in whose portfolio it falls.

7.55 Executive authorities of departments must perform their statutory functions, which include oversight of the auditees within their portfolios.

7.56 The executive authority responsible for a department or public entity must table in the NA or provincial legislature, as may be appropriate, the annual report and financial statements, including the audit report on those statements.

Accounting officer

7.57 Every department and every constitutional institution must have an accounting officer. The head of a department must be the accounting officer for the department and the chief executive officer of a constitutional institution must be the accounting officer for that institution. The relevant treasury may, in exceptional circumstances, approve or instruct in writing that a person other than the person mentioned above be the accounting officer for a department or a constitutional institution or a trading entity within a department.

7.58 The accounting officer for a department, trading entity or constitutional institution must ensure that that institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Accounting authority

7.59 Every public entity must have an accounting authority which must be accountable for the requirements of the PFMA.

7.60 If the public entity has a board or other controlling body, that board or controlling body is the accounting authority for that entity. If the public entity 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. The relevant treasury, in exceptional circumstances, may approve or instruct that another functionary of a public entity must be the accounting authority for that public entity.

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33 As defined in the PFMA. Also refer to the PSA for further guidance.

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7.61 An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Other types of auditees in the public sector

Trading entity

7.62 A trading entity is an entity operating within the administration of a department for the provision or sale of goods or services. In the case of a national department, it is established with the approval of the NT; and in the case of a provincial department, with the approval of the relevant provincial treasury acting within a prescribed framework.

Public technical and vocational education and training colleges and public community education and training colleges

7.63 These offer basic adult education and further education contemplated in Section 29(1) of the Constitution, within the context of public accountability.

7.64 Public college means any college that provides continuing education and training on a full-time, part-time or distance basis; and which is established or regarded as having been established as a public college under Section 3 of the Continuing Education and Training Act, 2006 (Act No. 16 of 2006) or declared as a public college under Section 4 of this Act.

7.65 The council of the college (governing structure of a public college) must, with the concurrence of the academic board, develop a strategic plan for the public college. This must incorporate the mission, vision, goals and planning for funding of the college; address past imbalances as well as gender and disability matters; and include safety measures for a safe learning environment for students, lecturers and support staff. The plans need to be approved by the Minister of Higher Education and Training.

Higher education institution

7.66 Any institution that provides higher education on a full-time, part-time or distance basis, e.g. universities, and which is:

- Converted, merged, established or deemed to be established as a public higher education institution under the Higher Education Act, 1997 (Act No. 101 of 1997) (Higher Education Act); or
- Declared as a public higher education institution under the Higher Education Act; or
- Registered or provisionally registered as a private higher education institution under the Higher Education Act.

Basic education institution

7.67 Auditors should be aware that there are other educational institutions that fall under the basic education system, i.e. schools. Where auditors are appointed to audit such institutions, reference can be made to the relevant legislation to gain an understanding thereof.

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Public entities

7.68 Public entities are established in the public sector, but outside the public service, typically for reasons of:

- Strategic, social or economic intervention by the state or to deal with strategic risks and dangers that the state or society faces to its security, health, prosperity or well-being
- Adopting commercial and business principles in service delivery, when that is required
- Signalling that there is a need for objectivity and more operational autonomy, yet retaining accountability in the delivery of services.

7.69 There are different types of public entities (including trusts and funds):

- Schedule 2 - Major public entities.
- Schedule 3 A - National public entities.
- Schedule 3 B - National government business enterprises.
- Schedule 3 C - Provincial public entities.
- Schedule 3 D - Provincial government business enterprises.

7.70 The definition of a national or provincial public entity, as set out in the PFMA, is as follows:

- A national or provincial government business enterprise; or
- A board, commission, company, corporation, fund or other entity (other than a national or provincial government business enterprise) which is:
  - established in terms of national or provincial legislation or a provincial constitution
  - fully or substantially funded from either the NRF/Provincial Revenue Fund or by way of tax, levy or other money imposed in terms of legislation
  - accountable to Parliament or to a provincial legislature.

7.71 A national or provincial government business enterprise is an entity which:

- Is a juristic person under the ownership control of the national or provincial executive
- Has been assigned financial and operational authority to carry on a business activity
- As its principal business, provides goods or services in accordance with ordinary business principles
- Is financed fully or substantially from sources other than:
  - the NRF/Provincial Revenue Fund; or
  - by way of a tax, levy or other statutory money.

7.72 Public entities, in accordance with their formats, have different levels of autonomy. Government business enterprises, which generate their own income, have the most autonomy as these entities operate in a competitive marketplace and decisions are made in accordance with business principles. These entities are usually registered as state-owned companies (SOCs), normally pay tax and could in future be required to pay dividends. However, it should be noted that such entities still have extensive legislative compliance requirements in line with the PFMA, among others. For example, their

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procurement of goods and services is highly regulated and subject to oversight by the OCPO/relevant treasury.

7.73 Public entities, other than the government business enterprises, are normally extensions of a department with the mandate to fulfil a specific economic or social responsibility of government. These entities are more reliant on government funding and public money, either by means of a transfer from a revenue fund or through statutory money. As such, these entities have the least autonomy and are also accountable to government for this money, and there are restrictions on their ability to retain surplus funds. In addition, the relevant minister has the responsibility to approve these entities' annual budgets.

Local (municipal) government

7.74 There are three kinds of municipalities in South Africa:

- Metropolitan municipalities
  - These exist in the biggest cities in South Africa. The metropolitan municipality coordinates the delivery of services to the whole area.
  - It is a municipality that has exclusive executive and legislative authority in its area, and which is described in Section 155(1) of the Constitution as a category A municipality.
- Local municipalities
  - Areas that fall outside the metropolitan municipal areas are divided into local municipalities.
  - Only people who live in low population areas, like game parks, do not fall under local municipalities. Such areas are called district management areas (DMAs) and fall directly under the district municipality.
  - A local municipality is a municipality that shares municipal executive and legislative authority in its area with a district municipality within whose area it falls, and which is described in Section 155(1) of the Constitution as a category B municipality.
- District municipalities
  - District municipalities are made up of a number of local municipalities that fall into one district. Usually, between three and six local municipalities form a district council. Some district municipalities also include nature reserves and the areas where few people live, i.e. DMAs. These fall directly under the district council and have no local council. A district municipality coordinates development and delivery in the whole district. It also has its own administration (staff) and plays a stronger role in areas where local municipalities lack capacity to deliver.
  - District municipalities have municipal executive and legislative authority in an area that includes more than one municipality, and are described in Section 155(1) of the Constitution as a category C municipality.

7.75 While metropolitan municipalities are responsible for all local development and service delivery in the metropolitan area, local municipalities share these responsibilities with district municipalities. This is especially the case in rural areas, where district municipalities will have more responsibility for development and service delivery. The executive and legislative authority of a municipality is vested in its municipal council.

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Municipal council

7.76 Each municipality has a council where decisions are made. The council consists of elected members who approve policies and by-laws for their municipality. The work of the council is coordinated by a mayor who is elected by the council. The mayor is assisted by councillors in an executive committee (elected by the council) or a mayoral committee (appointed by the mayor). They oversee the work of the municipal manager and department heads. In some very small municipalities, the whole council forms the executive.

7.77 The objectives of a municipality under the direction of the council are to:

- Provide democratic and accountable government for local communities
- Ensure the provision of services to communities in a sustainable manner
- Promote social and economic development
- Promote a safe and healthy environment
- Encourage the involvement of communities and community organisations in matters of local government.

7.78 The council considers the annual report of the municipality and of any municipal entity under the municipality's sole or shared control, no later than two months from the date on which the annual report was tabled in the council, in terms of Section 127 of the MFMA.

7.79 A municipal council may establish one or more committees that are necessary for the effective and efficient performance of any of its functions or the exercise of any of its powers.

Speaker

7.80 Each municipal council must have a chairperson who will be called the speaker. A municipal council must elect its speaker from among the councillors. The municipal manager of the municipality or, if the municipal manager is not available, a person designated by the MEC for local government in the province, presides over the election of a speaker.

7.81 The speaker of a municipal council has the following functions, among others:

- Presides at meetings of the council
- Performs the duties and exercises the powers delegated to the speaker in terms of Section 59 of the Local Government: MSA
- Ensures that the council meets at least quarterly
- Ensures compliance by the council and council committees with the code of conduct set out in Schedule 1 to the Local Government: MSA
- Ensures that council meetings are conducted in accordance with the rules and orders of the council.

Executive mayor

7.82 The executive mayor is responsible for identifying the needs of the municipality. The executive mayor recommends to the municipal council strategies, programmes and services to address needs, and recommends or determines the best way to deliver those strategies, programmes and services to the maximum benefit of the community.

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The accounting officer

7.83 The accounting officer, in relation to a municipality, is the municipal manager (also referred to as a city manager). In relation to a municipal entity, it is the chief executive officer.

7.84 The municipal administration is headed by the municipal manager who is also responsible for employing staff and coordinating them to implement all programmes approved by the council.

7.85 The accounting officer of a municipality is further responsible for, among other things, managing the financial administration of the municipality. For this purpose, the accounting officer must take all reasonable steps to ensure, in summary:

- That the resources of the municipality are used effectively, efficiently and economically
- That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards
- That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control
- Compliance with all applicable legislation.

Functions of municipalities

7.86 Different types of municipalities may be responsible for different functions, which may be determined from time to time in regulations. The powers and functions of a municipality are established in the Constitution.

7.87 For example, municipalities are generally responsible for the following functions:

- Electricity delivery.
- Sewage and sanitation.
- Municipal health services.
- Municipal roads.
- Local tourism.
- Water for household use.
- Firefighting services.
- Municipal public transport.
- Abattoirs and fresh food markets.
- Libraries and other facilities.

Municipal entities

7.88 A municipal entity is an entity that is established and controlled by a municipality. The MSA defines three types of entities that may be established by a municipality, namely, private company, service utility or multi-jurisdictional service utility. Each municipal entity must comply with the legislative framework applicable to local government.

Intergovernmental relations and cooperative governance

7.89 Intergovernmental relations means the relationships between the three spheres of government. The Constitution states that the three spheres of government are distinctive, interdependent and interrelated. Although the three spheres of government are autonomous, they exist in a unitary South Africa, have to work together on decision-

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making and must coordinate budgets, policies and activities for those functions that cut across the spheres.

7.90 Cooperative governance refers to the principles set out in Section 41 of the Constitution. Section 41, among other things, requires organs of state to cooperate with one another in mutual trust and good faith. The Intergovernmental Relations Framework Act, 2005 (Act No. 13 of 2005) sets out the structure for cooperation.

7.91 DoRA provides for, including matters connected therewith, the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the financial year; the determination of each province's equitable share and allocations to provinces, local government and municipalities from national government's equitable share; and the responsibilities of all three spheres pursuant to such division and allocations.

8. AUDITORS' INTERACTIONS WITH GOVERNMENT AND GOVERNMENT OVERSIGHT MECHANISMS

8.1 The AGSA has developed guidance documents for stakeholder engagements which all auditors in the public sector should refer to. These include:

- The audit methodology.
- Guides on visibility and interacting with accounting officers and authorities.
- Procedures on interactions with constitutional stakeholders.

8.2 Every auditee will have a stakeholder engagement plan that addresses their specific needs. Guidance documents and stakeholder engagement plans may be sourced from the AGSA business unit responsible for the audit engagement.

8.3 Communication requirements within the public sector may be more complex than private sector audits and auditors should ensure that there is proper planning for this, taking into consideration any guidance provided, over and above the relevant auditing standards.

8.4 In general, the AGSA interacts proactively with the executive authority and oversight bodies such as the parliamentary portfolio and accounts committees. The aim of these engagements is to promote and encourage clean audit outcomes and to enhance public governance. The AGSA engagement manager facilitates these engagements.

8.5 The auditor provides the AGSA engagement manager with relevant information for such meetings, where required. It is recommended that the auditor includes this matter in their engagement letter with the auditee.

Interactions between the AGSA and national Parliament, provincial legislatures or council

8.6 Auditors should be aware of the important interactions between the AGSA and government oversight structures that may have an impact on the audit.

8.7 Government oversight structures annually set aside oversight time to engage institutions. As part of the process, oversight structures require the AGSA to provide audit insight emanating from the latest audit cycle.

8.8 Below are examples of some of the interactions that may occur. Auditors should consult the relevant AGSA engagement manager with regards to the scheduled interactions for a particular period.

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National Parliament

Parliament programme	Budgetary process, including the assessment of the annual performance plans (APPs) and strategic plans	Annual report tabling and review thereof	Medium-term budget – review of budget priorities	Annual performance assessments of the executive
AGSA interventions	For specific auditees, the AGSA does presentations on the audit of reported performance information (AOPO) findings to the portfolio committee chair	Discussion with the portfolio committee chair	Portfolio committees engage AGSA on PFMA audit outcomes to assist with informing medium-term budget review adjustments	Presentation on PFMA audit outcomes to the portfolio committee and SCOPA

Provincial legislature

Legislature programme	Budgetary process, including the assessment of APPs and strategic plans	Annual report tabling and review thereof	Medium-term budget –review of budget priorities	Annual performance assessments of the executive
AGSA interventions	For specific auditees, the AGSA does presentations on AOPO findings to the portfolio committee chair	Discussion with the portfolio committee chair	Portfolio committees may engage AGSA on PFMA audit outcomes to assist with informing medium-term budget review adjustments	Presentation on PFMA audit outcomes to the PPAC

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Local government

Local government programme	Planning and budgeting: preparation of budgets, integrated development plans (IDPs) and the Service Delivery and Budget Implementation Plan (SDBIP)	Implementation of programmes and monitoring thereof	Evaluation and reporting: Review of performance
AGSA interventions		If requested, the AGSA interventions may include: • Engagements with the mayor and municipal managers on the monitoring of programmes that form part of the audit process, key control assessments and municipal audit outcomes. • Attending and possibly making presentations to council on municipal audit outcomes. • Engagements with the Municipal Public Accounts Committee (MPAC) on municipal audit outcomes.	

9. CONCLUSION

9.1 Auditing in the public sector is a specialised field and auditors need to ensure that they have the necessary knowledge to conduct audits in accordance with the required quality standards, thereby ensuring the performance of high-quality public sector audits.

9.2 This Revised Guide should serve as a valuable reference for auditors who conduct audits in the public sector, as it introduces the public sector structure, environment, key legislation and standards to be applied; terminology; and other requirements/practices that inform the public sector audit process. Auditors should do further research over and above what is included in this Revised Guide to ensure they have a comprehensive understanding that is relevant to their auditee in accordance with the standards.

9.3 Auditors are reminded that this Revised Guide should be read with other pronouncements issued by the IRBA.

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ABBREVIATIONS AND TERMS

AGSA	Auditor-General of South Africa
AOPO	Audit of reported performance information
APP	Annual Performance Plan
ASB	Accounting Standards Board
CoGTA	Department of Cooperative Governance and Traditional Affairs
CPO	Chief Procurement Officer
DCoG	Department of Cooperative Governance
DHET	Department of Higher Education and Training
DMA	District management area
DoRA	Division of Revenue Act
DPME	Department of Planning, Monitoring and Evaluation
Firm	A firm of registered auditors engaged in public practice as registered auditors
GRAP	Generally Recognised Accounting Practice
IAASB	International Auditing and Assurance Standards Board
IDP	Integrated Development Plan
INTOSAI	International Organization of Supreme Audit Institutions
IRBA	Independent Regulatory Board for Auditors
ISAs	International Standards on Auditing
ISSAIs	International Standards on Supreme Audit Institutions
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MPAC	Municipal Public Accounts Committee
MPL	Member of the provincial legislature
MSA	Municipal Systems Act
NA	National Assembly
NCOP	National Council of Provinces
NRF	National Revenue Fund
NT	National Treasury

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OAG	Office of the Accountant-General
PAA	Public Audit Act
PFMA	Public Finance Management Act
PPAC	Provincial Public Accounts Committee
SAAPS	South African Auditing Practice Statements
SAI	Supreme audit institution
SCOAG	Standing Committee on the Auditor-General
SCOPA	Standing Committee on Public Accounts
SDBIP	Service Delivery and Budget Implementation Plan
TVET	Technical and vocational education and training

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Guide

August 2015

INDEPENDENT REGULATORY BOARD FOR AUDITORS

AUDITOR-GENERAL SOUTH AFRICA

Guide for Registered Auditors

GUIDANCE ON PERFORMING AUDITS ON BEHALF OF THE AGSA

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MESSAGE BY THE CHIEF EXECUTIVE OFFICER OF THE IRBA

The mandate of the IRBA is to protect the public interest through issuing high quality auditing standards and guidance to auditors. The public interest is best served when audit quality is achieved in both the private and the public sectors, which in turn enhances confidence in the financial markets, stimulates investment, transformation and employment opportunities in the South African economy.

I am pleased with the continued collaboration between the IRBA and the Auditor-General to develop guidance that supports registered auditors performing audits in the public sector, which will ultimately improve governance and financial management in the public interest.

The IRBA regards the Auditor-General as an important stakeholder in the public sector financial reporting and governance framework, as well as in the auditing profession. We are confident that the co-operation with the Auditor-General on the current and future initiatives will benefit the public, government and our country.

Bernard Peter Agulhas

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Independent Regulatory Board for Auditors
Committee for Auditing Standards
PO Box 8237, Greenstone, 1616
Johannesburg

Auditor-General of South Africa
PO Box 446
Pretoria 0001

This Guide for Registered Auditors: *Guidance on Performing Audits on behalf of the AGSA* was prepared by the Public Sector Standing Committee of the Committee for Auditing Standards (CFAS) comprising representatives of large, medium and small audit firms and the Auditor-General of South Africa (AGSA). This Guide was approved by the Independent Regulatory Board for Auditors (IRBA) in June 2015 for issue by way of joint publication with the AGSA for the purpose of improving the understanding of and enhancing the quality of public sector audits by registered auditors in public practice (registered with the IRBA) who are contracted by the AGSA.

Guidance is provided to registered auditors who perform public sector audit engagements on behalf of the AGSA, including the audit of financial statements, predetermined objectives and compliance with legislation, and the additional audit procedures relating to focus areas, in conformance with the AGSA's specific requirements and the requirements of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

This Guide addresses the following matters in these circumstances:

- The roles and responsibilities of the audit firm and the AGSA;
- The auditing standards and ethical requirements to be complied with;
- Communication between the auditor, the AGSA, the auditee, the executive authority and oversight bodies;
- Supervision and review responsibilities;
- Pre-issuance reviews;
- Technical consultations and difference-of-opinion processes; and
- Reporting.

Guide for Registered Auditors: *Guidance on Performing Audits on behalf of the AGSA* may be downloaded free of charge from the IRBA website: www.irba.co.za and the AGSA website: www.agsa.co.za.

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GUIDE FOR REGISTERED AUDITORS

GUIDANCE ON PERFORMING AUDITS ON BEHALF OF THE AGSA

(Effective for engagements commencing on or after 1 September 2015)

Contents **Page**

This Guide for Registered Auditors: *Guidance on Performing Audits on behalf of the AGSA* provides guidance for registered auditors who perform public sector audit engagements on behalf of AGSA, including the audit of financial statements, predetermined objectives and compliance with legislation and the additional audit procedures relating to focus areas, in conformance with the AGSA's specific requirements and the requirements of the Public Audit Act, (Act No 25 of 2004).

Guides are developed and issued by the IRBA to provide guidance to auditors in meeting specific legislative requirements imposed by a Regulator. Guides do not impose requirements on auditors beyond those included in the International or South African Standard/s or South African regulatory requirements and do not change an auditor's responsibility to comply, in all material respects, with the requirements of the International or South African Standards or with South African regulatory requirements relevant to the audit, review, other assurance services or related services engagement.

An auditor is required to have an understanding of the entire text of every Guide to enable the auditor to assess whether or not any particular Guide is relevant to an engagement, and if so, to enable the auditor to apply the requirements of the particular International or South African Standard/s to which the Guide relates properly.

In terms of section 1 of the Auditing Profession Act, No 26 of 2005 (the Act), a Guide is included in the definition of "auditing pronouncements" and in terms of the Act, the auditor must, in the performance of an audit, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board.

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GUIDE FOR REGISTERED AUDITORS:
GUIDANCE ON PERFORMING AUDITS ON BEHALF OF THE AGSA

1. INTRODUCTION

1.1 This Guide provides guidance for registered auditors to perform public sector audit engagements on behalf of the AGSA, including the audit of financial statements, predetermined objectives, compliance with legislation and the additional audit procedures relating to focus areas, in conformance with the AGSA's specific requirements and the requirements of the PAA. The AGSA retains overall responsibility for these audits and will sign the auditor's report.

1.2 Auditors are also referred to the *Guidance for auditing in the public sector Volume 1: Auditing in the public sector*[1].

1.3 The relationship with registered auditors where the AGSA has opted not to perform the audit of a public sector entity is dealt with in the *Guide for registered auditors: Guidance on performing audits where the AGSA has opted not to perform the audit.*

1.4 Engagements where auditors are contracted in, or seconded to, the AGSA are not dealt with in this Guide. The unique requirements of performance audits and investigations performed on behalf of the AGSA are also not dealt with in this Guide.

2. DEFINITIONS

Audit firm:	A firm of registered auditors engaged in public practice as Registered Auditors that perform audits on behalf of the AGSA. Audit firm has the same meaning as "firm" as defined in the IRBA *Code of Professional Conduct for Registered Auditors*.
Audit partner:	The partner in the audit firm who shares the responsibility for the engagement and its performance with the AGSA senior manager.
Senior manager (SM):	The person within the AGSA who is responsible for and has been assigned an engagement by the audit business executive (BE) and has sufficient and appropriate experience and authority to perform the engagement.
Product champion:	The person in each audit business unit within the AGSA who is responsible for dealing with technical matters within the business unit.
Public audit manual:	The AGSA audit methodology, including application guidance, working papers and technical guidance memorandums.
Auditing pronouncements:	The pronouncements prescribed in directives issued by the AGSA, including the auditing pronouncements as defined in the Auditing Profession Act.
Memorandum of Agreement (MoA):	The agreement between the AGSA and the audit firm regarding their respective responsibilities for the performance of the audit on behalf of the AGSA.

[1] The guide can be downloaded from the IRBA website: www.irba.co.za .

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Executive Authority	The Executive Authority as defined by the Public Finance Management Act (PFMA) and the Local Government: Municipal Systems Act.

3. CONTRACTING WITH AUDIT FIRMS

3.1 In terms of section 12(1) of the PAA, the AGSA may authorise a private practitioner (hereafter referred to as the audit firm) to perform audits on its behalf.

3.2 The AGSA follows a stringent tender process to compile an approved list of audit firms to perform audits on its behalf. Work will only be allocated to audit firms that appear on the approved list. Information relating to the tender process is available in the tender principles document published by the AGSA on its website.

3.3 Audit firms contracted to perform audits on behalf of the AGSA are regarded as part of the AGSA's engagement team. In this context the requirements of chapter 3 of the PAA are applicable to audit firms performing audits on behalf of the AGSA.

3.4 The terms and conditions of the contract are included in a standard MoA entered into between the audit firm and the AGSA.

3.5 A directive is issued by the Auditor-General (hereafter referred to as the AG Directive) in terms of sections 2(b) and 13(3)(b) of the PAA which prescribe and explain certain matters related to public sector audits and are applicable to audit firms performing audits on behalf of the AGSA. The AG Directive[2] is revised from time to time.

4. ROLES AND RESPONSIBILITIES

4.1 The AGSA and the audit firm have different roles and responsibilities in conducting the audits. Appendix 1 provides a diagrammatic explanation of this relationship.

AGSA

4.2 All audits are assigned to SMs in the AGSA. The SM is responsible for ensuring that the engagements are undertaken in compliance with the auditing pronouncements.

4.3 The SM is the AGSA's representative who engages with the audit partner from the audit firm when audits are performed on behalf of the AGSA. Under these circumstances the SM remains overall responsible for the quality of the audit.

4.4 Each AGSA audit business unit (ABU) has a product champion (PC) who is responsible, inter alia, for dealing with the technical matters that arise during the audits as referred by the SM.

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[2] The AG Directive can be downloaded from the AGSA website www.agsa.co.za.

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Audit firm

4.5 Work on behalf of the AGSA is performed in terms of an MoA which sets out the following:

- The scope of the engagement.
- The auditing pronouncements, as prescribed in the AG Directive, and legal and regulatory requirements for the audit, which are the same as those that apply to the AGSA.
- All duties and responsibilities in terms of the agreement and all work will be performed with the highest degree of skill, care and diligence that is reasonably expected from the auditing profession.

4.6 When contracting an audit firm, the AGSA expects that the audit firm would have established and maintains a system of quality control as required by International Standards on Quality control (ISQC) 1 to provide reasonable assurance that:

- The audit firm and its personnel comply with the auditing pronouncements and legislative requirements; and
- Reports prepared are appropriate in the circumstances.

4.7 In consultation with the AGSA, the audit firm identifies the audit partner who will be responsible for the audit and will share responsibility for the quality of the audit.

4.8 The audit partner assigns the audit firm's audit team and accepts responsibility for the direction, supervision and performance of the audit team in compliance with the auditing pronouncements and legislative requirements. The audit partner is also responsible for ensuring that the draft auditor's report, as presented to the AGSA, is appropriate in the circumstances.

4.9 Prior to the commencement of the audit, the audit partner ensures that the team has relevant public sector knowledge and competencies to perform the audit. Audit firms that perform audits on behalf of the AGSA for the first time may be requested to attend an induction programme presented by the AGSA prior to commencement of the audit. Audit firms may also be invited to attend relevant training presented by the AGSA from time to time.

4.10 When the audit is performed jointly with another audit firm the allocation of work and responsibilities, including appointing a lead audit firm, will be negotiated and agreed upon between the AGSA's audit BE and the audit firms prior to commencement of the audit.

5. ETHICAL REQUIREMENTS

Professional codes of ethics

5.1 Registered auditors performing work on behalf of the AGSA are subject to the IRBA *Code of Professional Conduct for Registered Auditors*. In addition, registered auditors

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comply with the International Standard of Supreme Audit Institutions (ISSAI) 30, *Code of Ethics*[3] specifically relating to political neutrality.

Independence

5.2 The audit firm confirms its independence, taking into consideration any legislative requirements, prior to accepting the audit engagement and remains independent throughout the audit. In this regard the audit firm may not undertake any other engagement with the auditee, unless specific prior written authorisation has been given by the AGSA.

5.3 The audit firm and members of the engagement team sign a declaration for each engagement, thereby undertaking to adhere to the codes of professional conduct as described in paragraph 5.1, which form part of the audit documentation.

Confidentiality

5.4 In accordance with section 50 of the PAA, the audit firm maintains absolute confidentiality regarding all the information acquired from whichever source relating to the audit and is not permitted to divulge to any person other than the AGSA any aspect of such information. The information may not, in any way or for any reason whatsoever, be used without the prior written consent of the AGSA, other than for the purposes of the engagement or for purposes of complying with IRBA's inspection requirements.

5.5 Information that the AGSA supplies to the audit firm vests in the AGSA and the audit firm has no claim to it. All information related to the performance of the audit remains the property of the AGSA. Engagement documentation or extracts from such documentation may therefore only be made available to the auditee with written permission from the SM.

5.6 Section 18(3) of the PAA states that the AGSA, an authorised auditor or an assistant or other person referred to in section 17 of the PAA may not be compelled to disclose information obtained in the course of official duties in any proceedings in which the AGSA is not a party before a court in a civil matter or any other body or institution established in terms of legislation. The audit firm therefore obtains written approval from the Auditor-General before disclosing any information acquired by it during the performance of the audit.

Values

5.7 The AGSA strives towards a high-performance culture which is underpinned by the following strategic values:

- We value, respect and recognise our people
- Our accountability is clear and personal

[3] The ISSAI Code of Ethics may be downloaded from: www.issai.org.

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- We are performance driven
- We value and own our reputation and independence
- We work effectively in teams
- We are proud to be South African.

5.8 In order to sustain ethical behaviour, all AGSA staff and the audit firms that perform work on its behalf are encouraged to demonstrate these values.

6. AUDITING STANDARDS AND METHODOLOGY

6.1 In terms of section 13(1)(a) of the PAA, the AGSA has determined that the *International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants have to be applied in performing the audits conducted by the AGSA.

6.2 In addition, audit firms take into consideration the principles contained in the following which have been incorporated into the AGSA guidance:

- The International Standards of Supreme Audit Institutions (ISSAIs); and
- The INTOSAI Guidance for Good Governance, published by the International Organisation of Supreme Audit Institutions (INTOSAI).

Decision on using the audit firm's own audit methodology/software and working papers or that of the AGSA

6.3 The audit firm may use its own audit software, methodology and working papers, unless the SM, in consultation with the BE, determines otherwise. The engagement, however, is still performed:

- In accordance with the auditing pronouncements mentioned above and relevant legislative requirements;
- In accordance with the AGSA's methodology relating to the audit of predetermined objectives, compliance with legislation and the AGSA's focus areas; and
- Using the reporting formats as prescribed by the AGSA.

6.4 The SM, in consultation with the BE, may request that the AGSA's methodology, audit software and working papers be used in the engagement after having considered the following:

- The team's experience in the public sector
- Previous experience with the allocated audit team and partner
- Whether it is a joint audit
- Practical considerations of the AGSA.

6.5 The SM provides the Public audit manual and necessary technical guidance to the audit firm. If the AGSA's software is used by the audit firm, the Public audit manual

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and technical guidance are available therein. In addition, the AGSA's technical guidance is available on the AGSA website to audit firms providing services to the AGSA.

6.6 The audit firm's hardware and software used for engagements and their Information and Communication Technology policies and procedures have to comply with the requirements of the MoA.

6.7 The audit firm provides the SM with access to the electronic working papers to enable an electronic review of the audit firm's working papers. The audit firm is not required to provide the AGSA with the audit software should restrictive rights apply in respect of the software licence of the audit firms.

6.8 The audit firm assembles the engagement file and submits it to the AGSA within 60 days after the date of the auditor's report. When the AGSA's audit software is not used, the AGSA is provided with a hard copy of the engagement file or a soft copy in a format that can be accessed without using the audit firm's proprietary software.

Aspects of AGSA methodology that the audit firm is required to adhere to

Overall

6.9 The audit firm will be provided with the AGSA's engagement letter confirming the engagement terms as signed by the AGSA's delegated signatory.

Financial audit

6.10 Audit firms following their own methodology may be required to apply certain specific AGSA guidance or working papers as communicated by the responsible SM.

Audit of predetermined objectives

- In terms of section 20(2)(c) of the PAA, the auditor's report reflects an opinion or conclusion on the entity's performance against predetermined objectives. The manner in which this is achieved is contained in the AG Directive. The audit of performance against predetermined objectives is performed in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The criteria used for the audit of the performance report is developed from the applicable performance management and reporting framework.

6.11 The audit firm follows the AGSA's methodology in the audit of predetermined objectives.

Compliance with legislation

6.12 In terms of section 20(2)(b) of the PAA, the auditor's report reflects an opinion or conclusion on the entity's compliance with any applicable legislation relating to financial matters, financial management and other related matters. The manner in which this is achieved is contained in the AG Directive. The audit of compliance with legislation is performed in accordance with the principles in applicable ISSAIs and ISAE 3000 (Revised).

6.13 The audit firm follows the AGSA's methodology in the audit of compliance with legislation.

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Internal control

6.14 The AGSA identifies and communicates the root cause of internal control deficiencies that resulted in the material audit findings from the audit of the financial statements, predetermined objectives and compliance with legislation. The audit firm follows the AGSA's guidance in this regard.

AGSA focus areas

6.15 The AGSA from time to time identifies specific focus areas which are based on the AGSA's annual risk assessment. Audit firms perform audit procedures on these areas, which are an extension of those that form part of the normal annual audit process, to enable the AGSA to report thereon and in this regard the related AGSA methodology is followed.

7. COMMUNICATION

7.1 The engagement team, made up of persons from the AGSA and the audit firm, communicates with the auditee in such a manner that the audit firm and the AGSA are regarded as one team. All formal correspondence to the auditee is issued on behalf of the AGSA and not on the audit firm's letterhead.

Steering committee meetings

7.2 The engagement team holds regular meetings with the auditee regarding audit progress and problems identified. These meetings are led by the audit firm in the presence of the AGSA SM.

Audit committee meetings

7.3 The audit partner is involved in audit committee meetings on the invitation of the SM. The audit partner may advise the SM of matters to be discussed at the meeting.

Interactions and meetings with the executive authority and oversight bodies

7.4 The AGSA interacts proactively with the Executive Authority and oversight bodies such as Parliamentary Portfolio and Accounts Committees. The aim of these engagements is to promote and encourage clean audit outcomes and enhance effective public governance. The SM initiates these meetings and may invite the audit partner to participate. The audit partner may advise the SM of matters to be discussed at the meeting.

8. SUPERVISION AND REVIEW

8.1 The audit partner is responsible for ensuring that reviews are performed throughout the audit in accordance with the auditing pronouncements and the audit firm's policies and procedures implemented in accordance with ISQC 1, and that sufficient appropriate audit evidence is obtained to support the draft auditor's report.

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8.2 The SM provides direction on the audit by advising the audit partner of matters such as:

- The objectives of the work to be performed;
- The respective responsibilities of the audit firm and the SM;
- The nature of the auditee's business;
- Risk-related issues and problems that may arise; and
- AGSA-specific audit and reporting requirements regarding the audit of predetermined objectives, compliance with legislation, and the AGSA's focus areas.

8.3 The SM continues to perform a supervisory role to review the relevant audit documentation. The nature, timing and extent of the direction, supervision and review are planned at the onset of the engagement and may vary depending on factors, including:

- The engagement risk assessment;
- The complexity of the audit work to be performed;
- The assessed risks of material misstatement (for example, an increase in the assessed risk of material misstatement for a given area of the audit ordinarily requires a corresponding increase in the extent of direction and supervision and a more detailed review); and
- The experience of the audit partner and the individual team members performing the audit work.

8.4 Supervision by the SM entails at a minimum:

- Considering the experience of the audit team, including whether they have sufficient time to carry out their work;
- Tracking the progress of the audit engagement;
- Approval of the audit strategy prior to discussion with the auditee;
- Addressing significant matters arising during the audit engagement, considering their significance and ensuring that the planned approach is appropriately modified;
- Ensuring that all pre-issuance review findings are resolved;
- Identifying matters for consultation; and
- Assisting, where necessary, in resolving differences of opinion.

8.5 Before the date on which the draft auditor's report is finalised, the SM ensures, through a review of audit documentation and discussions with the audit partner and audit team, that sufficient appropriate audit evidence has been obtained to support the opinion expressed.

8.6 The SM's review may be less detailed than that of the audit partner as reliance is placed on the review already performed. The knowledge, experience, capability and

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results of previous quality control reviews of the audit firm will influence the reliance placed on the reviews conducted.

8.7 The SM's review focuses on whether appropriate judgements were made in the planning of the audit and whether the correct conclusions were reached based on the information recorded per the audit documentation and knowledge of the auditee.

AGSA assessment of quality on the specific engagement

8.8 An assessment of the quality of the work performed by the audit firm will be conducted after completion of the audit.

8.9 The assessment is completed by the SM who liaises with the audit partner to discuss areas of concern. The assessment is then agreed with the audit partner. The assessment results will be taken into consideration in the future allocation of contract work to the audit firm.

Annual engagement quality control reviews

8.10 The audit firm's audit files relating to a specific engagement may be subject to review by the AGSA's quality control unit. The audit partner may be requested to assist the SM with matters relating to such a review. The results of this review will be taken into account when future contract work allocations are considered.

Penalties for non-performance

8.11 In the event that the audit firm fails to meet the quality standards as specified by the AGSA, the AGSA may impose a penalty fee and consider lodging a complaint with the IRBA after discussion with the audit firm involved.

9. PRE-ISSUANCE REVIEWS

9.1 A pre-issuance review is an engagement quality control review as required by ISQC 1 and is designed to provide an objective evaluation of the significant judgements the engagement team made and the conclusions reached in formulating the report before it is issued.

9.2 A pre-issuance review is performed for all significant risk engagements, as determined by the AGSA, including those that are performed on behalf of the AGSA.

9.3 The reviews may be undertaken by AGSA staff or an external reviewer. Where external reviewers are selected they are appointed in accordance with the AGSA's procurement policies and procedures and may not be appointed by the audit firm. The reviewer may not be an individual from the audit firm that performed the work on behalf of the AGSA and may not make any decisions on behalf of the engagement team.

9.4 The audit partner resolves all findings with the pre-issuance reviewer before finalising the auditor's report. The SM is responsible for ensuring that all findings are resolved.

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9.5 The audit firm may decide at own cost to perform their own engagement quality control review before the file is subjected to a pre-issuance review.

10. TECHNICAL CONSULTATIONS

Process, documentation of, and agreement on technical consultations

10.1 The audit partner follows the audit firm's process to resolve technical matters with its own technical department and informs the SM that a matter has arisen that requires consultation.

10.2 The technical opinion/ conclusion arising from the audit firm's technical consultation is documented, discussed and agreed with the SM and PC prior to discussion with the auditee or any other party.

10.3 The audit firm may only approach the AGSA's technical division through the SM and the relevant PC.

10.4 The technical consultation process is illustrated in Appendices 2 and 3 of this Guide.

11. DIFFERENCES OF OPINION

Technical consultations

11.1 The audit partner follows the audit firm's internal process to resolve a disagreement between the audit partner and the audit firm's technical department regarding the technical consultation.

11.2 If the SM does not agree with the opinion/conclusion, it is discussed with the AGSA's technical division. If the AGSA's technical division disagrees with the opinion/conclusion, the audit partner is informed and the AGSA's technical division's opinion/conclusion prevails. If the audit partner disagrees, the AGSA's difference-of-opinion process is followed.

Pre-issuance review

11.3 Disagreements between the audit partner or SM and the pre-issuance reviewer are resolved by following the AGSA's difference-of-opinion process.

11.4 All differences of opinion are resolved prior to signing the auditor's report.

11.5 The AGSA's difference-of-opinion resolution process is illustrated in Appendix 4 of this Guide.

12. REPORTING

Timelines

12.1 In order to comply with legislated deadlines the audit is performed, as far as possible, in line with the following timelines unless agreed otherwise with the SM:

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- Risk assessment and planned response to be completed by the latest 31 March (PFMA)/ 31 August (MFMA)
- Response to assessed risks to be completed by the latest 30 June (PFMA)/ 30 October (MFMA)
- Final management and draft auditor's report to be completed by the latest 15 July (PFMA)/ 15 November (MFMA).

Management report

12.2 Audit firms prepare the management report in the format prescribed by the AGSA in its Reporting Guide. The draft management report may only be discussed with the auditee once the AGSA's delegated signatory has approved it for discussion. The AGSA's delegated signatory signs the final management report.

Auditor's report template

12.3 Audit firms prepare the auditor's report in the format illustrated in the South African Auditing Practice Statement (SAAPS) 3 (Revised November 2013): *Illustrative reports* and prescribed by the AGSA in its Reporting Guide. The draft auditor's report may only be discussed with the auditee once the AGSA's delegated signatory has approved it for discussion.

12.4 The draft report submitted to the AGSA is signed by the audit partner. The final report is signed by the AGSA's delegated signatory.

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APPENDIX 1: RELATIONSHIP STRUCTURE WHERE AUDITS ARE PERFORMED ON BEHALF OF THE AGSA

An audit is allocated to the audit firm.

↓

The audit firm enters into a standard contract (MoA) with the AGSA.

The Audit firm's responsibilities

In consultation with the AGSA, the audit firm identifies the audit partner responsible for the audit.

↓

The audit partner assigns team members and accepts responsibility for the direction, supervision and performance of the audit.

↓

The engagement team performs the audit in terms of the MoA, holds regular steering committee meetings with the auditee and invites the SM.

↓

The audit partner reviews the audit file to ensure that sufficient appropriate audit evidence has been obtained.

↓

The audit partner prepares the draft auditor's report.

↓

The audit partner resolves any pre-issuance review findings and finalises the audit file and the auditor's report.

↓

The audit partner attends the audit committee meeting.

↓

The audit partner attends the interactions with the executive authority and oversight bodies.

↓

The audit partner assists the SM with matters relating to the quality control review.

The AGSA's responsibilities

The BE assigns an SM with overall responsibility for the quality of the audit.

↓

The SM provides direction and supervision to the audit partner.

↓

The SM attends the steering committee meetings.

↓

SM reviews the audit file after the review of the audit partner at key intervals throughout the audit.

↓

The BE assigns a pre-issuance reviewer to review the file before the auditor's report is signed by the delegated report signatory. The SM ensures that all pre-issuance review findings are resolved by the audit partner.

↓

The auditor's report is signed by the delegated report signatory.

↓

The SM communicates with the audit committee and invites the audit partner to attend.

↓

The SM interacts with the executive authority and oversight bodies and invites the audit partner to attend, where required.

↓

The audit file may be reviewed by the AGSA's quality control unit.

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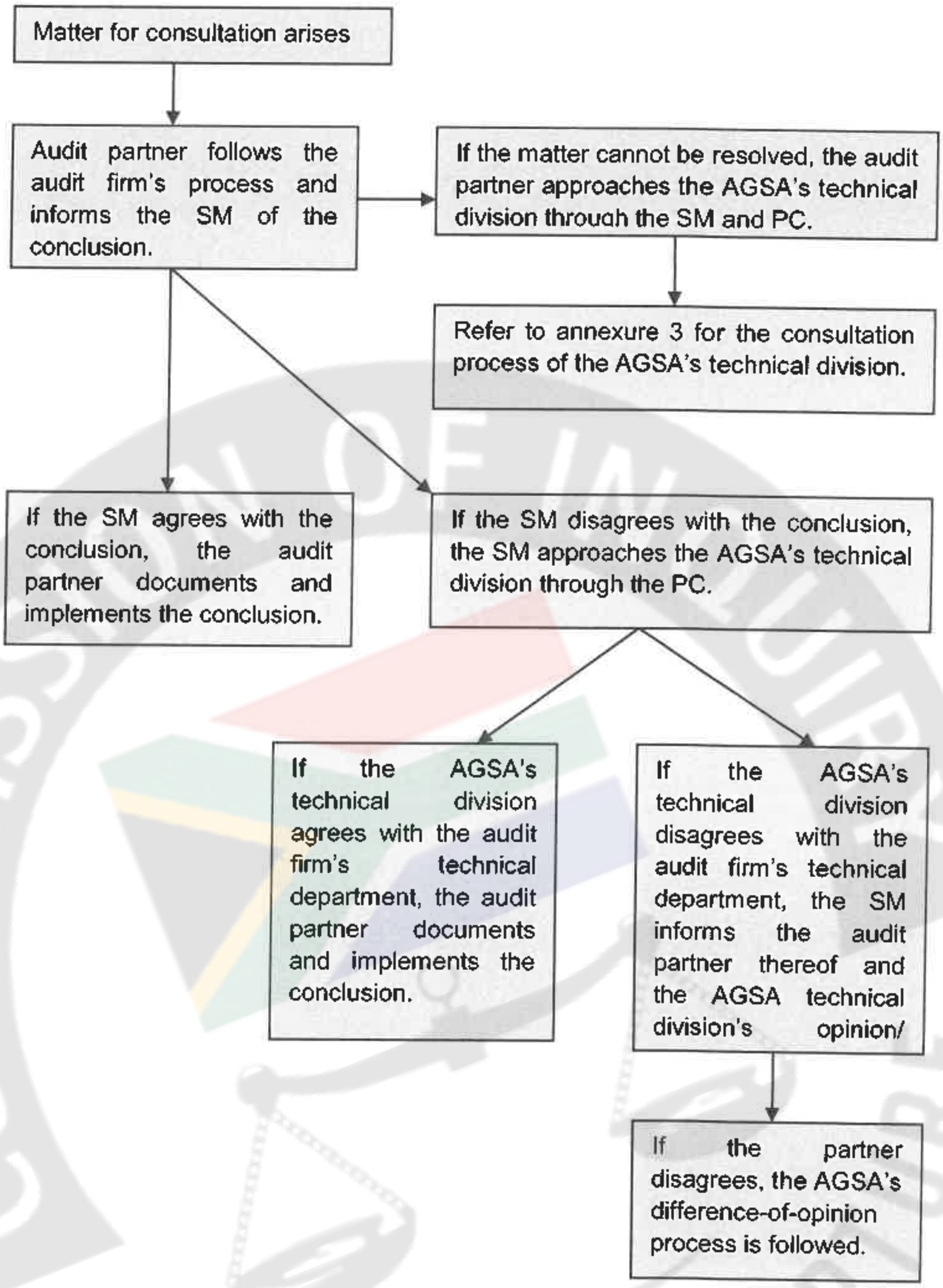
APPENDIX 2: CONSULTATION PROCESS OUTSIDE THE AGSA



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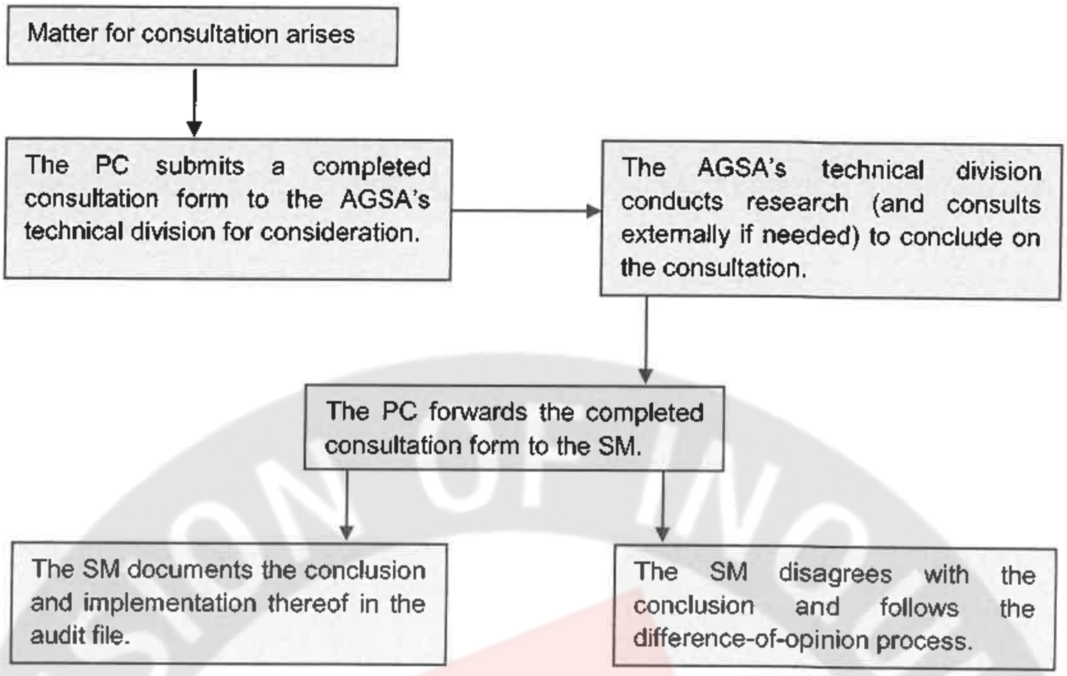
APPENDIX 3: CONSULTATION WITHIN THE AGSA



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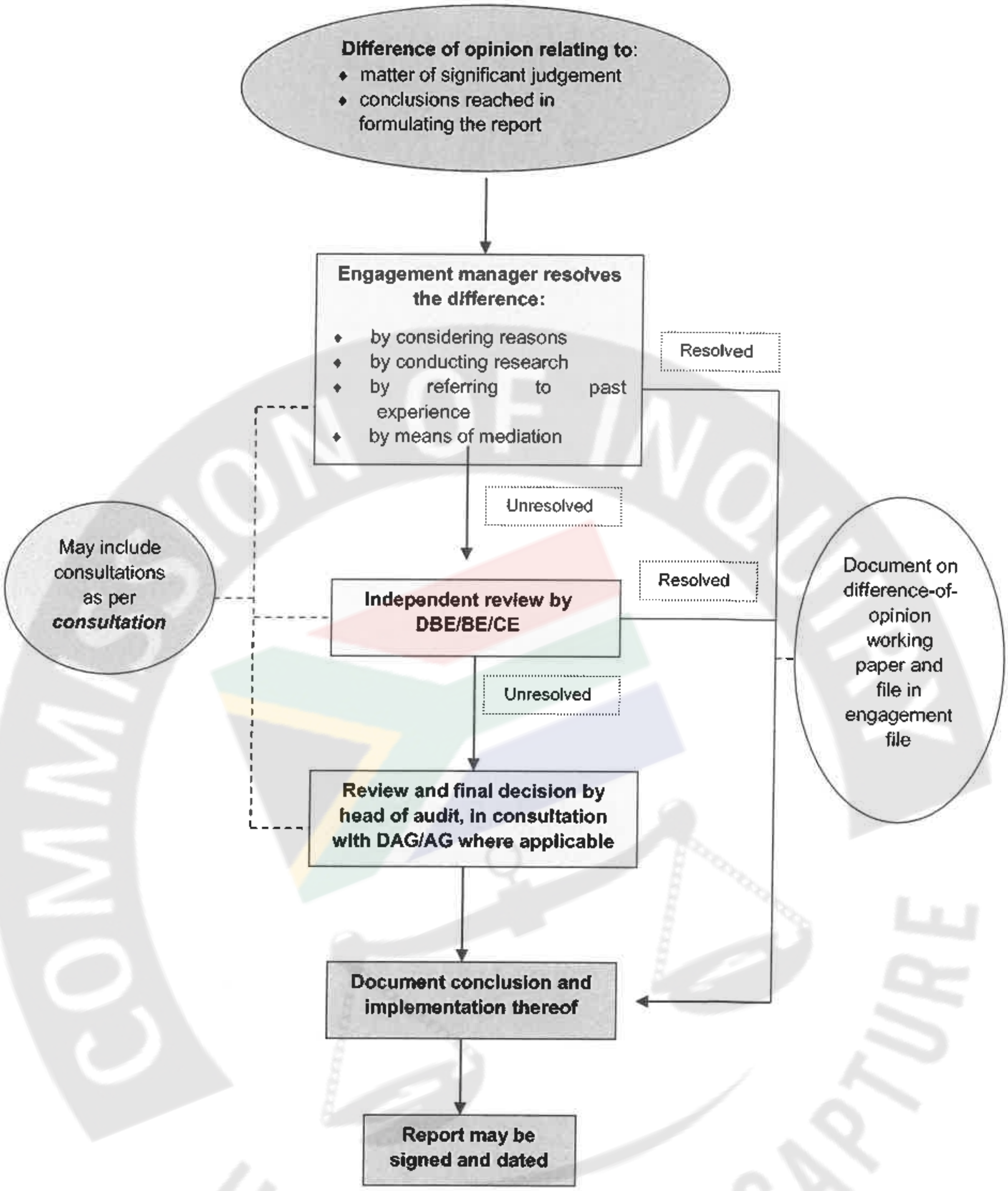
APPENDIX 4: DIAGRAM ON THE AGSA's DIFFERENCE-OF-OPINION PROCESS



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Guide

August 2015

INDEPENDENT REGULATORY BOARD FOR AUDITORS

AUDITOR-GENERAL SOUTH AFRICA

Guide for Registered Auditors

GUIDANCE ON PERFORMING AUDITS WHERE THE AGSA HAS OPTED NOT TO PERFORM THE AUDIT

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MESSAGE BY THE CHIEF EXECUTIVE OFFICER OF THE IRBA

The mandate of the IRBA is to protect the public interest through issuing high quality auditing standards and guidance to auditors. The public interest is best served when audit quality is achieved in both the private and the public sectors, which in turn enhances confidence in the financial markets, stimulates investment, transformation and employment opportunities in the South African economy.

I am pleased with the continued collaboration between the IRBA and the Auditor-General to develop guidance that supports registered auditors performing audits in the public sector, which will ultimately improve governance and financial management in the public interest.

The IRBA regards the Auditor-General as an important stakeholder in the public sector financial reporting and governance framework, as well as in the auditing profession. We are confident that the co-operation with the Auditor-General on the current and future initiatives will benefit the public, government and our country.

Bernard Peter Agulhas

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DD20-PS-0256

Independent Regulatory Board for Auditors
Committee for Auditing Standards
PO Box 8237, Greenstone, 1616
Johannesburg

Auditor–General of South Africa
PO Box 446
Pretoria 0001

This Guide for Registered Auditors: *Guidance on Performing Audits where the AGSA has Opted not to Perform the Audit* was prepared by the Public Sector Standing Committee of the Committee for Auditing Standards (CFAS) comprising representatives of large, medium and small audit practices and the Auditor-General of South Africa (AGSA). This Guide was approved by the Independent Regulatory Board for Auditors (IRBA) in June 2015 for issue by way of joint publication with the AGSA for the purpose of improving the understanding of and enhancing the quality of public sector audits by registered auditors in public practice (registered with the IRBA), who perform public sector audit engagements that the AGSA has opted not to audit.

Guidance is provided to registered auditors who are appointed to audit public entities or institutions which the AGSA has opted not to audit, including the audit of the financial statements in accordance with International Standards on Auditing (ISAs), the audit of predetermined objectives and compliance with legislation, and the additional audit procedures relating to focus areas, in accordance with the specific requirements of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

This Guide addresses the following matters:

- The roles and responsibilities of the audit firm and the appointment and discharge of audit firms;
- The auditing standards and ethical requirements to be complied with and the technical consultation process;
- Communication between the auditor, the AGSA, the auditee, the executive authority and oversight bodies; and
- Reporting.

Guide for Registered Auditors: *Guidance on Performing Audits where the AGSA has opted not to Perform the Audit* may be downloaded free of charge from the IRBA website: www.irba.co.za and the AGSA website: www.agsa.co.za.

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CONTENTS

GUIDE FOR REGISTERED AUDITORS

PERFORMING AUDITS WHERE THE AGSA HAS OPTED NOT TO PERFORM THE AUDIT

(Effective for engagements commencing on or after 1 September 2015)

Contents **Page**

This Guide for Registered Auditors: *Guidance on Performing Audits where the AGSA has Opted not to Perform the Audit* provides guidance to registered auditors who are appointed to audit public entities or institutions which the AGSA has opted not to audit, including the audit of the financial statements in accordance with International Standards on Auditing (ISAs), the audit of predetermined objectives and compliance with legislation, and the additional audit procedures relating to focus areas, in accordance with the specific requirements of the Public Audit Act, (Act No 25 of 2004).

Guides are developed and issued by the IRBA to provide guidance to auditors in meeting specific legislative requirements imposed by a Regulator. Guides do not impose requirements on auditors beyond those included in the International or South African Standard/s or South African regulatory requirements and do not change an auditor's responsibility to comply, in all material respects, with the requirements of the International or South African Standards or with South African regulatory requirements relevant to the audit, review, other assurance services or related services engagement.

An auditor is required to have an understanding of the entire text of every Guide to enable the auditor to assess whether or not any particular Guide is relevant to an engagement, and if so, to enable the auditor to apply the requirements of the particular International or South African Standard/s to which the Guide relates properly.

In terms of section 1 of the Auditing Profession Act, No 26 of 2005 (the Act), a Guide is included in the definition of "auditing pronouncements" and in terms of the Act, the auditor must, in the performance of an audit, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board.

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1. INTRODUCTION

1.1 This Guide provides guidance for registered auditors to audit public sector which the AGSA has opted not to audit, including the audit of the financial statements in accordance with International Standards on Auditing (ISAs), the audit of predetermined objectives and compliance with legislation, and the additional audit procedures relating to focus areas, in accordance with the specific requirements of the PAA. The registered auditor has overall responsibility for these audits and signs the auditor's report.

1.2 Auditors are also referred to the *Guidance for auditing in the public sector Volume 1: Auditing in the public sector and Audit of predetermined objectives*[1] in this regard.

1.3 Engagements where audits are performed on behalf of the AGSA are dealt with in the *Guide for Registered Auditors: Guidance on Performing audits on behalf of the AGSA.*

1.4 The AGSA, the audit firm and the auditee have different roles and responsibilities where the AGSA has opted not to perform an audit in terms of section 4(3) of the PAA. Appendix 1 provides a diagrammatic explanation of this relationship.

2. DEFINITIONS

Audit firm:	A firm of registered auditors engaged in public practice as Registered Auditors, appointed by an auditee which the AGSA opted not to audit. "Audit firm" has the same meaning as "firm" as defined in the IRBA *Code of Professional Conduct for Registered Auditors.*
Audit partner:	The partner in the audit firm who is responsible for the engagement and its performance and who signs the auditor's report.
Registered auditor:	An individual or firm registered as an auditor with the IRBA.
Senior manager (SM):	The contact person in each AGSA audit business unit responsible for the audit of the controlling department to which the section 4(3) auditee reports.
Product champion (PC):	The person in each audit business unit within the AGSA who is responsible for dealing with technical matters within the business unit.
Controlling department:	The department which the trading entity or public entity reports to or is controlled by.
Executive Authority	The Executive Authority as defined by the PFMA.

[1] The guide can be downloaded from the IRBA website www.irba.co.za.

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3. ROLE AND RESPONSIBILITIES OF THE AUDIT FIRM

3.1 The appointed audit firm performs its functions as auditor in terms of the Auditing Profession Act, Act No. 26 of 2005 (APA) and the PAA. The audit firm has the same general auditing powers as assigned to the AGSA in terms of section 15 of the PAA.

3.2 A directive is issued by the Auditor-General (hereafter referred to as the AG Directive)[2] in terms of sections 2(b) and 13(3)(b) of the PAA and prescribes and explains certain matters related to public sector audits. The AG Directive is updated from time to time.

4. APPOINTMENT AND DISCHARGE OF AUDITORS

Appointment of auditors

4.1 In terms of section 25(1) of the PAA, the AGSA notifies the auditee before the start of the auditee's financial year of its decision not to perform the audit. In practice the AGSA will notify the auditee six months prior to the start of the auditee's financial year if it has changed its decision.

4.2 If the AGSA has opted not to perform the audit, the auditee appoints an audit firm registered with the IRBA to perform the audit.

4.3 Before appointing an auditor, the auditee notifies the AGSA of the suggested appointment, including information on the anticipated extent that other services will be provided during the period of the appointment, as well as previous involvement with the auditee. The legislative requirements relating to the auditee are also taken into consideration by the AGSA before consent is provided. The AGSA may consult with the responsible executive authority on the appointment of the audit firm.

4.4 The AGSA consents to the auditee's appointment of the registered auditor within 14 calendar days of receiving the notice, or a longer period as agreed. If no response is received, it can be assumed that the AGSA is in agreement with the appointment.

4.5 If the suggested appointment is not accepted by the AGSA, the auditee has to repeat the process in 4.3.

4.6 In terms of the PAA, appointments may not be made for periods exceeding one financial year of the auditee.

4.7 The auditee may not appoint alternative auditors if the AGSA has opted to perform the audit or if auditee-specific legislation prescribes that the audit be conducted by the AGSA.

4.8 Refer to appendix 2 for a schematic illustration of the appointment process.

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2 The AG Directive can be downloaded from the AGSA website www.agsa.co.za.

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Discharge of auditors

4.9 In terms of section 26(1) of the PAA, an auditee may discharge an auditor before the term of appointment expires with the consent of the AGSA and the relevant executive authority, where applicable.

4.10 Before discharging the auditor, the auditee provides the auditor with:

- A written notice setting out the reasons for the discharge; and
- An opportunity to make written representations to the AGSA within 20 days of receipt of the notice.

4.11 The auditee at the same time notifies the AGSA of its intention to discharge the appointed auditor by completing the checklist included in the AG Directive and submitting it to the SM.

4.12 The AGSA considers the notice and communicates its consent or otherwise to the auditee after written representations from the auditor have been considered, if applicable. The AGSA may consult with the relevant executive authority on this matter.

4.13 The AGSA reports any discharge of an audit firm to the relevant legislature.

4.14 Refer to appendix 3 for a schematic illustration of the discharge of auditors' process.

5. REQUEST FOR ADDITIONAL INFORMATION

5.1 In terms of section 27(5) of the PAA, the AGSA may request the audit firm to submit any information regarding the audit. Such information will be communicated by the SM responsible for the controlling department. It is recommended that audit firms include this matter in their engagement letter with the auditee.

5.2 In addition, in terms of the requirements of section 28(3)(c) of the PAA and in order to facilitate reporting on the full ministerial portfolio, and reporting and analysis by the AGSA, the audit firm furnishes the SM, either in hard copy or electronically, with the following as soon as the annual report has been finalised but not later than five months after the financial year-end or as otherwise agreed with the SM:

- A copy of the auditor's report, together with a copy of the audited financial statements;
- Three copies of the annual report; and
- The completed monitoring checklist in terms of the AG Directive.

6. AUDITING STANDARDS

6.1 Registered auditors perform audits in accordance with the *International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants and relevant auditing pronouncements

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developed and issued by the IRBA, and must comply with the *IRBA Code of Professional Conduct for Registered Auditors*.

6.2 In addition, audit firms take into consideration the principles contained in the following which have been incorporated into the AGSA guidance:

- International Standards of Supreme Audit Institutions (ISSAIs); and
- INTOSAI Guidance for Good Governance.

6.3 It is recommended that audit firms include this matter in their engagement letter with the auditee.

Provision of the AGSA's technical Information

6.4 In terms of section 27(3) of the PAA, an auditor may consult the AGSA regarding matters relating to the audit. Consultation first takes place within the audit firm, where a decision is then made to consult with the AGSA. This is done in the following manner:

- A written consultation form is prepared using the AGSA's format.
- The consultation form is submitted to the SM of the controlling department who, in turn, submits it to the AGSA's technical division via the PC.
- The consultation is accompanied by the technical opinion of the audit firm.
- The audit firm may not provide the AGSA's consultation response to the auditee.

It is recommended that audit firms include this matter in their engagement letter with the auditee.

6.5 The responsible SM provides the audit firm with technical guidance published by the AGSA to enable the audit firm to perform the audit of predetermined objectives, the audit of compliance with legislation, and procedures regarding the AGSA focus areas as well as to report in terms of section 28 of the PAA.

Auditing of performance against predetermined objectives

6.6 In terms of section 28(1)(c) of the PAA, the auditor's report reflects an opinion or conclusion on the entity's performance against predetermined objectives. The manner in which this is achieved is described in the AG Directive. The audit of performance against predetermined objectives is performed in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The criteria used for the audit of the performance report is developed from the applicable *Performance management and reporting framework*. AGSA guidance on the audit of predetermined objectives is available to audit firms.

Auditing of compliance with applicable legislation

6.7 In terms of section 28(1)(b) of the PAA, the auditor's report reflects an opinion or conclusion on the entity's compliance with any applicable legislation relating to

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financial matters, financial management and other related matters. The manner in which this is achieved is described in the AG Directive. The audit of compliance with legislation should be performed in accordance with the principles in the applicable International Standards of Supreme Audit Institutions (ISSAIs) and ISAE 3000 (Revised). AGSA guidance on the audit of compliance with legislation is available to audit firms.

Internal control

6.8 The AGSA identifies and communicates the root cause of internal control deficiencies that resulted in the material audit findings from the audit of the financial statements, predetermined objectives and compliance with legislation. The AGSA guidance in this regard is available to audit firms.

Focus areas

6.9 The AGSA from time to time identifies specific focus areas based on its annual risk assessment. In order for the AGSA to report on these matters for the relevant portfolio as a whole, the audit firm is advised of the specific focus areas. The audit firm informs the auditee of the additional audit procedures to be performed, which are an extension of those that form part of the audit process.

6.10 It is recommended that audit firms include this matter in their engagement letter with the auditee.

7. COMMUNICATION

Audit committee meetings

7.1 When the audit firm attends audit committee meetings the responsible SM is invited to accompany the audit firm to such meetings.

Interactions and meetings with the executive authority and oversight bodies

7.2 The AGSA interacts proactively with the executive authority and oversight bodies such as the parliamentary portfolio and accounts committees. The aim of these engagements is to promote and encourage clean audit outcomes and to enhance public governance.

7.3 The SM facilitates meetings with the executive authority as well as portfolio committees meetings to which the audit firm is invited. The audit firm provides the SM with relevant information for such meetings.

7.4 It is recommended that audit firms include this matter in their engagement letter with the auditee.

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8. REPORTING

8.1 Audit firms prepare the auditor's report in the format for public sector reports as contained in South African Auditing Practice Statement (SAAPS) 3 (Revised November 2013): *Illustrative reports*, R3: Reporting guide and any other guidance that may be published by the AGSA from time to time. The prescribed format and content of the audit report may not be deviated from.

8.2 In order to facilitate the provision of a portfolio overview to the executive authority, it is recommended that the audit firm use the AGSA's management report template for communication with the auditee on completion of the audit.

9. OTHER REQUIREMENTS

Complaints against audit firms

9.1 Should a registered auditor appointed in terms of section 25(1)(b) of the PAA be found to be in contravention of the requirements of the AG Directive or any provision of the PAA, the APA or any other act with which it is his/her duty to comply in his/her capacity as a registered auditor, the AGSA may lodge a complaint of improper conduct against such auditor with the IRBA after discussion with the audit firm involved.

9.2 In addition, a complaint of improper conduct may be lodged with the IRBA against a registered auditor appointed in terms of section 25(1)(b) of the PAA if it comes to the attention of the AGSA that the auditor had conducted him/herself in a manner that is improper, discreditable, unprofessional, dishonourable or unworthy or which brings the auditing profession into disrepute.

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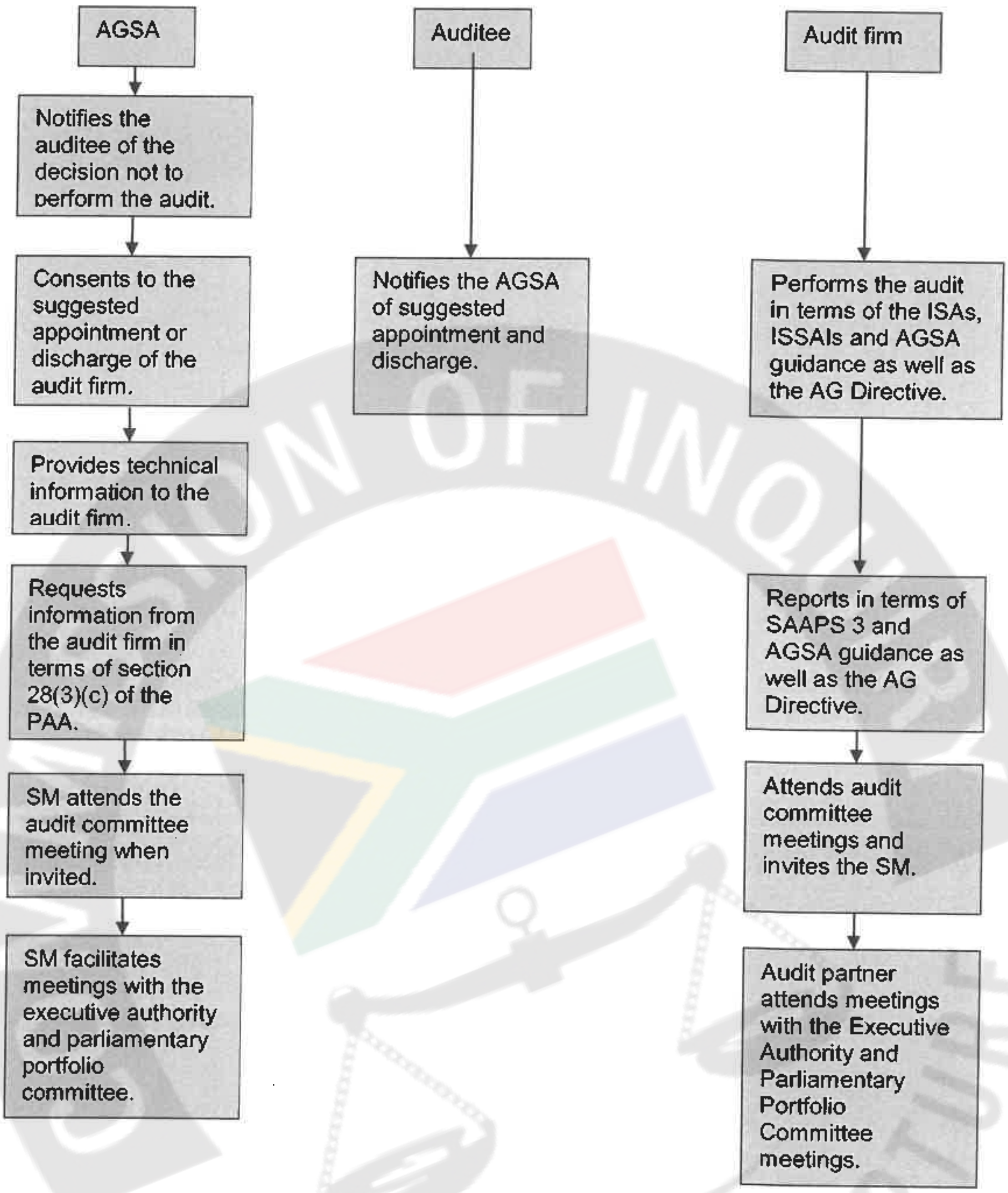
APPENDIX 1: SCHEMATIC ILLUSTRATION OF THE AUDITEE, AUDIT FIRM AND AGSA RELATIONSHIP



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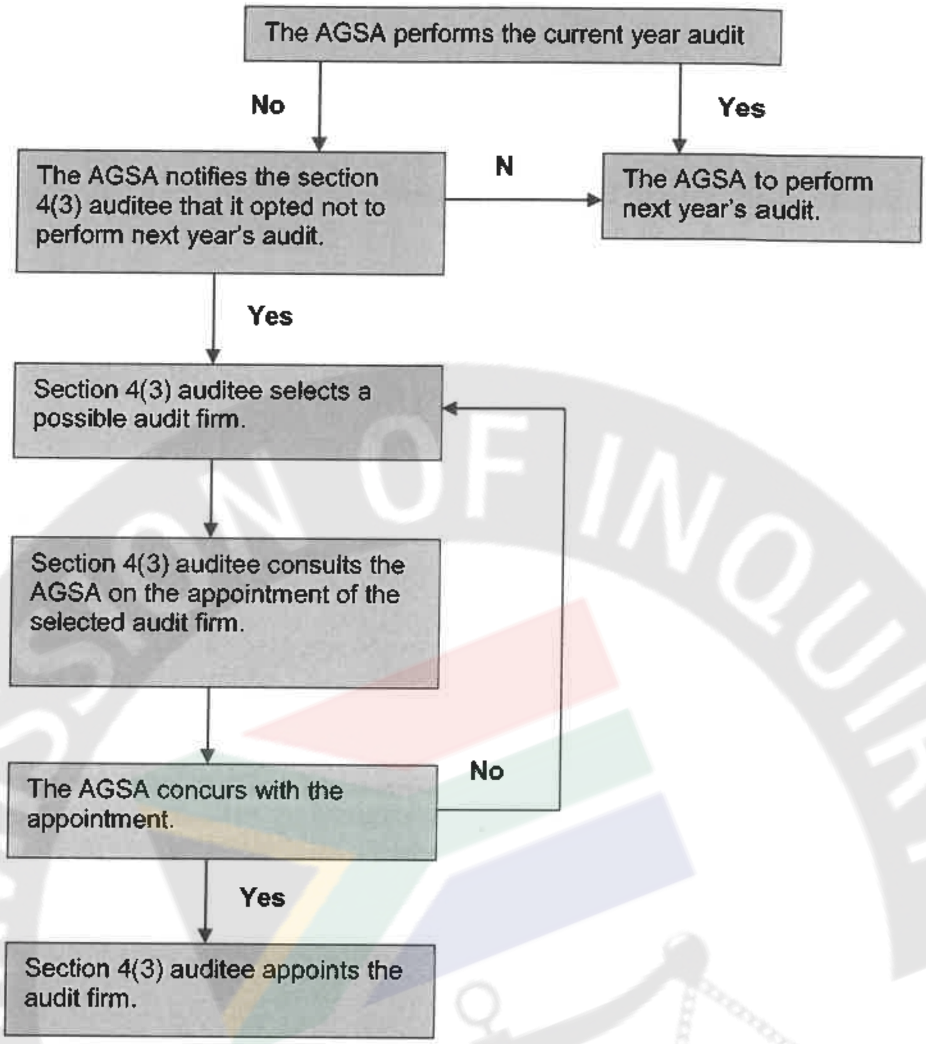
APPENDIX 2: SCHEMATIC ILLUSTRATION OF THE AUDITOR APPOINTMENT PROCESS



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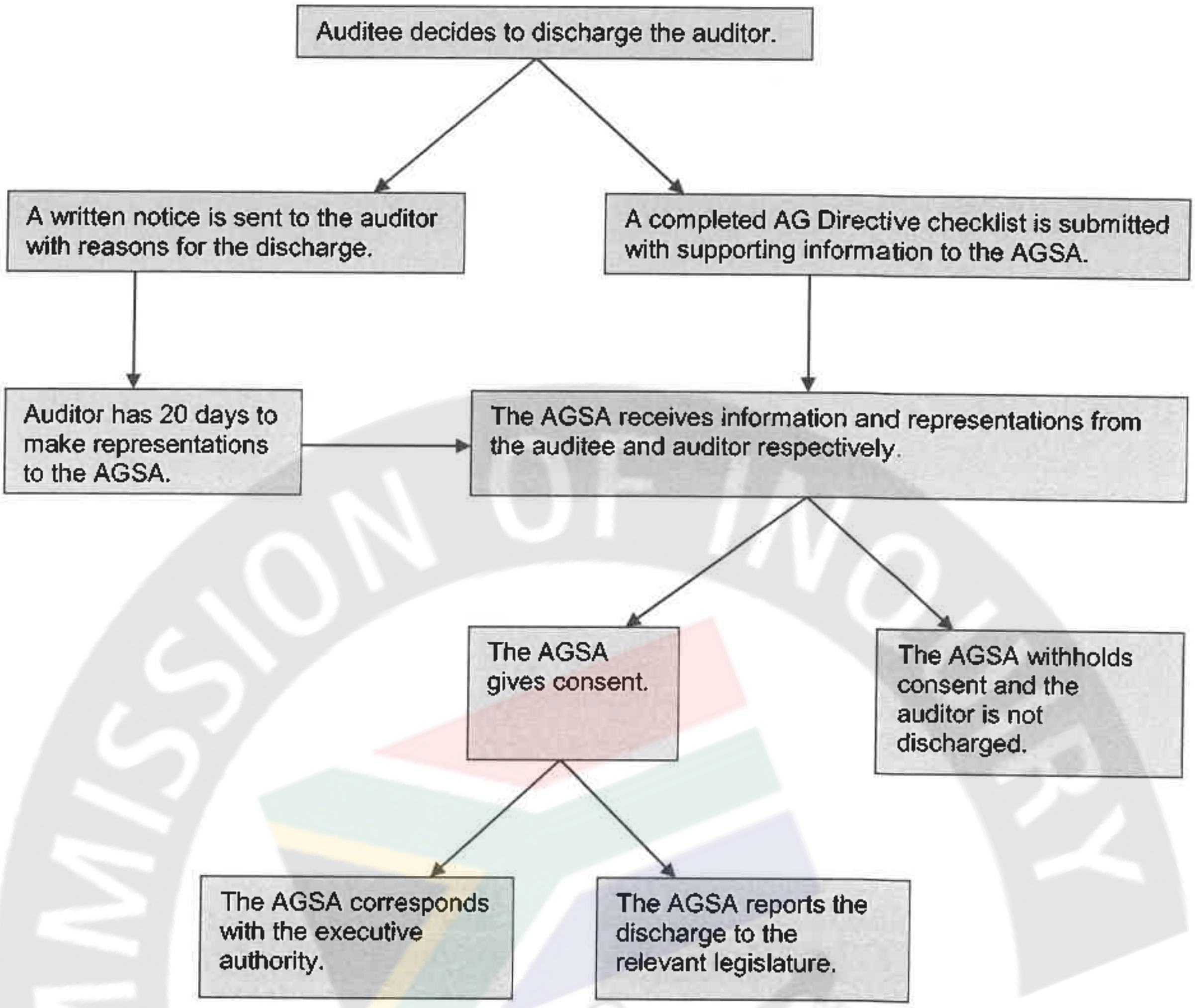
APPENDIX 3: SCHEMATIC ILLUSTRATION OF THE DISCHARGE OF AN AUDITOR



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SAAPS 2 (Revised 2018)

INDEPENDENT REGULATORY BOARD FOR AUDITORS

South African Auditing Practice Statement (SAAPS) 2

(Revised 2018)

Financial Reporting Frameworks and the Auditor's Report

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Independent Regulatory Board for Auditors
PO Box 8237, Greenstone, 1616
Johannesburg

This SAAPS 2 (Revised 2018) has been prepared by a CFAS Task Group, which comprised technical staff representatives from auditing firms, the public sector, a consulting firm, SAICA and the IRBA.

The IRBA's Legislative Mandate

The objects of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (the Act), are set out in Section 2 and include, inter alia:

(c) *"to approve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in the Republic; and*

(d) *to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession".*

To give effect to the objects of the Act, Section 4 sets out the general functions of the Regulatory Board and these include that "*the Regulatory Board must, in addition to its other functions provided for in this Act*", take steps to meet certain specific requirements. These include Section 4(1), which specifies that the IRBA must:

(e) *"prescribe standards of professional competence, ethics and conduct of registered auditors;" and*

(f) *"prescribe auditing standards".*

To enable the IRBA to meet these requirements, Section 4(2)(a) states that "the IRBA may *participate in the activities of international bodies whose main purpose it is to develop and set auditing standards and to promote the auditing profession*".

Statutory Responsibility of the CFAS

The statutory responsibility of the CFAS is set out in Section 22(2), which requires that it "must assist the IRBA to:

(a) *develop, maintain, adopt, issue or prescribe auditing pronouncements;*

(b) *consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and*

(c) *promote and ensure the relevance of auditing pronouncements.*

The SAAPS 2 (Revised 2018) may be downloaded free-of-charge from the IRBA website at www.irba.co.za.

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SOUTH AFRICAN AUDITING PRACTICE STATEMENT 2
(REVISED 2018)
FINANCIAL REPORTING FRAMEWORKS AND THE AUDITOR'S REPORT

(Effective for audits of financial statements for periods ending on or after 1 April 2018)

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This South African Auditing Practice Statement (SAAPS) 2 (Revised 2018), *Financial Reporting Frameworks and the Auditor's Report*, provides guidance to registered auditors on the application of International Standards on Auditing (ISA) in determining the acceptability of the financial reporting framework applied in the preparation of a set of financial statements.

South African Practice Statements are developed and issued by the IRBA to provide practical assistance to auditors in the implementation of relevant International or South African *Standards on Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*. South African Practice Statements do not impose requirements on auditors beyond those included in the International or South African Standards or South African regulatory requirements. Also, they do not change the auditor's responsibility to comply, in all material respects, with the requirements of the International or South African Standards or with South African regulatory requirements relevant to the audit, review, other assurance or related services engagement.

An auditor is required to have an understanding of the entire text of every South African Practice Statement to enable the auditor to assess whether any particular South African Practice Statement is relevant to an engagement, and if so, to enable the auditor to apply properly the requirements of the particular International or South African Standard/s to which the South African Practice Statement relates.

In terms of Section 1 of the Auditing Profession Act, No. 26 of 2005 (the Act), a South African Practice Statement is included in the definition of "auditing pronouncements". In terms of the Act, the auditor must, in the performance of an audit, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board.

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Introduction

Scope

1. This SAAPS provides guidance to registered auditors on the application of International Standards on Auditing (ISAs) in determining the acceptability of the financial reporting framework applied in the preparation of a set of financial statements, thereby establishing:
   - Whether this precondition for an audit[1] is present; and
   - The effect of the financial reporting framework applied by management on the auditor's report in South Africa.[2]

2. The guidance contained in this SAAPS does not establish new requirements or contain exemptions from the requirements of the ISAs and should be read with the ISAs, as applicable. The auditor exercises professional judgment to determine the extent to which any of the guidance provided in this SAAPS may be appropriate in light of the requirements of the ISAs and the particular circumstances of the engagement.

3. The ISAs that have particular reference to financial reporting frameworks and the auditor's report dealt with in this SAAPS are, inter alia:
   - ISA 200, *Overall Objective of the Independent Auditor and the Conduct of an Audit in accordance with International Standards on Auditing;*
   - ISA 210, *Agreeing the Terms of Audit Engagements;*
   - ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements;*[3]
   - ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report;*[4]
   - ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report;*[5]
   - ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report;*[6] *and*
   - ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.*[7]

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1 ISA 210, paragraph 6(a).
2 ISAs 700 (Revised), 705 (Revised), 706 (Revised) and 800 (Revised).
3 This is effective for audits of financial statements for periods ending on or after 15 December 2016.
4 This is effective for audits of financial statements for periods ending on or after 15 December 2016.
5 This is effective for audits of financial statements for periods ending on or after 15 December 2016.
6 This is effective for audits of financial statements for periods ending on or after 15 December 2016.

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4. This SAAPS does not incorporate the requirements of:
   - ISA 805 (Revised), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*[8] (ISA 805 (Revised)). The principles dealt with in this SAAPS may, however, be applied to ISA 805 (Revised) in determining the acceptability of the financial reporting framework and the effect that the financial reporting framework has on the auditor's report.
   - ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*[9] (ISA 810 (Revised)), as the "applied criteria" referred to in ISA 810 (Revised) is not the "applicable financial reporting framework" as contemplated in the preparation of a set of financial statements.

5. This SAAPS does not extend to:
   - An engagement to review financial statements in accordance with *International Standards on Review Engagements* (ISREs). It may, nevertheless, be considered by a reviewer in determining the acceptability of the financial reporting framework applicable to a review engagement; and
   - An assurance engagement in accordance with *International Standards on Assurance Engagements other than Audits or Reviews of Historical Financial Information* (ISAEs). It may, nevertheless, be considered by the assurance provider in determining the suitability of the criteria applicable to the provision of assurance in an engagement of this nature.

Terms Used in this SAAPS

6. For purposes of this SAAPS, the following terms defined in the ISAs and reflected in the *Glossary of Terms* (December 2016) have the same meanings attributed to them:[10]
   - "Applicable financial reporting framework";
   - "General purpose financial statements" and "special purpose financial statements";
   - "General purpose framework" and "special purpose framework";
   - "Fair presentation framework" and "compliance framework"; and
   - "Criteria".

7. For purposes of this SAAPS, the "applicable financial reporting framework" referred to in the ISAs has the same meaning as the "identified financial reporting

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7 This is effective for audits of financial statements for periods ending on or after 15 December 2016.

8 This is effective for audits for periods ending on or after 15 December 2016.

9 This is effective for engagements to report on summary financial statements for periods ending on or after 15 December 2016.

10 These definitions are provided in Appendix 1 of this SAAPS.

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framework" referred to in the definition of "audit" in the Auditing Profession Act, No. 26 of 2005.[11]

8. The term "basis of accounting" is used in the context of the basis of preparation of a set of financial statements adopted by the management of an entity, for example, the going concern basis of accounting as per the International Financial Reporting Standards (IFRS) and certain special purpose frameworks (such as the examples referred to in paragraph 24 below).

9. The term "management" used in this SAAPS refers to the person(s) or body with executive responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework or basis of accounting, for example, the directors of a company, the trustees of a trust, an accounting officer or accounting authority in the public sector.

The Purpose of an Audit of Financial Statements

10. The purpose of an audit is to enhance the intended users' degree of confidence in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.[12] Accordingly, an audit meets the description of an assurance engagement as contained in the *International Framework for Assurance Engagements* (the *Framework*).[13]

Determining the Acceptability of the Financial Reporting Framework

11. The *Framework* defines and describes the elements of an assurance engagement and, in particular, provides guidance in determining the intended users of an assurance report and the characteristics of suitable criteria against which the financial reporting framework should be assessed.

Intended users

12. The intended users[14] of the auditor's report on the financial statements are the person, persons or class of persons for whom the auditor prepares the auditor's report. Examples of intended users are:
    - A wide range of users for whom general purpose financial statements are prepared. These include:
        - Those identified by statute, and these include:

[11] The Auditing Profession Act (2005), Section 1.
[12] ISA 200, paragraph 3.
[13] The *Framework*, paragraph 10.
[14] ISA 210, paragraphs A2-A10 provide further guidance; ISA 800 (Revised), paragraphs 8(b) and A5.

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    - The shareholders or members, in the case of the Companies Act, No. 71 of 2008 (the Companies Act), to whom the auditor's report is addressed;
    - Regulatory authorities and the South African Revenue Service (SARS); and
    - Those in the public sector, such as parliament, provincial legislatures, municipal councils, national/provincial treasuries.
  - Those who might find the financial statements useful, such as existing or potential investors; institutional and individual lenders; financial institutions; creditors; and the general public.
- Specific users for whom special purpose financial statements are prepared. These include:
  - Those identified by agreement between the auditor, the responsible party (usually, but not necessarily, the client) and those engaging the auditor (the client), such as donors;
  - Those identified by a founding document, such as the trustees of a trust; and
  - Those specific to the circumstances of the entity, such as the members of a club or religious institution and special interest groups.

Characteristics of suitable criteria

13. The auditor considers whether, in the context of the engagement circumstances, a financial reporting framework exhibits the following characteristics of suitable criteria:[15]
    - Relevance: In that the information provided in the financial statements is relevant to the nature of the entity and the purpose of the financial statements.
    - Completeness: In that transactions and events, account balances and disclosures that could affect conclusions based on the financial statements are not omitted.
    - Reliability: In that the information provided in the financial statements:
      - Where applicable, reflects the economic substance of events and transactions and not merely their legal form; and
      - Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances.
    - Neutrality: In that it contributes to information in the financial statements that is free from bias.

15 ISA 210, Appendix 2, paragraph 3 and ISA 800 (Revised), paragraph A8.

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- Understandability: In that the information in the financial statements is clear and comprehensive and not subject to significantly different interpretations.

14. The evaluation or measurement of a subject matter on the basis of the auditor's own expectations, judgments and individual experience would not constitute suitable criteria.

15. The relative importance of each of these characteristics to a particular engagement is a matter of judgment, and depends on the engagement circumstances. For example, even though a financial reporting framework designed for a special purpose may not result in the preparation of historical financial information that is neutral, that framework may still be acceptable in the engagement circumstances.

Preconditions for an audit

16. To establish whether in the context of engagement acceptance the preconditions for an audit are present, the auditor, inter alia, determines the acceptability of the financial reporting framework[16] to be applied by management in the preparation of financial statements. The auditor further obtains an understanding of the entity's selection and application of accounting policies as part of obtaining an understanding of the entity and its environment.[17]

17. Factors that are relevant to the auditor's determination of the acceptability of the financial reporting framework to be applied in the preparation of financial statements include:[18]
    - The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not-for-profit organisation);
    - The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users);
    - The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and
    - Whether law or regulation prescribes the applicable financial reporting framework.

    In addition, key factors to be considered for special purpose financial statements include the following:[19]
    - The intended users; and
    - The steps taken by management to determine that the applicable financial

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16 ISA 210, paragraph 6(a), A2-A10 and Appendix 2.
17 ISA 315 (Revised), paragraph 11(c).
18 ISA 210, paragraph A4.
19 ISA 800 (Revised), paragraph 8 and paragraph A5.

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reporting framework is acceptable in the circumstances.

General purpose and special purpose frameworks

18. To decide on the acceptability of the financial reporting framework, the auditor determines whether the financial statements are prepared to meet the common financial information needs of a wide range of users (general purpose financial statements) or the financial information needs of specific users (special purpose financial statements).

    General purpose financial statements are prepared in accordance with a general purpose framework; and special purpose financial statements are prepared in accordance with a special purpose framework.

19. Presently, there is no objective and authoritative basis that has been generally recognised globally for determining the acceptability of general purpose financial reporting frameworks. In the absence of such a basis, financial reporting standards established by organisations that are authorised or recognised to promulgate such standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities. This, however, is provided the organisations follow an established and transparent process involving the deliberation and consideration of the views of a wide range of stakeholders.[20] The auditor relies on the processes followed by these organisations to develop general purpose financial reporting frameworks that are acceptable for general purpose financial statements.

20. The International Accounting Standards Board (IASB) is authorised[21] and recognised to promulgate standards that are applied in South Africa. In the case of entities in the public sector in South Africa, the organisations authorised or recognised to promulgate standards are the Accounting Standards Board (ASB) and the National Treasury.[22]

21. Law and regulation may prescribe the financial reporting framework to be used in the preparation of general purpose financial statements for certain types of entities. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for general purpose financial statements prepared by such entities.[23]

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20 ISA 210, paragraph A8, and ISA 200, paragraph A7.

21 Companies Act, section 29(5)(b).

22 Section 216(1) and (2) of the Constitution of the Republic of South Africa, Section 40(1)(b) and Section 76 of the PFMA.

23 ISA 210, paragraph A9, and ISA 800 (Revised), paragraph A6.

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22. The following laws and regulations, for example, contain prescribed applicable financial reporting frameworks:
    - The Companies Act and Regulations;[24]
    - The Public Finance Management Act, No. 1 of 1999 (PFMA) and Regulations;
    - The Municipal Finance Management Act, No. 56 of 2003 (MFMA);
    - Directives as issued by the ASB;[25] and
    - The JSE Listings Requirements.[26]

    The Companies Act empowers the minister responsible for companies, the Minister of Trade and Industry, after consulting with the Financial Reporting Standards Council (FRSC), to make regulations establishing financial reporting standards for companies and close corporations subject to certain requirements.[27] [28] The Companies Act also empowers the FRSC to develop guidance, subject to the approval of the Minister of Trade and Industry, that applies the IASB's International Financial Reporting Standards (IFRS) to South African specific circumstances.[29]

    The PFMA empowers the ASB to set standards of generally recognised accounting practice;[30] it also empowers the Minister of Finance, after consulting the Auditor-General, to prescribe the implementation of these standards. The PFMA also empowers National Treasury to prescribe the accounting standards for public sector entities in the absence of implementation dates for the standards of generally recognised accounting practice. The Public Audit Act, No. 25 of 2004 (PAA), empowers the Auditor-General to prescribe the format and content of the financial statements of a public sector entity, in the absence of any requirement regarding the financial reporting framework in the legislation applicable to that entity.

    The MFMA refers to the PFMA regarding the process to prescribe the financial reporting framework to be used by municipalities in the preparation of their financial statements.[31]

    However, a body authorised by statute to prescribe financial reporting frameworks to be applied in the preparation of financial statements by certain entities does not automatically constitute a recognised standards setting organisation.

24 Refer to Appendix 3 in this SAAPS for further guidance.
25 Section 89(1)(b) of the PFMA requires the ASB to prepare and publish directives and guidelines concerning standards of GRAP as set out in section 89(1)(a) of the PFMA.
26 The JSE is a holder of an exchange licence and issues JSE Listings Requirements in terms of Section 10(2) of the Financial Markets Act, No. 19 of 2012.
27 Companies Act, sections 204(c) and 29(5).
28 Companies Act, Regulation 27 (refer to Appendix 3 of this SAAPS for a summary thereof).
29 Companies Act, section 204(a).
30 PFMA, Section 89(1)(a).
31 Section 122(3) of the MFMA refers to Section 91(1)(b) of the PFMA.

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23. The following are examples of general purpose frameworks:
    - IFRS;
    - International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs);
    - Standards of Generally Recognised Accounting Practice (GRAP); and
    - The Modified Cash Standard.[32] [33] [34]

24. The following are examples of special purpose frameworks:
    - Where management does not have a choice in the application of the framework:
        - The Regulatory Reporting Requirements for Retirement Funds in South Africa, approved by the Financial Services Board, is an example of a special purpose framework established by a regulator to meet the requirements of that regulator.
    - Where management has a choice in the application of the framework:
        - A basis of accounting, applied by an entity, which comprises a set of criteria used in preparing financial statements and that applies to all material items and has been designed specifically for the intended users of the financial statements of the entity.

Fair presentation and compliance frameworks

25. A financial reporting framework, whether a general purpose framework or a special purpose framework, may be classified as either a fair presentation framework or a compliance framework.

26. In considering whether a framework may be classified as a fair presentation framework, the auditor considers whether it contains the acknowledgments in the definition of a fair presentation framework. It should be noted that the departures referred to in the acknowledgments are only to achieve fair presentation, and for no other reason.

27. The following financial reporting frameworks applied in South Africa are recognised as fair presentation frameworks:
    - IFRS;
    - IFRS for SMEs;
    - GRAP; and

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32 National Treasury issued the Modified Cash Standard in 2015 (Instruction No. 6 of 2014/2015) for national and provincial departments and other entities that are required to apply it as determined by National Treasury.

33 Modified Cash Standard, paragraphs 11 to 16 describes the due process followed by the National Treasury's Office of the Accountant-General.

34 Modified Cash Standard, paragraphs 12 to 14 under the heading "Users of the Departmental Financial Statements" describes the wide range of users of the departmental financial statements.

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- The Modified Cash Standard.[35]

28. When management departs from the prescribed financial reporting framework, whether this departure is granted by the body or entity that prescribed the framework or not, the auditor determines whether that framework is still a fair presentation framework and is still acceptable.[36]

29. A compliance framework refers to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgments included in the definition of a fair presentation framework. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation.

30. Where management has selected a compliance framework or basis of accounting where it has a choice, the auditor determines the acceptability of the basis of accounting[37] after considering the factors referred to in paragraph 17 above.

31. In determining the acceptability of a compliance framework for general purpose financial statements, the auditor should consider whether such financial statements may be suitable for general purposes, as the users may not understand the basis of accounting.

32. The financial reporting framework applied by an entity such as a school, club, religious institution, farming operation, trust, partnership and body corporate in the preparation of its financial statements may be a requirement of law or regulation, an agreement or a stipulation in that entity's founding document, for example, a trust deed. The specified basis of accounting may be a fair presentation framework or a compliance framework.

33. Management or those charged with governance may decide to include new or enhanced disclosures in the financial statements or elsewhere in the annual report relating to a key audit matter, in light of the fact that the matter will be communicated in the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust information about the sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under the applicable financial reporting framework.[38] A decision by an entity to provide such additional disclosures has no bearing on the description and application of the chosen financial reporting framework. However the auditor considers whether the financial statements, with the additional disclosures, still achieve fair

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35 Modified Cash Standard, paragraphs 18 to 20.
36 ISA 800 (Revised), paragraph A3.
37 ISA 800 (Revised), paragraph 8.
38 ISA 701, paragraph A37.

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presentation in the case of a fair presentation framework or do not result in the financial statements being misleading in the case of a compliance framework.

The Effect of the Financial Reporting Framework, or Basis of Accounting, on the Auditor's Report

34. The auditor's report on general purpose financial statements, whether prepared in accordance with a fair presentation framework or a compliance framework, follows the guidance in ISA 700 (Revised). When the financial statements are special purpose financial statements, whether prepared in accordance with a fair presentation framework or a compliance framework, the auditor's report additionally follows the guidance in ISA 800 (Revised). A compliance framework will rarely be adopted in the preparation of general purpose financial statements and a fair presentation framework will rarely be adopted in the preparation of special purpose financial statements.

35. The requirements of the applicable financial reporting framework and any legislative requirements determine the form and content of a set of financial statements and affect the wording in the auditor's report on the financial statements. Law or regulation may impose additional reporting responsibilities on the auditor that have no effect on the financial reporting framework applied in the preparation of the financial statements. These are dealt with in the *Report on Other Legal and Regulatory Requirements* section of the auditor's report.

36. The auditor's report on a company's financial statements refers to the applicable fair presentation financial reporting framework followed by "... and the requirements of the Companies Act of South Africa". When the financial reporting framework is supplemented by legal or regulatory requirements, reference must be made to the legislation concerned.[39] In this case the additional financial reporting requirements of the Companies Act.

37. In the case of a public sector entity, which is also a company, the auditor's report also refers to the PFMA, MFMA or any specific enabling legislation that prescribes the financial reporting framework and any other or extra financial reporting requirements, additional to those contained in the applicable financial reporting framework.

For example, in the case of a company that is a public entity as defined in the PFMA, the auditor's report refers to the applicable fair presentation financial reporting framework followed by "... the requirements of the Public Finance Management Act of South Africa, and the requirements of the Companies Act of South Africa". Reference is made to the PFMA because the entity has financial reporting requirements additional to the identified financial reporting framework

39 ISA 210, paragraph 18 and ISA 700 (Revised), paragraph A24.

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and those in the Companies Act.

38. The financial reporting framework referred to in the financial statements and auditor's report must be available to the intended users. This will allow them to understand how the financial position, financial performance and cash flows have been evaluated or measured in the case of a fair presentation framework, or whether the financial statements have been prepared in accordance with the applicable basis of accounting or financial reporting requirements in the case of a compliance framework.

39. Legislation, regulatory requirements and legal agreements often refer to "generally accepted accounting practice", "generally recognised accounting practice" and "financial reporting standards". These terms are used to describe financial reporting frameworks in general terms and are therefore not identified as general purpose financial reporting frameworks in accordance with the ISAs.

40. Special purpose financial statements prepared in accordance with a compliance framework should indicate their purpose and, if necessary, identify the intended users. Consequently:

- The basis of preparation paragraph in the notes to the financial statements should adequately describe the basis of accounting.

- There may be circumstances where a special purpose framework is based on a financial reporting framework established by an authorised or recognised standards setting organisation or by law or regulation, but does not comply with all the requirements of that framework. An example is a contract that requires financial statements to be prepared in accordance with most, but not all, of the Financial Reporting Standards of Jurisdiction X. When this is acceptable in the circumstances of the engagement, it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial statements to imply full compliance with the financial reporting framework established by the authorised or recognised standards setting organisation or by law or regulation. In the above example, the description of the applicable financial reporting framework may refer to financial reporting provisions of the contract, rather than make any reference to Financial Reporting Standards of Jurisdiction X.[40]

- Where management has a choice in the basis of accounting, it is recommended that the financial statements include a statement that management considers the basis of accounting applied to be suitable for the intended users.

- The auditor's report refers to the purpose of the financial statements and

40 ISA 800 (Revised), paragraph A2.

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contains an "emphasis of matter" paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.[41]

41. When the auditor expresses an unmodified opinion in accordance with a fair presentation framework, the auditor's opinion, unless otherwise required by law or regulation, includes the phrase "the financial statements present fairly, in all material respects, the financial position, financial performance and cash flows, in accordance with" and refers to one of the financial reporting frameworks identified in paragraph 27 above.

42. When the auditor expresses an unmodified opinion in accordance with a compliance framework, the opinion states that "the financial statements are prepared, in all material respects, in accordance with the *[describe applicable financial reporting framework]*".

43. The auditor issues an appropriately modified auditor's opinion in accordance with ISA 705 (Revised):
    - When the auditor concludes that the financial statements do not adequately describe or refer to the applicable financial reporting framework or basis of accounting.
    - When an entity departs materially from the applicable or prescribed financial reporting framework and in the case of a fair presentation framework the aim of the departure is not to achieve fair presentation, and in the case of a compliance framework the departure leads to the financial statements being misleading.

44. Where the auditor is obliged by law or regulation to use the phrase "present fairly" in the auditor's opinion and the financial reporting framework is not a fair presentation framework but is still acceptable, the auditor's report contains an "*Other matters*" paragraph when the auditor concludes that an explanation is required to mitigate any possible misunderstanding of the phrase "present fairly".

45. When the auditor concludes that an explanation in the "*Other matters*" paragraph cannot mitigate any possible misunderstanding, the auditor evaluates the effect of the misleading nature of the financial statements and modifies the auditor's opinion accordingly.

41 ISA 800 (Revised), paragraphs 14, A20 and A21.

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When a Financial Reporting Framework is Not Acceptable

46. If it is determined that the financial reporting framework is not acceptable, and the preconditions for an audit have not been met, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement.[42]

47. If it is determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor shall accept the audit engagement only if the following conditions are present:[43]
    - Management agrees to provide additional disclosures in the financial statements required to avoid the financial statements being misleading; and
    - It is recognised in the terms of the audit engagement that:
        - The auditor's report on the financial statements will incorporate an Emphasis of Matter paragraph, drawing users' attention to the additional disclosures, in accordance with ISA 706 (Revised); and
        - Unless the auditor is required by law or regulation to express the auditor's opinion on the financial statements by using the phrases "present fairly, in all material respects" or "give a true and fair view", in accordance with the applicable financial reporting framework, the auditor's opinion on the financial statements will not include such phrases.

48. If the conditions outlined in paragraph 47 are not present and the auditor is required by law or regulation to undertake the audit engagement, the auditor evaluates the effect of the misleading nature of the financial statements on the auditor's report and modifies the auditor's opinion accordingly.[44]

49. It is unlikely that a fair presentation framework, approved and issued by an authorised or recognised standard setting organisation in South Africa (see paragraph 27 above), could be unacceptable in the circumstances of the engagement. It is also unlikely that where management does not have a choice in the application of a "compliance framework", such as that required by a regulator, such framework could be unacceptable. It is more likely that where management has a choice in the application of the framework, such framework could be unacceptable.

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42 ISA 210, paragraph 8.
43 ISA 210, paragraph 19 and paragraph A37.
44 ISA 210, paragraph 20.

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Additional Information

50. The definitions dealt with in this SAAPS are provided in Appendix 1.

51. The application of the financial reporting frameworks dealt with in this SAAPS is presented by way of a diagram in Appendix 2.

52. The financial reporting frameworks in accordance with Regulation 27 of the Companies Act, which are dealt with in this SAAPS, are summarised in Appendix 3.

53. For public sector entities also refer to Directives issued by the ASB regarding the appropriate reporting frameworks for public sector entities.

54. Illustrative auditor's reports on financial statements are contained in SAAPS 3 (Revised November 2015), *Illustrative Reports*.

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Appendix 1

Definitions[45]

a) *Applicable financial reporting framework* is the financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of financial statements that is acceptable in view of the nature of the entity and the objective of financial statements, or that is required by law or regulation.

b) *Compliance framework* refers to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgments included in the definition of a fair presentation framework.

c) *Criteria* are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. There can be different criteria for the same subject matter. Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment.

d) *Fair presentation framework* refers to a financial reporting framework that requires compliance with the requirements of the framework and:

- Acknowledges explicitly or implicitly that to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

e) *General purpose financial statements* are financial statements prepared in accordance with a general purpose framework.

f) *General purpose framework* is a financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

g) *Special purpose financial statements* are financial statements prepared in accordance with a special purpose framework.

h) *Special purpose framework* is a financial reporting framework designed to meet the financial information needs of specific users. The financial reporting

45 Refer to paragraph 6 – The definitions referred to in SAAPS 2 are terms defined in the ISAs and reflected in the *Glossary of Terms* (December 2016) and they have the same meanings attributed to them.

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framework may be a fair presentation framework or a compliance framework.

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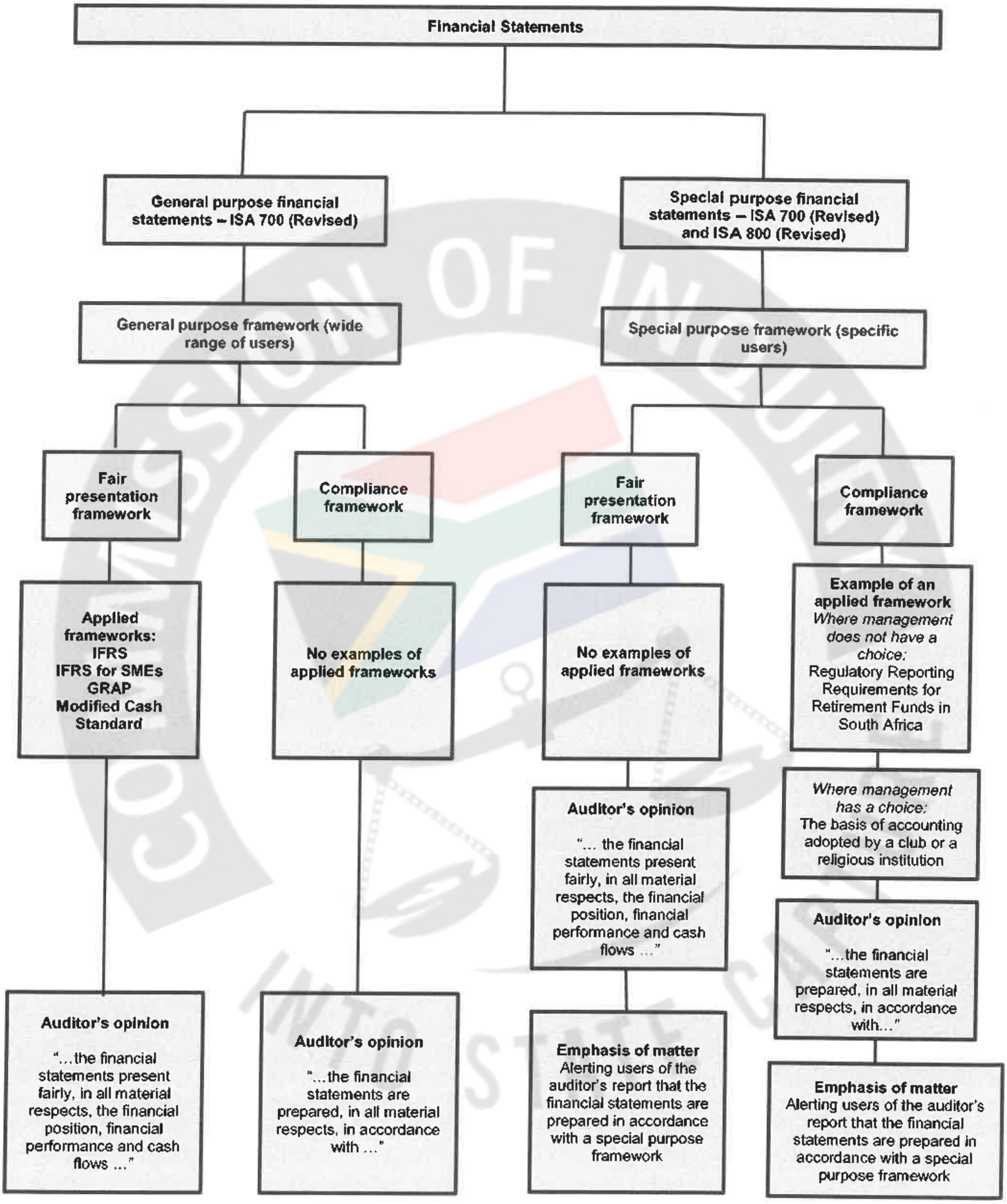
Appendix 2

Diagram of the financial reporting frameworks



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Appendix 3

Financial Reporting Frameworks in Accordance with Regulation 27 of the Companies Act[46]

Type of Company	Sub-categories (Note 1)	Financial Statements	Financial Reporting Framework
State-Owned Company			IFRS or GRAP
Public Company	Listed		IFRS
Public Company	Unlisted		IFRS or IFRS for SMEs
Private Company – including Close Corporations	Fiduciary assets >R5m or public interest score >350		IFRS or IFRS for SMEs
Private Company – including Close Corporations	Public interest score >=100 <350	Independently compiled or Internally compiled	IFRS or IFRS for SMEs
Private Company – including Close Corporations	Public interest score <100	Independently compiled	IFRS or IFRS for SMEs
Private Company – including Close Corporations	Public interest score <100	Internally compiled	The Financial Reporting Standard as determined by the company for as long as no Financial Reporting Standard is prescribed
Personal Liability Company	Fiduciary assets >R5m or public interest score >350		IFRS or IFRS for SMEs
Personal Liability Company	Public interest score >=100 <350	Independently compiled or Internally compiled	IFRS or IFRS for SMEs
Personal Liability Company	Public interest score <100	Independently compiled	IFRS or IFRS for SMEs
Personal Liability Company	Public interest score <100	Internally compiled	The Financial Reporting Standard as determined by the company for as long as no Financial Reporting Standard is prescribed
Non-Profit Company	Linked to state or foreign company or statutory/regulatory function		IFRS or GRAP
Non-Profit Company	Fiduciary assets >R5m or public interest score >350		IFRS or IFRS for SMEs
Non-Profit Company	Public interest score	Independently compiled or Internally	IFRS or IFRS for SMEs

46 Companies Act, Regulation 27.

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Type of Company	**Sub-categories (Note 1)**	**Financial Statements**	**Financial Reporting Framework**
	>=100 <350	compiled	
Non-Profit Company	Public interest score <100	Independently compiled	IFRS or IFRS for SMEs
Non-Profit Company	Public interest score <100	Internally compiled	The Financial Reporting Standard as determined by the company for as long as no Financial Reporting Standard is prescribed

Note 1: Fiduciary Assets: Regulation 28 of the Pension Funds Act, No. 24 of 1956 – assets held at any time during the year in the ordinary course of primary activities in a fiduciary capacity for persons not related to the company.

Public interest score: Regulation 26 of the Companies Act – calculated at financial year-end.

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SAAPS 3 (Revised May 2019)

South African Auditing Practice Statement

Illustrative Reports

P.S KTB

Independent Regulatory Board for Auditors
PO Box 8237, Greenstone, 1616
Johannesburg

This South African Auditing Practice Statement (SAAPS) 3 (Revised May 2019), *Illustrative Reports* was prepared by the Independent Regulatory Board for Auditors' (IRBA) Committee for Auditing Standards and was approved for issue in May 2019.

SAAPS 3 (Revised May 2019) is aimed at providing practical guidance to registered auditors who report on financial statements, both for compliance with the ISAs or the ISREs, as applicable, and the legal and regulatory requirements applicable to auditors and auditor reporting in South Africa, as related to the content and format of the auditor's report. For the purpose of this SAAPS, the main legal and regulatory requirements addressed are the Auditing Profession Act, 2005 (No. 26 of 2005), the Rule in terms of Sections 9 and 10, read with sections 1, 2 and 3 of the APA, published in the Government Gazette No. 39475 on 4 December 2015, the Companies Act, 2008 (Act No. 71 of 2008) and the Public Audit Act, 2004 (Act No. 25 of 2004).

SAAPS 3 (Revised May 2019) has been updated as a result of the amendments to the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* (now the IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards*) (IESBA Code)) and the amendments to the IRBA *Code of Professional Conduct for Registered Auditors* (now the IRBA *Code of Professional Conduct for Registered Auditors* (Revised November 2018) (IRBA Code)). Because of the different effective dates of the parts in both the IRBA Code and IESBA Code, this SAAPS makes provision for two options in the illustrative auditor's reports where references are made to the Codes and clearly distinguishes between the two options, as follows:

- *Transitional period:* Registered auditors who sign off auditor's reports issued on or after 15 June 2019 in respect of the audits for financial periods beginning before or on 14 June 2019; and
- *Periods going forward:* Registered auditors who sign off auditor's reports for audits of financial statements for periods beginning on or after 15 June 2019.

In addition, this SAAPS has been updated to:

- Incorporate the guidance contained in the *IRBA Staff Audit Practice Alert: Determining Other Information as Defined in ISA 720 (Revised) in the South African Context*. As a result, the IRBA Staff Audit Practice Alert has been withdrawn by the IRBA as at the effective date of this SAAPS.
- Recognise that, in the public sector environment, other information does not include those selected objectives presented in the annual performance report that have been specifically audited and reported on in the auditor's report.

The format of this SAAPS 3 has also been updated to enhance navigation and use.

A free download of SAAPS 3 (Revised May 2019) is available in both Word and PDF

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formats from the IRBA website.

The IRBA does not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in the IRBA pronouncements, whether such loss is caused by negligence or otherwise.

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SOUTH AFRICAN AUDITING PRACTICE STATEMENT 3

(REVISED MAY 2019)

ILLUSTRATIVE REPORTS

(Effective for auditor's or independent reviewer's reports issued on or after 15 June 2019)

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This South African Auditing Practice Statement (SAAPS) is aimed at providing practical guidance to registered auditors who report on financial statements, both for compliance with the ISAs (or the ISREs, as applicable) and the legal and regulatory requirements applicable to auditors and auditor reporting in South Africa, as related to the content and format of the auditor's report. For the purpose of this SAAPS, the main legal and regulatory requirements addressed are the Auditing Profession Act, 2005 (No. 26 of 2005) (APA); the Rule in terms of Sections 9 and 10, read with sections 1, 2 and 3 of the APA, published in the Government Gazette No. 39475 on 4 December 2015; the Companies Act, 2008 (Act No. 71 of 2008) (Companies Act); and the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA). Reading this SAAPS is not a substitute for reading and applying the ISAs, the ISREs, the APA, the Companies Act and the PAA.

South African Practice Statements are developed and issued by the IRBA to provide practical assistance to auditors in the implementation of relevant International or South African *Standards on Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*. South African Practice Statements do not impose requirements on auditors beyond those included in the International or South African Standards or South African regulatory requirements and do not change the auditor's responsibility to comply, in all material respects, with the requirements of the International or South African Standards or with South African regulatory requirements relevant to the audit, review, other assurance or related services engagement.

An auditor is required to have an understanding of the entire text of every South African Practice Statement to enable the auditor to assess whether or not any particular South African Practice Statement is relevant to an engagement, and if so, to enable the auditor to apply the requirements of the particular International or South African Standard/s to which the South African Practice Statement relates, properly.

In terms of section 1 of the APA, a South African Practice Statement is included in the definition of "auditing pronouncements" and in terms of the Act, the auditor must, in the performance of an audit, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board.

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Introduction

Scope

1. This South African Auditing Practice Statement (SAAPS) is aimed at providing practical guidance to registered auditors who report on financial statements, both for compliance with the ISAs or the ISREs, as applicable, and the legal and regulatory requirements applicable to auditors and auditor reporting in South Africa, as related to the content and format of the auditor's report. For the purpose of this SAAPS, the main legal and regulatory requirements addressed are the Auditing Profession Act, 2005 (No. 26 of 2005) (APA); the Rule in terms of Sections 9 and 10, read with sections 1, 2 and 3 of the APA, published in the Government Gazette No. 39475 on 4 December 2015 (Rule); the Companies Act, 2008 (Act No. 71 of 2008) (Companies Act); and the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA). Reading this SAAPS is not a substitute for reading and applying the ISAs, the ISREs, the APA, the Companies Act and the PAA.

2. The ISAs and ISREs dealt with in this SAAPS are:
   - ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*;
   - ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*;
   - ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*;
   - ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*;
   - ISA 720 (Revised), *The Auditors Responsibilities Relating to Other Information*;
   - ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*;
   - ISA 570 (Revised), *Going Concern*;
   - ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*; and
   - ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements.*

3. The guidance as well as the illustrative auditor's reports and independent reviewer's reports (reports) contained in this SAAPS:
   - Do not provide a substitute for the auditor's responsibility to form an opinion on the financial statements in accordance with ISA 700 (Revised), or a conclusion in accordance with ISRE 2400 (Revised).
   - Do not establish new requirements or contain exemptions from the requirements of the ISAs and the ISREs; and should be read with the ISAs and the ISREs, as

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applicable.

- Do not provide illustrative key audit matter examples.
- Do not provide guidance on the application of the ISAs and the ISREs in determining the acceptability of the financial reporting framework applied in the preparation of financial statements. Such guidance is contained in the ISAs, the ISREs and SAAPS 2 (Revised 2018), *Financial Reporting Frameworks and the Auditor's Report*.
- Do not provide guidance on the application of the International Standards on Assurance Engagements (ISAEs) and on the International Standards on Related Services (ISRSs). These standards should be referred to for applicable illustrative reports.

4. The guidance in Part A comprises the following four illustrative reports:

   - The report for the audit of a complete set of general purpose financial statements (consolidated financial statements of a listed entity) prepared in accordance with a fair presentation framework and the requirements of the Companies Act, in accordance with ISA 700 (Revised);
   - The report for the audit of a complete set of general purpose financial statements (private company) prepared in accordance with a fair presentation framework and the requirements of the Companies Act, in accordance with ISA 700 (Revised);
   - The report for the independent review of a complete set of general purpose financial statements prepared in accordance with a fair presentation framework and the requirements of the Companies Act, in accordance with ISRE 2400 (Revised); and
   - The report for the audit of a complete set of general purpose financial statements of a public sector entity described in section 4(3) of the PAA that the Auditor-General South Africa (AGSA) has opted not to audit in accordance with ISA 700 (Revised).

5. The guidance in Part A also includes notes on the application of paragraphs 20-48 of ISA 700 (Revised); paragraphs 21-23 of ISA 720 (Revised); paragraphs 86-91 of ISRE 2400 (Revised); and certain sections of the APA, the Companies Act and the PAA that are relevant to the reports.

6. The illustrative reports in Part B include examples of various circumstances not specifically considered in the ISAs, without duplicating the illustrative reports contained in the following ISAs:

   - ISA 510, *Initial Audit Engagements – Opening Balances.*
   - ISA 570 (Revised), *Going Concern.*
   - ISA 600, *Special Considerations – Audits of Group Financial Statements*

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(Including the Work of Component Auditors).

- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report.*
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report.*
- ISA 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements.*
- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information.*
- ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.*
- ISA 805 (Revised), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.*

7. The illustrative reports in Part B assume that:

   - Unless the circumstances indicate an assumption that the registered auditor has concluded that a reportable irregularity exists, has been reported in terms of the APA and a notification has been included in the auditor's report or a modified opinion has been expressed on the financial statements, these circumstances do not exist and the auditor's report has not been modified in this regard. The auditor's determination of whether a reportable irregularity exists is based on the careful evaluation of the events and conditions in the particular circumstances of an entity. In instances where the effect of a reportable irregularity on the auditor's report is included in an illustrative report, the auditor has performed such evaluation and has concluded that a reportable irregularity exists. (For guidance on reportable irregularities, refer to the May 2015 *Revised Guide for Registered Auditors: Reportable Irregularities in terms of the Auditing Profession Act* issued by the IRBA).
   - Unless the circumstances include an assumption that the matter giving rise to a qualified or adverse opinion on the financial statements also affects the other information, this circumstance does not exist.
   - Unless the circumstances include an assumption that part or all of the other information has been received after the date of the auditor's report, this circumstance does not exist.
   - The relevant ethical requirements applicable to an audit engagement comprise those that are set out in Note 6 to Part A.
   - The auditor or the independent reviewer has concluded that, based on the evidence in the engagement circumstances, the modifications reported are either material or material and pervasive in relation to the financial statements. Other

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wording may be more appropriate in the circumstances of individual engagements, in which case the wording in the illustrative reports may be adapted accordingly.

8. Illustrative examples of ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, and ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*, reports that meet the requirements of the JSE Limited Listings Requirements are dealt with in the *Revised Guide for Registered Auditors: Reporting on Financial Information Contained in Interim, Preliminary, Provisional and Abridged Reports Required by the JSE Listings Requirements (Revised March 2017)*.

9. Revisions to the International Auditing and Assurance Standards Board (IAASB) Engagement Standards, the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (Parts 1, 3, 4A and 4B) and changes to South African legal and regulatory requirements may result in changes to the engagement partner's reporting responsibilities from time to time. Therefore users of this SAAPS must at all times apply the most up-to-date pronouncements and legislation in their use of this SAAPS.

10. This SAAPS also contains the following appendices:

- Appendix I: Linking Going Concern Considerations with types of Audit Opinions.
- Appendix II: Examples of Reports, Documents and Information that may be Determined to be Other Information.

Effective date

11. This SAAPS is effective for auditor's or independent reviewer's reports issued on or after 15 June 2019.

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PART A – Guidance and Notes

The guidance in Part A comprises the following four illustrative reports:

- The report for the audit of a complete set of general purpose financial statements (consolidated financial statements of a listed entity) prepared in accordance with a fair presentation framework and the requirements of the Companies Act, in accordance with ISA 700 (Revised);
- The report for the audit of a complete set of general purpose financial statements (private company) prepared in accordance with a fair presentation framework and the requirements of the Companies Act, in accordance with ISA 700 (Revised);
- The report for the independent review of a complete set of general purpose financial statements prepared in accordance with a fair presentation framework and the requirements of the Companies Act, in accordance with ISRE 2400 (Revised); and
- The report for the audit of a complete set of general purpose financial statements of a public sector entity described in section 4(3) of the PAA that the Auditor-General South Africa (AGSA) has opted not to audit in accordance with ISA 700 (Revised).

The guidance in Part A also includes notes on the application of paragraphs 20-48 of ISA 700 (Revised); paragraphs 21-23 of ISA 720 (Revised); paragraphs 86-91 of ISRE 2400 (Revised); and certain sections of the APA, the Companies Act and the PAA that are relevant to the reports.

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Illustrative reports

1. Unmodified opinion – Auditor's report on a complete set of consolidated financial statements of a listed entity prepared in accordance with a fair presentation framework

The illustrative report below is the unmodified auditor's report on the statutory consolidated annual financial statements of a listed entity and its subsidiaries (the group) which include the financial statements and other reports required by the Companies Act, 2008 (No. 71 of 2008) (Companies Act). The group financial statements are prepared in accordance with a general purpose financial reporting framework that achieves fair presentation. This report illustrates application of ISA 600 and ISA 700 (Revised) regarding the auditor's report on the financial statements, including the auditor's additional responsibilities when performing a group audit, and ISA 720 (Revised) in respect of the directors' report required under the Companies Act. The adaptations contained in the illustrative report are referenced to the appropriate notes (N1 – N15) of Part A.

Circumstances include:
• Audit of a complete set of consolidated financial statements of a listed entity in terms of the Companies Act of South Africa using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e. ISA 600 applies) [N13]. The consolidated financial statements are presented in the entity's integrated report. Separate financial statements are also prepared for the listed entity but have not been included in the entity's integrated report. The auditor's reports on both the consolidated and separate financial statements are signed on the same day. • The entity's annual report, as defined in ISA 720 (Revised), is the entity's integrated report and the separate financial statements. • Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. • Key audit matters have been communicated. • The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information. • The auditor has concluded an unmodified (i.e. "clean") opinion is appropriate based on the audit evidence obtained.

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- The auditor has disclosed the number of years which the audit firm has been the auditor of the listed entity (audit tenure).
- An illustration of an auditor's report on the separate financial statements in these circumstances is provided in illustrative auditor's report 5.

Independent Auditor's Report

To the Shareholders of ABC Limited [N1]

Report on the Audit of the Consolidated Financial Statements[1]

Opinion

We have audited the consolidated financial statements [N2] of ABC Limited and its subsidiaries (the group) set out on pages ... to ... [N3], which comprise the consolidated statement of financial position as at 31 December 20X1, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies [N4].

In our opinion, the consolidated financial statements present fairly, in all material respects, [N5] the consolidated financial position of ABC Limited and its subsidiaries as at 31 December 20X1, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors*

1 The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

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(Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa [N6]. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* [N6] and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa [N6]. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters [N7]

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the

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consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with ISA 701.*]

Other Information [N8]

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Limited Integrated Report 20X1" and in the document titled "ABC Limited Separate Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors [N9] *for the Consolidated Financial Statements*

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa [N10], and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error [N11].

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

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opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also [N12]:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for

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the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion [N13].

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that [*XX firm*] has been the auditor of ABC Limited for [*X*] years. [N14]

[*The additional form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs may be combined (i.e. included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs where such a difference exists.*]

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[Auditor's Signature] [N15]

[Name of individual registered auditor]

[Capacity if not a sole practitioner: e.g. Director or Partner]

Registered Auditor

[Date of auditor's report]

[Auditor's address]

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2. Unmodified opinion – Auditor's report on a complete set of general purpose financial statements of a private company prepared in accordance with a fair presentation framework

The illustrative report below is the unmodified auditor's report on the statutory annual financial statements of a private company in terms of the Companies Act, 2008 (No. 71 of 2008) (Companies Act) which include the financial statements and the directors' report required by the Companies Act. The financial statements are prepared in accordance with a general purpose financial reporting framework that achieves fair presentation. This report illustrates the application of ISA 700 (Revised) regarding the auditor's report on the financial statements, and ISA 720 (Revised) in respect of the directors' report required under the Companies Act. Since this is not a group audit, the additional auditor's responsibilities in respect of a group audit are not illustrated. The adaptations contained in the illustrative report are referenced to the appropriate notes (N1 – N15) of Part A.

Circumstances include: • Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply). [N13] • Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. • Key audit matters have not been communicated. • Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa. • The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information. • The auditor has concluded an unmodified (i.e. "clean") opinion is appropriate based on the audit evidence obtained.

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Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited[N1]

Report on the Audit of the Financial Statements[2]

Opinion

We have audited the financial statements [N2] of ABC Proprietary Limited (the company) set out on pages ... to ...[N3], which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies [N4].

In our opinion, the financial statements present fairly, in all material respects, [N5] the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa [N6]. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* [N6] and the International Ethics Standards

2 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

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Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa [N6]. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [N8]

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors [N9] for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa [N10], and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error [N11].

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also [N12]:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

[*The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs may be combined (i.e. included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs where such a difference exists.*]

[*Auditor's Signature*] [N15]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of the auditor's report*]

[*Auditor's address*]

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3. Unmodified conclusion – ISRE 2400 (Revised): Independent reviewer's report on a complete set of general purpose financial statements prepared in accordance with a fair presentation framework

The illustrative report below is the unmodified independent reviewer's report on the statutory annual financial statements of a company in terms of the Companies Act, 2008 (No. 71 of 2008) (Companies Act) which include the financial statements and the directors' report required by the Companies Act. The financial statements are prepared in accordance with a general purpose financial reporting framework that achieves fair presentation. This report illustrates the application of ISRE 2400 (Revised) regarding the independent reviewer's report on the financial statements and draws from ISA 720 (Revised) with respect to the directors' report, and the requirements of the Companies Act. The adaptations contained in the illustrative report are referenced to the appropriate notes (N1 – N15) of Part A.

Circumstances include: • Independent review of a complete set of financial statements. • The financial statements are prepared for a general purpose by management of the entity in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities. • Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. • The independent reviewer has concluded an unmodified (i.e. "clean") conclusion is appropriate based on the evidence obtained.

Independent Reviewer's Report

To the Shareholders of ABC Proprietary Limited [N1]

Report on the Financial Statements[3]

We have reviewed the financial statements [N2] of ABC Proprietary Limited set out on pages … to … [N3], which comprise the statement of financial position as at 31 December 20X1 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year

3 The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second subtitle "Report on Other Legal and Regulatory Requirements" is not applicable.

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then ended, and notes to the financial statements, including a summary of significant accounting policies [N4].

Directors' Responsibility [N9] for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities[4] and the requirements of the Companies Act of South Africa [N10], and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. [N11]

Independent Reviewer's Responsibility

Our responsibility is to express a conclusion on these financial statements. We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements* (ISRE 2400 (Revised)). ISRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The independent reviewer performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects [N8], the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.

4 May refer to International Financial Reporting Standards, as applicable.

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Other Reports Required by the Companies Act [N8]

The annual financial statements include the Directors' Report as required by the Companies Act of South Africa. The directors are responsible for the Directors' Report. Our conclusion on the financial statements does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our independent review of the financial statements, we have read the Directors' Report and, in doing so, considered whether the Directors' Report is materially inconsistent with the financial statements or our knowledge obtained in the independent review, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report, we will report that fact. We have nothing to report in this regard.

Report on Other Legal and Regulatory Requirements

[*Form and content of this section of the independent reviewer's report will vary depending on the nature of the independent reviewer's other reporting responsibilities.*] [5]

[*Independent Reviewer's signature*] [N15]

[*Name of individual reviewer*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of the independent reviewer's report*]

[*Independent reviewer's address*]

5 There is no requirement for an independent reviewer to include in the *"Report on Other Legal and Regulatory Requirements"* a Reportable Irregularity reported to CIPC in accordance with Companies Regulation 29(1)(b) and (6) to (11).

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4. Unmodified opinion – Illustrative Auditor-General of South Africa's report on a complete set of general purpose financial statements

The Auditor-General of South Africa (AGSA) sets the requirements for audit in the public sector through the Public Audit Act, 2004 (No. 25 of 2004) (PAA) and also issues directives in terms of the PAA. The AGSA has advised that this illustrative report may only be used in public sector reporting once the applicable directive has been issued. In the application of this illustration, registered auditors must refer to the most current communications issued by the AGSA. The IRBA has issued jointly with the AGSA a *Guide for Registered Auditors: Guidance on Performing Audits where the AGSA has Opted not to Perform the Audit*.

The illustrative report below is the unmodified auditor's report on statutory annual financial statements which include the financial statements and other reports required by the Companies Act where applicable. The financial statements are prepared in accordance with the applicable financial reporting framework. This report illustrates the application of ISA 700 (Revised) regarding the auditor's report on the financial statements when the AGSA has opted not to perform the audit of a public sector entity in terms of section 4(3) of the PAA, and ISA 720 (Revised) in respect of the other reports required under the Public Finance Management Act, 1999 (No. 1 of 1999) (PFMA) and the Companies Act, 2008 (No. 71 of 2008) (Companies Act). The adaptations contained in the illustrative report are referenced to the appropriate notes (N1 – N15) of Part A.

Independent Auditor's Report

To [the appropriate addressee] [N1] on the *[name of entity]*

Report on the Audit of the [Consolidated and Separate] Financial Statements[6]

Opinion

We have audited the [*consolidated and separate*] financial statements [N2] of the [*name of entity*] [*and its subsidiaries (the group)*] set out on pages … to …[N3], which comprise the [*consolidated and separate*] statement of financial position as at 31 March 201X, the [*consolidated and separate*] statement of [*financial performance / profit or loss and other comprehensive income*], statement of changes in [*net assets/equity*] [,] [*and*] [*cash flow statement/statement of cash flows*] [*and*] [*insert title of the statement of comparison of budget information with*

6 This heading will be necessary as the report will contain information on other reporting requirements of the PAA.

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actual information[7]] for the year then ended, as well as notes to the [*consolidated and separate*] financial statements, including a summary of significant accounting policies [N4].

In our opinion, the [*consolidated and separate*] financial statements present fairly, in all material respects, [N5] the financial position of the [*name of entity*]/ group [*and its subsidiaries*] as at 31 March 20XX, and [*its/their*] financial performance and cash flows for the year then ended in accordance with [*the applicable financial reporting framework*] [N10] and the requirements of the [*Public Finance Management Act of South Africa*] [*and Companies Act of South Africa*].

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable] *Basis for Opinion* We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [Consolidated and Separate] Financial Statements* section of our report. We are independent of the [*type of entity*] in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa [N6]. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* [N6]and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

7 The 'statement of comparison of budget information with actual information' should be excluded as a title of one of the statements comprising the financial statements if International Financial Reporting Standards is the applicable financial reporting framework used by the entity.

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[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [Consolidated and Separate] Financial Statements* section of our report. We are independent of the [*type of entity*] in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa [N6]. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters [N7]

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the [*consolidated and separate*] financial statements of the current period. These matters were addressed in the context of our audit of the [*consolidated and separate*] financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with ISA 701.*]

Emphasis of Matter

We draw attention to the matter(s) below. Our opinion is not modified in respect of these matters. [*Insert matters emphasised*]

Other Matters

We draw attention to the matter(s) below. Our opinion is not modified in respect of these matters. [*Insert other matters*]

Other Information [N8]

The [*name of entity*] [*and its subsidiaries*] accounting authority is responsible for the other information. The other information comprises the information included

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in the Annual Report [which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa] [*and*] [*insert title of the statement of comparison of budget information with actual information*[8]]. The other information does not include the [*consolidated and separate*] financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically audited and reported on in the auditor's report.

Our opinion and findings do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the [*consolidated and separate*] financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the [*consolidated and separate*] financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Accounting Authority [N9] *for the [Consolidated and Separate] Financial Statements*

The board of directors which constitutes the accounting authority is responsible for the preparation and fair presentation of the [*consolidated and separate*] financial statements in accordance with [*applicable financial reporting framework*] [N10] and the requirements of the [*Public Finance Management Act of South Africa*] [*and Companies Act of South Africa*] [N11], and for such internal control as the accounting authority determines is necessary to enable the preparation of the [*consolidated and separate*] financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the [*consolidated and separate*] financial statements, the accounting authority is responsible for assessing the [*name of entity*] [*and its subsidiaries*] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the [*name of entity*] [*and its subsidiaries*] or to cease operations, or has no realistic alternative but to do so.

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8 If a 'statement of comparison of budget information with actual information' forms part of an entity's Annual Report and International Financial Reporting Standards is the applicable financial reporting framework used by the entity, it should be included as part of the description of other information.

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Auditor's Responsibilities for the Audit of the [Consolidated and Separate] Financial Statements

Our objectives are to obtain reasonable assurance about whether the [*consolidated and separate*] financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these [*consolidated and separate*] financial statements.

A further description of our responsibilities for the audit of the [consolidated and separate] financial statements is included in the annexure to the auditor's report.

Report on Other Legal and Regulatory Requirements

[The AGSA prescribes other reporting requirements from time to time and these are communicated in terms of a published AG Directive and other supporting technical guidance.]

[*Auditor's Signature*] [N15]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

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Annexure – Auditor's responsibility for the audit

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the [consolidated and separate] financial statements, and the procedures performed on reported performance information for the selected objectives and on the [type of entity]'s compliance with respect to selected subject matters/focus areas [N12]:

Financial Statements

In addition to our responsibility for the audit of the [consolidated and separate] financial statements as described in the auditor's report, we also:

- Identify and assess the risks of material misstatement of the [*consolidated and separate*] financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [*type of entity*] [*and its subsidiaries*] internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [accounting authority /directors].
- Conclude on the appropriateness of the [accounting authority / director]'s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [*name of entity*] [*and its subsidiaries*] ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the [*consolidated and separate*] financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [*name of entity*] [*and its subsidiaries*] to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the [*consolidated and separate*] financial statements, including the disclosures, and whether the [*consolidated and separate*] financial statements represent the

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underlying transactions and events in a manner that achieves fair presentation.

- *[Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the [name of entity] [and its subsidiaries] to express an opinion on the [consolidated and separate] financial statements. We are responsible for the direction, supervision and performance of the [[group audit] [name of entity] [and its subsidiaries]] audit. We remain solely responsible for our audit opinion.* [N13]].]

Communication with those charged with governance

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the accounting authority with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the accounting authority, we determine those matters that were of most significance in the audit of the [*consolidated and separate*] financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Notes to the illustrative reports in Part A (denoted as N1-N15)

Addressee[9]

N1. The auditor's report or the independent reviewer's report (the report) is addressed as required by the circumstances of the engagement. Law or regulation may specify to whom the report is to be addressed. However, the Companies Act does not specify to whom the report should be addressed.

The report is normally addressed to those for whom it is prepared[10]. In the case of South African companies, the report is addressed to the shareholders or members, as applicable, when the Companies Act (including the Companies Act Regulations) requires the company to be audited or independently reviewed.

When a Memorandum of Incorporation (MOI) for a company that is exempt from audit requires the company to appoint an auditor, the auditor's report is also addressed to the shareholders or members, as appropriate. When an MOI for a company that is exempt from audit does not require the company to appoint an auditor, and the company chooses to be audited, the addressee will depend on whether the requirement for an audit was by way of a shareholders' or members' resolution (in which case the auditor's report would then be addressed to the shareholders or members, as appropriate) or a directors' resolution (in that instance, the auditor's report would be addressed to the directors).

Public sector perspective

In the public sector there is a wide range of potential users of the auditor's report, including the general public. However, it is not deemed appropriate to address the auditor's report to the general public at large. The auditor's report is thus addressed to parliament or the provincial legislature as the bodies that represent the general public.

The auditor's report may also be addressed to shareholders, trustees or other identified users in addition to parliament or the provincial legislature where there are persons or classes of persons for whom it has been prepared (not the board of directors or the accounting authority that is responsible for preparing the financial statements). If the Public Finance Management Act, 1999 (Act No. 1 of 1999) as amended by the Public Finance Management Act No. 29 of 1999 (PFMA), is not applicable to an entity and the financial statements are not required to be tabled in parliament or the provincial legislature, the auditor's report should then be addressed to the appropriate level of oversight, usually the responsible executive authority.

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9 ISA 700, paragraphs 22 and A16 and ISRE 2400 (Revised), paragraph 86 and A120.

10 ISA 700, paragraph A16.

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Financial statements

N2. The financial statements form part of the annual financial statements prescribed by the Companies Act. Under the Companies Act, the annual financial statements of a company must include an auditor's report, if the financial statements are audited.[11]

Page numbers[12]

N3. It is important to use page numbers to identify the financial statements. In South Africa the set of documents that comprise the financial statements are included in the annual financial statements, which may contain other information, such as a detailed statement of profit or loss and other comprehensive income as well as other reports prescribed by law or regulation or "best practice" requirements. As a result, the illustrative reports do not refer to the "accompanying" financial statements but instead identify the financial statements by page numbers.

Law and regulation in South Africa may require other information or reports to be included in the financial statements of certain types of entities so as to supplement the applicable financial reporting framework. In some instances, the required other information, reports or disclosures are not auditable (or reviewable) under applicable auditing or assurance standards. So, such other information, which is not within the scope of the audit or review engagement, should be clearly separated from the audited financial statements. Where such information may compromise the fair presentation of the financial statements, management should be requested to separate the publication of the information from the financial statements. The report can then clearly distinguish the financial statements covered by identifying them through their relevant page numbers.

Identification of the title of each statement that comprises the financial statements

N4. The introductory paragraph in the Opinion section of the auditor's report identifies each statement that comprises the complete set of financial statements.[13] A complete set of financial statements is identified by the applicable financial reporting framework[14] and may also include legal and regulatory requirements. For instance, the illustrative reports on financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and the

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11 Companies Act, 2008, Section 29(3)(a).

12 ISA 700 (Revised), paragraph A18 and ISRE 2400 (Revised), paragraph A121.

13 ISA 700 (Revised), paragraph 24(c) and A17 and ISRE 2400 (Revised), paragraph 86(c)(i).

14 ISA 700 (Revised), paragraph A17.

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International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) identify the statement of financial position as at the end of the period; statements of profit or loss and other comprehensive income; changes in equity for the period and cash flows for the period; and notes to the financial statements, including a summary of significant accounting policies.

When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements (as required by IFRS, when applicable), the additional statement of financial position provided to address the restatement of information for the comparative period forms part of the comparative information. Therefore, it does not need to be separately identified in the introductory paragraph in the Opinion section of the auditor's report.

The annual financial statements of South African companies comprise a complete set of financial statements identified in accordance with the applicable financial reporting framework and the disclosure requirements of the Companies Act.[15] A directors' report, however, is not identified as forming part of a complete set of financial statements under the disclosure requirements of the applicable financial reporting framework.

The information in Note 4 applies as relevant to the introductory paragraph contained in an independent reviewer's report.

Public sector perspective

When the Standards of Generally Recognised Accounting Practice (GRAP) are applicable, a complete set of financial statements comprises the statement of financial position; the statement of financial performance; the statement of changes in net assets; the cash flow statement; as well as the statement of comparison of budget information to actual information and notes to the financial statements, including a summary of significant accounting policies.

Opinion

N5. In South Africa, the wording "present fairly, in all material respects" is used instead of "give a true and fair view of" to express the opinion or conclusion in the reports of the auditor or independent reviewer.

Ethical requirements[16]

N6. The International Ethics Standards Board for Accountants (IESBA) has recently completed a project to amend its *Code of Ethics for Professional Accountants*

15 Companies Act, 2008, Sections 29(1) and 30(3)(a) and (b).

16 ISA 700 (Revised), paragraphs 28(c) and A29 to A32.

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that has been renamed the *International Code of Ethics for Professional Accountants (including International Independence Standards)* and consists of Parts 1-4. Parts 1, 3, 4A, 4B and certain sections of Part 2 are applicable to Professional Accountants in Public Practice (PAPP). The IRBA has updated its extant IRBA *Code of Professional Conduct for Registered Auditors* to reflect those changes made to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* as they pertain to PAPP and as a result, to registered auditors.

The effective dates for the IRBA *Code of Professional Conduct for Registered Auditors* (IRBA Code)[17] and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) are as follows:

- Parts 1 and 3 of the restructured Code will be effective as of 15 June 2019.
- Part 4A relating to independence for audit and review engagements will be effective for audits and reviews of financial statements for periods beginning on or after 15 June 2019.
- Part 4B relating to independence for assurance engagements with respect to subject matter covering periods will be effective for periods beginning on or after 15 June 2019; otherwise, it will be effective as of 15 June 2019.

Since there are different effective dates for the parts in both the IRBA Code and IESBA Code, this SAAPS makes provision for two options in the illustrative auditor's reports where references are made to the Codes and clearly distinguishes between the two options, as follows:

- *Transitional period:* Registered auditors who sign off auditor's reports issued on or after 15 June 2019 in respect of the audits for financial periods beginning before or on 14 June 2019; and
- *Periods going forward:* Registered auditors who sign off auditor's reports for audits of financial statements for periods beginning on or after 15 June 2019.

Transitional Period

Since Part 4A and 4B of the IRBA Code and the IESBA Code (relating to independence for audits and reviews and assurance engagements) are effective for audits and reviews and assurance engagements of financial statements for periods beginning on or after 15 June 2019, there will be a period where the extant IRBA and IESBA Codes (sections 290 and 291 of the extant Codes) will

17 The IRBA Board approved the IRBA Code for adoption in November 2018 and was gazetted in November 2018.

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be effective during the transitional period.

As such, registered auditors who sign off auditor's reports issued on or after 15 June 2019 in respect of the audits for financial periods beginning before or on 14 June 2019, will be required to comply with:

- Sections 290 and 291 of the extant Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* and will describe that the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*; and
- Parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* and will describe that the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* is consistent with the corresponding sections of the IESBA *International Code of Ethics for Professional Accountants' (including International Independence Standards).*

Periods going forward

Extant SAAPS 3 makes reference to the extant IRBA Code being consistent with parts A and B of the extant IESBA Code. Parts 1, 3, 4A and 4B of the IESBA Code equates to parts A and B of the extant IESBA Code.

As such registered auditors who sign off auditor's reports for audits of financial statements for periods beginning on or after 15 June 2019, will be required to comply with:

- Parts 1, 3, 4A and 4B of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* and will describe that the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards).*

The implications of the effective dates of the IRBA Code on the auditor's reports are represented graphically below. The date of the auditor's report is represented on the 'X' axis, while the financial year beginning date is represented on the 'Y' axis. Both these dates are required to indicate how the IRBA Code should be implemented, and how it should be described in the auditor's reports.

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Financial Periods Beginning	Date of Auditor's Report: Before 15 June 2019	Date of Auditor's Report: On/After 15 June 2019
On/After 15 June 2019	**<Not applicable>**	**Period Going Forward** **<IRBA Code (Revised November 2018)>** **Parts 1, 3, 4A and 4B**
Before 15 June 2019	**Current Period** **<Extant IRBA Code>**	**Transitional Period** **<Combination of Extant and Revised Codes>** **Parts 1 and 3 - IRBA Code (Revised November 2018) and** **Sections 290 and 291 - Extant IRBA Code**

In addition to the above codes, various laws and regulations may also contain independence and ethical requirements. For example:

- The Companies Act[18] contains restrictions on the non-audit services that may be provided by the auditor to certain companies, and also contains requirements relating to the rotation of the engagement partner.
- Directive 6/2008, issued in terms of the Banks Act contains requirements regarding the rotation of the engagement partner(s).
- In compliance with section 10(1)(a) of the APA, the IRBA has published a *Rule on Mandatory Audit Firm Rotation* that requires that an audit firm, including a network firm as defined in the IRBA Code, shall not serve as the appointed auditor of a public interest entity for more than 10 consecutive years; and thereafter, the audit firm will only be eligible for reappointment as the auditor after the expiry of at least five financial years. The requirement is effective for financial years commencing on or after 1 April 2023. Therefore, if the audit firm has served as the appointed auditor for a public interest entity for 10 or more consecutive years before the financial year commencing on or after 1 April 2023, then the audit firm shall not accept re-appointment and will be required to rotate.

The auditor should be familiar with all codes, laws and regulations containing ethical requirements that apply to the audit engagement.

As there are numerous codes, laws and regulations that the auditor is required to

18 Companies Act, 2008, Sections 90(2) and 92.

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adhere to, the statement included in the auditor's report on independence and other ethical requirements, in South Africa, makes reference to the IRBA Code and other independence and ethical requirements applicable to performing audits of financial statements in South Africa.

Key audit matters[19]

N7. Law or regulation may require communication of the key audit matters for audits of entities other than listed entities, for example, those characterised as public interest entities. Auditors should remain alert to the possibility of this requirement. The auditor may also voluntarily decide to communicate key audit matters for entities other than listed entities.

The IAASB has issued four non-authoritative publications that deal with key audit matters:

- *Audit Reporting: Key Audit Matters* – This publication has been developed to assist investors, preparers of financial statements, those charged with governance and others interested in understanding key aspects of KAM as set out in ISA 701.
- *Auditor Reporting: Illustrative Key Audit Matters* – This publication has been developed to illustrate how the concept of KAM may be applied in practice in accordance with ISA 701.
- *Determining and Communicating Key Audit Matters* – This diagram depicts the process an auditor follows in order to determine the KAM to be communicated.
- *Auditor Reporting: Frequently Asked Questions* – This publication addresses commonly asked questions on the new and revised auditor reporting standards, including questions on key audit matters, and other information.

Public sector perspective

The AGSA has determined that the communication of key audit matters in the auditor's report will be applicable to all audits of public sector entities. This will be phased in as determined by the AGSA, except for those listed entities where the inclusion of KAM is mandatory.

Other information

N8. In South Africa, the corporate governance code, known as King IV[20], the JSE

19 ISA 701 and ISA 700 (Revised), paragraphs 30 to 31 and A35 to A38.

20 The King IV Code on Corporate Governance for South Africa, 2016 and the King IV

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Limited Listings Requirements (Listings Requirements) and the Companies Act require a listed entity to present supplementary reports and information disclosures for various stakeholders.

The Companies Act does not require or address the preparation of an annual report and therefore does not define the annual report.

The Listings Requirements prescribe certain disclosures that should be included in a listed entity's annual report, but also do not define the annual report. The JSE Limited (JSE) prescribes the manner and form in which listed entities are required to announce their financial results to the market, either through the Stock Exchange News Service (SENS) and/or in the press, as is appropriate. Listed entities often voluntarily present information regarding their financial results, in addition to the reporting required by the JSE, in results booklets or analyst presentations. Such documents may or may not contain more detail, if compared to the information published through SENS and/or in the press.

Reporting practices in South Africa, especially among listed entities, are diverse. For example:

- Some entities title their reports "integrated reports", while others refer to "integrated annual reports" or "annual reports".
- Some entities include the full annual financial statements in their integrated or annual reports, while others only present summaries of those annual financial statements.
- Some entities issue their integrated or annual reports at the same time as their results announcements, while other entities' integrated or annual reports only follow later on.
- Some entities issue a single document (i.e. bound together with the audited financial statements), while others issue two or more documents comprising the entities' annual reporting to stakeholders.

Registered auditors are therefore required to consider client specific facts and circumstances when determining the document(s) that comprise their client's annual report.

For a South African company whose financial statements are audited, the annual report, for purposes of ISA 720 (Revised), includes:

- Annual financial statements;
- The integrated report (if prepared); and
- Any other documents that are described within the company's annual

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financial statements or its integrated report as forming part of the company's annual financial statements or its integrated report.

Furthermore, in South Africa an entity's integrated report will be its annual report for purposes of ISA 720 (Revised), irrespective of the following:

- Its title (for example "Integrated report"; "Integrated annual report" or "Annual report"); and
- Whether the annual financial statements and the auditor's report thereon are contained therein.

ISA 720 (Revised) does not expand on the meaning of "accompanies" in the definition of an annual report. The Standard does not, for example, indicate that a document would "accompany" the financial statements only if it is issued at the same time or in close proximity to the issuance of the financial statements. The IRBA's reading of the Standard is that a document could meet the definition of an annual report even if there was a significant time delay between the issue date of the financial statements and that of the entity's annual report.

The application material to ISA 720 (Revised) explains that an annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). It lists, among others, separate regulatory reports and sustainability reports[21] as examples of reports that, when issued as standalone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom) and that, therefore, are not other information within the scope of the Standard[22]. The IRBA is thus of the view that regulatory reports and sustainability reports that are issued as standalone documents, without, for example, being described as forming part of the entity's annual report, are not part of the combination of documents that comprise an entity's annual report.

ISA 720 (Revised) refers to a scope exclusion of "preliminary announcements of financial information", but does not define this term[23]. In context of entities listed on the JSE, this scope exclusion from ISA 720 (Revised) applies to announcements of information that has been reviewed in accordance with the International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, and

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21 The Global Reporting Initiative (GRI) defines a sustainability report as "a report published by a company or organisation about the economic, environmental, and social impacts caused by its everyday activities".

22 ISA 720 (Revised), paragraph A5.

23 ISA 720 (Revised), paragraph 7(a).

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that results announcements on SENS and/or in the press that relate to information that has been audited or reviewed do not form part of the combination of documents that comprise an annual report, and are, therefore, not other information within the scope of ISA 720 (Revised).

Information that a listed entity may prepare on a voluntary basis for a specific stakeholder grouping, such as analysts, has a different purpose from that of an annual report. Such information, where presented separately from the annual report, does not form part of the combination of documents that comprise an annual report. Therefore, it is not other information within the scope of ISA 720 (Revised).

If a report is an entity's annual report for the purpose of ISA 720 (Revised), all information contained therein, other than the financial statements and the auditor's report thereon, constitute other information. An entity's annual report may include information that has been the subject matter of an assurance engagement other than the audit of the financial statements. ISA 720 (Revised) does not contain a scope exemption for such information and it is therefore other information within the scope of ISA 720 (Revised).

For the purpose of the illustrated reports of listed companies in this SAAPS, the company is assumed to have prepared an "Annual Report", which meets the definition of an annual report in ISA 720 (Revised), that may contain "other information"[24].

ISA 720 (Revised) applies to all ISA audits and also affects the audits of non-listed entities.

For the purposes of the illustrated reports in this SAAPS the "other information" is described as "…The other information comprises the information included in [the document titled "ABC Limited Integrated Report 20X1" and in the document titled "ABC Limited Separate Financial Statements for the year ended 31 December 20X1"] or [the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1"], which includes… as required by the Companies Act of South Africa."

The Directors' Report[25], the Audit Committee's Report[26] (when applicable) and the Company Secretary's Certificate[27] (when applicable) form part of the annual financial statements prescribed by the Companies Act and they must be audited or reviewed, as and when applicable. The information (subject matter) is

24 ISA 720 (Revised), paragraph 12(c).

25 Companies Act, 2008, Section 30(3)(b).

26 Companies Act, 2008, Section 94(7)(f).

27 Companies Act, 2008, Section 88(2)(e).

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generally not identifiable and open to consistent evaluation or measurement against identified criteria.[28] Consequently, the opinion expressed on the financial statements does not extend to the information contained in these reports as the auditor has no basis for concluding that the information is properly stated.

However, the auditor, in accordance with ISA 720 (Revised), has a responsibility to read the other information. Then the auditor must consider whether there is any material inconsistency between the other information and the financial statements, on the one hand, and the other information and the auditor's knowledge obtained in the audit, on the other hand[29]. ISA 720 (Revised) has been used to determine that the Directors' Report, the Audit Committee's Report (when applicable) and the Company Secretary's Certificate (when applicable) meet the definition of "other information" in terms of ISA 720 (Revised)[30].

ISA 720 (Revised) requires that the auditor's report must include a separate section that identifies the other information, if any, obtained by the auditor prior to the date of the auditor's report[31]. In South Africa, the Directors' Report, the Audit Committee's Report (when applicable) and the Company Secretary's Certificate (when applicable) will be specifically identified as other information in that section.

In the paragraph headed "Other Reports Required by the Companies Act" and "Other Matter – Reports Required by the Companies Act", as contained in the independent reviewer's report and those auditor's reports in which a disclaimer of opinion has been expressed, respectively, we have used wording drawn from ISA 720 (Revised).

The IAASB has issued a non-authoritative publication developed by the Auditor Reporting Implementation Working Group that deals, in part, with other information in terms of ISA 720 (Revised):

- <u>Auditor Reporting: Frequently Asked Questions</u> – This publication addresses commonly asked questions on the new and revised auditor reporting standards, including questions on key audit matters, and other information.

28 Amended International Framework for Assurance Engagements, paragraph 40. (Effective for assurance reports dated on or after December 15, 2015).

29 ISA 720 (Revised), paragraph 14.

30 ISA 720 (Revised), paragraph 12(c).

31 ISA 720 (Revised), paragraphs 20 and 21A(a)(i).

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Appendix II, Examples of reports, documents and information that may be determined to be other information, provides further guidance on the identification of other information in terms of ISA 720 (Revised) in the South Africa context.

Public sector perspective

The Directors' Report[32], the Audit Committee's Report[33] (when applicable) and the Company Secretary's Certificate[34] (when applicable) form part of the annual financial statements prescribed by the Companies Act. Where the entity is not a company, reference to these documents should be omitted.

In addition to King IV, the Listings Requirements and the Companies Act requirements that may be applicable to certain public sector entities, the PFMA also includes requirements relating to these entities' annual reports.

In the public sector, other information comprises financial and non-financial information, other than (i) the financial statements; (ii) the auditor's report thereon; and (iii) those objectives in the entity's annual report where its performance against predetermined objectives have been specifically audited and reported on in the auditor's report.

In terms of section 28(1)(c) of the PAA, the report of an auditor appointed in terms of section 25(1)(b) of the PAA (i.e. section 4(3) registered auditors), must reflect such opinions and statements as may be required by any legislation applicable to the auditee which is the subject of the audit, but must reflect at least an opinion or conclusion on –

(c) the reported information relating to the performance of the auditee against predetermined objectives.

As such, since the legislated auditor reporting requirements in the public sector extend to reporting on performance information as part of the annual audit process, other information excludes those objectives in the entity's annual report where its performance against predetermined objectives has been specifically audited and reported on in the auditor's report.

Note: The public sector interpretation of other information is only applicable to the public sector and should not be extended to other audit or review engagements.

The auditor is required to read the other information and determine if there are inconsistencies between the other information, the financial statements and the report on performance against pre-determined objectives.

The section on other information is placed in the auditor's report after the

32 Companies Act, 2008, Section 30(3)(b).

33 Companies Act, 2008, Section 94(7)(f).

34 Companies Act, 2008, Section 88(2)(e).

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reporting on the audit of the financial statements, audit of the reported performance information and audit of compliance with legislation.

Responsibilities of the directors for the financial statements

N9. "Management" is used generically in the ISAs and the ISREs to describe those responsible for the preparation (and fair presentation) of an entity's financial statements.

The Companies Act requires the annual financial statements to be approved by the board and signed by an authorised director[35]. As such, in the case of a South African company, the report should state that the company's directors are responsible for the preparation (and fair presentation) of the financial statements.

In terms of the Close Corporations Act, these requirements apply to the authorised member(s) of a Close Corporation. As such, the reference to the directors' responsibility becomes a reference to the members' responsibility.

ISA 700 (Revised) also requires that this section of the auditor's report should identify those responsible for the oversight of the financial reporting process, when they are different from those who fulfil the responsibilities for the preparation of the financial statements. In such a case, this section's heading would also refer to "Those Charged with Governance" (TCWG)[36]. TCWG is defined in ISA 260 (Revised), *Communication With Those Charged With Governance*[37].

Since the company's directors or the public entity's accounting authority are responsible for the oversight of the financial reporting process, as stated above, no reference to oversight responsibilities is required in the auditor's report of a South African company.

It should be noted that there may be other legislation that splits the responsibilities of the preparation for the financial statements and the oversight of the financial reporting process. In this case, reference would have to be made to those responsible for the oversight of the financial reporting process.

Public sector perspective

The auditor's report in the public sector refers to the accounting authority's responsibility, based on the PFMA requirements, as follows:

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35 Companies Act, 2008, Section 30(3)(c).

36 ISA 700 (Revised), paragraphs 33, 34 and A44.

37 ISA 260 (Revised), paragraph 10(a) and effective for audits of financial statements for periods ending on or after 15 December 2016.

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- Public entities – accounting authority[38].
- Public entities registered as a company – The board of directors, which constitutes the accounting authority.

If the PFMA is not applicable to an entity, the name of the party responsible for the preparation of the financial statements – in terms of the legislation that governs that entity – should be inserted.

Applicable financial reporting framework

N10. When the financial reporting framework is supplemented by legal or regulatory requirements, reference must be made to the legislation concerned[39]. As such, in the case of a South African company, the report refers to the requirements of the financial reporting framework as well as the additional financial reporting requirements of the Companies Act.

The Financial Reporting Standards Council (FRSC) must, among other responsibilities, adapt international reporting standards for local circumstances[40] that may be issued from time to time in the form of Financial Reporting Pronouncements (FRP).

Since the FRPs support, and are not an extension of IFRS or IFRS for Small and Medium Enterprises they are not considered to be separate financial reporting frameworks and are not referenced as such in the auditor's and independent reviewer's report in addition to IFRS or IFRS for Small and Medium Enterprises.

However, the auditor considers evaluating the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised) if the preparer of the financial statements has not applied the relevant FRPs in the preparation of the financial statements.

Public sector perspective

In the public sector, where applicable, reference would also be made to the PFMA in addition to the applicable financial reporting framework and the Companies Act.

The General Notice (Directive), issued by the AGSA in terms of the PAA, and the Accounting Standards Board's Directive provide information and requirements regarding the financial reporting frameworks as well as bases of accounting applicable to public sector entities.

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38 PFMA, section 55(1).

39 ISA 210, paragraph18 and ISA 700 (Revised), paragraph A24.

40 Companies Act, 2008, Section 204(a).

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Internal control

N11. The directors' responsibility regarding internal control is inferred by the requirement in the Companies Act for the board to approve[41] the financial statements. Accordingly, the directors' responsibility paragraph in the report states that the directors are responsible for such internal control, as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error[42].

Public sector perspective

In the public sector the accounting authority is specifically tasked as per Section 51(1)(a)(i) of the PFMA, with ensuring that an entity has and maintains an effective, efficient and transparent system of internal control.

Description of the auditor's responsibilities for the audit of the financial statements[43]

N12. Though auditors in some countries are allowed to put the description of the auditor's responsibilities on the website of an appropriate authority, in South Africa no law or regulation expressly permits that. As such, auditors are required to include the description of responsibilities in one of the following ways:

- Within the body of the auditor's report; or
- In an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix.

Public sector perspective

The second option of including an annexure has been adopted by the AGSA.

Auditor's responsibilities for the audit of the financial statements – group audit

N13. ISA 700 (Revised) requires that when ISA 600 applies, the auditor's responsibilities for the audit of the financial statements section of the auditor's report shall further describe the auditor's responsibilities in a group audit engagement by stating that:

- The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial

41 Companies Act, 2008, Sections 30(3)(c) and (d).

42 ISA 700 (Revised), paragraphs 33(a) and 39.

43 ISA 700 (Revised), paragraphs 40 to 41 and A49 to A52.

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statements;

- The auditor is responsible for the direction, supervision and performance of the group audit; and
- The auditor remains solely responsible for the auditor's opinion.[44]

This circumstance, i.e. when ISA 600 does or does not apply, has been described in the circumstances block for each illustrative auditor's report.

Disclosure of audit tenure

N14. The Regulatory Board, in terms of Section 9 and 10 read with sections 1, 2 and 3 of the Auditing Profession Act, Act 26 of 2005, published a Rule in the Government Gazette No. 39475 of 4 December 2015 which makes it mandatory that all auditor's reports on Annual Financial Statements shall disclose the number of years which the audit firm/sole practitioner has been the auditor of the entity (audit tenure). A predecessor audit firm in this context refers to an audit firm where there has been mergers/de-mergers or other combinations in the audit firm, and an audit firm shall therefore include a predecessor audit firm.

Audit tenure refers to the length of the auditor-client relationship. Thus, tenure includes the period that the predecessor audit firms (where there has been mergers/de-mergers or other combinations in the audit firm) issued audit reports on the entity.

This rule applies to audit reports issued on the Annual Financial Statements of all public interest entities, as defined in the Companies Act of 2008 and prescribed by the Regulatory Board from time to time, for periods ending on or after 31 December 2015. This rule was subsequently clarified to mean that it applies to audit reports issued on the Annual Financial Statements of all public companies – as defined in the Companies Act of 2008 – that meet the definition of a public interest entity, as per the IRBA Code of Professional Conduct for Registered Auditors.

The Regulatory Board made the decision to require the mandatory disclosure of audit tenure in the context of strengthening auditor independence, which is consistent with measures implemented in other jurisdictions. This disclosure of audit tenure will lead to transparency of association between audit firms and audit clients.

Additional Guidance

- All audit firms and sole practitioners are required to comply with the new disclosure requirement.

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44 ISA 700 (Revised), paragraph 39(c).

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- The audit tenure should reflect the number of years the audit firm/sole practitioner continuously served as auditor.
- In the case of audit firm mergers/de-mergers or change in name, the longest length of tenure should be disclosed.
- Where the client is a company, information on the appointment and changes in auditors can be obtained from the Companies and Intellectual Property Commission or company secretarial records.
- In the case of companies, as the appointment and continuation of auditors is the responsibility of the audit committee, auditors are advised to bring the requirement of this rule to the attention of the audit committee.

The auditor's signature

N15. The illustrative report assumes that the auditor or the independent reviewer is a registered auditor and that the relevant report is presented on a letterhead.

The signing convention illustrated is set out in Section R115.6SA of the IRBA Code and requires the following, in addition to the auditor's or the independent reviewer's signature and date of the report:

(a) "The individual registered auditor's full name;

(b) If not a sole proprietor, the capacity in which the auditor is signing, namely as a 'partner' or 'director';

(c) The designation 'Registered Auditor' underneath their name; and

(d) If not set out on the firm's letterhead, the name of the registered auditor's firm."

These requirements have been adapted accordingly for independent reviewer reports.

In addition, ISA 700 (Revised) requires that the name of the engagement partner be included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities[45]. Although ISA 700 (Revised) does not specify the manner in which this inclusion should be made in the auditor's report, the illustrative reports contained in the appendix to ISA 700 (Revised) do illustrate how the name of the engagement partner can be included. The illustrative wording is as follows: "The engagement partner on the audit resulting in this independent auditor's report is [*name*]".

Since the IRBA Code already requires the name of the engagement partner to be included in the auditor's report as part of the signing convention described above,

45 ISA 700 (Revised), paragraph 45 and A56 to A58.

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the illustrative reports contained in this SAAPS do not include the illustrative wording suggested in the illustrative reports contained in the appendix to ISA 700 (Revised). In South Africa, the requirements of Section 150.6 of the IRBA Code take precedence over the requirements set out in ISA 700 (Revised).

However, registered auditors are not precluded from including the illustrative wording suggested in the illustrative reports contained in the appendix to ISA 700 (Revised) in their auditor's reports, in addition to the signing convention required by the IRBA Code.

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PART B – Illustrative Reports

The illustrative reports in Part B assume that:

- Unless the circumstances indicate an assumption that the registered auditor has concluded that a reportable irregularity exists, has been reported in terms of the APA and a notification has been included in the auditor's report or a modified opinion has been expressed on the financial statements, these circumstances do not exist and the auditor's report has not been modified in this regard. The auditor's determination of whether a reportable irregularity exists is based on the careful evaluation of the events and conditions in the particular circumstances of an entity. In instances where the effect of a reportable irregularity on the auditor's report is included in an illustrative report, the auditor has performed such evaluation and has concluded that a reportable irregularity exists. (For guidance on reportable irregularities, refer to the May 2015 *Revised Guide for Registered Auditors: Reportable Irregularities in terms of the Auditing Profession Act* issued by the IRBA).
- Unless the circumstances include an assumption that the matter giving rise to a qualified or adverse opinion on the financial statements also affects the other information, this circumstance does not exist.
- Unless the circumstances include an assumption that part or all of the other information has been received after the date of the auditor's report, this circumstance does not exist.
- The relevant ethical requirements applicable to an audit engagement comprise those that are set out in Note 6 to Part A.
- The auditor or the independent reviewer has concluded that, based on the evidence in the engagement circumstances, the modifications reported are either material or material and pervasive in relation to the financial statements. Other wording may be more appropriate in the circumstances of individual engagements, in which case the wording in the illustrative reports may be adapted accordingly.

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Audited Financial Statements

5. Unmodified opinion – Separate financial statements

Circumstances include:
• Audit of a complete set of separate financial statements of a listed entity prepared in accordance with a fair presentation framework. The audit of the separate financial statements is not a group audit (i.e. ISA 600 does not apply). Consolidated financial statements are prepared separately for the listed entity. The consolidated financial statements are presented in the entity's integrated report. The auditor's reports on both the separate and consolidated financial statements are signed on the same day.
• The entity's annual report, as defined in ISA 720 (Revised), is the entity's integrated report and the separate financial statements.
• Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
• Key audit matters have been communicated.
• The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information.
• The auditor has concluded an unmodified (i.e. "clean") opinion is appropriate based on the audit evidence obtained.
• The auditor has disclosed the number of years which the audit firm has been the auditor of the listed entity (audit tenure).
• An illustration of an auditor's report on the consolidated financial statements in these circumstances is provided in illustrative auditor's report 1.

Independent Auditor's Report

To the Shareholders of ABC Limited

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of ABC Limited (the company) set out on pages … to …, which comprise the separate statement of financial position as at

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31 December 20X1, and the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of ABC Limited as at 31 December 20X1, and its separate financial performance and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the company in accordance with the Independent

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Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with ISA 701.*]

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Limited Separate Financial Statements for the year ended 31 December 20X1" and the document titled "ABC Limited Integrated Report 20X1", which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor's reports thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of separate financial

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statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that [*XX firm*] has been the auditor of ABC Limited for [*X*] years.

[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

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6. Unmodified opinion – Financial statements (IFRS for SMEs): Auditor's responsibilities are included in an Appendix

Circumstances include:

- Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply).
- Financial statements of a company in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Key audit matters have not been communicated.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa.
- The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information.
- The auditor has concluded an unmodified (i.e. "clean") opinion is appropriate based on the audit evidence obtained.
- The auditor has decided to include the description of his responsibilities for the audit of the financial statements in an appendix to the auditor's report.

Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Opinion

We have audited the financial statements of ABC Proprietary Limited set out on pages ... to ..., which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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DD20-PS-0351

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements

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applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can

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arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditor's report. This description, which is located at [*indicate page number or other specific reference to the location of the description*], forms part of our auditor's report.

[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

Appendix

Auditor's Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the

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related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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7. Ongemodifiseerde mening – Finansiële State (IFRS for SMEs): Ouditeur se verantwoordelikhede is ingesluit in 'n Bylaag tot die verslag

Omstandighede sluit in:

- Hierdie verslag is 'n vertaling van voorbeeld 6 van SAAPS 3 (Revised 2019).
- Oudit van 'n volledige stel finansiële state van 'n private maatskappy in terme van die Maatskappywet van Suid-Afrika ooreenkomstig 'n redelike voorstellingsraamwerk ("fair presentation framework"). The audit is not a group audit (m.a.w. ISA 600 is nie van toepasing nie). Finansiële state van 'n maatskappy ooreenkomstig die 'International Financial Reporting Standard for Small and Medium-sized Entities' en die vereistes van die Maatskappywet van Suid-Afrika.
- Op grond van verkreë ouditbewyse het die ouditeur tot die gevolgtrekking gekom dat daar geen wesenlike onsekerheid bestaan met betrekking tot gebeure of omstandighede wat beduidende twyfel kan wek oor die entiteit se vermoë om as 'n lopende saak voort te bestaan nie.
- Sleutel-ouditaangeleenthede ("key audit matters") is nie gekommunikeer nie.
- Akte van oprigting maak nie voorsiening vir die aanstelling van 'n ouditkomitee of 'n maatskappysekretaris nie. Die ouditeur het vasgestel dat 'n Direkteursverslag ooreenkomstig die Maatskappywet van Suid-Afrika is voorberei.
- Die ouditeur het die ander inligting ("other information") vóór die datum van die ouditeur se verslag bekom en het nie 'n wesenlike teenstrydigheid tussen die ander inligting en die finansiële state, of tussen die ander inligting en die ouditeur se kennis wat tydens die oudit bekom is, geïdentifiseer nie. Die ouditeur het ook nie 'n wesenlike wanvoorstelling van die ander inligting geïdentifiseer nie.
- Die ouditeur het tot die gevolgtrekking gekom dat 'n ongemodifiseerde (m.a.w. "skoon") mening toepaslik is op grond van die ouditbewyse wat verkry is.
- Die ouditeur het besluit om die beskrywing van sy verantwoordelikhede ten opsigte van die oudit van die finansiële state in 'n bylaag tot die ouditeursverslag in te sluit.

Onafhanklike Ouditeur se Verslag

Aan die Aandeelhouers van ABC Eiendoms Beperk

Mening

Ons het die finansiële state van ABC Eiendoms Beperk, soos uiteengesit op bladsye ... tot ..., geoudit. Hierdie finansiële state bestaan uit die staat van finansiële stand soos op 31 Desember 201X, en die staat van wins of verlies en ander omvattende inkomste, die

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staat van veranderings in ekwiteit en die staat van kontantvloeie vir die jaar wat op daardie datum geëindig het, en aantekeninge tot die finansiële state, insluitende 'n opsomming van beduidende rekeningkundige beleid.

Na ons mening is die finansiële state, in alle wesenlike opsigte, 'n redelike voorstelling van die finansiële stand van die ABC Eiendoms Beperk soos op 31 Desember 20X1, en van die maatskappy se finansiële prestasie en kontantvloeie vir die jaar wat op daardie datum geëindig het, ooreenkomstig die 'International Financial Reporting Standard for Small and Medium-sized Entities' en die vereistes van die Maatskappywet van Suid-Afrika.

[Vir ouditverslae wat op of na 15 Junie 2019 uitgereik word, in verband met oudits van finansiële state vir finansiële periodes wat voor of op 14 Junie 2019 begin] [Verwyder blok indien nie van toepassing nie]

Grondslag vir Mening

Ons het ons oudit ooreenkomstig 'International Standards on Auditing' ('ISAs') uitgevoer. Ons verantwoordelikhede ingevolge daardie standaarde word verder beskryf in die *Ouditeur se Verantwoordelikhede vir die Oudit van die Finansiële State-*afdeling van ons verslag. Ons is onafhanklik van die maatskappy in ooreenstemming met artikels 290 and 291 van die 'Independent Regulatory Board for Auditors (IRBA)' se '*Code of Professional Conduct for Registered Auditors (Revised January 2018)*', afdelings 1 and 3 van die 'Independent Regulatory Board for Auditors'' se '*Code of Professional Conduct for Registered Auditors (Revised November 2018)*' (tesame die 'IRBA Codes') en ander onafhanklikheidsvereistes wat van toepassing is op oudits van finansiële state in Suid-Afrika. Ons het ons ander etiese verantwoordelikhede, soos van toepassing, ooreenkomstig die 'IRBA Codes' en ooreenkomstig ander etiese vereistes wat van toepassing is op oudits in Suid-Afrika vervul. Die 'IRBA Codes' is konsekwent met ooreenstemmende artikels van onderskeidelik die 'International Ethics Standards Board for Accountants'' se '*Code of Ethics for Professional Accountants*' en die 'International Ethics Standards Board for Accountants'' se '*International Code of Ethics for Professional Accountants (including International Independence Standards)* '. Ons glo dat die ouditbewyse wat ons verkry het, toereikend en toepaslik is om 'n grondslag vir ons ouditmening te bied.

[Vir oudits van finansiële state ten opsigte van finansiële periodes wat op of na 15 Junie 2019 begin] [Verwyder blok indien nie van toepassing nie]

Grondslag vir Mening

Ons het ons oudit ooreenkomstig 'International Standards on Auditing' ('ISAs') uitgevoer. Ons verantwoordelikhede ingevolge daardie standaarde word verder beskryf in die *Ouditeur se Verantwoordelikhede vir die Oudit van die Finansiële State-*afdeling van ons verslag. Ons is onafhanklik van die maatskappy in ooreenstemming

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met die 'Independent Regulatory Board for Auditors" se '*Code of Professional Conduct for Registered Auditors* (IRBA Code)' en ander onafhanklikheidsvereistes wat van toepassing is op oudits van finansiële state in Suid-Afrika. Ons het ons ander etiese verantwoordelikhede ooreenkomstig die 'IRBA Code' en ooreenkomstig ander etiese vereistes wat van toepassing is op oudits in Suid-Afrika vervul. Die 'IRBA Code' is konsekwent met die ooreenstemmende artikels van die 'International Ethics Standards Board for Accountants" se '*International Code of Ethics for Professional Accountants (including International Independence Standards)*'. Ons glo dat die ouditbewyse wat ons verkry het, toereikend en toepaslik is om 'n grondslag vir ons ouditmening te bied.

Ander Inligting

Die direkteure is verantwoordelik vir die ander inligting. Die ander inligting bestaan uit die inligting ingesluit in the dokument getiteld "ABC Eiendoms Beperk Algemene Jaarstate vir die jaar geëindig 31 Desember 20X1, wat die Direkteursverslag soos vereis deur die Maatskappywet van Suid-Afrika insluit. Die ander inligting sluit nie die finansiële state en ons ouditeursverslag daaroor in nie.

Ons mening oor die finansiële state dek nie die ander inligting nie en ons spreek geen ouditopinie of enige vorm van gerusstelling daaroor uit nie.

In verband met ons oudit van die finansiële state is dit ons verantwoordelikheid om die ander inligting te lees, en sodoende te oorweeg of die ander inligting wesenlik teenstrydig is met die finansiële state of kennis verkry gedurende die oudit, of andersins blyk om wesenlik wanvoorgestel te wees. Indien ons, op grond van die werk wat ons uitgevoer het tot die gevolgtrekking kom dat daar 'n wesenlike wanvoorstelling van hierdie ander inligting is, word van ons vereis om daardie feit te rapporteer. Ons het niks om in hierdie verband te rapporteer nie.

Verantwoordelikhede van die Direkteure vir die Finansiële State

Die maatskappy se direkteure is verantwoordelik vir die opstel en redelike voorstelling van die finansiële state ooreenkomstig die 'International Financial Reporting Standard for Small and Medium-sized Entities' en die vereistes van die Maatskappywet van Suid-Afrika, en vir sodanige interne beheer as wat die direkteure nodig ag vir die opstel van finansiële state wat vry is van wesenlike wanvoorstelling, hetsy weens bedrog of foute.

As deel van die opstel van die finansiële state is die direkteure daarvoor verantwoordelik om die maatskappy se vermoë om as 'n lopende saak voort te bestaan te beoordeel, en soos toepaslik aangeleenthede wat verband hou met lopende saak en die gebruik van die lopende-saak-grondslag van verslagdoening te openbaar, tensy die direkteure beplan om die maatskappy te likwideer of om bedrywighede te staak, of geen realistiese alternatief het as om dit te doen nie.

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Ouditeur se Verantwoordelikhede vir die Oudit van die Finansiële State

Ons doelwitte is om redelike gerusstelling te verkry of die finansiële state as 'n geheel vry is van wesenlike wanvoorstelling, hetsy weens bedrog of foute, en om 'n ouditeursverslag uit te reik wat ons mening bevat. Redelike gerusstelling is 'n hoë vlak van gerusstelling, maar is nie 'n waarborg dat 'n oudit wat ooreenkomstig die ISAs uitgevoer is altyd 'n wesenlike wanvoorstelling sal opspoor indien dit bestaan nie. Wanvoorstellings kan ontstaan as gevolg van bedrog of foute, en word individueel of in totaal wesenlik geag indien dit redelikerwys verwag kan word dat sodanige wanvoorstellings die ekonomiese besluite van gebruikers wat op grond van hierdie finansiële state geneem word sal beïnvloed.

'n Verdere beskrywing van ons verantwoordelikhede ten opsigte van die oudit van die finansiële state is ingesluit in die Bylaag van hierdie ouditeursverslag. Hierdie beskrywing, wat by [*dui bladsynommer of ander spesifieke verwysing na die plasing van die beskrywing aan*] geleë is, vorm deel van ons ouditeursverslag.

[*Ouditeur se handtekening*]

[*Naam van individuele geregistreerde ouditeur*]

[*Kapasiteit indien nie 'n alleen-praktisyn bv. Direkteur of Vennoot*]

Geregistreerde Ouditeur

[*Datum van ouditeur se verslag*]

[*Ouditeur se adres*]

Bylaag

Ouditeur se Verantwoordelikhede vir die Oudit van die Finansiële State

As deel van 'n oudit ooreenkomstig die ISAs oefen ons professionele oordeel uit en handhaaf ons professionele skeptisisme deurlopend deur die oudit. Ons doen ook die volgende:

- Identifiseer en beoordeel die risikos van wesenlike wanvoorstelling van die finansiële state, hetsy weens bedrog of foute, ontwerp en voer ouditprosedures uit na aanleiding van daardie risikos, en verkry ouditbewyse wat voldoende en toepaslik is om 'n grondslag vir ons ouditmening te bied. Die risiko van nie-opsporing van 'n wesenlike wanvoorstelling as gevolg van bedrog is groter as vir 'n wesenlike wanvoorstelling as gevolg van foute, aangesien bedrog samespanning, vervalsing, doelbewuste weglatings, wanvoorstellings, of die omseiling van interne beheer kan behels.

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- Verkry 'n begrip van interne beheer relevant tot die oudit ten einde ouditprosedures te ontwerp wat toepaslik is in die omstandighede, maar nie vir die doel om 'n mening uit te spreek oor die effektiwiteit van die maatskappy se interne beheer nie.
- Evalueer die toepaslikheid van rekeningkundige beleid wat gebruik is en die redelikheid van rekeningkundige ramings en verwante openbaarmaking wat deur die direkteure gemaak is.
- Kom tot 'n gevolgtrekking oor die toepaslikheid van die direkteure se gebruik van die lopende-saak-grondslag van verantwoording, en gebaseer op ouditbewyse verkry, kom tot 'n gevolgtrekking oor die bestaan van 'n wesenlike onsekerheid wat verband hou met gebeure of omstandighede wat beduidende twyfel kan laat bestaan oor die maatskappy se vermoë om as 'n lopende saak voort te bestaan. Waar ons tot die gevolgtrekking kom dat 'n wesenlike onsekerheid bestaan word daar van ons vereis om in ons ouditeursverslag aandag te vestig op die toepaslike openbaarmaking in die finansiële state, of, indien sodanige openbaarmaking onvoldoende is, om ons mening te wysig. Ons gevolgtrekkings word gebaseer op ouditbewyse verkry tot en met die datum van ons ouditeursverslag. Toekomstige gebeure en omstandighede mag egter daartoe aanleiding gee dat die maatskappy ophou om as 'n lopende saak voort te bestaan.
- Evalueer die algehele voorstelling, struktuur en inhoud van die finansiële state, insluitende die openbaarmaking, en of die finansiële state die onderliggende transaksies en gebeure op só 'n manier weergee dat redelike voorstelling bereik word.

Ons kommunikeer met die direkteure oor, onder andere, die beplande omvang en tydsberekening van die oudit en beduidende ouditbevindinge, insluitende enige beduidende tekortkominge in interne beheer wat ons tydens ons oudit identifiseer.

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8. Unmodified opinion – Financial statements (entity specific basis of accounting)

Circumstances include:

- Voluntary audit undertaken for a private company pursuant to a shareholder resolution. The public interest score is less than 100 and the financial statements are internally compiled. The financial statements are intended for the purpose of providing financial information to the shareholders, considered specific users. (The entity is a private company in terms of the Companies Act of South Africa).
- The financial statements are prepared in accordance with a basis of accounting determined by the directors and include a directors' report, which is a requirement of the Companies Act of South Africa. The audit is not a group audit (i.e. ISA 600 does not apply). The financial statements do not include a statement of changes in equity.
- ISA 800 (Revised) applies and the independent auditor has determined that the basis of accounting is acceptable to the intended users of the financial statements.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Key audit matters have not been communicated.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa .
- The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information.
- The auditor has concluded an unmodified (i.e. "clean") opinion is appropriate based on the audit evidence obtained.

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Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Opinion

We have audited the financial statements of ABC Proprietary Limited set out on pages ... to ...., which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of ABC Proprietary Limited for the year ended 31 December 20X1 are prepared, in all material respects, in accordance with the basis of accounting described in note x to the financial statements and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019]
[Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to note x to the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the company's own accounting policies to satisfy the financial information needs of the company's shareholders. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with the basis of accounting described in note x and the requirements of the Companies Act of South Africa, for determining that the basis of preparation is acceptable in the circumstances and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up

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to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

KTD P.S

9. Unmodified opinion – Non-operating company: Company is dormant

Circumstances include:

- Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply).
- The company has no assets or liabilities other than the amount due by/to its shareholder.
- Financial statements of a company prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. No statement of profit or loss and other comprehensive income, changes in equity and cash flows presented as the company is dormant.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Key audit matters have not been communicated.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa .
- The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information.
- The auditor has concluded an unmodified (i.e. "clean") opinion on the financial position is appropriate based on the audit evidence obtained. No opinion is expressed on the financial performance and cash flows.

Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Opinion

We have audited the financial statements of ABC Proprietary Limited set out on pages … to …, which comprise the statement of financial position as at 31 December 20X1, and notes to the financial statements, including a summary of significant accounting policies.

KTD P.S

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Proprietary Limited as at 31 December 20X1 in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the

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corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate,

KTD PS

they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's Address*]

KTD P.S

10. Emphasis of matter – Subsequent Event: Re-issue of financial statements

Circumstances include: • Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply). • Deferred tax is raised on the taxable temporary differences after the issue of the financial statements and the financial statements are amended. Previously issued financial statements and auditor's report revised and reissued. Matter does not affect the auditor's opinion. Adequate disclosure has been made in the notes to the financial statements. The auditor has concluded that an emphasis of matter is appropriate. • Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. • Key audit matters have not been communicated. • Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa . • The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information. • The auditor has concluded an unmodified (i.e. "clean") opinion is appropriate based on the audit evidence obtained.

Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Opinion

We have audited the financial statements of ABC Proprietary Limited set out on pages … to …, which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the

KTD P.S

financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in

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accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Subsequent Event

We draw attention to Note x to the financial statements which indicates that the previously issued financial statements for the year ended 31 December 20X1, on which we issued an auditor's report dated [*date*], have been revised and reissued. As explained in Note x, this is to reflect the effects of the correction of the accounting treatment of deferred tax. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

KTO P.S

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

KTD P.S

11. Unmodified opinion and report on other legal and regulatory requirements - Consolidated financial statements and separate financial statements presented together (IFRS) and reportable irregularity: Fair presentation not affected

Circumstances include:

- Audit of a complete set of consolidated and separate financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries and of the company (i.e. ISA 600 applies). Consolidated financial statements and separate financial statements are presented together (four column format).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Key audit matters relating to the consolidated and separate financial statements have been communicated.
- The auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- The auditor has concluded an unmodified (i.e. "clean") opinion is appropriate based on the audit evidence obtained.
- Reportable irregularity identified and reported in terms of section 45 of the APA. Reportable irregularity does not affect the fair presentation of the consolidated and separate financial statements and is not considered a key audit matter. Report on other legal and regulatory requirements.
- The auditor has disclosed the number of years which the audit firm has been the auditor of the listed entity (audit tenure).

KTO P.S

DD20-PS-0375

Independent Auditor's Report

To the Shareholders of ABC Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of ABC Limited (the group and company) set out on pages ... to ..., which comprise the consolidated and separate statements of financial position as at 31 December 20X1, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of ABC Limited as at 31 December 20X1, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We

KTO P.S

believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with ISA 701.*]

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

KTD P.S

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and / or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is

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sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe

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these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that [*XX firm*] has been the auditor of ABC Limited for [*X*] years.

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified a reportable irregularity in terms of the Auditing Profession Act. We have reported such matter to the Independent Regulatory Board for Auditors. [The matter pertaining to the reportable irregularity has been described in note x to the consolidated and separate financial statements[46].]

[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

46 Insert this sentence when disclosure is made in the financial statements. Where the directors have not made adequate and appropriate disclosure and the financial statements are fairly presented, in all material respects, the auditor discloses the information relating to the Reportable Irregularity in the auditor's report.

KTD PS

12. Ongemodifiseerde mening en verslag oor ander regs- en regulatoriese vereistes – Gekonsolideerde finansiële state en afsonderlike finansiële state tesame voorgelê (IFRS) en rapporteerbare onreëlmatigheid: Redelike voorstellings nie beïnvloed nie

Omstandighede sluit in: • Hierdie verslag is 'n vertaling van voorbeeld 11 van SAAPS 3 (Revised 2019). • Oudit van 'n volledige stel gekonsolideerde en afsonderlike finansiële state van 'n genoteerde entiteit opgestel ooreenkomstig 'n redelike voorstellingsraamwerk ("fair presentation framework"). Die oudit is 'n groepsoudit van 'n entiteit met filiale en van die maatskappy (m.a.w. ISA 600 is van toepassing). Gekonsolideerde finansiële state en afsonderlike finansiële state word tesame aangebied (vier-kolom-formaat). • Op grond van die verkreë ouditbewyse het die ouditeur tot die gevolgtrekking gekom dat daar geen wesenlike onsekerheid bestaan met betrekking tot gebeure of omstandighede wat beduidende twyfel kan wek oor die entiteit se vermoë om as 'n lopende saak voort te bestaan nie. • Sleutel-ouditaangeleenthede ("key audit matters") in verband met die gekonsolideerde en afsonderlike finansiële state was gekommunikeer. • Die ouditeur het 'n deel van die ander inligting ("other information") vóór die datum van die ouditeur se verslag bekom, het nie 'n wesenlike teenstrydigheid tussen die ander inligting en die finansiële state, of tussen die ander inligting en die ouditeur se kennis wat tydens die oudit bekom is, geïdentifiseer nie. Die ouditeur het ook nie 'n wesenlike wanvoorstelling van die ander inligting geïdentifiseer nie. Die ouditeur verwag om ander inligting ná die datum van die ouditeur se verslag te bekom. • Die ouditeur het tot die gevolgtrekking gekom dat 'n ongemodifiseerde (m.a.w. "skoon") mening toepaslik is op grond van die ouditbewyse wat verkry is. • Rapporteerbare onreëlmatigheid geïdentifiseer en gerapporteer ooreenkomstig artikel 45 van die Ouditprofessiewet. Rapporteerbare onreëlmatigheid beïnvloed nie die redelike voorstelling van die gekonsolideerde en afsonderlike finansiële state nie en word nie 'n sleutel-ouditaangeleentheid geag nie. Verslag oor ander regs- en regulatoriese vereistes. • Die ouditeur het die aantal jare geopenbaar waarvoor die ouditfirma in die hoedanigheid as die ouditeur van die genoteerde entiteit aangestel is (ouditampstermyn of "audit tenure").

KTD P.S

Onafhanklike Ouditeur se Verslag

Aan die Aandeelhouers van ABC Beperk

Verslag oor die Oudit van die Gekonsolideerde en Afsonderlike Finansiële State

Mening

Ons het die gekonsolideerde en afsonderlike finansiële state van ABC Beperk (die groep), soos uiteengesit op bladsye ... tot ..., geoudit. Hierdie gekonsolideerde en afsonderlike finansiële state bestaan uit die gekonsolideerde en afsonderlike state van finansiële stand soos op 31 Desember 201X, en die gekonsolideerde en afsonderlike state van wins of verlies en ander omvattende inkomste, die gekonsolideerde en afsonderlike state van veranderings in ekwiteit en die gekonsolideerde en afsonderlike state van kontantvloeie vir die jaar wat op daardie datum geëindig het, en aantekeninge tot die gekonsolideerde en afsonderlike finansiële state, insluitende 'n opsomming van beduidende rekeningkundige beleid.

Na ons mening is die gekonsolideerde en afsonderlike finansiële state, in alle wesenlike opsigte, 'n redelike voorstelling van die gekonsolideerde en afsonderlike finansiële stand van die groep soos op 31 Desember 20X1, en van die groep se gekonsolideerde en afsonderlike finansiële prestasie en gekonsolideerde en afsonderlike kontantvloeie vir die jaar wat op daardie datum geëindig het, ooreenkomstig 'International Financial Reporting Standards' en die vereistes van die Maatskappywet van Suid-Afrika.

Grondslag vir Mening

[Vir ouditverslae wat op of na 15 Junie 2019 uitgereik word, in verband met oudits van finansiële state vir finansiële periodes wat voor of op 14 Junie 2019 begin] [Verwyder blok indien nie van toepassing nie]

Grondslag vir Mening

Ons het ons oudit ooreenkomstig 'International Standards on Auditing' ('ISAs') uitgevoer. Ons verantwoordelikhede ingevolge daardie standaarde word verder beskryf in die *Ouditeur se Verantwoordelikhede vir die Oudit van die Finansiële State*-afdeling van ons verslag. Ons is onafhanklik van die maatskappy in ooreenstemming met artikels 290 and 291 van die 'Independent Regulatory Board for Auditors (IRBA)' se '*Code of Professional Conduct for Registered Auditors (Revised January 2018)*', afdelings 1 and 3 van die 'Independent Regulatory Board for Auditors" se '*Code of Professional Conduct for Registered Auditors (Revised November 2018)*' (tesame die 'IRBA Codes') en ander onafhanklikheidsvereistes wat van toepassing is op oudits van finansiële state in Suid-Afrika. Ons het ons ander etiese verantwoordelikhede, soos van toepassing, ooreenkomstig die 'IRBA Codes' en ooreenkomstig ander etiese vereistes wat van toepassing is op oudits in Suid-Afrika vervul. Die 'IRBA Codes' is konsekwent met die ooreenstemmende artikels van onderskeidelik die 'International

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Ethics Standards Board for Accountants" se '*Code of Ethics for Professional Accountants*' en die 'International Ethics Standards Board for Accountants" se '*International Code of Ethics for Professional Accountants (including International Independence Standards)*' . Ons glo dat die ouditbewyse wat ons verkry het, toereikend en toepaslik is om 'n grondslag vir ons ouditmening te bied.

[Vir oudits van finansiële state ten opsigte van finansiële periodes wat op of na 15 Junie 2019 begin] [Verwyder blok indien nie van toepassing nie]

Grondslag vir Mening

Ons het ons oudit ooreenkomstig 'International Standards on Auditing' ('ISAs') uitgevoer. Ons verantwoordelikhede ingevolge daardie standaarde word verder beskryf in die *Ouditeur se Verantwoordelikhede vir die Oudit van die Finansiële State*-afdeling van ons verslag. Ons is onafhanklik van die maatskappy in ooreenstemming met die 'Independent Regulatory Board for Auditors" se '*Code of Professional Conduct for Registered Auditors* (IRBA Code)' en ander onafhanklikheidsvereistes wat van toepassing is op oudits van finansiële state in Suid-Afrika. Ons het ons ander etiese verantwoordelikhede ooreenkomstig die 'IRBA Code' en ooreenkomstig ander etiese vereistes wat van toepassing is op oudits in Suid-Afrika vervul. Die 'IRBA Code' is konsekwent met die ooreenstemmende artikels van die 'International Ethics Standards Board for Accountants" se '*International Code of Ethics for Professional Accountants (including International Independence Standards)*'. Ons glo dat die ouditbewyse wat ons verkry het, toereikend en toepaslik is om 'n grondslag vir ons ouditmening te bied.

Sleutel-ouditaangeleenthede

Sleutel-ouditaangeleenthede is daardie aangeleenthede wat volgens ons professionele oordeel van die mees beduidende was in ons oudit van die gekonsolideerde en afsonderlike finansiële state vir die huidige tydperk. Hierdie aangeleenthede is aangespreek in die konteks van ons oudit van die gekonsolideerde en afsonderlike finansiële state as 'n geheel, en in die vorming van ons mening daaroor, en ons spreek nie 'n afsonderlike mening oor hierdie aangeleenthede nie.

[Beskrywing van elke sleutel-ouditaangeleentheid in ooreenstemming met ISA 701.]

Ander Inligting

Die direkteure is verantwoordelik vir die ander inligting. Die ander inligting bestaan uit die inligting ingesluit in the dokument getiteld "ABC Eiendoms Beperk Algemene Jaarstate vir die jaar geëindig 31 Desember 20X1, wat die Direkteursverslag, die Verslag van die Ouditkomitee en die Sertifikaat van die Maatskappysekretaris soos vereis deur die Maatskappywet van Suid-Afrika insluit, wat ons voor die datum van hierdie verslag

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verkry het, en die Algemene Jaarverslag, wat ons verwag aan ons beskikbaar gemaak sal word na daardie datum. Die ander inligting sluit nie die gekonsolideerde en afsonderlike finansiële state en ons ouditeursverslag daaroor in nie.

Ons mening oor die gekonsolideerde en afsonderlike finansiële state dek nie, en sal nie die ander inligting dek nie, en ons spreek geen ouditopinie of enige vorm van gerusstelling daaroor uit nie.

In verband met ons oudit van die gekonsolideerde en afsonderlike finansiële state is dit ons verantwoordelikheid om die ander inligting te lees, en sodoende te oorweeg of die ander inligting wesenlik teenstrydig is met die gekonsolideerde en afsonderlike finansiële state of kennis verkry gedurende die oudit, of andersins blyk om wesenlik wanvoorgestel te wees. Indien ons, op grond van die werk wat ons uitgevoer het op die ander inligting verkry voor die datum van die ouditeursverslag, tot die gevolgtrekking kom dat daar 'n wesenlike wanvoorstelling van hierdie ander inligting is, word van ons vereis om daardie feit te rapporteer. Ons het niks om in hierdie verband te rapporteer nie.

Verantwoordelikhede van die Direkteure vir die Gekonsolideerde en Afsonderlike Finansiële State

Die maatskappy se direkteure is verantwoordelik vir die opstel en redelike voorstelling van die gekonsolideerde en afsonderlike finansiële state ooreenkomstig 'International Financial Reporting Standards' en die vereistes van die Maatskappywet van Suid-Afrika, en vir sodanige interne beheer as wat die direkteure nodig ag vir die opstel van gekonsolideerde en afsonderlike finansiële state wat vry is van wesenlike wanvoorstelling, hetsy weens bedrog of foute.

As deel van die opstel van die gekonsolideerde en afsonderlike finansiële state is die direkteure daarvoor verantwoordelik om die groep en die maatskappy se vermoë om as 'n lopende saak voort te bestaan te beoordeel, en soos toepaslik aangeleenthede wat verband hou met lopende saak en die gebruik van die lopende-saak-grondslag van verslagdoening te openbaar, tensy die direkteure beplan om die groep en / of die maatskappy te likwideer of om bedrywighede te staak, of geen realistiese alternatief het as om dit te doen nie.

Ouditeur se Verantwoordelikhede vir die Oudit van die Gekonsolideerde en Afsonderlike Finansiële State

Ons doelwitte is om redelike gerusstelling te verkry of die gekonsolideerde en afsonderlike finansiële state as 'n geheel vry is van wesenlike wanvoorstelling, hetsy weens bedrog of foute, en om 'n ouditeursverslag uit te reik wat ons mening bevat. Redelike gerusstelling is 'n hoë vlak van gerusstelling, maar is nie 'n waarborg dat 'n oudit wat ooreenkomstig die ISAs uitgevoer is altyd 'n wesenlike wanvoorstelling sal opspoor indien dit bestaan nie. Wanvoorstellings kan ontstaan as gevolg van bedrog of foute, en word individueel of in totaal wesenlik geag indien dit redelikerwys verwag kan word dat sodanige wanvoorstellings die ekonomiese besluite van gebruikers wat op

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grond van hierdie gekonsolideerde en afsonderlike finansiële state geneem word sal beïnvloed.

As deel van 'n oudit ooreenkomstig die ISAs oefen ons professionele oordeel uit en handhaaf ons professionele skeptisisme deurlopend deur die oudit. Ons doen ook die volgende:

- Identifiseer en beoordeel die risikos van wesenlike wanvoorstelling van die gekonsolideerde en afsonderlike finansiële state, hetsy weens bedrog of foute, ontwerp en voer ouditprosedures uit na aanleiding van daardie risikos, en verkry ouditbewyse wat voldoende en toepaslik is om 'n grondslag vir ons ouditmening te bied. Die risiko van nie-opsporing van 'n wesenlike wanvoorstelling as gevolg van bedrog is groter as vir 'n wesenlike wanvoorstelling as gevolg van foute, aangesien bedrog samespanning, vervalsing, doelbewuste weglatings, wanvoorstellings, of die omseiling van interne beheer kan behels.
- Verkry 'n begrip van interne beheer relevant tot die oudit ten einde ouditprosedures te ontwerp wat toepaslik is in die omstandighede, maar nie vir die doel om 'n mening uit te spreek oor die effektiwiteit van die groep en die maatskappy se interne beheer nie.
- Evalueer die toepaslikheid van rekeningkundige beleid wat gebruik is en die redelikheid van rekeningkundige ramings en verwante openbaarmaking wat deur die direkteure gemaak is.
- Kom tot 'n gevolgtrekking oor die toepaslikheid van die direkteure se gebruik van die lopende-saak-grondslag van verantwoording, en gebaseer op ouditbewyse verkry, kom tot 'n gevolgtrekking oor die bestaan van 'n wesenlike onsekerheid wat verband hou met gebeure of omstandighede wat beduidende twyfel kan laat bestaan oor die groep en die maatskappy se vermoë om as 'n lopende saak voort te bestaan. Waar ons tot die gevolgtrekking kom dat 'n wesenlike onsekerheid bestaan word daar van ons vereis om in ons ouditeursverslag aandag te vestig op die toepaslike openbaarmaking in die gekonsolideerde en afsonderlike finansiële state, of, indien sodanige openbaarmaking onvoldoende is, om ons mening te wysig. Ons gevolgtrekkings word gebaseer op ouditbewyse verkry tot en met die datum van ons ouditeursverslag. Toekomstige gebeure en omstandighede mag egter daartoe aanleiding gee dat die groep en / of die maatskappy ophou om as 'n lopende saak voort te bestaan.
- Evalueer die algehele voorstelling, struktuur en inhoud van die gekonsolideerde en afsonderlike finansiële state, insluitende die openbaarmaking, en of die gekonsolideerde en afsonderlike finansiële state die onderliggende transaksies en gebeure op só 'n manier weergee dat redelike voorstelling bereik word.
- Verkry voldoende toepaslike ouditbewyse in verband met die finansiële inligting van die entiteite of besigheidsaktiwiteite binne die groep om 'n mening oor die

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gekonsolideerde finansiële state uit te spreek. Ons is verantwoordelik vir die leiding, toesig en uitvoering van die groepsoudit. Ons bly uitsluitlik verantwoordelik vir ons ouditmening.

Ons kommunikeer met die direkteure oor, onder andere, die beplande omvang en tydsberekening van die oudit en beduidende ouditbevindinge, insluitende enige beduidende tekortkominge in interne beheer wat ons tydens ons oudit identifiseer.

Ons voorsien ook die direkteure met 'n bevestiging dat ons relevante etiese vereistes rakende onafhanklikheid nagekom het, en ons kommunikeer aan hulle alle verhoudings en ander aangeleenthede wat redelikerwys geag kan word om ons onafhanklikheid te beïnvloed, sowel as voorsorgmaatreëls, waar dit van toepassing is.

Vanuit die aangeleenthede aan die direkteure gekommunikeer bepaal ons daardie aangeleenthede wat die mees beduidende was in ons oudit van die gekonsolideerde en afsonderlike finansiële state van die huidige tydperk, en dus as die sleutel-ouditaangeleenthede geag word. Ons beskryf hierdie aangeleenthede in ons ouditeursverslag tensy wetgewing of regulasies publieke openbaarmaking van die aangeleentheid verbied, of wanneer ons in uiterse seldsame omstandighede bepaal dat die aangeleentheid nie in ons verslag gekommunikeer moet word nie aangesien die negatiewe gevolge na verwagting swaarder sal weeg as die publieke belang-voordele van sodanige kommunikasie.

Verslag oor Ander Regs- en Regulatoriese Vereistes

Ooreenkomstig die 'IRBA'-reël wat in Staatskoerant 39475 van 4 Desember 2015 gepubliseer is, doen ons verslag dat [XX-firma] vir die afgelope [X] jaar die ouditeur van ABC Beperk was.

In ooreenstemming met ons verantwoordelikhede ingevolge artikels 44(2) en 44(3) van die Ouditprofessiewet lewer ons verslag dat ons 'n rapporteerbare onreëlmatigheid ooreenkomstig met die Ouditprofessiewet geïdentifiseer het. Ons het die aangeleentheid aan die 'Independent Regulatory Board for Auditors' gerapporteer. [Die aangeleentheid in verband met die rapporteerbare onreëlmatigheid word beskryf in aantekening x tot die gekonsolideerde en afsonderlike finansiële state.[47]]

47 Sluit hierdie sin in waar openbaarmaking in die finansiële state aangebied word. In gevalle waar die direkteure nie voldoende toepaslike openbaarmaking aangebied het nie en die finansiële state in alle wesenlike opsigte 'n redelike voorstelling bied, openbaar die ouditeur die inligting in verband met die Rapporteerbare Onreëlmatigheid in die ouditeur se verslag.

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[*Ouditeur se handtekening*]

[*Naam van individuele geregistreerde ouditeur*]

[*Kapasiteit indien nie 'n alleen-praktisyn bv. Direkteur of Vennoot*]

Geregistreerde Ouditeur

[*Datum van ouditeur se verslag*]

[*Ouditeur se adres*]

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13. Qualified opinion – Reportable irregularity: Non-compliance with section 45 of the Companies Act and valuation of a loan receivable

Circumstances include:

- Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply).
- Non-compliance with section 45 of the Companies Act of South Africa and loan-receivable not impaired that has also been reported as a reportable irregularity in terms of section 45 of the APA. Reportable irregularity affects the opinion on the financial statements – material misstatement of financial statements where the effect of the reportable irregularity identified is not so material and pervasive as to require an adverse opinion (i.e. a qualified opinion is appropriate). Other reporting responsibilities clearly differentiated from those under the ISAs and the auditor has chosen to include this within the Basis for Qualified Opinion section of the auditor's report in accordance with paragraphs 42-43 and A55 of ISA 700 (Revised). Adequate disclosure has been made in the notes to the financial statements.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Key audit matters have not been communicated.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa .
- The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information.
- The auditor has concluded that the matter above is material but not pervasive to the financial statements and a modified (i.e. "qualified") opinion is appropriate based on the audit evidence obtained.

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Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Qualified Opinion

We have audited the financial statements of ABC Proprietary Limited set out on pages ... to ..., which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, the financial statements present fairly, in all material respects, the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019]
[Delete block if not applicable]

Basis for Qualified Opinion

Note x to the financial statements indicates that the company has extended a loan to a fellow-subsidiary without complying with the requirements of the Companies Act. Note x also indicates that the carrying amount of the loan receivable in the financial statements amounts to Rxxx for the year ended 31 December 20X1 (20X0: Rxxx) and gives an explanation as to why no impairment has been performed on the loan receivable even though the fellow subsidiary has been declared insolvent. We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves that no adjustments to the carrying amount of the loan receivable were necessary in these circumstances.

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, responsibilities beyond those required under the International Standards on Auditing, we report that we have identified the matters described in the preceding paragraph as a reportable irregularity in terms of the Auditing Profession Act. We have reported such matter to the Independent Regulatory Board for Auditors.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for*

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Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Qualified Opinion .

Note x to the financial statements indicates that the company has extended a loan to a fellow-subsidiary without complying with the requirements of the Companies Act. Note x also indicates that the carrying amount of the loan receivable in the financial statements amounts to Rxxx for the year ended 31 December 20X1 (20X0: Rxxx) and gives an explanation as to why no impairment has been performed on the loan receivable even though the fellow subsidiary has been declared insolvent. We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves that no adjustments to the carrying amount of the loan receivable were necessary in these circumstances.

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, responsibilities beyond those required under the International Standards on Auditing, we report that we have identified the matters described in the preceding paragraph as a reportable irregularity in terms of the Auditing Profession Act. We have reported such matter to the Independent Regulatory Board for Auditors.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the

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corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate,

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they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

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14. Adverse opinion and report on other legal and regulatory requirements – Going concern assumption inappropriate and reportable irregularity

Circumstances include:

- Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply).
- The company ceased trading subsequent to year end and it is expected that the assets will not realise their carrying amounts. Financial statements are prepared using the going concern basis of accounting.
- Key audit matters have not been communicated.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa .
- The auditor has obtained all of the other information prior to the date of the auditor's reports and has determined that the matter giving rise to the adverse opinion on the financial statements also affects the other information.
- The auditor has concluded that it is inappropriate to prepare financial statements on a going concern basis of accounting and, as such, the matter above is material and pervasive to the financial statements and a modified (i.e. "adverse") opinion is appropriate based on the audit evidence obtained.
- Reportable irregularity identified and reported in terms of section 45 of the APA. Reportable irregularity does not affect the fair presentation of the financial statements. Report on other legal and regulatory requirements.

Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the financial statements of ABC Proprietary Limited set out on pages … to …, which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion section of our report, the financial statements do not present fairly the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

Basis for Adverse Opinion

The company incurred a net loss for the year ended 31 December 20X1 of Rxxx (20X0: Rxxx) and, as at that date its total liabilities exceeded its total assets by Rxxx (20X0: Rxxx). Subsequent to year-end, the company has ceased trading and is in the process of realising its assets and settling its liabilities. No arrangement has been made to settle the remaining liabilities of the company in the event that the proceeds of the realised assets are insufficient to meet all liabilities. The financial statements are prepared on the going concern basis which, in our judgement, is inappropriate in these circumstances.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

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[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Adverse Opinion

The company incurred a net loss for the year ended 31 December 20X1 of Rxxx (20X0: Rxxx) and, as at that date its total liabilities exceeded its total assets by Rxxx (20X0: Rxxx). Subsequent to year-end, the company has ceased trading and is in the process of realising its assets and settling its liabilities. No arrangement has been made to settle the remaining liabilities of the company in the event that the proceeds of the realised assets are insufficient to meet all liabilities. The financial statements are prepared on the going concern basis which, in our judgement, is inappropriate in these circumstances.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above,

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in our judgement, it is inappropriate to prepare the financial statements on the going concern basis. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Directors' Report affected by this matter.

Responsibilities of the Directors' for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified a reportable irregularity in terms of the Auditing Profession Act. We have reported such matter to the Independent Regulatory Board for Auditors. [The matter pertaining to the reportable irregularity has been described in note x to the financial statements[48].]

[Auditor's Signature]

[Name of individual registered auditor]

[Capacity if not a sole practitioner: e.g. Director or Partner]

Registered Auditor

[Date of the auditor's report]

[Auditor's address]

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48 Insert this sentence when disclosure is made in the financial statements. Where the directors have not made adequate and appropriate disclosure and the financial statements are fairly presented, in all material respects, the auditor discloses the information relating to the Reportable Irregularity in the auditor's report.

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15. Disclaimer of opinion and report on other legal and regulatory requirements – Going concern and reportable irregularity: Unable to obtain sufficient appropriate audit evidence to determine whether the entity will continue as a going concern

Circumstances include:

- Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply).
- The directors have disclosed that the entity will be able to continue to operate as a going concern. The auditor is unable to obtain sufficient appropriate audit evidence to determine whether the entity will continue as a going concern.
- Furthermore, the company has not recognised depreciation in respect of its plant and equipment and is deemed to be material.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary.
- The auditor has concluded that the going concern matter above is material and pervasive to the financial statements and the non-recognition of depreciation is material but not pervasive to the financial statements. A modified (i.e. "disclaimer") opinion is appropriate based on the audit evidence obtained.
- Reportable irregularity identified and reported in terms of section 45 of the APA. It has not been determined whether the reportable irregularity affects the fair presentation of the financial statements. Report on other legal and regulatory requirements.

Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of ABC Proprietary Limited set out on pages ... to ..., which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the financial statements of ABC Proprietary Limited. Because of the significance of the matters described in the Basis for Disclaimer of

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Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

As indicated in note x to the financial statements, the company incurred a net loss of Rxxx for the year ended 31 December 20X1 (20X0: Rxxx) and, at that date, its total liabilities exceeded its total assets by Rxxx (20X0: Rxxx). The note states that the company will continue to receive financial support from the related parties, however, the directors have not provided us with agreements from the related parties committing funding for the foreseeable future. The directors have also not provided us with cash flow forecasts to support the appropriateness of the financial statements being prepared using the going concern basis of accounting. Consequently we were unable to confirm or dispel whether it is appropriate to prepare the financial statements using the going concern basis of accounting.

Furthermore, International Accounting Standard 16, *Property, Plant and Equipment*, requires the depreciable amount of depreciable assets to be allocated on a systemic basis over the assets' useful lives. No depreciation has been recognised in respect of the company's plant and equipment. Consequently, plant and equipment, included in note x to the financial statements is overstated by Rxxx (20X0: Rxxx), while income tax, net income and shareholders' equity is overstated by Rxxx (20X0: Rxxx), Rxxx (20X0: Rxxx) and Rxxx (20X0: Rxxx) respectively. These required adjustments are considered material to the financial statements as a whole.

Other Matter – Reports Required by the Companies Act

The annual financial statements include the Directors' Report as required by the Companies Act of South Africa. The directors are responsible for this other information.

We have read the other information and, in doing so, considered whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. However, due to the disclaimer of opinion in terms of the International Standard on Auditing (ISA) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, we are unable to report further on this other information.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the

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directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

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Report on Other Legal and Regulatory Requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified a reportable irregularity in terms of the Auditing Profession Act. We have reported such matter to the Independent Regulatory Board for Auditors. [The matter pertaining to the reportable irregularity has been described in note x to the financial statements[49].]

[*Auditor's signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

49 Insert this sentence when disclosure is made in the financial statements. Where the directors have not made adequate and appropriate disclosure and the financial statements are fairly presented, in all material respects, the auditor discloses the information relating to the Reportable Irregularity in the auditor's report.

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16. Disclaimer of opinion and report on other legal and regulatory requirements – Unable to obtain required written representations and reportable irregularity

Circumstances include:

- Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply).
- Management does not provide the written representations required by paragraphs 10 and 11 of ISA 580.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary.
- The auditor has concluded the matter above is considered material and pervasive to the financial statements and a modified (i.e. "disclaimer") opinion is appropriate based on the audit evidence obtained.
- Reportable irregularity identified and reported in terms of section 45 of the APA. It has not been determined whether the reportable irregularity affects the fair presentation of the financial statements. Report on other legal and regulatory requirements.

Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of ABC Proprietary Limited set out on pages … to …, which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the financial statements of ABC Proprietary Limited. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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Basis for Disclaimer of Opinion

We were unable to obtain the written representations from the directors that they have fulfilled their responsibility for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. We were also unable to obtain written representation from the directors that they have provided us with all relevant information and access as agreed in terms of the audit engagement and that all transactions had been recorded and are reflected in the financial statements. The directors were not prepared to provide us with these representations. We could not determine the effect of the lack of such representations on the financial position of the Company at 31 December 20X1, or the financial performance and cash flows for the year then ended.

Other Matter – Reports Required by the Companies Act

The annual financial statements include the Directors' Report as required by the Companies Act of South Africa. The directors are responsible for this other information.

We have read the other information and, in doing so, considered whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. However, due to the disclaimer of opinion in terms of the International Standard on Auditing (ISA) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, we are unable to report further on this other information.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

Report on Other Legal and Regulatory Requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified a reportable irregularity in terms of the Auditing Profession Act. We have reported such matter to the Independent Regulatory Board for Auditors. [The matter pertaining to the reportable irregularity has been described in note x to the financial statements[50].]

50 Insert this sentence when disclosure is made in the financial statements. Where the directors have not made adequate and appropriate disclosure and the financial statements are fairly presented, in all material respects, the auditor discloses the information relating to the Reportable Irregularity in the auditor's report.

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[*Auditor's signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

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17. Adverse opinion and auditor's responsibilities are included in an Appendix – Misstatement: No depreciation recognised

Circumstances include:

- Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply).
- The financial statements are materially misstated due to the building of a property company not being depreciated over its useful life. The building comprises over 90% of the company's assets.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Key audit matters have not been communicated.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa .
- The auditor has obtained all of the other information prior to the date of the auditor's reports and has determined that the matter giving rise to the adverse opinion on the financial statements also affects the other information.
- The auditor has concluded that the possible effects of the matter above is material and pervasive to the financial statements and a modified (i.e. "adverse") opinion is appropriate based on the audit evidence obtained.
- The auditor has decided to include the description of his responsibilities for the audit of the financial statements in an appendix to the auditor's report.

Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Adverse Opinion

We have audited the financial statements of ABC Proprietary Limited set out on pages ... to ..., which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion section of our report, the financial statements do not present fairly the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019]
[Delete block if not applicable]

Basis for Adverse Opinion

The company's practice is to use its building for its entire economic life, however, the company did not review the building's residual value and useful life at the reporting date in accordance with International Financial Reporting Standards, IAS 16, *Property, plant and equipment*. The building is depreciated over a period of 20 years with the remaining useful life at 30 June 20x1 assessed as four years. An independent valuer has assessed the remaining economic life of the building at 50 years, consequently, land and buildings, included in note x to the financial statements is understated by Rxxx (20x0: Rxxx), while income tax, net income and shareholders' equity is understated by Rxxx (20x0: Rxxx), Rxxx (20x0 Rxxx) and Rxxx (20x0 Rxxx) respectively. These required adjustments are considered material and pervasive to the financial statements as a whole.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

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[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Adverse Opinion

The company's practice is to use its building for its entire economic life, however, the company did not review the building's residual value and useful life at the reporting date in accordance with International Financial Reporting Standards, IAS 16, *Property, plant and equipment*. The building is depreciated over a period of 20 years with the remaining useful life at 30 June 20x1 assessed as four years. An independent valuer has assessed the remaining economic life of the building at 50 years, consequently, land and buildings, included in note x to the financial statements is understated by Rxxx (20x0: Rxxx), while income tax, net income and shareholders' equity is understated by Rxxx (20x0: Rxxx), Rxxx (20x0 Rxxx) and Rxxx (20x0 Rxxx) respectively. These required adjustments are considered material and pervasive to the financial statements as a whole.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or

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otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above, the company should have reviewed the building's residual value and useful life at the reporting date. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Directors' Report affected by the failure to review the building's residual value and useful life at the reporting date.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditor's report. This description, which is located at [*indicate page number or other specific reference to the location of the description*], forms part of our auditor's report.

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[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

Appendix

Auditor's Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies

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in internal control that we identify during our audit.

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18. Qualified opinion on consolidated financial statements and unqualified opinion on separate financial statements – Misstatement: Subsidiary did not recognise depreciation

Circumstances include:

- Audit of a complete set of consolidated and separate financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is a group audit of an entity with subsidiaries and of the company (i.e. ISA 600 applies). Consolidated financial statements and separate financial statements are presented together (four column format).
- The financial statements of a subsidiary are materially misstated as the subsidiary did not depreciate property, plant and equipment in accordance with the applicable financial reporting framework.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the group and the company's ability to continue as a going concern.
- Key audit matters have not been communicated.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa .
- The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information.
- The auditor has concluded the misstatement above is material but not pervasive to the consolidated financial statements and a modified (i.e. "qualified") opinion on the consolidated financial statements is appropriate based on the audit evidence obtained.
- The auditor has concluded an unmodified (i.e. "clean") opinion on the separate financial statements of the holding company is appropriate based on the audit evidence obtained.

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Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Qualified Opinion on Consolidated Financial Statements and Unqualified Opinion on the Separate Financial Statements

We have audited the consolidated and separate financial statements of ABC Proprietary Limited (the group and company) set out on pages … to …, which comprise the consolidated and separate statements of financial position as at 31 December 20X1, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of ABC Proprietary Limited as at 31 December 20X1, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of ABC Limited as at 31 December 20x1, and its separate financial performance and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Qualified Opinion on Consolidated Financial Statements and Unqualified Opinion on the Separate Financial Statements

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

Basis for Qualified Opinion on Consolidated Financial Statements and Unqualified Opinion on the Separate Financial Statements

The financial statements of a subsidiary are materially misstated as the subsidiary did not depreciate property, plant and equipment, as required by International Financial Reporting Standard, IAS 16, *Property, plant and equipment*. The effects on the consolidated financial statements are that had depreciation been provided, depreciation and accumulated depreciation would have increased by Rxxx (20x0 Rxxx), and income tax and net income after tax would have decreased by Rxxx (20x0 Rxxx) and Rxxx (20x0 Rxxx) respectively. There is no effect on the separate financial

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statements.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on the consolidated financial statements and our opinion on the separate financial statements.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Qualified Opinion on Consolidated Financial Statements and Unqualified Opinion on the Separate Financial Statements

The financial statements of a subsidiary are materially misstated as the subsidiary did not depreciate property, plant and equipment, as required by International Financial Reporting Standard, IAS 16, *Property, plant and equipment*. The effects on the consolidated financial statements are that had depreciation been provided, depreciation and accumulated depreciation would have increased by Rxxx (20x0 Rxxx), and income tax and net income after tax would have decreased by Rxxx (20x0 Rxxx) and Rxxx (20x0 Rxxx) respectively. There is no effect on the separate financial statements.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other

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ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on the consolidated financial statements and our opinion on the separate financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and / or company or to cease operations, or have no realistic alternative but to do so.

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Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and / or company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the

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consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

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19. Adverse opinion – Misstatement: Non-consolidation of financial statements

Circumstances include:

- Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply).
- The company is a parent of a major operating subsidiary and the company has not presented consolidated financial statements. The directors do not believe that they are required to prepare consolidated financial statements because they are the only users of the financial statements. The directors believe that the financial statements have been prepared in accordance with the financial reporting framework (International Financial Reporting Standards (IFRS)) and the requirements of the Companies Act of South Africa. The auditor concludes that this is a departure from the financial reporting framework (IFRS) and from the requirements of the Companies Act of South Africa as IFRS requires the presentation of consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern.
- Key audit matters have not been communicated.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa .
- The auditor has obtained all of the other information prior to the date of the auditor's reports and has determined that the matter giving rise to the adverse opinion on the financial statements also affects the other information.
- The auditor has concluded that the matter above is material and pervasive to the financial statements and a modified (i.e. "adverse") opinion is appropriate based on the audit evidence obtained.

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Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Adverse Opinion

We have audited the financial statements of ABC Proprietary Limited set out on pages ... to ..., which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the financial statements do not present fairly the financial position of ABC Proprietary Limited as at 31 December 20x1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019]
[Delete block if not applicable]

Basis for Adverse Opinion

As explained in note x to the financial statements, the company has not consolidated the financial statements of its only subsidiary, XYZ Proprietary Limited, acquired during the year. This investment is accounted for at cost. Under International Financial Reporting Standard IFRS 10, *Consolidated Financial Statements*, the subsidiary should have been consolidated because it is controlled by the company. Had XYZ Proprietary Limited been consolidated, many elements in the accompanying financial statements would have been materially affected and therefore the departure from the requirements of IFRS 10 are considered to be pervasive. The effects on the consolidated financial statements of this departure have not been determined.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to

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performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Adverse Opinion

As explained in note x to the financial statements, the company has not consolidated the financial statements of its only subsidiary, XYZ Proprietary Limited, acquired during the year. This investment is accounted for at cost. Under International Financial Reporting Standard IFRS 10, *Consolidated Financial Statements*, the subsidiary should have been consolidated because it is controlled by the company. Had XYZ Proprietary Limited been consolidated, many elements in the accompanying financial statements would have been materially affected and therefore the departure from the requirements of IFRS 10 are considered to be pervasive. The effects on the consolidated financial statements of this departure have not been determined.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report

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as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above, the company should have consolidated the financial statements of its only subsidiary, XYZ Proprietary Limited, acquired during the year. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Directors' Report affected by the failure to consolidate XYZ Proprietary Limited.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

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those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

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20. Qualified opinion – Inability to obtain sufficient appropriate audit evidence about a significant aspect of the internal controls

Circumstances include:
• Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply). • The auditor was unable to obtain sufficient appropriate audit evidence about a significant aspect of the internal controls and evaluate the possible effects on the financial statements. • Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. • Key audit matters have not been communicated. • Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa . • The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information. • The auditor has concluded the possible effects of the inability to obtain sufficient appropriate audit evidence is material but not pervasive to the financial statements and a modified (i.e. "qualified") opinion is appropriate based on the audit evidence obtained.

Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Qualified Opinion

We have audited the financial statements of ABC Proprietary Limited set out on pages … to …, which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, the financial statements present fairly, in all material respects, the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019]
[Delete block if not applicable]

Basis for Qualified Opinion

Included in accounts payable is an amount of Rxxx. The company did not have adequate internal controls to maintain records of accounts payable for goods and services received but not yet paid. We were unable to obtain sufficient appropriate audit evidence to substantiate the accruals disclosed in note x to the financial statements. As a consequence, we were unable to determine whether any adjustments were required to the financial statements arising from accounts payable and accruals not brought to account or incorrectly stated.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Qualified Opinion

Included in accounts payable is an amount of Rxxx. The company did not have adequate internal controls to maintain records of accounts payable for goods and services received but not yet paid. We were unable to obtain sufficient appropriate audit evidence to substantiate the accruals disclosed in note x to the financial statements. As a consequence, we were unable to determine whether any adjustments were required to the financial statements arising from accounts payable and accruals not brought to account or incorrectly stated.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate,

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to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

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21. Qualified opinion – Inability to obtain sufficient appropriate audit evidence about a Non Profit Company's fundraising income

Circumstances include: • Audit of a complete set of financial statements of a Non Profit Company (NPC) in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply). • The NPC has no members and the auditor's report is addressed to the directors. • The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the financial statements. That is, the auditor was unable to obtain sufficient appropriate audit evidence about the entity's fundraising income. • Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. • Key audit matters have not been communicated. • Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa . • The auditor has obtained all of the other information prior to the date of the auditor's reports and has determined that the matter giving rise to the qualified opinion on the financial statements also affects the other information. • The auditor has concluded the possible effects of the inability to obtain sufficient appropriate audit evidence is material but not pervasive to the financial statements and a modified (i.e. "qualified") opinion is appropriate based on the audit evidence obtained.

Independent Auditor's Report

To the Directors of ABC NPC

Qualified Opinion

We have audited the financial statements of ABC NPC set out on pages ... to ..., which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matter described in the Basis for

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Qualified Opinion section of our report, the financial statements present fairly, in all material respects, the financial position of ABC NPC as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

Basis for Qualified Opinion

Cash donations are a significant source of fundraising revenue for ABC NPC. The directors have determined that it is impracticable to establish internal controls over the collection of cash donations prior to the initial entry into its financial records. We were therefore unable to confirm whether all cash donations were recorded.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Qualified Opinion

Cash donations are a significant source of fundraising revenue for ABC NPC. The directors have determined that it is impracticable to establish internal controls over the collection of cash donations prior to the initial entry into its financial records. We were therefore unable to confirm whether all cash donations were recorded.

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We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC NPC Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about whether all cash donations were recorded. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related

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to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

KTD PS

22. Qualified opinion – Misstatement and inability to obtain sufficient appropriate audit evidence: Individually immaterial, financial statements as a whole are materially misstated and insufficient audit evidence

Circumstances include:

- Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply).
- Individually immaterial departures from International Financial Reporting Standards but material in aggregate (effects). Furthermore, the auditor was unable to obtain sufficient appropriate audit evidence to substantiate certain disclosures (possible effects).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Key audit matters have not been communicated.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa .
- The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information.
- The auditor has concluded the matter above is material but not pervasive to the financial statements and a modified (i.e. "qualified") opinion is appropriate based on the audit evidence obtained.

Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Qualified Opinion

We have audited the financial statements of ABC Proprietary Limited set out on pages … to …, which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of

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changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects and the possible effects of the respective matters described in the Basis for Qualified Opinion section of our report, the financial statements present fairly, in all material respects, the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019]
[Delete block if not applicable]

Basis for Qualified Opinion

The financial statements are misstated due to the cumulative effect of the uncorrected misstatements identified during the course of our audit with respect to the following disclosures:

- [*List misstated disclosures together with Rand value*]

Due to ABC Proprietary Limited's poorly maintained accounting records we were unable to obtain sufficient appropriate audit evidence to substantiate the following disclosures:

- [*List disclosures together with Rand value*]

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Qualified Opinion

The financial statements are misstated due to the cumulative effect of the uncorrected misstatements identified during the course of our audit with respect to the following disclosures:

- [*List misstated disclosures together with Rand value*]

Due to ABC Proprietary Limited's poorly maintained accounting records we were unable to obtain sufficient appropriate audit evidence to substantiate the following disclosures:

- [*List disclosures together with Rand value*]

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are

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required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material

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uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

KTD PS

23. Qualified opinion and report on other legal and regulatory requirements – Misstatement: Disclosure of directors' and prescribed officers' remuneration not presented and reportable irregularity

Circumstances include:

- Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply).
- The directors' and prescribed officers' remuneration has been disclosed in aggregate and not individually as required by the Companies Act of South Africa. The auditor has interpreted the Companies Act of South Africa to require disclosure of such remuneration to be per each individual director and / or prescribed officer. The auditor has determined that it is practical to include the omitted disclosures in the auditor's report and the auditor has obtained sufficient appropriate audit evidence in this regard.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Key audit matters have not been communicated.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa .
- The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information.
- The auditor has concluded that the matter above is material but not pervasive to the financial statements and a modified (i.e. "qualified") opinion is appropriate based on the audit evidence obtained.
- Reportable irregularity identified and reported in terms of section 45 of the APA. Reportable irregularity does affect the fair presentation of the financial statements. Report on other legal and regulatory requirements.

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Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of ABC Proprietary Limited set out on pages … to …, which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements present fairly, in all material respects, the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

Basis for Qualified Opinion

Directors' and prescribed officers' remuneration has been disclosed in aggregate in the financial statements and not per each individual as required by Section 30(4) of the Companies Act of South Africa. The required disclosure that has been omitted from the financial statements is as follows:

[*Insert omitted disclosures*].

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants'

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Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Qualified Opinion

Directors' and prescribed officers' remuneration has been disclosed in aggregate in the financial statements and not per each individual as required by Section 30(4) of the Companies Act of South Africa. The required disclosure that has been omitted from the financial statements is as follows:

[*Insert omitted disclosures*].

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially

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inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified a reportable irregularity in terms of the Auditing Profession Act. We have reported such matter to the Independent Regulatory Board for Auditors. [The matter pertaining to the reportable irregularity has been described in note x to the financial statements[51].]

[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

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51 Insert this sentence when disclosure is made in the financial statements. Where the directors have not made adequate and appropriate disclosure and the financial statements are fairly presented, in all material respects, the auditor discloses the information relating to the Reportable Irregularity in the auditor's report.

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24. Qualified opinion – Misstatement: Disclosures of related party relationships, transactions and balances not presented

Circumstances include:

- Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply).
- The directors of the company have not made certain disclosures in the financial statements as required by IFRS. The auditor does not identify those non-disclosures in the auditor's report as it is impracticable to do so due to the extent of the disclosures.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Key audit matters have not been communicated.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa .
- The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information.
- The auditor has concluded the matter above is material but not pervasive to the financial statements and a modified (i.e. "qualified") opinion is appropriate based on the audit evidence obtained.

Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Qualified Opinion

We have audited the financial statements of ABC Proprietary Limited set out on pages … to …, which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements present fairly, in all material respects, the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019] [Delete block if not applicable]

Basis for Qualified Opinion

ABC Proprietary Limited is part of a large group of companies and has extensive related party transactions with other companies in the group. Contrary to the requirements of IAS 24, *Related party disclosures*, the directors have not disclosed ABC Proprietary Limited's related party relationships with other group companies, or the transactions and balances with these parties in the accompanying financial statements. We have not included the omitted information in our auditor's report as it was impracticable to do so.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Qualified Opinion

ABC Proprietary Limited is part of a large group of companies and has extensive related party transactions with other companies in the group. Contrary to the requirements of IAS 24, *Related party disclosures*, the directors have not disclosed ABC Proprietary Limited's related party relationships with other group companies, or the transactions and balances with these parties in the accompanying financial statements. We have not included the omitted information in our auditor's report as it was impracticable to do so.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate,

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to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

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25. Disclaimer of opinion on the financial performance and cash flows and qualified opinion on the financial position – Inability to obtain sufficient appropriate audit evidence in respect of opening balances

Circumstances include:

- Audit of a complete set of financial statements of a private company in terms of the Companies Act of South Africa using a fair presentation framework. The audit is not a group audit (i.e. ISA 600 does not apply).
- During the prior year, the company's financial statements were subject to an independent review in terms of the Companies Act of South Africa. During the current year, the directors of the company requested an audit of the financial statements.
- Corresponding figures presented in the current year financial statements were subject to an independent review in terms of the Companies Act of South Africa and a review conclusion was issued on those figures. The directors did not believe that the retrospective application of additional procedures on the opening balances was warranted as the level of assurance in the prior year was appropriate in accordance with the Companies Act of South Africa. The auditor was unable to obtain sufficient appropriate audit evidence that the closing balances from the prior year were free of material misstatement, and have been brought forward correctly. The auditor was unable to obtain alternative audit evidence on the opening balances. Since opening balances enter into the determination of the financial performance and cash flows, the auditor was unable to determine whether adjustments might have been necessary in respect of the movements in the statement of comprehensive income, the net cash flows from operating activities reported in the statement of cash flows and the changes in equity reported in the statement of changes in equity.
- In addition, the auditor's opinion on the current year's financial position is modified because of the possible effects of this matter on the comparability of the current year's financial position with that of the prior year.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Key audit matters have not been communicated.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. The auditor has determined that the other information includes the Directors' Report prepared in terms of the Companies Act of South Africa .

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- The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information.
- The auditor has concluded the effects or possible effects of the matter above on the current year's figures are material and pervasive to the financial performance and cash flows and a modified (i.e. "disclaimer") opinion is appropriate based on the audit evidence obtained. Furthermore, the possible effects of the matter above on the comparability of the current year's financial position with that of the prior year is material but not pervasive to the financial statements and a modified (i.e. "qualified") opinion is appropriate based on the audit evidence obtained.

Independent Auditor's Report

To the Shareholders of ABC Proprietary Limited

Disclaimer of Opinion on the Financial Performance and Cash Flows and Qualified Opinion on the Financial Position

We have audited the financial statements of ABC Proprietary Limited set out on pages ... to ..., which comprise the statement of financial position as at 31 December 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the financial performance and cash flows of ABC Proprietary Limited for the year ended 31 December 20X1. Because of the significance of the matter described in the Basis for Opinions section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial performance and cash flows.

In our opinion, except for the possible effects of the matter described in the Basis for Opinions section of our report on the comparability of the current year's financial position with that of the prior year, the financial statements present fairly, in all material respects, the financial position of ABC Proprietary Limited as at 31 December 20X1 in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

[For auditors' reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019]
[Delete block if not applicable]

Basis for Opinions, Including Basis for Disclaimer of Opinion on the Financial

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Performance and Cash Flows and Qualified Opinion on the Financial Position

Corresponding figures presented in these financial statements were subject to an independent review in terms of the Companies Act of South Africa for the year ended 31 December 20X0 and a review conclusion was issued on those figures. In the current year the directors requested an audit to be performed as the Companies Act of South Africa required one. However, the directors did not believe that the retrospective application of additional procedures on the opening balances was warranted as the level of assurance in the prior year was appropriate in accordance with the Companies Act of South Africa. We therefore only have limited assurance on the opening balances.

Due to the matter above, we were unable to obtain sufficient appropriate audit evidence that the closing balances as at 31 December 20X0 were free of material misstatement, and have been brought forward correctly. We were unable to satisfy ourselves by alternative means concerning the opening balances. Since opening balances enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the movements in the statement of comprehensive income, the net cash flows from operating activities reported in the statement of cash flows and the changes in equity reported in the statement of changes in equity.

Furthermore, our opinion on the current year's financial position is qualified because of the possible effects of this matter on the comparability of the current year's financial position with that of the prior year.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified opinion on the financial position.

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[For audits of financial statements for financial periods beginning on or after 15 June 2019] [Delete block if not applicable]

Basis for Opinions, Including Basis for Disclaimer of Opinion on the Financial Performance and Cash Flows and Qualified Opinion on the Financial Position

Corresponding figures presented in these financial statements were subject to an independent review in terms of the Companies Act of South Africa for the year ended 31 December 20X0 and a review conclusion was issued on those figures. In the current year the directors requested an audit to be performed as the Companies Act of South Africa required one. However, the directors did not believe that the retrospective application of additional procedures on the opening balances was warranted as the level of assurance in the prior year was appropriate in accordance with the Companies Act of South Africa. We therefore only have limited assurance on the opening balances.

Due to the matter above, we were unable to obtain sufficient appropriate audit evidence that the closing balances as at 31 December 20X0 were free of material misstatement, and have been brought forward correctly. We were unable to satisfy ourselves by alternative means concerning the opening balances. Since opening balances enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the movements in the statement of comprehensive income, the net cash flows from operating activities reported in the statement of cash flows and the changes in equity reported in the statement of changes in equity.

Furthermore, our opinion on the current year's financial position is qualified because of the possible effects of this matter on the comparability of the current year's financial position with that of the prior year.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified opinion on the financial

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position.

Other matter

The financial statements of ABC Proprietary Limited for the year ended 31 December 20X0 were subjected to an independent review and not audited as there was no statutory requirement for those financial statements to be audited. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can

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arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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[*Auditor's Signature*]

[*Name of individual registered auditor*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of auditor's report*]

[*Auditor's address*]

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Independently reviewed financial statements

26. Unmodified conclusion – Financial statements: Compliance framework and Companies Act of South Africa

Circumstances include:

- The company's public interest score is less than 100 and the financial statements are internally compiled. The intended users of the financial statements and auditor's report are, as a minimum, the shareholders, the bank and SARS.
- The financial statements are prepared in accordance with a basis of accounting determined by the directors. The financial statements do not include a statement of changes in equity. The independent reviewer has determined that the basis of accounting is acceptable.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary.
- The independent reviewer has concluded an unmodified (i.e. "clean") conclusion is appropriate based on the evidence obtained.

Independent Reviewer's Report

To the Shareholders of ABC Proprietary Limited

We have reviewed the financial statements of ABC Proprietary Limited set out on pages … to …, which comprise the statement of financial position as at 31 December 20X1 and the statement of profit or loss and other comprehensive income and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of these financial statements in accordance with the basis of accounting described in note x and the requirements of the Companies Act of South Africa, for determining that the basis of preparation is acceptable in the circumstances and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Independent Reviewer's Responsibility

Our responsibility is to express a conclusion on these financial statements. We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements* (ISRE 2400 (Revised)). ISRE 2400 (Revised) requires us to conclude

KTD PS

whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The independent reviewer performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of ABC Proprietary Limited are not prepared, in all material respects, in accordance with the basis of accounting described in note x and the requirements of the Companies Act of South Africa.

Basis of Accounting

Without modifying our conclusion, we draw attention to note x to the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the company's own accounting policies to satisfy the financial information needs of the company's shareholders. As a result, the financial statements may not be suitable for another purpose.

Other Reports Required by the Companies Act of South Africa

The annual financial statements include the Directors' Report as required by the Companies Act of South Africa. The directors are responsible for the Directors' Report. Our conclusion on the financial statements does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our independent review of the financial statements, we have read the Directors' Report and, in doing so, considered whether the Directors' Report is materially inconsistent with the financial statements or our knowledge obtained in the independent review, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report, we will report that fact. We have nothing to report in this regard.

KTD RS

[Independent Reviewer's signature]

[Name of individual reviewer]

[Capacity if not a sole practitioner: e.g. Director or Partner]

Registered Auditor

[Date of independent reviewer's report]

[Independent reviewer's address]

KTD P.S

27. Ongemodifiseerde gevolgtrekking – Onafhanklike oorsig van finansiële jaarstate: Redelike voorstelling finansiële verslagdoeningsraamwerk

Omstandighede sluit in:

- Hierdie verslag is 'n vertaling van voorbeeld 3 van Deel A van SAAPS 3 (Revised 2019).
- Die finansiële state is vir 'n algemene doel deur bestuur opgestel vir in ooreenstemming met die 'International Financial Reporting Standard for Small and Medium-sized Entities'.
- Akte van oprigting maak nie voorsiening vir die aanstelling van 'n ouditkomitee of 'n maatskappysekretaris nie.
- Die onafhanklike nasiener het tot die gevolgtrekking gekom dat 'n ongemodifiseerde gevolgtrekking toepaslik is op grond van die bewyse wat verkry is.

Onafhanklike Nasiener se Verslag

Aan die Aandeelhouers van ABC Eiendoms Beperk

Verslag oor die Finansiële State[52]

Ons het die finansiële state van ABC Eiendoms Beperk, soos uiteengesit op bladsye ... tot ..., wat bestaan uit die staat van finansiële stand soos op 31 Desember 20X1, en die staat van wins of verlies en ander omvattende inkomste, staat van veranderings in ekwiteit en staat van kontantvloeie vir die jaar wat op daardie datum geëindig het, en aantekeninge tot die finansiële state, insluitend 'n opsomming van beduidende rekeningkundige beleid, nagesien.

Direkteure se Verantwoordelikheid vir die Finansiële State

Die maatskappy se direkteure is verantwoordelik vir die opstel en redelike voorstelling van hierdie finansiële state ooreenkomstig die 'International Financial Reporting Standard for Small and Medium-sized Entities'[53] en die vereistes van die Maatskappywet van Suid-Afrika, en vir sodanige interne beheer as wat die direkteure nodig ag vir die opstel van finansiële state, wat vry is van wesenlike wanvoorstelling, hetsy weens bedrog of foute.

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52 Die onderopskrif "Verslag oor die Finansiële State" is onnodig waar die tweede onderopskrif "Verslag oor Ander Regs en Regulatoriese Vereistes" nie toepaslik is nie.

53 Mag verwys na 'International Financial Reporting Standards', soos toepaslik

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Onafhanklike Nasiener se Verantwoordelikheid

Dit is ons verantwoordelikheid om 'n gevolgtrekking oor hierdie finansiële state uit te spreek. Ons het ons oorsig ooreenkomstig die '*International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements*' (ISRE 2400 (Revised)) uitgevoer. ISRE 2400 (Revised) vereis van ons om tot 'n gevolgtrekking te kom of enigiets onder ons aandag gekom het wat ons laat glo dat die finansiële state, in geheel gesien, nie in alle wesenlike opsigte opgestel is ooreenkomstig die toepaslike finansiële verslagdoeningsraamwerk nie. Hierdie Standaard vereis ook dat ons aan relevante etiese vereistes voldoen.

'n Oorsig van finansiële state ooreenkomstig ISRE 2400 (Revised) is 'n beperkte gerusstellingsaanstelling. Die onafhanklike nasiener voer prosedures uit wat hoofsaaklik bestaan uit die rig van navrae aan bestuur en ander persone binne die entiteit, soos toepaslik, en die toepassing van analitiese prosedures, en evalueer die bewyse wat verkry is.

Die prosedures wat uitgevoer word tydens 'n oorsig is aansienlik minder as dié wat tydens 'n oudit ooreenkomstig 'International Standards on Auditing' uitgevoer word. Dienooreenkomstig spreek ons nie 'n ouditmening oor hierdie finansiële state uit nie.

Gevolgtrekking

Gebaseer op ons oorsig, het niks onder ons aandag gekom wat ons laat glo dat die finansiële state nie, in alle wesenlike opsigte, 'n redelike voorstelling is van die finansiële stand van ABC Eiendoms Beperk soos op 31 Desember 20X1 en van die maatskappy se finansiële prestasie en kontantvloeie vir die jaar wat op daardie datum geëindig het, ooreenkomstig die 'International Financial Reporting Standard for Small and Medium-sized Entities' en die vereistes van die Maatskappywet van Suid-Afrika nie.

Ander Verslae wat deur die Maatskappywet van Suid-Afrika Vereis word

Die algemene jaarstate sluit die Direkteursverslag soos vereis deur die Maatskappywet van Suid-Afrika in. Die direkteure is verantwoordelik vir die Direkteursverslag. Ons gevolgtrekking oor die finansiële state dek nie die Direkteursverslag nie en ons spreek geen vorm van gerusstelling daaroor uit nie.

In verband met ons onafhanklike oorsig van die finansiële state het ons die Direkteursverslag gelees, en sodoende oorweeg of die Direkteursverslag wesenlik teenstrydig is met die finansiële state of ons kennis verkry gedurende die oorsig, of andersins blyk om wesenlik wanvoorgestel te wees. Indien ons, op grond van die werk wat ons uitgevoer het, tot die gevolgtrekking kom dat daar 'n wesenlike wanvoorstelling van die Direkteursverslag is, sal ons daardie feit rapporteer. Ons het niks om in hierdie verband te rapporteer nie.

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Verslag oor Ander Regs- en Regulatoriese Vereistes

[Die struktuur en inhoud van hierdie afdeling van die onafhanklike nasienersverslag sal afhang van die aard van die onafhanklike nasiener se ander rapporteringsverantwoordelikhede.][54]

[*Onafhanklike Nasiener se handtekening*]

[*Naam van individuele nasiener*]

[*Kapasiteit indien nie 'n alleen-praktisyn bv. Direkteur of Vennoot*]

Geregistreerde Ouditeur

[*Datum van nasiener se verslag*]

[*Onafhanklike nasiener se adres*]

54. Daar is geen vereiste vir 'n onafhanklike nasiener om in die "Verslag oor Ander Regs en Regulatoriese Vereistes" 'n Rapporteerbare Onreelmatigheid wat aan CIPC ooreenkomstig Regulasie 29(1)(b) en (6) tot (11) tot die Maatskappywet van Suid Afrika, gerapporteer is, in te sluit nie.

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28. Ongemodifiseerde gevolgtrekking – Onafhanklike oorsig van finansiële state: Nakomings-finansiële verslagdoeningsraamwerk en Maatskappywet

Omstandighede sluit in: • Hierdie verslag is 'n vertaling van voorbeeld 26 van SAAPS 3 (Revised 2019). • Die maatskappy se publieke belang-telling is minder as 100 en die finansiële state is intern opgestel. Die beoogde gebruikers van die finansiële state en die onafhanklike nasienersverslag is, as a minimum, die aandeelhouers, die bank en SARS. • Die finansiële state is opgestel ooreenkomstig 'n rekeningkundige grondslag wat bepaal is deur die direkteure, en sluit nie 'n staat van veranderings in ekwiteit in nie. Die onafhanklike nasiener het bepaal dat die rekeningkundige grondslag aanvaarbaar is. • Akte van oprigting maak nie voorsiening vir die aanstelling van 'n ouditkomitee of 'n maatskappysekretaris nie. • Die onafhanklike nasiener het tot die gevolgtrekking gekom dat 'n ongemodifiseerde gevolgtrekking toepaslik is op grond van die bewyse wat verkry is.

Onafhanklike Nasiener se Verslag

Aan die Aandeelhouers van ABC Eiendoms Beperk

Ons het die finansiële state van ABC Eiendoms Beperk, soos uiteengesit op bladsye ... tot ..., wat bestaan uit die staat van finansiële stand soos op 31 Desember 20X1, en die staat van wins of verlies en ander omvattende inkomste en staat van kontantvloeie vir die jaar wat op daardie datum geëindig het, en aantekeninge tot die finansiële state, insluitend 'n opsomming van beduidende rekeningkundige beleid, nagesien.

Direkteure se Verantwoordelikheid vir die Finansiële State

Die maatskappy se direkteure is verantwoordelik vir die opstel van hierdie finansiële state ooreenkomstig die rekeningkundige grondslag wat beskryf is in aantekening x en die vereistes van die Maatskappywet van Suid-Afrika, om te bepaal dat die grondslag van opstelling aanvaarbaar is in die omstandighede en vir sodanige interne beheer as wat die direkteure nodig ag vir die opstel van finansiële state, wat vry is van wesenlike wanvoorstelling, hetsy weens bedrog of foute.

Onafhanklike Nasiener se Verantwoordelikheid

Dit is ons verantwoordelikheid om 'n gevolgtrekking oor hierdie finansiële jaarstate uit te

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spreek. Ons het ons oorsig ooreenkomstig die 'International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements'* (ISRE 2400 (Revised)) uitgevoer. ISRE 2400 (Revised) vereis van ons om tot 'n gevolgtrekking te kom of enigiets onder ons aandag gekom het wat ons laat glo dat die finansiële state, in geheel gesien, nie in alle wesenlike opsigte opgestel is ooreenkomstig die toepaslike finansiële verslagdoeningsraamwerk nie. Hierdie Standaard vereis ook dat ons aan relevante etiese vereistes voldoen.

'n Oorsig van finansiële state ooreenkomstig ISRE 2400 (Revised) is 'n beperkte gerusstellingsaanstelling. Die onafhanklike nasiener voer prosedures uit wat hoofsaaklik bestaan uit die rig van navrae aan bestuur en ander persone binne die entiteit, soos toepaslik, en die toepassing van analitiese prosedures, en evalueer die bewyse wat verkry is.

Die prosedures wat uitgevoer word tydens 'n oorsig is aansienlik minder as dié wat tydens 'n oudit ooreenkomstig 'International Standards on Auditing' uitgevoer word. Dienooreenkomstig spreek ons nie 'n ouditmening oor hierdie finansiële state uit nie.

Gevolgtrekking

Gebaseer op ons oorsig, het niks onder ons aandag gekom wat ons laat glo dat die finansiële state van ABC Eiendoms Beperk nie, in alle wesenlike opsigte, opgestel is ooreenkomstig die rekeningkundige grondslag wat beskryf is in aantekening x, en die vereistes van die Maatskappywet van Suid-Afrika nie.

Rekeningkundige Grondslag

Sonder om ons mening te modifiseer, vestig ons die aandag op aantekening x tot die finansiële state wat die rekeningkundige grondslag beskryf. Die finansiële state is ooreenkomstig die maatskappy se eie rekeningkundige beleid opgestel om in die maatskappy se aandeelhouers se behoeftes vir finansiële inligting te voorsien. As gevolg daarvan mag die finansiële state moontlik nie vir 'n ander doel toepaslik wees nie.

Ander Verslae wat deur die Maatskappywet van Suid-Afrika Vereis word

Die algemene jaarstate sluit die Direkteursverslag soos vereis deur die Maatskappywet van Suid-Afrika in. Die direkteure is verantwoordelik vir die Direkteursverslag. Ons gevolgtrekking oor die finansiële state dek nie die Direkteursverslag nie en ons spreek geen vorm van gerusstelling daaroor uit nie.

In verband met ons onafhanklike oorsig van die finansiële state het ons die Direkteursverslag gelees, en sodoende oorweeg of die Direkteursverslag wesenlik teenstrydig is met die finansiële state of ons kennis verkry gedurende die onafhanklike oorsig, of andersins blyk om wesenlik wanvoorgestel te wees. Indien ons, op grond van die werk wat ons uitgevoer het, tot die gevolgtrekking kom dat daar 'n wesenlike wanvoorstelling van die Direkteursverslag is, sal ons daardie feit rapporteer. Ons het niks om in hierdie verband te rapporteer nie.

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[*Onafhanklike Nasiener se handtekening*]

[*Naam van individuele nasiener*]

[*Kapasiteit indien nie 'n alleen-praktisyn bv. Direkteur of Vennoot*]

Geregistreerde Ouditeur

[*Datum van nasiener se verslag*]

[*Onafhanklike nasiener se adres*]

KTD P.S

29. Qualified conclusion – Misstatement: Incorrect valuation of inventory

Circumstances include:
• A company that requires an independent review in accordance with the Companies Act of South Africa. Report prepared in accordance with ISRE 2400 (Revised). A firm that is a Registered Auditor is the appointed independent reviewer. Review of a complete set of financial statements. • The financial statements are prepared for a general purpose by management of the entity in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities. • Inventories are materially misstated • Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. • The independent reviewer has concluded the matter above is material but not pervasive to the financial statements and a modified (i.e. "qualified") conclusion is appropriate based on the evidence obtained.

Independent Reviewer's Report

To the Shareholders of ABC Proprietary Limited

We have reviewed the financial statements of ABC Proprietary Limited set out on pages … to …, which comprise the statement of financial position as at 31 December 20X1 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Reviewer's Responsibility

Our responsibility is to express a conclusion on these financial statements. We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. ISRE 2400 (Revised) requires us to conclude whether anything has come

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to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The independent reviewer performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Basis for Qualified Conclusion

The company's inventories are carried in the statement of financial position at Rxxx (20X0: Rxxx). The directors have not stated the inventories at the lower of cost and net realisable value but have stated them solely at cost, which constitutes a departure from the requirements of the International Financial Reporting Standard for Small and Medium-sized Entities. The company's records indicate that, had the directors stated the inventories at the lower of cost and net realisable value, an amount of Rxxx (20X0: Rxxx) would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by Rxxx (20X0: Rxxx), and income tax, net income and shareholders' equity would have been reduced by Rxxx (20X0: Rxxx), Rxxx (20X0: Rxxx) and Rxxx (20X0: Rxxx) respectively.

Qualified Conclusion

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.

Other Reports Required by the Companies Act of South Africa

The annual financial statements include the Directors' Report as required by the Companies Act of South Africa. The directors are responsible for the Directors' Report. Our conclusion on the financial statements does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our independent review of the financial statements, we have read the Directors' Report and, in doing so, considered whether the Directors' Report is materially inconsistent with the financial statements or our knowledge obtained in the independent review, or otherwise appears to be materially misstated. If, based on the work we have

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performed, we conclude that there is a material misstatement of the Directors' Report, we will report that fact. We have nothing to report in this regard.

[*Independent Reviewer's signature*]

[*Name of individual reviewer*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of independent reviewer's report*]

[*Independent reviewer's address*]

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30. Adverse conclusion – Misstatement: Non-consolidation of financial statements

Circumstances include: • A company that requires an independent review in accordance with the Companies Act of South Africa. Report prepared in accordance with ISRE 2400 (Revised). A firm that is a Registered Auditor is the appointed independent reviewer. Review of a complete set of financial statements. • Consolidated general purpose financial statements of a parent prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa. • The company is a parent of a major operating subsidiary and the company has not presented consolidated financial statements. The directors do not believe that they are required to prepare consolidated financial statements because they are the only users of the financial statements. The directors believe that the financial statements have been prepared in accordance with the financial reporting framework (the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)) and the requirements of the Companies Act of South Africa. The independent reviewer concludes that this is a departure from the financial reporting framework (IFRS for SMEs) and from the requirements of the Companies Act of South Africa as IFRS for SMEs requires the presentation of consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so. • Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary. • The independent reviewer has concluded that the matter above is material and pervasive to the financial statements and a modified (i.e. "adverse") opinion is appropriate based on the evidence obtained.

Independent Reviewer's Report

To the Shareholders of ABC Proprietary Limited

We have reviewed the financial statements of ABC Proprietary Limited set out on pages … to …, which comprise the statement of financial position as at 31 December 20X1 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Reviewer's Responsibility

Our responsibility is to express a conclusion on these financial statements. We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. ISRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The independent reviewer performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Basis for Adverse Conclusion

As explained in note x to the financial statements, the company has not consolidated the financial statements of its only subsidiary, XYZ Proprietary Limited, acquired during the year because it has not been able to ascertain the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is accounted for on a cost basis in the company's financial statements. Under the International Financial Reporting Standard for Small and Medium-sized Entities, the subsidiary should have been consolidated because it is controlled by the company. Had XYZ Proprietary Limited been consolidated, many elements in the accompanying financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

Adverse Conclusion

Based on our review, due to the significance of the matter discussed in the Basis for Adverse Conclusion paragraph, we conclude that these financial statements do not present fairly the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with

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the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.

Other Reports Required by the Companies Act of South Africa

The annual financial statements include the Directors' Report as required by the Companies Act of South Africa. The directors are responsible for the Directors' Report. Our conclusion on the financial statements does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our independent review of the financial statements, we have read the Directors' Report and, in doing so, considered whether the Directors' Report is materially inconsistent with the financial statements or our knowledge obtained in the independent review, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report, we will report that fact. We have nothing to report in this regard.

[*Independent Reviewer's signature*]

[*Name of individual reviewer*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of independent reviewer's report*]

[*Independent reviewer's address*]

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31. Disclaimer of conclusion – No inventory count and ongoing process to rectify errors in accounts receivable and inventory caused by implementation of new computer system

Circumstances include:

- A company that requires an independent review in accordance with the Companies Act of South Africa. Report prepared in accordance with ISRE 2400 (Revised). A firm that is a Registered Auditor is the appointed independent reviewer.
- Review of a complete set of general purpose financial statements prepared by management of the entity in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities.
- The independent reviewer was unable to obtain sufficient appropriate evidence about multiple elements of the financial statements – the effect of this inability to obtain sufficient appropriate evidence is that the practitioner is unable to complete the review.
- Memorandum of Incorporation does not provide for the appointment of an audit committee and a company secretary.
- The independent reviewer has concluded the matter above is material and pervasive to the financial statements and a modified (i.e. "disclaimer") conclusion is appropriate based on the evidence obtained.

Independent Reviewer's Report

To the Shareholders of ABC Proprietary Limited

We were engaged to review the financial statements of ABC Proprietary Limited set out on pages … to …, which comprise the statement of financial position as at 31 December 20X1 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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Independent Reviewer's Responsibility

Our responsibility is to express a conclusion on these financial statements. Because of the matters described in the Basis for Disclaimer of Conclusion paragraph, however, we were not able to obtain sufficient appropriate evidence as a basis for expressing a conclusion on the financial statements.

Basis for Disclaimer of Conclusion

The directors did not conduct a count of physical inventory on hand at the end of the year. We were unable to satisfy ourselves concerning the inventory quantities held at 31 December 20X1, which are stated in the statement of financial position at 31 December 20X1.

In addition, the introduction of a new computerised accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable and inventory. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. As a result of these matters, we were unable to determine whether any adjustments might have been necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows.

Disclaimer of Conclusion

Due to the significance of the matters described in the Basis for Disclaimer of Conclusion paragraph, we were unable to obtain sufficient appropriate evidence to form a conclusion on these financial statements. Accordingly, we do not express a conclusion on these financial statements.

Other Matter – Reports Required by the Companies Act of South Africa

The annual financial statements include the Directors' Report as required by the Companies Act of South Africa. The directors are responsible for the Directors' Report.

We have read the Directors' Report and, in doing so, considered whether the Directors' Report is materially inconsistent with the financial statements or our knowledge obtained in the independent review, or otherwise appears to be materially misstated. However, due to the disclaimer of conclusion in terms of the International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, we are unable to report further on the Directors' Report.

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[*Independent Reviewer's signature*]

[*Name of individual reviewer*]

[*Capacity if not a sole practitioner: e.g. Director or Partner*]

Registered Auditor

[*Date of independent reviewer's report*]

[*Independent reviewer's address*]

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Appendix I

Linking Going Concern Considerations with Types of Audit Opinions

The *Going Concern Decision Tree* diagram serves to illustrate the principles and guidance provided in ISA 570 (Revised), *Going Concern*, regarding the audit conclusions and reporting in circumstances concerning the going concern basis of accounting where a material uncertainty exists. Auditors are encouraged to consider this decision tree in light of the guidance provided in ISA 570 (Revised), paragraphs 17-24.

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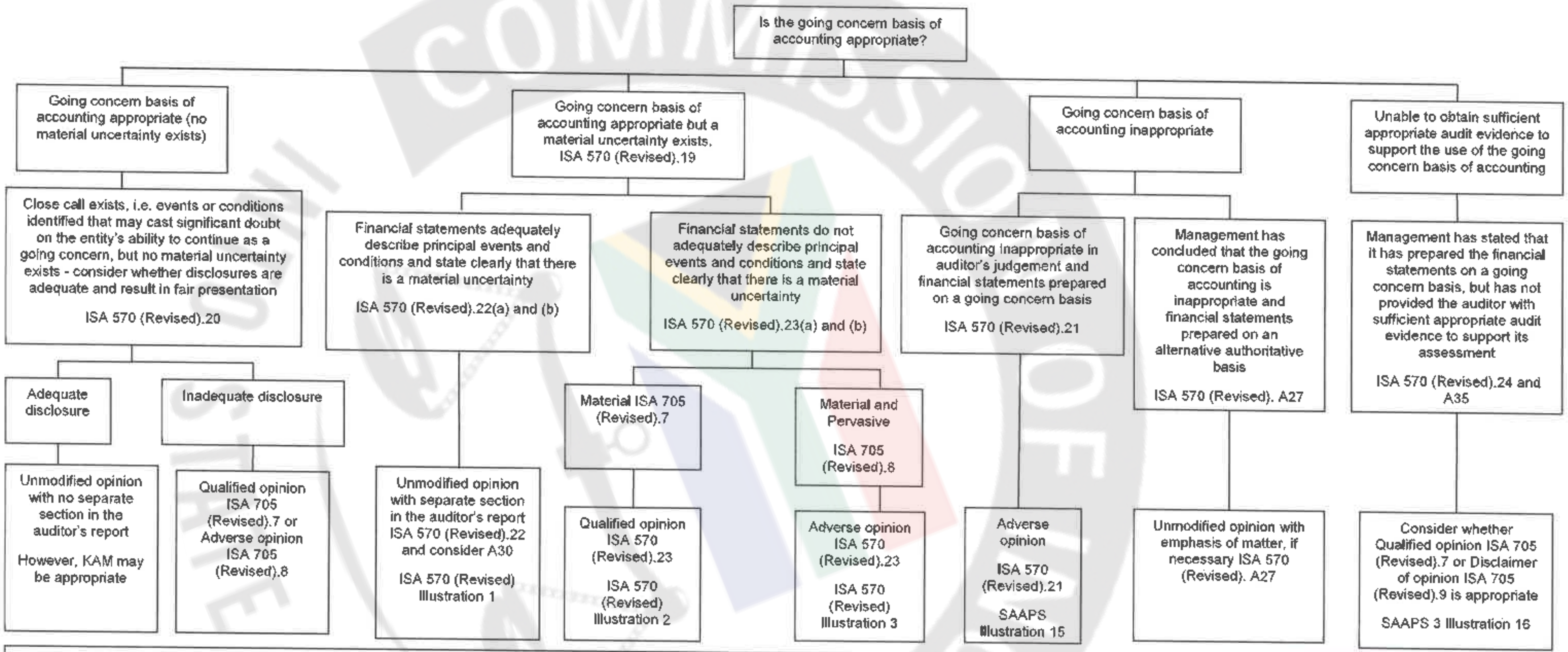
Appendix I

Going Concern Decision Tree



Going concern basis of accounting: The financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. (ISA 570 (Revised).2).

Material uncertainty: Exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements; or (b) In the case of a compliance framework, the financial statements not to be misleading.

Multiple uncertainties: Paragraph 10 of ISA 705 (Revised) states that the auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements. Paragraph A33 of ISA 570 (Revised) states that in situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of including the statements required by paragraph 22 of ISA 570 (Revised).

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Appendix II

Examples of reports, documents and information that may be determined to be other information

These examples may be useful to registered auditors when determining what constitutes other information for **private sector entities** in the South African context. They are, however, not an exhaustive list of considerations and should not take away from the auditor the requirement to apply ISA 720 (Revised) and consider its application material.

	Scenario	Does the report/document meet the definition of an annual report in terms of ISA 720 (Revised)?	If "yes", determine the other information in the scenario
1	As part of the year-end financial reporting process, a company prepares a document that contains its annual financial statements (the directors' report, audit committee report, company secretary certificate, audited financial statements and the auditor's report thereon) and a detailed income statement and a tax computation as supplemental information. The document[55] is distributed to the company's shareholders for purposes of the company's annual general meeting.	Yes.	All information in the document, other than the audited financial statements and the auditor's report thereon. Other information includes the directors' report, audit committee report, company secretary certificate, the detailed income statement and the tax computation.
2	A non-listed entity prepares its annual report as defined in ISA 720 (Revised) 10 months after the auditor's report signing date. This contains the financial statements, the auditor's report thereon and a chairman's report.	Yes.	All information in the annual report, other than the financial statements and the auditor's report thereon. Other information includes the chairman's report.

55 In South Africa this is commonly referred to as the glossy annual report.

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	Scenario	**Does the report/document meet the definition of an annual report in terms of ISA 720 (Revised)?**	**If "yes", determine the other information in the scenario**
3	A listed entity prepares its annual report as defined in ISA 720 (Revised). This contains the financial statements, the auditor's report thereon and a remuneration report.	Yes.	All information in the annual report, other than the financial statements and the auditor's report thereon. Other information includes the remuneration report.
4	A listed entity prepares its annual report as defined in ISA 720 (Revised). This contains the financial statements, the auditor's report thereon and a remuneration report. The remuneration report is included in the financial statements as it includes disclosures required to be audited in terms of the Companies Act of South Africa.	Yes.	All information in the annual report, other than the financial statements and the auditor's report thereon. Other information includes those sections of the remuneration report that have not been audited.
5	The directors of a non-profit company decide to prepare a report that will be used in a presentation to potential donors. It will contain the company's most recent financial statements and the auditor's report thereon. This report will be prepared in addition to the company's annual financial statements.	No.	Not applicable.
6	Regulatory returns (standalone documents) that are submitted to regulators by entities within regulated industries, for example, banks and medical schemes. The returns do not include the financial statements or the	No.	Not applicable[56].

56 The auditor may have other responsibilities through regulatory requirements.

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	Scenario	**Does the report/document meet the definition of an annual report in terms of ISA 720 (Revised)?**	**If "yes", determine the other information in the scenario**
	auditor's report thereon.		
7	A retirement fund submits to the Financial Services Board its "Annual Financial Statements in terms of Section 15 of the Pension Funds Act No. 24, 1956 as amended (Pension Funds Act)" after the end of its financial year. The return includes the financial statements and the auditor's report thereon (i.e. not a standalone regulatory return).	Yes.	All information in the regulatory return, other than the financial statements and the auditor's report thereon[57;58].
8	A company prepares an integrated report that includes the company's annual financial statements and the auditor's report thereon.	Yes.	All information in the integrated report, other than the financial statements and the auditor's report thereon.
9	A company prepares an integrated report that does not include the company's annual financial statements, the auditor's report thereon or a summary of the annual financial statements.	Yes.	All information in the integrated report.
10	A company prepares an integrated report that does not include the company's annual financial statements or auditor's report thereon but includes a summary of the annual financial statements. The summary financial statements were not audited.	Yes.	All information in the integrated report, including the summary financial statements.

57 The auditor may have other responsibilities through regulatory requirements.

58 Refer to ISA 800 (Revised), paragraph A17 for application material regarding reports containing or accompanying special purpose financial statements. Furthermore, a retirement fund's annual report, as defined in ISA 720 (Revised), could include documents and/or reports that are distributed by the fund to its members, in addition to the regulatory return referred to in example 5. Client specific facts and circumstances should be considered.

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	Scenario	**Does the report/document meet the definition of an annual report in terms of ISA 720 (Revised)?**	**If "yes", determine the other information in the scenario**
11	A company prepares an integrated report that does not include the company's annual financial statements or auditor's report thereon but includes a summary of the annual financial statements and the auditor's ISA 810 (Revised) report on the summary financial statements.	Yes.	All information in the integrated report, including the auditor's ISA 810 (Revised) audit report. *Additional note:* From an ISA 810 (Revised) perspective, the information in the integrated report (including the summary financial statements and the ISA 810 (Revised) report thereon) will be "information included in a document containing the summary financial statements and the auditor's report thereon", which ISA 810 (Revised) requires the auditor to read[59].
12	A listed entity prepares a sustainability report that is published as a standalone document completely separate from the entity's integrated report.	No.	Not applicable[60].
13	An entity prepares an integrated report. The index page to the integrated report states that the entity's sustainability report forms part of the entity's integrated report. The sustainability report is presented in a separate document.	Yes.	All information in the integrated report and the sustainability report, other than the financial statements and the auditor's report thereon.

59 ISA 810 (Revised), paragraph 14.

60 The auditor may have other responsibilities through regulatory requirements.

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	Scenario	**Does the report/document meet the definition of an annual report in terms of ISA 720 (Revised)?**	**If "yes", determine the other information in the scenario**
14	An analyst presentation is presented by a listed entity at the time of the release of its audited financial results for the year and gets published on the entity's website.	No.	Not applicable.
15	A listed entity's annual financial results are communicated through SENS. The summary consolidated financial statements included in the SENS announcement are derived from audited financial statements.	No.	Not applicable[61].
16	A listed entity publishes reviewed annual results on SENS.	No.	Not applicable. *Additional note:* The requirements of ISRE 2410, paragraphs 36 and 37, to read the other information that accompanies the financial information to consider whether any such information is materially inconsistent with the financial information remains relevant, even though this is not other information for purposes of ISA 720 (Revised).
17	An entity prepares an integrated report that includes a website reference to its King IV[62] "apply and explain"	Yes.	All information in the integrated report, including the King IV "apply and

61 The auditor may have other responsibilities through regulatory requirements.

62 King IV Report on Corporate Governance in South Africa, 2016.

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	Scenario	**Does the report/document meet the definition of an annual report in terms of ISA 720 (Revised)?**	**If "yes", determine the other information in the scenario**
	disclosures.		explain" disclosures, other than the financial statements and the auditor's report thereon.
18	An entity prepares an integrated report that contains its consolidated financial statements and the auditor's report thereon. The entity presents its standalone financial statements and the auditor's report thereon in a separate document that includes a detailed income statement.	Yes.	All information in the integrated report and the document that contains the standalone financial statements document, other than the financial statements and the auditor's reports thereon.

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CHAPTER 1

FINAL

AUDIT OF FINANCIAL STATEMENTS, AUDIT OF PREDETERMINED OBJECTIVES AND COMPLIANCE AUDIT

ASSURANCE ENGAGEMENTS, ASSURANCE LEVELS AND FOUNDATION PRINCIPLES FOR CONDUCTING AN AUDIT / ASSURANCE ENGAGEMENT

1. The Auditor-General of South Africa (AGSA) is the supreme audit institution (SAI) of South Africa. Chapter 9 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) (Constitution) establishes the AGSA as one of the state institutions supporting constitutional democracy.
2. This chapter introduces the audit methodology applied by the AGSA in discharging its responsibility to conduct and report on audit engagements, as envisaged in section 20(1) and (2) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA). The methodology may also be applied by audit firms conducting audits in the public sector. It deals with the fundamental concepts and foundation principles that underlie audit and assurance engagements.
3. The chapter is organised in a number of sections and subsections, as follows:
   - A. Audit engagements in terms of section 20 of the PAA
     - a. Mandate of the AGSA
     - b. The meaning of 'an opinion or conclusion' and the requirement to provide assurance
   - B. Standards for conducting audit engagements in the public sector
     - a. The applicable standards
     - b. Complying with all standards and all requirements of standards relevant to the audit
     - c. The chapters of the audit methodology that represent the evidence-gathering process
   - C. Description of assurance engagements and levels of assurance
     - a. Definitions
     - b. Reasonable assurance versus limited assurance
   - D. Overall objectives of the auditor and applying assurance engagement concepts to the types of audits performed by the AGSA
   - E. Preconditions for assurance engagements
   - F. Assessing the acceptability of the financial reporting framework in the audit of financial statements
   - G. Suitable criteria in the audit of predetermined objectives
   - H. Suitable criteria in the compliance audit
   - I. Premise of ethical requirements and quality control
     - a. Ethical requirements
     - b. Quality control
   - J. Professional scepticism
   - K. Professional judgement
   - L. Audit documentation
   - M. Special considerations for small auditees
   - N. Special considerations where management has imposed a limitation

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A. AUDIT ENGAGEMENTS IN TERMS OF THE PAA

a. Mandate of the AGSA

4. The functions of the AGSA are described in section 188 of the Constitution and are further regulated in the PAA, which mandates the AGSA to perform constitutional and other functions.

5. The AGSA must perform audits of the following institutions as listed in section 4(1) of the PAA:

   - All national and provincial state departments and administrations
   - All constitutional institutions
   - The administration of Parliament and of each provincial legislature
   - All municipalities
   - All municipal entities
   - Any other institution or accounting entity required by other national or by provincial legislation to be audited by the AGSA

6. In addition, section 4(2) of the PAA requires the AGSA to perform an audit and report on the consolidated financial statements of the national government, all provincial governments, and a parent municipality and all municipal entities under its sole or effective control.

7. Section 4(3) of the PAA further provides the AGSA the discretion to audit the following types of entities:

   - Any public entity listed in the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)
   - Any other institution not mentioned in section 4(1), and which is:
     - Funded from the national revenue fund or a provincial revenue fund or by a municipality.

     <u>or</u>

     - Authorised in terms of any legislation to receive money for a public purpose.

   If the AGSA decides not to audit these entities, the entity concerned must appoint another registered auditor to perform its audit (in accordance with section 25 of the PAA).

8. The AGSA may also perform discretionary engagements, which include performance audits, special audits, investigations and audit-related services.

   The audit methodology does <u>not</u> deal with these discretionary engagements.

9. Section 1 of the PAA defines 'audit' as the examination or investigation, in accordance with any applicable audit standards, of those aspects to be reported on in terms of section 20 or 28.

10. In terms of section 20 of the PAA, the AGSA must prepare a report on the audit. Section 20(2) determines that an auditor's report must reflect such opinions and statements as may be required by any legislation applicable to the auditee that is the subject of the audit, but must reflect at least an opinion or conclusion on the following:

    - Whether the annual financial statements of the auditee fairly present, in all material respects, the financial position at a specific date and the results of its operations and cash flow for the period that ended on that date in accordance with the applicable financial framework and legislation.
    - The auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters.
    - The reported information relating to the performance of the auditee against predetermined objectives.

11. The provisions of section 28(1) of the PAA are consistent with those of section 20(2) outlined above, and apply to those auditees where the AGSA has opted not to perform the audit.

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Any reference in the audit methodology to section 20 of the PAA also includes section 28.

12. Section 20(2) is interpreted to mean that the single overall audit engagement in relation to a particular auditee performed during a particular annual audit cycle simultaneously includes the following three types of audits:

- Audit of financial statements
- Audit of predetermined objectives
- Compliance audit

b. The meaning of 'an opinion or conclusion' and the requirement to provide assurance

13. The AGSA enjoys extensive freedom to determine the standards, nature and scope applicable to public sector audits, including making different determinations in this regard for the different types of audits in terms of section 13(1), (2) and (3) of the PAA. However, any such determinations are qualified by the requirements of section 20(2).

14. Section 20(2) requires that the auditor's report must reflect 'an opinion or conclusion' on the identified subject matters in subsections (a), (b) and (c) of section 20(2) (i.e. the three types of audits identified in **subsection a**).

15. In considering the provision of an opinion or conclusion, an analysis of the auditing and assurance standards issued by the International Auditing and Assurance Standards Board (IAASB) provides the following observations:

- In the case of **reasonable assurance engagements**, the opinion paragraph always states: 'In my / our opinion, ...'.

  This is consistent with the fact that reasonable assurance is a high level of assurance, but not an absolute level of assurance. The auditor has obtained sufficient appropriate evidence to reduce assurance engagement risk to an acceptably low level. The auditor has obtained strong persuasive evidence that supports the auditor's conclusion whether the subject matter information is free from material misstatement, enabling the auditor to come out positively and express his/her positive opinion about the subject matter information (i.e. a so-called '**positive form of expression**').

- In the case of **limited assurance engagements**, the conclusion paragraph is expected to express the auditor's conclusion in a form that conveys the following: 'Based on the procedures performed and evidence obtained, nothing has come to my/our attention that causes me/us to believe that ...'.

  The auditor has not performed all the procedures and has not obtained all the evidence that would be required in a reasonable assurance engagement. Therefore, there exists a corresponding higher level of risk that the auditor's conclusion about the subject matter information may be inappropriate, i.e. that the subject matter information may be materially misstated. The auditor has obtained sufficient appropriate evidence, but only at a level that enables the auditor to express a conclusion in a form that conveys that based only on the limited work that has been performed, nothing has come to the auditor's attention that causes the auditor to believe that the subject matter information is not free from material misstatement (i.e. a so-called '**negative form of expression**').

- 'Opinion' is the chosen form of expression of the auditor's conclusion in the case of a reasonable assurance engagement. The phrase 'In my/our opinion, ...' is reserved for reasonable assurance engagements.

<u>Note</u>: Assurance engagements and the distinction between reasonable assurance and limited assurance are discussed in further detail in **section C**.

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16. Section 20(2)(a) of the PAA that addresses the **audit of financial statements** requires a positive form of expression of the auditor's conclusion, i.e. 'whether the annual financial statements of the auditee fairly present, in all material respects, …'.

 Note: The manner in which reasonable assurance is expressed, namely 'fairly presents' or another form would be determined in line with the applicable auditing standards. The inclusion of the words 'fairly presents' in section 20(2)(a) does not infer that the opinion may not be worded in another manner as appropriate.

17. The use of the phrase 'opinion or conclusion' in the introductory sentence of section 20(2) of the PAA gives adequate scope for reasonable or limited assurance in the case of the **compliance audit** and the **audit of predetermined objectives**.

 - If the overall objectives of International Standard on Assurance Engagements (ISAE) 3000 are applied to section 20(2)(b) and 20(2)(c), respectively, the following may be deduced (the underlined text is the wording from the PAA):
   - To express a conclusion regarding the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters through a written report that conveys either reasonable or limited assurance and describes the basis for the conclusion.
   - To express a conclusion regarding the reported information relating to the performance of the auditee against predetermined objectives through a written report that conveys either reasonable or limited assurance and describes the basis for the conclusion.
 - The compliance audit and the audit of predetermined objectives can be performed as reasonable assurance or limited assurance engagements.

18. In summary, the following levels of assurance apply to the different types of audits performed by the AGSA:

 - An audit of financial statements is performed as a reasonable assurance engagement.
 - An audit of predetermined objectives may be performed as either a reasonable assurance engagement or a limited assurance engagement. Refer to **chapter 2, section D.b** for the criteria used to determine this.
 - A compliance audit is performed as a limited assurance engagement.

Terminology used in the manual.

Audit

As mentioned, 'audit' in terms of the PAA means the examination or investigation, in accordance with any applicable auditing standards, of those aspects to be reported on in terms of section 20 or 28.

In the audit methodology, the terms 'audit' and 'assurance engagement' are used interchangeably. The term 'audit' can be used to refer to any type of assurance engagement conducted by 'the auditor', i.e. the assurance practitioner or the audit office that has been engaged to perform the audit.

Auditor

In the context of the AGSA, 'auditor' can be used to refer to the individual responsible and accountable for the audit or can be used as a generic term to refer to members of the engagement team responsible for performing certain audit activities (if necessary, the distinction will be clarified within a specific context or the circumstances of the audit).

The International Framework for Assurance Engagements (IFAE) and ISAE 3000 use the term 'practitioner' to refer to the individual or individuals conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). In this audit methodology, the term 'practitioner' is replaced with 'auditor'.

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<u>Engagement manager</u>

The term enagagement manager means the person who is responsible for and has been assigned an audit engagement. In the AGSA this is the senior manger. In the methodology the terms engagement manager/audit partner, senior manager have been used interchangeably to denote responsibility for the audit or for a particular sign-off required.

<u>Firm level</u>

This term has been used to denote decisions taken centrally within the AGSA.

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B. STANDARDS FOR CONDUCTING AUDIT ENGAGEMENTS IN THE PUBLIC SECTOR

a. The applicable standards

19. Section 1 of the PAA defines 'standards' as the standards by which an audit is conducted, which include audit practices, procedures and guidelines.

20. In terms of section 13(1)(a) of the PAA, the AGSA, after consulting the oversight mechanism, determines the standards to be applied in performing audits.

21. The AGSA makes determinations and issues specific directives with respect to the standards to be applied in performing audits, the nature and scope of audits as well as the procedures for handling complaints when performing audits, as provided for in section 13(3) of the PAA. This occurs by way of a general notice, also referred to as the Auditor-General (AG) Directive.

22. Subject to any specific determinations by way of the AG Directive from time to time, the following applies to, and provides the basis for, the audit methodology:

- Overall, the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements issued by the IAASB of the International Federation of Accountants (IFAC) are applied in the audits.
- The different types of audits are conducted as follows:
  - The audit of financial statements is conducted in accordance with International Standards on Auditing (ISAs).
  - The reasonable or limited assurance engagement with respect to predetermined objectives is conducted in accordance with ISAE 3000.
  - The limited assurance engagement with respect to compliance is conducted in accordance with ISAE 3000.

23. The following additional information relates to the status of ISAs and ISAEs and their application in the audit methodology:

- ISAs are to be applied in the audit of historical financial information and are in particular written in the context of an audit of financial statements.
- ISAEs are to be applied in assurance engagements other than audits or reviews of historical financial information.
- ISAE 3000 is the general standard that applies to all such assurance engagements. Where an ISAE is relevant to a specific subject matter of a particular engagement, that ISAE applies in addition to ISAE 3000.
- At present, there are no subject matter-specific ISAEs for assurance engagements on reported information about performance against predetermined objectives or for compliance assurance engagements. Therefore, only ISAE 3000 is applicable to these types of audits.
- ISAE 3000 contains requirements, application and other explanatory material specific to reasonable and limited assurance **attestation engagements**. However, it may also be applied to reasonable and limited assurance **direct engagements**, adapted and supplemented as necessary in the engagement circumstances. Refer to **section C** for the distinction between reasonable assurance and limited assurance engagements, as well as between attestation and direct engagements.
- The compliance audits performed by the AGSA are direct engagements. Relevant adaptations of the requirements and application of ISAE 3000 are incorporated in the application guidance of the individual chapters of the methodology that address the audit activities of the evidence-gathering process. The methodology also includes certain requirements from ISAs to provide additional guidance with respect to the engagement process generally and to contribute to consistency across the types of audits performed by the AGSA.

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- For an audit of predetermined objectives performed as a reasonable assurance engagement, the methodology also includes certain requirements from ISAs to provide additional guidance with respect to the engagement process generally and to contribute to consistency across the types of audits performed by the AGSA. Included are only those requirements that provide additional guidance and depth to the engagement process and that are not already encapsulated in the mandatory requirements of ISAE 3000.

24. In addition to ISAs and ISAE 3000, relevant principles contained in the International Standards of Supreme Audit Institutions (ISSAIs) pronouncements published by the International Organization of Supreme Audit Institutions (INTOSAI) are applied.

25. An audit of financial statements in accordance with ISAs is well defined and accepted. ISAs provide comprehensive requirements, application and other explanatory material regarding all aspects of the engagement process. The requirements of ISAs as they apply to the various audit activities involved in the engagement process are included in the individual chapters of the methodology. The requirements of ISAs are **mandatory**.

26. For the audit of predetermined objectives and the compliance audit, the requirements of ISAE 3000 as they apply to the various audit activities involved in the engagement process are included in the individual chapters of the methodology. The requirements of ISAE 3000 are **mandatory.** In addition, some principles from other assurance standards have been selected for use in the methodology and are stated as **supplementary**. These provide additional context to the mandatory requirements (i.e. further guidance and depth to the engagement process). The other standards referred to, where relevant, are ISSAI 100, as well as ISSAI 400 for compliance audits. In accordance with ISAE 3000.A22, the ISAs and the International Standards on Review Engagements (ISREs) have been written for audits and reviews of historical financial information, respectively, and do not apply to other assurance engagements. They may, however, provide guidance in relation to the engagement process generally for the auditor undertaking an assurance engagement in accordance with ISAE 3000.

b. Complying with all standards and all requirements of standards relevant to the audit

27. The following table summarises the relevant requirements pertaining to complying with ISAs in conducting an **audit of financial statements**:

Source	The auditor shall ...
200.18	Comply with all ISAs relevant to the audit. An ISA is relevant to the audit when the ISA is in effect and the circumstances addressed by the ISA exist.
200.19	Have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.
200.20	Not represent compliance with ISAs in the auditor's report unless the auditor has complied with the requirements of this ISA (ISA 200) and all other ISAs relevant to the audit.
200.21	To achieve the overall objectives of the auditor, use the objectives stated in relevant ISAs in planning and performing the audit, having regard to the interrelationships among the ISAs, to: ▫ Determine whether any audit procedures in addition to those required by the ISAs are necessary in pursuance of the objectives stated in the ISAs; and ▫ Evaluate whether sufficient appropriate audit evidence has been obtained
200.22	Subject to 200.23, comply with each requirement of an ISA unless, in the circumstances of the audit: ▫ The entire ISA is not relevant. <u>or</u> ▫ The requirement is not relevant because it is conditional and the condition does not exist.
200.23	[In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement.]
200.24	If an objective in a relevant ISA cannot be achieved, evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the

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Source	The auditor shall ...
	auditor, in accordance with the ISAs, to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA 230. [As discussed in **chapter 2, section F**, the AGSA does not have the option to decline or withdraw from mandatory engagements.]

28. The following table summarises the corresponding requirements in ISAE 3000 that apply to assurance engagements other than audits or reviews of historical financial information; in this case, the **audit of predetermined objectives** and the **compliance audit**:

Source	The auditor shall ...
3000.14	Comply with this ISAE and any subject matter-specific ISAEs relevant to the engagement. [As discussed in **subsection a**, there are at present no specific ISAEs for assurance engagements on predetermined objectives or for compliance assurance engagements.]
3000.15	Not represent compliance with this or any other ISAE unless the [auditor] has complied with the requirements of this ISAE and any other ISAE relevant to the engagement.
3000.16	Have an understanding of the entire text of an ISAE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.
3000.17	Subject to the following paragraph, comply with each requirement of this ISAE and of any relevant subject matter-specific ISAE unless, in the circumstances of the engagement, the requirement is not relevant because it is conditional and the condition does not exist. Requirements that apply to only limited assurance or reasonable assurance engagements have been presented in a columnar format with the letter 'L' (limited assurance) or 'R' (reasonable assurance) after the paragraph number.
3000.18	[In exceptional circumstances, the [auditor] may judge it necessary to depart from a relevant requirement in an ISAE. In such circumstances, the [auditor] shall perform alternative procedures to achieve the aim of that requirement. The need for the [auditor] to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the engagement, that procedure would be ineffective in achieving the aim of the requirement.]
3000.19	If an objective in this ISAE or a relevant subject matter-specific ISAE cannot be achieved, evaluate whether this requires the [auditor] to modify the [auditor's] conclusion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective in a relevant ISAE represents a significant matter requiring documentation in accordance with ISAE 3000.79. [As discussed in **chapter 2, section F**, the AGSA does not have the option to decline or withdraw from mandatory engagements.]

c. The chapters of the audit methodology that represent the evidence-gathering process

29. The relevant auditing and assurance standards, as applicable to each type of audit, provide for an evidence-gathering process that enables the auditor to obtain sufficient appropriate evidence as a basis to form an assurance conclusion. Based on the evidence obtained, the auditor concludes:

- In an **audit of financial statements**, whether **reasonable assurance** has been obtained about whether the financial statements are free from material misstatement. ISA 200.17 requires the auditor to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the audit opinion.

- In an **audit of predetermined objectives**, whether either **reasonable assurance or limited assurance**, as applicable to the specific engagement, has been obtained about whether the reported performance information against predetermined objectives in the annual performance report for selected programmes / objectives / development priorities is free from material misstatement. Refer to **chapter 2, section D** that addresses the scoping of audit-selected programmes / objectives / development priorities.

- In a **compliance audit**, whether **limited assurance** has been obtained about whether there may be material instances of non-compliance with respect to selected compliance

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subject matters / focus areas. Refer to **chapter 2, section E** that addresses the scoping of the audit-selected compliance subject matters / focus areas.

30. **Chapter 2** addresses the principles and provides guidance about the criteria for scoping the different types of audits, which determines the subject matter and subject matter information, as applicable, for each engagement. It focuses on ensuring that proper pre-engagement activities are undertaken and that there is agreement on the terms of engagement.

31. **Chapters 3 to 18** cover the various audit activities that comprise the evidence-gathering process. These chapters specify the requirements with respect to each audit activity and provide guidance on the related principles and the application of the requirements to obtain sufficient appropriate evidence.

32. The audit methodology is integrated for all three types of audits and incorporates the fundamental principles of auditing. This ensures consistency in the application of the related audit activities, thus enhancing efficiency in performing the audit work. The audit of financial statements, audit of predetermined objectives and compliance audit are performed simultaneously by the same audit engagement team for the same auditee during a particular audit cycle.

33. Owing to the peculiarities of the different types of audits, different levels of assurance that have to be obtained, separate assurance conclusions and the nature of each of the subject matters and subject matter information, as well as having regard to the comprehension of the different types of audits and the training and development of auditors, different chapters of the audit methodology are used for specific aspects relating to the audit of financial statements, the audit of predetermined objectives and the compliance audit.

34. **Chapters 3 to 18** address the following audit activities as part of the evidence-gathering process:

Table 1: Chapters included in the methodology

Chapter number	Topic of chapter	Audit of financial statements (Reasonable assurance only)	Audit of predeter-mined objectives (Reasonable assurance)	Audit of predeter-mined objectives (Limited assurance)	Compliance audit (Limited assurance only)
3	Understanding of the entity and its environment	Single integrated chapter for all three types of audits			
4	Overall audit strategy	Single integrated chapter for all three types of audits			
5	Determining and using materiality	✓	One chapter		✓
6	Discussions among the engagement team	Single integrated chapter for all three types of audits			
7	Understanding of the entity's internal control relevant to the audit	✓	✓	✓	✓
8	Risk assessment or Identifying areas where material misstatement / non-compliance is likely to arise	✓	✓	✓	✓
9	Audit plan and risk response at the assertion level or Audit plan and responding to areas where material misstatement / non-compliance is likely to arise	✓	✓	✓	✓
10	Selecting items for testing,	✓	✓	✓	✓

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Chapter number	Topic of chapter	Audit of financial statements (Reasonable assurance only)	Audit of predetermined objectives (Reasonable assurance)	Audit of predetermined objectives (Limited assurance)	Compliance audit (Limited assurance only)
	including audit sampling and performing procedures				
11	Audit evidence from specific considerations	Single integrated chapter for all three types of audits			
12	Using the work of others	Single integrated chapter for all three types of audits			
13	Subsequent events and other information in the annual report	Single integrated chapter for all three types of audits			
14	Group reporting <u>or</u> Auditing within group structures	✓	✓	n/a	n/a
15	Evaluating the results of audit procedures, including misstatements / instances of non-compliance	✓	✓	✓	✓
16	Communication with management and those charged with governance (TCwG)	Single integrated chapter for all three types of audits			
17	Written representations	Single integrated chapter for all three types of audits			
18	Concluding and forming the audit opinion / assurance conclusion	✓	✓	✓	✓

C. DESCRIPTION OF ASSURANCE ENGAGEMENTS AND LEVELS OF ASSURANCE

a. Definitions

35. An **assurance engagement** is an engagement in which the auditor aims to obtain sufficient appropriate evidence to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (i.e. the outcome of the measurement or evaluation of an underlying subject matter against criteria). [IFAE, par. 10; ISAE 3000 12(a)]

36. An assurance engagement can be a reasonable assurance engagement or a limited assurance engagement.

37. A **reasonable assurance engagement** is an assurance engagement in which the auditor reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the auditor's conclusion. The auditor's conclusion is expressed in a form that conveys the audit opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria. Reasonable assurance is a high level of assurance, but not an absolute level of assurance. [IFAE, par. 14; ISAE 3000 12(a)(i)a; ISA 200.5 & .17]

38. A **limited assurance engagement** is an assurance engagement in which the auditor reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, any matter has come to the auditor's attention to cause the auditor to believe that the subject matter information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement are limited compared to those necessary in a reasonable assurance engagement, but are planned to obtain a level of assurance that is, in the auditor's professional judgement, meaningful. To be meaningful, the level of assurance obtained by the auditor is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential. [IFAE, par. 15; ISAE 3000 12(a)(i)b]

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39. The following are the definitions of the terms used in the descriptions of assurance engagements in the preceding paragraphs, presented in alphabetical order [IFAE and ISAE 3000 :

- Criteria: The benchmarks used to measure or evaluate the underlying subject matter. The 'applicable criteria' are the criteria used for the particular engagement.
- Engagement risk: The risk that the auditor expresses an inappropriate conclusion when the subject matter information is materially misstated.
- Intended users: The individual or organisation, or group thereof, that the auditor expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed.
- Responsible party: The party responsible for the underlying subject matter.
- Subject matter information: The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e. the information that results from applying the criteria to the underlying subject matter.
- Underlying subject matter: The phenomenon that is measured or evaluated by applying criteria.

40. In addition to the distinction between reasonable assurance and limited assurance, assurance engagements can also be classified as **attestation engagements** or **direct engagements** [IFAE12 & 13; ISAE 3000 12(a)(ii)]:

- An attestation engagement is an assurance engagement in which a party other than the auditor measures or evaluates the underlying subject matter against the criteria. A party other than the auditor also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the auditor in the assurance report. In an attestation engagement, the auditor's conclusion addresses whether the subject matter information is free from material misstatement. The auditor's conclusion may be phrased in terms of one of the following:
    - The underlying subject matter and the applicable criteria
    - The subject matter information and the applicable criteria
    - A statement made by the appropriate party
- A direct engagement is an assurance engagement in which the auditor measures or evaluates the underlying subject matter against the applicable criteria <u>and</u> presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the auditor's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.

b. Reasonable assurance versus limited assurance

41. Reasonable assurance engagements and limited assurance engagements are primarily distinguished based on the following:

- The level to which engagement risk is reduced; or the level of assurance that is achievable and achieved by the auditor's evidence-gathering process as applied in the circumstances of the engagement.
- The form of expression of the auditor's conclusion in the assurance report (refer to the related discussion in **section A.b**).

42. Reasonable assurance or limited assurance is determined by the agreed terms of the engagement and the scope of the engagement, which has at its core the information needs of the intended users of the subject matter information and of the auditor's report.

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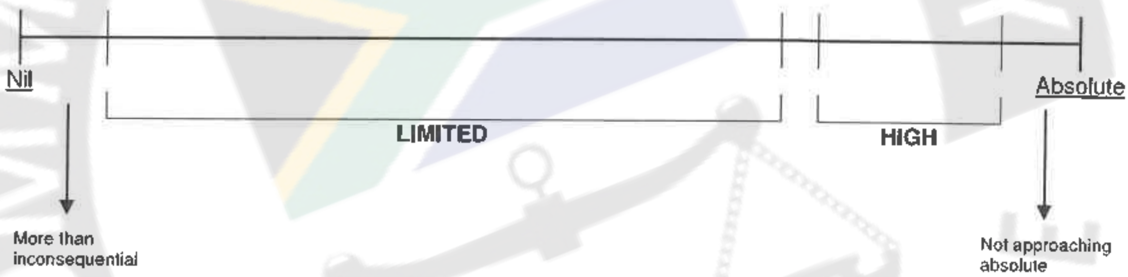
43. Once reasonable assurance or limited assurance has been determined and agreed, the engagement is planned and performed to that level of assurance (i.e. planned and performed to obtain sufficient appropriate evidence to achieve the required level of assurance).

44. In a **reasonable assurance engagement**, the engagement is planned and performed to reduce engagement risk to an acceptably low level; conversely, to provide reasonable assurance that the subject matter information is free from material misstatement. Reducing engagement risk to zero is very rarely attainable or cost beneficial and, therefore, reasonable assurance is a high level of assurance, but not an absolute level of assurance. There are inherent limitation to an assurance engagement, namely:

- The use of selective testing.
- The inherent limitations of internal control.
- The fact that much of the evidence available to the auditor is persuasive rather than conclusive.
- The use of professional judgement in gathering and evaluating evidence and forming conclusions based on that evidence.
- In some cases, the characteristics of the underlying subject matter when evaluated or measured against the criteria.

45. In a **limited assurance engagement**, the engagement is planned and performed to reduce engagement risk to an acceptable level that is greater than for a reasonable assurance engagement; conversely, to provide limited assurance that the subject matter information is free from material misstatement. This limited level of assurance is still expected to be meaningful to intended users in that it is likely to enhance intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential. That is to say, the subject matter information is of more value to intended users with a limited assurance report compared to a situation in which no assurance is provided.

46. Consider the following assurance continuum:



Some additional notes on reasonable assurance and limited assurance

- Limited assurance is represented by a much broader range of assurance than reasonable assurance – it can be anything that is clearly more than inconsequential to just less than reasonable assurance.
- Limited assurance may be more difficult to comprehend. Conversely, in the case of a reasonable assurance engagement, there is more certainty in terms of what you get.
- The level of assurance that is required must be known before the evidence-gathering process commences, and is established as part of the terms of the engagement and the scoping of the engagement. There is a difference between establishing the required level of assurance (i.e. what is expected and what should be attainable), and not attaining the required level of assurance during the evidence-gathering process. In the case of the latter, the auditor is required to consider the effect on the auditor's report of an inability to obtain sufficient appropriate evidence relevant to the particular level of assurance.
- Reasonable assurance engagements are planned and performed to reduce assurance engagement risk to an acceptably low level within a relative narrow range of 'high'

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assurance. Therefore, the evidence-gathering process is more precise in terms of designing and performing procedures in response to assessed risks of material misstatement (RMM) in the subject matter information.

- The procedures that the auditor performs to obtain sufficient appropriate evidence in a limited assurance engagement cannot, do not and is not expected to provide the same level of assurance that the subject matter information is free from material misstatement, compared to a reasonable assurance engagement. The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement.

47. **Annexure A** provides additional guidance in the form of a table that compares reasonable assurance and limited assurance engagements. Its purpose is to further clarify the differences and similarities between reasonable and limited assurance engagements for understanding the implications of each in terms of the nature and scope of the engagement work and its results.

D. OVERALL OBJECTIVES OF THE AUDITOR AND APPLYING ASSURANCE ENGAGEMENT CONCEPTS TO THE TYPES OF AUDITS PERFORMED BY THE AGSA

48. The overall objectives of the auditor in conducting an **audit of financial statements** are [ISA 200.11]:

- To obtain **reasonable assurance** about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.
- To report on the financial statements and communicate as required by ISAs, in accordance with the auditor's findings.

49. For **assurance engagements other than audits or reviews of historical financial information**, the overall objectives of the auditor are [ISAE 3000.10]:

- To obtain either **reasonable assurance or limited assurance**, as appropriate, about whether the subject matter information is free from material misstatement.
- To express a conclusion regarding the outcome of the measurement or evaluation of the underlying subject matter through a written report that conveys either a reasonable assurance or a limited assurance conclusion and describes the basis for the conclusion.
- To communicate further as required by ISAE 3000 and any other relevant ISAEs.

50. ISAE 3000 is applied as follows in terms of the overall objectives of the auditor in conducting an **audit of predetermined objectives**:

- To obtain **reasonable assurance** about whether the reported performance information against predetermined objectives in the annual performance report for the individual programmes / objectives / development priorities scoped into the audit, is free from material misstatement; thereby enabling the auditor to express an opinion on whether the reported performance information is useful and reliable in all material respects, in accordance with the criteria as developed from the performance management and reporting framework (PMRF) (as defined in the general notice issued in terms of the PAA).

<u>or</u>

- To obtain **limited assurance** about whether the reported performance information against predetermined objectives in the annual performance report for the individual programmes / objectives/ development priorities scoped into the audit, is free from material misstatement; thereby enabling the auditor to express a conclusion whether, based on the procedures performed and the evidence obtained, nothing has come to the auditor's attention to cause the auditor to believe that the reported performance

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information is not useful and reliable in accordance with the criteria as developed from the PMRF (as defined in the general notice issued in terms of the PAA).

and

- To report on the performance information concerned and communicate as required by the assurance standards, in accordance with the auditor's findings.

51. ISAE 3000 is applied as follows in terms of the overall objectives of the auditor in conducting a **compliance audit**:

- To obtain **limited assurance** about whether the entity, with respect to the individual compliance subject matters / focus areas scoped into the audit, has complied with specific provisions of legislation that have been selected as the compliance requirements / criteria for the engagement; thereby enabling the auditor to express a conclusion whether, based on the procedures performed and the evidence obtained, nothing has come to the auditor's attention to cause the auditor to believe that the entity has not complied, in all material respects, with the identified compliance requirements / criteria.
- To report on the auditor's measurement or evaluation of the entity's compliance and communicate as required by the assurance standards, in accordance with the auditor's findings.

52. The following table summarises how relevant assurance engagement concepts apply to the different types of audits conducted by the AGSA:

Table 2: Assurance engagement concepts applicable to the different types of audits

Identified assurance engagement concept	Audit of financial statements	Audit of predetermined objectives	Compliance audit
Reasonable or limited assurance	Reasonable assurance	Either reasonable assurance or limited assurance Refer to **chapter 2, section D** for criteria to assist with this decision	Limited assurance
Attestation or direct engagement	Attestation engagement	Attestation engagement	Direct engagement
Underlying subject matter	Historical financial position at an identified date, and financial performance and cash flows for the period then ended	Planned and reported performance against predetermined objectives	Compliance with legislation
Subject matter information / subject matters scoped into the audit	The financial statements of the auditee for its legislated financial year The reporting date is the auditee's financial year-end date	Reported information about the auditee's performance against predetermined objectives for selected programmes / objectives / development priorities The annual performance report is prepared for the same period as the auditee's financial statements (i.e. its financial year)	The entity's compliance with selected provisions of legislation with respect to selected compliance subject matters / focus areas; the subject matter information as such is the outcome of the auditor's measurement or evaluation of the auditee's compliance as presented in the auditor's report The measurement or evaluation of compliance covers the auditee's financial year

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<table>
<tr><th>Identified assurance engagement concept</th><th>Audit of financial statements</th><th>Audit of predetermined objectives</th><th>Compliance audit</th></tr>
<tr><td>Chapter 2 addresses the scoping of the different types of audits</td><td>Refer to chapter 2, section C for scoping</td><td>Refer to chapter 2, section D for scoping</td><td>Refer to chapter 2, section E for scoping</td></tr>
<tr><td>Applicable criteria for the measurement or evaluation of the subject matter scoped into the audit</td><td>The applicable financial reporting framework used by the auditee to prepare its financial statements

Depending on the type of public sector entity, this may be the International Financial Reporting Standards (IFRS), the Standards of Generally Recognised Accounting Practice (GRAP) or the Modified Cash Standard (MCS)</td><td>The identified PMRF

The PMRF is prescribed by the appropriate central government departments that have overall planning, monitoring and evaluation functions, e.g. the National Treasury and the Department of Public Service and Administration (DPSA) supported by the Department of Planning, Monitoring and Evaluation (DPME)</td><td>The specific provisions of legislation selected as the compliance requirements / criteria for each selected compliance subject matter / focus area</td></tr>
<tr><td>Responsible party</td><td>Accounting officer / accounting authority / other party responsible for the preparation of the financial statements</td><td>Accounting officer / accounting authority / other party responsible for the preparation of the annual performance report</td><td>Accounting officer / accounting authority / other party responsible for ensuring and overseeing that the entity's business, operations and activities are conducted in compliance with the relevant legislation</td></tr>
<tr><td>Measurer or evaluator of the subject matter against the applicable criteria</td><td>The responsible party (refer to previous row)</td><td>The responsible party (refer to previous row)</td><td>The auditor (owing to the fact that this is a direct engagement)</td></tr>
<tr><td>Intended users of the subject matter information</td><td colspan="3">For all three types of audits in terms of sections 20(2) and 28(1) of the PAA, the subject matter information is prepared for a wide range of users taking cognisance of public sector concerns, such as accountability, effective legislative oversight, public interest, public expectations, and compliance with laws and regulations. Therefore, the subject matter information is for general purposes (as opposed to addressing the specific information needs of specific users).

Practicably, the auditor is concerned with and can only be expected to consider the common information needs of the intended users as a group. Although there may be some variations, it is generally expected that the same primary users are interested in and use the entity's financial statements, reported performance information against predetermined objectives and information about the entity's compliance with legislation to inform relevant decisions taken on the basis of that information. Parliament and provincial legislatures represent the citizens and appropriate funding for various government programmes, activities and functions. Parliament, provincial legislatures and/or regulators frequently evaluate or make decisions about an entity's activities, including its mandate, service delivery, performance as well as levels of transparency, accountability and good governance. They are often the primary users of the subject matter information concerned.

The auditor's report is normally addressed to those for whom the report is prepared. In the public sector, many persons, entities or groups (including the general public) have access to the published auditor's report; however, it is not practical to address the auditor's report to society at large. The auditor's report is thus addressed to the primary users of the subject matter information and the auditor's report thereon. Depending on the type of public sector entity, these are one of the following:

▫ Parliament
▫ The relevant provincial legislature
▫ The relevant municipal council
▫ Shareholders (represented by the responsible department)</td></tr>
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Identified assurance engagement concept	Audit of financial statements	Audit of predetermined objectives	Compliance audit
	▫ TCwG of the auditee ▫ The responsible minister (The separate **reporting guide** provides further detailed guidance on the addressee of the auditor's report.) In considering the information needs of intended users, it is helpful to also refer to those departments and other bodies that exercise general planning, monitoring and corrective functions and that would be in a position to make a determination of such information needs. Consider the following (which is not an exhaustive list) in this regard: ▫ National Treasury and provincial treasuries ▫ DPME ▫ Department of Public Service and Administration (DPSA) ▫ Department of Cooperative Governance and Traditional Affairs (CoGTA) ▫ Members of the executive council (MECs) ▫ Portfolio committees ▫ Various standing committees and other public oversight bodies ▫ Funding agencies and donor organisations		

E. PRECONDITIONS FOR ASSURANCE ENGAGEMENTS

53. The preconditions for any assurance engagement can be summarised as follows [IFAE, par. 22-25; ISAE 3000 .24-25; ISA 210.6]:

- The roles and responsibilities of the appropriate parties (i.e. the responsible party, the measurer or evaluator, and the engaging party) are suitable in the circumstances.
- The engagement exhibits all of the following characteristics:
  - The underlying subject matter is appropriate.
  - The criteria that the auditor expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances.
  - The criteria that the auditor expects to be applied in the preparation of the subject matter information will be available to the intended users.
  - The auditor expects to be able to obtain the evidence needed to support the auditor's opinion or conclusion, as applicable.
  - The auditor's opinion or conclusion, in the form appropriate to either a reasonable assurance or a limited assurance engagement, is to be contained in a written report.
  - A rational purpose, including in the case of a limited assurance engagement, that the auditor expects to be able to obtain a meaningful level of assurance.

Note: All of the preconditions must be met; if not met, the auditor is not able to perform an assurance engagement and achieve the overall objectives for providing assurance.

54. In the public sector, the following preconditions can be assumed to be met, since the matters concerned are set out in legislation [ISAE 3000A35]:

- **Roles and responsibilities**
  - The responsibilities of the auditor are set out in the PAA.
  - The responsible party and his/her/its responsibilities in relation to the preparation of financial statements, the preparation of an annual performance report and the entity's compliance with legislation are determined in the PFMA or the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA); or if neither of these apply to the entity, in the specific legislation applicable to that entity.

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- The responsible party is also the engaging party, i.e. the party that engages the auditor to perform the audit. Also refer to **chapter 2, section G** that addresses the matter of agreeing the terms of engagement. This is in the context that the audit of the entity is mandatory in accordance with the applicable legislation.
- As discussed in **section C**:
  - The responsible party is also the measurer or evaluator in the case of the entity's financial statements and its annual performance report.
  - The auditor is the measurer or evaluator of the entity's compliance with legislation (owing to the compliance audit being a direct engagement).

- **A written auditor's report**

  The auditor is required to issue a report that expresses an opinion or conclusion, as applicable, on the subject matters as specified in sections 20(2) and 28(1) of the PAA (refer to **section A** for further detail).

- **A rational purpose exists for the engagement**

  Refer to the mandatory engagements to be performed in relation to all public sector entities as discussed in **section A**, as well as the application of assurance engagement concepts to the types of audits performed by the AGSA in **section D**.

55. The remaining preconditions are addressed in the paragraphs that follow, namely an appropriate underlying subject matter; suitable criteria; criteria must be available to the intended users; and the auditor expects to be able to obtain evidence.

An appropriate underlying subject matter

56. The relevant subject matters are identified in sections 20(2) and 28(1) of the PAA (as discussed in **section A**).
57. The audit of financial statements in accordance with ISAs is well defined, established and accepted. It can be assumed that the appropriate underlying subject matter condition is met.
58. Subject to all of the other preconditions being met, reported performance information against predetermined objectives and compliance with legislation are appropriate subject matters for assurance engagements and are identifiable and capable of consistent measurement or evaluation against the applicable criteria, such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.
59. Also refer to **chapter 2** that addresses, among other, the scoping of the different types of audits in terms of either the entire subject matter (in the case of financial statements) or aspects of the overall subject matter (in the case of predetermined objectives and compliance).

Suitable criteria

60. The auditor must be satisfied that the criteria to be applied in the preparation of the subject matter information (or applied in the measurement or evaluation of the underlying subject matter) are suitable for the engagement circumstances.
61. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgement. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of criteria is context sensitive, i.e. it is determined in the context of the engagement circumstances.

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62. It should be noted that the suitability of criteria is not affected by the level of assurance, i.e. if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa. [ISAE 3000 .A10]

63. The applicable criteria for each type of audit is identified in **section D:**

- Audit of financial statements: The applicable financial reporting framework used by the responsible party to prepare the auditee's financial statements.
- Audit of predetermined objectives: The identified PMRF used by the responsible party to prepare the auditee's annual performance report.
- Compliance audit: The selected provisions of legislation to be used by the auditor to measure or evaluate the auditee's compliance in relation to each selected compliance subject matter / focus area.

64. The question that arises is whether the applicable criteria are suitable. Suitable criteria exhibit all of the following characteristics (the relative importance of each characteristic to a particular engagement is a matter of professional judgement):

- Relevance: Relevant criteria result in subject matter information that assists decision-making by the intended users.
- Completeness: Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
- Reliability: Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter – including, where relevant, presentation and disclosure – when used in similar circumstances by different auditors.
- Neutrality: Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.
- Understandability: Understandable criteria result in subject matter information that can be understood by the intended users.

65. **Sections F, G and H** discuss the suitability of criteria for each of the types of audits (audit of financial statements, audit of predetermined objectives and compliance audit, respectively).

Criteria must be available to the intended users

66. The applicable criteria must be available to the intended users to allow them to understand how the subject matter was measured or evaluated against the applicable criteria to produce the subject matter information, and to understand the basis for the auditor's assurance conclusion.

67. Different options exist to make the applicable criteria available to the intended users, namely:

- Include the criteria in the auditor's report.
- Refer to the criteria when included in a clear manner in the subject matter information (i.e. part of the presentation of the subject matter information).

or

- Refer to the criteria if available from a readily accessible source (e.g. a source that is publicly available).

68. When criteria are referred to in terms of its source, the source must then provide (identify and describe) the criteria in sufficient detail so that reasonable and informed intended users will be able to access the criteria and understand the basis for the measurement or evaluation of the subject matter and the resulting subject matter information.

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69. How criteria are made available to the intended users is intrinsically linked to the nature and the source of the criteria, which are evaluated as part of the suitable criteria condition above. Therefore, suitability and availability should be considered together (the one cannot be met without the other).

70. In principle, the applicable criteria related to each type of audit are made available as follows:

- **Audit of financial statements**

  The applicable financial reporting frameworks used to prepare the financial statements of different types of public sector entities are all available in the form of a standard or an integrated collection of standards for financial reporting (namely the IFRS, GRAP or the MCS). The financial statements include a section / note that describes the basis of preparation of the financial statements, including referring to the relevant financial reporting standards and summarising the accounting policies applied by the entity in accordance with the requirements of those standards. Therefore, the criteria are made available to the intended users by referring to the applicable financial reporting framework, the details of which are included in a clear manner in the financial statements.

- **Audit of predetermined objectives**

  At present, there is no recognised standard for reporting performance information against predetermined objectives. The PMRF comprises relevant legislation and related frameworks, guides and circulars prescribed by, for example, the National Treasury and the DPME. It does not represent a coherent standard for performance management and reporting in itself. Until such a standard is available, the criteria developed from the PMRF relevant to the recording, measurement, collation, preparation, presentation and disclosure of performance information for individual programmes / objectives / development priorities in a public sector entity's annual performance report are defined in the AG Directive. Therefore, the criteria are made available to the intended users through the AG Directive that is publicly available and accessible. These may additionally be included in the auditor's report.

- **Compliance audit**

  Although legislation is publicly available, only specific focus areas of the entity's operations and activities are scoped into the audit and only specific provisions of relevant legislation with respect to those focus areas are selected to measure or evaluate the entity's compliance, i.e. compliance has a specific meaning in the context of the assurance engagement being conducted (as discussed in detail in **chapter 2, section E**). Therefore, to be adequately available to intended users, the description of each compliance subject matter / focus area must include the selected provisions of legislation identified as the compliance requirements / criteria for the engagement. This entails reference to the title and number of the legislation and the identification of the selected individual sections of the legislation by number. This is done through the AG Directive that is publicly available and accessible. Furthermore, the description of each compliance subject matter / focus area in these terms will be included in the auditor's report.

The auditor expects to be able to obtain evidence

71. This precondition firstly relates to whether evidence could in principle reasonably be expected to exist and be available for the auditor to perform procedures and to obtain sufficient appropriate evidence as a basis for the auditor's reasonable assurance or limited assurance conclusion, as appropriate.

72. Taking into account the legislated responsibilities of the accounting officer / accounting authority / other party responsible for the entity's accounting records and financial statements, its performance information records and annual performance report and its compliance with legislation, it could reasonably be expected that the required evidence should be available.

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73. A second matter to consider is whether the auditor has access to such evidence. The AGSA's auditing powers in terms of access to information and persons is legislated in section 15 of the PAA. The responsible party's acknowledgement of his/her/its responsibilities to provide the auditor with access to all information and persons required for purposes of the audit is also confirmed in the engagement letter (refer to **chapter 2, section G**).

74. Lastly, this precondition could be affected by limitations on the scope of the auditor's work. In particular, when before the engagement commences the auditor believes that limitations imposed by management or TCwG are such that it will result in the auditor disclaiming an opinion or conclusion, as applicable:

- The standards require that the auditor shall not accept such a limited engagement, unless required by law or regulation to do so. [ISAE 3000.26; ISA 210.7]
- As discussed in **chapter 2, section F**, the AGSA does not have the option to decline or withdraw from mandatory engagements.
- Also refer to the separate **reporting guide** that provides guidance on the wording of the auditor's report in instances in which the auditor would have declined the engagement had it not been required by legislation and discussion under section N.

F. ASSESSING THE ACCEPTABILITY OF THE FINANCIAL REPORTING FRAMEWORK IN THE AUDIT OF FINANCIAL STATEMENTS

75. In an audit of financial statements, the suitable criteria precondition as introduced in **section E** relates to determining whether the financial reporting framework to be applied in the preparation of the auditee's financial statements is acceptable.

76. In terms of ISA 210, before the audit commences the auditor is required to consider whether the financial reporting framework applied by the auditee is:

- Acceptable
- For general purposes or for special purposes
- A fair presentation framework or a compliance framework

77. These three considerations have an effect on whether the preconditions for an audit are present and, ultimately, on the wording of the audit opinion and modifications that may be required to the auditor's report in this regard (i.e. basis for qualified / adverse / disclaimer of opinion as well as emphasis of matter and other matter paragraphs).

78. **Annexure B** discusses the principles and provides guidance on assessing the acceptability of the financial reporting framework, including financial reporting frameworks applicable in the public sector and the effect of departures / exemptions from the applicable financial reporting framework.

G. SUITABLE CRITERIA IN THE AUDIT OF PREDETERMINED OBJECTIVES

79. The accounting officer / accounting authority / other party responsible for the auditee is responsible for the preparation of the annual performance report in accordance with the identified PMRF.

80. At present, there is no recognised formal performance management and reporting standard. In the absence of this, the PMRF is developed and prescribed by the appropriate central government departments that have overall planning, monitoring and evaluation functions, e.g. the National Treasury and the Department of Public Service and Administration (DPSA) supported by the Department of Planning, Monitoring and Evaluation (DPME) (i.e. it is prescribed under legislative authority).

81. The PMRF comprises matters such as applicable legislation; frameworks for managing performance information, strategic plans and annual performance plans; reporting guides and

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circulars; as well as guidance regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

82. The PMRF includes the criteria relevant to an auditee when preparing and presenting information about its performance against predetermined objectives in the annual performance report. In terms of its definition and its various sources, however, the PMRF does not represent a coherent standard for reporting and may not in itself represent applicable criteria that exhibit the characteristics of suitable criteria.

83. As stated in **section E**, the applicable criteria developed from the PMRF are defined in the AG Directive to ensure that these are adequately available in a clear manner to the intended users. Although the decision is that of the AGSA, the AGSA will follow a process of proper and timely consultation with the department that prescribes the PMRF in the first instance.

84. **Paragraphs 85** to **87** that follow provide an overview of the matters to be addressed in the AG Directive that will enable the auditor to use and refer to 'the applicable criteria as developed from the PMRF as defined in the general notice issued in terms of the PAA'.

85. The PMRF embodies the principles of managing and reporting performance information that is useful and reliable to intended users in evaluating the auditee's performance against predetermined objectives for the period under review. Such information can reasonably be expected to assist intended users to assess:

- The entity's service delivery activities and achievements during the reporting period.
- The entity's financial results as per the financial statements in the context of its achievement of predetermined objectives.
- The efficiency and effectiveness of the entity's operations.

86. Reporting performance information that is **useful** and **reliable** to intended users is intrinsically linked to providing information at two primary levels:

- At the level of the entity's planned performance, i.e. how the entity planned to manage the achievement of its strategic objectives and what it planned to achieve as reasonable measures for performance for delivering on its mandate. This is reflected in the performance measures / indicators and targets developed for each of the entity's programmes / objectives / development priorities.

  For purposes of the audit approach, this is referred to as the **usefulness aspects** of the entity's reported performance information.

- At the level of the entity's actual performance / target achievements, i.e. how the entity actually performed against the approved targets set for the performance measures / indicators for each of the entity's programmes / objectives / development priorities. Information on actual performance must be reliable for users to meaningfully evaluate achievements compared to what was planned.

  For purposes of the audit approach, this is referred to as the **reliability aspects** of the entity's reported performance information.

87. The criteria developed from the PMRF (as defined in the AG Directive) include the following:

- Pertaining to the **usefulness aspects** of reported performance information:
  - Consistency: Objectives, performance measures / indicators and targets are consistent between planning and reporting documents.
  - Measurability: Performance measures / indicators are well defined and verifiable, and targets are specific, measurable and time bound.
  - Relevance: Performance measures / indicators are complete and relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives.

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  - Presentation and disclosure: Performance information by programme/objective/development priority in the annual performance report are presented and disclosed in accordance with the requirements contained in the applicable legislation, frameworks, circulars and guidance.
- Pertaining to the **reliability aspects** of reported performance information:
  - Recording, measuring, collating, preparing and presenting information on actual performance / target achievements that is valid, accurate and complete.

88. The criteria listed above exhibit the characteristics of suitable criteria as follows:

- **Relevance**

  The information reported in the annual performance report is relevant to the entity's mandate and the realisation of its strategic objectives, and can reasonably be expected to assist decision-making by the intended users.

- **Completeness**

  The performance measures / indicators and their related targets that have been planned and approved are all reported on in the annual performance report, and items / events / performance transactions that affect actual performance / target achievements are not omitted.

- **Reliability**

  The actual performance / target achievements reported on in the annual performance report reflect valid, accurate and complete information about items / events / performance transactions. It can reasonably be expected that the applicable criteria allow for reasonably consistent recording, measurement, evaluation, presentation and disclosure when used in similar circumstances.

- **Neutrality**

  It contributes to information in the annual performance report that is free from bias. The PMRF, which is the source of the applicable criteria, is prescribed by the appropriate department with the necessary legislative authority and can be presumed to be neutral.

- **Understandability**

  The resulting information in the annual performance report is clear and comprehensive, and can reasonably be expected to be understood by the intended users.

89. ISAE 3000.A49 states that in the absence of indications to the contrary, criteria that are prescribed by law or regulation are presumed to be suitable.

H. SUITABLE CRITERIA IN THE COMPLIANCE AUDIT

90. In the compliance audit that is conducted as a direct engagement, the auditor measures or evaluates the auditee's compliance with relevant legislation identified as the applicable criteria.

91. Relevant legislation applicable to the business and operations of an auditee is the source of criteria. Legislation as such refers to any applicable act and related directive, regulation, by-law, instructions (which include all National Treasury Practice Notes issued in terms of section 76 of the PFMA) or code issued in terms of the act. The applicable criteria for each compliance audit, and more specifically for each compliance focus area scoped into the audit, are the specific provisions of legislation that are selected as the compliance requirements / criteria to measure or evaluate the auditee's compliance.

92. **Chapter 2, section E** discusses the scoping of the compliance audit in terms of which the AGSA predetermines at firm level the individual compliance subject matters / focus areas that will be covered across the portfolio of public sector auditees (e.g. procurement and contract management, budgets, transfer of funds, and revenue management). Furthermore, an integral part of scoping the audit is selecting, at firm level, the specific provisions of legislation that will

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be used as the compliance requirements / criteria for the selected compliance subject matters / focus areas.

93. The AGSA has adopted a defined set of scoping criteria and a process for determining at firm level the compliance subject matters / focus areas and the provisions of legislation (i.e. the compliance requirements / criteria) for each, as well as a set of additional criteria for further refining the scoping decision at auditee level taking into account circumstances specific to a particular auditee (refer to **chapter 2, section E**).

94. The process of scoping the compliance audit plays a key role in ensuring that the applicable criteria exhibit the characteristics of suitable criteria.

95. When each compliance subject matter / focus area and the related compliance requirements / criteria are identified and made available in a form that refers to the title and number of the legislation, as well as the selected sections of the legislation by number, the characteristics of suitable criteria are met, as follows (also refer to **section E** under the headings *Suitable criteria* and *Criteria must be available to the intended users*):

- **Relevance**

  Compliance auditing, in general, enhances the intended users' degree of confidence in the audited entity by promoting transparency, accountability and good governance. [ISSAI 400.15-19] The outcome of the measurement or evaluation of the auditee's compliance with specific provisions of legislation related to selected compliance subject matters / focus areas can reasonably be expected to assist decision-making by intended users in terms of the following (which is not an exhaustive list):

  - Expectations concerning the sound financial management of the entity.
  - Expectations concerning the conduct of public officials.
  - Whether funds have been administered, management exercised and citizens' rights to due process honoured as required by the applicable legislation.
  - Providing information on non-compliance so that corrective action may be taken and those responsible may be held accountable for their actions.
  - Input to decision-makers that need to know whether legislation is being followed and whether it has the desired results; and if not, what revisions are necessary.
  - Information on compliance and instances of non-compliance affecting other areas of accountability, e.g. as reflected in the auditee's financial statements and in the annual performance report.

- **Completeness**

  The process and criteria that have been established for scoping the compliance audit , which has at its core the information needs of the intended users, serve to ensure that those provisions of legislation (compliance requirements / criteria) that are scoped into the audit are complete in themselves.

- **Reliability**

  The identification of the selected provisions of legislation by name and section number provides a common understanding and basis for what was measured or evaluated as representing compliance in the engagement circumstances. Therefore, it can reasonably be expected that the applicable criteria allow for reasonably consistent measurement or evaluation of auditees' compliance.

  When scoping the compliance audit at firm level, the AGSA is mindful that those provisions of legislation that are scoped into the audit should be clear and unambiguous in terms of what is required and expected of the auditee, to allow for reasonably consistent measurement or evaluation of compliance. Any additional clarification or interpretation that may be required will be addressed as part of the identification and description of the applicable criteria.

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- **Neutrality**

  The source of the applicable criteria is legislation, which inherently can be presumed to be neutral. Neutrality is enhanced by the fact that the AGSA determines the scope of the compliance audit in accordance with a process and criteria that have been established at firm level .

  Furthermore, the auditor is the measurer or evaluator of the auditee's compliance and in essence produces the subject matter information. The auditor is bound by ethical requirements, which include independence and other requirements founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. This contributes to neutrality.

- **Understandability**

  If the compliance subject matters / focus areas and the related compliance requirements / criteria are identified in sufficient detail and are adequately available in a clear manner to reasonable and informed users, it could reasonably be expected that the auditor's conclusion on the entity's compliance will be understood.

I. PREMISE OF ETHICAL REQUIREMENTS AND QUALITY CONTROL

96. Assurance engagements conducted in accordance with the relevant auditing and assurance standards issued by the IAASB, as applicable to the different types of audits, are premised on the basis that:

    - The auditor and the engagement team comply with relevant ethical requirements.
    - The audit firm / audit office is subject to International Standard on Quality Control (ISQC) 1.

a. Ethical requirements

97. The AGSA has adopted parts A and B of the International Ethics Standards Board for Accountant's *Code of ethics for professional accountants* (IESBA Code) and ISSAI 30 as the organisation's code of ethics (refer to the AGSA's *Policy – code of ethics*).

98. When conducting an audit engagement, applicable to all three types of audits performed by the AGSA, the auditor shall comply with parts A and B of the IESBA Code. [ISA 200.14; ISAE 3000.20]

99. Part A of the IESBA Code establishes the following fundamental principles of professional ethics that must be complied with:

    - Integrity
    - Objectivity
    - Professional competence and due care
    - Confidentiality
    - Professional behaviour

100. Part A of the IESBA Code also provides a conceptual framework for identifying threats to compliance with the fundamental principles, evaluating the significance of the threats, and applying safeguards to eliminate the threats or reduce them to an acceptable level.

101. Part B of the IESBA Code describes how the conceptual framework in part A applies in certain situations.

102. In particular, the auditor is required to be independent from the entity subject to auditing (as addressed in part B of the IESBA Code). Independence safeguards the auditor's ability to form an audit opinion / assurance conclusion without being affected by influences that might

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compromise that opinion / conclusion. Independence enhances the auditor's ability to act with integrity, to be objective, and to maintain an attitude of professional scepticism.

103. In compliance with the requirements of ISA 220.9-11, the following are observed at auditee level with respect to each individual audit engagement undertaken:

- Each member of the engagement team, including the engagement manager, completes the team member confirmation of ethical compliance .
- For each engagement, a questionnaire is completed on the fundamental ethical principles and independence requirements .
- The engagement manager considers the team's ethical compliance and documents any non-compliance identified throughout the engagement. For example, he/she reviews the annual declaration report and the gifts and interest register.
- Non-compliance is evaluated to determine whether it creates a threat against the fundamental ethical principles, including independence.
- The engagement manager documents consultations held and action taken to eliminate threats or reduce them to an acceptable level by applying safeguards.
- The engagement manager promptly reports to the senior manager: Ethics, any inability to resolve non-compliance for appropriate action.

Note: 'Engagement manager' refers to the auditor responsible and accountable for the audit (i.e. the senior manager / audit partner).

b. Quality control

104. In accordance with ISQC 1, the AGSA maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements and professional standards.

105. Quality control is addressed at two levels, namely at firm level and at auditee level with respect to each individual audit engagement undertaken.

106. At **firm level**, the objective is to establish and maintain a system of quality control to provide the firm (the AGSA) with reasonable assurance that [ISQC 1.11]:

- The firm and its personnel comply with professional standards and applicable legal and regulatory requirements.
- Reports issued by the firm or engagement partners are appropriate in the circumstances.

107. The AGSA's system of quality control includes policies and procedures that address each of the following elements:

- Leadership responsibilities for the system of quality control within the AGSA
- Ethical requirements
- Client and engagement acceptance and continuance
- Human resources
- Engagement performance
- Monitoring

108. At **auditee level** (or engagement level), the objective of the auditor responsible and accountable for the audit (i.e. the senior manager / audit partner) is to implement quality control procedures that provide the auditor with reasonable assurance that [ISA 220.6]:

- The audit complies with professional standards and applicable legal and regulatory requirements.

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- The auditor's report issued is appropriate in the circumstances.

109. The requirements of ISA 220 cover the implementation of quality control procedures at engagement level for the elements of the firm's system of quality control (those elements identified in **paragraph 107**).

110. The requirements pertaining to quality control at engagement level in ISAE 3000 applicable to assurance engagements other than audits or reviews of historical financial information, are consistent with those in ISA 220 applicable to audits of financial statements (although the latter standard is more comprehensive). Since the AGSA applies an approach of a single overall audit engagement per auditee that comprises the audit of financial statements, audit of predetermined objectives and compliance audit, the requirements of ISA 220 are applied consistently across all three types of audits.

111. Refer to the separate **quality control guide** for requirements, principles and guidance pertaining to quality control policies and procedures.

J. PROFESSIONAL SCEPTICISM

112. Professional scepticism refers to an attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to error or fraud (in an audit of financial statements and an audit of predetermined objectives) or possible non-compliance (in a compliance audit), as well as a critical assessment of evidence. [ISA 200.13(l); ISAE 3000.12(u)]

113. Professional scepticism is pervasive to the audit process and speaks to an attitude and mindset with which the engagement manager (i.e. the senior manager / audit partner) and engagement team approach and perform the audit work, including risk assessment, designing and performing procedures, evaluating the results of procedures, drawing conclusions based on the evidence, and forming an audit opinion / assurance conclusion.

114. At the engagement level, the engagement manager takes responsibility for the overall quality of the engagement (also refer to **section I**). The example set by the engagement manager is crucial in terms of the mindset and approach of the entire engagement team.

- Discussions among the engagement team is a primary means to address and emphasise the importance of maintaining professional scepticism throughout the audit (refer to **chapter 6**).
- Further opportunities for the engagement partner to set expectations regarding, and to emphasise the importance of, professional scepticism include, for example, when taking responsibility for the following:
  - The direction, supervision and performance of the engagement.
  - Reviews of work performed, in that knowledge and experience can be imparted in helping less experienced team members develop a critical and questioning mind.
  - The engagement team appropriately consulting on difficult or contentious matters and implementing the conclusions reached from such consultations.

115. It is important to note that while the system of quality control at firm level and the responsibilities of the engagement manager at engagement level contribute to a mindset of professional scepticism, it is nevertheless the responsibility of each individual auditor to exercise professional scepticism.

116. The following table summarises the relevant requirements from ISAs and ISAE 3000 for exercising professional scepticism in an audit or assurance engagement:

Source	The auditor shall …
ISA 200.15 ISAE 3000.37	Plan and perform an audit with professional scepticism, recognising that circumstances may exist that cause the financial statements / subject matter information to be materiality misstated.

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Source	The auditor shall ...
ISA 240.12	In accordance with ISA 200, maintain professional scepticism throughout the audit, recognising the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and TCwG.
ISA 240.13	[Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.]
ISA 240.14	Where responses to inquiries of management or TCwG are inconsistent, investigate the inconsistencies.

117. While the auditor cannot be expected to disregard past experience with management and TCwG, a belief that they are honest and have integrity does not relieve the auditor of the need to maintain professional scepticism, including considering that there may have been changes in circumstances. [ISA 200.A22; ISA 240.A8; ISAE 3000.A80]

118. The important **elements of professional scepticism** can be summarised as follows:

- As an attitude, **professional scepticism is fundamentally a mindset.**
  - It is linked to the fundamental ethical principles of objectivity and auditor independence, and is a key input to audit quality (also refer to **section I**). The auditor's independence enhances the auditor's ability to act with integrity, be objective, and maintain an attitude of professional scepticism.
  - A sceptical mindset drives auditor behaviour to adopt a questioning approach when considering information and in forming conclusions.
- **Being alert** to the possibility of misstatement due to error or fraud, or to the possibility of non-compliance, as applicable to the type of audit.
  - Risk assessment is the starting point in the evidence-gathering process and requires an objective and sceptical evaluation of the auditor's understanding of the entity and its environment to be alert to risk factors, i.e. those conditions and events that may indicate the existence of RMM or non-compliance. This requires an awareness of how misstatements or non-compliance may occur and the motivations, reasons or rationale of management, TCwG and others within the entity to undertake certain actions or their inaction; or to present certain information, present information in a certain way, or omit information.
  - With respect to the consideration of fraud relevant to the type of audit being conducted, maintaining professional scepticism requires an ongoing questioning of whether the information and evidence obtained suggest that a material misstatement due to fraud may exist. As fraud involves intention and deception (an intentional act to deceive, conceal or mislead), the auditor's professional scepticism is particularly important when considering RMM due to fraud.
  - The requirements and application guidance of the auditing and assurance standards that address the various activities of the evidence-gathering process, assist to provide the auditor with a framework for exercising professional scepticism and professional judgement throughout the audit.
  - The standards require that the auditor must perform certain procedures; consider certain factors; evaluate information, actions, transactions, plans, etc.; and take certain actions during which the auditor must always be alert to possible misstatement due to error or fraud, or to possible non-compliance.
  - Maintaining professional scepticism throughout the audit is necessary to reduce the risks of overlooking unusual circumstances and using inappropriate assumptions in determining the nature, timing and extent of procedures and evaluating the results thereof.

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- The auditor is alert that evidence obtained or new information that comes to the auditor's attention throughout the audit may alert the auditor to previously unknown conditions that may indicate the possibility of misstatement or non-compliance.
- The auditor must be alert to and specifically respond to situations in which evidence obtained from one source is inconsistent with that obtained from another, in which evidence appears to be contradictory, or in which the auditor has doubts about the reliability of information to be used as evidence. This includes questioning inconsistent evidence and the reliability of documents and responses to inquiries.

- **A critical assessment** of evidence.
  - The auditor considers all relevant evidence: evidence that supports and evidence that appears to contradict management's assertions.
  - A critical assessment of evidence is necessary to reduce the risk of overgeneralising when drawing conclusions from audit observations.
  - Applying professional scepticism in this regard means questioning and considering the sufficiency and appropriateness of evidence obtained in the light of the circumstances; as well as considering whether the evidence addresses the risk, whether there are significant matters that arise from the evidence, whether there are inconsistencies, whether the evidence provides an appropriate basis for the auditor's conclusions, whether additional corroborating evidence is required, etc.
  - When the auditor has doubts about the reliability of information to be used as evidence, the auditor determines what modifications or additions to procedures are necessary to resolve the matter, and considers the effect of the matter, if any, on other aspects of the audit.
  - A critical assessment of evidence should also lead to the appropriate decision to investigate further – to perform additional procedures or alternative procedures when the circumstances call for it. This may include circumstances that suggest the need for procedures in addition to those required by the standards.
  - The auditor is not satisfied with evidence that is less than persuasive relevant to the level of assurance that is required (reasonable assurance or limited assurance).

119. It is an accepted principle of the auditing and assurance standards that the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as evidence. [ISA 200.A21; ISA 240.13 & .A9; ISAE 3000 A79]

- An audit rarely involves the authentication of documents, nor is the auditor trained as, or expected to be, an expert in the authentication of documents.
- When the auditor identifies conditions that cause the auditor to doubt the reliability of information or believe that a document may not be authentic, or that terms in a document have been modified but not disclosed to the auditor, the auditor investigates further and determines what modifications or additions to procedures are necessary to resolve the matter.

K. PROFESSIONAL JUDGEMENT

120. Professional judgement refers to the application of relevant training, knowledge and experience, within the context provided by auditing, assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement. [ISA 200.13(k); ISAE 3000 12(t)]

121. The relevant auditing and assurance standards require the auditor to exercise professional judgement in planning and performing an audit or assurance engagement. [ISA 200.16; ISAE 3000 38]

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122. Professional judgement is exercised by an auditor whose training, knowledge and experience have assisted in the development of the necessary competencies to achieve reasonable judgements. Professional judgement is exercised by the individual auditor and collectively by the engagement team drawing on the knowledge, training and experience of the individuals in the team.

123. Professional judgement is exercised throughout the audit and is essential to the proper conduct of the audit.

124. Professional judgement is necessary in particular regarding decisions about:

- Scoping for the audit of predetermined objectives and compliance audit
- Materiality.
- Risk assessment or identifying areas where material misstatement or non-compliance is likely to arise.
- The nature, timing and extent of procedures in response to risk assessment or to address areas where material misstatement or non-compliance is likely to arise.
- Resolving significant matters that arise during the course of the audit.
- Evaluating whether sufficient appropriate evidence has been obtained, including whether more evidence may be required in the circumstances.
- Evaluating management's judgements in applying the applicable criteria to the underlying subject matter (e.g. applying the applicable financial reporting framework in preparing the entity's financial statements).
- Drawing conclusions based on the evidence obtained.

125. Appropriately informed decisions and decisions that could be regarded as reasonable in the circumstances result from a judgement process that is based on the facts and circumstances known and available at the time that the judgement is made. The elements of an effective judgement process are:

- Identify and define the issue.
- Gather the facts and information, and identify the relevant standards (and other sources) that may apply to the issue.
- Perform the analysis of the facts and circumstances in the context of the requirements of the standards, and ensure that reasonable alternatives are identified and considered.
- Make the decision.
- Review the decision and rationale for the conclusion, and document the judgement.

126. Furthermore, consultation on difficult or contentious matters during the course of the audit, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, assists the auditor in making informed and reasonable judgements. Consultation is addressed as part the AGSA's system of quality control; in particular as part of the policies and procedures for audit engagement performance (refer to **section I.b**).

127. Professional judgement can be evaluated based on whether the judgement reached reflects a competent application of auditing and assurance principles as well as principles pertaining to the measurement or evaluation of the subject matter, and whether it is appropriate in the light of, and consistent with, the facts and circumstances that were known to the auditor up to the date of the auditor's report. [ISA 200.A26; ISAE 3000 .A84]

128. It is important to note that professional judgement is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.

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129. Professional judgement needs to be appropriately documented. **Section L** addresses the requirements for audit documentation.

L. AUDIT DOCUMENTATION

130. The purpose of this section is to provide a basic description of the nature and purpose of audit documentation and an overview of the general documentation requirements in ISA 230 that must always be met, irrespective of any specific documentation requirements that may be contained in other ISAs that deal with individual audit activities, areas of the audit process, specific topics or special considerations.

131. The documentation requirements of ISAE 3000 that apply to assurance engagements other than audits or reviews of historical financial statements, are consistent with the general documentation requirements of ISA 230 that apply to audits of financial statements. The latter is more comprehensive and additional application guidance is provided. Since the audit of financial statements, audit of predetermined objectives and compliance audit are performed simultaneously as part of a single audit engagement for an auditee during a particular audit cycle, the audit methodology considers the requirements of both of these standards in conjunction and applies the requirements consistently across all three types of audits.

132. The individual chapters of the audit methodology address both the general and specific documentation requirements that apply to each set of audit activities (as covered by each chapter). The documentation requirements are included in the *Product* section of each chapter, i.e. the product or results of that set of audit activities and how it is evidenced.

133. Audit documentation is defined as the record of audit procedures performed, relevant audit evidence obtained and conclusions the auditor has reached (terms such as 'working papers' or 'workpapers' are also sometimes used). [ISA 230.6(a)]

134. The purpose of audit documentation is to provide a sufficient and appropriate record of the basis for the auditor's report as well as evidence that the audit was planned and performed in accordance with the relevant auditing or assurance standards, as applicable to the type of audit, and applicable legislation.

135. Overall, the auditor is required to prepare documentation on a timely basis. [ISA 230.7; ISAE 3000 .79] This enhances the quality of the audit and facilitates the effective review and evaluation of the evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

136. **General requirements that address the form, content and extent of documentation** [ISA 230.8-12; ISAE 3000 79-80]

- The auditor prepares audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
  - The nature, timing and extent of the audit procedures performed to comply with the standards and applicable legislation. In documenting the nature, timing and extent of audit procedures performed, the auditor records:
    - The identifying characteristics of the specific items or matters tested.
    - Who performed the audit work and the date such work was completed.
    - Who reviewed the audit work performed and the date and extent of such review.
  - The results of the procedures performed and the evidence obtained.
  - Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.

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- The auditor documents discussions of significant matters with management, TCwG and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
- If the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor documents how the auditor addressed the inconsistency.
- If, in exceptional circumstances, the auditor judges it necessary to depart from a requirement in a standard relevant to the audit, the auditor documents how the alternative procedures performed achieve the aim of that requirement, and the reasons for the departure.

137. **General requirements about matters arising after the date of the auditor's report** [ISA 230.13]

(These also relate to the auditor's responsibilities with respect to subsequent events, as discussed in **chapter 13**).

- If, in exceptional circumstances, the auditor performs new or additional procedures or draws new conclusions after the date of the auditor's report, the auditor documents:
  - The circumstances encountered.
  - The new or additional procedures performed, evidence obtained and conclusions reached, and their effect on the auditor's report.
  - When and by whom the resulting changes to documentation were made and reviewed.

138. **General requirements that address the assembly of the final audit file** [ISA 230.14-16; ISAE 3000 81-83]

- The auditor assembles the engagement documentation in an audit file and completes the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.
- After the assembly of the final audit file has been completed, the auditor is not allowed to delete or discard engagement documentation of any nature before the end of its retention period.
- If the auditor finds it necessary to modify existing engagement documentation or add new documentation after the assembly of the final audit file has been completed, the auditor documents the following regardless of the nature of the modifications or additions:
  - The specific reasons for the modifications or additions.
  - When and by whom they were made and reviewed.

139. ISA 230 and ISAE 3000 provide application and other explanatory material that further explains the general requirements summarised in the preceding paragraphs.

140. The engagement team ensures that all standard working paper templates relevant to each of the types of audits are used during the course of the audit and are filed in the audit file. Working papers are also completed in accordance with any additional application guidance accompanying them (e.g. in the form of technical memoranda or guidance included in the working papers themselves).

141. Refer to the separate **quality control guide** that addresses, among other, the following matters as part of the quality control policies and procedures for engagement performance:

- Review responsibilities (i.e. review of audit documentation).
- Completion of the assembly of engagement files.
- Confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.

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- Retention of engagement documentation.

M. SPECIAL CONSIDERATIONS FOR SMALL AUDITEES

142. Certain of the individual ISAs contain some considerations relevant to smaller entities. However, these do not in any way suggest that any of the matters or requirements of the standards would not apply to a smaller entity. There are no specific considerations in ISAE 3000 pertaining to smaller entities (for assurance engagements other than audits or reviews of historical financial information).

143. The auditing and assurance standards are designed to be usable for entities of all sizes and types. They require that every audit must be designed to provide the same level of assurance to users of the auditor's report. IFAC has published a guide to using ISAs in the audits of small- and medium-sized entities.

144. The auditor is required to comply with each requirement of an ISA (for the audit of financial statements) and each requirement of ISAE 3000 (for the audit of predetermined objectives and the compliance audit) unless, in the circumstances of the audit, an entire ISA is not relevant, or a requirement of an ISA or of ISAE 3000, as applicable, is not relevant because it is conditional and the condition does not exist. To determine what is not relevant, however, the auditor must – in the first instance – have a thorough knowledge of the standards to enable tailoring of the requirements to the engagement circumstances of the auditee. The combination of knowledge of the standards, using appropriately senior staff, and knowledge of the entity will result in an audit effort proportionate to the size and complexity of the auditee. Professional judgement is required based on the facts and circumstances of each engagement to ensure that the application of the standards and the audit work effort are focused, proportionate and relevant.

145. The requirements for proper audit documentation (as per **section L**) apply to all audits regardless of complexity or size. It is in the public interest for significant matters that require the exercise of professional judgement and the related conclusions reached to be documented in every audit regardless of complexity or size.

146. However, the audit documentation of a smaller entity is generally less extensive than that for the audit of a larger entity. The auditor applies professional judgement to assess the extent of documentation to be prepared, but still does so in compliance with the documentation requirements of ISAs or ISAE 3000, as applicable to each of the types of audits.

N. SPECIAL CONSIDERATIONS WHERE MANAGEMENT HAS IMPOSED A LIMITATION

147. As discussed in **section E**, the preconditions for an audit include that the auditor expects to be able to obtain the evidence needed to support the auditor's opinion or conclusion, as applicable. If management or TCwG impose a limitation on the scope of the auditor's work such that the auditor believes that the limitation will result in the auditor disclaiming an opinion or conclusion, the auditor must not accept such a limited engagement unless required by law or regulation to do so. [ISA 210.7; ISAE 3000 26]

148. Other instances in terms of the ISAs and ISAE 3000 in which the auditor could elect to withdraw from the engagement due to a limitation are:

    - ISA 600.13: If the group engagement manager concludes that it will not be possible to obtain sufficient appropriate audit evidence due to restrictions imposed by management, and the possible effect of this will result in a disclaimer of opinion on the group financial statements.

    - ISA 705.13(b): If the auditor concludes that due to the inability to obtain sufficient appropriate audit evidence, the possible effects on the financial statements of undetected misstatements could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation.

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- ISAE 3000.66: If the auditor is unable to obtain sufficient appropriate evidence, a scope limitation exists and the auditor shall express a qualified conclusion, disclaim a conclusion, or withdraw from the engagement where withdrawal is possible under applicable law or regulation, as appropriate.

149. In terms of the PAA, the AGSA is mandated to audit public sector auditees and does not have the option to withdraw from an audit engagement.

150. It is important to note that an inability to perform a specific procedure does not constitute a scope limitation if the auditor is able to obtain sufficient appropriate evidence by performing alternative procedures.

151. Each type of audit is undertaken as a reasonable assurance engagement or a limited assurance engagement. In the context of those terms, every audit is designed to provide the same level of assurance to users of the auditor's report. Consequently, the auditor must comply with all documentation requirements as discussed in **section L**, regardless of any limitations imposed.

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ANNEXURE A

COMPARING REASONABLE ASSURANCE AND LIMITED ASSURANCE ENGAGEMENTS (Refer to section C.b)

The following table summarises identified differences and similarities between reasonable assurance and limited assurance engagements to provide a better understanding of the implications of each in terms of the nature and scope of the engagement work and the results of such work.

Note: The table is not intended to be a comprehensive summary of all differences and similarities.

	Reasonable assurance engagements	Limited assurance engagements
(a)	The assurance report communicates reasonable assurance on whether the subject matter information is free from material misstatement. Reasonable assurance = High, but not an absolute level of assurance.	The assurance report communicates limited assurance on whether the subject matter information is free from material misstatement. Limited assurance = Meaningful level of assurance that is clearly more than inconsequential, but that is less than a high level of assurance.
(b)	The auditor's conclusion on the subject matter information is expressed in the form of a positive opinion: 'In my/our opinion, …'	The auditor's conclusion on the subject matter information is expressed in a negative form that conveys the following: 'Based on the procedures performed and evidence obtained, nothing has come to my/our attention that causes me/us to believe that …'
(c)	Plan and perform the engagement to reduce assurance engagement risk to an acceptably low level by performing procedures that provide evidence at a high level of assurance.	Plan and perform the engagement to reduce assurance engagement risk to a level that is greater than what would be required for a reasonable assurance engagement by performing procedures that provide evidence at the relevant level of limited assurance.
(d)	The auditor's overall work effort is directed towards obtaining evidence that is sufficiently persuasive with respect to providing a high level of assurance that the subject matter information is free from material misstatement. The auditor focuses on detecting material misstatements should they exist.	The auditor's overall work effort is directed towards being satisfied that nothing has come to the auditor's attention that causes the auditor to believe that the subject matter information is not free from material misstatement. The auditor focuses on information that comes to the auditor's knowledge and whether such information indicates that material misstatements may exist.
(e)	The following fundamental concepts and basic principles are consistent for all types of assurance engagements: > Comply with relevant ethical requirements. > Quality control policies and procedures. > Engagement acceptance and continuance considerations. > Plan and perform an engagement with professional scepticism. > Exercise professional judgement in planning and performing an assurance engagement. > Apply assurance skills and techniques as part of an iterative, systematic engagement process.	
(f)	Determining and using materiality The level of assurance has no relevance for purposes of determining and using materiality in an assurance engagement. Since materiality is a user-orientated concept, the level (quantitatively and qualitatively) at which misstatements (including omissions) can reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information is not influenced by the level of assurance that is provided – what will or will not influence the users is a given. However, the degree to which users can accept that the subject matter information is free from material misstatement differs depending on the level of assurance that is provided (i.e. the extent to	

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	Reasonable assurance engagements	Limited assurance engagements
	which the assurance engagement enhances users' degree of confidence about the subject matter information).	
(g)	The auditor identifies and assesses RMM based on an understanding of the entity and its environment – a formal process of risk assessment that involves identifying relevant risk factors linked to what can go wrong in the subject matter information and assessing such risks in terms of their possible effect (likelihood and magnitude).	Although the auditor also considers RMM as part of planning the engagement, the process is often not as formalised and as detailed as for a reasonable assurance engagement: > The auditor requires a lesser depth of understanding compared to a reasonable assurance engagement. > The auditor's understanding must be sufficient to identify areas where material misstatement is likely to arise – not a detailed process of identifying risk factors that are linked to RMM at the assertion level. Inquiries and analytical procedures will often be sufficient to identify such areas.
(h)	The auditor shall obtain an understanding of internal control over the subject matter information, which shall include evaluating the design of those controls relevant to the engagement and determining whether they have been implemented. The auditor shall perform procedures in addition to inquiries in this regard.	The auditor does not require a detailed understanding of internal control. A basic consideration of the process used to prepare the subject matter information is normally sufficient. Inquiries are often sufficient to provide the level of understanding that is required.
(i)	The auditor shall design and perform further procedures to respond to the assessed RMM at the required level of assurance. The nature, timing and extent of the auditor's further procedures must be responsive to the assessed risks (at the level of individual elements / items of the subject matter information, and at an assertion level).	The auditor shall design and perform further procedures to address the areas where material misstatement is likely to arise. The further procedures vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, since the auditor only needs to support a level of assurance that nothing has come to the auditor's attention that causes the auditor to believe that the subject information is not free from material misstatement.
(j)	The auditor shall perform procedures to test the operating effectiveness of relevant controls, when: > The risk assessment includes an expectation that controls are operating effectively (control risk component of engagement risk). <u>or</u> > Procedures other than testing of controls cannot alone provide sufficient appropriate evidence.	There is no requirement as such to test the operating effectiveness of internal controls. The auditor may often (will ordinarily) decide to obtain evidence by means other than the testing of controls. Therefore, the consideration of control risk is less relevant than in a reasonable assurance engagement.
(k)	The auditor shall design and perform procedures in an appropriate combination to obtain reasonable assurance: (i) The focus of such procedures is to detect material misstatements should they exist. (ii) The higher the risk assessment, the more persuasive evidence is required (effect on the nature, timing and extent of procedures).	The auditor shall design and perform procedures in an appropriate combination to obtain limited assurance: (i) The focus of such procedures is whether, based on the evidence obtained, a matter has come to the auditor's attention to cause the auditor to believe that the subject matter information may be materially misstated. (ii) Sufficient appropriate evidence is obtained by performing procedures to address areas where material misstatement is likely to arise (which is significantly less than the procedures that would be required in a

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	Reasonable assurance engagements	Limited assurance engagements
	(iii) Procedures that may be used: inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry.	reasonable assurance engagement). The auditor requires less persuasive evidence than in a reasonable assurance engagement. (iii) The same types of procedures may be used in a limited assurance engagement, although their focus and possible combination will be different (as per (i) and (ii) above).
(l)	As evidence is obtained and the engagement progresses, the auditor may need to revise the original risk assessment and modify the planned procedures accordingly. This refers to the process of evaluating the results of procedures performed and designing additional procedures or alternative procedures to obtain sufficient appropriate evidence at the required level of assurance – as originally assessed or as reassessed based on the evidence obtained.	As the auditor performs procedures to address the identified areas where material misstatement is likely to arise, the auditor may become aware of a matter that causes the auditor to believe that the subject matter information may be materially misstated: > The auditor shall design and perform additional procedures to investigate further. > Additional procedures will be directed at the matter that has been identified and may include additional inquiries, additional analytical procedures, or other procedures as appropriate in the circumstances. > Additional procedures must be sufficient to be able to conclude that the matter is not likely to cause the subject matter information to be materially misstated, or that there is a material misstatement of the subject matter information.
(m)	If sufficient appropriate evidence is obtained, assurance engagement risk will have been reduced to an acceptably low level that provides a basis for the auditor's reasonable assurance conclusion.	Even if sufficient appropriate evidence is obtained, there will be a higher level of residual risk of undetected misstatements than would be the case in a reasonable assurance engagement. This enables the auditor to come to only a limited assurance conclusion.

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ANNEXURE B

ASSESSING THE ACCEPTABILITY OF THE FINANCIAL REPORTING FRAMEWORK (Refer to section F)

This annexure sets out the implications on the audit opinion of the assessment of the financial reporting framework applied in the preparation of the financial statements. The annexure is organised as follows:

(i) Definitions

(ii) Financial reporting frameworks applicable in the public sector

Acceptability of the financial reporting framework

Acceptable fair presentation financial reporting frameworks

Compliance financial reporting framework

(iii) Effect of the financial reporting framework applied by the auditee on the wording of the audit opinion

(iv) Effect of departures / exemptions from the applicable financial reporting framework and process of evaluation

Also refer to **sections E and F** in this chapter that deal with the preconditions for an audit.

(i) Definitions

1. **Applicable financial reporting framework** refers to the financial reporting framework adopted by management, in response to legislative requirements, in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by legislation.

2. **Fair presentation framework** refers to a financial reporting framework that requires compliance with the requirements of the framework; <u>and</u>

   - Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework.

   <u>or</u>

   - Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

3. **Compliance framework** refers to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements included in the definition of a fair presentation framework.

4. **General purpose financial statements** are financial statements prepared in accordance with a general purpose framework. A **general purpose framework** is a financial reporting framework designed to meet the common information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

5. **Special purpose financial statements** are financial statements prepared in accordance with a special purpose framework. A **special purpose framework** is a financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

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(ii) Financial reporting frameworks applicable in the public sector

Acceptability of the financial reporting framework

6. In terms of ISA 210.A4, the acceptability of the financial reporting framework applied by the auditee is determined by considering who the intended users of the financial statements are, by assessing the financial reporting framework against the attributes in **paragraph 9** of this annexure, as well as by determining whether the financial reporting framework is available to the intended users. The auditor also considers the following:
   - The nature of the entity (e.g. whether it is a business enterprise, a public sector entity or a not-for-profit organisation).
   - The purpose of the financial statements (e.g. whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users).
   - The nature of the financial statements (e.g. whether the financial statements are a complete set of financial statements or a single financial statement).
   - Whether law or regulation prescribes the applicable financial reporting framework.
7. The intended users fall into two categories:
   - A wide range of users for which general purpose financial statements are prepared.
   - Specific users for which special purpose financial statements are prepared.
8. The annual financial statements prepared in the public sector are prepared for a wide range of users and should therefore always be prepared using a general purpose financial reporting framework.
9. In terms of appendix 2 of ISA 210, acceptable financial reporting frameworks normally exhibit the following attributes that result in information provided in the financial statements being useful to the intended users:
   - Relevance: The information provided in the financial statements is relevant to the nature of the entity and the purpose of the financial statements.
   - Completeness: Transactions and events, account balances and disclosures that could affect conclusions based on the financial statements are not omitted.
   - Reliability: The information provided in the financial statements:
     - Where applicable, reflects the economic substance of events and transactions and not merely the legal form.
     - Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances.
   - Neutrality: It contributes to information in the financial statements that is free from bias.
   - Understandability: The information in the financial statements is clear, comprehensive, and not subject to significantly different interpretations.

Acceptable fair presentation financial reporting frameworks

10. General purpose financial statements are prepared in accordance with a general purpose framework. The following financial reporting frameworks are general purpose financial reporting frameworks applicable in the public sector:
    - IFRS
    - South African Statements of Generally Accepted Accounting Practice (SA GAAP)
    - GRAP
    - The MCS prescribed by the National Treasury

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11. To determine whether a framework may be classified as a fair presentation framework, the auditor considers whether it contains the acknowledgements referred to in the definition of a fair presentation framework in **paragraph 2** of this annexure.

12. When legislation prescribes the financial reporting framework to be used by management in the preparation of general or special purpose financial statements for a certain type of auditee, and in the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for general or special purpose financial statements prepared by such an auditee.

13. The financial reporting frameworks mentioned in **paragraph 10** of this annexure are deemed to be acceptable and fair presentation financial reporting frameworks.

Compliance financial reporting framework

14. If a framework does not contain the acknowledgements in the definition of a fair presentation framework and only requires compliance with the framework, such a framework is considered to be a compliance framework.

(iii) Effect of the financial reporting framework applied by the auditee on the wording of the audit opinion

15. ISA 210.6(b)(i) requires the auditor to obtain the agreement of management that it acknowledges and understands its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation, where relevant. ISA 210.A15 describes that, in the case of a fair presentation framework, the importance of the reporting objective of fair presentation is such that the premise agreed with management includes specific reference to fair presentation.

16. ISA 700.35 and .36 also require the auditor to use different terms in the auditor's report, depending on whether a fair presentation or a compliance financial reporting framework is applied.

17. For these purposes, the auditor is required to determine whether the financial reporting framework is a fair presentation framework, as it affects the audit engagement letter and the wording of the auditor's report. To determine whether a framework may be classified as a fair presentation framework, ISA 700 requires the auditor to consider whether it contains the acknowledgements referred to in the definition of a fair presentation framework as per **paragraph 2** of this annexure.

18. If the auditee prepared the financial statements using a fair presentation framework, the opinion paragraph will read as follows:

    In my opinion, the financial statements present fairly, in all material respects, the financial position of ... as at ... and its financial performance and cash flows for the year then ended, in accordance with ... and the requirements of ...

19. If the auditee prepared the financial statements using a compliance framework, the opinion paragraph will read as follows:

    In my opinion, the financial statements of … for the year ended … are prepared, in all material respects, in accordance with the basis of accounting as set out in [accounting policy note xx / note xx to the financial statements] and the requirements of ...

20. While the wording of the opinion paragraph for a fair presentation and a compliance framework may differ, the audit process is identical and the level of assurance provided is the same, being reasonable assurance.

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(iv) Effect of departures / exemptions from the applicable financial reporting framework and process of evaluation

21. Under rare circumstances, the IFRS, SA GAAP, GRAP and the MCS permit departures from the requirements of the applicable financial reporting framework when the aim of the departure is to achieve fair presentation. However, there are also other departures or exemptions applicable in the public sector that may be granted to an auditee in terms of the PFMA or the MFMA when the aim is not to achieve fair presentation. The relevant sections of the PFMA and the MFMA are described below.

    Section 76(1) of the PFMA – Treasury Regulations and instructions
    The National Treasury must make regulations or issue instructions applicable to departments ...

    Section 79 of the PFMA – Departures from Treasury Regulations, instructions or conditions
    The National Treasury may on good grounds approve a departure from a Treasury Regulation or instruction or any condition imposed in terms of this act and must promptly inform the auditor-general in writing when it does so.

    Section 92 of the PFMA – Exemptions
    The minister, by notice in the national Government Gazette, may exempt any institution to which this act applies, or any category of those institutions, from any specific provisions of this act for a period determined in the notice.

    Treasury Regulation 18.2 – Annual financial statements (section 40(1)(b) of the PFMA)
    In the absence of any implementation dates set for GRAP issued by the Accounting Standards Board (ASB), the following reporting standards comprise GRAP and must be adhered to for the preparation of annual financial statements, unless otherwise approved by the National Treasury …

    Section 170(1) of the MFMA – Departures from Treasury Regulations or conditions
    The National Treasury may on good grounds approve a departure from a Treasury Regulation or from any condition imposed in terms of this act.

22. Since the ASB has not set GRAP to be applied by departments, the National Treasury has issued the MCS in terms of section 76 of the PFMA and Treasury Regulation 18.2. Departures from applying the MCS or specific requirements thereof may therefore be granted by the National Treasury, after which the AGSA should be informed in writing in terms of section 79 of the PFMA.

23. Since GRAP are developed by the ASB and are prescribed in a Government Gazette, exemptions from applying GRAP or specific requirements thereof have to be granted by the minister of Finance in a Government Gazette in terms of section 92 of the PFMA.

24. When a departure / exemption from the financial reporting framework is granted in terms of the PFMA or the MFMA and the aim is not to achieve fair presentation, such a departure / exemption could render the financial reporting framework for that auditee unacceptable in terms of ISA 210, and the effect of the departure / exemption on the acceptability of the financial reporting framework needs to be reassessed.

25. When the AGSA (audit engagement team) receives the written communication on the departure / exemption (as required by section 79 of the PFMA), the consultation process should be followed to request an opinion from the Audit Research and Development (ARD) business unit on the effect of the departure / exemption on the acceptability of the financial reporting framework.

26. The assessment by ARD is based on the following criteria to determine whether the financial reporting framework is still acceptable:

    a. Does the departure result in the financial reporting framework no longer exhibiting the attributes mentioned in **paragraph 9** of this annexure.

p.5
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b. Will it therefore mislead the users of the financial statements due to the departure in the basis of preparation applied by the department from the standard and what the users would expect.

c. Does the departure have a material effect on the financial statements.

27. The audit engagement team makes the final decision in terms of ISA 210 whether the financial reporting framework is acceptable based on the opinion provided by ARD, and communicates the impact to the management of the auditee.

28. Even if the financial reporting framework is assessed as unacceptable due to the departure / exemption being issued but not in the interests of fair presentation, the AGSA will still continune with the engagement as does not have an option to withdraw from the engagement.

29. The AGSA is required by law to express a 'fairly present' audit opinion as to whether the financial statements have been prepared in terms of the applicable financial reporting framework.

30. ISAs clearly distinguish between a fair presentation framework, and hence the ability of the auditor to express a 'fairly present' opinion, and an entity-specific compliance framework where reference to 'fairly present' should be omitted.

31. ISAs do not allow a 'fairly present' audit opinion in instances where the auditor determines that a departure from the financial reporting framework is unacceptable, even if such departure was done in terms of laws or regulations, was adequately disclosed, and an emphasis of matter paragraph was included in the auditor's report.

32. It is inappropriate and will lead to misunderstanding of the assurance obtained and a lack of consistency if some audit opinions use the financial reporting framework as criteria and others use an entity-specific compliance framework due to departures being granted by the National Treasury in a particular reporting period.

33. The manner in which the AGSA expresses its audit opinion is to state whether the financial statements 'fairly present (or not / except for)' in terms of the financial reporting framework.

34. Therefore if the AGSA concludes that the departures granted by the National Treasury were not for the purpose of achieving fair presentation in terms of the financial reporting framework , a modified audit opinion should be expressed.

35. When a departure is issued but does not affect fair presentation, if management includes the disclosures required by ISA 210, and if the auditor is satisfied that the disclosure prevents the financial statements from being misleading, the auditor will then express an unmodified audit opinion (provided that there are no material misstatements in the financial statements related to other matters). The wording of the audit opinion and other inclusions in the auditor's report in this regard are dealt with in the separate **reporting guide**.

36. However, if the auditor is not satisfied with the disclosure or if management does not provide the additional disclosure, the auditor should, based on the material and pervasive effect of the deviation / exemption on the financial statements, modify the audit opinion. For example:

Basis for qualified / adverse opinion

Financial reporting framework

The financial statements have not been prepared in accordance with the basis of preparation as disclosed in the accounting policies set out in note X to the financial statements, as a departure / exemption from [insert nature of the departure / exemption granted] granted by the National Treasury has been applied but has not been disclosed.

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DD20-PS-0524
PS 11

AUDITOR-GENERAL
SOUTH AFRICA

Ms. Cheryl Carolus
Chairperson of the accounting authority
South African Airways (Pty) Ltd
Private Bag X13
Airways Park
O R Tambo International Airport
1627

12 September 2011

Reference: SAA/ Sec 4(3)

Dear Madam

Appointment of external auditor for South African Airways (Pty) Limited

The Auditor-General of South Africa (AGSA) acknowledges receipt of the completed consultation checklist in respect of the appointment of the South African Airways (Pty) Ltd (SAA) external auditor for the financial year ending 31 March 2012. It was identified from the completed *Consultation of the Auditor-General on the appointment of an auditor* dated 5 September 2011 that the South African Airways (Pty) Ltd intends appointing PriceWaterhouseCoopers and Nkonki Incorporated as its external auditors.

The AGSA does not object to the appointment of the above-mentioned audit firms for the financial year ending 31 March 2012, subject to the following conditions:

1. You are required to bring to the attention of your appointed external auditor the content of *General Notice 1111 of 2010* issued in Government Gazette *33872 of 15 December 2010* or any new general notices issued by the Auditor-General from time to time.
2. On completion of the audit, you are required to submit your audited annual report to the AGSA in line with the requirements of the 2010 Audit Directive.

The Department of Public Enterprises has recently notified the AGSA that it intends to enforce its state owned entities to change its auditors (audit firm) every five years as required in the Protocol on corporate governance in the public sector paragraph 5.2.19.5. This is subject to an annual appointment process as per the Audit Directive.

Yours sincerely

Kevish Lachman
Business Executive: National E

Enquiries: Sybrand Struwig
Telephone: (012) 426 8286
Fax: (012) 426 8086
Email: sybrands@agsa.co.za

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PS 12

AUDITOR-GENERAL
SOUTH AFRICA

Ms C Carolus
Chairperson of the accounting authority
South African Airways (Pty) Ltd
Private Bag X13
Airways Park
O R. Tambo
1627

29 July 2012

Reference: South African Airways (Pty) Ltd / Sec 4(3)

Dear Ms C Carolus

Appointment of external auditor for South African Airways (Pty) Ltd

The Auditor-General of South Africa (AGSA) acknowledges receipt of the completed consultation checklist in respect of the appointment of the South African Airways (Pty) Ltd's external auditor for the financial year ending 31 March 2013. It was identified from the completed *Consultation of the Auditor-General on the appointment of an auditor* dated 23 July 2012 that the South African Airways (Pty) Ltd intends appointing PriceWaterhouse Coopers joint with Nkonki Inc.. as its external auditor.

The AGSA does not object to the appointment of the above-mentioned audit firm for the financial year ending 31 March 2013, subject to the following conditions:

1. You are required to bring to the attention of your appointed external auditor the content of General Notice *839 of 2012* issued in Government Gazette no. *34783 on 28 November 2012* or any new general notices issued by the Auditor-General from time to time.
2. On completion of the audit, you are required to submit your audited annual report to the AGSA in line with the requirements of the 2012 Audit Directive.

The Department of Public Enterprises has recently notify the AGSA that it intends to enforce its state owned entities to change its auditors (audit firm) every five years as required in the Protocol on corporate governance in the public sector paragraph 5.2.19.5. A copy of the Protocol is provided with this letter for your convenience.

Yours sincerely

....

Kevish Lachman
Business Executive: National E

Enquiries: Sybrand Struwig
Telephone: (012) 426 8286
Fax: (012) 426 8086
Email: sybrands@agsa.co.za

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PS 13

AUDITOR-GENERAL
SOUTH AFRICA

Mr. Monwabisi Kalawe
Chief Executive Officer
South African Airways SOC Limited
Private Bag X13
OR Tambo International Airport
2000

23 August 2013

Reference: SAA/ Sec 4(3)

Dear Mr Kalawe

Appointment of external auditor for South African Airways SOC Ltd

The Auditor-General of South Africa (AGSA) acknowledges receipt of the completed consultation checklist in respect of the appointment of South African Airways SOC Ltd's (SAA) external auditor for the 2013-2014 financial year. It was identified from the completed *Consultation of the Auditor-General on the appointment of an auditor* dated 20 August 2013 that SAA intends appointing PriceWaterHouseCoopers and Nkonki Inc. as its external auditors.

The AGSA does not object to the appointment of the above-mentioned audit firms for the financial year ending 31 March 2014, subject to the following conditions:

1. You are required to bring to the attention of your appointed external auditor the content of General Notice *839 of 2011* issued in Government Gazette No. *34783* on 28 November 2011 or any new general notices issued by the Auditor-General from time to time.
2. On completion of the audit, you are required to submit your audited annual report to the AGSA in line with the requirements of the 2011 Audit Directive.
3. In terms of section 25(4) of the Public Audit Act, 2004 (Act No. 25 of 2004) the appointment may not be for a longer period than one financial year of SAA.

Further to this it is recommended that you confirm acceptance with your shareholder before the formal appoint of the external auditors are made.

Yours sincerely

Kevish Lachman
Business Executive: National E

Enquiries: Kevish Lachman
Telephone: (012) 422 9583
Fax: (012) 422 8086
Email: kevish@agsa.co.za

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PS 14

AUDITOR-GENERAL
SOUTH AFRICA

Mr Monwabisi Kalawe
Group Chief Executive Officer
South African Airways SOC Ltd
Private Bag X13
Kempton Park
1619

15 September 2014

Reference: SAA 14-15/ Sec 4(3)

Dear Mr Kalawe

Appointment of external auditor for South African Airways SOC Limited

In line with the *Auditor-General Directive*, South African Airways SOC Limited (SAA) submitted an updated consultation checklist in respect of the appointment of SAA's external auditor for the financial year ended 31 March 2015.

The AGSA acknowledges receipt of the completed checklist. It was identified from the completed *Consultation of the Auditor-General on the appointment of an auditor,* dated 2 September 2014, that SAA intends to appoint PricewaterhouseCoopers and Nkonki Inc. as its joint external auditors.

The Auditor-General of South Africa does not object to the appointment of the above audit firms for the financial year ending 31 March 2015, subject to the following conditions:

1. You are required to bring to the attention of your appointed auditors the content of *General Notice 263 of 2014* issued in Government Gazette No. *35705 of 2 April 2014* or any new general notices issued by the Auditor-General from time to time.
2. On completion of the audit, you are required to submit three copies of your audited annual report to the Auditor-General of South Africa.

The Department of Public Enterprises has recently notified the AGSA that it intends to enforce its state-owned entities to change its auditors (audit firm) every five years as required in the *Protocol on corporate governance in the public sector* paragraph 5.2.19.5. This is subject to an annual appointment process as per the Audit Directive.

Yours sincerely

Kevish Lachman
Business Executive: National E

Enquiries: Rizana Moosa
Telephone: (012) 422 9470
Fax: (012) 422 8086
Email: rizanaM@agsa.co.za

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DD20-PS-0532

PS 15

Struwig,Sybrand (SM)

From:	Dikeledi Raboroko <DikelediRaboroko@flysaa.com>
Sent:	Monday, 14 December 2015 12:20
To:	Mokwena,Nicholas (SM)
Cc:	Zikode,Thamsanqa (BE); Segooa,Solly (CE); Mungofa,Ntomboxolo; Sokombela,Polani (BE); Ruth Kibuuka; Lindsay Olitzki
Subject:	RE: APPOINTMENT OF EXTERNAL AUDITORS FOR SOUTH AFRICAN AIRWAYS SOC LTD
Attachments:	APPOINTMENT OF EXTERNAL AUDITORS -DEC2015.pdf

Dear Nicholas

Kindly find accompanying correspondence for the attention of the A-G.

Regards
Dike

Dikeledi Raboroko | Personal Assistant to Company Secretary | Company Secretary

Mobile: 0763000063 | Phone: +2711-978-2763 | E-Mail: DikelediRaboroko@flysaa.com
Room S01, Floor 6, Block A, Airways Park, OR Tambo International- Johannesburg- SOUTH AFRICA

From: Sokombela,Polani (SM) [mailto:PolaniS@agsa.co.za]
Sent: 15 September 2015 03:34 PM
To: Ruth Kibuuka
Cc: Zikode,Thamsanqa (BE); Dikeledi Raboroko; Mokwena,Nicholas; Segooa,Solly (CE); Mungofa,Ntomboxolo
Subject: RE: APPOINTMENT OF EXTERNAL AUDITORS FOR SOUTH AFRICAN AIRWAYS SOC LTD

Dear Ruth

Thank you very much for affording us an opportunity to meet with you regarding the appointment of SAA external auditors. As discussed in the meeting, the following are the concerns that we have noted:

- Through inspection of the extract of the minutes of SAA board meeting held on 10 July 2015, we have noted that the board resolved to appoint Nkonki for a period of 5 years. Evidence could not be provided to prove that the procurement process, as per the SCM Policy, was duly adhered to.
    - Further, it should be noted that the initial tender process referred to in the submission appointed Price Waterhouse Coopers (PWC) and Nkonki jointly as auditors, and this may be viewed as a new appointment for the 2015/16 financial year where Nkonki will be the sole auditor. Therefore a new procurement process in compliance with SAA SCM Policy should be followed.
- The board resolution for the meeting held on the 10 July 2015 seek to appoint Nkonki for a period of 5 years in contravention of section 25 (4) of Public Audit Act 25 of 2004. The external auditors can be appointed for a period longer than one year (1) on condition that it is stipulated in the contract that concurrence will be sought annually from the AGSA.

Based on the above matters, it is recommended that SAA relook at the appointment process of the external auditors to ensure that it is in compliance with SAA SCM Policy. A policy addressing the appointment and re-appointment of external

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auditors should be established going forward as the current SAA SCM Policy does not specifically address the appointment and reappointment of external auditors.

After you have completed the above process, kindly submit evidence that the process followed complied with SAA SCM Policy for our consideration.

Should you need clarity on this email, please do not hesitate to contact me.

Regards

Polani Sokombela CA(SA), RA

Senior Manager: Product Champion • National B • Auditor-General of South Africa
Tel: +27(0)12 426 8288 • Fax: +27(0)12 422 9459 • Mobile: +27(0)76 870 5628 • Email: polanis@agsa.co.za

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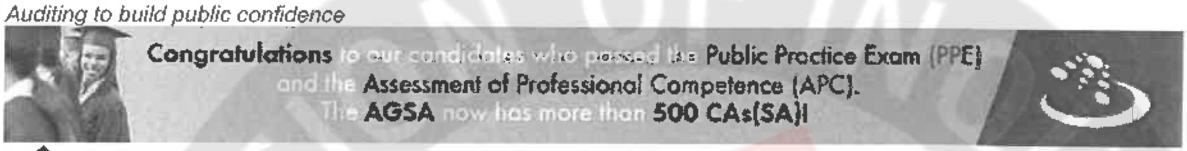

Please consider the environment before printing this email

From: Dikeledi Raboroko [mailto:DikelediRaboroko@flysaa.com]
Sent: 12 August 2015 11:52 AM
To: Mokwena,Nicholas
Cc: Sokombela,Polani (SM); Moosa,Rizana (SM); Zikode,Thamsanqa (BE); Ruth Kibuuka
Subject: RE: APPOINTMENT OF EXTERNAL AUDITORS FOR SOUTH AFRICAN AIRWAYS SOC LTD

Dear Nicholas

Kindly find accompanying for your attention.

Many thanks
Dike

Dikeledi Raboroko | Personal Assistant to Company Secretary | Company Secretary

Mobile: 0763000063 | Phone: +2711-978-2763 | E-Mail: DikelediRaboroko@flysaa.com
Room S01, Floor 6, Block A, Airways Park, OR Tambo International- Johannesburg- SOUTH AFRICA

From: Mokwena,Nicholas [mailto:NicholasM@agsa.co.za]
Sent: 11 August 2015 11:47 AM
To: Dikeledi Raboroko
Cc: Sokombela,Polani (SM); Moosa,Rizana (SM); Zikode,Thamsanqa (BE)
Subject: RE: APPOINTMENT OF EXTERNAL AUDITORS FOR SOUTH AFRICAN AIRWAYS SOC LTD

Dear Dikeledi

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In order to concur the recommendation to appoint Nkonki as external auditors of SAA, may you please send us the following:

- Audit committee resolution to recommend the Board the appointment of Nkonki
- Board resolution to recommend to the shareholders the appointment of Nkonki
- SAA policy on appointment of external auditors.

Regards,

Nicholas Mokwena CA (SA)

Technical Manager • National B • Auditor-General of South Africa
Tel: +27(0)12 422 9622 • Fax: +27(0)12 422 9459• Mobile: +27(0)73 013 7740 • Email: NicholasM@agsa.co.za

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Directors

DC Myeni* (Chairperson), WH Meyer (Chief Financial Officer), Y Kwinana*, JE Tambi*(Sierra Leonean), AD Dixon*

*Non-Executive Director

Company Secretary – Ruth Kibuuka

South African Airways SOC Ltd Reg. No. 1997/022444/30

A STAR ALLIANCE MEMBER

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PS 16

SOUTH AFRICAN AIRWAYS

South African Airways
Office of the Company Secretary
6th Floor
Airways Park
Jones Road
Kempton Park

Private Bag X13
OR Tambo International Airport
Tel: 27 11 978-2763

Email: companysecretary@flysaa.com

Attention: Nicholas Mokwena

Auditor-General of South Africa
300 Middel Street
New Muckleneuk
PRETORIA
0001

Email: NicholasM@agsa.co.za

Dear Nicholas

APPOINTMENT OF EXTERNAL AUDITORS FOR SOUTH AFRICAN AIRWAYS SOC LTD

Please find attached, a copy of the resolution appointing the external auditors as well as the SAA Supply Chain Management Policy, which is applicable to the appointment of external auditors. I wish to highlight a few things to the AG, in order to provide you with context with regards to this Board decision:

1. As it is, SAA operates in *"business unusual"* mode, as it finds itself in a unique position to rapidly turn around and return to commercial sustainability. As such, the Board has focused its energies in pursuing this objective by meeting regularly, in a bid to expedite SAA's decision-making process and ensure that the business remains relevant and adapts quickly to the ever-so-dynamic environment within which it operates.

2. Conversations regarding the desired milestone of having a sole black-owned accounting firm as the Group's external auditors, have always taken place at the Audit and Risk Committee ("ARC") meetings since 2012, as evidenced by this committee's minutes. As such, the appointment of Nkonki Inc. (a black-owned accounting firm) as the sole external auditors of SAA, was both the Board and ARC's efforts to contributing positively towards providing a blueprint for meaningful and broad-based empowerment as well as being at the forefront of government's drive to transform the economy, particularly in the aviation space.

3. The Office of the Company Secretary is cognisant of the fact that the appointment of external auditors is a statutory responsibility of the Audit & Risk Committee, as per the Companies Act. In this case, the appointment of the Auditors was done by the Board at its special meeting of 10 July 2015, when urgent crucial matters required urgent consideration. The agenda item

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pertaining to the appointment of the external auditors was initiated and led by Ms Kwinana, the Chairperson of the Audit & Risk Committee, with the rest of the ARC members endorsing such a decision.

I look forward to your reply.

Regards

Yours faithfully,

Ruth Kibuuka
Company Secretary
Date:

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PS 17

SOUTH AFRICAN AIRWAYS
FLYSAA.COM

South African Airways
Company Secretary
Suite 2, 6th Floor
Airways Park
1627

Private Bag X13
ORT International Airport
1627

Tel: 27 11 978-6553
Fax: 27 11 978-2545

Email: companysecretary@flysaa.com

EXCERPT FROM THE DRAFT MINUTES OF THE CONTINUATION OF THE SAA SOC LTD BOARD OF DIRECTORS MEETING NO 2015/04 HELD ON FRIDAY, 10 JULY 2015, IN THE BOARDROOM, 6TH FLOOR, AT SAA AIRWAYS PARK, JONES ROAD, KEMPTON PARK AT 09H00

APPOINTMENT OF EXTERNAL AUDITORS

The Board stated that Nkonki Inc had been given the opportunity to be mentored by PWC for five years and against all odds, Nkonki had worked diligently with PWC.

It was **RESOLVED that:**

a) Nkonki Inc should take over as the first Black audit firm to work for SAA, for a period of 5 years subject to annual review and

b) A letter should be sent to the Shareholder in this regard.

Certified a true copy.

Ruth Kibuuka
Company Secretary

Date: 15/07/2015

Company Secretary
SOUTH AFRICAN AIRWAYS
South African Airways SOC Ltd
Registration No 1997/022444/30

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SOUTH AFRICAN AIRWAYS
FLYSAA.COM

South African Airways
Company Secretary
Suite 2, 5th Floor
Airways Park
1627

Private Bag X13
ORT International Airport
1627

Tel: 27 11 978-6553
Fax: 27 11 978-2545

Email: companysecretary@flysaa.com

SAA BOARD WRITTEN RESOLUTION NO 2011/B24: APPOINTMENT OF EXTERNAL AUDITORS FOR 2011/2012

The Board by Round Robin 2015/B50 as of 22 November 2011 **RESOLVED** to approve the joint appointment of Nkonki Inc. and PricewaterhouseCoopers on a 60/40 split in favour of Nkonki Inc. as the external auditors for the SAA Group excluding Mango Airlines, for the 2011/ 2012 financial year.

Certified a true copy.

Ruth Kibuuka
Company Secretary

Date: 28/05/2015

Company Secretary
SOUTH AFRICAN AIRWAYS
South African Airways SOC Ltd
Registration No 1997/022444/30

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SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER

Tender (Contract no.): [illegible]

Tender Name/ Description: External Audit Services

Commodity Manager: Amu Hlaisi

Tender Start Date (extended period start date): 01 September 2011

Tender End Date (end of the extended period): 31 August 2012

Value of Contract (extension value): R11.4 million

Business Unit: Finance

A	BAC submission checklist			
	Key evidence of submission compliance:	*Complete: Yes (☒) / No (☐)*	*Evidence attached: Yes (☒) / No (☐)*	*Comments (incl. if no evidence is provided)*
A1	Purpose - a clear description of the purpose of the submission to the BAC and the approvals required	☒ Yes	☐	
A2	Summary of the Business case/evidence of demand for the goods procured (the detailed Business case as approved by the Business unit and approved in line with the Delegation of Authority to be attached as an Annexure)	☒ No	☐	There was no Business case, as this is a statutory requirement
A3	Details of the tender, number of bidders and acceptance of bids based on the critical criteria. (Tender documentation to be attached as an Annexure)	☒ Yes	☐	
A4	Bid evaluation - evaluation criteria, evaluation outcomes and process followed, including due diligence conducted on the potential suppliers (detailed evaluation sheets to be attached as Annexures)	☒ Yes	☐	
A5	Financial due diligence	☐	☒	
A6	Bid award recommendation	☒ Yes	☐	
A7	Financial impact assessment	☒	☐	
A8	Assessment of fair value	☒ Yes	☐	
A9	Risk assessment	☒ Yes	☐	
A10	Contracting terms and conditions	☐	☒	To be included in Contract
A11	Final recommendation	☐ Yes	☐	
A12	All required signatures received	☐ Yes	☐	

Comments:

This checklist must not be seen by business and procurement as the only document they need to consider to the exclusion of the actual Supply Chain Manual, the DOA, PFMA and applicable policies and legislation etc.

All tenders tha involve IPP considerations must make specific reference to this in the financial considerations of the tender.

I certify that the SAA BAC submission requirements has been met

Commodity Manager: Name, Signature & Date
22/08/2011 22/08/2011

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SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER

BID ADJUDICATION COUNCIL

FINAL SUPPLIER SELECTION RECOMMENDATION FOR: REQUEST FOR PROPOSAL FOR THE PROVISION OF EXTERNAL AUDIT SERVICES TO SAA GROUP GSM 212/2011
22 AUGUST 2011

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Contents

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1. Summary of Evaluation

Detailed evaluation worksheets are available for review.

ACTIVITY	DETAILS
GSM No.	GSM 212/2011
Date published	07 August 2011
Newspapers	Sunday Times and SAA website
Date closed	17 August 2011
Tender briefing session	None
Late Tenders	None
Names of service providers who responded:	KPMG, PWC, Sizwe Ntsaluba Gobodo, Nkonki Inc, Rakoma & Associates, Deloitte , E&Y , SAB&T
Bidders eliminated on the basis of critical criteria.	None
Short listed bidders	KPMG, PWC, Sizwe Ntsaluba Gobodo, Nkonki Inc, Rakoma & Associates, Deloitte , E&Y , SAB&T

2. Background

SAA had to engage in an open tender process for the appointment of External Auditors for the financial year 2011/2012. The appointment of the External Auditors will be announced at the Annual General Meeting in September 2011.

A Cross Functional Sourcing Team (CFST) was formed to review and propose critical and evaluation criteria. The criteria also addresses the promotion of SMME firms which should be catered for in the evaluation criteria, where the large External Audit Firms are encouraged to promote skills development in order to meet the Government's intention of promoting SMME's and BBBEE.

The SAA Board has approved the Audit Committee's recommendation of the open tender process and the evaluation criteria on 29 June 2011.

3. Objectives of the Project

SAA has to appoint a suitably qualified service provider to provide External Audit Services as a statutory requirement for State Owned Entities. The audit for the financial year ending 31 March 2012 has to be conducted in accordance with International Standards on Auditing.

4. Scope of Work

The objective of the audit as a statutory requirement is the expression of an opinion on the fairness in all material respects of SAA's annual financial statements in conformity with

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International Financial Reporting Standards ("IFRS"). The audit for the financial year ending 31 March 2012 has to be conducted in accordance with International Standards on Auditing with specific focus on, but not limited to, the following key areas:

- **Financial reporting** including an assessment of the quality of earnings and an audit of the consolidation process.
- **Procurement and compliance** with the Public Finance and Management Act.
- **Trade payables / expenses** with specific focus on any further restructuring provisions revisions required.
- **Treasury** – focused attention on assessing compliance with hedge accounting requirements and the completeness of embedded derivatives.
- **Property, aircraft and equipment** including an assessment of whether residual values and useful lives have been adequately considered and determined.
- **An assessment** of the return condition provisions required under the numerous aircraft leases.
- **Various fraud risk factors** specific to SAA and its operating environment as required by International Standards on Auditing, ISA 240.
- **An assessment** of whether an asset requires consideration for impairment in terms of *IAS36: Impairment of Assets.*
- **Accounting** for leases as operating or finance leases.
- **Revenue recognition**, including any forward sales and passenger levies released.
- **Continued compliance** with *IFRS7: Financial Instruments Disclosure.*
- **The valuation of inventory** due to obsolescence and poor inventory control.
- **Accounting for power** by the hour contracts and the related recognition of maintenance revenue by SAAT.
- **Calculation of the Voyager liability** and recognition of Voyager revenue, and in particular progress made in terms of compliance with *IFRIC 13: Customer Loyalty Programmes.*

5. Estimated Total Value

The estimated total value of the tender for the financial year is R11.4m, excluding disbursements. This has been budgeted under operating expenses.

6. Contract Duration

The contract will be for the 2011/2012 financial year, starting from 01 September 2011 to 31 August 2012

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7. Cross Functional Sourcing Team

Name	Division
Amu Hlaisi	GSM
Wolf Meyer	Group CFO
Stuart Laird -Smith	Financial Controller - Commercial Division
Pat Padayachee	CFO - SAAT
Faizel Peer	CFO - SATC
Nthabiseng Ntshalintshali	CRO
Michael Muller	CFO - Air Chefs
Gary Hoyle	CFO - Cargo

8. Tender Evaluation Process

The evaluation process had one phase and the following evaluation criteria were applied:

		WEIGHT
1	**FUNCTIONAL/TECHNICAL CRITERIA**	**60%**
	• Capacity to perform audit will be assessed through	**30%**
	1. Evidence of track record – auditing company of similar size than SAA	7.5%
	2. Obtain references from these companies	7.5%
	3. Credentials of audit partners that will allocated to SAA audit	7.5%
	4. Willingness to form a consortium or partnership between an SMME and a well established (Large) firm, and methodology of how the work will be spitted between the two parties for skills development purposes.	7.5%
	• The proposal must contain a sound technical plan and a realistic estimate of time required to complete an audit	**15%**
	• Specialist Knowledge/ Access to Specialist Knowledge	**15%**

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2	**TOTAL COST OF OWNERSHIP**	**15%**
	▪ Price	
3	**BBBEE** • Ownership • Management & Control • Employment Equity • Preferential Procurement • Enterprise Procurement • Skills Development • Corporate Social Investment	**25%**

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The table below shows the scoring from the CFST, a rating of 1-5 was used to allocate the scores to the Bidders (See attached annexure A for detailed scoring)

Evaluation Criteria	Weight %	KPMG	E&Y	Nkonki Inc	Rakoma & Ass	SAB&T	Sizwe Ntsaluba Gobodo	Deloitte	PWC
Functionality	60%	52.50%	51%	49.50%	36.90%	32.40%	34.50%	45.75%	49.50%
Price	15%	10.14%	10.21%	11.24%	13.82%	15%	7.73%	7.86%	13.35%
Bid Price		R15 m	R14.5 m	R13.5 m	R11 m	R10 m	R19.7 m	R19.3 m	R11.4 m
BEE	25.00%	21.90%	21.90%	21.90%	25%	21.90%	21.90%	21.90%	21.90%
Level		2	2	2	1	2	2	2	2
Final Score	100%	84.54%	83.11%	82.64%	75.72%	69.30%	64.13%	75.51%	84.75%
Ranking		2	3	4	5	7	8	6	1

P.S
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8.1 Assessment of Bidders

8.1.1 KPMG

The following observations were noted in KPMG's proposal:

- References could not clearly provide the duration of audits in each organization.
- There was no plan or identified SMME to partner with.

8.1.2 Ernst & Young (E&Y)

The following observations were noted in E&Y's proposal:

- References submitted were not on the clients' letterhead.
- There was no plan or identified SMME to partner with.
- It should be noted that E&Y are currently the internal auditors to SAA

8.1.3 NKONKI Inc

The following observations were noted in NKONKI's proposal:

- Major big audits were done in partnerships with bigger firms.
- No international experience.
- References provided were not clear in terms of when work was performed.
- Errors were noted in the tender document with, some information being outdated.
- Technical plan was very generic with no reference to aviation industry.
- Note that this firm received full marks for the SMME section

8.1.4 RAKOMA & ASSOCIATES

The following observations were noted in RAKOMA & ASSOCIATES's proposal:

- No evidence that they have done work in an organisation of similar size to SAA.
- No international experience.
- No aviation experience.
- Most of the projects indicated have been done in partnership with bigger audit firms.
- No references provided.
- Project timelines not provided.
- No evidence that Rakoma do have specialist knowledge to execute this assignment.
- Note that this firm received full marks for the SMME section

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8.1.5 SAB&T

The following observations were noted in SAB&T's proposal:

- Lack of aviation experience.
- Lack of international exposure.
- Most of their bigger projects have been done in partnership with one of the big auditing firms.
- Discrepancies identified in their team CVs, this resulted in originality and validity being questioned.
- Project timelines not provided.
- No evidence that SAB&T do have specialist knowledge to execute this assignment.
- Note that this firm received full marks for the SMME section

8.1.6 SIZWE NTSALUBA GOBODO

The following observations were noted in SIZWE NTSALUBA GOBODO's proposal:

- Lack of evidence in auditing similar organizations as SAA without partnering with any of the large auditing firms.
- Lack of aviation experience.
- There was no plan or identified SMME to partner with.
- No evidence that they do have adequate specialists to be used to execute this assignment.

8.1.7 DELOITTE & TOUCHE

The following observations were noted in DELOITTE&TOUCHE's proposal:

- No actual references provided.
- Credentials of audit partners were scored down based on current experience
- There was no plan or identified SMME to partner with.

8.1.8 PriceWaterHouse Coopers (PWC)

The following observations were noted in PWC's proposal:

- No indication that they have done work internationally.
- No identified SMME partner to form a consortium with but a methodology was provided.

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9. Final Recommendation

- It is recommended that the BAC support and recommend to the Audit Committee the awarding of the External Audit Services tender to PriceWaterHouse Coopers (PWC) for the 2011/2012 financial year, from 01 September 2011 to 31 August 2012 at an estimated cost of R11.4 million excluding VAT. This amount excludes an additional estimated amount of R150 000.00 for disbursements.
- It should be noted that PWC's SMME consortium plan will form part of the contract.

10. Details of the Recommended Bidder

Name of Bidder: PriceWaterHouse Coopers

Registration no: 1998/012055/21

Vat Registration Number: 4950174682

Estimated Total Bid Price: R11.4 million excluding VAT.

An estimated amount for disbursement: R150 000.00 excl VAT

11. Next Steps

- Final approval by the Audit Committee and notification to the Board.
- Announcement at the AGM
- Contract negotiation and sign-off
- Unsuccessful Bidders will be informed.
- Implementation of the project.

Compiled by:

Date: 22/08/2011

Amu Hlaisi
Commodity Manager and CFST Chairperson

Recommended by:

Date: 22/08/2011

Wolf Meyer- CFO

Supported by:

Date: 22/08/2011

Alvin Chetty

Date: 22/08/2011

Stafford Augustine - CPO

23/08/2011

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PS 20

SOUTH AFRICAN AIRWAYS
FLYSAA.COM

South African Airways
Company Secretary
Suite 2, 6th Floor
Airways Park
1627

Private Bag X13
ORT International Airport
1627

Tel: 27 11 978-6553
Fax: 27 11 978-5919

Email: ruthkibuuka@flysaa.com

28 August 2015

EXTRACT FROM THE IN-COMMITTEE MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING OF THE SAA BOARD OF DIRECTORS (2015/03) HELD ON MONDAY, 24 AUGUST 2015 AT SAA, AIRWAYS PARK, JONES ROAD, KEMPTON PARK, AT 09:00 AM

2. Ratification of the Appointment of External Auditors

The Committee **RATIFIED** its recommendation to the Board that:

(a) Nkonki Inc take over as the first Black audit firm to work for SAA, for a period of 5 years subject to annual review; and

(b) A letter should be sent to the Shareholder in this regard.

True extract from the minutes

Sivuyile Maso
Deputy Company Secretary

Company Secretary
SOUTH AFRICAN AIRWAYS
South African Airways SOC Ltd
Registration No 1997 022444/30

P.S
KTD

21

Bhengu,Walter (SM)

From:	Ruth Kibuuka <RuthKibuuka@flysaa.com>
Sent:	Tuesday, 15 September 2015 16:03
To:	Sokombela,Polani (BE)
Cc:	Zikode,Thamsanqa (BE); Dikeledi Raboroko; Mokwena,Nicholas (SM); Segooa,Solly (CE); Mungofa,Ntomboxolo; Sivuyile Maso
Subject:	RE: APPOINTMENT OF EXTERNAL AUDITORS FOR SOUTH AFRICAN AIRWAYS SOC LTD

Dear Polani,

Thank you for the meeting this afternoon and for the valuable input you have provided in respect of the appointment of our external auditors. We will review our process in cognisance of the concerns raised, and revert as soon as possible.

Regards

Ruth Kibuuka | Company Secretary

Mobile: +27 083 531 6004 | Phone: +2711-978-6553 | Fax: +2711 978-1055 | E-Mail: RuthKibuuka@flysaa.com
Floor 6,Block A,Airways Park,OR Tambo International- Johannesburg- SOUTH AFRICA

From: Sokombela,Polani (SM) [mailto:PolaniS@agsa.co.za]
Sent: 15 September 2015 03:34 PM
To: Ruth Kibuuka
Cc: Zikode,Thamsanqa (BE); Dikeledi Raboroko; Mokwena,Nicholas; Segooa,Solly (CE); Mungofa,Ntomboxolo
Subject: RE: APPOINTMENT OF EXTERNAL AUDITORS FOR SOUTH AFRICAN AIRWAYS SOC LTD

Dear Ruth

Thank you very much for affording us an opportunity to meet with you regarding the appointment of SAA external auditors. As discussed in the meeting, the following are the concerns that we have noted:

- Through inspection of the extract of the minutes of SAA board meeting held on 10 July 2015, we have noted that the board resolved to appoint Nkonki for a period of 5 years. Evidence could not be provided to prove that the procurement process, as per the SCM Policy, was duly adhered to.
    - Further, it should be noted that the initial tender process referred to in the submission appointed Price Waterhouse Coopers (PWC) and Nkonki jointly as auditors, and this may be viewed as a new appointment for the 2015/16 financial year where Nkonki will be the sole auditor. Therefore a new procurement process in compliance with SAA SCM Policy should be followed.
- The board resolution for the meeting held on the 10 July 2015 seek to appoint Nkonki for a period of 5 years in contravention of section 25 (4) of Public Audit Act 25 of 2004. The external auditors can be appointed for a period longer than one year (1) on condition that it is stipulated in the contract that concurrence will be sought annually from the AGSA.

Based on the above matters, it is recommended that SAA relook at the appointment process of the external auditors to ensure that it is in compliance with SAA SCM Policy. A policy addressing the appointment and re-appointment of external auditors should be established going forward as the current SAA SCM Policy does not specifically address the appointment and reappointment of external auditors.

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After you have completed the above process, kindly submit evidence that the process followed complied with SAA SCM Policy for our consideration.

Should you need clarity on this email, please do not hesitate to contact me.

Regards

Polani Sokombela CA(SA), RA

Senior Manager: Product Champion • National B • Auditor-General of South Africa
Tel: +27(0)12 426 8288 • Fax: +27(0)12 422 9459 • Mobile: +27(0)76 870 5628 • Email: polanis@agsa.co.za

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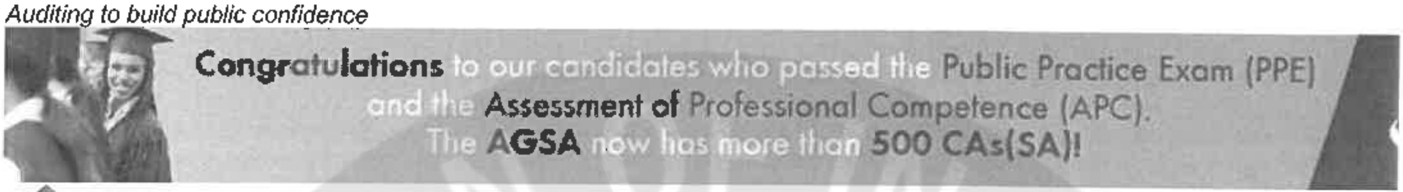

Please consider the environment before printing this email

From: Dikeledi Raboroko [mailto:DikelediRaboroko@flysaa.com]
Sent: 12 August 2015 11:52 AM
To: Mokwena,Nicholas
Cc: Sokombela,Polani (SM); Moosa,Rizana (SM); Zikode,Thamsanqa (BE); Ruth Kibuuka
Subject: RE: APPOINTMENT OF EXTERNAL AUDITORS FOR SOUTH AFRICAN AIRWAYS SOC LTD

Dear Nicholas

Kindly find accompanying for your attention.

Many thanks
Dike

Dikeledi Raboroko | Personal Assistant to Company Secretary | Company Secretary

Mobile: 0763000063 | Phone: +2711-978-2763 | E-Mail: DikelediRaboroko@flysaa.com
Room S01, Floor 6, Block A, Airways Park, OR Tambo International- Johannesburg- SOUTH AFRICA

From: Mokwena,Nicholas [mailto:NicholasM@agsa.co.za]
Sent: 11 August 2015 11:47 AM
To: Dikeledi Raboroko
Cc: Sokombela,Polani (SM); Moosa,Rizana (SM); Zikode,Thamsanqa (BE)
Subject: RE: APPOINTMENT OF EXTERNAL AUDITORS FOR SOUTH AFRICAN AIRWAYS SOC LTD

Dear Dikeledi

In order to concur the recommendation to appoint Nkonki as external auditors of SAA, may you please send us the following:

- Audit committee resolution to recommend the Board the appointment of Nkonki
- Board resolution to recommend to the shareholders the appointment of Nkonki

R.J
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- SAA policy on appointment of external auditors.

Regards,

Nicholas Mokwena CA (SA)

Technical Manager • National B • Auditor-General of South Africa
Tel: +27(0)12 422 9622 • Fax: +27(0)12 422 9459• Mobile: +27(0)73 013 7740 • Email: NicholasM@agsa.co.za

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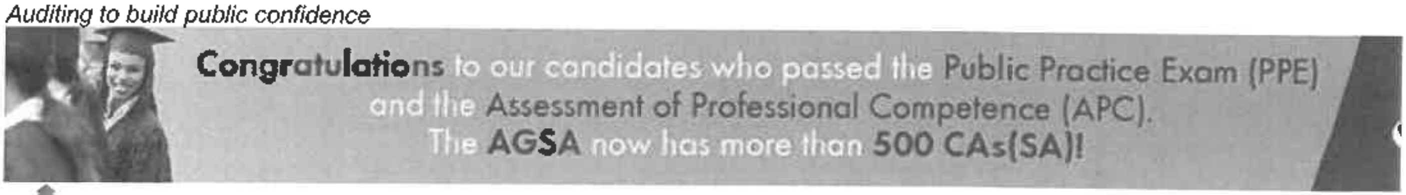

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SOUTH AFRICAN AIRWAYS

EXCERPT FROM THE DRAFT MINUTES OF THE CONTINUATION MEETING OF THE SAA BOARD OF DIRECTORS (NO 2015/07) HELD ON WEDNESDAY, 09 DECEMBER 2015 AT EMPERORS PALACE AT 12H00

RE-APPOINTMENT OF EXTERNAL AUDITORS

The Board of Directors **RESOLVED** to approve:

1. the re-appointment of Nkonki and PwC Inc. as joint external auditors of the SAA group of companies, for the 2015/16 financial year, with a 50/50 workload split subject to the approval by the Auditor-General in terms of section 25(2) of the Public Audit Act No 25 of 2004.
2. that Management should ascertain when Mango's contract with its current auditors expired and ensure that Mango was included within the scope of the approved group auditors.

True extract from the draft minutes

Ruth Kibuuka

Company Secretary

Date: 10/12/2015

Company Secretary
SOUTH AFRICAN AIRWAYS
South African Airways SOC Ltd
Registration No 1997/022444/30

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PS 23

SOUTH AFRICAN AIRWAYS

South African Airways
Office of the Company Secretary
6th Floor
Airways Park
Jones Road
Kempton Park

Private Bag X13
OR Tambo International Airport
Tel: 27 11 978-2763

Email: companysecretary@flysaa.com

Auditor-General of South Africa
300 Middel Street
New Muckleneuk
PRETORIA
0001

Email: NicholasM@agsa.co.za

APPOINTMENT OF EXTERNAL AUDITORS FOR SOUTH AFRICAN AIRWAYS SOC LTD

We kindly notify the Auditor-General of South Africa that South African Airways intends to re-appoint PricewaterhouseCoopers and Nkonki Inc. as its external auditors for the 2015/16 financial year. We hereby attach a copy of the Board resolution approving their re-appointment for your records.

Also accompanying this letter is the completed Consultation of the Auditor–General on the Appointment of an Auditor for the Auditor-General's consideration.

We are advised that PricewaterhouseCoopers and Nkonki Inc. have undergone a review by the Independent Regulatory Board Auditors (IRBA) and the results will be made available to us once they are at hand.

We would appreciate it if the Auditor-General could advise us that he has no objections to SAA appointing PricewaterhouseCoopers and Nkonki Inc. as its external auditors.

Yours faithfully,

Ruth Kibuuka
Company Secretary
Date: 11|12|2015

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INFORMATION REQUIRED

3 **Particulars of entity:**

Name		South African Airways SOC Limited
Postal address		Private Bag X13, OR Tambo International Airport, 1627
Physical address		Airways Park,1 Jones Road, OR Tambo International Airport 1620
Fax number		011-978 1907
Telephone number		011-978 2763
Email address of CFO		PhumezaNhantsi@Flysaa.com
Accounting authority chairperson	Name	Duduzile Myeni
	Contact details	011-978 2520/6553
Responsible minister (executive authority	Name	Pravin Gordhan
	Contact details	012 315 5372
Responsible department		Finance Ministry
Contact person at department		Mary Marumo
Financial year in question		2016
PFMA SCHEDULE (2, 3A, 3B, 3C or 3D		2
Name of holding entity (if applicable)		n/a

DISCHARGE OF AUDITOR

4 **Name of the audit firm discharged:**

Insert details
n/a

5 **Number of years engaged on the audit to date**

Insert details
n/a

6 **Provide the notice to the auditor, giving the reasons for the impending discharge.**

n/a

7 **Provide written concurrence by the executive authority for the planned discharge.**

n/a

8 **Costs of audit and non-audit services provided by the audit firm during the last three years:**

Financial year	n/a	n/a	n/a
Audit fees	n/a	n/a	n/a
Fees for other services	n/a	n/a	n/a

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Total fees	n/a	n/a	n/a
Non-audit fees as a percentage of total fees	n/a	n/a	n/a
Nature of services performed	n/a	n/a	n/a

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APPOINTMENT OF NEW AUDIT FIRM

9 **Name of the new audit firm:**

n/a

10 **Anticipated date of appointment:**

n/a

11 **Nature of other services to be performed:**

n/a

12 **Details of any prior involvement with the entity, including the costs:**

n/a

13 **Provide details of how the quality of the audit firm's work has been assessed, e.g. results of IRBA reviews:**

n/a

14 **Indicate any matter that may influence a decision regarding the independence or objectivity or perceived independence of an of the auditors:**

n/a

REAPPOINTMENT OF AUDITORS

15 **Name of audit firm to be reappointed:**

Nkonki Inc & PricewaterhouseCoopers Inc (Joint Auditors)

16 **Financial year(s) previously appointed:**

2012/2013/2014/2015

17 **Provide details of the audit committees assessment of the effectiveness and efficiency of the performance of the external auditors, including IRBA review results:**

Insert details THE AUDIT COMMITTEE IS SATISFIED WITH THE EXTERNAL AUDITORS' EFFECTIVENESS AND EFFICIENCY OF THEIR PERFORMANCE.

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18 Provide details of significant disagreements between the external auditors and the accounting authority during the preceding financial year, if any:

None

19 Indicate any matter that may influence a decision regarding the independence or objectivity or perceived independence of the auditors:

None

20 Name of the partner in charge of audit for the last five years:

Year	Name of partner
1 2012	M Patel (Nkonki) N Mtetwa (PWC)
2 2013	M Patel (Nkonki) N Mtetwa (PWC)
3 2014	T Masasa (Nkonki) P Mothibe (PWC)
4 2015	T Masasa (Nkonki) P Mathibe (PWC)
5	

20 Name of the senior audit manager in charge of audit for the last five years:

Year	Name of senior audit manager
1 2012	T Masasa (Nkonki) Z Karodia (PWC)
2 2013	J Maruma (Nkonki) Z Nkosi (PWC)
3 2014	L Hwenhira (Nkonki) N Bikhani (PWC)
4 2015	L Hwenhira (Nkonki) N Bikhani (PWC)
5	

Completed by: ______________________
(signature)

Completed by: P Nhantsi
(name)

Designation: Acting CFO Phumeza Nhantsi

Date:

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DD20-PS-0572

PS 25

AUDITOR-GENERAL SOUTH AFRICA

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FINAL MANAGEMENT REPORT

SOUTH AFRICAN AIRWAYS SOC LTD

31 MARCH 2017

Communicated to the accounting authority on: 1 December 2017

P.S
KTD

Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

MANAGEMENT REPORT

SOUTH AFRICAN AIRWAYS SOC LTD
31 March 2017
Discussed with the accounting authority on: 1 December 2017
CONTENT

A.S
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P.S
KTD

MANAGEMENT REPORT TO THE ACCOUNTING AUTHORITY (BOARD) ON THE AUDIT OF THE SOUTH AFRICAN AIRWAYS SOC Ltd (SAA) FOR THE YEAR ENDED 31 MARCH 2017

INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting authority and does not constitute public information. This management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 31 March 2017.

2. These findings were communicated to management and the report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.

3. In accordance with the terms of engagement, our responsibility in this regard is to:

   - express an opinion on the consolidated and separate financial statements,
   - express a conclusion in the management report on the usefulness and reliability of the reported performance information for selected objectives, and report the material findings in the auditor's report,
   - report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004).

   Our engagement letter sets out our responsibilities and those of the accounting authority in detail.

4. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.

5. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remains in draft form until the final auditor's report is signed. In adherence to section 50 of the Public Audit Act,2004, we do not disclose any information obtained during the audit and contained in this management report, other than the final auditor's report, to any third party unless this is to a state institution and the disclosure has been approved by the auditee and the auditor-general.

The tick mark or legends on the figure mean the following:

⇧ / ⇧ Improved

⇔ / ⇔ Unchanged / slight improvement / slight regression

⇩ / ⇩ Regressed

P.S.
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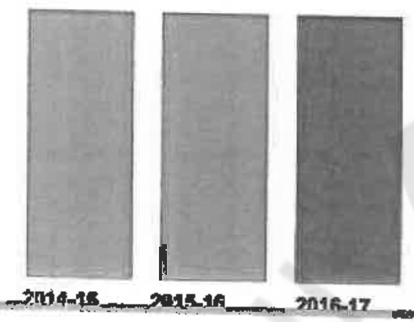
DD20-PS-0576

Regression in audit outcomes



Types of audit outcomes

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings

Assurance levels

First level of assurance

- Senior management
- Accounting authority
- Executive authority

Second level of assurance

- Audit committee
- Internal audit

Provides assurance | Provides some assurance | Provides limited | Vacant/ not established

1 To improve the audit outcomes ...

2 ... the key role players need to assure that...

3 ... attention is given to the key controls, and ...

... practices are maintained.

4 ...risk areas, and ...

5 ... the root causes are addressed...

Root causes should be addressed

- Instability or vacancies in key positions and support staff positions
- Key officials lack appropriate competencies
- The leadership did not establish and communicate adequate policies and procedures
- Lack of consequences for poor performance and transgressions
- IT Governance processes and structures had were not adequately designed nor implemented to enable an effective IT control environment

Risk areas

- Quality of submitted financial statements
- Quality of submitted performance information
- Supply chain management
- Financial health
- Human resource management
- Information technology

Good | Concerning | Intervention required

Status of the drivers of internal controls

Leadership

- Effective leadership culture
- Oversight responsibility
- HR management
- Policies and procedures
- Audit action plans
- IT governance

Financial and performance management

- Proper record keeping
- Processing and reconciling controls
- Regular reporting
- Compliance monitoring
- IT system controls

Governance

- Risk management
- Internal audit
- Audit committee

Good | Of concern | Intervention required

P.J
KTD

OVERALL MESSAGE

6. The overall audit outcome of South African Airways SOC Ltd regressed from a financially unqualified report with no findings to a qualified audit opinion. The SAA was audited by the AGSA for the first time. The draft financial statements submitted for audit contained a number of significant misstatements that led to audit findings. Significant findings were also raised in areas such as supply chain management, compliance with legislation and the annual performance report. This is a result of significant internal control weaknesses, an ineffective IT control environment, key officials lacking appropriate competences, inadequate policies and procedures, a lack of proper record keeping and instability and vacancies in key positions within the SAA. The key officials lack appropriate competencies in areas that included the International Financial Reporting Standards (IFRS), Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), Supply Chain management (SCM) legislation, public sector reporting and, reporting performance information. The succession plan was also inadequate; as some senior employees in the finance division are close to retirement, this will result in a loss of institutional memory. The SAA should capacitate its finance function with appropriately skilled employees and should train them on public sector legislation and IFRS reporting.

7. The vacancies on the executive committee (EXCO) contributed to the weak control environment at the SAA. In the year under review, approximately 40% of the key positions in EXCO were filled in an acting capacity. This included the position of the chief executive officer (CEO), chief financial officer (CFO), chief commercial officer (CCO), chief strategy officer (CSO) and head of human resources (GM:HR). The position of chief procurement officer (CPO) has also been occupied by a person in an acting capacity for more than a year. Although this position is not part of EXCO, it has a significant impact on decision making at EXCO. The CFO and CEO appointments been made, which will go a long way towards helping the SAA improve its internal control environment.

8. The board was appointed six months before the end of the financial year and was still new, with no aviation expert on the board in the year under review. There was also instability on the board, as some members of the board that were appointed in September 2016 were removed and new members appointed subsequent to year-end, effective from 3 November 2017. This may have a negative impact on oversight and continuity, especially in key sub-committees of the board such the audit and risk committee and the finance committee. The new appointments of to the board effective from 3 November 2017, included an aviation expert. This will result in improved oversight at the board level; however, the finance experience (chartered accountants) is still not adequate.

9. Compliance with applicable legislation is a challenge for the SAA, especially in the areas of SCM, prevention of irregular, fruitless and wasteful expenditure, the companies act (with specific reference to section 45: financial support to subsidiaries and 129: financial distress), and consequence management. The SAA incurred R125 922 818 (identified by management) in irregular expenditure as a result of non-compliance with the SCM policy. This is a significant increase from previous years. The completeness of irregular, fruitless and wasteful expenditure could not be determined resulting in a modification of the expenditures. Furthermore, due to a lack of proper record keeping, a limitation of scope was noted that requires further investigation by management. There were also significant delays and inefficiencies experienced in SCM due to poor record keeping. Some tenders/contracts awarded were not supported by supporting

p.5
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DD20-PS-0578

documentation. The SAA also incurred R40 424 244 (identified by management) in fruitless and wasteful expenditure. The instability of leadership in the Global Supply Management (GSM) unit contributed to the control weaknesses. The entity should ensure that the chief procurement officer position is filled by a person with the required skills and experience, should implement strict monitoring controls and should train staff on the SCM legislation. The entity should also update their SCM policy to address all matters of concerns as highlighted in our detailed audit findings. Compliance with applicable legislation should be reviewed and monitored. Internal audit staff should also be trained to ensure that they are able to identify and report non-compliance with applicable legislation, including SCM. The SAA should implement consequence management for staff members who fail to comply with applicable legislation. The SAA did not comply with section 45 of the Companies Act when providing financial assistance to its subsidiaries. The company also did not report the reasons to the affected parties for not adopting a resolution to file for business rescue while the company was in financial distress in terms of section 129 of the Companies Act.

10. The legal division of the SAA did not have the capacity to ensure that there is a signed contract for all contracts awarded. This resulted in the SAA using a letter of award instead of a contract with suppliers, which exposes the SAA to risks, especially in cases of disputes with suppliers or suppliers not delivering as expected. The company secretary's office also did not have the capacity to advise the board on non-compliance with legislation, which exposed the board and the SAA to a risk of not complying with legislation when making resolutions. This risk materialised when the board made a decision to provide financial assistance to subsidiaries, even though the SAA did not comply with section 45 of the Companies Act. There is also non-compliance with section 129 of the Companies Act, where the SAA incorrectly interpreted that they subsidiaries' executive authority; the minister is the subsidiaries' executive authority. Another example is when the board resolved in 2015 to set aside 30% of the contracts awarded to BBBEE companies, even though this decision was illegal in terms of the Preferential Procurement Policy Framework Act and National Treasury had advised them of this fact. This needs to be resolved by ensuring that key positions are capacitated with employees with appropriate skills and competencies.

11. There is slow response from management to addressing the audit findings raised and the information requested for audit was not submitted within the agreed timelines in most cases. This resulted limitation of scope in areas such as SCM and assets. Record keeping was inadequate at the SAA and officials were not properly trained to file the information in a manner that would allow easy access to information requested for the audit. A lack of accountability meant that it was not clear who was responsible for providing the requested information to the auditors. This is due to lack of documented policies and procedures to ensure clear roles and responsibilities for accountability.

12. Key officials responsible for the preparing financial statements lack appropriate skills and competencies. Significant findings arising from the draft financial statements indicated that the accounting standards were not properly applied when preparing financial statements. The same was true of the staff responsible for accounting for the assets of the SAA. The assets unit was not capacitated with appropriately qualified personnel who could deal with all the complex matters of accounting of the assets of the SAA. Critical judgements and assumptions in areas including maintenance reserves, provision for lease liabilities and voyager, were not adequately documented to enhance the user's understanding of the financial statements. Management should train the officials responsible for preparing financial statements and the finance

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department should be capacitated with qualified and experienced staff. The SAA has had losses over the last few years and, as a result, not a lot of attention was given to ensuring that the tax department was sufficiently capacitated and trained in aviation-specific issues. A significant number of findings were raised relating to the fringe benefits not identified or correctly levied; this is as a result of the limited involvement of the tax department in this area.

13. The financial health of the SAA is significant concern as the company cannot operate without the bailout and guarantees from the shareholder due to solvency and liquidity challenges. The entity had reported losses for the past five years and projects losses in the short to medium term. These losses erode the equity of the entity. At the end of the review period, the SAA had negative equity of R18 billion and the liabilities currently exceed assets. The rating agencies pointed to problems at South Africa's state-owned enterprises as one of the weakest points in the economy. The two latest SAA bailouts could result in yet another downgrade with the threat that a Moody's downgrade, can send the country into full junk status. The SAA should improve its governance by; appointing the right personnel with skills and competencies to turn the airline around. The board should closely monitor the implementation of the long term turn-around strategy (LTTS) to improve profitability, liability and cash management. The board, and the shareholder, should also resolve the subordination of the cash/loans advanced to subsidiaries (Air Chefs and SAA Technical) and should implement a capital structure to ensure the Air Chefs and SAA Technical are both a going concern and can operate in a sustainable manner.

14. The status of key controls indicates that intervention is required in the areas of leadership, financial and performance management, and governance. The lack of stability in leadership and human resource capacity were some of the main drivers for this assessment. Contributing factors included a lack of properly documented policies and procedures, the slow response to implementing action plans to address audit findings and a lack of consequences for poor performance and transgressions. Key vacancies should be filled with properly qualified personnel to ensure that internal controls are effectively implemented and monitored of internal controls. Internal audit staff should be trained to ensure that they are able to identify and report non-compliance with applicable legislation, including SCM. The root causes should be addressed to ensure clean administration. Leadership should also ensure that internal audit is taken seriously.

15. The quality of the annual performance report was poor. Significant audit findings were identified on the usefulness and reliability of performance indicators and targets. This was a result of the SAA not having a policy on performance information that clarified the standard operating procedures on performance reporting, as well as managements lack of understanding of the National Treasury's Framework for Managing Programme Performance Information (FMPPI) and poor record keeping. Another contributing factor was that the senior leadership did not oversee and monitor performance reporting. Controls should be implemented to create a control environment that supports useful and reliable reporting of performance information. Performance indicators and targets on the corporate plan, shareholder's compact and annual performance report should be adequately reviewed by leadership to ensure compliance with the FMPPI before approval and submission for audit. Internal audit should pay particular attention to reviews of the quarterly performance reports. This is also an area where the audit and risk committee should enhance its oversight on.

16. The assurance provided by management should be improved by taking immediate action to address the AGSA's findings and recommendations. The level of assurance provided by the

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accounting authority, internal audit and audit committees should be improved by ensuring that the oversight of financial and performance reporting, compliance with key applicable legislation and consequence management for transgressions is more effective.

17. Effective IT governance underpins the overall well-being of an organisation's IT function and ensures that the IT control environment functions well and enables service delivery. According to good corporate governance (King III) and IT governance (COBIT) practices, it is the responsibility of the board to set the direction of IT governance, approve policies that articulates its set direction, delegate to management the responsibility of implementing effective IT management and oversee of information management. Within the SAA group, the Audit and Risk Committee (ARC), body that oversee for IT governance. While the ARC mandated implementation of IT governance, the absence of a technical IT representative within the ARC inhibit its capability to providing effective direction and oversight with relation to IT governance. Moreover, this had an impact on the ARC's ability to effectively ensure that IT governance reporting from the office of the Chief Information Officer(CIO's)was complete and considered the technical nature and complexity of IT within the SAA group. As such, the ARC'S oversight responsibility is at risk of being limited to ensuring adherence to IT internal controls, IT risks, and IT outcomes.

18. The entity did not have a coherent IT governance framework that would allow for effective aligning of IT processes, projects and structures to enable and support business. This led to a number of significant findings in the IT control environment within the SAA group. These findings related to inadequate management of the security of IT infrastructure and applications, inadequate administration and management of users and program changes on key business critical application systems as well as significantly limited IT disaster recovery processes that would not yield an effective recovery in the event of a disaster. Furthermore, key application systems were underused, which resulted in systems redundancy and users using manual processes for tasks that had already been automated onto procured systems.

19. The lack of maturity of the risk management processes within the organisation was identified as a contributing factor to the many deficiencies identified during the audit process. The team identified the Internal Audit Function as the owner, author and custodian of the Fraud Prevention Plan. The Internal Audit Function should be providing independent assessments and assurance of the effective implementation of the plan. In addition, the team attended the risk workshop with the board, which concluded that risk management at the SAA is still immature and can only be effective when the instability in leadership is resolved. The audit team identified policies that were not updated and for some processes there were no policies. The decision making process within the organisation, which is in line with the approved delegation of authority, was identified as being suboptimal. The lengthy turnaround time for decisions to receive the correct approval meant that by that time a decision was approved, the risk had already materialised.

20. The maintenance reserves and provision for lease liabilities were maintained in one excel spreadsheet, and managed and understood by one official. Therefore, the segregation of duties was not adequate. There were material differences identified between the financial statements and the calculation for both the maintenance reserves and provision for lease liabilities which led to material misstatements. This was a result of the ineffective communication between the assets and the finance unit's responsible for preparing the annual financial statements (AFS). Changes made to the calculation were not reflected in the AFS submitted for audit.

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21. There is no evidence of adequate review processes to ensure that this maintenance reserves balance is calculated and disclosed in line with the requirements of the applicable financial reporting framework.

22. The automation of these calculations should be considered to avoid significant human intervention that result in errors. The tax department is not sufficiently capacitated for such a big organisation, The SAA's losses have diverted attention from the tax department, where it is needed.

KEY INSIGHTS ON AUDIT REPORT MODIFICATION AREAS

23. The audit opinion of SAA has been modified in the current year, in this section of this report we have detailed key insights on the areas which have led to the modification. These insights are aimed at providing management and those charged with governance a view and the extent of effort which is expected in the next audit cycle to improve the audit outcomes. This will be achieved by the entity through improving the internal control environment and daily disciplines of clean administration.

Property, aircraft and equipment

24. The property aircraft and equipment has been modified as a result of a number of material audit findings raised in this line item in the annual financial statements. The findings pointed to the inadequate staffing in the asset management unit of the entity. The officials who are charged with maintaining the fixed asset register are not suitably skilled and qualified to apply the requirements of the applicable financial reporting framework (IFRS) on the asset portfolio of the entity.

25. The asset management unit is under staffed; as a result basic disciplines such as physical verifications and conditional assessment of the assets are not performed periodically to ensure that the assets are accounted for in accordance with the applicable financial reporting framework (IFRS). This has led to lack of assessment of residual values and useful lives; as a result some assets reached zero book values while still in use indicating that the current net book value as reported in the annual financial statements is not a true reflection of the economic benefits which the entity is currently deriving from the use of its assets. This may further weaken the balance sheet of the entity as depreciation may have been accelerated in profit and loss resulting in increased losses being incurred over the past years.

26. There is an inadequate governance framework and service level agreement between South African Airways Technical SOC Ltd (SAAT) and SAA to govern the management of the major spare parts (A class rotables) which are kept at SAAT for the maintenance of SAA aircrafts. There is also inadequate record keeping controls on the movement of these parts as they get installed on the aircrafts.

27. The accounting system used by SAAT to maintain these spare parts during the year under review is outdated (MEMIS). A new system (AMOS) became live on 01 April 2017 and the unreliable data from the old system was migrated to the new system. These spare parts could not be uniquely identifiable (other than engines that have serial numbers) in the accounting system (SAP) used by SAA for financial reporting purposes. The MEMIS and AMOS systems are inventory systems are and not configured like an asset register to ensure that depreciation rates and residual values are managed. A separate asset register is maintained by SAA on SAP

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and there is no automated interface between the two systems. Therefore the reconciliation between the two accounting system is manual and resulted in differences on a quarterly basis and the reconciling items are not adequately investigated. Journals are processed on the SAA accounting system to make the two accounting systems reconcile without supporting evidence. A detailed governance frame working needs to be implemented between SAA and SAAT that sets out the management of spare parts as well as the reporting requirements, and adjustments protocols to the systems to be followed when they are needed.

28. Some of the smaller items that make up the major spare parts (this excludes engines as they have serial numbers) could not be physically verified and we could not confirm whether these major spare parts are correctly classified as property, aircraft and equipment. This is due to these parts recorded as pools in the accounting system of SAA and there was no detailed break-down of these spare parts on the SAA accounting system. Management should perform a detailed analysis of these spare parts to ensure that the asset register is credible and are properly classified.

29. Valuation of some rotables could not be confirmed as we experienced material limitation of scope on the supporting invoices for these assets that SAA is supposed to retain that support the values disclosed in their accounting records.

30. There were material inconsistencies between the accounting policies on the capitalisation of major and minor maintenance which is being performed on the aircrafts owned by SAA.

Maintenance costs

31. The maintenance costs were modified due to the findings which were not individually material but material when aggregated within the maintenance component. The recording process of the maintenance expenses at SAA is not adequate and the staff responsible for recording the maintenance costs did not always ensure that the requirements of the financial reporting framework are adhered to when recording these expenses. As a result expenses were recorded when paid rather than when the expenses were incurred. Some expenses were translated at incorrect exchange rate and other expenses were recognised as an expense when paid in advanced and the service not received by SAA.

32. When audit findings were raised regarding the matters above management could not adequately revise the populations for the maintenance costs to ensure that no errors still remain in the revised populations. There was no adequate review on the work done by the fleet accountant. The work performed by fleet accountant should be subjected to the review of the Divisional controller: fleet.

    The accounting policy which has been adopted by SAA regarding maintenance cost accounting was not in line with the requirements of IFRS as prepayments were recognised as expenditure and expense for the provision for C-Check (major maintenance) was not recognised in profit or loss. This matter was not adequately resolved on the audit findings raised as errors were still identified in the corrected populations of maintenance costs.

Inventory

33. Sufficient internal controls and processes where not developed and implemented by the SAAT to ensure a proper implementation of the AMOS system and that all entity data regarding inventories is transferred and accounted for appropriately. Management further did not ensure

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that the entity has adequate processes in place to ensure that assumptions used in valuing inventory are adequately substantiated.

Irregular, fruitless and wasteful expenditure

34. Irregular expenditure incurred by SAA and identified by the auditors is predominantly as a result of irregularities and/or non-compliance with SCM policy of the entity, the PFMA and the PPPFA. There is a weak control environment around the procurement of goods and services, and this is caused by the lack of skills and competencies in key officials in the supply chain management unit. The SCM policy also had significant deficiencies which were not be identified and corrected by the SCM unit. This confirmed the lack competencies to understand and identify shortcomings in the SCM policy.

35. There is no proper record keeping system in place, as a result tender files could not be provided by management for audit, resulting in a limitation of scope on irregular expenditure. We were unable to determine whether the SCM process was followed or not on the tender files which were not submitted, furthermore this increased the risk of fraud in the procurement processes due to records not properly safeguarded so that they are available for audit.

36. The credibility of the contract register is questionable and is evidenced by the findings raised on the register which contained inconsistencies and some of the risks identified such as: a) a risk that monitoring of the contracts will not take place resulting in errors and non-compliance with the SCM policy; b) a risk that payments will be made for contracts that have expired resulting in irregular expenditure; c) a risk that the contract register will not track payments in excess of the contract value resulting in irregular expenditure and d) a risk of exceeding the budget due to a lack monitoring of contracts with no contract values to name a few.

37. Furthermore, we noted that there is an inadequate review by management when evaluating contracts to ensure that the scores are calculated and allocated correctly and this is mainly due to capacity issues in the procurement division. There is poor planning that was identified through the audit process within the SCM unit as most of the deviations/confinements were not duly justified and the reasons given were not reasonable. Rigorous reviews need to be performed by management to ensure that bid evaluation calculation is correct.

38. We identified that measures to monitor contract performance and delivery have not been defined and implemented as evidenced by the possible overpayments made which may result in irregular, fruitless and wasteful expenditure due the weak control environment. SAA needs to activate the function to block payments on the SAP system to prevent payment in excess of the contract value authorised by legal and SCM unit.

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SECTION 1: Interactions with stakeholders responsible for oversight and governance

39. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome of the public entity:

Key stakeholder	Purpose of interaction	Number of interactions
Minister of Finance/National Treasury	The engagement with the minister regarding the audit methodology and significant risks identified at SAA which will form a key part of the audit.	5
Accounting authority – chairperson of the board	Introduce the audit team to the chairperson of the board and to give an update regarding the progress of the audit.	3
Accounting authority – deputy chairperson of the board	Update on the audit progress.	2 (excluding audit committee updates)
Audit and risk committee	• Introduction as new auditors. • Engaging the committee on the audit methodology and approach followed by the AGSA. • Presenting the audit strategy for the 2016/17 PFMA audit. • Presenting the interim management report for SAA. • Updates on the audit progress.	10
Chairperson of audit and risk committee	• Introduction as new auditors. • Engaging the committee on the audit methodology and approach followed by the AGSA. • Presenting the audit strategy for the 2016/17 PFMA audit. • Updates on the audit progress.	5
Acting Chief Executive Officer	• Introduction to the audit team and presenting the audit strategy for discussion • Audit progress meetings	5
Chief Executive Officer	• Introduction to the audit team and presenting • the anticipated audit outcomes • Audit progress meetings • Management Report • Audit Report	2

40. At these interactions, we highlighted the following key matters affecting audit outcomes and the auditee:

- Material limitations that were experienced by the auditors in areas of SCM and assets,
- Matters relating to the going concern and cash-flow constraints of SAA,
- Information and Communication Technology (ICT) audit findings,
- Material findings identified during the course of the audit,

41. A meeting to discuss the management report and audit report was held with the CFO, CEO, Chairperson of audit and risk committee, deputy chairperson of the board and chairperson of the board on 27 November 2017. At these meetings, commitments were made to improve the control environment and audit outcomes.

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SECTION 2: Matters relating to the auditor's report

2.1 AUDIT OF THE FINANCIAL STATEMENTS

42. We identified material misstatements in the consolidated financial statements during the audit. These misstatements were not prevented or detected by the public entity's system of internal control. These material misstatements also constitute non-compliance with 55(1) of the Public Finance Management Act (PFMA).

The misstatements that were not corrected form the basis for the qualified opinion on the financial statements.

Finding no.	Finding	Occurred in prior year (Yes\No)	Impact R current year	Impact R prior year
FINANCIAL STATEMENT RELATED FINDINGS UNCORRECTED				
	Property, plant and equipment			
	Existence of Property, aircraft and equipment could not be confirmed	Yes	758 156 945.53	758 156 945.53
	Discrepancies identified between SAP and MEMIS system relating to A class rotables	Yes	983 295 210.00	983 295 210.00
	Useful lives and residual values of property, aircraft and equipment not appropriately assessed in terms of IAS 16	Yes	Limitation	Limitation
	Impairment loss calculation not properly supported by assumptions and data used not adequately justified, affecting the accuracy of the calculation	Yes	Limitation	Limitation
	Maintenance costs	No		
	Provision for C-check not recognised in the annual financial statements	Yes	135 614 416	224 424 832
	Power- By- The- Hour (PBTH) C-check portion incorrectly recognised as an expense when paid	Yes	146 222 539	150 738 870
	Power- by- the hour (PBTH) transactions paid to South African Airways Technical (SAAT) incorrectly invoiced	No	8 216 426	
	Expenses not recorded in the financial year ending 2016/17	Yes	233 898 960	198 536 312
	Foreign currency transactions incorrectly translated at spot rate for the maintenance costs not in line with the adopted accounting policy	No	16 808 476	
	Irregular, Fruitless and Wasteful Expenditure			
Various	Irregular, fruitless and wasteful expenditure identified during the audit	Yes	Quantitatively and qualitatively material	Quantitatively and qualitatively material

Finding no.	Finding	Occurred in prior year (Yes\No)	Impact R current year	Impact R prior year
	Aggregation of immaterial uncorrected misstatements			
Various	Total liabilities	No	281 003 445	
FINANCIAL STATEMENT RELATED FINDINGS CORRECTED				
	Maintenance reserves			
	Differences between the Maintenance reserves calculation and the AFS submitted for audit	No	1 271 852 556	
	Provision for lease liabilities			
	Differences between the provision for lease liabilities calculation and the AFS submitted for audit	No	395 687 534	
	Investments in subsidiaries			
	Impairment of the investments in subsidiaries.	No	566 845 984	
	Property, plant and equipment			
	Impairment loss calculation not properly supported by assumptions and data used not adequately justified, affecting the accuracy of the calculation	No	200 000 000	
	Income tax and differed tax			
	Income tax note and differed tax note not updated with the material changes to the AFS	No	1 018 000 000	

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2.2 MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Emphasis of matter paragraphs

43. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

2.2.1 Restatement of corresponding figures

44. As disclosed in note 5 to the consolidated and separate financial statements, the corresponding figures for 31 March 2016 have been restated as a result of numerous errors in the consolidated and separate financial statements of the SAA group at, and for the year ended, 31 March 2017.

2.2.2 Material uncertainty relating to going concern

45. I draw attention to note 50 to the separate and consolidated financial statements, which indicates that the SAA group incurred a net loss of R5,569 billion (2015-16: R1,478 billion) during the year ended 31 March 2017 and, as of that date the SAA group's liabilities exceeded its total assets by R17,801 billion (2015-16: R12,363 billion). As stated in note 50, six consecutive years of operating losses have further eroded the capital base and this continues to impact on the entity's ability to operate in a highly demanding and competitive environment. The government has made guarantees available and, subsequent to yearend, as disclosed in note 49, recapitalisation funds to the extent of R10 billion for utilisation by SAA. This is in line with the long term turnaround strategy that the group has adopted to regain its solvency and self-sustainability. The history of losses, lack of capital and volatility in foreign exchange rates, along with maturing loans and working capital deficiencies, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. My opinion is not modified in respect of this matter.

2.2.3 Contingent liabilities

46. With reference to note 39 to the consolidated and separate financial statements, SAA is appealing certain judgements. The ultimate outcome of the matters cannot presently be determined and the uncertain part of the litigation claim has been disclosed in the consolidated and separate financial statements.

Other matter paragraphs

47. The following other matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

2.2.4 Business rescue proceedings

48. SAA did not report the reasons to the affected parties for not adopting a resolution to file for business rescue while the company was in financial distress, as required by section 129(7) of the Companies Act.

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2.2.5 Previous year audited by a predecessor auditor

49. The financial statements of the previous year were audited by a predecessor auditor in terms of *section 4(3) of the Public Audit Act* and were concluded on 30 September 2016. An unqualified audit opinion was expressed.

2.2.6 Unaudited supplementary schedules

50. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this / these schedule(s) and, accordingly, I do not express an opinion thereon.

2.3 AUDIT OF THE ANNUAL PERFORMANCE REPORT

51. In terms of the AG directive the conclusion on the audit of reported information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor's report. We will report all the audit findings included under the basis for conclusion and the other matter sections of this report in the auditor's report.

2.3.1 Introduction and scope

52. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2017.

Objectives	Pages in annual performance report	Opinion
Objective 1 - Support national development agenda	x – x	Disclaimer of opinion
Objective 2 - Achieve and maintain financial sustainability	x – x	Adverse opinion
Objective 3 - Provide excellent customer service	x – x	Qualified opinion
Objective 4 - Achieve consistent, efficient and effective operations	x – x	Qualified opinion
Objective 5 - Foster performance excellence	x – x	Qualified opinion

53. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000: *Assurance engagements other than audits or reviews of historical financial information.*

54. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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2.3.2 Objective 1 – Support national development agenda

Disclaimer of opinion

55. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the reported performance information of Objective 1 - Support national development agenda.

Basis for disclaimer of opinion

Various indicators

56. When the indicators listed below were planned, it was not determined how the achievements would be measured and monitored as the source information and method of calculation of the achievements was not predetermined, as required by the Framework for managing programme performance information (FMPPI). Due to the lack of technical indicator descriptions that could clearly define the source information and method of calculation, I was unable to obtain sufficient appropriate audit evidence to verify the reliability of the reported achievements. I was unable to confirm whether the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Indicator	Strategic objective	Reported achievement
% Procurement spend locally	Support national development agenda	82%
% B-BBEE spend as a % of local eligible spend	Support national development agenda	95%

2.3.3 Objective 2 – Achieve and maintain financial sustainability

Adverse opinion

57. In our opinion, because of the significance of the matters described in the basis for adverse opinion section of our report, the reported performance information for Objective 2 – Achieve and maintain financial sustainability is not useful and reliable in accordance with the applicable criteria as highlighted in annexure D of this report.

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Basis for adverse opinion

Various indicators

58. When the indicators listed below were planned, it was not determined how the achievement will be measured and monitored as source information and evidence and method of calculation of achievements was not predetermined, as required by the *FMPPI*.

Indicator	Strategic objective
Operating cash flow	Achieve and maintain financial sustainability
CASK	Achieve and maintain financial sustainability
RASK	Achieve and maintain financial sustainability

Indicator: Net profit

59. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of Net profit (R5 439 mil). This was due to limitations placed on the scope of my work during the audit of Property, Aircraft and Equipment as I was unable to determine the correct net carrying amount of property, aircraft and equipment and depreciation and amortisation. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of (R5 439mil).

Indicator: Refinement of the LTTS

60. The indicator: Refinement of the LTTS and target of 90% was removed in the annual performance report while the indicator and target was approved and part of this financial years' shareholders compact. This is not in line with the requirements of treasury regulation 28.2.2.

61. We were unable to obtain sufficient appropriate audit evidence for the reported achievement of refinement of the LTTS and target of 95%. This was due to a lack of proper performance management systems and processes, formal standard operating procedures and documented system descriptions that predetermined how the achievements will be measured, monitored and reported, as required by the *FMPPI*. We were unable to confirm that the reported achievement of this indicator is reliable by alternative means. Consequently we were unable to determine whether any adjustments are required to the reported achievement of 100%.

2.3.4 Objective 3 – Provide excellent customer service

Qualified opinion

62. In our opinion, except for the possible effects of the matters described in the basis for qualified opinion section of our report, the reported performance information for Objective 3 - Provide excellent customer service is useful and reliable in accordance with the applicable criteria as highlighted in annexure D of this report

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Basis for qualified opinion

Indicator: Net promoter score

63. When the indicators were planned it was not determined how the achievements will be measured and monitored as source information and method of calculation of achievements was not predetermined, as required by the *FMPPI.*

64. In addition, the entity did not have an adequate performance management system to maintain records to enable reliable reporting on achievement of targets, as required by the *FMPPI.* Sufficient appropriate audit evidence could not be provided in some instances while in other cases the evidence provided did not agree to the recorded achievements. We were also unable to determine whether any further adjustments are required as we could not confirm it by alternative means.

65. The planned target was changed to 60 and reported achievement 29 without the necessary approval as required by treasury regulation 29.1.1. The planned target was 60%.

2.3.5 Objective 4 – Achieve consistent, efficient and effective operations

Qualified opinion

66. In our opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the reported performance information for Objective 4- Achieve consistent, efficient and effective operations is useful and reliable, in all material respects, in accordance with the applicable criteria as highlighted in annexure D of this report

Basis for qualified opinion

Indicator: Safety record

67. We were unable to obtain sufficient appropriate audit evidence for the reported achievement of target 100%. This was due to a lack of technical indicator descriptions and proper performance management systems and processes that predetermined how the achievement would be measured, monitored and reported, as required by the Framework for managing programme performance information. We were unable to confirm that the reported achievement of this indicator was reliable by alternative means. Consequently, We were unable to determine whether any adjustments were required to the reported achievement of 100%.

Indicator: Audit findings (No repeat material findings)

68. We were unable to obtain sufficient appropriate audit evidence for the reported achievement of Audit findings and target of 95%. This was due to a lack of proper performance management systems and processes and formal standard operating procedures or documented systems descriptions that predetermined how the achievements will be measured, monitored and reported, as required by the *FMPPI.* We were unable to confirm that the reported achievement of this indicator is reliable by alternative means. Consequently we were unable to determine whether any adjustments are required to the reported achievement of 8 findings.

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69. The indicator and target was reported for internal audit findings resolved – target 8, while the indicator and target was approved as for external audit findings resolved - target 95% in the Shareholders Compact. This is not in line with the requirements of *Treasury Regulation 28.2.2.*

2.3.6 Objective 5 – Foster performance excellence

Qualified opinion

70. In our opinion, except for the possible effects of the matter(s) described in the basis for qualified opinion paragraph(s), the reported performance information of Objective 5 - Foster performance excellence is useful and reliable, in all material respects, in accordance with the applicable criteria as highlighted in annexure D of this report

Basis for qualified opinion

Indicator: Management stability %

71. When the indicators were planned it was not determined how the achievements will be measured and monitored as source information and evidence and method of calculation of achievements was not predetermined, as required by the *FMPPI.*

Indicator: Compliance to performance management

72. The entity did not have an adequate performance management system to maintain records to enable reliable reporting on achievement of targets, as required by the *FMPPI*. Sufficient appropriate audit evidence could not be provided in some instances while in other cases the evidence provided did not agree to the recorded achievements. This resulted in a misstatement of the target achievements reported as from the evidence provided a projected misstatement rate of 41% for compliance to performance management established.

2.3.7 Other matter paragraph

73. We draw attention to the matter below. Our opinion is not modified in respect of this matter.

Achievement of planned targets

74. Refer to the annual performance report on [page(s) x to x; x to x] for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified, adverse and disclaimer of opinions expressed on the usefulness and reliability of the reported performance information in paragraph(s) [x; x; x] of this report.

2.3.8 Responsibilities of the party responsible for the reported performance information

75. The accounting authority is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework, as set out in Annexure D of this report and for such internal control as the accounting authority determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

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2.3.9 Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information

76. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected objectives presented in the annual performance report is free from material misstatement, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.

77. Our procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance. Accordingly, our opinion does not extend to these matters.

78. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in Annexure E of this report.

2.4 AUDIT OF COMPLIANCE WITH LEGISLATION

79. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA:

2.4.1 Annual financial statements, performance and annual report

80. Financial statements were not submitted for auditing within two months after the end of financial year, as required by *section 55(1) (c) (i) of the PFMA.*

81. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1) (a) and (b) of the PFMA and section 29(1)(a) of the Companies Act. Material misstatements of non-current assets, current assets, liabilities and disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

2.4.2 Strategic planning and performance management

82. Procedures for quarterly reporting to the National Treasury and for facilitation of effective performance monitoring, evaluation and corrective action were not established, as required by *treasury regulation 29.3.1.*

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2.4.3 Expenditure management

83. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by *section 51(1) (b) (ii) of the PFMA*. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for qualification paragraph.

84. Effective steps were not taken to prevent irregular expenditure, as required by *section 51(1) (b) (ii) of the PFMA*. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph.

2.4.4 Asset management

85. Proper control systems to safeguard and maintain assets were not implemented, as required by *sections 50(1) (a) and 51(1) (c) of the PFMA*.

86. The company provided financial assistance to related companies without considering the solvency and liquidity of the company, in contravention of *section 45 of the Companies Act*.

2.4.5 Procurement and contract management

87. We were unable to obtain sufficient appropriate audit evidence that some of the contracts were awarded as per legislation due to a lack of proper record keeping.

88. Some goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by *section 51(1) (a) (iii) of the PFMA*.

89. Contracts and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by *paragraph 14 of the Preferential Procurement Regulations* and paragraph 21 of the entity's SCM policy.

90. The preferential point system was not applied in some procurement of goods and services above R30 000, as required by *section 2(a) of the Preferential Procurement Policy Framework Act*.

91. Some contracts were awarded to and quotations accepted from bidders based on preferential points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

92. Some contracts were awarded to and quotations accepted from bidders that had not scored the highest points in the evaluation process, as required by section 2(1) (f) of Preferential Procurement Policy Framework Act and Preferential procurement regulations.

93. Some contracts were awarded to and quotations accepted from bidders based on functionality criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of Preferential Procurement Regulation 4.

2.4.6 Consequence management

94. We were unable to obtain sufficient appropriate audit evidence that irregular expenditure was investigated and that disciplinary steps were taken against officials who had incurred and permitted irregular expenditure as required by *section 51 (1)(e)(iii) of the PFMA*.

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95. We were unable to obtain sufficient appropriate audit evidence that fruitless and wasteful expenditure was investigated and that disciplinary steps were taken against officials who had incurred and permitted fruitless and wasteful expenditure as required by *section 51 (1)(e)(iii) of the PFMA*.

2.5 OTHER INFORMATION

96. SAA and its subsidiaries' accounting authority are responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

97. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

98. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information we are required to report that fact.

2.6 INTERNAL CONTROL

99. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph 5, is described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in Annexure F.

2.6.1 Leadership

Oversight responsibility

- The accounting authority did not exercise adequate oversight on interim reports, the financial statements and the annual performance report before submitting them for audit. We identified material misstatements to the financial statements and annual performance report submitted for audit. This is due to lack of the related competencies on the part of the leadership in ensuring that financial statements submitted for audit were in compliance with all the relevant standards of *International Financial Reporting Standards (IFRS)* and a performance management system was in place to ensure reported performance information is supported by accurate, complete and valid evidence as per the requirements of the *FMPPI*.

- SAA leadership did not exercise oversight responsibility regarding financial reporting, compliance and related internal controls to ensure that compliance requirements are met in order to prevent

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irregular and fruitless and wasteful expenditure because of insufficient understanding of SCM laws and regulations and formulating a compliance driven internal control environment.

- The entity's leadership did not exercise oversight responsibility in ensuring that SAA complies with *section 45 of the Companies Act* before financial assistance is granted to subsidiaries. The recommendation to the board to consider approving financial assistance to subsidiary was made by the audit committee without consideration of the required solvency and liquidity tests. In addition, the leadership did not ensure that s129 of the Companies Act is complied with by informing relevant stakeholders while the entity was in financial distress during the year end under review. This is an indication of a lack of appreciation and understanding of the requirements of the Companies Act.

- The public entity did not have sufficient monitoring controls to ensure the proper implementation of the overall process of performance management systems and processes. There were no internal documented procedures that guide management on facilitation of effective performance monitoring, evaluation and corrective action. This is due to leadership lacking in understanding and competence required in ensuring adherence to the requirements of the *FMPPI*.

Effective leadership culture

- The accounting authority approved the provision that 30% be set aside to B-BBEE suppliers which were considered to be contrary to legislation and resulted in the entity not following transparent SCM processes. This was done even though National Treasury wrote to the accounting authority and highlighting this is illegal. This questions the ethical business practices and good governance of the accounting authority in place at that time.

Human resource management

Management of vacancies

- The following five key senior management positions were vacant for more than 12 months during the financial period under review, these roles are critical for ensuring that the control environment is strong and that the strategic plan is implemented:
    - Chief Executive Officer
    - Chief Financial Officer
    - Chief Commercial Officer
    - Chief Procurement Officer
    - Chief Strategy Officer

- The contributing factor to this was the instability in the board and instability in executive directors. The working relationship between the accounting authority and previous shareholder also had an impact on filling executive positions. As a result of the above the increasing vacancy rate at senior management level (which includes executive management) of 16.7% has not yet been addressed. Subsequent to year end the CEO of SAA, CFO and the chief restructuring officer (a new position created) has been appointed. However there have been more resignations after year end at the EXCO level namely the head of legal, risk and compliance and the chief information officer. The previous CPO has been relieved from his acting position, contributing to more instability. The current vacancy rate is about 57%.

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Appointment processes

- The deficiencies noted below mainly attribute to the areas where protection of personal information legislation is required for example, in the UK. Instances where management has not updated the policies and implement alternative record keeping measures that allows for verification and confirmation that procedures are being followed:
    - Appointments were made in posts that did not form part of the entity's approved organisational structure.
    - New appointees to various vacancies did not have the required qualifications and experience for the positions.
    - The prescribed selection and approval processes were not followed for some appointments.
    - The verification process for new appointments did not always take place and did not cover criminal record checks, qualification verifications and reference checks.

Competencies of key officials

- There is a lack of appropriate skills and competencies for the following departments which is mainly as a result of inadequate training provided to staff members:
    - Global supply management
    - Finance department
    - Asset management department
    - Strategic, planning and monitoring department
- In addition to the lack of skills in the entity the leadership should ensure that the organisation is capacitated with staff that possesses the necessary skills and enhance efforts to identify the developments needs to capacitate employees with the required expertise.
- There are a number of senior staff members that are on the verge of retirement who possess substantial institutional knowledge. The leadership needs to take adequate action to ensure that succession plans cater for the specific units in the organisation that are affected.

Performance management

- There is no performance management system in place for employees other than senior managers. This is mainly as a result of there not being sufficient engagement with the bargaining councils to reach consensus on applying the individual monitoring mechanisms, as there has been instability in role resulting in the matter not being prioritised.
- Performance management is not enforced on senior management to ensure that performance agreements are signed timeously. Corrective measures are not implemented where performance management policies are not followed.

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Suspensions

- The duration of suspension processes remains unresolved for extended periods which contribute to instability in senior management and also further leads to the incurring of fruitless and wasteful expenditure.

Restrictions

- Restrictions were placed on the auditors to assess the following HR management matters:
    - London employees' qualification could not be verified due to the protection of information applicable in England.

Policies and procedures

- The company did not have documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes and events pertaining to performance management and reporting.

- Leadership did not have adequate documented policies and procedures to guide the operations of the company, resulting in numerous instances of non-compliance with the PFMA, as detailed under the findings on compliance with legislation section of this report. This pertains to findings identified in:
    - Supply Chain Management
    - Asset management
    - Indirect and direct taxes

- Due to lack of policies and procedures there is no effective oversight over the affairs of the outstations and there are no proper mechanisms to report effectively information from outstations to head office. There is a limited visibility of leadership at outstations and the lack of effective communication between outstations and head office creates a perception that outstations are not an integral part of the entity as whole. Furthermore, policies and procedure are not being tailored to the applicable circumstances at the outstations such as protection of personal information and labour practice requirements.

- The management of the outstation did not implement a consistent system or process in order to enable the entity to ensure that goods and services procured were received, due to the electronic SAP module not being activated at outstations.

- Leadership did not establish and communicate detailed policies and procedures around airfare pricing to enable and support the execution of internal control objectives, processes and responsibilities. Although the competitive environment in which SAA operates requires rapid response to market price adjustments; accountability needs to be assigned and individuals be held responsible through performance management mechanism.

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Information technology governance framework

Information technology governance was found to be inadequately designed and implemented due to the following key internal control deficiencies:

- In 2011 phase 1 of IT Governance framework implementation took place. During this phase the IT Governance Framework was defined (designed on paper) together with relevant committees. Over the year's business processes evolved and new committees were incorporated as a result, there was misalignment in the terms of reference (TORs). Lack of periodic review and formal socialization of the IT Governance Framework as part of good governance to ensure alignment and applicability. Due to SAA ITS resource constraints, IT governance socialisation, review and phase 2 implementation did not commence which resulted in IT Governance gaps being identified.

- The IT projects management portfolio office is recently established where the various project governance procedures are being developed.

- The evaluation, directing and monitoring of IT risk in the context of SAA is currently performed reactively against the Group Risk Framework due to the absence of an IT risk management framework that is approved and implemented. The current Group Risk Framework did not address the required IT risk context or appetite.

- As part of the initial IT governance implementation, alignment of the IT governance implementation to the Cobit processes as a best practice guide was not on the priority list due to resource constraints.

- The development and implementation of an Information Security Management System (ISMS) has been mandated and implementation has commenced, however SAA management and staff performance were not measured against compliance to security policies and ISMS practices due to the absence of a compliance monitoring processes and resources within SAA.

- No formal risk treatment plan has been implemented and will only be possible once information and technology assets and related business risks have been contextualised and classified. The following two root causes, underpin this:

    - IT security / cyber risk appetite have not been defined as the security management framework has not been defined due to the limited resources within information security.

    - Business criticality for information and technology assets have not been defined and classified due to the limited resources within information security which management is looking to source from the Popi implementation vendor.

- Minimal planning and consideration for compliance with the Information Security (PoPi Act) due to the following:

    - IT governance: There is a lack of granular level security standards (e.g. Unix-based minimum security and configuration standards, etc.) to govern the networked systems/ environment at SAA due to the limited resources within information security which management is looking to source from the Popi implementation vendor.

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- IT operation coordination: Lack of coordination between IT teams to adequately manage and classify all IT related infrastructure and the information hosted on the IT systems. In addition, IT currently operates at a level that is almost independent of business with limited integration between IT teams within the IT function.

- IT management accountability: The lack of accountability to adequate apply minimum security requirements stems directly from specific strategic IT security requirements missing from key performance indicators (KPIs) in higher level IT management. For example, there is no companywide patch management and vulnerability management KPI assigned to a single IT principal.

- IT risk management: IT risks have not been evaluated nor managed at the appropriate level to ensure that business accepts the risk. Weaker configurations are accepted at an operational level (e.g. use of weaker encryption on public facing websites to allow customers with older technology to access a payment portal).

- Limited progress towards achieving PoPI compliance: A compliance officer to drive PoPI compliance is still being sourced. The project is also sitting with the company secretariat whereas the expectation is that this would be sitting in the CIO's office.

- The ISGS/ISMS has not been implemented end-to-end within SAA, with a dedicated process for the monitoring, improvement and maintenance of the ISMS. Even though the IS manager has substantially improved components within the ISMS to date, the responsibility for ISMS improvement has not been formally assigned to all IT management staff and heads of departments due to the lack of a security management framework that has not been defined in the absence of adequate information security resources.

- IT is dependent on the legal and corporate compliance function, which has limited resources to ensure the complete identification of external requirements and laws and regulations applicable to SAA in relation to IT matters. As a result, the group compliance function prioritizes external requirements and laws that are considered high risk based on the two resources available which results in the IT compliance universe not being comprehensively and proactively identified.

- IT projects are initiated and managed based on outdated project management methodologies which were in use within SAA prior to the implementation of the IT portfolio and projects function. However, an updated project management methodology has been recently developed.

2.6.2 Financial and performance management

Proper record keeping

- The public entity did not have a proper record management system to maintain information and support the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information. This extended to supply chain management where there was no proper record keeping due to improper hand over processes being conducted when staff resigns. There remains a lack of accountability in terms of record keeping throughout these divisions.

- Financial statements were not submitted for auditing within two months after the end of financial year. Management did not proactively attend to matters that relate to material components and

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assumptions contained in the financial statements, including the going concern, to ensure compliance with the legislated deadlines.

- In terms of our engagement letter, we agreed that all information requested for audit purposes would be submitted within 3 working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested in the following instances:
    - Supply Chain Management – Average 68 days for the team to receive information requested.
    - Property, Plant and Equipment – Average 30 days for the team to receive information requested.
- Communication of findings with regards to the limitation of scope were issued in these same section mentioned above where management again extended submissions beyond the agreed response period.

Daily and monthly processing and reconciling of transactions

- There were a number of suspense accounts that were not reconciled and cleared timeously. The impact of these uncleared accounts resulted in misstatements of:
    - Cash and cash equivalents
    - Trade and other receivables
    - Other payables
    - Deferred revenue on ticket sales
    - Expenditure

  Some of the suspense accounts could not be cleared due to the delay from the SAA IT department to resolve the technical glitches of interfaces and SAPFI table maintenance. This exposure was also as a result of not being able to fill vacancy for one of the positions due to the moratorium in place.

- Management did not implement the following daily and monthly controls designed for the public entity's business processes:
    - Monthly bank reconciliations were not always prepared and/reviewed.
    - Asset Management –Supporting Schedules did not agree to AFS
- Overpayment resulted in fruitless and wasteful expenditure as invoices were duplicated when payment was made as a result of reconciliations performed only after payments were made.
- Franchise agreements and interline contracts are not timeously reviewed and approved, effectively collaborated between affected departments and continuously analysed. This is as a result of a breakdown in communication between the commercial and finance departments as well as the instability experienced at executive management level.

Regular, accurate and complete financial and performance reports

- As indicated in section 2.1, the financial statements contained numerous misstatements that were corrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.

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- The annual performance report contained numerous misstatements that were corrected. This was mainly due to staff not fully understanding the performance information requirements.

- Management did not prepare accurate financial disclosures in the financial statements relating to irregular, fruitless and wasteful expenditure incurred. This did not ensure that the disclosure note fairly presents the information relating to the company separately from that of the group due to a lack of understanding of the requirements of the financial reporting framework.

- Management did not ensure that the classification and allocation of the SAP general ledger accounts supports accurate disclosure in the AFS as no critical review of the nature of trail balance accounts were performed beforehand.

Compliance monitoring

- Those charged with governance and management did not monitor compliance with applicable laws and regulations. This is evidence by the fact that financial assistance was provided to subsidiaries without the required assessment of the liquidity and solvency test of the entity being performed and the test not being satisfied by the entity in terms of section 45 of the companies Act. In addition, SAA did also not report the reasons to the affected parties for not adopting a resolution to file for business rescue while the company was in financial distress, as required by section 129(7) of the Companies Act.

- Management did not ensure that the SCM policy, PPPFA and PFMA requirements are adhered to due to poor planning, lack of capacity, and reviews of evaluation sheets when undertaking the procurement of goods and services.

Information technology systems

- IT controls pertaining to security management, facilities and environmental controls, service continuity, user access management and change control were not effectively designed and implemented due to the following key internal control deficiencies:

    - Inadequacy in the IT DRP and the lack of an offsite recovery facility was attributed to the incorrect interpretation of a fall over plan as a disaster recovery plan and the absence of an overarching business continuity strategy that defines clear recovery processes, including IT systems.

    - The absence of detailed procedure/baseline documents for the various SAP functions that ensure that critical generic accounts are defined and referenced to the security policies.

    - Inadequate review, approval, implementation and monitoring of compliance to security/user access management policies/procedures by business owners and IT management.

    - Inadequate alignment of the SAP change management procedures/standards to approved organizational change management policies.

    - Unauthorised changes are not being monitored by management due to limited system functionality in logging system changes on non-SAP applications.

    - Inadequate implementation of access management controls into data centres due to the use of legacy systems with limited functionalities to granting access into data centre facilities.

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2.6.3 Governance

Risk management

- Although a risk assessment framework is in place, management does not adequately monitor and report on progress of controls implemented, or respond to new risks that may arise. Therefore the risk management process of the entity is not considered to be adequate or effective.

Internal audit

- Leadership did not act on a timely basis on the internal audit units recommendations or reports, thus negatively affecting its effectiveness as an assurance provider to the leadership of the entity.

- Timeframes in place for the preparation and internal review of the financial statements are not adequate as no reviews were performed on the draft financial statements by the internal audit unit due to time constraints and capacity.
- The internal audit unit is not adequately capacitated with staff with the appropriate mix of skills and competencies to identify all the internal control weaknesses of the company and provide recommendations in complex areas such as SCM, performance information, IT and assets. These areas involve significant judgement and need adequately skilled and trained internal audit unit as they are critical to the performance of the entity.

2.6.4 Summary

- The matters above, as they relate to the basis for the qualified opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:

Leadership

- The entity experienced instability in leadership as a result of a number of suspensions and resignations in key leadership positions. Instability in leadership has contributed to the overall decline in the internal control environment.

- The Audit and Risk Committee (ARC) mandated the implementation of IT Governance as per good corporate governance (King). However, the absence of a technical IT representative within the ARC as an oversight body of IT Governance inhibits the ARCs capability in providing effective direction and oversight. As a result, the IT governance framework was not formally communicated nor reviewed and updated with the evolved business processes by IT management. This resulted in a number of key IT governance initiatives (outputs of the IT governance framework) not being performed.

- The leadership did not implement effective human resource management to ensure that sufficiently skilled resources are in place and individuals are held accountable for non-performance.

- The leadership of the SAA did not adequately establish policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

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- The lack of decisive action to mitigate emerging risks and implement timely corrective measures to address non-performance was evidenced by the failure of management to adequately address audit findings in a timely manner.

Financial and performance management

- The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.
- Regular reconciliations were not always adequately prepared for financial items during the year. This resulted in the entity being required to rely on manual reconciliations at year-end. Due to the volume of manual reconciliation required, assurance processes were not implemented in time to ensure that information is accurate and complete. As a result, a number of errors were identified in the reconciliations by the external auditors.
- Effective financial systems of internal controls and the management thereof had not been implemented to ensure accurate financial statements. The preparation and review of the financial statements is not adequate planned, to ensure a comprehensive review of year-end adjustments and reconciliation, resulting in errors.
- The quality of annual performance report was poor as significant audit findings were identified in usefulness and/or reliability of performance indicators and targets. This is as a result of SAA who does not have a policy on performance information clarifying standard operating procedures on performance reporting as well as the lack of understanding by management of National Treasury Framework for Managing Programme Performance Information (FMPPI) and poor record keeping. This is also due to the lack of oversight and monitoring of performance reporting by senior leadership at SAA.
- Controls have not been implemented to create a control environment that supports useful and reliable reporting of performance information.
- Performance indicators and targets on the corporate plan, shareholders compact and annual performance report were not adequately reviewed by leadership to ensure compliance with FMPPI before approval and submission for audit. The staff within the reporting units also does not fully understanding the performance information requirements as set out in the FMPPI.
- The asset management unit is under staffed; as a result, basic disciplines such as physical verifications and conditional assessment of the assets are not performed periodically to ensure that the assets are accounted for in accordance with the applicable financial reporting framework.
- Regular reconciliations between the accounting system SAP and MEMIS were not performed, mainly due to the spare parts not being uniquely identifiable in SAP and the asset staff not being sufficiently capitated to address the short comings. In addition to data from outdated MEMIS system does not assist the effective reporting of accounting purposes.
- As the majority of financial management controls are automated and monitoring takes place mostly on reports generated by the IT systems, good IT controls and skills are fundamental to enabling

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robust financial and performance management including in-year monitoring. The design and implementation of formal controls over information technology systems relating to security management, facilities and environmental controls, service continuity, user access management and change control were not adequate to ensure the reliability of the systems and the availability, accuracy and protection of information in delivering a seamless, efficient and effective service to SAA passengers.

Governance

- The leadership did not act on a timely basis on the internal audit unit's recommendations or reports, thus negatively affecting its effectiveness as an assurance provider to the leadership of the entity.
- Although a risk assessment framework was in place, management did not adequately monitor and report on the progress of controls implemented, or respond to new risks that may arise. Therefore, the entity's risk management processes were not considered adequate or effective.

2.7 OTHER REPORTS

100. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the public entity's financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of our opinion on the financial statements or our findings on the reported performance information or compliance with legislation.

No	Name of firm	Name of report
1	Edward, Nathan and Sonnenbergs	Update report on the forensic investigation into SAA's profitability, procurement and governance issues
2	Edward, Nathan and Sonnenbergs	Forensic investigation into possible irregularities in the employment of Ms H.B.A. Hamid
3	Ernst & Young	Procurement and contract management practices at SAA and its subsidiaries
4	Seabury	Long Term Turnaround Strategy of SAA
5	Public Protector of South Africa	Closing report on an investigation into allegations of procurement irregularities in the awarding of the tender to BnP Capital of SAA in return for a R256 million succession fee

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SECTION 3: Assurance providers and status of implementation of commitments and recommendations

3.1 ASSESSMENT OF ASSURANCE PROVIDERS

101. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of Parliament is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.

102. Our reporting and the oversight processes reflect on past events, as it takes place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

103. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

Senior management: Provides limited assurance

- Management has been unable to provide us with the necessary supporting documents, which resulted in limitation of scope findings.
- Management has not ensured that the necessary daily and monthly controls are in place to ensure that the accurate financial and performance information is provided.
- Management did not ensure accurate financial statements and as a result a qualified opinion has been issued.
- Management did not review and monitor compliance with applicable legislation effectively to ensure that there is compliance with all applicable legislation.
- A significant portion of irregular expenditure was detected during the audit process. Management has not timeously followed up or investigated these supply chain transgressions. The lack of appropriate action against officials has a material impact on the effectiveness and the stability of the control environment. Management's inability to address and prioritise this critical area has a direct bearing on the increased number of compliance findings reported in the current year.

3.1.1 Accounting authority: Provides some assurance

- SAA was considered to be trading under financial distress as they were unable to pay their obligations when it became due. Furthermore, the board did not institute business rescue even though the company was in financial distress. Although the board of directors instituted controls to prevent trading recklessly in terms of the company act during the month February; procurement

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cycles were not completed and contracts not signed for terms exceeding 6 months. This has resulted in the company incurring irregular expenditure.

- The CEO and CFO positions were filled subsequent to the financial period to resolve uncertainty and stabilise leadership and organisation culture.
- Oversight over the financial and performance reporting was not adequate and as a resulted the entity received a qualified audit report and a significant amount of findings were reported on the performance report.
- The accounting authority approved the provision that 30% be set aside to B-BBEE suppliers, which was considered to be contrary to legislation and resulted in the entity not following transparent SCM processes.

3.1.2 Executive authority: Provides some assurance

- The minister appointed new board members promptly to ensure that there is compliance with legislation.
- The minister has been assisting with the negotiations with lenders to ensure that all the debt is not called for repayment by the lenders. Funding was however not arranged timeously to avoid downstream effects on short term procurement practices being enforced and late submissions of financial statements.
- Intervention during the audit process by the minister assisted in resolving partly the pending limitation of scope audit findings.

3.1.3 Internal audit: Provides some assurance

- Legislation in South Africa requires the establishment, roles, and responsibilities of internal audit units. Internal audit units form part of the internal control and governance structures of the entity and play an important role in its monitoring activities, covering financial reporting, SCM and AoPO areas. Internal audit provides an independent assessment of the entity's governance, risk management and internal control processes.
- The internal audit unit of an entity must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting authority and report to the audit committee on implementing the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the PFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting authority.
- The internal audit performed their duties with due diligence and adhered to their approved internal audit plan. The work of the internal audit was used as part of the risk assessment procedures on the audit due to their scope of work not covering areas which are complex and assessed as significant risk areas on the audit, such as SCM, Audit of predetermined objectives and IT.
- The internal audit unit did not have a training plan in place which could enable the staff to be capacitated on various complex areas such as IT, accounting standard and management accounts

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to be able to provide value adding services to the airline, this posed a challenge in the IT environment in that although the IT services have been outsourced there is no adequate oversight role on the IT service providers as the internal audit unit on has one resource to address the IT matters.

3.1.4 Audit committee: Provides some assurance

- The audit committee is an independent advisory body to the accounting authority and the management and staff of the entity on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the PFMA, Treasury Regulations and any other applicable legislation; performance evaluation; and any other issues.

- The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the entity, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.

- The audit committee performed its duties with due diligence and complied with relevant legislation, with the exception of ensuring that the all policies are approved and in place for SAA. They continuously asked relevant questions, provided management with guidance to address matters raised to management. Guidance during the preparation of financial statements was also provided. However, the instability as a result of a change of board members of SAA within one year may an impact on the effectiveness of the audit and risk committee. The audit and risk committee should provide more oversight on performance information and compliance with legislation.

- There has been limited implementation of recommendations issued by internal audit, indicating that more assistance can be provided by audit committee to allow management to action the findings. There has been a lack of accountability by management in addressing the findings from both the internal and external auditors due to the audit committee not keeping management accountable in addressing the findings as the audit committee was still fairly new.

3.2 STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

104. No specific commitments were recorded from the inception of the audit as this was the first year of the office of the Auditor General conducting the regulatory audit of SAA.

105. Below is our assessment of the progress in implementing the commitments made by the SAA to address current year's audit findings that were identified and communicated during the progress of the audit:

No	Commitment	Made by	Date	Status
1	Capacitate the finance, procurement as well as the tax departments with the necessary skills relating to IFRS, PFMA, SCM legislation, public sector reporting, financial statements preparation, accounting for assets and many others.	CFO	31 March 2018	Still in progress
2	Develop and implement a formal succession plan for Finance department	CFO and GM:HR	31 March 2018	Not started

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No.	Commitment	Made by	Date	Status
3	Capacitate the internal audit department with the necessary skills relating to the following key focus areas: IT, SCM, IFRS and AoPO	ARC	31 March 2018	Not started
4	SAA to approach SARS to obtain rulings on specific airline provisions	CFO	31 March 2018	Still in progress
5	Fill key vacancies in the executive committee, e.g. CSO, CPO, CIO, COO and GM Legal risk and compliance	GM HR and CEO	31 March 2018	Still in progress
6	Revision and approval of updated franchise and revenue accounting service agreements between SAA, SA Express Airlines and SA Airlink.	CEO	31 March 2018	Still in progress
7	Resource the Compliance Function to enable it to effectively monitor compliance with all laws and regulations applicable to SAA; especially relating to PFMA, Procurement and Companies Act / King 4.	GM: LRC	31 March 2018	Still on progress
8	Capacitate the office of the Company Secretary through training to ensure they advise the Board timely regarding compliance with laws and regulations	Company Secretary and CEO	31 March 2018	Not started
9	Fill the CPO position to ensure challenges including poor record keeping are prevented. The CPO to develop and implement a clear record keeping/filing system	CFO and CPO	31 March 2018	Still in progress
10	Review and amend the SCM policy to address all the SCM challenges reflected in the audit findings	CFO and CPO	31 March 2018	Not started
11	Implement consequence management to staff members who fail to comply with applicable laws and Regulations. For example, employees who incur irregular, fruitless and wasteful expenditure	CEO	Immediately	Not started
12	Capacitate the legal division to ensure that for all tenders awarded, contracts are finalised and signed before the service provider starts working.	GM:LRC	31 January 2018	Not started
13	Develop and implement policies and procedures to ensure that roles and responsibilities are clear to ensure accountability. This is to ensure that there are no delays when AG requests information for audit purposes.	All EXCO members	31 March 2018	Not started
14	SAA to improve its governance by appointing the right personnel with skills and competencies to turn the airline around.	CEO and GM:HR	31 March 2018	Still in progress
15	The board to monitor closely the implementation of the long term turn-around strategy (LTTS) to improve profitability, liability and cash management.	CEO and Board Chairperson	31 March 2018	Still in progress
16	The board, together with the shareholder, to resolve the subordination of the cash/loans advanced to subsidiaries (Air Chefs and SAA technical) and to implement a capital structure that will ensure Air Chefs and SAA technical are both a going concern and can operate in a sustainable manner.	CEO and Board Chairperson	31 March 2018	Not started
17	Develop and implement an action plan to address all audit external and internal findings. Each audit finding to be allocated	CFO, CAE and CEO	31 January 2018	Not started

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No.	Commitments	Made by	Date	Status
	to the relevant EXCO member with strict remediation timelines.			
18	Capacitate the Project Management Office (PMO) with the necessary skills relating to development of performance information systems	HoD: PMO and CEO	31 January 2018	Not started
19	Develop and implement a policy on performance information clarifying standard operating procedures on performance reporting.	HoD: PMO	31 January 2018	Not started
20	Audit Committee to enhance its capacity relating to its oversight on IT Governance and Performance information reporting.	Chairperson: ARC	31 January 2018	Not started
21	Develop and implement a coherent IT governance framework that would allow for effective alignment of IT processes, projects and structures to enable and support business.	CIO	31 March 2018	Still in progress
22	Enhance the implementation of the Enterprise Risk Management framework.	GM: LRC and CEO	31 March 2018	Not started
23	Develop and implement a clear end-to-end contracts management framework. Capacitate Legal and Procurement divisions to enable them to implement the framework	CFO, GM: LRC	31 March 2018	Not started
24	Roll-out PFMA training to the entire organisation, especially relating to SCM process.	GM:LRC	30 June 2018	Still in progress
25	The accounting authority to exercise adequate oversight on interim reports, the financial statements and the annual performance report before submitting them for audit.	Board Chairperson	31 May 2018	Not started
26	SAA leadership to exercise oversight responsibility regarding financial reporting, compliance and related internal controls to ensure that compliance requirements are met in order to prevent irregular and fruitless and wasteful expenditure because of insufficient understanding of SCM laws and regulations and formulating a compliance driven internal control environment.	EXCO	31 March 2018	Still in progress
27	Develop and implement performance management system for employees other than senior managers.	EXCO	31 January 2018	Still in progress
28	Enforce Performance management on senior management to ensure that performance agreements are signed timeously. Corrective measures will be implemented where performance management policies are not followed.	EXCO	31 January 2018	Still in progress

3.3 KEY AUDIT MATTERS

106. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon and I do not provide a separate opinion or conclusion on these matters.

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Key audit matter	How the matter was addressed in the audit
Going concern assumption	
The entity made a net loss in the current and preceding financial year, as disclosed in the statement of Comprehensive Income. The calculations supporting the going concern assessment required management to make highly subjective judgments with regards to forecasted revenue and expenditure based on global and local economic forecasting models. The calculations are based on estimates of future performance, and are fundamental to assessing the suitability of the basis adopted for the preparation of the financial statements. We have therefore spent significant audit effort, including the time of senior members of our audit team and industry specialists, in assessing the appropriateness of this assumption.	We have performed procedures to confirm the accuracy of the future forecasted cashflow, solvency, liquidity and future profitability calculations including the reasonableness of the assumptions made for economic indicators and sector growth. We used an aviation specialist to assist the audit team in concluding on the reasonableness of the predicted oil price and currency variables utilised in the going concern model as well as the estimations of future performance and growth. We have considered the appropriateness of the disclosures made by management in the financial statements regarding the going concern assumption.
Valuation of deferred revenue on ticket sales	
In accordance with the frequent flyer programme defined in note 1 to the financial statements, cash is received by SAA in return for the issuance of miles in its frequent flyer programme. This cash is received as part of ticket sales made by SAA for flights flown by Star Alliance members, or alternatively from programme partners that purchase miles from SAA to issue to their own customers. The fair value of miles issued to programme participating members when flights are flown, and the cash consideration received for miles issued to programme participating members from sales to programme partners, is recognised in the statement of financial position as deferred revenue on ticket sales disclosed in note 15. Revenue is recognised when "voyager" members fly, or when it is assessed that the miles awarded will expire without use. SAA uses estimates to determine the value of the awarded frequent flyer miles that will be redeemed. These estimates are based on historical redemption patterns. An estimate is also made of the value of miles that will expire without being used, based on historical expiry patterns and the anticipated impact of changes to the programme. The accounting and estimation for determining the fair value of miles awarded in the frequent flyer programme and the proportion of miles that will expire without being used is complex, requires judgement to be applied and is a key focus area of our audit.	We evaluated the assumptions applied in the mathematical models used to determine the fair value of expected programme participation awards. This included undertaking a comparison to historical redemption patterns and testing the calculations for award values against observable inputs such as published market air fares. We tested the controls implemented over the models. We challenged the assumptions used to estimate the number of miles that will expire without use, including a comparison to historical experience and planned changes to the programme that may impact future redemption activity.
Airline revenue, and air traffic and related liabilities	
Sold flight tickets and airway bills are recognised as forward sales liabilities in the financial statements, until	We obtained a detailed understanding of the business processes and transactional information

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Key audit matter	How the matter was addressed in the audit
they are uplifted. Once a passenger coupon or an airfreight bill has been utilised, the corresponding traffic revenue is recognised in the statement of profit or loss and other comprehensive income, net of any taxes not belonging to the airline. Determining the amount of revenue to be recognised for each coupon upon uplift requires complex and specialised IT systems to facilitate a magnitude of rule sets, both in fare types and proration agreements, for a high volume of unique flight tickets. This is disclosed in note 5 and 20 to the financial statements respectively. In addition, flight coupons which have not been used or refunded within their validity periods are recognised as revenue after the conditions of carriage prescripts have lapsed. The timing of revenue recognition for unused tickets requires judgement due to the timeframe over which tickets can be utilised, the varying fare types and conditions within jurisdictions of sale. This is disclosed in note 5 to the financial statements. The entity implemented a new sub-system used for passenger revenue accounting during the last 24 months. Initial reconciling issues resulted in management accounting for estimation uncertainty through conservative assumptions and judgements. This was resolved during the current period, evident from SAA having more accurate and detailed information available at yearend. As disclosed in note 15 to the financial statements, management made a revenue accounting provisions, contained in "other provisions", in light of estimation uncertainty based on percentage variances from interline billing, unutilised air traffic documents and recognition of prescribed tickets and related taxes. Due to the high volume, low value, the number of variables and automation relied on within the airline revenue and air traffic liabilities business cycle, as well as the significance of revenue to the continued operations of the entity; we have considered airline revenue and the air traffic related liabilities as a key audit matter.	flow through the various systems involved within the revenue process and how these systems affect automated functions to recognise revenue from forward sale liabilities. I identified the Amadeus IT Group, S.A. (Amadeus) to be a key service organisation to SAA for both administrative and operational functions. Instructions were issued to the independent auditors of Amadeus, requesting their verification of the general computer controls and the suitability of design and operating effectiveness of defined internal controls. We were provided with a compliant report from the IT service organisation's auditors on which reliance was placed. This report expressed an opinion of reasonable assurance on the control set verified by the independent auditors. Audit procedures were designed to stratify the population based on the source of origin and contained conditions of several streams revenue streams. Due to the significance and volume of transactions processed through an automated control environment, detail attention was paid in testing controls applied by the system and through manual intervention. Additional trend analysis procedures on route revenue were performed as reasonability considerations given the nature of the industry and sensitivity toward macro and micro economic trends. Management's assumptions made in determining various revenue accounting provision estimate amounts were considered on a case by case basis and evaluated for reasonableness. This was addressed through inspection of historic realisation and future expectations. Disclosure of airline revenue was assessed in accordance with IAS 18 and the provisions were considered against the disclosure requirements of IAS 37.
Valuation of maintenance reserve receivable	
The maintenance reserve receivable for leased aircraft, as disclosed in notes 12 and 26 to the financial statements, is valued by applying a valuation approach that is most appropriate for an aircraft in continued use, where current payments made to the lessor of these aircrafts, are reimbursable against future maintenance events. Inputs into the valuation model consider specific components for maintenance and	We obtained an understanding of the valuation processes used by the entity to determine the fair value balance of the maintenance reserve receivable applied to individual leased aircrafts. We also carried out a range of audit procedures which included, among others the following: • Testing the internal controls over data relating to qualifying expenses.

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Key audit matter	How the matter was addressed in the audit
their estimated use cycles, which require significant judgement and estimation. Certain maintenance events might result in drastically different outcomes from the judgement applied as at the financial reporting date. Contractually provided payments made, which remains unclaimed at the end of the lease period, will become obsolete to the lessee. The estimation of these payments which will not be claimed at the end of the lease term involves significant key judgements and assumptions as they reflect future utilisation of the aircrafts held under operating lease agreements. The resultant estimate is used to reduce the balance of the maintenance reserve receivable. Based on the above, and due to its complex nature, this account balance requires significant audit effort and therefore is a key audit matter.	• Testing the entity's controls over recording for maintenance reserves of the aircrafts held under operating leases. • Obtaining confirmations from the lessors regarding contributions and claims made. • Recalculating the maintenance reserve balance and the consumed life of the aircraft. • Evaluating key assumptions adopted by management through reviewing the terms of the operating leases and comparing assumptions to contract terms, information from lessors and the entity's maintenance cost experience by having regard to the expected useful lives of life-limited parts of the aircraft and assessing the reliability of management's past assumptions. • Assessing the application of the disclosure requirements as per IFRS. 9.
Provision for lease liabilities	
The entity is contractually committed to return aircraft held under operating leases to the lessors in a physical condition agreed at the inception of each lease, as referred to in note 1514 to the financial statements. Management estimates the maintenance costs and cost associated with the restitution of life-limited parts and accrues such cost over the lease term on a systematic basis. Determining the provision for lease liabilities requires significant management judgement and complex estimates, including the utilisation of the aircraft, the expected cost of maintenance and the estimated lifespans of life-limited parts. With reference to the basis of preparation of the financial statements, presented in note 1 to the financial statements, we consider the valuation of the provision for lease liabilities balance at its fair value ais a key audit matter, given its significance, including the account balance and the estimations required.	We obtained an understanding of the valuation processes used by the entity to determine the provision for lease liabilities applied to individual leased aircraft. These audit procedures included a mixture of: • Testing the internal controls over data relating to qualifying expenses that are used to derive the estimates of the provision for lease liabilities. • Testing the entity's controls over recording provisions for lease liabilities of aircraft held under operating leases. • Recalculating the provision based on the model used by management. • Evaluating key assumptions adopted by management through reviewing the terms of the operating leases and comparing assumptions to contract terms, the return conditions and the entity's maintenance cost experience by assessing the reliability of past assumptions. • Validating the assumptions made by management through the outcomes of the past estimation made by management by comparing those to actual outcomes. • Testing the application of the disclosure requirements as per IAS 37.
Impairment of property, aircraft and equipment	
As disclosed in notes 10 and 11 to the financial statements, the entity impairs its aircraft as a result of events existing at yearend that indicate that an aircraft may be impaired and where an aircraft's carrying amount exceeds its recoverable amount. An analysis	We obtained an understanding of the process that the entity follows to determine the value in use. A recalculation was performed taking into account

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Key audit matter	How the matter was addressed in the audit
provided on routes operated by aircrafts at yearend showed that a number of routes are loss making. The impairment is calculated based cash generating units, asthe largest combination of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The calculation of the impairment of aircrafts is considered complex as there is a number of significant assumptions and estimates used such as cash flow projections, the weighted average cost of capital, adjustments for market risks specific to SAA, allocation of costs to routes and aircrafts and the fair value less disposal costs among others, to determine the value in use. The cash flow projections used in the valuation are subject to management's forecasted economic trends which contain elements of uncertainty on the continued use of certain aircrafts. Subsequent to the financial yearend, the board of directors has approved a long term turnaround strategy which will result in some routes to be discontinued and assets contained within those cash generating units to be disposed. Based on the above this account balance requires significant audit effort due to its complex nature and therefore is a key audit matter.	conditions existing at yearend and potential adjusting events in accordance with IAS 10. The following detailed steps formed part of our audit approach: • Obtained the calculation of impairments and recalculate the impairments based on the assumptions that management has made regarding the cash flow projections. • Assessed the assumptions made by management whether they are reasonable • Confirmed that the rate used to calculate impairments is a pre-tax rate. • Confirmed that the future cash flows are also pre-tax cash flows. • Compare the past trends of management estimation to actual results to validate the reasonableness their estimation. • Obtained the fair value less cost to sell from the USD AVITAS blue book which is commonly used as the industry guideline. • Tested the application of the disclosure requirements of IAS 36.

SECTION 4: Focus areas

4.1 FINANCIAL VIABILITY

107. Our audit included a high-level overview of the public entity's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

Financial viability assessment			
		As at 31 March 2017	**As at 31 March 2016**
Expenditure management			
1.1	Creditor payment period	23 Days	21 Days
Revenue management			
2.1	Debtor collection period (after impairment)	32 Days#	33 Days#

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Financial viability assessment			
		As at 31 March 2017	As at 31 March 2016
2.2	Debtors impairment provision as a percentage of accounts receivable	3.1%	3.7%
	• Amount of debtor's impairment provision	R72 mil	R84 mil
	• Amount of accounts receivable	R2 278 mil	R2 275 mil
Asset and liability management			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	Yes	Yes
	• Amount of the surplus/deficit for the year	(R6 700 mil)*	(R1 302 mil)
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes	Yes
	• Amount of net current assets/(liability) position	(R12 719 mil)*	(R7 866 mil)
3.3	A net liability position was realised (total liabilities exceeded total assets)	Yes	Yes
	• Amount of net asset/(liability) position	(R19 709 mil)*	(R12 158 mil)
Cash management			
4.1	The year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents)/(bank overdraft)	R1 824 mil	R2 044 mil
4.2	Net cash flows for the year from operating activities were negative	Yes	Yes
	• Amount of net cash in/(out) flows for the year from operating activities	(R1 253 mil)	(R1 072 mil)
4.3	Creditors as a percentage of cash and cash equivalents	88%	67%
	• Amount of creditors (accounts payable)	R1 605 mil	R1 370 mil
Overall assessment			
Overall the financial viability is assessed as:		Red (unfavourable – intervention required)	Red (unfavourable – intervention required)

* *This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree to the financial statement amounts*

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Financial viability assessment		
	As at 31 March 2017	As at 31 March 2016
# *This calculation is based on the actual revenue realised by SAA and excludes passenger taxes that are collected on behalf of authorities. The amounts receivable would however include these taxes receivable from agents at yearend. When taken into account, debtor days would reduce significantly.*		

4.1.1 High-level comments

- The financial health assessment above illustrates SAA's financial turmoil also reported in the annual financial statements. A main concern is that SAA continue to trade in a net liability position and remain illiquid in the short term. The company realised a significant net loss during the year that worsened an already worrying picture.

- The entity remains dependent on previously issued government guarantees to sustain both the repayment of long term liabilities becoming due, as well as funding short term working capital requirements. Although the government guarantees provide relief in SAA's continued operations, the expensive financing cost ultimately adds to the cash outflow burden.

- The entity has received the capital injection from the shareholder twice after the financial year ended 31 March 2017. This injection was as a result of lenders calling on the loans at maturity refusing to extend the loans beyond eighteen months as anticipated by the shareholder. This injection was not budgeted for due to poor planning on the side of management and the shareholder. The on-going negotiations with the lenders divided the attention of management to focus on running the airline in a sustainable manner, whereas if the shareholder prioritised the recapitalisation of SAA, management would focus their energies in turning around the airline rather than being in constant negotiations with the lenders for extensions of the loan terms which are reaching their maturity.

- Real revenue growth and cost curbing remain challenges that the entity face. Strategies stipulated in the LTTS to address these aspects will need to be followed rigorously to ensure the entity does not continue making significant losses. The current reporting and evaluation cycles allows only for monthly interventions to be implemented where the current circumstances require daily monitoring to resolve loss making factors.

- Cash generated from operations remains negative as a result of the abovementioned shortcomings. The sharp increase in creditor days and reduction in available cash illustrates that the company requires an urgent operating capital injection to continue operations at its current status. Even though profit and loss might be influenced by accounting adjustments, the cash generating ability of the entity clearly indicates that the operating model applied in the 2016/17 financial year would not be self-sustainable without relying on government bailouts and guarantees.

4.2 PROCUREMENT AND CONTRACT MANAGEMENT

108.The audit included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system, the processes and controls need to comply with

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legislation and minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

109.A summary of the findings from the audit are as follows:

4.2.1 Irregular expenditure

- Irregular expenditure for the current year has been disclosed however there was a limitation of scope finding relating to tenders of about R279 908 947 which we could not verify supporting evidence thereof. This resulted in a limitation of scope on irregular expenditure for the current year as we cannot conclude on the completeness of the amount disclosed in note 42. The root cause for the limitation of scope is that supply chain management unit did not implement proper record keeping ensuring that all documents relating to tender awards are filed on a timely manner and information in the store room is accessible to support financial and performance reporting and compliance with all applicable legislation. Furthermore, it was noted that there are no proper hand over processes when staff members resign or are suspended and the head of this unit has been acting for more than 12 months.

4.2.2 Awards to persons in the service of the state and their close family members

- The audit included an assessment of the interests of officials and their close family members in suppliers to the state owned company. Legislation does not prohibit such awards, but compliance with the legislation and policies was tested to ensure that conflicts of interest did not result in contracts being unfairly awarded or unfavourable price quotations being accepted, and that employees obtained approval for performing remunerative work outside their employment as required.

The findings were as follows:

Finding	Number and value of awards made	Number and positions of official identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official did not declare interest	Official was involved in awarding the contract/ quotation
Awards made to officials of the state owned company	0	0	0	0	0	0	0
Awards made to close family members, partners and associates of officials of the state owned company	15 R 646 660 690	13 • Specialist: Special Projects • Cabin Crew Member (4) • Airways Customer Services Agent • Head: IT Operations • Senior Captain (2) • PFMA Compliance Specialist • Manager: Enterprise Risk	15	13	2	13	0

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Finding	Number and value of awards made	Number and positions of official identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official did not declare interest	Official was involved in awarding the contract/ quotation
		• Senior First Officer • Acting Head Flight Ops & Chief Pilot					
Awards to persons in the service of other state institutions	1 R 339 954	1 • Director	0			1	0

4.2.3 Procurement processes

- The table below is a summary of findings identified on procurement processes:

	Total		Quotations		Contracts	
	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	140	7 607 166 789	44	11 788 518	96	7 595 378 271
Expenditure incurred on selected awards - current year		3 418 835 452		19 181 174		3 399 654 278
Limitations - awards selected but could not be tested	4	279 908 947	0	0	4	279 908 947
Awards on which non-compliance was identified	121	6 668 251 294	41	11 111 504	80	6 657 139 790
Irregular expenditure identified	103	2 611 262 113	41	9 641 842	62	2 601 620 271
Instances of irregular expenditure where goods/ services were not received	0	0	0	0	0	0

4.2.4 Limitations on audit

- As indicated in the table above, sufficient appropriate audit evidence could not be provided that 4 of selected awards to the value of R279 908 947 were made in accordance with the requirements of applicable SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular.

- The reasons for the limitations were that the supply chain management unit did not implement proper record keeping ensuring that all documents relating to tender awards are filed on a timely manner and information in the store room is accessible to support financial and performance

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reporting. The lack of proper hand-over processes and accountability are contributing factors to the limitation of scope. As a result of these limitations, the findings reported in the rest of this section may not reflect the true extent of irregularities and SCM weaknesses.

4.2.5 Procurement processes – general

- The following shortcomings in the process of selecting suppliers from the list of prospective suppliers were identified:
  - SAA prospective supplier database which is currently maintained on an excel spreadsheet is not regularly updated and approved
- 4 awards to the value of R580 499 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers and the deviation was approved even though it was possible to obtain the quotations.
- 28 contracts and 36 quotations to the value of R4 912 741 874 were procured from suppliers whose tax matters had not been declared by the South African Revenue Services to be in order.
- 2 contracts with a value of R 20 483 684 were procured without inviting competitive bids and the deviations were not approved.
- 13 contracts with a value of R 306 306 669 were procured without inviting competitive bids and the deviations were approved even though it was practical to invite competitive bids.
- 1 quotation with a value of R418 608 was awarded to bidders who did not score the highest points in the bid evaluations and there was no justification for the deviation.
- 13 contracts and 2 quotations with a total value of R646 660 690 were awarded to bidders who did not submit a declaration of whether they were employed by the state or connected to any person employed by the state.
- 4 contracts and 1 quotation with a total value of R700 502 309 awarded, were not approved by an appropriately delegated official.

4.2.6 Contract management

- The performance of 20 contractors or providers was not monitored monthly. The total value of related contracts was R1 353 901 250.
- The contract performance and monitoring measures and methods applied in monitoring 20 contracts with a total value of R1 353 901 250 were insufficient to ensure effective contract management.

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4.2.7 Internal control deficiencies

Leadership

- Leadership at SAA did not implement effective human resource management to ensure that the procurement division has adequately trained and skilled employees to identify and address shortcomings in the SCM policy due to the lack of prioritising critical business needs. The table below highlights some of the shortcomings identified in the SCM policy:

Criteria for SCM policy		Criteria included in policy? Select: Yes/ No/ N/A	Audit comment
1	The procurement processes provides for specific conditions/ processes for procurement of fuel and accommodation for pilots	No	-The process for procurement of fuel for outstations is not provided for in the SCM policy even though SAA would in certain circumstances procure through participating in airline associations like AFRAA and Star alliance. -The process for the procurement of accommodation for pilots is not included in the policy
2	The SCM policy has reference to the SAA Deviation Policy in place	No	Reference has been made in the procurement policy to SAA Deviation Policy however when requested, management stated that the deviation policy is not in place
3	The SCM policy states that no award may be made in terms of this Policy to a person whose tax matters have not been declared by the South African Revenue Service to be in order.	No	Part 21.7.2 only makes provision for SARS to disclose the winning bidder's tax compliance status during the contract term.
4	The SCM policy prescribe requirement for declaration of interests by officials and suppliers.	No	This is not addressed in the policy
5	The SCM policies and procedures and/ or the fraud prevention plan provide for the following measures to prevent abuse of the SCM system AND the processes and controls have been implemented. a) Investigation of any allegations against an official or other role player of corruption, improper conduct or failure to comply with the supply chain management system. . Note: *Such allegations include complaints received from suppliers directly or via the treasuries or any tips/ complaints from fraud hotlines or other whistle blowing mechanisms.*	No	This is not addressed in the policy
	b) steps to be taken when investigations show the allegation is justified - including reporting any conduct that may constitute and offence to the South African Police Service	No	This is not addressed in the policy
	c) Cancellation of a contract awarded if the supplier committed any corrupt or fraudulent act during the bidding process or the execution of that contract or if any official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of that contract that benefited that supplier.	No	This is not addressed in the policy
	d) Disregard of the bid of any bidder if that bidder, or any of its directors have committed fraud or any other improper conduct in relation to such system	No	This is not addressed in the policy
	e) Disregard of the bid of any bidder if that bidder, or any of its directors have failed to perform on any previous contract	No	This is not addressed in the policy

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Criteria for SCM policy	Criteria included in policy? Select: Yes/ No/ N/A	Audit comment
f) Disclosure by SCM officials and other role players of any conflict of interest that may arise including if the SCM officials and other role players, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded AND withdrawal from participating in any manner whatsoever in the process relating to that contract	No	This is not addressed in the policy
g) Non-acceptance of gifts or hospitality or any other act which could compromise the credibility or integrity of the SCM system	No	This is not addressed in the policy

- There was a lack of oversight by the entity's leadership to prevent non-compliance with the relevant supply chain management laws and regulations. This resulted in material non-compliance (resulting in irregular and fruitless and wasteful expenditure) concerning the procurement of goods and services bringing into question the tone set at the top.

- Leadership approved the provision that 30% be set aside to B-BBEE suppliers which were considered to be contrary to legislation and resulted in the entity not following transparent SCM processes.

Financial and performance management

- Management did not implement proper record keeping of SCM information due to a lack of proper handover processes when staff resigns or is suspended. There are also deficiencies identified relating to the filling process where the use of checklists is not implemented to ensure completeness of records.

- Management did not ensure that the SCM policy, PPPFA and PFMA requirements are adhered to due to poor planning, lack of capacity and review of tender evaluation calculations throughout the procurement of goods and services. As a result, there is no consequence management against employees whose actions resulted in irregular expenditure since investigations are not conducted.

- There are weak internal controls in contract management as the responsibility for contract monitoring and management are not assigned to one individual or a defined team resulting in possible overpayments which were identified during the audit. Furthermore, the credibility of the contract register was questioned as there were risks identified relating to payments which may have been made on expired contracts; risk of exceeding the budget due to a lack monitoring of contracts with no contract values and risk that the contract register will not track payments in excess of the contract value.

- Consequently, no contract performance and monitoring measures are applied. In addition, the process of procurement of goods is not centralised and business units would initiate contracts without the knowledge of the SCM department in rebellious attempts to fast track the procurement process. No actions were taken against such transgressions.

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4.3 FRAUD AND CONSEQUENCE MANAGEMENT

110. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.

111. Below is a summary of fraud risk factors that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement due to fraud.

No	Risk factor
	Incentives/Pressures
1	Financial instability or threats by political, economic, budget, or entity operating conditions, such as (or as indicated by): a) Operating losses making the threat of bankruptcy or foreclosure; b) Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth; c) New financing sources. d) Operations subject to special investigations. e) Changes in political leadership. d) Increased public expectations; a) Need to obtain additional debt or equity financing. b) Marginal ability to meet debt repayment or other debt covenant requirements;
	Opportunities
2	The nature of the industry or the entity's operations provides opportunities to engage in fraudulent reporting that can arise from the following: a) Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm; b) Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate c) Significant, unusual, or highly complex transaction d) Significant operations located or conducted across international borders in jurisdictions where differing business environments and cultures exist; e) There is a complex or unstable organizational structure, as evidenced by high turnover of senior management, those charged with governance or other key positions. f) Fragmented and non-integrated IT-infrastructure g) Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets for example inadequate record keeping with respect to assets, inadequate physical safeguards over fixed assets.
	Attitudes/ Rationalizations
3	a) Attitudes/Rationalizations that include management failing to remedy known significant deficiencies in internal control on a timely basis

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No	Risk factor
	SCM fraud risk indicators
4	a) Awards were made to suppliers in the service of the auditee or connected to persons in the service of the auditee. b) High number of SCM deviations from competitive bidding. c) No action/ inadequate actions is taken to address SCM risks/ weaknesses. d) Awards made on tenders which are not fair or competitive e) 30% set aside to B-BBEEE suppliers which was unlawful
	Other fraud risk indicators
5	a) This is evident due to a number of investigations currently taking place at SAA. b) Lack of fraud prevention and detection mechanisms c) Whistle blower line lacks credibility d) No International Anti-Corruption Programme e) History of known instances of fraud & error f) Forensic and internal investigations; too many ongoing investigations and there was confusion regarding who was monitoring these investigations. EXCO perceived that there were instances where there was duplication and consequently dual payment for the same service. g) Inconsistent consequence management which depends on the people implicated

112. The PFMA and its regulations clearly stipulate that matters such as incurring irregular as well as fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the public entity's management of consequences. The significant findings are provided below:

4.3.1 Measures to manage consequences

- The following measures were not implemented to ensure that the environment is conducive to effective consequence management:
  - The disciplinary process is not consistently applied across the organisation
  - There is lack of proper record keeping ensuring that complete, relevant and accurate information is accessible and available to support the processes followed for financial misconduct/ transgressions committed by officials and suppliers of the auditee.

4.3.2 Ongoing investigations

- A total of 10 investigations were ongoing at year end on allegations relating to financial misconduct, fraud or improper conduct in SCM. Some of these investigations have been ongoing for a long time. The table below provides a summary of investigations which had not been completed as at year-end:

Details	Type of allegation under investigation	Allegation include element of fraud/ corruption	Length of investigation
Failure to follow prescribed HR policies and procedures in the appointment of an executive security officer in that, it is alleged that the	*Misconduct*	*Yes*	11 Months

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Details	Type of allegation under investigation	Allegation include element of fraud/ corruption	Length of investigation
employee, in her capacity as the Acting Chief Executive Officer at the time. This resulted in a breach of her employment agreement (implied duty to exercise due care and diligence) as the executive protection services procured during October 2015 were for her own personal benefit.			
Irregular appointments and duty travel claims in LRC division.	*Misconduct*	*Yes*	1 Month
Irregular appointments and promotions in London station	*Misconduct*	*Yes*	2 Months
Procurement irregularities; revenue leakage	*Misconduct*	*Yes*	3 Months
Irregular contracts	*Misconduct*	*Yes*	3 Months
Bribery	*Financial misconduct*	*Yes*	3 Months
Cargo theft and drug dealing - Was handed over to the Hawks	*Financial misconduct*	*Yes*	14 Months
The caller raised a concern regarding alleged Cargo theft involving millions of rands. He spoke about a criminal syndicate within SAA. The syndicate members allegedly enjoy lifestyles that are way beyond their current salaries.	*Financial misconduct*	*Yes*	18 Months
Various allegations against EXCO members, ranging from procurement fraud to espionage.	*Misconduct*	*Yes*	16 Months
Participation in the appointment of Mrs H.B.A. Hamid into the position of Training Manager Revenue Management and Pricing Operation based in Malaysia, which did not form part of the approved staff establishment at the time.	*Misconduct*	*Yes*	6 Months

4.3.3 Irregular, fruitless and wasteful expenditure

Finding	Value R
Irregular expenditure	
Irregular expenditure identified in the previous year was not investigated to determine if a person was liable for the expenditure.	1 408 875.17
There was a limitation of scope and thus information could not be verified whether investigated and if disciplinary steps were taken	1 959 925.12

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Finding	Value R
Fruitless and wasteful expenditure	
There was a limitation of scope and thus information could not be verified whether investigated and if disciplinary steps were taken	R1 254 365.85

4.3.4 Transgressions reported to management for investigation

- There were no transgressions reported in the prior year for management to initiate investigations.
- The table below provides a summary of transgressions identified in current year that must be investigated and disciplinary steps taken based on the results of the investigations.

Finding	[illegible]	
	Number of instances	Value R
A: Improper conduct in SCM by suppliers		
Supplier submitted false declaration of interest	2	545 351 538
B: Improper conduct in SCM by officials / role players		
Official failed to disclose their own interest or that of close family members, partners or associates in contracts	13	648 660 690.42

- Irregular, fruitless and wasteful expenditure disclosed in note 42 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the irregular, fruitless and wasteful expenditure. Disciplinary steps must be taken against officials who caused or permitted the irregular expenditure and losses incurred as a result must be recovered from the person liable.

SECTION 5. Using the work of internal audit

113.The auditing standards allow external auditors the optional use of the work of internal audit for external audit purposes and for direct assistance.

114.We had regular engagements with the internal audit function to gain an understanding of the work performed relevant to our audit for the 2016-17 financial year. We reviewed the audit reports and work performed to determine whether we will rely or not on the work of internal audit.

115.We have determined that it will not be possible to use the work performed by SAA's internal audit department for the purposes of modifying the nature and timing or reducing the extent of our audit procedures due to significant differences in the scope of engagements executed. The internal audit plan applied in current financial period did not include any matters of relevance to the external audit engagement. Although we have determined that the objectivity and technical competence of the internal audit function is adequate for reliance of assurance purposes on specific reports issued by internal audit. It should be noted that the internal audit unit does not have adequate capacity and

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skills to audit complex areas of the entity such as SCM, performance information and maintenance reserves. All reports issued by internal audit were only considered during the completion of our risk assessment procedures.

116. The following internal audit reports were considered during the risk assessment procedures:

Internal audit report	Scope of work covered
First quarter internal audit report	• Performance Information • Facilities Management • Occupational Health and Safety • Customer Services • Use of Consultants • Cargo -Accounts Receivable • Revenue
Second quarter internal audit report	• Supply Chain Management • Human Resources • Fixed Asset Management
Third quarter internal audit report	• Baggage handling • Cargo revenue management • IT General controls • Compliance with King iii
Fourth quarter internal audit report	• Cost compression audit • Duty travel • Maintenance costs
Follow up report on all previously raised internal audit findings	• Supply Chain Management • Human Resources • Fixed Asset Management • IT General controls • Maintenance costs • Voyager

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SECTION 6: Emerging risks

6.1 Accounting, performance management/reporting and compliance matters

New pronouncements

6.1.1 IFRS

- The following list reflects the IFRS standards and interpretations that are not yet effective but are available for early adoption:
- Standards and interpretation that need to be considered for financial years beginning on or after 1 January 2018:
    - *IFRS 9 - Financial Instruments*
    - *IFRS 15 - Revenue from Contracts with Customers*
    - *IFRIC 22 - Foreign currency transactions and advance consideration*
- Standard that need to be considered for financial years beginning on or after 1 January 2019:
    - *IFRS 16 - Leases*

New legislation

6.1.2 Treasury Regulations

- The Treasury Regulations are currently being revised, which may introduce a number of new requirements once effective.

6.1.3 Protection of Personal Information (PoPi) Act

- The purpose of the PoPi Act is to ensure that all South African institutions conduct themselves in a responsible manner when collecting, processing, storing and sharing another entity's personal information by holding them accountable should they abuse or compromise your personal information in any way.
- Once the South African president announces the commencement date of the PoPi Act, all South African institutions will have one year to ensure compliance. Non-compliance to the act will warrant a fine of R10 million rand or a 10-year jail sentence. Although the specific date when the President will announce the commencement date is not clear it might be at the end of 2017 but will not be after December 2018.
- Considering that SAA has not implemented any initiatives in preparation for PoPi Act, the allocated window for compliance may not be sufficient resulting in non-compliance fees being charged against SAA group.

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6.1.4 Corporate Tax

- The Amendment Bill now deems certain subscription for shares to be taxable if they are intended to settle debts that were utilised to fund deductible expenditure. The SAA bailout needs to be considered whether they are either be grants or donation or loans or subscription for shares. In other words, there could be a reduction of tax losses and this could also have an impact on the effective rate at SAA in 2018.

6.1.5 Employees' tax

- SAA has any employees who are based outside South Africa and who are subject to section 10(1) (o) exemption. It should be noted that these employees will only enjoy exemption of up to R1m as they are SA residents. Any payment above that will no longer benefit from this exemption in future.

Industry Matters

6.1.6 IFRS, direct and indirect tax

- The treatment of the passenger service charges for accounting, indirect and direct taxes is currently not clearly defined in the industry, whether the airlines are acting as an agent or principal regarding the Airports Company of South Africa (ACSA) passenger service charges. This includes other charges and taxes levied by other authorities like South African Civil Aviation Authority. SAA should embark on a consultative process with both the SARS and the other airlines operating in South Africa to obtain clarity and a ruling on the correct treatment of the ACSA levied passenger charge. The clarification of this treatment will have an impact on the way airlines do financial reporting and disclosure to SARS.

6.2 Subsequent events

117. On 31 August 2017 SAA confirmed that it will introduce network changes on the domestic and regional segments of its route network. The changes are part of the airline's implementation of its newly developed five-year corporate plan that seeks to return the company to financial sustainability in the shortest time possible.

118. On 28 September 2017, the Minister of Finance invoked section 16 of the PFMA and authorised the payment of R3 billion from the National Revenue Fund. This came as a result of maturing long term liabilities held by SAA and failure to renegotiate further extended repayment terms with lenders and to provide working capital for the entity to continue its operations. The National Treasury further confirmed in writing, that SAA will be recapitalised by R10 billion in the 2016/17 financial year which was also communicated by the minister in the medium term budget policy statement presented to parliament on 25 October 2017.

119. After the financial yearend, an error was noted where SAA sold tickets on behalf of South African Express Airlines SOC Ltd (SAX) and South African Airlink (Pty) Ltd (SAL) and has erroneously deducted output VAT on the fuel levy amounts paid over to both SAX and Airlink amounting to R574 285 336 for five years from 1 August 2012 to 31 March 2017 while not paying over the output VAT on these entities' behalf. An accrual has accordingly been raised in the books of SAA.

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SECTION 7: Entities controlled by the public entity

120. In terms of the PFMA, the public entity has certain oversight responsibilities regarding the entities over which it has ownership control. The audit outcomes of these entities are summarised below.

Name of entity	Audit outcome			Significant deficiencies in internal control					
	Financial statement opinion	Findings on the performance report	Findings on compliance	Leadership		Financial and performance management		Governance	
				Assessment	Movement	Assessment	Movement	Assessment	Movement
Mango SOC Ltd	Qualified	Yes	Yes						
SAA Technical SOC Ltd	Disclaimer	Yes	Yes						
Air chefs SOC Ltd	Disclaimer	Yes	Yes						
SA Travel Centre SOC Ltd	Outstanding								

Improved	Unchanged	Regressed
Good	Concerning	Intervention required

121. We performed procedures to evaluate the entity's oversight of the companies under its control. The following are our findings in this regards:

- The Corporate plan (CP) of the subsidiaries was submitted with the corporate plan of SAA to National Treasury (NT).
- Mango and South African Airways Travel Centre SATC had no Shareholder Holders Compact (SHC) concluded for the 2016/17 year. The CP and SHC did not detail the performance objectives and targets relating to the two subsidiaries.
- The SHC of Air Chefs and SAAT was not submitted to NT as it was only submitted to the SAA Board for approval. SAA did not submit is SHC together with its subsidiaries SHCs.
- Quarterly reports of Air Chefs and Mango were not submitted to the executive authority, as required by treasury regulation 29.3.1, but were only submitted to the SAA Board.
- No quarterly reports for SATC were prepared and submitted.
- Subsidiaries further noted that they were instructed not to report directly to NT or discuss matters directly with NT (no formal supporting evidence was provided on this decision this was only based on discussions held).

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SECTION 8: Ratings of detailed audit findings

122. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report: These matters should be addressed as a matter of urgency.
- Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
- Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.
- For findings relating to the outstations refer to the contents of the report that was tabled on the 25 July 2017.

SECTION 9: Conclusion

123. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remains committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully

Eugene Zungu
National Leader: Audit services

8 December 2017

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Audit and Risk committee
Board of Directors
CEO
CFO
Executive committee

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Annexure D: Performance management and reporting framework

The performance management and reporting framework used by the auditee when preparing and presenting information about its performance against predetermined objectives in the annual performance report consists of the following:

124. Legislation applicable to performance planning, management and reporting which includes the following:

- Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)
- Treasury Regulations (TR), 2005 issued in terms of the PFMA
- National Treasury Practice Note 4 of 2009/10

125. The Framework for the managing of programme performance information (FMPPI), issued by the National Treasury.

126. Circulars and guidance issued by the National Treasury and Department of Planning Monitoring and Evaluation regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

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Annexure D – Criteria developed from the performance management and reporting framework

The criteria applicable to the audit as developed from the PMRF are as follows:

CRITERIA	REFERENCE TO PMRF
Consistency: Objectives, performance measures / indicators and targets are consistent between planning and reporting documents	
Reported strategic or development objectives are consistent or complete when compared to planned objectives.	PFMA sec 55(2)(a) TR 28.2.2 TR 30.1.3(g)
Reported measures or indicators are consistent or complete when compared to planned measures or indicators	PFMA sec 55(2)(a) TR 28.2.2 TR 30.1.3(g)
Changes to measures or indicators are approved	TR 30.1.1
Reported targets are consistent or complete compared to planned targets	PFMA sec 55(2)(a) TR 28.2.2 TR 30.1.3(g)
Changes to targets are approved	TR 30.1.1
Measurability: Performance measures / indicators are well defined and verifiable, and targets are specific, measurable and time bound.	
A performance measure or indicator is well defined when it has a clear definition so that data will be collected consistently and is easy to understand and use.	FMPPI chapter 3.2 issued by NT
A performance measure/indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	
A target is specific when	
The nature and required level of performance of the target is clearly identifiable.	
A target is measurable when the required performance can be measured.	
A target is time bound when the timeframes for achievement of targets are indicated.	
Relevance: Performance measures / indicators relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives.	
The performance measure/ indicator and target relates logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives.	FMPPI chapter 3.2 and 4 by NT
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance / target achievements is valid, accurate and complete.	
Reported performance occurred and pertains to the reporting entity (valid). Reported performance is recorded and reported accurately (accurate). All actual performance is recorded and included in the reported performance information (complete).	PFMA sec 55(2)(a) FMPPI chapter 5

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Annexure E: Auditor-general's responsibility for the audit of the reported performance information

127. As part of our engagement conducted in accordance with ISAE 3000, we exercise professional judgement and maintained professional scepticism throughout our reasonable assurance engagement on reported performance information for selected objectives.

128. We are independent of the entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

a. Quality control relating to assurance engagements

129. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

b. Reported performance information

Reasonable assurance engagement

130. In addition to our responsibility for the assurance engagement on reported performance information as described in the auditor's report, We also:

- identify and assess risks of material misstatement of the reported performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. In making those risk assessments, we consider internal control relevant to the management and reporting of performance information per selected objective in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control.
- evaluate the documentation maintained by the public entity that supports the generation, collation, aggregation, monitoring and reporting of performance indicators and their related targets for the selected objectives.
- evaluate and test the usefulness of planned and reported performance information, its consistency with the approved performance planning documents of the public entity and whether the indicators and related targets were measurable and relevant.
- evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete.

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c. Communication with those charged with governance

131. We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

132. We also confirm to the accounting authority that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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Annexure F: Assessment of internal controls

133.Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the annual performance report to be materially misstated, and material instances of non-compliance with legislation to occur.

134.The internal controls were assessed as follows:

☺	The required preventative or detective controls were in place.
😐	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
☹	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

	Financial statements	Performance reporting	Compliance with legislation
	Current year	Current year	Current year
Leadership			
135.Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity	😐	😐	☹
136.Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls	☹	☹	☹
137.Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	☹	☹	☹
138.Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities	😐	☹	☹
139.Develop and monitor the implementation of action plans to address internal control deficiencies	☹	☹	☹
140.Establish and implement an information technology governance framework that supports and enables	☹	☹	☹

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	Financial statements	Performance reporting	Compliance with legislation
	Current year	Current year	Current year
the business, delivers value and improves performance			
Financial and performance management			
141. Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting			
142. Implement controls over daily and monthly processing and reconciling transactions			
143. Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information			
144. Review and monitor compliance with applicable legislation			
145. Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information			N/A
Governance			
146. Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored			
147. Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively			
148. Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation			

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SECTION 10: Summary of detailed audit findings

Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
ANNEXURE A - MATTERS AFFECTING THE AUDITOR'S REPORT									
FINANCIAL STATEMENT RELATED FINDINGS									
	Property, plant and equipment								
1	Existence of Property, aircraft and equipment could not be confirmed	✔					✔		
2	Discrepancies identified between SAP and MEMIS system relating to A class rotables	✔					✔		
3	Useful lives and residual values of property, aircraft and equipment not appropriately assessed in terms of IAS 16	✔		✔			✔		
4	Impairment loss calculation not properly supported by assumptions and data used not adequately justified, affecting the accuracy of the calculation	✔					✔		
	Maintenance costs								
5	Power- By- The- Hour (PBTH) C-check portion incorrectly recognised as an expense when paid	✔						✔	
6	Expenses not recorded in the financial year ending 2016/17	✔						✔	
7	Foreign currency transactions incorrectly translated at spot rate for the maintenance costs not in line with the adopted accounting policy	✔						✔	
8	Provision for C-check not recognised in the annual financial statements	✔						✔	
	Procurement and contract management								
9	Lack of management and processing of contract detail information captured on CLM	✔		✔			✔		
10	Services not procured through the process prescribed by the SAA SCM policy.	✔		✔			✔		

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Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
11	Quotation process followed for services above the quotation threshold	✔		✔			✔		
12	Total payments made exceeding quotation value	✔		✔			✔		
13	Deviation from competitive bidding process not justified	✔		✔			✔		
14	Award made to supplier without a valid tax clearance from SARS (Quotations)	✔		✔			✔		
15	Reason for confining (limited bidding) to one/specific suppliers not found to be justifiable since there are more suppliers who can offer the required services	✔		✔			✔		
16	Contract extension not done in accordance with SAA SCM policy 2	✔		✔			✔		
17	Supplier with highest preference points was not awarded the quotation	✔		✔			✔		
18	Three quotations not obtained and the deviation not approved	✔		✔			✔		
19	Contract extension not done in accordance with SAA SCM policy 1	✔		✔			✔		
20	Tender awarded to supplier who did not meet critical criteria evaluation	✔		✔			✔		
21	Tenders not advertised for a minimum period prescribed in the SCM policy before closure	✔		✔			✔		
22	Tender documents of the winning supplier not received before the closing date and time	✔		✔			✔		
23	Official procurement process not followed for contract renewals	✔		✔			✔		
24	Award made to a foreign supplier without a valid tax clearance from SARS certifying that tax affairs are in order (Tender)	✔		✔			✔		
25	Bids not evaluated in accordance with the preference point system as prescribed by the PPPF Act	✔		✔			✔		
26	Award made to a supplier without a valid tax clearance from SARS certifying that tax affairs are in order (Tenders)	✔		✔			✔		
27	Postponement of the closing date for RFP 068/2015 was not done in accordance with SAA SCM policy	✔		✔			✔		
28	Procurement issues identified on Swissport SA	✔		✔			✔		
29	No valid Tax Clearance Certificate (TCC) (GSM067/13)	✔		✔			✔		
30	Limitation of scope on the information requested relating to SCM 1	✔		✔			✔		
31	Official procurement process not followed in the Bidair contract renewal	✔		✔			✔		

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Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
	Irregular, Fruitless and Wasteful Expenditure								
32	Fruitless and wasteful expenditure due to overpayments of supplier	✔					✔		
33	Lack of investigations/actions for irregular expenditure incurred	✔		✔			✔		
34	Lack of effective and appropriate steps to prevent irregular and fruitless and wasteful expenditure	✔		✔			✔		
35	Subsidiary irregular and fruitless and wasteful expenditure included in the separate annual financial statement of SAA	✔		✔			✔		
36	Limitation of scope on the information requested relating to Irregular expenditure, Fruitless and wasteful expenditure and Consequence management	✔		✔			✔		
OTHER MATERIAL NON-COMPLIANCE									
37	SAA did not submit financial statements for audit within two months after the end of the 2016/17 financial year			✔			✔		
38	Non-compliance with section 45 of the Companies Act - Financial assistance provided to South African Airways Technical (SAAT) by South African Airways (SAA)			✔			✔		
39	Loan to Air Chefs issued without complying with section 45			✔			✔		
40	Loan to South African City Centre SOC Limited (SATC) issued without complying with section 45			✔			✔		
41	Potential additional financial assistance provided to SATC			✔			✔		
42	Non-compliance with the PFMA regarding maintaining and safeguarding of the Property, aircraft and equipment	✔		✔			✔		
	Audit of performance information								
43	Performance indicators and targets not measurable		✔				✔		
44	In-year changes made to the signed 2016/17 Shareholders Compact		✔				✔		
45	Net Promoter Score: The reported target is not accurate and completeness thereof of the reported data could not be confirmed		✔				✔		

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Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
46	Reported target for performance management not supported by valid performance contracts		✓				✓		
47	Misstatements of the validity, accuracy and completeness of local spend and total spend		✓				✓		
48	Misstatements on the validity, accuracy and completeness of BEE compliant spend		✓				✓		
49	Misstatements on total procurement spend, local spend and spend on BEE compliant companies listings		✓				✓		

ANNEXURE B - OTHER IMPORTANT MATTERS

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Finding no.	Finding	Classification: Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Rating: Matters affecting the auditor's report	Other important matters	Administrative matters
FINANCIAL STATEMENT RELATED FINDINGS									
	Property, plant and equipment								
50	Differences between the values capitalised on the Fixed Asset Register (FAR) and the documentation provided to support the values	✓						✓	
51	Maintenance expenses incorrectly capitalised as assets in the Fixed Asset Register (FAR)	✓						✓	
52	Operating expenditure incorrectly capitalised in Capital Work in Progress (CWIP) account	✓						✓	
53	Aircraft additions not componentised and depreciated as required by IAS 16 and the Fixed Asset Policy of the Entity	✓						✓	
54	Differences between the values in Capital Work in Progress (CWIP) and the documentation provided to support the values	✓						✓	
55	Discrepancies identified in the additions to Property, aircraft and equipment	✓						✓	
56	Existence of A class Rotables could not be verified	✓						✓	
57	Differences between the values capitalised on the Fixed Asset Register(FAR) and the documentation provided to support the values	✓						✓	
58	Foreign currency transactions incorrectly translated at spot rate for PAE not in line with the adopted accounting policy	✓						✓	
59	Assets selected from the floor could not be traced to the fixed asset register	✓						✓	
60	Opening Balance as per the 2016/17 draft AFS does not agree to the closing balance as per 2015/16 audited financial statements	✓						✓	
61	Differences identified between the annual financial statements and the fixed asset register	✓						✓	
	Intangible assets								
62	Amount per trial balance does not agree to the amount disclosed on Note 36 on the Annual Financial Statements	✓						✓	
63	Existence of assets could not be confirmed through physical verification	✓						✓	

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DD20-PS-0641

Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
64	Amortisation period and residual values of Intangible assets not appropriately assessed in terms of IAS38	✔						✔	
	Non-current assets held for sale								
65	Non-current asset classified as held for sale recognised at an incorrect amount	✔						✔	
	Cash and cash equivalents								
66	Incorrect disclosure of the bank overdraft balance of R 725 million (Group R755 million) considered to be from financing activities	✔						✔	
67	Non-disclosure of the significant amount of cash and cash equivalents not available for use	✔						✔	
68	Inadequate internal controls over credit/debit card clearing accounts				✔			✔	
69	Differences between bank confirmation balances and the bank balances in the trial balance	✔						✔	
	Equity: Subordinated loan								
70	Incorrect classification of the R1, 3 billion subordinated loan with Nedbank as equity	✔						✔	
	Trade and other receivables								
71	Consolidated issues noted on the neutrality advance assets affecting valuation and disclosure	✔						✔	
72	Opening balances: Maintenance Reserves debtors reflected as negative amounts	✔						✔	
73	Auxiliary Power Unit (APU) and Airframe hours not correctly calculated	✔						✔	
74	No documentary evidence to support estimated event costs for maintenance reserve payments	✔						✔	
75	Maintenance Reserves balance for certain components not separated in maintenance reserve calculation spreadsheet	✔						✔	

PS KTD

DD20-PS-0643

Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
76	Prepayment accruals are not timeously expensed	✔						✔	
77	Disclosure of foreign currency denominated accounts receivables are not restated at the spot rate at year end	✔						✔	
78	Discrepancies between gross debtor list and trial balance	✔						✔	
79	Interline provision for cargo were incorrectly allocated to provision for doubtful debt	✔						✔	
80	Pre-delivery payment amount incorrectly calculated due to impairment loss and reversal that were not supported by valid evidence	✔			✔			✔	
	Income tax and deferred tax								
81	Acknowledgement of receipt of the Group Annual Financial Statements (AFS) and the Annual Performance Report (APR) of the South African Airways SOC LTD (SAA) for the year ended 31 March 2017	✔						✔	
	Inventory								
82	Inventory listings totals do not reconcile to the balance in the AFS	✔						✔	
	Deferred revenue from tickets sales								
83	Disclosure of deferred revenue on ticket sales is not a true reflection of its components	✔						✔	
84	Disclosure of the revenue accounting provisions is not complying with IFRS	✔						✔	
	Non-current liabilities								
85	Misstatements identified on the SAA Share Incentive Trust	✔						✔	
	Voyager								

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Finding no.	Finding	Classification						Rating	
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
86	The fuel levy incorrectly calculated	✓						✓	
87	Incomplete Accrual of Voyager miles for SAA	✓						✓	
88	Incorrect period and incomplete recording of the SAA accrual and redemption	✓						✓	
89	Other airline redemption costs accrual account not cleared	✓						✓	
90	Discrepancies in the accrual of Voyager miles for SAA	✓						✓	
91	Profit/ loss journal erroneously processed	✓						✓	
92	Redeemed transactions not recorded in the SAA burn redemption report as well as the IFRIC 13 revenue recognition miles utilized report	✓						✓	
93	Differences identified in the recalculation of fair value	✓						✓	
94	Inconsistencies between the static file and the average revenue rates	✓						✓	
	Trade Payables								
95	Overstatement of trade and other Payables (GR/IR account)	✓						✓	
96	Long outstanding invoices as at 31 March 2017 not being cleared within SAA standard payment terms of 30 days	✓						✓	
97	No assessment was performed regarding discounting of account payables for the year 2016/17	✓						✓	
98	Incorrect classification of general ledger accounts into account payable	✓						✓	
99	Reclassification of prior year trade and other payables to provisions (current liabilities) without a prior period error note (IAS) 8	✓						✓	
100	Fruitless and wasteful expenditure due to double payment on invoices	✓		✓				✓	
	Provisions								
101	Provision for aircraft return conditions not in accordance with applicable financial reporting framework	✓						✓	
102	Engines covered by Power By the Hour agreement incorrectly stated as not covered by Power By the Hour on the Provision for lease liability calculation	✓						✓	

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Finding no.	Finding	Classification						Rating	
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
103	Contingent liabilities incorrectly classified as provisions	✓						✓	
104	Assumptions and key judgements made by management on maintenance reserves and provision for lease liabilities not adequately documented and approved	✓						✓	
	Post-employment benefits								
105	Differences identified on the Defined Benefit Plan disclosure – German fund	✓						✓	
106	Discrepancies noted on the data validation performed on employees at SAA Frankfurt office	✓							
	Revenue								
107	Incorrect classification of general ledger accounts in revenue and receivables	✓						✓	
108	Prescribed and unutilised taxes aren't recognised with other prescribed tickets	✓						✓	
109	Deficiencies in the internal controls for loading of special proration agreements on APRA				✓			✓	
110	Internal control deficiencies identified in the approval and loading of airline fare prices				✓			✓	
	Cargo revenue								
111	Material misstatements relating to completeness, accuracy and occurrence of the reported cargo revenue figure	✓						✓	
112	Completeness of mail revenue could not be confirmed: Delivery bills (CN38) could not be traced to the statement of weights data (CN66)	✓						✓	
113	Revenue freight and mail - overstatement of unreported sales	✓						✓	
	Other income								

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Finding no.	Finding	Classification: Misstatements in financial statements	Classification: Misstatements in annual performance report	Classification: Non-compliance with legislation	Classification: Internal control deficiency	Classification: Service delivery	Classification: Matters affecting the auditor's report	Rating: Other important matters	Rating: Administrative matters
114	Under collection of operating lease income due rental rates not escalated according to contractual terms	✔						✔	
115	Deficiencies in lease contract administration and keeping of a rental database	✔						✔	
116	Incomplete operating lease income disclosure for aircraft leases	✔						✔	
	Human resources								
117	Reasons for suspensions not documented on the suspension report	✔						✔	
118	Suspension- Excessive duration for suspensions	✔						✔	
119	Acting/ responsibility allowances: employees acting for more than 6 months in management positions	✔						✔	
120	Leave accrual discrepancies in leave closing balances	✔						✔	
121	Leave accrual discrepancies in opening and closing leave balance	✔						✔	
122	Organisational Structure: Discrepancies between approved hard copy organisational structures and what is captured on SAP Organisational Management	✔						✔	
	Aircraft lease costs								
123	Aircraft lease cost translated at an incorrect exchange rate	✔						✔	
124	Aircraft lease costs expenses incorrectly recorded in the financial year ending 2016/17	✔						✔	
	Commissions and distribution costs								
125	Over accrual of marketing incentives payments at yearend	✔						✔	
	Goods and services								
126	Inconsistencies identified in the recalculation of the accommodation and refreshments amounts	✔						✔	

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Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
	Operating expenses								
127	Transactions relating to expenses recorded in the incorrect accounting period	✓						✓	
128	Invoices not paid within the agreed payment terms	✓						✓	
129	Supporting documentation relating to other operating expenditure not submitted for audit purposes	✓						✓	
	Foreign Exchange Transactions								
130	Internal control deficiency: inconsistent application of exchange rates for financial reporting	✓			✓			✓	
	Income tax								
131	Incorrect tax laws application relating to componentisation of fixed assets	✓						✓	
132	Renovations to immovable property	✓						✓	
133	Adjustment of accumulated loss for non-deductible legal fees	✓						✓	
134	Taxation opening balances differences	✓						✓	
135	Withholding tax on royalties	✓						✓	
136	Apportionment on wear and tear on additions incorrectly done	✓						✓	
137	Incorrect accounting of passenger service charges for income tax and VAT	✓						✓	
138	No Value-Added Tax reconciliation to the revenue per the trial balance done	✓						✓	
139	No Value-Added Tax output accounted for on long outstanding creditors	✓						✓	
	Indirect taxes - VAT								
140	No policies and procedures to identify personal service providers				✓			✓	
141	No fringe benefit assessment done on the use of cell phones				✓			✓	
142	Perks tax not levied on free flights confirmed	✓						✓	
143	No tax withheld on bursaries awarded to employees	✓						✓	

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Finding no.	Finding	Classification						Rating	
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
	Disclosure matters								
144	Findings from analysis of the disclosures in the consolidated annual financial statements for compliance with IFRS	✓						✓	
145	Impairment for the SAAT loan account of R1.2 Billion not provided for and remaining investment not impaired	✓						✓	
146	Contractual capital commitments not disclosed in the current and prior periods in the annual financial statements	✓						✓	
OTHER NON-COMPLIANCE									
	PFMA and Companies act								
147	Amounts payable to Mango by South African Airways			✓				✓	
	Audit of performance information								
148	Prescribed time frames for submission of quarterly reports to National Treasury not achieved			✓				✓	
149	Inadequate risk assessment procedures to identify risks regarding performance information reporting			✓				✓	
	Procurement and contract management								
150	Suppliers in which partners or associates of employees of SAA have an interest			✓				✓	
151	No bid specification and evaluation compiled by the committee prescribed by the SCM policy			✓				✓	
152	Supplier who did not meet minimum threshold of 70% for functionality was evaluated further			✓				✓	
153	Incorrect calculations for preference points			✓				✓	
154	Quotations obtained from suppliers who are not registered on SAA's approved			✓				✓	

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Finding no.	Finding	Classification: Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Rating: Other important matters	Administrative matters
	prospective supplier database								
155	B-BBEE points awarded during evaluation using an invalid certificate B-BBEE certificate			✓				✓	
156	Bid committees not constituted by representatives prescribed by the SCM policy			✓				✓	
157	Bid specifications not approved in terms BAC terms of reference			✓				✓	
158	Contracts not signed by both the successful bidder and a delegated official			✓				✓	
159	Significant deficiencies of internal controls in contract management			✓				✓	
160	SCM policy deficiencies identified			✓				✓	
161	Limitation of scope on the information requested relating to SCM 2	✓		✓				✓	
	Irregular, fruitless and wasteful expenditure								
162	Inadequate measures/controls in place to prevent irregular and fruitless and wasteful expenditure				✓			✓	
163	Disclosure note for irregular and fruitless and wasteful expenditure does not separate between expenditure relating to the company and group	✓		✓				✓	
164	Inaccurate disclosure of fruitless and wasteful expenditure for recoveries	✓		✓				✓	
165	Internal audit function the owner of the fraud prevention plan				✓			✓	
	IT audit - procurement and payables related								
166	Inadequate configuration of cost centre budget validation controls				✓			✓	
167	Vendors record attributes created in production are not unique				✓			✓	
168	Segregation of duties in the SCM process				✓			✓	

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DD20-PS-0651

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Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

MANAGEMENT REPORT ON OUTSTATIONS OF SOUTH AFRICAN AIRWAYS SOC LTD
31 March 2017

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Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

MANAGEMENT REPORT ON OUTSTATIONS

South African Airways SOC LTD
31 March 2017

CONTENT

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MANAGEMENT REPORT OF THE SOUTH AFRICAN AIRWAYS SOC LTD OUTSTATIONS FOR THE YEAR ENDED 31 MARCH 2017

INTRODUCTION

1. The purpose of this management report is to communicate audit findings and other key audit observations to the accounting authority of SAA regarding the audit of SAA outstations. In our consideration, this document should not be considered as public information. This management report includes audit findings arising from the audit of the financial information and compliance with legislation for the year ended 31 March 2017. These findings were communicated to management at both the outstations and head office to incorporate their responses.
2. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Key audit messages and audit recommendations to address the internal control deficiencies identified in the outstations visited is also included in this report. Addressing these deficiencies will help to improve the audit outcome.
3. The report consists of an executive summary and table of detailed audit findings which is a summary of the detail audit finding headings contained in annexure A and B of each outstations separate summarised management report provided as annexures to this report.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

4. Our responsibilities included the following:
   - Performing procedures to obtain audit evidence about financial information and compliance with legislation applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement.
   - Considering internal controls relevant to the processing of the financial information and compliance with legislation.
   - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial information and compliance with legislation.
5. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial information and or compliance with all applicable legislation.

MANAGEMENTS RESPONSIBILITIES

6. Management's responsibilities include the following:
   - Designing, implementing and maintaining proper record keeping and internal controls necessary to enable head office management to prepare financial statement that are free from material misstatement whether due to fraud or error.
   - Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
   - Designing, implementing, reviewing and monitoring of compliance with legislation.
   - Providing access to all information that is relevant to our audit, such as records and documents.

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EXECUTIVE SUMMARY

OVERVIEW OF THE OUTSTATIONS

Selection of outstations

7. SAA has a total of 35 outstations operating at its major regional and international destinations. These outstations appoint a number of employees and would therefore incur salaries and administrative related expenditure. Outstation staff would be responsible for, commercial and operational functions at the outstation locations which include engagements with transport and aviation authorities, marketing and selling of the SAA brand and air tickets, administer refunds of air tickets, ensuring compliance with applicable laws and regulations of that jurisdiction, performing airport operational services, manage country asset, contracts, cash and bank accounts.. We have assessed the significance of these outstations based on our audit methodology and materiality and we concluded that individually, each location is not significant; however in aggregate certain components would be considered significant.

8. In order for us to express an opinion or a conclusion on the financial statements, selected objectives and selected subject matters or focus areas for SAA in 2016/17 financial year; we needed to perform detailed audit procedures at these outstations. According to the AGSA audit methodology, a location can be considered significant or material based on its specific nature or circumstance. This may include a significant risk or instances of non-compliance identified at a location that will potentially result in material misstatement at the auditee. Political or media interest in the location for the past 12 months may also be an indication of significance.

9. The outstations were selected in accordance with the AGSA multi-location audit methodology. We considered the total expenditure incurred at the outstation as the main driving factor. The supply chain management (SCM) risk relating to one time vendors payments, fraud risk indicators from the discussions with chief financial officer (CFO), chief audit executive (CAE) as well as previous findings of internal audit were also considered. The selection of the outstations audited was considered high risk outstations based on both quantitative and qualitative factors, outstations not connected to SAP and outstations that SAA management specifically requested to be audited. In total, six (6) outstations was selected.

10. We also took into account the key strategic objective of SAA to achieve and maintain commercial sustainability when making the selection of outstations.

11. The following are the outstations selected for audit:

<table>
<tr><th>Location</th><th>Country</th><th>Key audit areas</th></tr>
<tr><td>Lagos</td><td>Nigeria</td><td rowspan="6">Performance management
Procurement and contract management
Operating expenses
Property, plant and equipment
Human resources management
Cash and cash equivalents
Refunds</td></tr>
<tr><td>London</td><td>England</td></tr>
<tr><td>Sau Paulo</td><td>Brazil</td></tr>
<tr><td>Fort Lauderdale</td><td>United States of America</td></tr>
<tr><td>Windhoek</td><td>Namibia</td></tr>
<tr><td>Accra</td><td>Ghana</td></tr>
</table>

12. We confirmed that records relating to the key audit areas are processed and kept at the locations visited.

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Analytics on outstations

13. The following analytical representations are to provide perspective to the consideration applied on selection of outstations as explained above. Kindly note that the information used to base these statistics on were as per cost centre and route profitability analysis of SAA and not necessarily audited on the basis of correct classification to cost centres.

Figure 1 below breaks the revenue per location showing which regions makes up the biggest contribution to the total revenue of SAA.

Figure 2 below indicates the relationship between the available seats compared to the passenger revenue earned per location.

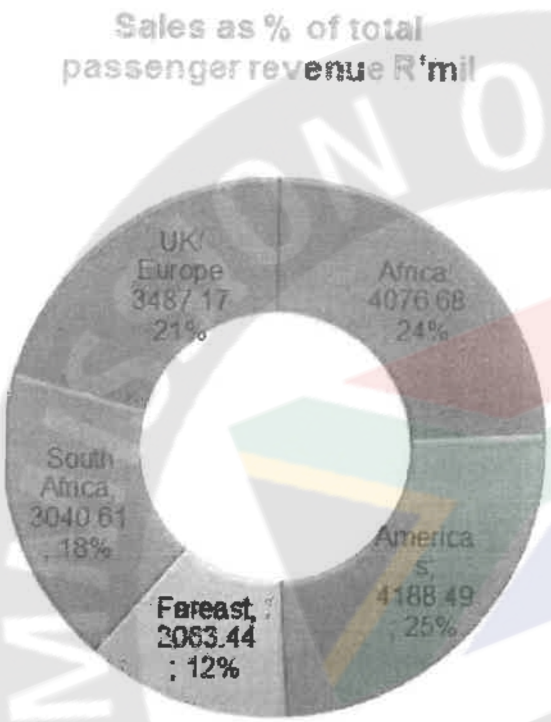

Figure 1

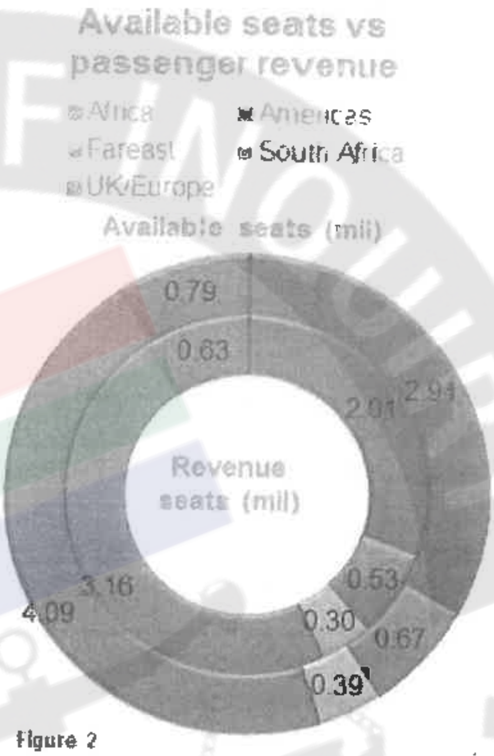

Figure 2

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Figure 3 below indicates the relationship of the total HR cost versus the total employees employed and split between outstation and head office.

Figure 4 below shows detailed breakdown of the total cost compared to the number of employees at the various regions.

Figure 3

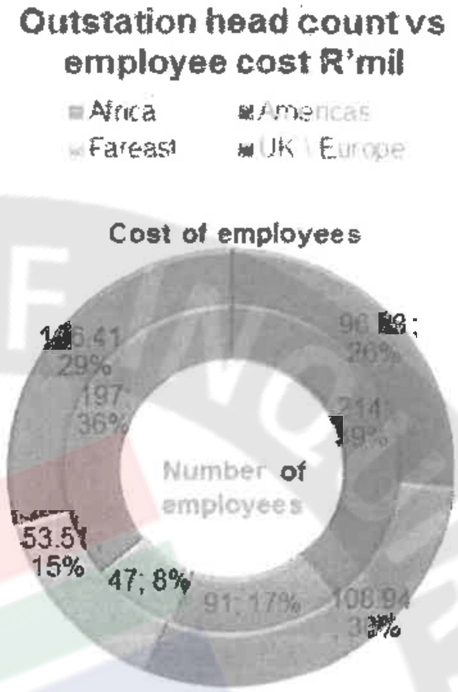

Figure 4

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Figure 5 and 6 below indicates the amount of revenue per employee and amount of cost per employee. While figure 7 put the total expenditure of international outstations into perspective to SAA's own total expenditure.

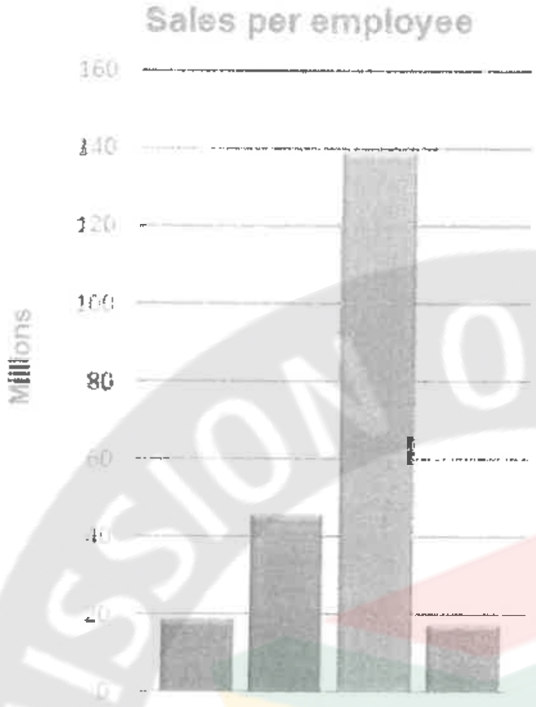
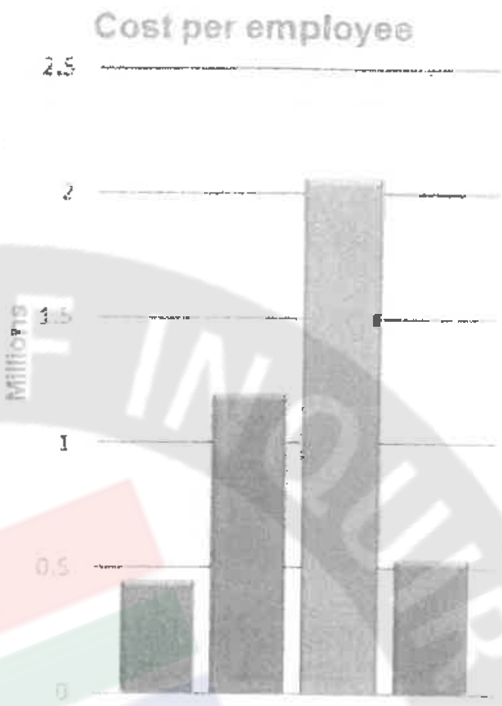


Figure 5



Africa Americas Fareast UK/Europe

Figure 6

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DD20-PS-0658

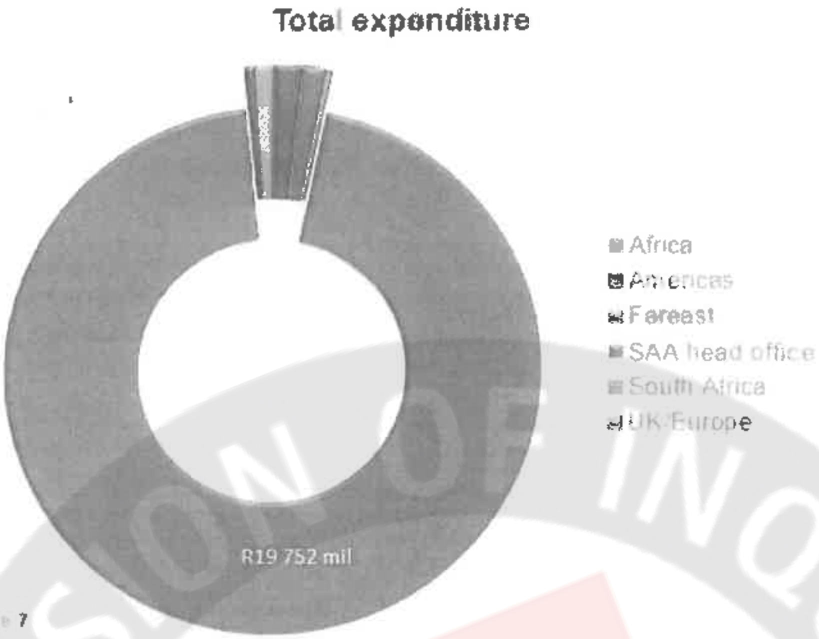

Figure 7

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The figure 8 represents that total property, plant and equipment cost and carrying value for head office in comparison to the outstations audited. Figure 9 represents that percentage of assets per region in comparison to head office on a cost and carrying value bases.

Figure 8

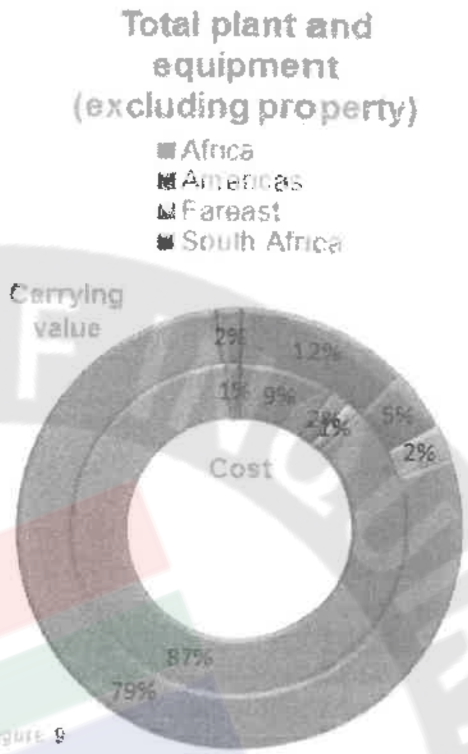

Figure 9

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DD20-PS-0660

KEY AUDIT MESSAGES

Status of the drivers of internal controls

Leadership	Financial and performance management	Governance
Effective leadership culture	Proper record keeping	Risk management
Oversight responsibility	Processing and reconciling controls	
HR management	Regular reporting	
Policies and procedures	Compliance monitoring	
	IT system controls	

Good | Concerning | Intervention required

INTERNAL CONTROL

Achievement of internal control objectives

14. Significant deficiencies in internal controls that resulted in findings on compliance with applicable legislation, operating expenses, property, plant and equipment, cash and cash equivalent, human resource management, refunds and performance management as depicted by the graphic above are summarised below:

- **Leadership**

Oversight responsibility

15. Due to lack of policies and procedures there is no effective oversight over the affairs of the outstations and there are no proper mechanisms to report effectively information from outstations to head office.

Policies and procedures

16. There is no effective communication of policies and procedures with regards to the accounting of the assets at the outstations.

Effective leadership culture

17. Through audit observations it was noted that there very limited visibility of exco at the outstations, which creates the perceptions that outstations are not considered to be critical to head office.

Human resources management

18. SAA has not tailored their human resource standard operating procedure manual for international employees per outstation enough to ensure that the requirements per the country payroll administration are catered for. An example of this is the data protection act requirements in countries like United Kingdom and USA which prevents certain data from being stored by SAA has not been catered for in the payroll manual.

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19. There is a lack of review from head office to ensure that leave supporting schedule is being updated and reflects the current status of the leave balance at year end.

Procurement and contract management

20. There is no consistent communication and training on implementation of the SCM policy throughout the outstations by the head office which has resulted in material findings due to non-compliance with legislation and the SCM policy.

21. The management of the outstation did not implement a consistent system or process in order to enable the entity to satisfy them that what the outstation is paying for is what has been procured and that this has been received.

Refunds

22. There is no effective communication of policies and procedures with regards to the processing and administration of refunds and several instances of policy transgression were noticed during the assessment of paid refund.

- **Financial and performance management**

Property, plant and equipment

23. The asset management module on SAP system has not been rolled out at the outstation level and the asset register which include assets for all outstations is maintained at head office with no control by outstations. The asset register from head office is not complete as numerous assets were identified at the outstations visited which were not recorded in the fixed assets register maintained at head office. The lists of assets which are maintained at the outstations are not sent to head office for uploading on the fixed asset register module which is maintained on SAP system.

24. The assets which are owned by the outstations are not separately identifiable on the fixed asset register as a result assets could not be physically verified and confirmed in the fixed asset register. The useful lives and residual values of assets which are fully depreciated are not assessed as required by the accounting standards. These matters clearly demonstrate that there is no proper record keeping for assets and there are no clear roles and responsibilities to ensure that proper reconciliations are prepared and the discrepancies are identified, followed up and resolved.

Human resources management

25. The SAP module has not been rolled out at the outstations level, leave recording and payroll run processes are not done on the system but rather maintained in excel spreadsheets which are not adequately reviewed. This may resulted in discrepancies when calculating leave pay-out or the provision.

26. Standard operating procedures are being circumvented by outstations when appointing temporary/permanent staff where approval for man power requisition form was not obtained. The manpower requisition form clearly indicates that the only service providers and on the SAA preferred list of suppliers may be utilised through collaboration with the human resource business partner to source a temporary contractors. The contractor appointed is not part of the preferred supplier list and thus is paid from the one time vendor account.

Procurement and contract management

27. The supply chain management prescripts were not adhered to due to incorrect application of SCM policy especially in contract management.

28. Head office did not provide oversight to ensure that outstations comply with SCM prescripts by properly documenting deviations in light of the cash conservation initiatives which do not allow for conclusion of contracts that last more than six months.

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Performance management

29. There is no balance score card (BSC) in place for 2016/17 financial year per outstation that has been cascaded from the company's long term turnaround strategy (LTTS). The LTTS has five strategic objectives i.e. support national development agenda, achieve and maintain financial sustainability, provide excellent customer service, achieve consistent, efficient and effective operations and foster performance excellence. These five strategic objectives are supported by key performance indicators as per 2016/17 shareholders compact (SHC). As the SHC sets out the planned key performance indicators, it is expected that the BSC of the outstation and the region is aligned to the SHC of the company. The performance agreements of individual managers should be cascaded from the strategic objectives of SAA which should link back to the SHC and the LTTS.

Operating expenses

30. The outstations do not have the SAP modules for the purchase orders and goods received notes, the expense authorisations used at the outstations do not confirm the date of the goods/services that have been received by the outstations.

31. Fruitless and wasteful expenditures have been incurred at the Brazil outstation on fines and penalties paid by the outstations for inadmissible passengers.

32. Regional manager does not have the signed power of attorney document giving him the authority to be the true and lawful agent and delegate on behalf of SAA in respect of the territory of the country (Nigeria – Lagos) to be able to perform his daily duties. All the transactions that have been approved by the regional manager are invalid and are irregular as he did not have the power of attorney in place

Refunds

33. Based on the inconsistencies identified in the administration and processing of refund transactions at outstations, the internal controls over daily and monthly processing and reconciling of refund transactions does not ensure that adequate, verifiable evidence exist to monitor and validate refund transactions. Instances of inadequate segregation of duties were also identified at one of the outstations visited.

Cash and Cash Equivalents

34. The regional financial manager did not exercise oversight responsibility regarding financial reporting and related internal controls by ensuring the bank reconciliation have been prepared and appropriately reviewed. This might result in non-detection of errors on bank reconciliations and reconciling items will not be followed up and resolved.

35. There are no clear instructions as to what is the appropriate approval process for bank reconciliations of the outstations.

- **Governance**

36. Risk assessment for outstations are not communicated effectively and regularly to the outstations. There is no evidence that there is a documented fraud risk assessment that is conducted for all the outstations.

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KEY AUDIT RECOMMENDATIONS

37. We have included key audit recommendations for each area where internal control deficiencies were identified during the audit of the outstations.

Property, plant and equipment

The asset management team of SAA and the regional finance manager should:

38. Ensure that the function of accounting of assets on SAP should be decentralised to allow for regional finance managers to account for assets and in order to update the fixed asset register for assets under their control. This should be linked to their performance agreements and job descriptions to ensure accountability.

39. Ensure that assets which are recorded as projects on the asset register have a detailed sub population included in the SAP module to enable management and auditors to perform asset verifications and to properly account for them in the financial statements.

40. Conduct annual physical verifications as required by the policies and procedures of SAA to ensure that all assets in the outstation exist and are properly accounted for including the processing of adjustments for impairments and de-recognition of assets where required.

41. Review the asset register and reassess the useful lives of all assets in accordance with the accounting standards.

42. Ensure that each asset is tagged when purchased and that this is recorded on SAP fixed asset register module or is communicated to the head office for updating in the fixed asset register.

43. Ensure that policies and procedures are effectively communicated to the outstations so that there is uniform accounting treatment of assets. The roles and responsibilities of outstation management need to also be clearly articulated in the policies and procedures.

Human resources management

The human resources team at head office and the regional finance manager should:

44. Ensure effective collaboration between head office HR and station management in reviewing Annexure F (HR master file for no live SAP outstations) and the notch increment cycles and wage agreements when changes occur.

45. Develop a standard leave capturing template that will be updated monthly and sent timeously to head office for calculating the leave provision. Review should be done by the head office HR on the submissions made by outstations to ensure that leave balance is correctly accrued and deducted.

Procurement and contract management

The following are recommendations relating to procurement and contract management:

46. Acting Chief Procurement Officer and the General Manager: Legal Risk and Compliance must communicate the latest approved SCM policy to the outstations with immediate effect. An updated SCM Policy should also be communicated after effecting the corrective measures to address the control deficiencies identified during interim audit, to the outstations and ensure that training/workshop is provided in terms of the implementation of the policy.

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47. The Country Manager and the Regional Finance Manager must always ensure compliance with legislation regarding the procurement of goods and services by developing the SCM checklist which each country manager should confirm compliance with the policy.

48. Non-compliance must be communicated to the head office as and when it occurs, so that it can be included in the register of irregular expenditure and investigated so that there are consequences for the responsible officials based on the outcome of the investigations.

Operating expenses

Head office and regional finance manager should:

49. Ensure that a purchase order module and received module is rolled out at all the outstations that will be used when procuring goods and/or services.

50. Ensure that fruitless and wasteful expenditure incurred is communicated to head office and disclosed accordingly in the notes to the financial statements investigated so that there are consequences for the responsible officials based on the outcome of the investigations.

Performance management

51. The chief strategy officer of SAA should develop the balance score card of each outstation per the approved shareholder compact which should be aligned to the strategic objectives as per the LTTS. This will ensure that the outstations are able to contribute in a way that can be measurable in achieving the LTTS objectives of SAA.

Refunds

The following recommendations should be implemented for the processing of refunds at outstations by both the revenue management and the regional finance manager:

52. Where SAA refunds policy is in conflict with local legislation or standard practice within the environment that the outstation operates, the process for policy development and revision should facilitate a process for input by regional finance managers to take into consideration as a minimum:
    - Legislative requirements around the safeguarding of customer's personal information.
    - Refund and administration fees schedules to be charged by the outstation that is benchmarked against other airlines operating in that region.
    - Administrative responsibilities to positions appointed at outstations pinning down responsibilities of reviewing and reporting refunds to head office.

53. All staff members involved in the processing of refunds should be trained and attend frequent refresher sessions especially when changes are made to the refunds policy to ensure a proper understanding of the requirements and minimum documentation required.

54. Failure by staff members to comply with policy requirements for refunds and the levying of administration fees should follow the required internal discipline route as this might have resulted in a loss of potential revenue for SAA.

55. The regional finance manager must ensure that adequate segregation of duties exists between the capturer\processor and approver of a refund transaction. Workflow processing on the SAP Refunds module should be reviewed annually by the head of the revenue department to ensure that segregation of duties is adequately configured on SAP.

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Cash and cash equivalents

56. Clear instructions as to what is the appropriate approval process and review for bank reconciliations should be communicated to the outstations and mechanisms to ensure adherence to the instructions should be implemented.

MATERIAL MATTERS

MATERIAL MISSTATEMENTS IN THE FINANCIAL STATEMENTS

Material misstatements were identified during the audit that were not prevented or detected by the Outstation's system of internal control. These material misstatements also constitute non-compliance with the PFMA:

Material misstatements		**Impact**
	Brief description of misstatements	**(R)**
Material misstatements not corrected		
Financial statement item		
Irregular expenditure	Non-compliance with SCM prescripts where services were procured without inviting competitive bids and the reasons for deviation were not recorded	5 731 753.54
	Procurement for the transaction below occurred without obtaining at least three written price quotations from prospective suppliers and the reasons were not recorded for the deviation	165 871.22
	From inspection of the outstation's management accounts for the year under review and through enquiry from the Country Manager, it was confirmed that the country manager does indeed approve settlement of sums in excess of his delegated R1million (±£58k) per month	10 964 684.61
	Non-compliance with SCM prescripts resulting in irregular expenditure that was not previously identified and disclosed as irregular expenditure.	2 981 650.95
	Regional Finance Manager-Africa did not exercise oversight responsibility to ensure that irregular expenditure is prevented by complying with the SCM policy. SAA did not follow the competitive bidding/procurement process required by the SCM policy	6 047 610.17
	Country manager did not implement controls over daily and monthly processing and reconciling of transactions. Regional manager did not provide outstation with the supply chain management policy that the outstation should use when procuring goods and services	20 320.50
	No signed Power of Attorney in place at the Lagos outstation	34 503 477.53
Fruitless and wasteful expenditure	The accounting authority did not take effective and appropriate steps to prevent fruitless and wasteful expenditure that was levied and is still being levied against SAA.	700 089.32
Property, plant and equipment	Completeness of the fixed asset register could not be confirmed through asset verifications	442 417 337.69
	Existence of assets could not be confirmed through physical verifications	87 621 242.55
	Useful lives and residual values of assets not assessed as required by the accounting standards	260 786 708.40
	Assets which are not owned by SAA included in the fixed asset register	1 210 793.69

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FINDINGS ON COMPLIANCE WITH LEGISLATION

Procurement and contract management

57. We were unable to obtain sufficient appropriate audit evidence that goods, works and services were procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1) (a) (iii) of the PFMA.

58. Goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1) (a) (iii) of the PFMA.

Expenditure Management

59. Effective steps were not taken to prevent irregular expenditure amounting to R 60 415 365 (outstations) as disclosed in note xx to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA

60. The accounting authority did not take effective steps to prevent fruitless and wasteful expenditure, as required by Section 51(1) (b) (ii) of the PFMA.

RATINGS OF DETAILED AUDIT FINDINGS

61. For the purposes of this report, the detailed audit findings have been included in annexures A and B of the individual management report of the outstations reflecting material matters (may potentially impact on the auditor's report) and non-material matters, respectively. Note that a separate annexures have been attached detailing the findings per outstation visited.

CONCLUSION

62. The matters communicated throughout this report should be addressed to achieve sustained clean administration. The AGSA staff remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Zolisa Zwakala
Business Executive: National E

14 June 2017

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Distribution:
CEO
CFO
EXCO
Audit committee
Head of internal audit

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SUMMARY OF DETAILED AUDIT FINDINGS

No	Finding	Classification					Key internal control			Finding applicable to outstation						
		Misstatements in financial statements	Performance management	Non-compliance with legislation	Internal control deficiency		Leadership	Financial and performance management	Governance	Windhoek	Accra	Lagos	London	Fort Lauderdale	Sao Paolo	% of outstations where finding noted
	Budget/Performance management															
	No balance score card in place per outstation		X				X			X	X	X	X	X	X	100%
	Performance agreement not appropriately approved		X				X			X	X	X	X	X		83%
	Procurement and contract management															
	Services not procured through a competitive bid			X				X					X			17%
	Three quotations not obtained and the reasons not documented			X				X					X			17%
	Supply Chain Management processes not followed on extension/new supplier contracts			X				X							X	17%
	Procurement process not followed to award a contract to Dial-A- Cab and Southern Cross Security Services			X				X		X						17%
	No approved supplier list at the outstation			X			X			X			X	X		50%
	Non-compliance with the SCM Policy, treasury regulation and practice notes			X				X			X					
	Limitation of scope on contract management sampled items			X				X						X		17%
	Operating expenses															
	Fruitless and wasteful expenditure on fines paid	X						X							X	17%
	Accrual basis of accounting concept not applied	X						X							X	17%

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SUMMARY OF DETAILED AUDIT FINDINGS																	
No	Finding	Classification					Key internal control			Finding applicable to outstation							
		Misstatements in financial statements	Performance management	Non-compliance with legislation	Internal control deficiency		Leadership	Financial and performance management	Governance	Windhoek	Accra	Lagos	London	Fort Lauderdale	Sao Paolo	% of outstations where finding noted
	consistently															
	Discrepancies identified on other operating expenses	X						X				X				17%
	Other operating expenditure recorded in the incorrect period	X						X				X				17%
	Exchange differences not accounted for relating to expenses	X						X				X				17%
	Control deficiency relating purchase orders and goods received notes				X			X		X	X	X	X			67%
	Property, plant and equipment															
	Completeness of the fixed asset register could not be confirmed through asset verifications	X						X		X	X	X	X	X		83%
	Useful lives and residual values of assets not assessed as required by the accounting standards	X						X		X	X	X	X	X		83%
	Assets incorrectly classified				X								X			17%
	Existence of assets could not be confirmed through physical verifications	X						X		X	X	X	X	X		83%
	Human resource management															
	Manpower requisition form which services as approval from Head office not provided for audit				X		X						X			17%
	No verification of employee qualifications were performed				X		X							X		17%

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SUMMARY OF DETAILED AUDIT FINDINGS

No	Finding	Classification				Key internal control			Finding applicable to outstation						
		Misstatements in financial statements	Performance management	Non-compliance with legislation	Internal control deficiency	Leadership	Financial and performance management	Governance	Windhoek	Accra	Lagos	London	Fort Lauderdale	Sao Paolo	% of outstations where finding noted
	Employment contracts not signed at an appropriate level and confidentiality undertaking not signed				X	X						X			17%
	Performance agreements not signed for contracting				X	X					X			X	33%
	Discrepancies noted in the leave provision calculations	X								X	X			X	50%
	Annexure F (master-file data for outstation) not properly maintained	X				X				X				X	33%
	Accrued leave not awarded interims of the policy	X					X			X	X			X	50%
	Leave discrepancies noted: - Leave recorded in the incorrect period - Recorded leave not supported approved leave form - Approved leave not recorded in the excel schedule based on the leave forms - Incorrect leave recorded in the leave schedule	X					X				X				17%
	Discrepancies in salary scales used when appointing staff				X	X						X			17%
	One time vendor accounts used to pay temporary staff	X				X						X			17%
	Overpayment of subsistence allowance	X				X			X						17%
	Subsistence and travel claim note approved by financial controller				X	X			X						17%

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SUMMARY OF DETAILED AUDIT FINDINGS

No	Finding	Classification					Key internal control			Finding applicable to outstation						
		Misstatements in financial statements	Performance management	Non-compliance with legislation	Internal control deficiency		Leadership	Financial and performance management	Governance	Windhoek	Accra	Lagos	London	Fort Lauderdale	Sao Paolo	% of outstations where finding noted
	Subsistence paid out of petty cash				X			X					X			17%
	Cash and equivalents															
	Bank reconciliations not prepared and reviewed on a monthly basis				X		X			X		X			X	50%
	Long-outstanding deposits not cleared				X										X	17%
	Refunds															
	Non-compliance with the refunds policy rules, regulations and administration for refunds processed at outstations				X		X				X	X	X	X	X	83%
	Administration fee not levied in accordance with the rules and regulations for refunds				X			X				X		X	X	50%
	Inadequate controls over processing and approval of refunds				X			X					X			17%

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DETAILED AUDIT FINDINGS CONTAINED IN ANNEXURES

Annexure A

Summarised Management Report - Windhoek

Annexure B

Summarised Management Report - Accra

Annexure C

Summarised Management Report - Lagos

Annexure D

Summarised Management Report - London

Annexure E

Summarised Management Report - Fort Lauderdale

Annexure F

Summarised Management Report - Sao Paolo

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Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

SUMMARISED MANAGEMENT REPORT
SOUTH AFRICAN AIRWAYS SOC LTD
31 March 2017

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Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

MANAGEMENT REPORT

SOUTH AFRICAN AIRWAYS SOC LTD OUTSTATION – FORD LAUDERDALE
31 March 2017

CONTENT

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MANAGEMENT REPORT TO THE COUNTRY MANAGER OF THE SOUTH AFRICAN AIRWAYS SOC LTD FORT LAUDERDALE OUTSTATION FOR THE YEAR ENDED 31 MARCH 2017

INTRODUCTION

1. This management report includes audit findings arising from the audit of the financial information and compliance with legislation for the year ended 31 March 2017 which were communicated to management and includes their response to these finding.
2. The management report consists of executive summary and detailed audit findings which are contained in annexure A and B.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

3. Our responsibilities include the following:
   - Performing procedures to obtain audit evidence about financial information and compliance with legislation applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement.
   - Considering internal controls relevant to the processing of the financial information and compliance with legislation.
   - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial information and compliance with legislation.
4. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial information and or compliance with all applicable legislation.

MANAGEMENT'S RESPONSIBILITIES

5. Management's responsibilities include the following:
   - Designing, implementing and maintaining proper record keeping and internal controls necessary to enable head office management to prepare financial statement that are free from material misstatement whether due to fraud or error.
   - Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
   - Designing, implementing, reviewing and monitoring of compliance with legislation.
   - Providing access to all information that is relevant to our audit, such as records and documents.

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EXECUTIVE SUMMARY

SECTION 1: MATERIAL MATTERS

PART A – MATERIAL MISSTATEMENTS

6. The Fort Lauderdale outstation is commended for submitting financial information that is free of material misstatements.

PART B – FINDINGS ON COMPLIANCE WITH LEGISLATION

7. We were unable to obtain sufficient appropriate audit evidence that goods, works and services were procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1) (a) (iii) of the PFMA.

PART C – INTERNAL CONTROL

8. Significant deficiencies that resulted in the potentially material findings on the limitation of scope on contract management, the finding raised on fixed assets and matters reported on performance monitoring, are summarized below:

Financial and performance management

9. The asset management team of SAA did not ensure that:

   - Assets are recorded individually in the asset register based on a consistent and uniquely identifiable basis instead of recording assets as a project or in purchased bundles,
   - Controls over daily and monthly processing and reconciling transactions are implemented to ensure that instructions, roles and responsibilities for asset management is defined and communicated to regional finance managers,
   - Responsibilities are clearly defined in terms of procedures to be performed at outstations such as tagging of assets with uniquely identifiable numbers and regular physical verification and count of assets.
   - The FAR is reviewed on a regular basis to ensure compliance with accounting standards and there is communication to all relevant departments to verify assets and test for impairment.

Leadership

10. The executive leadership from head office has not established and communicated budget and forecasting policies and procedures to facilitate effective preparation and monitoring of budget for the company.

11. The executive leadership from head office has not established and communicated policies and procedures for quarterly reporting in order to facilitate effective performance monitoring, evaluation and corrective action. Furthermore roles and responsibilities of outstations regarding performance monitoring and accountability in executing the company strategy are not clearly defined.

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SECTION 2: RATINGS OF DETAILED AUDIT FINDINGS

12. For the purposes of this report, the detailed audit findings have been included in annexures A and B reflecting material matters (may potentially impact on the auditor's report) and non-material matters, respectively.

SECTION 3: CONCLUSION

13. The matters communicated throughout this report should be addressed to achieve sustained clean administration. The AGSA staff remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Polani Sokombela
Senior Manager: National E

26 May 2017

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Distribution:
CEO
CFO
Audit committee
Head of internal audit
Outstation management

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DETAILED AUDIT FINDINGS

ANNEXURE A: MATERIAL MATTERS

PROCUREMENT AND CONTRACT MANAGEMENT

1. Limitation of scope on contract management sampled items

Audit finding

In terms of section 54(1) of the PFMA (Act 1 of 1999), an accounting authority for a public entity must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require.

With reference to the request for information no. 40 of 2016/17 dated 4 May 2017, the following specific documents were requested for selected a sample of transactions relating to supply chain management:

a. Quotations
b. RFQ email
c. Approval schedule/Expense authorisation
d. Budget confirmation
e. Invoice
f. RFQ document
g. Supplier submitted documents with the RFQ

The table below indicate the selection of transactions for which the indicated documentation was not submitted to us to allow our audit of compliance with the SCM policy:

Table 1 - – Resolved, see auditors conclusion

No	Document No.	Transaction	Cost element name	Amount	Information received – referring to the listing above (Yes\No)						
					a.	b.	c.	d.	e.	f.	g.
1	1900643484	GLOBAL SECURITY-IAD A/C SVCS PE 03/01-31/16 #26389	Security : Services	$290 187.63	NA*	NA*	Yes	NA#	Yes	NA*	NA*
2	1900645887	GLOBAL SECURITY-IAD A/C SVCS PE 04/01-30/16 #26572	Security : Services	$261 422.13	NA*	NA*	Yes	NA#	Yes	NA*	NA*
3	1900647519	GLOBAL SECURITY-IAD A/C SVCS PE 05/14-31/16 #26751	Security : Services	$175 837.76	NA*	NA*	Yes	NA#	Yes	NA*	NA*
4	1900642556	FREIGHT AND DOCUMENTATION	Security : Services	R114 952.81	No	No	No	No	No	No	No
5	2100026025	FREIGHT AND DOCUMENTATION	Security : Services	R121 790.71	No	No	No	No	No	No	No
6	4905710284	AMENITY KIT ECONOMY CLASS (MOPTI)	Security : Services	R47 424.00	No	No	No	No	No	No	No
7	4905748415	AMENITY KIT ECONOMY CLASS (MOPTI)	Security : Services	R54 912.00	No	No	No	No	No	No	No

NA* – Not applicable
NA# – Not with outstation cost centre (Budgeted in JHB)

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In addition to the request mentioned above, no quotations, purchase orders, invoices, goods received notes, payment runs, creditors reconciliations, budget approval and expense authorisations were provided for item listed below relating to operating costs:

Table 2 – Resolved, see auditors conclusion

No.	Reference No	Posting Date	GL Account	Cost centre	Amount in USD	Amount in Document Currency
1	2100026224	22/09/2016	Airfreight	3713	203 339.91	9 547.84
2	2100025897	13/06/2016	Airfreight	3713	193 950.47	193 950.47
3	2100026025	25/07/2016	Airfreight	3713	121 790.71	121 790.71

The following supplier contracts selected from the contract register at the outstations for the contract period listed below were not provided:

Table 3 – Unresolved, see auditors conclusion

No.	Contract no	Supplier name	Contract start date	Contract end date	Additional comment
1	210	I&L Industrial laundry services	01/04/2014	31/03/2017	Only a letter of award was provided, the contract is still outstanding
2	213	Metropolitan Washington airport authority	01/01/2015	31/12/2017	New lease correspondence obtained but without the 2015 Use&Lease agreement
3	212	Swissport USA	01/01/2012	31/12/2018	No documentation was provided. Only an earlier contract was provided to us

This will result in a potentially material limitation of scope of other operating cost as well as irregular expenditure seeing that we were unable to determine the validity and accuracy of selected transactions and related compliance to procurement legislation. This would be considered a matter of non-compliance with the PFMA.

Internal control deficiency

Financial and performance management

The supply chain management unit did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Recommendation

The chief procurement officer should oversee the implementation of appropriate processes/systems to ensure proper record keeping in a timely manner. This will enable complete, relevant and accurate information being accessible and available to support financial, performance and compliance reporting. Supporting documentation should be filed on a frequent basis and

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properly referenced, for example, weekly or monthly and make reference to the responsible staff member so that documents could be obtained on a timeous basis when requested.

Management should also consider making use of electronically storing source documents (PDF) or using electronic signatures for review in the event that printing facilities aren't available or logistical challenges are faced. Ideally a well set up and maintained ERP system should house a full audit trail of submissions, review and approval of transactions that can be verified for audit purposes.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding:

Regarding the table on page 6 showing a selection of transactions for which the indicated documentation was not submitted:
Items 1 to 3 - Global Security IAD payments (Documents No. 1900643484, 1900645887 and 1900645887): as shown in the table all the documentation required to make the payment and kept in North America was available; the only documentation that was not provided was documentation that was not applicable due to the type of payment being made or that is kept in Head Office

Items 4 to 7 – Freight and Documentation and Amenity Kits (Documents No. 1900642556, 2100026025, 4905710284 and 4905748415): These items are recorded, paid and accounted for in Head Office and the documentation should be available there. These transactions were posted to Cost Center 3713 which is managed and budgeted at HO.

Regarding the three items on page 7 (Reference No. 2100026224, 2100025897 and 2100026025) indicating that no quotations, purchase orders, invoices, goods received notes, payment runs, creditors reconciliations, budget approval and expense authorisations were provided, please note that these amounts were recorded, paid and accounted for in Head Office and their documentation should be available there. Also, these transactions were posted to Cost Center 3713 which is managed and budgeted at HO.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:

Airport operations are not involved with the Procurement of any services. This is handled by GSM/Procurement in JNB. They may ask us initially to provide a list of vendors at the airport or to supply a list of hotels in the cities who may be interested in taking our crews. Once this action begins all communication between the vendor and GSM is directly between those entities and we at the airports only know when the business has been assigned/ contract awarded. The actual signed contract can take almost a year to complete</td></tr>
<tr><td colspan="3">Management comment on recommendation:</td></tr>
<tr><td colspan="3">Remedial action :</td></tr>
<tr><td>What actions will be taken:</td><td>By whom
Person:
Position</td><td>By when:</td></tr>
</table>

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Auditor's conclusion

Management's comment is noted. In response and receipt of certain information, the following consideration for evidence obtained is noted:

Table1:

Through engagement with management at SAA head office, it was discovered that all items in table 1 which were selected for testing followed the RFP (request for proposal) process instead of the RFQ (request for quotation) process resulting in contracted suppliers. Since the RFP process was followed, tender files were requested in order to test SCM policy compliance of the competitive bids and contract management.

Management within the SCM unit at head office adhered to the request by providing us with the tender files for all items. Items will be tested and relevant communication will be reported in the final management report to head office.

Table 2:

All the information was received by head office management and evaluated. No exceptions were noted.

Table 3:

Management provided no comments or information and therefore the imitation of scope remains on contract management remains.

The overall impact of all scope limitations for contract management will be assessed on for all outstations and head office samples to conclude during the final stages of the audit. This matter might therefore be considered as material given the potential collaborative impact that it might have on the completeness of potential irregular expenditure.

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PROPERTY, PLANT AND EQUIPMENT

2. Fixed asset register discrepancies and general asset management principles

Audit finding

Paragraph 3.3.6 of SAA's Fixed Assets Finance Policy states that "*a capex 4 form must be sent to the user by the Financial Officer: Capex once the asset has been capitalised and thus recorded in the fixed assets register*"

Paragraph 3.2.12 of SAA's Fixed Assets Finance Policy states "*that all assets must be tagged with the asset identification number*"

In terms of International Financial Reporting Standards (IFRS), IAS16.51 states that "*the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.*"

During the audit of property, plant and equipment we obtained a fixed asset register (FAR) from SAA head office in order to verify the validity, accuracy and completeness of assets represented in the financial statements. The following matters relating to verification and general asset management came to our attention:

a) Completeness of the FAR

A sample of the assets below was selected from the Fort Lauderdale outstation premises in an attempt to trace the assets back to the FAR. The assets in the following table could not be traced to the FAR as evidence that the assets were completely recorded:

No	Asset description	Audit issue identified in tracing the asset to the FAR	Asset number	Cost centre
1	Conference table chair	None identified	0027	Conference room
2	Conference table - 3 pieces	None identified	Not numbered	Conference room
3	Cubicles and workstations	3 entries referencing to *quantum mesh mid-back chairs & workstations*, items could not be individually traced or be accounted for in total.	Not numbered	Sales area
4	GE Sensor - Microwave oven	None identified	0172	Lunch room
5	Frigidaire Double door refrigerator	2 refrigerators are kept in the lunch room but only on refrigerator is listed in the FAR. The item cannot be individually identified on the information captured in the FAR.	0177	Lunch room

Upon further enquiry to station management, it was noted that the assets mentioned above belonged to the previous tenant of the current outstation offices and were transferred to SAA at a cost of $1 as part of the lease agreement. Management indicated that the total number of 102 furniture items was acquired through this lease agreement. Inspected the lease agreement including a complete inventory listing of these assets, this transaction was approved by the previous Chief Financial Officer of SAA on 5 March 2012.

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From the detailed FAR that that was provided for audit, none of the 102 assets were recorded to the asset register. Therefore the fixed asset register for office equipment and furniture is not complete for the Fort Lauderdale outstation.

The overall impact of this finding would however need to be considered in conjunction with similar asset related findings raised throughout SAA. This should be done by head office management responsible for asset management.

b) Existence and valuation of assets accounted for in the FAR

A separate sample of assets was selected from the FAR too physically verify for existence. The following FAR entries could however not be verified based on comments provided:

No	Asset description	Audit comment	Cost centre	Acquisition Value R	Book value R
1	UPGRADE FORT LAUDERDALE - 17TH FLOOR EAST PHASE 1	Improvements on previously occupied premises	FLL	1 258 406.31	324 265.83
2	IBM X240 Laptop for Fort Lauderdale Sales Office	Laptop were returned and replaced by Sita	FLL	8 791.08	1 465.18

As a result, there are clear indications that the FAR has not be updated to ensure that the financial reported information is supported by reliable evidence. Further misstatements might be prevalent as we only verified a sample of assets.

c) Asset recordkeeping and identification

Based on the asset verification procedures performed, we've noticed that the majority of assets within the Fort Lauderdale outstation are tagged with an asset number. Exceptions noted, included in the table in point a) indicates that not all assets are marked for identification. The asset numbers also does not correspond to the details provided in the FAR obtained from head office and individual assets weren't indicated in the inventory count register obtained from the station.

This constitutes a transgression from SAA's Fixed Assets Finance Policy which might result in assets not being accounted for or assessed in accordance with SAA accounting policies.

d) Assets with zero book values still in use and not reassessed for useful life

The asset listed below has a zero book value in the asset register but are still in use indicating that the useful life and residual values were not adequately re-assessed as required by the accounting standards and indicated by SAA's accounting policies:

No	Asset	Date Capitalized	Description	Serial number	Acquisition value	Accumulated depreciation	Book value
					R	R	R
1	3300000713	2006/06/30	DODGE CARAVAN SE (IAD) JJN-8845/ LHD534W	JXN-8845	123 917.78	-123 917.78	0

Based on the above, SAA is not complying with the principles of IFRS in accounting for assets.

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Internal control deficiency

Financial and performance management

The asset management team of SAA did not ensure that:

- Assets are recorded individually in the asset register based on a consistent and uniquely identifiable basis instead of recording assets as a project or in purchased bundles,
- Controls over daily and monthly processing and reconciling transactions are implemented to ensure that instructions, roles and responsibilities for asset management is defined and communicated to regional finance managers,
- Responsibilities are clearly defined in terms of procedures to be performed at outstations such as tagging of assets with uniquely identifiable numbers and regular physical verification and count of assets.
- The FAR is reviewed on a regular basis to ensure compliance with accounting standards and there is communication to all relevant departments to verify assets and test for impairment.

Recommendation

The asset management team of SAA and the regional finance manager should:

- Ensure that the function of administering assets on SAP should be decentralised and allow for regional finance managers to account for assets and administer the FAR for assets under their control,
- Reconstruct the asset register by dismantling the bundled assets and record each asset by its uniquely identifiable number and recording the asset's location so that it is easy to verify and trace the asset to the FAR,
- Make the required accounting adjustments for historically purchased assets based on documented and assumptions approved by the CFO,
- Conduct annual physical verifications at financial yearend to ensure that all assets in the outstation exist and are properly accounted including the processing of adjustments for impairments and de-recognition of assets where required,
- The regional finance manager and the asset management team from SAA head office should review the asset register and reassess the useful lives of all assets in accordance with the accounting standards,
- The regional finance manager should ensure that each asset is tagged when purchased and that this is recorded on SAP FAR module or is communicated to the head office for updating in the FAR.

Management response

Management comment on audit finding: The fixed asset register (FAR) is managed and updated at head office; the Finance team at SAA North America station does not have access to the FAR, cannot post journal entries for fixed assets and do not have any access to the FAR or fixed assets accounts.

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Management comment on internal control deficiencies: We feel that the FAR should be maintained at the stations in order to exercise better control over fixed assets.		
Management comment on recommendation: We agree		
Remedial action: We agree that the function of administering assets on SAP should be decentralised and allow for regional finance managers to account for assets and administer the FAR for assets under their control.		
What actions will be taken: The function of administering assets on SAP should be decentralized to allow for Regional Finance Managers to account for assets and administer the FAR for assets under their control	By whom: Person: Francisco Arguello Position: Regional Finance Manager – North America	By when: Senior management in Corporate headquarters to address issue

Auditor's conclusion

Management's comment is noted and the maintenance of a separate listing with values by the outstation that reconciles to the asset register from the Head Office should be sufficient to ensure that the assets are complete. The implementation of SAP access will be raised at head office during final audit to ensure that the matter receives adequate attention. Misstatements identified will however be projected to determine the combined extent of this issue.

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ANNEXURE B: OTHER MATTERS

PERFORMANCE MANAGEMENT AND MONITORING

3. No balance score card in place at the outstation

Audit finding

Treasury Regulations 29.3.1 states that "*the accounting authority for a public entity must establish procedures for quarterly reporting to the executive authority in order to facilitate effective performance monitoring, evaluation and corrective action*".

The North American region set its performance targets and report through its commercial report to the executive committee (RGM report) on revenue and route profitability. On a monthly basis progress on the achievement of revenue targets and route profitability are sent to head office. There is however no evidence that the Fort Lauderdale outstation and Americas region has a balance score card in place for 2016/17 financial year that has been cascaded from the company's long term turnaround strategy (LTTS). The SAA LTTS has five strategic objectives i.e. support national development agenda, achieve and maintain financial sustainability, provide excellent customer service, achieve consistent, efficient and effective operations and foster performance excellence. These five strategic objectives are supported by key performance indicators as per 2016/17 SAA shareholders compact (SHC). As the SHC sets the planned key performance indicators for SAA, it is expected that the BSC of the outstation and the region is aligned to the SHC of the company. The RGM report is based only on revenue targets and route profitability and is not clear how it is linked to the five strategic objectives of SAA.

The impact of this is that the outstation and the region may not be able to monitor its performance and its contribution to the overall strategy of the company. This may also result in lack of accountability as there are no set performance indicators and targets in place to ensure that there is effective performance monitoring, evaluation and corrective action.

Internal control deficiency

Leadership

The executive leadership from head office has not established and communicated policies and procedures for quarterly reporting in order to facilitate effective performance monitoring, evaluation and corrective action. Furthermore roles and responsibilities of outstations regarding performance monitoring and accountability in executing the company strategy are not clearly defined.

Recommendation

It is recommended that South African Airways SOC Ltd (SAA) should formulate an overall company policy on performance information that clearly defines the roles and responsibilities of divisions, regions and outstations on performance planning, monitoring, evaluation and corrective action.

Management response

Management comment on audit finding: Balanced scorecards are done at a Regional level and not at a country level. The individual BSC's do incorporate the wider objectives of SAA. If a Country BSC needs to be implemented, this decision will need to be made by the relevant GM or at Exco level. However, a Regional Business Plan for the fiscal year is developed each year, which outlines revenue, passenger, average ticket value, market share objectives and strategic and tactical

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<table>
<tr><td colspan="3">initiatives that will be implemented to achieve the objectives and KPI's. Each department is required to report, on a monthly basis, their respective performance as measured against the KPI's of the Regional Business Plan.

In addition, the North America Region develops a monthly Datapack (dashboard), which summarizes many of the following reports and measure performance against annual objectives and budget and provides a comparison to the prior year's performance. A copy of the year-end FY2017 Datapack was provided to the auditors for their reference.

▪ Monthly AOS Flown Revenue Reports (received from South Africa)
▪ Monthly DDS Market Share Reports (produced by North America)
▪ Monthly North America Datapack (produced by North America)
▪ Weekly ARC Sales Reports (produced by North America)
▪ Weekly BSP Sales Reports (for Canada)
▪ Weekly SAA Advance Booking Reports (produced by HDQ)
▪ Monthly Budget Variance Reports
▪ Monthly International Route Profitability Reports (received from South Africa)
▪ Monthly Domestic & Systemwide Route Profitability Reports (received from South Africa)
▪ Monthly Africa International Route Profitability Reports (received from South Africa)
▪ Monthly Flyssa.com Flown revenue Reports
▪ Monthly Flysaa.com Sales Reports (produced by North America)
▪ Monthly Ancillary Revenue Reports (received from South Africa)
▪ Code Share & Interline Traffic Reports (produced by North America)
▪ Monthly Customer Call Center Sales & Performance Reports (produced by North America)
▪ Monthly Group Sales Reports (produced by North America)
▪ Monthly Route Revenue Analysis Report (received from South Africa)
▪ Monthly RCT Route Contribution Report (received from South Africa)
▪ Quarterly reviews with Sales Officers in North America to review performance of their respective regions, as measured against revenue and market share KPI's.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:</td></tr>
<tr><td colspan="3">Management comment on recommendation:</td></tr>
<tr><td colspan="3">Remedial action: As identified by the auditor's in the report, remedial action must be taken by SAA senior management in corporate headquarters to define a format and requirement for a Regional BSC.</td></tr>
<tr><td>What actions will be taken:</td><td>By whom
Person: Todd Neuman
Position: RGM-The Americas</td><td>By when:
By July 1,2017 following audit review with SAA senior management</td></tr>
</table>

Auditor's conclusion

Management comment is noted. The finding will be elevated to the SAA senior management at HO during the final audit to ensure that adequate processes and policies are developed and communicated to affect the required shortcomings. We will follow up on the action plans relating to the balance score card alignment to the SHC.

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4. Significant deficiencies in budget approval and monitoring

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Paragraph 1.7 of SAA budget instructions procedure manual requires all budgets to be signed-off by the relevant Business Unit GM's, Financial Controllers and their respective head of department (HOD's) / cost centre managers - which they can be measured against and held accountable for.

During the audit of the outstation it was noted that there is no evidence that the 2016/17 budget of Americas region has been signed-off by the general manager, financial controller and its respective HOD. On enquiry and discussion with management at the outstation, the proposed budget is submitted to head office, however there is no feedback received whether the budget submitted is approved or not. The outstation will monitor by checking the amounts captured on the system and will deem it as the final approved amounts. This is contrary to the requirement of paragraph 1.7 of SAA budget instruction procedure mentioned above as the outstation need to be measured and held accountable for its own budget.

Furthermore, the following internal control deficiencies regarding budget monitoring in monthly management accounts of the outstation were noted:

- The accounts are not consolidated into one report i.e. they are prepared in silos and submitted to different role players in head office with no proper co-ordination,
- No evidence that the accounts were reviewed and approved by a delegated official before submitting to head office,
- Explanation of variances between budgeted and actual income & expenditure are not documented,
- Action plans to address shortcomings identified between budget and actual are not documented,
- No evidence that these reports are also submitted to the office of the CFO or finance department within SAA.

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The following is an example of variances with no explanations:

MARCH 2017					MARCH 2017 YEAR TO DATE			
Act. Costs ($)	Plan Costs ($)	Variance ($)	%	Cost elements	Act. Costs ($)	Plan Costs ($)	Variance ($)	%
336 536	279 578	56 959	20%	Sales 1834	2 642 696	3 350 869	-708 173	-21%
210 469	261 695	-51 226	-20%	Marketing 1838	2 317 802	3 164 447	-846 644	-27%
192 774	153 837	38 937	25%	Call Center 1835	1 783 852	1 851 660	-67 808	-4%
88 705	93 229	-4 524	-5%	Administration 1830	940 858	1 115 000	-174 143	-16%
55 350	49 474	5 877	12%	Finance 1072	527 838	592 557	-64 719	-11%
5 914	6 189	-274	-4%	Voyager 1731	61 681	74 969	-13 288	-18%
1 405	3 380	-1 975	-58%	Visit Southern Africa 1839	18 650	42 000	-23 350	-56%
1 135	1 050	85	8%	G.S.A. Mexico 1809	9 860	10 400	-540	-5%
892 289	**848 431**	**43 858**	**5%**	**Totals**	**8 303 237**	**10 201 902**	**-1 898 665**	**-19%**

Internal control deficiency

Leadership

The executive leadership from head office has not established and communicated budget and forecasting policies and procedures to facilitate effective preparation and monitoring of budget for the company.

Recommendation

The leadership of SAA should formulate an overall budget and forecasting company policy that include, among others, budgeting principles, clearly defined roles and responsibilities, key monitoring controls and delegation of authority on budget preparation and approval process.

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Management response

Management comment on audit finding: When preparing and submitting its budgets, SAA North America follows the budget instructions received from Head Office. These instructions are very detailed as to how the budget must be submitted by filling different template files; we are not allowed to make changes or consolidate these templates.

For the North America region, each Head of Department prepares his/hers budget and keep its supporting documentation. The HOD will review his budget with the Regional General Manager. After this review, the HOD will forward his budget to the Regional Finance Manager, who will enter the budget amounts to the different templates provided by head office. Afterward the RFM will submit each cost center budget templates to HO. All budget files are submitted prior to their deadline.

Budgets from the stations are submitted to the RFM and Financial Controller at Head Office. Certain adjustments are made to these budgets by the RFM and FC to make them more realistic. The final budget gets discussed at an EXCO meeting where the relevant GM acknowledges the final budget for that area. The Financial Controller and RFM are also aware of the final budgets after specific adjustments are made. Therefore, the relevant GM, Financial Controller and RFM are aware of the final approved budgets and ownership happens at that level before filtering to lower levels. The FC also requests commentary from the relevant cost centre managers for any variances greater than 5%. If the explanations provided are not justifiable, the budget is cut accordingly. This is standard process for cost budgets. The revenue budgets are more consultative between the Head Office and the RGM's in the regions.

The budget policy will be amended going forward for cost budgets. The format that Head office uses is TM1 and the format the regions use is SAP. Getting them to sign a TM1 format will make no sense to them.

Regarding the internal control deficiencies for the budget monitoring in the monthly management accounts of the outstation:

- **The (budget) accounts are not consolidated into one report:** budgets are submitted as instructed by HO: each cost center budget amounts are submitted in their own templates. These templates are processed and posted to SAP at head office; the NA region can consolidate them only after HO has posted them to SAP.
- **No evidence that the accounts were reviewed and approved by a delegated official before submitting to head office:** each HOD submit his budget amounts to the RFM by email; the email serves as proof that the budget was prepared and approved by the HOD. In the future, all budget templates will be signed by the HOD, RGM and RFM to document approval.
- **Explanation of variances between budgeted and actual income & expenditure are not documented:** The Financial Controller does a variance analysis for all stations at head office. These are distributed to the RFM who forwards to the HOD for their review, explanations and actions. Only material differences are followed up where the reason is not known for eg. Labour is a material variance but it is known that there are 4 vacancies which were budgeted for but were never filled.
  Commentary gets included whilst preparing reports for FinExco and for the consolidated divisional report. The RFM also reviews his costs and follows up on large variances on a monthly basis and is also directly involved during the month end close process. Each RFM is responsible for their own budget and feedback is only provided to the relevant FC when required from the FC. Budget adherence is also one of the KPI's on each RFM's BSC.
  As a result, all of North America cost centers have been consistently under budget. In the future, we will document these variances in more detail.
- **Action plans to address shortcomings identified between budget and actual are not**

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documented: due to our monitoring of the North America monthly variance reports, all of North America cost centers have been consistently under budget. However, in the future, we will document our actions, when needed, in more detail.

- **No evidence that these reports are also submitted to the office of the CFO or finance department within SAA:** our monthly variance reports are generated from SAP. Head Office Finance has access to the financial information in SAP and they perform their own review as they request financial information from us in a regular basis. We will contact them to see if they need copies of our variance reports or if they generate similar reports from SAP.

Management comment on internal control deficiencies: SAA North America always follows head office established and communicated budget and forecasting policies; if executive leadership from head office updates these instructions, SAA NA will also follow them.

Management comment on recommendation: SAA North America always follows head office established and communicated budget and forecasting policies; if executive leadership from head office updates these instructions, SAA NA will also follow them.

Remedial action : As indicated by Management Report, remedial action should be addressed by executive leadership at head office

What actions will be taken: Remedial action will be addressed with senior management (Vivek Maharaj) in corporate headquarters	By whom Person: Francisco Arguello Position: Regional Finance Manager – North America	By when: Timeline to be determined by senior management in corporate headquarters

Auditor's conclusion

Management comments are noted and the detailed explanation of the process accepted. Communication regarding the detailed approach from head office will be raised in the final audit at SAA headquarters to ensure that the matter obtains the required attention. Detailed information indicated in management's response will however need to be presented for verification to facilitate the final discussions around the budget monitoring. The finding remains valid until resolved at HO.

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5. Performance agreements not signed in the prescribed timeframe

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that *an accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.*

In terms of the integrated performance management policy, all managers, together with their direct report/s, must contract annually. The performance contract should be concluded and signed by both parties within the prescribed period and submitted to human resource department for verification and record keeping. Performance contracting should take place in the beginning of each financial year (Apr/May).

Below is a list of employees from a sample that was tested that did not sign their performance contracts at the beginning of the financial year as stipulated in the policy:

No	Employee number	Date signed
1	F01502Y	21/11/2016
2	F01334T	28/11/2016
3	F01118W	01/12/2016
4	F02418V	18/11/2016
5	F02596C	21/11/2016
6	828955J	29/11/2016
7	F02631U	29/11/2016
8	F02250H	N/A
9	F01375F	18/11/2016
10	F02301P	29/11/2016

This will result in non-compliance with the integrated performance management policy. In addition this could result in SAA not achieving its strategic objectives as performance agreements are cascaded from the companies balance score card and strategy.

Internal control deficiency

Leadership

The acting general manager (GM): Commercial did not ensure that effective HR management is implemented and performance is monitored as the balanced score card on which reporting staff's performance contracting should be based, wasn't communicated on a timely basis.

Support and training from head office were only facilitate at a time later than the policy required date due to duty travel being prohibited. This training provided to management explained the process of performance contracting to all level.

Recommendation

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The acting GM: Commercial along with the acting head of the Americas should ensure the following:

- Balanced Scorecards are communicated to the outstation in a timely basis,
- The process of cascading the scorecards to all employees should be expedited,
- Employees should acknowledge the criteria contained in the score card by means of signature or electronically in order to be held accountable

Management response

<table>
<tr><td colspan="3">Management comment on audit finding: SAA North America implemented BSC's as a tool to measure performance for all its employees during July 2016. We held workshops in order to introduce junior staff members (job levels 5L-12U) to the concept of Balanced Scorecards. It took time for HOD's to finalize measurement criteria as this was the first time we were assigning KPI's to junior staff. We faced two main challenges during the process:

a) The BSC template is not a very user friendly document and some parts of it were locked for us to enter data. Also, some of our junior staff was not loaded in the template. This was corrected on November 11, 2016 by Head Office.
b) As BSC is a top down cascading process, we needed a copy of Aaron Munetsi's BSC in order to align our objectives for the Region. We received a copy 11 October 2016. I believe his BSC was only finalized in September 2016.

Therefore, the process was delayed.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: We agree</td></tr>
<tr><td colspan="3">Management comment on recommendation: We Agree</td></tr>
<tr><td colspan="3">Remedial action: For Fiscal Year 2017/18, the Region will be able to comply with the deadlines as soon as we receive Acting GM Commercial's BSC.</td></tr>
<tr><td>What actions will be taken:
Follow-up with Acting GM-Commercial</td><td>By whom:
Person: Todd Neuman
Position: Acting RGM-The Americas</td><td>By when:
June 9, 2017</td></tr>
</table>

Auditor's conclusion

Management comment is noted, and the deficiency in internal communication will be taken up with the commercial department at head office. The process of performance contracting will again be followed up in the 2017/18 financial year to ensure that it has been resolved.

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PROCUREMENT AND CONTRACT MANAGEMENT

6. No approved supplier list at the Fort Lauderdale outstation

Audit finding

In terms of SCM Policy Par 15.2.1 *SAA Group shall establish and maintain in accordance with the law an adequate Prospective Suppliers Database that is linked and aligned to the Central Suppliers Database.*

Par 15.2.2 of the SCM policy states that *notwithstanding the provisions of 15.2.1 SAA Group's prospective suppliers are also required to register and ensure that correct information is loaded on both the Prospective Suppliers Database and the Central Suppliers Database.*

An approved suppliers list was requested from SAA and it was noted as per discussion with management that the outstation does not have an approved suppliers list as required by the SCM policy. From our discussion with the finance department at Fort Lauderdale office, it was indicated that the office weren't informed of the updated SAA SCM policy as revised on 16 January 2016 at SAA head offices. During our engagement with the regional finance manager, only an outdated September 2011 SCM policy was produced and referenced. As a result, the office did not set up an approved suppliers listing as required by the current effective SCM policy.

This contravention of the current effective SCM policy indicates a matter of non-compliance for the outstation and a breakdown of SAA's approved internal controls.

Internal control deficiency

Leadership

The chief procurement officer of SAA did not exercise oversight responsibility to ensure that SAA Fort Lauderdale outstation is informed of the latest SCM policy and enforcement of its application.

Recommendation

- SAA should establish an approved policy framework and all policies should be approved by the board or in accordance with the delegation of authority. A repository or a register for all approved policies and procedures should be developed where all employees will have access. Furthermore the chief risk and compliance officer must ensure that all policies are regularly reviewed/updated and the responsibility is assigned to applicable policy owners.

- The regional finance manager - Americas should ensure that the Fort Lauderdale outstation is updated with the most recent policies and that compliance of these policies are enforced in the day to day operations of the office.

- The updated SCM policy needs to be adhered to and an approved suppliers list needs to be created for operations within the Americas. Guidance on how to create the list should be sourced from the chief procurement officer.

Management response

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Management comment on audit finding: The North America Finance team does not have access to print from SAP an approved supplier list; we have requested this access in the past, but have been unable to obtain it. We feel that in order to have better control of our suppliers and accounts and in order to perform our duties more efficiently, vendor accounts should be managed at the stations. Currently, if we need to change vendor information, add a new vendor or print an approved supplier list, we have to request this from HO. Sometimes the requirements from HO in order to fill our requests cannot be met. For example, in the past, in order to open a vendor account, copies of the shareholders' and directors' passports was required. As this practice is not common in the USA due to privacy reasons our vendors refused. At the present time, this requirement for passports was eliminated and we have submitted since March 2017 fifty seven requests to open vendor accounts, but none has been finalized yet. If stations were able to manage their vendor accounts, the maintenance of vendor accounts would be done more efficiently, the vendor database would be current and the stations would have better control of their payables and transactions.		
Management comment on Internal control deficiency: We agree that the Chief procurement officer of SAA should communicate all policy updates to the stations on a timely manner		
Management comment on recommendation: The North America management team agrees with the recommendations that SAA Head Office should establish an approved policy framework and that all policies should be approved by the board or in accordance with the delegation of authority; we also agree that a register for all approved policies and procedures should be developed by HO where all employees will have access. The North America region is in compliance with all policies that have been communicated to the region.		
Remedial action: As indicated by Management Report, remedial action should be addressed by the chief procurement office and the executive leadership at head office		
What actions will be taken: Remedial action should be addressed by senior management at corporate headquarters	By whom: Person: Francisco Arguello Position: Regional Finance Manager-North America	By when: Senior management in corporate headquarters to address issue

Auditor's conclusion

Management's comment is noted and the finding will be raised at head office to ensure that communication between the HO, Global Supply Management (GSM) and the outstations on the latest approved (2016) SCM policy take place, including the provision of the necessary training on the implementation of the policy to the staff. Although we agree that SAP is imperative to the effective administration of suppliers, it shouldn't be a limiting factor of compliance for the outstation. This finding will therefore remain.

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EMPLOYEE COST

7. No verification of employee qualifications were performed

Audit finding

In terms of section 54(1) of the Public Finance Management Act (PFMA), *an accounting authority for a public entity must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require*

During our audit of appointment of staff, we noted that the proof of qualifications was not submitted for the employees listed below:

No.	Employee number	Date appointed
1	F02932H	07/11/2016
2	F02931G	07/11/2016
3	F02933J	07/11/2016
4	F02948Z	08/29/2016
5	F02949A	08/29/2016
6	F02954F	09/22/2016
7	F02963Q	01/30/2017
8	F02938P	07/25/2016
9	F02936M	07/18/2016
10	F02935L	07/18/2016

This may result in unskilled or unsuitable employees being appointed.

Internal control deficiency

Financial and performance management

The personnel officer did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Recommendation

The personnel officer should ensure that the relevant verification checks are performed by doing the following:

- Obtaining written consent from the prospective employee to obtain relevant information
- Obtaining references from prior employers as listed in the resume
- Obtaining confirmation from the relevant institutions of the education as listed in the CV

Management response

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Management comment on audit finding: We have followed the Privacy act of 1974 and have not collected diplomas from employees. Candidates are not obligated to present educational certification. All employment is viewed as terminable at-will at the option of either SAA or any employee. We have the probationary period to determinate if employee is suitable to position, which is not the case in South Africa.

The CSA positions we have available require a high school diploma plus 2 years of experience. For supervisory positions the wording on Job Description is: "College education/degree is preferred, but not required. A two-year Associate or four-year Bachelor's degree in business or related field preferred."

In the USA 87% of the population older than 24 years of age has a high school diploma. In addition, if we require a diploma and candidate has a disability that is not visible, we may be facing a discrimination issue. Please see below.

The Privacy Act prohibits the disclosure of information from a system of records absent of the written consent of the subject individual, unless the disclosure is pursuant to one of twelve statutory exceptions. The Act also provides individuals with a means by which to seek access to and amendment of their records and sets forth various agency record-keeping requirements. Additionally, with people granted the right to review what was documented with their name, they are also able to find out if the "records have been disclosed" and are also given the rights to make corrections.[1]

[1] - From Equal Employment Opportunity Commission (EEOC)
The U.S. Supreme Court decided in 1971 that a high school diploma requirement was discriminatory because it had a disparate impact on African Americans who had high school diploma rates far lower than whites in the relevant geographical area, and because the requirement was not job related for the position in question and consistent with business necessity. Griggs v. Duke Power Co., 401 U.S. 424 (1971). The courts and the EEOC have consistently applied the Supreme Court's interpretation of the law ever since, and Congress confirmed it in the Civil Rights Act of 1991.
Additionally, in 2003, EEOC brought a lawsuit on behalf of an employee with an intellectual disability who was fired from her job as a nursing assistant in a residential care facility when the employer adopted a requirement that nursing assistants have high school diplomas. She had worked successfully in the job for four years and had several times tried to obtain her GED, but could not do so because of her disability. Her GED instructors offered to work with the employer to find an alternative way to assess the employee's ability to do the job, but the employer refused. The employer settled the case with EEOC.

Management comment on internal control deficiencies: We agree

Management comment on recommendation: We met with auditors and agreed that we will request certifications from this point on.

Remedial action:		
What actions will be taken:	By whom: Person: Position;	By when:

Auditor's conclusion

Management's comment is noted as well as the references made to relevant regulation of the USA. Alternative controls in place to ensure that appropriately skilled staff is appointed at the Ford Lauderdale offices are considered adequate if properly maintained. Implementation will be verified during future audits.

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LEAVE PROVISION

8. Differences in leave provision balance identified

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that *an accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.*

Paragraph 10 of IAS 37 states that a *provision is a liability of uncertain timing or amount.* Paragraph 36 of IAS 37 further states that *the amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.*

The leave balance and related provision for the employees were recalculated by taking the opening balance as per the SAP leave provision report, obtain at head office, adding the accrual for the year and deducting leave taken as recorded in SAP. The following differences were noted:

No.	Employee no.	Amount as per schedule ($)	Recalculated amount ($)	Difference ($)
1	54892	1 734	1 971	237
2	54869	1 629	1 971	342
3	54909	0	98	98
4	54935	6 411	2 672	-3 739
5	54905	399	2 269	1 870
6	54914	650	1 320	670
7	54852	765	1 320	555
8	54864	980	630	-350
9	56409	382	624	242
TOTAL:				-75

As a result, the leave provision balance in the annual financial statements might be overstated. An overall extrapolated value of leave misstatements would be calculated for all outstations in combination and reported in total at head office.

Internal control deficiency

Financial and performance management

The human resources department at head office did not ensure that regular, accurate and complete financial reports are prepared and evidenced by reliable information as the correct leave balance per employee were not calculated.

Recommendation

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The human resources department at head office should send the prepared calculation of the leave provision to the personnel officer at the outstation to allow for the outstation's review of the leave balances used in the calculation.

Alternatively, leave provision calculations should be decentralised and each outstation should be provided a leave provision template that applies consistent principles of calculation and allow for the required adjustments per unique country legislation.

Management response

Management comment on audit finding: The leave provision calculations listed under "Amount per schedule" was provided to auditors by "head office". We are not sure about the source of this report and leave data. USA leave is calculated on a calendar year basis. The calculation of leave is programmed into SAP application and it is automated. In order to audit period April 1, 2016 to March 31, 2017, we provided the auditor with two reports from SAP HR – Jan to Dec 2016 and Jan to Mar 2017. These reports were generated by Jaco Nel, Senior Functional Consultant – HCM based at SAA's head office in Johannesburg. The auditor verified the "recalculated amounts" listed on page 33 from these reports with SAP system and employee pay sheets. There were no discrepancies.		
Management comment on internal control deficiencies: We thought same leave data was used by international HR and the outstation from SAP HR.		
Management comment on recommendation: The station is using SAP HR for all aspects of payroll, including leave management. Therefore, HR at Head Office does not need to send a prepared calculation of leave provision to the Personnel Officer at the outstation. Both offices have access to the data in SAP which station verifies on a monthly and annual basis.		
Remedial action: Personnel Officer will contact International HR to verify leave provision data they are using to ensure it is the same as leave reports used by USA.		
What actions will be taken:	By whom Person: Anay Miller Position: Personnel Officer	By when: June 2017

Auditor's conclusion

Management comment is noted, since the implementation will be done only by June 2017, this will be followed up and tested during 2016/17 final audit to ensure that the leave provision balance is disclosed at a correct value in the submitted annual financial statements.

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REFUNDS

9. Refunds policy discrepancies regarding required documentation

Audit finding

In terms of the South African Airways (SAA) Refunds Policy 001, Version 3.0 final; section 1.15 states that;

1.15 Supporting documentation

A refund will only be processed if the original travel document and supporting documentation as required have been attached to the correct refund application form and forwarded to our offices for processing.

Only in the following instances will photocopies of the documents required for a refund be accepted:

- *Lost document refund application,*
- *Death certificates,*
- *Hospital bills*
- *Passport or I'D. Documentation of the passenger,*
- *The Agent or Travel consultant's copy of the document,*
- *In the case of cabin occupancy downgrade, the copies of the passenger's travel document together with a boarding pass of the passenger.*

From the sample of refunds tested at the outstation, there is no evidence that before refunds are processed, the copy of the passport or ID is obtained from the passenger. The following are the refunds that were processed and paid to the passengers even though there is no evidence that copies of the passport or ID were obtained before processing the refund:

No	Date	Refund Document Number	Ticket Number	Passenger Name	USD-Value	Rand-Value	IATA Number
1	3-Aug-16	1070033601	0832125754069	DIENG/MOHAMADOU	1 026.40	11 203.16	10992413
2	30-Mar-16	1070032151	0832125045879	COHN/JACK	1 376.76	13 088.77	10993054
3	21-Jun-16	1070033090	0832125320301	MORELGRULLON/MAR CELMAURICE	6 587.24	107 548.01	10992413
4	17-Oct-16	1070034346	0832126188222	AMEN/ADA	1 924.76	22 866.90	10993054
5	8-Aug-16	1070033622	0832125735670	BLANCHARD/JILL	2 333.63	24 361.92	10993054
6	7-Dec-16	1070034839	0832125155462	ANZALONE/CATHERIN E	6 253.02	100 308.24	10992413
7	13-Jul-16	1070033374	0832125583183	VERRIPS/ALIX	8 337.90	112 153.69	10993054
8	6-Feb-17	1070035569	0832126753725	MAXWELL/CARILYN	4 549.31	69 899.24	10992413
9	27-May-16	1070032863	0832125376371	KELAFANT/ELIZABETH	3 196.09	41 467.18	10992413
10	15-Jul-16	1070033420	0832125582678	SCHACHTER/ZOIE	127.18	25 562.81	10993054

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The impact of the above is that the refunds paid did not comply with the requirements of the SAA refunds policy as the refunds are processed without the minimum required documentation submitted. As a result, we were unable to determine if the refunds were validly paid to the original passenger.

The control deficiency consequently indicates that implemented control does not adequately prevent fraudulent payments of refunds. This could result in an understatement of the forward sales liability in the Annual Financial Statements as SAA would still have a liability towards the original ticket holder in instances where the booked flight has not yet occurred at yearend.

Internal control deficiency

Financial and performance management

The regional finance manager did not implement controls over daily and monthly processing and reconciling transactions to ensure that adequate evidence exist to validate recorded transactions.

Recommendation

- Outstation management should ensure that capturing staff are sufficiently familiarised with the refunds policy requirements regarding minimum documentation that must be submitted by passengers when applying for a refund.
- Refunds should also be independently reviewed prior to payment to a customer otherwise submitted for approval to head office.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding: Copies of passports are not requested in order to sell a ticket or process a refund as this is not a practice in the United States; SAA refunds customers to the same form of payment used to purchase the ticket ensuring that the original purchaser is being refunded. There is no exception to this rule; for example, a credit card used to purchase a ticket is the same one that would be refunded. Even in the situation where a credit card account has been closed, we would still refund that credit card and the financial institution would transfer the funds to the new customer's account, if applicable, or issue a check to the customer.

If SAA would require copies of passports in order to process passengers' refunds, it would delay the refund process significantly risking Department of Transportation penalties as refunds' requests are required to be finalized within twenty days. Furthermore, requiring copies of a passport could be a potential financial liability for SAA in cases of identity theft, where a passenger could claim SAA responsible.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: All refunds are reviewed and approved in accordance with the DOA prior to payment.</td></tr>
<tr><td colspan="3">Management comment on recommendation: SAA North America staff is familiarized with the refunds policy requirements regarding minimum documentation; as indicated above, we do not recommend that that a copy of passports be requested, but will request them if SAA executive leadership instruct us to.</td></tr>
<tr><td colspan="3">Remedial action: We agree: All refunds are reviewed and approved in accordance with the DOA prior to payment.</td></tr>
<tr><td>What actions will be taken:
North America Regional Office will request a waiver from SAA corporate</td><td>By whom
Person: Francisco Arguello
Position: Regional Finance</td><td>By when:
June 7, 2017</td></tr>
</table>

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headquarters for a waiver of policy requesting copies of passport to process refunds. Requesting a copy of passports for ticket refunds is not a standard airline policy in North America	Manager – North America	

Auditor's conclusion

Management's comment is noted and the communication for waiver of policy requirements will be inspected at head office as well as the appropriate approval thereof. While we understand that there is difficulty to comply with certain aspects of refunds policy, it is important that prior approval of these circumstances at outstations be adequately considered by management while formulating policies. This matter would be taken up with head office as part of overall outstation policy administration. The finding however remains until the policy resolution is approved.

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10. Administration fee not charged for refunds

Audit finding

SAA Refunds Policy and Procedures document section 1: refund rules and regulations, paragraph 1.8.1 on administration fees states that *"administration fees are charged for the work performed to process a refund on a traffic document. This is not to be confused with a cancellation penalty. An administration fee is to be charged where there is no cancellation fee on the fare concerned. This fee is applicable even when a travel agent is processing the refund direct. In cases where the cancellation is less than the administration fee, the latter will be applicable. SAA stations reserve the right to charge administration fees to process refunds, in accordance to the market conditions in that particular Country. Administration fees will be deducted from the refund amount, and will be accounted for as income. Refund fees charged by stations must be communicated to the passenger at time of ticket sale, and must also be advised to SAA Head Office Refunds department for publication."*

During the audit of refunds it was noted that the Fort Lauderdale outstation does not charge passengers administration fees on each refund processed, however there is no approved documented reasons why administration fees are not charged when processing a refund. The following are refunds processed and administration fees not charged:

No	Date	Refund Number	Ticket Number	Passenger Name	Refund- (R)	Admin Fee	IATA Number
1	3-Aug-16	1070033601	0832125754069	DIENG/MOHAMADOU	11 203.16	-	10992413
2	30-Mar-16	1070032151	0832125045879	COHN/JACK	13 088.77	-	10993054
3	21-Jun-16	1070033090	0832125320301	MORELGRULLON/MAR CELMAURICE	107 548.01	-	10992413
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9	27-May-16	1070032863	0832125376371	KELAFANT/ELIZABETH	41 467.18	-	10992413
10	15-Jul-16	1070033420	0832125582678	SCHACHTER/ZOIE	25 562.81	-	10993054

Furthermore, there is no documented policy on refunds specific for Americas circumstances to ensure the processing of refunds are done in compliance with local legislation.

Internal control deficiency

Financial and performance management

The regional finance manager did not ensure that policies and procedures are documented and adhered to in processing of refunds.

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Recommendation

- Outstation management should document in writing reasons why administration fee is not charged on processing of refunds and this should be approved. Copy of this documentation should be kept as an audit trail for audit purposes.
- Where SAA refunds policy is in conflict with local legislation, the policy that is aligned with legislation should be documented and approved.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding: SAA does not charge an admin fee for refunds in the North America market. We follow the fare rules per fare basis code and asses the penalties to refund accordingly. In our market this is the standard practice and ensures that we are competitive with other airlines. We did an analysis of the fare rules for our competitors for itineraries from New York (JFK) to Johannesburg (JNB) to confirm that none of our major competitors have such rules in place.

Please see the list below

BA no administration fee for refunds
DL no administration fee for refunds
UA no administration fee for refunds
EK no administration fee for refunds</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: All policies and procedures are documented and adhered to in processing of refunds; we will charge an administrative fee if instructed by management.</td></tr>
<tr><td colspan="3">Management comment on recommendation: We agree</td></tr>
<tr><td colspan="3">Remedial action :</td></tr>
<tr><td>What actions will be taken:
North America Regional Office will request a waiver from SAA corporate headquarters to the policy of administering administration fees for refunds. Through a recent competitive benchmarking review, this is not a common practice amongst our key competitors in the North American market.</td><td>By whom
Person: Francisco Arguello
Position: Regional Finance Manager – North America</td><td>By when:
June 7, 2017</td></tr>
</table>

Auditor's conclusion

Management's comment is noted. The details of the submission to SAA head office will be inspected as well as the approval thereof to ensure that the correct authority is in agreement with the principles applied. Revision of the policy has however not been mentioned and response and would still be required. The finding however remains until the policy resolution is approved.

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SUMMARISED MANAGEMENT REPORT

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DD20-PS-0706

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AUDITOR-GENERAL
SOUTH AFRICA

MANAGEMENT REPORT

SOUTH AFRICAN AIRWAYS SOC LTD

31 March 2017

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AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

MANAGEMENT REPORT

South African Airways SOC LTD
31 March 2017

CONTENT

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MANAGEMENT REPORT OF THE SOUTH AFRICAN AIRWAYS SOC LTD LAGOS OUTSTATION FOR THE YEAR ENDED 31 MARCH 2017

INTRODUCTION

1. This management report includes audit findings arising from the audit of the financial information and compliance with legislation for the year ended 31 March 2017 which were communicated to management and includes their response to these findings.
2. The management report consists of executive summary and detailed audit findings which are contained in annexure A and B.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

1. Our responsibilities include the following:
   - Performing procedures to obtain audit evidence about financial information and compliance with legislation applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement.
   - Considering internal controls relevant to the processing of the financial information and compliance with legislation.
   - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial information and compliance with legislation.
2. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial information and or compliance with all applicable legislation.

MANAGEMENT'S RESPONSIBILITIES

3. Management's responsibilities include the following:
   - Designing, implementing and maintaining proper record keeping and internal controls necessary to enable head office management to prepare financial statement that are free from material misstatement whether due to fraud or error.
   - Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
   - Designing, implementing, reviewing and monitoring of compliance with legislation.
   - Providing access to all information that is relevant to our audit, such as records and documents.

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EXECUTIVE SUMMARY

SECTION 1: MATERIAL MATTERS

PART A – MATERIAL MISSTATEMENTS

4. Material misstatements were identified during the audit that were not prevented or detected by the outstation's system of internal control. These material misstatements also constitute non-compliance with the PFMA.

Material misstatements	**Finding** (brief description of misstatements)	**Impact** R	**Internal control deficiency**
Material misstatements not corrected			
Financial statement item			
Irregular expenditure	No signed Power of Attorney in place	34 503 477.53	Regional manager should ensure that they have the Power of Attorney is approved by the appropriate delegates who are currently employed at SAA before they process or approve any transactions

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PART C – FINDINGS ON COMPLIANCE WITH LEGISLATION

Included below are findings on material non-compliance with laws and regulations applicable to the entity.

Expenditure management

5. Effective steps were not taken to prevent irregular expenditure amounting to R 34 503 477.53 as disclosed in note xx to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA

PART D – INTERNAL CONTROL

Achievement of internal control objectives

6. Significant deficiencies in internal controls that resulted in findings for operating expenses.

Financial and performance management

7. The outstations do not have the SAP modules for the purchase orders and goods received notes, the expense authorisations used at the outstations do not confirm the date of the goods/services that have been received by the outstations

8. Management has failed to ensure legislative prescripts are adhered to and the requirements of the PFMA are enforced

SECTION 2: RATINGS OF DETAILED AUDIT FINDINGS

9. For the purposes of this report, the detailed audit findings have been included in annexure B reflecting non-material matters, respectively.

SECTION 3: CONCLUSION

10. The matters communicated throughout this report should be addressed to achieve sustained clean administration. The AGSA staffs remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Polani Sokombela
Senior Manager: National E

12 May 2017

Enquiries: Jermina Ndaedzo Demana
Telephone: 084 288 5566
Email: NdaedzoD@agsa.co.za

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Distribution:
CEO
CFO
Audit committee
Head of internal audit

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DD20-PS-0712

DETAILED AUDIT FINDINGS

ANNEXURE A: MATERIAL MATTERS

1. No signed Power of Attorney in place

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

In terms of the power of attorney it indicates that the Country manager or Regional manager is given authority to be the true and lawful agent and delegate on behalf of South African Airways (Proprietary) Limited in respect of the Territory of the country to:

- Exercise on behalf of SAA, subject to all applicable legislation amended from time to time, such as powers and perform such functions and to execute all such sections as may be necessary or required including identification and reporting risk matters for appropriate approval by the authority for the purpose of managing, conducting, operating and carrying out the day to day activities in the normal course of business

- Subject to the availability of the pre-approved budget the country manager or regional manager shall be entitled to:

➢ Enter into any contract to the maximum value of R1,000,000.00 (One million rand) excluding the acquisition, alienation or encumbering of immovable property.
➢ Authorise and conclude amendments to the maximum value of R1,000,000.00 (One million rand).
➢ Enter into the contract to lease, hire or rent movable property to a maximum period of 1 (one) year to the maximum value of R1,000,000.00 (One million rand).

- Settlement of a sum or sums from the SAA banking account in order to pay any ad-hoc sums which may be due or become due by SAA.

- Pay salaries, remittance and gratification to all agents and employees and obtain the receipt.

- Accept on behalf of SAA services of all process that may be issued against SAA or by or on behalf of any individual, corporation or Government agency.

- Take such steps as shall be necessary to comply with the requirements of any local laws or regulations with regard to the procurement of license, permits or otherwise, and sign all documents and file all notices and returns with the appropriate authorities as may be required.

- Represent SAA at the customs office and consequently sign on behalf of SAA all declarations, submissions for temporary admissions, receipts under guarantee, acknowledgements for consignments, receipts under guarantee, acknowledgement of consignments, receipts of repayment of customs duties erroneously paid, liquidations or premiums, minutes regards seizures and provision transactions, as a result of infringements of laws and regulations, undertaking to obtain delivery before payments of duty and all acts generally with the said Customs Office.

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- Accept on behalf of SAA services of all process that may be issued against SAA by or on behalf of any individual, corporation or Government agency, execute any actions referred to in this clause, irrespective of the amount involved, if the specific action was approved by the CEO in terms of the Delegation of Authority and/or Board of Directors of SAA.

Based on the above the Country manager or Regional manager needs the Power of Attorney (delegation of authority) to be able to perform his/her daily duties.

During the audit of the Lagos outstation it was determined that the Regional manager (Ohis Ehimiaghe) does not have the signed Power of Attorney document giving him the authority to be the true and lawful agent and delegate on behalf of SAA in respect of the territory of the country (Nigeria – Lagos) to be able to perform his daily duties.
As a result all the transactions that have been approved by the Regional Manager (Ohis Ehimiaghe) are invalid and are irregular as he did not have the Power of Attorney in place.

This is caused by SAA legal team as well as Ms. Pienie Jacobs (HR specialist) not ensuring that all the Country managers or Regional managers have the Power of Attorney in place.

All the transactions processed/ approved by the Regional manager for Nigeria are not valid as he did not have the Power of Attorney in place at the time the transaction were processed.

Internal control deficiency

Leadership

SAA legal team as well Ms Pienie Jacobs (HR Specialist) did not ensure that the regional manager has the approved Power of Attorney before processing/ any transactions at the Lagos outstation.

Recommendation

- The SAA legal team as well as Ms. Pienie Jacobs should ensure that the Power of Attorney documents are prepared for all the Country managers and Regional managers and that the Power of attorney documents are approved by the CEO
- Regional manager should ensure that they have the Power of Attorney is approved by the appropriate delegates who are currently employed at SAA before they process or approve any transactions.

Management's response

Management comment on audit finding: Country Manager: According to my records a POA was issued. However, the process was taken away from HR between 2013 to 2015. I was informed that it is now between this office and legal. I will apply for a fresh POA.		
Management comment on internal control deficiencies: New POA to be established		
Management comment on recommendation: New POA to be established		
Remedial action: New POA to be established		
What actions will be taken:	By whom: Ohis E. Person: Country Manager	By when: 0 – 3 months

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	Position;	

Auditor's conclusion

Management comment is noted. The finding remains and the impact has been quantified to R 34 503 477.53 (total expenditure), and is regarded as irregular expenditure since the Regional Manager had no approved POA when approving transactions in the 2016/17 financial year and this is in contravention with the DOA and PFMA

A follow up will be done to ensure that the disclosure at year end has been updated with the irregular expenditure incurred for completeness purposes

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PROPERTY, PLANT AND EQUIPMENT

2. Fixed asset register discrepancies

Audit finding

Paragraph 3.3.6 of SAA's Fixed Assets Finance Policy states that "*a capex 4 form must be sent to the user by the Financial Officer: Capex once the asset has been capitalized and thus recorded in the fixed assets register*"

Paragraph 3.2.12 of SAA's Fixed Assets Finance Policy states "*that all assets must be tagged with the asset identification number*"

A sample of the assets below was selected for testing but could not be individually traced to the asset register this constituting a limitation.
It was further noted that the assets listed below had no tag in order to uniquely identify them in the asset register

No	Asset description	Asset number	Cost centre
1	Chair without wheels	No serial number	1848
2	Chair without wheels	No serial number	1848
3	Reception Table at Lagos office	No serial number	1848
4	Table at sales section	No serial number	1848
5	Chair with wheels in boardroom	No serial number	1848
6	Chair with wheels in boardroom	No serial number	1848
7	Couch at the Lounge	No serial number	1843

There is a risk that asset register may be incomplete due to the assets not being individually tagged and identifiable in the register

Internal control deficiency

Financial and performance management

The asset register of SAA records assets as a lump sum and therefore assets are not separately verifiable to ensure that the assets exist and are complete.

Recommendation

- The asset management team of SAA and Regional Manager should:
  - Reconstruct the asset register by dismantling the bundled assets to ensure that each asset is separately identifiable and is tagged so that it is easy to verify,
  - Regular physical verification should be done to ensure that all assets in the outstation exist and are complete.

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Management's response

Management comment on audit finding: As per the SAA capex policy clause 3.4.7 furniture forms part of pool assets. Because of the nature or quantity of these items they cannot be recorded individually in the asset register. However the stations are required to keep a listing of all furniture items in the office.		
Management comment on internal control deficiencies: As per above comments		
Management comment on recommendation: Lists of assets in the Lagos outstation to be forwarded to head office to aid their proper recording of fixed assets.		
Remedial action: As per above		
What actions will be taken:	By whom: Station Manager Person: Position;	By when: 0 - 3 months

Auditor's conclusion

Management's comment is noted and the maintenance of a separate listing with values by the outstation that reconciles to the asset register from the Head Office should be sufficient to ensure that the assets are complete. The implementation of the above will be followed up during future audits. Misstatements identified will however be projected to determine the combined extent of this issue

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3. Assets with zero book values still in use and not reassessed for useful life

Audit finding

IAS16.51 states that *"The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors."*

The assets listed below have zero book values in the asset register, are still in use and the useful lives were not re-assessed:

No	Asset	Date Capitalized	Description	Serial number	Acquisition value	Accumulated depreciation	Book value
					R	R	R
1	1201000300	2010/06/02	Lagos Business Class Lounge	C/0971	5 396 631.15	-5 396 631.15	0
2	2701002338	2014/02/18	IBM T530 Laptop for Lagos Town Office	C/1783-52	17 513.21	-17 513.21	0
Total					**5 414 144.36**	**-5 414 144.36**	**0**

There is a risk of non-compliance with the accounting standard

Internal control deficiency

Financial and performance management

The Regional Manager and asset management team from SAA did not review the asset register and ensure that compliance with accounting standards is adhered to.

Recommendation

Regional Manager and the asset management team from SAA head office should review the asset register and reassess the useful lives in accordance with the accounting standards.

Management's response

Management comment on audit finding: SAA only re-values its aircrafts and land and buildings. Assets are assessed on an annual basis when doing a fixed asset verification, however the decision to revalue an item happens on the larger items only.		
Management comment on internal control deficiencies: SAA Lagos will work with head office to ensure an appropriate solution is reached. There is also a shortage of capex and the station therefore tries to maximise the use of an asset rather than simply replacing.		
Management comment on recommendation: Recommendation will be discussed with the assets team for a final answer.		
Remedial action:		
What actions will be taken:	By whom: Country Manager and Assets team Person: Position:	By when: 0 – 3 months

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Auditor's conclusion

Management comment is noted; however a request was made for the resolution made in this regard exempting SAA from assessing the smaller items in the register and no response was obtained. The finding remains as SAA is required by IFRS standards to assess the useful lives of all categories of assets on an annual basis. Misstatements identified will however be projected to determine the combined extent of this issue

R.S
KTD

4. Asset without tag/barcode not physically verifiable

Audit finding

Section 51(1) (a) (i) of the Public finance management Act 1 of 1999, states the "*general responsibilities of accounting authorities. An accounting authority for a public entity must ensure that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Paragraph 3.2.12 of SAA's Fixed Assets Finance Policy states "*that all assets must be tagged with the asset identification number*"

For the sample tested below, it was noted that the asset, selected from the asset register, could not be uniquely identified/verified at the lounge as it did not have a tag/barcode

No	Asset description	Asset number	Cost centre	Acquisition Value R	Accumulated depreciation R	Book value R
1	Air-conditioning for Lagos Business Class Lounge	No tag/barcode	1843	614 509.81	-271 945.54	342 564.27

There is a risk that assets in the asset register may not exist, as there is no unique tags/barcode on the individual assets

Internal control deficiency

Financial and performance management

The Regional Manager did not implement controls over daily and monthly processing and reconciling transactions to ensure that assets in the asset register are uniquely identifiable /verifiable during physical verification

Recommendation

Regional Manager must ensure that each asset is tagged / barcoded and that this is communicated to the head office for updating in the asset register

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding: SAA Lagos management does not have the asset register for the Lounge and will obtain one from the assets team</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: As per above</td></tr>
<tr><td colspan="3">Management comment on recommendation: Asset will be tagged</td></tr>
<tr><td colspan="3">Remedial action: Bar code/tag will be done as soon as head office provide asset register for the lounge</td></tr>
<tr><td>What actions will be taken:</td><td>By whom:
Person:
Position;</td><td>By when: 0 – 3 months</td></tr>
</table>

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Auditor's conclusion

Management's comment is noted; The Regional Manager is responsible for the Lagos outstation and thus the assets related to the entire Lagos outstation.
The finding remains and misstatements identified will however be projected to determine the combined extent of this issue

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ANNEXURE B: OTHER MATTERS

PERFORMANCE MANAGEMENT AND MONITORING

5. No balance score card in place at the outstation

Audit finding

Treasury Regulations 29.3.1 states that "*the accounting authority for a public entity must establish procedures for quarterly reporting to the executive authority in order to facilitate effective performance monitoring, evaluation and corrective action*".

The Africa region set its performance targets and report through its commercial report to the executive committee (RGM report) on revenue and route profitability. On a monthly basis progress on the achievement of revenue targets and route profitability are sent to head office. There is however no evidence that the Lagos outstation and Africa region has a balance score card in place for 2016/17 financial year that has been cascaded from the company's long term turnaround strategy (LTTS). The SAA LTTS has five strategic objectives i.e. support national development agenda, achieve and maintain financial sustainability, provide excellent customer service, achieve consistent, efficient and effective operations and foster performance excellence. These five strategic objectives are supported by key performance indicators as per 2016/17 SAA shareholders compact (SHC). As the SHC sets the planned key performance indicators for SAA, it is expected that the BSC of the outstation and the region is aligned to the SHC of the company. The RGM report is based only on revenue targets and route profitability and is not clear how it is linked to the five strategic objectives of SAA.

The impact of this is that the outstation and the region may not be able to monitor its performance and its contribution to the overall strategy of the company. This may also result in lack of accountability as there are no set performance indicators and targets in place to ensure that there is effective performance monitoring, evaluation and corrective action.

Internal control deficiency

Leadership

The executive leadership from head office has not established and communicated policies and procedures for quarterly reporting in order to facilitate effective performance monitoring, evaluation and corrective action. Furthermore roles and responsibilities of outstations regarding performance monitoring and accountability in executing the company strategy are not clearly defined.

Recommendation

It is recommended that South African Airways SOC Ltd (SAA) should formulate an overall company policy on performance information that clearly defines the roles and responsibilities of divisions, regions and outstations on performance planning, monitoring, evaluation and corrective action.

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Management's response

Management comment on audit finding: Balance scorecards are done at an individual level and not at a country level. The individual BSC's do incorporate the wider strategic objectives of SAA. If a Country BSC needs to implemented, this decision will need to be made by the relevant GM/EXCO level.		
Management comment on internal control deficiencies: None		
Management comment on recommendation: None		
Remedial action : Not applicable		
What actions will be taken:	By whom Person: Position:	By when:

Auditor's conclusion

Management comment is noted; however the finding still remains as the balance score card is still not aligned to the SHC of the company. This must be communicated to the appropriate level (GM/EXCO level) for actioning during the 2017/18 financial year. We will follow up on the action plans relating to the balance score card alignment to the SHC

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6. Significant deficiencies in budget approval and monitoring

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Paragraph 1.7 of SAA budget instructions procedure manual requires all budgets to be signed-off by the relevant Business Unit GM's, Financial Controllers and their respective head of department (HOD's) / cost centre managers - which they can be measured against and held accountable for.

During the audit of the outstation it was noted that there is no evidence that the 2016/17 budget of the Lagos outstation has been signed-off by the general manager, financial controller and its respective HOD. On enquiry and discussion with management at the outstation, the proposed budget is submitted to head office, however there is no feedback received whether the budget submitted is approved or not. The outstation will monitor by checking the amounts captured on the system and will deem it as the final approved amounts. This is contrary to the requirement of paragraph 1.7 of SAA budget instruction procedure mentioned above as the outstation need to be measured and held accountable for its own budget.

Furthermore, the following internal control deficiencies regarding budget monitoring in monthly management accounts of the outstation were noted:

- The accounts are not consolidated into one report i.e. they are prepared in silos and submitted to different role players in head office with no proper co-ordination,
- No evidence that the accounts were reviewed and approved by a delegated official before submitting to head office,
- Explanation of variances between budgeted and actual income & expenditure are not documented,
- Action plans to address shortcomings identified between budget and actual are not documented,
- No evidence that these reports are also submitted to the office of the CFO or finance department within SAA.

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The following is an example of variances with no explanations:

Mar-17				MARCH 2016/17 YEAR TO DATE		
Act. Costs	Plan Costs	Variance	Cost elements	Act. Costs	Plan Costs	Variance
447 371	787 114	-339 743	Personnel cost	6 479 148	9 390 002	-2 910 854
21 569	15 437	6 132	Depreciation	233 862	194 613	39 250
8 080	17 825	-9 746	Energy Cost	110 995	213 904	-102 909
251 542	152 256	99 286	Distribution Cost	1 841 428	1 827 072	14 356

Internal control deficiency

Leadership

The executive leadership from head office has not established and communicated budget and forecasting policies and procedures to facilitate effective preparation and monitoring of budget for the company.

Recommendation

The leadership of SAA should formulate an overall budget and forecasting company policy that include, among others, budgeting principles, clearly defined roles and responsibilities, key monitoring controls and delegation of authority on budget preparation and approval process.

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Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:

<u>Budgets</u>

Budgets from the stations are submitted to the RFM and Financial Controller at Head Office. Certain adjustments are made to these budgets by the RFM and FC to make them more realistic. The final budget gets discussed at an EXCO meeting where the relevant GM acknowledges the final budget for that area. The Financial Controller and RFM are also aware of the final budgets after specific adjustments are made. Therefore the relevant GM, Financial Controller and RFM are aware of the final approved budgets and ownership happens at that level before filtering to lower levels. The RFM also requests commentary from the relevant cost centre managers for any variances greater than 5%. If not decent feedback is provided, the budget is cut accordingly. This is standard process for cost budgets. The revenue budgets are more consultative between the Head Office and the RGM's in the regions.

The budget policy will be amended going forward for cost budgets. The format that Head office uses is TM1 and the format the regions use is SAP. Getting them to sign a TM1 format will make no sense to them.

<u>Variance analysis</u>

The Financial Controller does a variance analysis for all stations at head office. Only material differences are followed up where the reason is not known for eg. Labour is a material variance but it is known that there are 4 vacancies which were budgeted for but were never filled.

Commentary gets included whilst preparing reports for FinExco and for the consolidated divisional report.

The RFM also reviews his costs and follows up on large variances on a monthly basis and is also directly involved during the month end close process. Each RFM is responsible for their own budget and feedback is only provided to the relevant FC when required from the FC. Budget adherence is also one of the KPI's on each RFM's BSC</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: Better communication to be implemented going forward for budgets</td></tr>
<tr><td colspan="3">Management comment on recommendation: N/a</td></tr>
<tr><td colspan="3">Remedial action : N/a</td></tr>
<tr><td>What actions will be taken:</td><td>By whom
Person:
Position:</td><td>By when:</td></tr>
</table>

Auditor's conclusion

Management comments are noted, the reports indicated in the management comments regarding variance analysis have not been attached to validate the management comments that a variance analysis has been done per outstation. The finding remains unresolved.

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7. Performance agreement not signed

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA) states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

In terms of SAA integrated performance management policy, all managers, together with their direct report/s, must contract annually. The performance contract should be concluded and signed by both parties within the prescribed period and submitted to Human Resource department for verification and record keeping. Performance contracting should take place in the beginning of each financial year (Apr/May).

There is no evidence that individual performance contracts were signed by Lagos outstation management. As per discussion with management, it has been noted that an excel contracting documents are sent to South Africa, however the excel documents are not signed by both the employee and the manager as an evidence that an agreement has been entered.

The following serve as examples of employees that have not signed their performance agreement:

Employee number	Position number	SAP number	Position
F02335C	50141033	53392	Regional Manager
F02368N	500166729	53508	Sales Manager

The impact of the above is non-compliance with the integrated performance management policy. In addition this could result in South African Airways not achieving its strategic objectives as performance agreements are cascaded from the companies balance score card and strategy.

Internal control deficiency

Leadership

- Leadership did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
- Leadership might not be able to hold the employees accountable due to there being no performance contract in place.

Recommendation

- Management should ensure that performance contracts are submitted during the timeline stipulated in the policy as performance contracting is the cornerstone of performance management at an individual level. These performance contracts should be monitored and evaluated on a regular basis to ensure that employees are executing the strategic objectives of SAA adequately.
- In addition, there should be consequences for employees that did not comply with the policy.

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Management's response

Management comment on audit finding: Audit findings partially correct		
Management comment on internal control deficiencies: HR specialist: The BSC's were submitted electronically. The newly appointed employee at Performance Management will inform the managers that only signed off contracts will be accepted in future		
Management comment on recommendation: Recommendations accepted – BScs to be signed off timeously		
Remedial action: To be implemented during the next contracting phase		
What actions will be taken:	By whom: HR and Country Manager Person: Pienie and Ohis Position;	By when: 3 – 6 months

Auditor's conclusion

Management comment is noted, since the implementation will be done in the next 3 to 6 months, this will be followed up and tested during 2017/18 interim audit to ensure that all performance agreements are signed

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OPERATING COSTS

8. Discrepancies identified on other operating expenses

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

(a) During the audit of other operating expenditure in Lagos, it was noted that an amount as per the general ledger is different from the amount as per supporting invoices for the following invoices:

Reference number	Document number	Posting Date	Description	Amount as per the GL (ZAR)	Amounts as per the invoice (ZAR)	Differences
1105911817	217120197	04/29/2016	Cellular Telephone Services : External	88 816.00	55 300.00	-33 516.00

(b) The entity made use of incorrect spot rates and not the rates disclosed on the Central Bank of Nigeria to account for the recording of the expenditure, thus resulting in misstatements.
The entity, further incorrectly recorded the transactions at payment date instead of transaction date (Invoice date) thus resulting in the misstatements.

The table below summarises the misstatements identified:

Reference number	Document number	Date	Description	Amount as per the GL (A)	Invoice amount in USD	Spot rate as per the Central bank of Nigeria	Date of the exchange rate	Recalculated amount as per the invoice translated at the invoice date NGN (B)	Differences (A-B)
1900650898	217432161	29/07/2016	Passenger Handling by Foreign Operators Abroad	9 702 000	34 650.00	282.50	30/06/2016	9 788 625	-86 625
1900643808	217063330	29/04/2016	Transport of Crew : Passenger Flight Crew	3 131 310	15 656.55	196.5	16/03/2016	3 076 512	54 798
1106033187	217424194	07/01/2016	Transport of Crew : Passenger Flight Crew	4 430 000	15 151.50	196.5	16/03/2016	2 977 270	1 452 730
Total									**1 420 903.18**

The above will result in an understatement of other operating expenses.

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Internal control deficiency

Financial and performance management

The Regional Manager did not perform adequate review to ensure that transactions captured on the system are valid, accurate and complete.

Recommendation

- Management should ensure that the posting on to the system is reviewed and compared to the supporting documents,
- Management should ensure that the correct spot rates at transaction date are used converting amounts form USD to NGN.

Management's response

Management comment on audit finding: **Finding 3 (a)** Document 1105911817 was a journal processed at head office and not Lagos office for ZAR 88,816. There was no difference as it was a reallocation of costs from one cost element to another. Document 1106033187 for the amount of NGN 7,900,000 was a reversal of an accrual for Ground Handling for the month of June 2016.This was not an invoice. The invoice was later processed for NGN 9,702,000 (Document 1900650898). The reason for the difference is due to the fluctuation of NGN to USD. **Finding 3 (b)** The invoices for passenger handling and crew transport are in USD and the payments are in Naira (NGN). Due to the fluctuation of the Naira to the dollar we use the Central Bank of Nigeria (CBN) exchange rate applicable at the time the payment is made. This arrangement is agreed with the suppliers, as ordinarily we would be obliged to settle in USD as per contract. This will be detriment to the business as we do not have dollars in our account. Sourcing the dollars will be too costly. Exchange differences are only recorded in SAP between foreign currency and ZAR when clearing the vendor account. Unfortunately these are the realities of the current Nigerian economic conditions which necessitated our business to adapt to the changes. Various steps are being taken to ensure that all future contracts are negotiated in Naira (NGN).		
Management comment on internal control deficiencies: Invoices accurate as at date of payment – there are no internal control deficiencies.		
Management comment on recommendation: Rate of exchange to convert from USD to NGN is dictated by the Central Bank of Nigeria There are multiple exchange rates in Nigeria and rates used also as stated in contract e.g. BDC rate		
Remedial action : Not applicable		
What actions will be taken:	By whom	By when:

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	Person: Position:	

Auditor's conclusion

Management comment is noted; however

- Finding 3 a), the invoices received from SAA added up to R55 300.00 and not R88 816.00. Therefore, there is still a difference until management can prove otherwise, thus finding remains
- Regarding the accrual reversal, we inspected the documents and verified that the accrual of R7 900 000.00 was reversed and an invoice amounting to R7 993 378.34 was raised, thus finding resolved and updated
- Finding 3 b), the differences the amount translated to Naira at transaction date (date invoice was received) and payment date still exists and not taken into account if it is a loss/gain. The finding still remains and management must post a journal to the forex gains and losses for the differences
- The unresolved differences will be included in the schedule of unadjusted differences

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9. Other operating expenditure recorded in the incorrect period

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA) states that *"an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

During the audit it was determined that some of the invoices for other operating expenditure were recorded in the incorrect period. The invoice related to the 15/16 year of assessment however recorded in the 16/17 year of assessment

Below are the details of the invoices recorded in the incorrect period:

Information as per the supporting documents				Information as per the GL	
No	**Invoice No.**	**Date**	**Amount NGN**	**Document number**	**Amount NGN**
1	151213	15-Dec	141 058.29	217424194	7 900 000.00
2	160113	16-Feb	187 771.63		
3	151113	15-Nov	176 428.07		
4	151013	15-Oct	188 825.63		
5	150913	15-Sep	299 294.72		
Total			**993 378.34**		

Included in the amounts as per the general ledger are invoices not recorded in the correct period. Management has not ensured that the posting made in the general ledger are recorded in the correct period.

The above will result in a misstatement in the operating expenditure

Internal control deficiency

Financial and performance management

- The management of the entity did not implement controls over daily and monthly processing and reconciling transactions nor did it prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Management did not review the transactions posted on SAP to ensure that they are recorded in the correct period.

Recommendation

- The finance officer should ensure that all the transactions are recorded in the correct period
- The Regional Manager should review timeously transaction posting made to the system

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Management's response

Management comment on audit finding: Audit findings incorrect		
Management comment on internal control deficiencies: The invoices are not recorded in the correct period but accruals were made for the respective months in the correct period		
Management comment on recommendation: Accruals will still be done for late invoices so that the accounting entry reflects in the correct period		
Remedial action : Not applicable		
What actions will be taken:	By whom : Person: Position:	By when:

Auditor's conclusion

Management's comment is noted; however the where accruals have been raised in the respective financial period and the invoices are later received, management must ensure that the accruals are reversed and the invoices are recorded in the correct accounting period.
The finding remains and the differences noted will be included in the schedule of unadjusted differences.

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DD20-PS-0733

10. Exchange differences not accounted for relating to expenses

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

During the audit it was discovered that the entity does not account for the exchange losses and gains from invoices received in dollars. The entity records the transactions as at the date they are received and not at transaction date.

Below are the details of the invoices recorded in the incorrect period:

No.	Supplier name	Transaction date (Invoice Date)	Payment date	Invoice number	Amount (NGN)	Amount (NGN)	Differences
1	SAHCOL	2016/06/30	2016/07/29	SI-00005940	9 702 000.00	9 788 625.00	-86 625.00
2	La Chrome Global ent & airport crew transfers	2016/03/16	2016/04/29	5937LOS3	3 131 310.00	3 076 512.08	54 797.92

The finding above will result in the financial statements being inaccurate and incomplete as a result of exclusion of exchange gains and losses between the dollar and the naira rate.

The above will result in a misstatement in the exchange gains and losses.

Internal control deficiency

Financial and performance management

The Regional Manager did not review the transactions posted on SAP to ensure that they are recorded correctly.

Recommendation

The Regional Manager should review timeously transaction posting made to the system

Management's response

Management comment on audit finding:

The contracts for some of the commodities like Ground Handling, transport, fuel Catering are negotiated in USD. Due to the fluctuation of the Naira to the dollar we use the Central Bank of Nigeria (CBN) exchange rate applicable at the time the payment is made. This arrangement is agreed with the suppliers, as ordinarily we would be obliged to settle in USD as per contract. This will be detriment to the business as we do not have dollars in our account. Sourcing the dollars will be too costly. Exchange differences are only recorded in SAP between foreign currency and ZAR when clearing the vendor account.

We have converted some of the contracts recently to Naira (NGN). These include fuel and transport. We have requested procurement to also negotiate other contract in Naira when they are up for renewal. These are the realities of the current Nigerian economic conditions which necessitated our business to adapt to the changes. Various steps are being taken to ensure that

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all future contracts are negotiated in Naira (NGN).		
Management comment on internal control deficiencies: There are no internal control deficiencies.		
Management comment on recommendation: Where possible all contract must be negotiated in Naira (NGN).		
Remedial action : Not applicable		
What actions will be taken:	By whom Person: Position	By when:

Auditor's conclusion

Management comment is noted; however the exchange differences between the USD and Naira must be taken into account and recorded. It must be noted that, in terms of IAS 21, par 21 A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction and par 22 states that the date of a transaction is the date on which the transaction first qualifies for recognition in accordance with IFRSs.
When the outstations receives the invoice, that would be the transaction date and the differences between the transaction date and payment date must be accounted for in the records
The finding remains and the differences noted will be included in the schedule of unadjusted differences.

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11. Control deficiency relating purchase orders and goods received notes

Audit finding

In terms of section 51(a) (i) of the PFMA, *"An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

During the audit of the Lagos outstation for South African Airways (SAA), it was noted that the office does not make use of the purchase orders to procure goods and/or services and also does not use goods received notes to receive goods and/or services. It was however also noted that the office does make use of different documents that are checked to satisfy that services were rendered or that goods were received.

Additionally, it was noted that the expense authorization of the SAA is not designed such that it ensures that the approver of the expense authorization captures the date on which the expense authorization has been approved.

The above result in a risk that the entity will not be able to reconcile what the outstation has procured to what the outstation is receiving before making the payment for the goods and services, Furthermore, the absence of a captured authorization date, the entity will not be able to determine when an expense authorization was approved.

Internal control deficiency

Leadership

The management of the outstation did not implement a consistent system or process in order to enable the entity to satisfy that what the outstation is paying for is what has been procured and that this has been received.

Recommendation

Country manager and regional finance manager should:

- Develop a consistent system of purchase orders that they should use when procuring goods and/or services, especially those goods and/or services where there is no standing contract and /or agreement.
- Develop a system of goods received notes that they should use when receiving goods and/or services.

Management's response

Management comment on audit finding: We have provided other documents that can be used as evidence that a service has been rendered. There are no goods received notes as the station does not use the PO/SAP system. We have also mentioned that the signatories on the expense claim will not sign the expense claim if there is doubt that the service has not been rendered. The expense authorisation forms will be amended to include a date going forward.
Management comment on internal control deficiencies: The Lagos outstation does not make use of purchase orders for procurement, this was never introduced at outstations. However, all goods and services procured go through strict internal scrutiny and verification before payments are made.
Management comment on recommendation: SAP "Procure to pay" training has been done for Lagos management and this will soon go LIVE as the work flow approvals are been sorted at the moment for the users. Expense authorisation forms to be amended to include a date.
Remedial action: Efforts are been made to fast track going LIVE with the SAP procure to pay project however designated personnel in the local office will sign off "goods received" notes

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going forward		
What actions will be taken:	By whom : Finance Sup / Sales Manager Person : Segun O & Kemi B Position : Finance Sup & Sales Manager	By when: 0 – 6 months

Auditor's conclusion

Management comment is noted and training provided to the staff on the Procure to Pay system will enable the use of purchase orders and amendment of the expense authorisation form. A follow up of the implementation will be done during interim testing in the 2017/18 financial year

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EMPLOYEE COST

12. Annexure F not properly maintained

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

During the audit of employee benefit expense for Lagos it was determined that the Annexure F is not properly maintained as the detail kept in the Annexure F does not agree with the details as per the increase letter issued and signed by the Regional Manager

Below are the details of the difference identified:

1. Salary differences

Pension number	SAP number	Salary as per Annexure F	Salary - Based on the annual cost of living adjustment review letter	Difference
50101324	53507	175 921.00	204 702.00	-28 781.00
50101325	53506	276 160.10	284 444.90	-8 284.80
50101325	53498	103 755.09	117 213.04	-13 457.95
Total				**-50 523.75**

2. Housing allowance differences

Pension number	SAP number	Housing Allowance - As Per Annexure F	Housing Allowance - After Annual Cost Of Living Adjustment Review Letter	Difference
50141033	53392	271 792.90	358 578.77	-86 785.87

3. Transport allowance differences

Pension number	SAP number	Transport Allowance As Per Annexure F	Transport Allowance - As Per Annual Cost Of Living Adjustment Review Letter	Difference
50141033	53392	358 578.77	-	358 578.77

Annexure F is not regularly reviewed and updated with latest information of the employees i.e. when employee salaries are increased based on the cost of living increases. This could be as a result of the fact that Ms. Pienie Jacobs is the only employee responsible for the review of the countries Annexure F; furthermore it could be as a result of the Finance supervisor not updating Annexure F regularly.

This could lead to incorrect salaries being paid resulting in over or understatement of the employee cost since the salary payments are based on what has been documented in Annexure F.
This could also lead to incorrect taxes being paid which might to interest and penalties being incurred. Since the Annexure F is used as a basis to determine the budget for the employee cost for the outstations the differences identified might result in incorrect figures used during the budgeting. The daily rate used to calculate the leave provision is based on the salaries as per

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Annexure F, thus if Annexure F is incorrect it will lead to incorrect leave provision being recognised.

Internal control deficiency

Leadership

- Leadership at head office: human resources did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
- Management at the outstation does not regular review and update the Annexure F, which serves as Master database of the employee details and salaries that need be paid.

Recommendation

- The Finance supervisor should regularly update the Annexure F with the latest employee information.
- Management at the outstation should ensure that Annexure F is reviewed regularly especially after the cost of living increase and the notch increase have been implemented.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding: Audit findings correct</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: Annexure F will be reviewed as soon as there are any changes / periodically

HR specialist comment: Annexure F is updated when change is made and the station regularly provided inputs. The increases were approved in December 2016 prior to me taking leave. The records were amended on my return.</td></tr>
<tr><td colspan="3">Management comment on recommendation: Recommendations accepted</td></tr>
<tr><td colspan="3">Remedial action: To be implemented immediately</td></tr>
<tr><td>What actions will be taken:</td><td>By whom: HR specialist and Country Manager
Person: Pienie and Ohis
Position;</td><td>By when: 0 – 3 months</td></tr>
</table>

Auditor's conclusion

Management comment is noted, since the implementation will be done in the next 3 months, this will be followed up and tested during 2017/18 interim audit to ensure that regular reviews are performed on Annexure F

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DD20-PS-0739

13. Leave Discrepancies

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA) states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

The following are issues identified during the audit of leave for Nigeria:

a. Leave recorded in the incorrect period

During the audit of leave it was determined that based on the leave report / excel schedule prepared leave was recorded in the incorrect period. Below are the examples of the leave days recorded in the incorrect period:

SAP Number	Employee Number	Date leave taken	Recalculated leave days			Leave days for the specific month as per the excel schedule	Month leave recorded	Difference
			Month 1	Month 2	Total	Month 1		
41789	F01574V	2016/03/28- 2016/04/01	3	1	4	4	Mar-16	-1
41789	F01574V	2017/03/27-2017/04/04	3	2	5	7	Mar-17	2
49993	F02163N	2016/03/31-2016/04/01	1	1	2	2	Mar-16	-1
55131	F02457M	2016/03/29-2016/04/04	3	2	5	5	Mar-16	-2

b. Leave not recorded in the excel schedule based on the leave forms

During the audit of leave it was determined that not all the leave taken has been recorded in the leave reports/ excel schedule. Below is the example of the leave days not recorded in the leave report/ excel schedule:

SAP Number	Employee Number	Date leave taken	Recalculated leave days as per the leave forms	Leave days for the specific month as per the excel schedule	Difference
49993	F02163N	2016/05/04-2016/05/13	8	0	8
53508	F02368N	2016/08/05-2016/08/08	2	0	2
53508	F02368N	2016/11/28-2016/11/28	1	0	1
53508	F02368N	2017/03/13-2017/03/17	3	0	3

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DD20-PS-0740

c. Incorrect leave recorded in the leave report/ schedule

During the audit of leave it was determined that leave was incorrectly accounted for in the leave report.

SAP Number	Employee Number	Date leave taken	Recalculated leave days as per the leave forms	Leave days for the specific month as per the excel schedule	Difference
54049	F02243A	2016/05/16-2016/05/20	5	4	1

The above is as a result of lack of review of the leave excel schedule report by management and also due to the leave report not being prepared timeously. The discrepancies will also result in over or understatement of the leave liability at year end.

Internal control deficiency

Financial and performance management

- Management did not review the leave excel schedule/ report on a timely manner to ensure that the correct leave taken has been recorded.
- Management, through the leadership of the regional manager and human resource division at head office did not ensure that effective controls are in place to ensure that leave reports are accurate.

Recommendation

Management should:

- Ensure that leave is prepared timeously and updated timeously (As and when leave is taken)
- Review the leave excel schedule/ report monthly before it is sent to Head Office
- Ensure that the leave report is sent to the Head Office monthly.
- Ensure that the entity effective controls are in place to ensure that accurate leave balances are used in determining the leave provision.
- Ensure that leave audit is performed regularly to ensure that the correct leave is recorded.

Management's response

Management comment on audit finding: Audit query correct		
Management comment on internal control deficiencies: Leave excel sheet will be monitored monthly before been sent to head office – delegated to Sales Manager Nigeria. Admin personnel already went through training with Pienie Jacob		
Management comment on recommendation: Clear instructions on the leave records were issued to Country Managers. It is evident that the country did not apply the policy. The Admin person attending a briefing session with me and all the relevant policies were provided.		
Remedial action: The leave records will be audited on completion.		
What actions will be taken:	By whom Pienie Jacobs Person: Position Specialist Rem &	By when: 31 July 2017

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	Benefits	

Auditor's conclusion

Management comment is noted, since the implementation will be done by 31 July 2017, this will be followed up and tested during 2017/18 interim audit to ensure that monitoring of leave is performed regularly for accuracy of leave records

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14. Differences in leave provision balance

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA) states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Paragraph 10 of IAS 37 states:
"A provision is a liability of uncertain timing or amount."

Paragraph 36 of IAS 37 further states:
"The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period."

During the audit, the below differences were noted in the calculation of leave provision:

SAP Number	Employee Number	Closing leave balance - Per entity's leave schedule	Recalculated leave balance	Difference	Yearly salary	Recalculated daily rate	Recalculated leave provision	Provision as per leave provision from management	Difference
41789	F01574V	30	27	3	1 491 924.72	5 716.19	154 337.04	282 149.40	-127 812.36
52856	F02166R	29	26	3	1 420 481.88	5 442.46	141 503.94	246 509.28	-105 005.34
49993	F02163N	25	7	18	2 924 913.36	11 206.56	78 445.95	322 828.00	-244 382.05
54049	F02243A	15	19	-4	4 038 479.16	15 473.10	293 988.90	246 549.90	47 439.00
55131	F02457M	15	13	2	978 175.08	3 747.80	48 721.36	93 361.95	-44 640.59
53507	F02367M	18	11	7	2 456 420.16	11 372.32	125 095.47	251 198.28	-126 102.81
53508	F02368N	13	14	-1	7 514 156.40	28 789.87	403 058.20	426 306.66	-23 248.46
53502	F02376X	16	15	1	2 737 878.96	10 489.96	157 349.37	261 713.44	-104 364.07
53503	F02377Y	11	-1	12	1 521 747.12	5 830.45	-5 830.45	121 636.90	-127 467.35
53498	F02372T	4	8	-4	1 406 556.48	5 389.11	43 112.84	39 991.20	-2 267.46
Total difference									**-857 851.49**

Furthermore it was noted that the days used to calculate the leave provision balance was the February 2017 figures used since the March 2017 figures have not been sent to Head Office.

The above is caused by lack of timeous review of the leave excel schedule by management
The leave provision at year end is misstated due to the above misstatement.

Internal control deficiency

Financial and performance management

Management, through the leadership of the country manager and human resource personnel at head office did not ensure that effective review processes are in place to ensure that the leave provision is accurately determined.

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Recommendation

- The country manager and human resources representative should ensure that the entity approves, captures, reviews and timeously brings into effect any adjustments made to employees salary packages so as to ensure that there are no discrepancies in determining the leave provision at year end.
- The financial records needs to be appropriately updated with the difference noted.
- International remuneration special list should ensure that the correct monthly leave day balances are provided as input to be used for the leave provision calculation.

Management's response

Management comment on audit finding: Audit query correct		
Management comment on internal control deficiencies: Station Admin personnel already gone through the HR training and working closely with head office HR to eliminate discrepancies		
Management comment on recommendation: Recommendations will be implemented		
Remedial action : Revised leave records will be audited by HQ		
What actions will be taken:	By whom Pienie Jacobs Person: Position Specialist Int Rem & Benefits	By when: 31 July 2017

Auditor's conclusion

Management comment is noted, since the implementation will be done by 31 July 2017, this will be followed up and tested during 2016/17 final audit to ensure that the leave provision balance is disclosed at a correct value

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15. Subsistence paid out of petty cash

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA) states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

In terms of the Duty travel management policy section 11.5.9 – 11.5.15 it states that "*11.5.9. All traveler requests must be approved before the subsistence allowance can be deposited into the employees travel card, salary account or credit card,*

11.5.10. Allowances must be paid into the traveler's card where possible; if no card is available allowances must be paid into the traveler's salary account or credit card,

11.5.13. No forex cash is to be distributed to the duty traveler in any instance.

11.5.14. All international subsistence allowances will be paid in US Dollars for Citi Bank card holders. All others will be paid in local currency.

11.5.15. All cost of converting local currency to foreign currency will be for the account of SAA. "

During the audit of subsistence allowance it was been determined that the subsistence allowance was not paid into either the travel card, salary card nor the credit card of the employees but rather paid in cash out of petty cash to the employees.

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Below is the list of subsistence allowances paid to employees out of petty cash:

No.	Description	Document Number	Amount	Date of the expense authorisation	Total in foreign currency (USD) paid out of petty cash
1	MEAL ALLOWANCE TO JNB (30 APR-14 MAY)-M/ADEOLUSOLA	217063323	R 10 759.65	28-Apr-16	700.00
2	MEAL ALLOWANCE TO JNB (16 - 30 APRIL)-OHIA/MAURICE		R 10 759.65	13-Apr-16	700.00
3	MEAL ALLOWANCE TO JNB (16 - 30 APRIL)-M/ODIMGBE		R 10 759.65	15-Apr-16	700.00
4	MEAL ALLOWANCE TO JNB (15 APRIL)-M/SOYOMBO		R 1 537.09	18-Apr-16	100.00
5	MEAL ALLOWANCE TO COO&LFW (06-11 JUNE) KEMI/	217280285	R 10 529.15	03-Jun-16	786.00
6	MEAL ALLOWANCE FOR JNB (30 APRIL -13 MAY)BIMBO/O		R 9 429.09	28-Apr-16	650.00
7	MEAL ALLOWANCE TO JNB(10-19 APRIL) THOBI/D		R 7 071.82	03-May-16	450.00
8	MEAL ALLOWANCE TO PNR 28 APRIL - KEMI-LEKE/B		R 2 058.68	27-Jun-16	300.00
9	MEAL ALLOWANCE TO JNB(30 APR-13 MAY) MOTUNRAYO/A		R -11 000.61	10-Jun-16	262.00
10	MEAL ALLOWANCE TO JNB ON FARM TRIP WITH SAT(JIMI/A	217369749	R 4 425.32	27-Jun-16	300.00
11	MEAL ALLOWANCE TO ACC KEMI-LEKE(13-15 JUNE 2016)		R 3 864.78	10-Jun-16	262.00
12	MEAL ALLOWANCE TO ACC CHIOMA /C(13-15 JUNE 2016)		R 3 864.78	10-Jun-16	262.00
13	MEAL ALLOWANCE TO JNB ABIMBOLA/0 (14 MAY) EXTRA		R 737.55	17-May-16	50.00
14	MEAL ALLOWANCE TO COO (28 SEPT-O1 OCT 2016) KEMI/B	217645100	R 7 213.50	26-Sep-16	524.00
15	MEAL ALLOWANCE TO JNB (04-11 SEP) CHIMA UZOMA		R 4 818.18	02-Sep-16	350.00
16	MEAL ALLOWANCE TO JNB (08-13 AUG 2016)STELLA/A		R 3 441.56	08-Aug-16	250.00
17	MEAL ALLOWANCE TO JNB (08-13 AUG 2016)OKPETA/E		R 3 441.56	05-Aug-16	250.00
18	MEAL ALLOWANCE TO JNB (01 - 15 Oct) - M. ADEOLUSOLA	217767690	R 9 612.44	29-Sep-16	700.00
19	MEAL ALLOWANCE TO JNB (17-25 Oct) - STELLA AGHEDO		R 5 492.82	13-Oct-16	400.00

The above is as a result of non-compliance with the entities policies.

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Internal control deficiency

Financial and performance management

Regional Manager did not ensure that the subsistence allowance is paid to employees in accordance with the entities policy.

Recommendation

Regional Manager should
- Ensure that the subsistence allowance is paid either into the employee salary account, credit card or travel card.
- Ensure that the subsistence allowance is paid in terms of the duty travel management policy.

Management's response

Management comment on audit finding: Policy 11.5.14 states that subsistence allowance should be paid in USD. Please note that staff salary account is in NGN and there is no USD travel card provided by Citibank, also note that staff do not have credit card – reason why cash is handed over to staff.		
Management comment on internal control deficiencies: Alternatives to using petty cash will need to be looked at		
Management comment on recommendation: Recommendations cannot be implemented due reasons given above		
Remedial action : N/a		
What actions will be taken:	By whom Person: Position	By when:

Auditor's conclusion

Management comment is noted; a consideration for the amendment of the policy must be made in order to cater for the specific cases as noted above. The finding still remains as non-compliance to the SAA policy and a follow up will be made in the 2017/18 on the amendment and approval of the policy

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CASH AND CASH EQUIVALENTS

16. Bank statements not prepared and reviewed on a monthly basis

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Upon testing the bank reconciliations of the entity, it was discovered that the management of the entity did not perform the bank reconciliations on a monthly basis as all the reconciliations were only prepared on the 04th of May 2017. The Bank reconciliations prepared by the financial officer were not reviewed by the Regional Manager to ensure the reliability thereof.

Internal control deficiency

Financial Management

The Regional Manager of the entity did not implement controls over daily and monthly processing and reconciling transactions nor did it prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

The Regional Manager should:

- Ensure that the entity prepares monthly bank reconciliations which are reviewed consistently.
- Review the monthly reconciliation prepared by the financial officer.

Management's response

Management comment on audit finding: Audit findings not accurate		
Management comment on internal control deficiencies: This is done monthly and documents reside with Regional Finance Manager in Head Office		
Management comment on recommendation: The recons are submitted timeously to the RFM		
Remedial action : No action required		
What actions will be taken:	By whom: RFM Person: Frank Kgaswane Position	By when: not applicable

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Auditor's conclusion

Management comment is noted; however upon the review of the bank reconciliations it was noted that they were all dated 4th May 2017 and there was no evidence of the reviews done by the Regional Manager, thus the finding still remains as proof was not submitted that the evidence for monthly reviews was not submitted

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REFUNDS

17. Refunds Policy discrepancies regarding required documentation

Audit finding

In terms of the South African Airways (SAA) Refunds Policy 001, Version 3.0 final; section 1.15 states that;

1.15 Supporting documentation

A refund will only be processed if the original travel document and supporting documentation as required have been attached to the correct refund application form and forwarded to our offices for processing.

Only in the following instances will photocopies of the documents required for a refund be accepted:

* *Lost document refund application,*
* *Death certificates,*
* *Hospital bills*
* *Passport or I'D. Documentation of the passenger,*
* *The Agent or Travel consultant's copy of the document,*
* *In the case of cabin occupancy downgrade, the copies of the passenger's travel document together with a boarding pass of the passenger.*

From the sample of refunds tested at the outstation, there is no evidence that before refunds are processed, the copy of the passport or ID is obtained from the passenger.

The following are the refunds that were processed and paid to the passengers even though there is no evidence that copies of the passport or ID were obtained before processing the refund:

No	Date	Refund Document Number	Ticket Number	Passenger Name	Amount per ticket (NGN)	Admin fee
1	01-Sep-16	4120006036	839788161060	Yola/Kuroakegha	513 631.00	15 775.00
2	17-Mar-16	4120005487	832124713003	Okolo/Anthony	818 985.00	79 240.00
3	04-Aug-16	4120005952	832207887485	Shehufodio/Aminatu	821 203.00	10 000.00
4	09-Jan-17	4120006343	835860611491	Alexandra/Novitske	67 970.00	69 554.00
5	14-Oct-16	4120006136	832126063201	Adeosun/Adewale	$11 385.72	$1 169.4
6	18-Oct-16	4120006139	839170931812	Alake/Oluwale Emmanuel	1 014 552.00	15 300.00
7	21-Sep-16	4120006094	839788165374	Lawal/Olumodeisaq	207 901.00	15 600.00
8	10-Aug-16	4120005971	832288001578	Buba/Tekunetamb	983 200.00	14 175.00
9	04-Aug-16	4120005943	832207892685	Kanene/Elochukwunnamdi	123 865.00	10 000.00
10	02-Aug-16	4120005914	832125478962	Obedibiyi/Olamideafeez	119 929.00	18 650.00
11	14-Nov-16	4120006202	839170899982	Bankole/Yetundeodunayo	267 912.00	-

The impact of the above is that the refunds paid did not comply with the requirements of the SAA refunds policy as the refunds are processed without the minimum required documentation submitted. As a result, we were unable to determine if the refunds were validly paid to the original passenger.

The control deficiency consequently indicates that implemented control does not adequately prevent fraudulent payments of refunds. This could result in an understatement of the forward

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sales liability in the Annual Financial Statements as SAA would still have a liability towards the original ticket holder in instances where the booked flight has not yet occurred at yearend.

Internal control deficiency

Financial and performance management

The Regional Finance Manager did not implement controls over daily and monthly processing and reconciling transactions to ensure that adequate evidence exist to validate recorded transactions.

Recommendation

- Outstation management should ensure that capturing staff are sufficiently familiarised with the refunds policy requirements regarding minimum documentation that must be submitted by passengers when applying for a refund.

- Refunds should also be independently reviewed prior to payment to a customer otherwise submitted for approval to head office.

Management's response

Management comment on audit finding: Audit finding is correct		
Management comment on internal control deficiencies: Regional Manager will delegate this assignment to the Sales Manager – Nigeria to implement control over daily and monthly processing of refunds		
Management comment on recommendation: Recommendations will be implemented		
Remedial action: We will ensure all documentation, especially copy of ID's are collected before refunds are paid out		
What actions will be taken:	By whom: Finance, CSA Supervisor Person: Segun O & Chioma C Position; FS & CSA Supervisor	By when: Effective immediately

Auditor's conclusion

Management comment is noted; the implementation of the requirements on the Refunds Policy will be followed up and tested during 2017/18 interim audit to ensure that all the required documents are in place

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18. Refunds – Admin Fee waiver and complimentary ticket

Audit finding

Paragraph 4.4.11 of the refunds policy states that "*passenger refund waivers as referred to refunds department from customer relations with authority to waive or any other waiver against department cost centre.*"

Supporting documentation
- *Authorisation letter from Customer relations with a layout of the circumstances and the approval of the refund due to be processed*
- *Expense Authorisation from the respective cost centre manager to authorize the refund to be processed through his/her cost centre*

Waiver policy
- *Waive the cancellation fee*
- *Waive Admin fee (depending on circumstances)*
- *Write-off Cancellation/Admin fee cost to the responsible manager's cost centre*

According to paragraph 8.4 of the SAA Customer service recovery policy, the authority for approval to offer Ex Gratia Offers of free regional or international ticket resides with SAA Chief Executive Officer.

There is no evidence that there was an authorisation letter from customer relations and also no evidence that an expense authorisation was done from the respective cost centre manager to authorise the following refund waiver for the two passengers:

No	Name	Ticket Number	Date	Amounts (NGN)
1	Yetundeodunayo Bankole	0839170899982	14/11/2016	267 912.00
2	Aramitopeolamide Bankole	0839170899983	14/11/2016	236 379.00

Based on the evidence obtained, the reason for the refund is that an incident happened when Yetunde Odunayo Bankole (the passenger) and her daughter travelled from Lagos to Sau Paulo. When the two passengers were connecting a flight to Sau Paulo in OR Tambo airport, the passenger was apparently not allowed to board a flight to Sau Paulo as she was at the late stages of her pregnancy even though she had a medical certificate from her physician that she can travel to Sau Paulo. The passenger was sent back to Lagos and based on the evidence obtained, her husband, Victor Toba Bankole, in an email dated 31 August 2016 threatened SAA with litigation and demanded that the total sum for the flight is refunded as well as NGN15 million for breach of contract failing which he will sue SAA.

In a letter from the regional manager (NWC Africa) dated 02 September 2016, an apology was sent and a complimentary return ticket for Mr Bankole to travel from Sau Paulo to Lagos to join the family for the birth of the new baby. There is no evidence that this complementary ticket was approved by the CEO of SAA, contrary to paragraph 8.4 of the SAA customer service recovery policy. Inspected complimentary return ticket number 0832126063279, the cost of the ticket is USD1 812.61.

It is also not clear why SAA did not allow the passenger to travel and why she was sent back to Lagos as she had valid travel documentation. Should reasonable care be taken in this matter, the expenditure incurred by SAA could have been avoided.

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Internal control deficiency

Leadership

- The regional finance manager did not exercise oversight responsibility by ensuring that there is compliance with SAA policies and procedures for refunds and waiver.

Recommendation

- This matter should be investigated to determine what went wrong and proper controls should be put in place to ensure that this risk is mitigated as it can result in financial losses for SAA,
- There should be consequence management for employees who has caused this incident as it cost money to correct these incidents,
- The costs incurred for this incident should be quantified and disclosed as fruitless and wasteful expenditure.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding: SAA has their own policy/procedure when it comes to pregnant passengers. Safety of the passenger is the number one priority for SAA and this will not be compromised. The reputational damage from one incident will be far more severe than the issuing of a complementary ticket. The lawsuit of NGN15 million would have also been more than the value of the complimentary ticket.

As per chapter 25 of the customer services manual (point 10), pregnant women beyond 28 weeks of gestation are requested to provide a letter from the Obstetrician/General Practitioner or Midwife stating the following to specialhandling@flysaa.com:
• Term of pregnancy
• Fitness for travel
• Whether it's a single, multiple or high risk pregnancy
• Any possible complications, including hypertensive customers, history of premature labour etc.

In a letter dated 17 August 2016, the Country Manager wrote a letter to the Bankole family explaining why she was declined travel. They then offered the husband an option to receive a complimentary ticket which prevented the lawsuit of NGN15 million. The expenditure is within the Country Managers DOA.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: No comment</td></tr>
<tr><td colspan="3">Management comment on recommendation: Country Manager to liase with Customer Care department prior to issuing of a complimentary ticket so that the necessary approval is received on time.</td></tr>
<tr><td colspan="3">Remedial action : No comment</td></tr>
<tr><td>What actions will be taken:</td><td>By whom: Ohis Ehimiaghe and Bev Kok
Person: Country Manager and
Position:</td><td>By when: 0 – 3 months</td></tr>
</table>

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Auditor's conclusion

Management comment is noted; however the finding still remains as there was no authorisation from customer relations and of the expense authorisation. Furthermore paragraph 8.4 of the SAA Customer service recovery policy, the authority for approval to offer Ex Gratia Offers of free regional or international ticket resides with SAA Chief Executive Officer and this was not the case in terms of the event that took place

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Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

SUMMARISED MANAGEMENT REPORT

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Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

MANAGEMENT REPORT
SOUTH AFRICAN AIRWAYS SOC LTD
31 March 2017

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Auditing to build public confidence

MANAGEMENT REPORT

South African Airways SOC LTD
31 March 2017

CONTENT

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MANAGEMENT REPORT OF THE SOUTH AFRICAN AIRWAYS SOC LTD NAMIBIA-WINDHOEK OUTSTATION FOR THE YEAR ENDED 31 MARCH 2017

INTRODUCTION

1. This management report includes audit findings arising from the audit of the financial information and compliance with legislation for the year ended 31 March 2017 which were communicated to management and includes their response to these findings.
2. The management report consists of executive summary and detailed audit findings which are contained in annexures A and B.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

1. Our responsibilities include the following:
    - Performing procedures to obtain audit evidence about financial information and compliance with legislation applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement.
    - Considering internal controls relevant to the processing of the financial information and compliance with legislation.
    - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial information and compliance with legislation.
2. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial information and or compliance with all applicable legislation.

MANAGEMENT'S RESPONSIBILITIES

3. Management's responsibilities include the following:
    - Designing, implementing and maintaining proper record keeping and internal controls necessary to enable head office management to prepare financial statement that are free from material misstatement whether due to fraud or error.
    - Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
    - Designing, implementing, reviewing and monitoring of compliance with legislation.
    - Providing access to all information that is relevant to our audit, such as records and documents.

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EXECUTIVE SUMMARY

SECTION 1: MATERIAL MATTERS

PART A – MATERIAL MISSTATEMENTS

4. The financial information that was submitted by the Namibia Outstations contained material misstatements and these misstatements will need to be disclosed in the annual financial statements as audit adjustments.

Material misstatements	Brief description of misstatements	Impact R
Material misstatements not corrected		
Financial statement item		
Irregular expenditure	Regional Finance Manager-Africa did not exercise oversight responsibility to ensure that irregular expenditure is prevented by complying with the SCM policy. South African Airways (SAA) did not follow the competitive bidding/procurement process required by the Supply chain management (SCM) policy .	6 047 610.17

PART B – FINDINGS ON COMPLIANCE WITH LEGISLATION

Procurement and contract management

5. Goods and services with a transaction value below R500 000 were in certain instances procured without obtaining the required price quotation, as required by the supply chain management policy of SAA.

6. Goods and services with a transaction value above R500 000 were in certain instances procured without inviting competitive bids, as required by the supply chain management policy of SAA.

Expenditure Management

7. Effective steps were not taken to prevent irregular expenditure amounting to R6 047 610.17 as disclosed in note xx to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA.

PART C – INTERNAL CONTROL

Achievement of internal control objectives

8. Significant deficiencies that resulted in significant findings on the financial information and findings on compliance with legislation are summarised below.

Financial and Performance management

9. Significant amount of information that was requested for audit was not provided based on the agreed time lines, there is no proper record keeping and filling in place at the Outstation, this resulted in slow submission of the information.

10. The bank reconciliations of the Outstation were not approved by the delegated official as a proof of review, this affect the internal control processes of the Outstation.

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11. Management has failed to ensure legislative prescripts are adhered to and the requirements of the PFMA are enforced.

SECTION 2: RATINGS OF DETAILED AUDIT FINDINGS

12. For the purposes of this report, the detailed audit findings have been included in annexures A and B reflecting material matters (may potentially impact on the auditor's report) and non-material matters, respectively.

SECTION 3: CONCLUSION

13. The matters communicated throughout this report should be addressed to achieve sustained clean administration. The AGSA staffs remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Polani Sokombela
Senior Manager: National E

12 May 2017

Enquiries:	Patrick Kubai
Telephone:	012 422 9905
Email:	patrickk@agsa.co.za

Distribution:
CEO
CFO
Audit committee
Head of internal audit

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DETAILED AUDIT FINDINGS

ANNEXURE A: MATERIAL MATTERS

Procurement and contract management

1. Procurement process not followed to award contracts

1.1 Dial-A- Cab

Audit finding

In terms of PFMA section 51 (1)(b)(ii). General responsibilities of accounting authorities

"An accounting authority for a public entity must take effective and appropriate steps to pprevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity"

Inspected the below invoices and contract relating to Dial-A-Cab and identified that the incorrect procurement procedure was followed in awarding the contract to the supplier. Please refer to the below table.

No	Description of goods/services	Invoice No	Invoice Date	Supplier Name	Amount per Invoice (N$)
1	SAA staff transportation	SAA-C-07	2016/05/31	Dial-A-Cab	79 022.03
2	SAA staff transportation	SAA-16-07	2016/07/31	Dial-A-Cab	86 501.34
Total					**165 523.37**

Obtained SAP schedule of all payments made to the supplier from the inception date of the contract (1 October 2011) to date (31 March 2017) and it amounted to R 5 740 197.95 (N$5 740 197.95).Therefore the competitive bidding process should have been followed when the contract was awarded to the supplier.

Background

SAA entered into an agreement on 1 October 2011 with Dial-A-Cab where the supplier is responsible for the transportation of staff from Hosea Kutako International Airport to the City Centre. In terms of the agreement the supplier will charge a fixed rate of N$1740.00 per day and the period of the contract is for an indefinite period.

Through inspection of an email dated 26 May 2016 which was sent by Juanita Klassen (Country Manager) to Frank Kgaswane (Regional Finance Manager-Africa) it was confirmed that Dial-A-Cab was appointed in October 2011 as a result of submitting the cheapest quotation. Inspected four quotations from the suppliers and confirmed that Dial-a-Cab was the cheapest supplier.

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Due to the duration of the contract (indefinite period) and the frequency of the service provided by the supplier (daily) SAA should have followed the competitive bidding process as required by the SCM policy.

There is no evidence that competitive bidding process was followed as SAA- Windhoek outstation could not provide supporting documentation.

1.2 Southern Cross Security Services

Inspected the below invoice and contract relating to Southern Cross Security and identified that the incorrect procurement procedure was followed in awarding the contract to the supplier. Please refer to the below table.

No	Invoice No	Invoice Date	Name of supplier	Amount(R/N$)
1	IN145416	42583	Southern Cross Security Services Pty(Ltd)	6 079.30
Total				**6 079.30**

Obtained SAP schedule of all payments made to the supplier from the inception date of the contract (24 October 2014) to date (31 March 2017) and it amounted to R 307 412.22 (N$ 307 412.22) Therefore the procurement process should have been followed when the contract was awarded to the supplier.

Background

1.2.1 Guarding Services

SAA entered into an agreement with Southern Cross Security Services on 24 October 2014 where Southern Cross Security Services will be responsible for providing security services to SAA.

Through inspection of the contract it was confirmed that the duration of the contract is 24 months (2 years) and the supplier will charge N$ 5 233.00 per month during the duration of the agreement. The total amount that will be paid within 24 months is N$125 592.00 and therefore the procurement process in terms of the SCM policy should be followed.

There is no evidence that procurement process was followed as SAA- Windhoek outstation could not provide supporting documentation.

1.2.2 Assets in transit services

SAA entered into an agreement with Southern Cross Security Services on 1 January 2017 where Southern Cross Security Services will provide security services (transportation of money to the bank).

Through inspection of the contract it was confirmed that the duration of the contract is 24 months(2 years) and the supplier will charge N$ 1 891.85 per month .The total value of the contract will amount to N$ 45 404.4 for 24 months. Therefore the procurement process had to be followed by SAA

There is no evidence that procurement process was followed as Windhoek outstation could not provide supporting documentation.

Non-compliance with the SCM policy when an agreement is entered with a supplier will result in irregular expenditure.

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Internal control deficiency

Leadership

Regional Finance Manager-Africa did not exercise oversight responsibility to ensure that irregular expenditure is prevented by complying with the SCM policy.

Country manager did not follow the competitive bidding/procurement process required by the SCM policy

Recommendation

The country manager must ensure that they comply with the SCM policy when they enter into a contract with a supplier

Irregular Expenditure of R 6 047 610.17 must be disclosed in the 2016/17 to annual financial statements. Please see below for the payments made to date to the suppliers:

Dial-A- Cab

Total payments made to date R 5 740 197.95(N$5 740 197.95)

Southern Cross Security Services

Total payments made to date R 307 412.22(N$ 307 412.22)

Management's response

Management comment on audit finding:

Finding 1.1

The contract for the transport of employees was sign on 1 October 2011. The Country manager negotiated and signed the contract as it was within her signing authority. **This is an evergreen contract.** The contract made provision for a 9% increase every year.

In November 2015 a business case was written where a request was included that the transport of employees must go out on tender as we view the 9% fix increase in price is too rich. We realised that in four years the increases were 36% plus extra as it was 9% upon the previous 9 %.

The different committees were established and the criteria were set.

In June 2016 the BAC committee referred the request back and instructed that we must investigate and provide a comparison of cost if South African Airways insourced this function. The biggest challenge was to obtain the cost of the different insurances for vehicle, staff etc. The comparison was provided to the sourcing specialist at procurement and the BAC approved the project on 9 Nov 2016. On 8 February the tender was advertised in two Namibian newspapers. The committee is currently busy evaluating the applicants.

We therefore disagree with this finding as the 3 quote process was followed, and the threshold of R500,000 is an annual threshold. Also note that this is an evergreen contract, and as per above comments the process to define the period of the contract is in progress.

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<table>
<tr><td colspan="3">Finding 1.2.1 and 1.2.2

As per the SCM policy clause 11.10

'For outstations the procurement of goods and services with an estimated value of less than R500,000, the relevant outstation will follow the quote process and approval will be in line with the relevant DOA of the station'

The procurement process was followed in line with the SCM policy. There is also valid contracts in place with the supplier, therefore this does not constitute irregular expenditure.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
As per above comments</td></tr>
<tr><td colspan="3">Management comment on recommendation:
Based on the comments above we will therefore not be declaring PFMA for irregular expenditure. The current SCM policy applicable to the stations is dated February 2011 and has been complied with in both instances.</td></tr>
<tr><td colspan="3">Remedial action : None</td></tr>
<tr><td>What actions will be taken:</td><td>By whom
Person:
Position</td><td>By when:</td></tr>
</table>

Auditor's conclusion

Managements' comments have been noted. However the findings remain valid due to the following:

1.1) Dial-A-Cab

Par 16.13.1 of the SCM policy has tabled that if goods with a value of above R500 000.00 are procured, a contract should be awarded to a supplier via competitive bidding process

The threshold of R500 000.00 relates to the total contract amount and does not relate to total payments that should be made to a supplier per annum. Considering that payments made to date to Dial-A-Cab to the value R 5 740 197.95 and also the contact period is indefinite, the contract should have been awarded to the supplier after following a competitive bidding process.

Management could not provide supporting documentation that the contract was awarded through competitive bidding therefore this is in contravention with the SCM policy.

The fact that a competitive bidding process has been started subsequently is indicative that the competitive bidding process should have been followed in the first instance of awarding the contract.

1.2) Southern Cross Security Services

Par 16.13.3 of the SCM policy states that for SAA Group outstations and relevant subsidiaries, procurement process of goods and services with an estimated value below R500 000.00,the relevant outstation or subsidiary should follow the quote process and approval will be in line with the relevant DOA.

The total amount paid to date to the supplier amounts to R 307 412.22 which is below the R500 000.00 threshold and therefore the quote process should have been followed.

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The fact that there is a contract in place does not provide evidence that the necessary procurement process was followed, the request for quotations, the actual quotations, the evaluations of the quotations and reasons for selecting the supplier concerned were not submitted for to substantiate that the correct procurement process was followed.

Overall Conclusion:

The outstation should disclose irregular expenditure to the value of R/N$ 6 047 610.17

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PROPERTY AIRCRAFT AND EQUIPMENT

2. Completeness: Assets not found on the asset register

Audit finding

In terms of section 51 (1) (c) of the Public Finance Management Act (Act No. 1 of 1999)

"The accounting authority for a public entity is responsible for the management, including the safe-guarding and the maintenance of the assets of the public entity."

The Fixed Asset Finance Policy, Policy reference number GFP-2010-002 VersionV0.2 Effective 01/04/2010 approved by Veona Chaithram HOD Group Accounting under paragraph 3.3.12 requires that all assets must be tagged with an asset identification number.

The table below lists the assets that could not be traced to the asset register; we also could not determine whether these assets were correctly classified because we could not find it in the asset register.

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No	Asset description	Asset number(if available)	Location	Audit Finding
1	House		8 Banting Street, Windhoek	Confirmed through enquiry with Juanita Klassen (Country Manager Windhoek outstation) that SAA owns any land and buildings in Windhoek (a house). This house is not in the name of SAA, it is in the name of Trans Namib C/O SA Airways however SAA pays for the rates Inspected the expense authorisation form number 1106325615 and invoice number 20170110191127. Physically verified the house at 8 Banting Street, Windhoek. The house is not in the name of SAA however the municipal rates and taxes are addressed to and paid for by SAA, Windhoek outstation.
2	Blue couch	No unique number	Sanlam Building, SAA finance office	The furniture is not tagged. There are no visible markings on the asset to facilitate confirmation that the asset is included in the asset register.

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Assets such as chairs and furniture which are not tagged and are not included in the fixed asset register may result in the understatement of assets by an undeterminable amount.

The misstatements identified will be aggregated with the misstatements from the outstations audits being performed and the misstatement assessed for outstations as a whole.

Internal Control deficiency

Financial and performance management

The country manager did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Assets are not tagged to ensure that they are uniquely identifiable.

Recommendation

The country manager should ensure that the asset register is updated regularly to ensure that all assets are recorded on the asset register. In addition, asset counts must be performed on a regular basis.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:

As confirmed with the Capex department the property is in the asset register for the Technical division and not the Windhoek station.

As per the SAA capex policy clause 3.4.7 furniture forms part of pool assets. Because of the nature or quantity of these items they cannot be recorded individually in the asset register. However the stations are required to keep a listing of all furniture items in the office.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:

As per above comments</td></tr>
<tr><td colspan="3">Management comment on recommendation:

Property – A decision must be taken by facilities or assets team on whether to dispose of the house or transfer it back to the technical division.

We will ensure that the station maintains a complete list of all furniture items in the office.</td></tr>
<tr><td colspan="3">Remedial action : Engagement with the assets team</td></tr>
<tr><td>What actions will be taken:</td><td>By whom country Manager

Person: Juanita Klassen</td><td>By when: 3-6 months</td></tr>
</table>

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Auditor's conclusion

Management comments are noted, however the findings remain unresolved for the following reasons:

Furniture

It is noted that the capex policy states that pool assets are those assets of the same type which cost less than R20,000.00 and cannot, because of the nature or quantity of the items, be recorded individually within SAA's asset register. The policy also mentions that pool assets are allocated number 2801; however there are no assets on the asset register that start with 2801. Therefore, management should be in a position to provide the auditors with information as to which asset number the selected asset is grouped to, this should be accompanied by a list of all the assets (with values) that make up a particular project which the selected asset is part of to enable the auditors to trace it to the asset register.

Property

Through inspection of the SAAT register using the description and the location of the asset, the property could not be traced, there was no unique number provided to enable us to trace the property to the asset register of SAAT. Evidence should be provided to confirm that the station SAAT should record the property in their asset register. Furthermore no proof was provided for that the Namibia outstation is liable to pay for the rates and taxes of the property that belongs to another division of SAA.

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3. Useful life and residual values are not assessed

Audit finding

IAS 16.51 requires that *"the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate in accordance with IAS 8 Accounting Policies Changes in Estimates and Errors."*

The asset listed below was selected from the Sanlam building parking at the Windhoek outstation as part of performing the completeness of the asset register and the following was observed:

SAA is still deriving benefits from use of the following asset and may potentially obtain proceeds from its disposal. This indicates that the useful life and residual value of the asset below should be reassessed:

No	Asset description	Asset number	Location	Book value
1	VW Polo Vivo 1.4	N53738W	Sanlam Building Parking	0

This will result in the understatement of assets by an undeterminable amount and non-compliance with the requirements of the International Financial Reporting Standards.

Internal control deficiency

Financial and performance management

The regional financial manager did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

The divisional financial controller has not reviewed the useful lives of the assets annually as required by the accounting standards.

Recommendation

The country manager with the assistance of the regional manager should ensure that regular asset counts are performed and the useful lives of the assets are assessed, as well as their residual values.

Management's response

Management comment on audit finding: The vehicle is 8 years old and fully depreciated as per SAA capex policy. The vehicle will be replaced in the 2017 financial year and sold.
Management comment on Internal control deficiency: As per comments above

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Management comment on recommendation Useful life of assets are checked by the asset team/Country Manager on an annual basis when they do asset verification.		
Remedial action: None		
What actions will be taken: None	By whom	By when:

Auditor's conclusion

Management comment is noted, as stated on the above under management comment, SAA is planning to sell the vehicle which means that SAA may potentially obtain proceeds from the sale of the vehicle, therefore the residual value should be assessed. Thus the finding is still valid.

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ANNEXURE B: OTHER MATTERS

PERFORMANCE MANAGEMENT AND MONITORING

4. No balance score card in place at the Namibia outstation

Audit finding

Treasury Regulations 29.3.1 states that "*the accounting authority for a public entity must establish procedures for quarterly reporting to the executive authority in order to facilitate effective performance monitoring, evaluation and corrective action*".

The Africa region set its performance targets and report through its commercial report to the executive committee (RGM report) on revenue and route profitability. On a monthly basis progress on the achievement of revenue targets and route profitability are sent to head office. There is however no evidence that the Namibia outstation and Africa region has a balance score card in place for 2016/17 financial year that has been cascaded from the company's long term turnaround strategy (LTTS). The SAA LTTS has five strategic objectives i.e. support national development agenda, achieve and maintain financial sustainability, provide excellent customer service, achieve consistent, efficient and effective operations and foster performance excellence. These five strategic objectives are supported by key performance indicators as per 2016/17 SAA shareholders compact (SHC). As the SHC sets the planned key performance indicators for SAA, it is expected that the BSC of the outstation and the region is aligned to the SHC of the company. The RGM report is based only on revenue targets and route profitability and is not clear how it is linked to the five strategic objectives of SAA.

The impact of this is that the outstation and the region may not be able to monitor its performance and its contribution to the overall strategy of the company. This may also result in lack of accountability as there are no set performance indicators and targets in place to ensure that there is effective performance monitoring, evaluation and corrective action.

Internal control deficiency

Leadership

The executive leadership from head office has not established and communicated policies and procedures for quarterly reporting in order to facilitate effective performance monitoring, evaluation and corrective action. Furthermore roles and responsibilities of outstations regarding performance monitoring and accountability in executing the company strategy are not clearly defined.

Recommendation

It is recommended that South African Airways SOC Ltd (SAA) should formulate an overall company policy on performance information that clearly defines the roles and responsibilities of divisions, regions and outstations on performance planning, monitoring, evaluation and corrective action.

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Management's response

Management comment on audit finding: Balance scorecards are done at an individual level and not at a country level. The individual BSC's do incorporate the wider strategic objectives of SAA. If a Country BSC needs to implemented, this decision will need to be made by the relevant GM/EXCO level. <u>Individual BSC's</u> A signed Mid Term Review 2016/17 was provided. It is in line with our Revenue Target and Route Profitability. It is done consistently with clear KPI's in order to reach our LTTS Goals See attached documents to proof the above statement. PDF midterm review.pdf		
Management comment on internal control deficiencies: None		
Management comment on recommendation: None		
Remedial action : None		
What actions will be taken:	By whom Person: Position:	By when:

Auditor's conclusion

Management comments are noted, the finding relates to the cascading of the strategic objectives from the LTTS, SHC to the BSC has not been addressed by the attached midyear review provided. The outstations of SAA should have a BSC which is derived from the key strategic objective s of the entity. The absence of the BSC at the outstation level does not allow for the outstations to contribute directly to the key strategic objectives of SAA.
The finding remains unresolved and will be reported in the management report of SAA.

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5. Significant deficiencies in budget approval and monitoring

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Paragraph 1.7 of SAA budget instructions procedure manual requires all budgets to be signed-off by the relevant Business Unit GM's, Financial Controllers and their respective head of department (HOD's) / cost centre managers - which they can be measured against and held accountable for.

During the audit of the outstation it was noted that there is no evidence that the 2016/17 budget of Namibia Outstation has been signed-off by the general manager, financial controller and its respective HOD. On enquiry and discussion with management at the outstation, the proposed budget is submitted to head office, however there is no feedback received whether the budget submitted is approved or not. The outstation will monitor by checking the amounts captured on the system and will deem it as the final approved amounts. This is contrary to the requirement of paragraph 1.7 of SAA budget instruction procedure mentioned above as the outstation need to be measured and held accountable for its own budget.

Furthermore, the following internal control deficiencies regarding budget monitoring in monthly management accounts of the outstation were noted:

- No evidence that the accounts were reviewed and approved by a delegated official before submitting to head office,
- Explanation of variances between budgeted and actual income & expenditure are not documented,
- Action plans to address shortcomings identified between budget and actual are not documented,
- No evidence that these reports are also submitted to the office of the CFO or finance department within SAA.

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The following is an example of variances with no explanations:

MARCH 2017				MARCH 2016/17 YEAR TO DATE		
Act. Costs	**Plan Costs**	**Variance**	**Cost elements**	**Act. Costs**	**Plan Costs**	**Variance**
163 803	165 224	1 421	Personnel cost	1 690 592	1 930 189	239 597
30 154	11 894	-18 260	Energy cost	235 224	142 965	-92 259
-4 433 963	141 941	4 575 904	Distribution cost	-2 858 269	1 703 286	4 561 555
8 389	0	-8 389	Maintenance	35 456	23 147	-12 308
-4 231 617	**319 059**	**4 567 515**		**-896 997**	**3 799 587**	**4 696 585**

Internal control deficiency

Leadership

The executive leadership from head office has not established and communicated budget and forecasting policies and procedures to facilitate effective preparation and monitoring of budget for the company.

Recommendation

The leadership of SAA should formulate an overall budget and forecasting company policy that include, among others, budgeting principles, clearly defined roles and responsibilities, key monitoring controls and delegation of authority on budget preparation and approval process.

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Management's response

Management comment on audit finding: <u>Budgets</u> Budgets from the stations are submitted to the RFM and Financial Controller at Head Office. Certain adjustments are made to these budgets by the RFM and FC to make them more realistic. The final budget gets discussed at an EXCO meeting where the relevant GM acknowledges the final budget for that area. The Financial Controller and RFM are also aware of the final budgets after specific adjustments are made. Therefore the relevant GM, Financial Controller and RFM are aware of the final approved budgets and ownership happens at that level before filtering to lower levels. The RFM also requests commentary from the relevant cost centre managers for any variances greater than 5%. If not decent feedback is provided, the budget is cut accordingly. This is standard process for cost budgets. The revenue budgets are more consultative between the Head Office and the RGM's in the regions. The budget policy will be amended going forward for cost budgets. The format that Head office uses is TM1 and the format the regions use is SAP. Getting them to sign a TM1 format will make no sense to them. <u>Variance analysis</u> The Financial Controller does a variance analysis for all stations at head office. Only material differences are followed up where the reason is not known for eg. Distribution is a material variance but is incorrect in the attached report as it does not reflect under the Commercial cost centres for "Distribution Costs". This is probably a finger error by the auditors and belongs in a different audit report. Commentary for variances gets included whilst preparing reports for FinExco and for the consolidated divisional report. The RFM also reviews his costs and follows up on large variances on a monthly basis and is also directly involved during the month end close process. Each RFM is responsible for their own budget and feedback is only provided to the relevant FC when required from the FC. Budget adherence is also one of the KPI's on each RFM's BSC.
Management comment on internal control deficiencies: Better communication to be implemented going forward for budgets
Management comment on recommendation: N/a
Remedial action : N/a

What actions will be taken:	By whom Person: Position:	By when:

Auditor's conclusion

Management comments are noted, the reports indicated in the management comments regarding variance analysis have not been attached to validate the management comments that a variance analysis has been done per outstation. The finding remains unresolved.

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6. Performance agreement not signed

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

In terms of integrated performance management policy, all managers, together with their direct report/s, must contract annually. The performance contract should be concluded and signed by both parties within the prescribed period and submitted to Human Resource department for verification and record keeping. Performance contracting should take place in the beginning of each financial year (Apr/May).

Performance contract was not signed by between the country manager and the regional financial manager, as per discussion with management it has been determined that excel contracting documents are sent to South Africa however the excel documents are not signed by both the employee and the manager.

The following is the employee that did not sign the performance agreement:

Name	Employee number	Position
Juanita Klassen	F02490C	Country Manager

The impact of the above is non-compliance with the integrated performance management policy.

In addition this could result in South African Airways not achieving its strategic objectives as performance agreements are cascaded from the companies balance score card and strategy.

This will result in a non-compliance with the company performance management policy and the PFMA

Internal control deficiency

Leadership

The regional finance manager did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

The regional finance manager will not be able to hold the employees accountable due to there being no performance contract in place.

Recommendation

The regional finance manager should ensure that performance contracts are submitted during the timeline stipulated in the policy as performance contracting is the cornerstone of performance management at an individual level. These performance contracts should be monitored and evaluated on a regular basis to ensure that employees are executing the

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strategic objectives of SAA adequately; in addition, there should be consequences for employees that did not comply with the policy.

Management's response

Management comment on audit finding: Below is proof of the signed performance agreement between Acting Regional Manager Southern Africa and Indian Ocean Islands and Country Manager. This process was followed and signed for see below attachment. signed BSC.htm		
Management comment on internal control deficiencies: It is deemed essential to the station's success and consequently adhered too. The Country Manager at the station signs and commits annually to performance of the station.		
Management comment on recommendation: It has been adhered too.		
Remedial action: None		
What actions will be taken:	By whom: Person: Position;	By when:

Auditor's conclusion

Management comments are noted, the finding remains unresolved as the attached proof does not provide evidence that the performance agreement has been signed.

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PROCUREMENT AND CONTRACT MANAGEMENT

7. No approved supplier list at the Windhoek outstation

Audit finding

In terms of SCM Policy Par 15.2.1 "*SAA Group shall establish and maintain in accordance with the law an adequate Prospective Suppliers Database that is linked and aligned to the Central Suppliers Database*"

Par 15.2.2 of the SCM policy states that "*notwithstanding the provisions of 15.2.1 SAA Group's prospective suppliers are also required to register and ensure that correct information is loaded on both the Prospective Suppliers Database and the Central Suppliers Database*"

A list of suppliers was obtained at Windhoek which is used when a service/good is required to be provided to them by a particular supplier. This list was provided in excel format and there was no indication on the excel spreadsheet that the supplier list was approved by the Head of SCM as required by the SCM Policy.

Windhoek does not have an approved suppliers list and this will result in a non-compliance with the SCM Policy.

Internal control deficiency

Leadership

Regional Finance Manager-Africa did not exercise oversight responsibility to ensure that Windhoek complies with the SCM policy by having an approved supplier list.

There was no effective communication of the current supply chain management policy at the outstations.

Recommendation

Regional Finance Manager-Africa should ensure that Windhoek complies with the SCM policy by ensuring that they create an approved suppliers list.

Management's response

Management comment on audit finding: The procurement policy was distributed to all stations by the Regional Finance Manager. It also does not contain the clause mentioned above. We have engaged with SAA compliance office and they have confirmed that the policy being referred to above is not yet effective as this is in the 2016 policy. The current signed SCM policy applicable to stations is dated February 2011.
Management comment on Internal control deficiency: As per above comments

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Management comment on recommendation As per above comments		
Remedial action: None		
What actions will be taken:	By whom	By when:
If the above finding affects an amount(s) disclosed in the financial statements:		

Auditor's conclusion

Management comments are noted, however the finding remain unresolved. The comments do not provide evidence that the current supplier list at Windhoek outstation has been approved.

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OPERATING EXPENDITURE

8. Control deficiency relating purchase orders and goods received notes

Audit finding

In terms of section 51(a) (i) of the PFMA, *"An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

During the audit of the Windhoek outstation for SAA (SOC) Ltd, it was noted that the office does not make use of the purchase orders to procure goods and/or services and also does not use goods received notes to receive goods and/or services. It was however also noted that the office does make use of different documents that are checked to satisfy that services were rendered or that goods were received.

Additionally, it was noted that the expense authorization of the SAA (SOC) Ltd is not designed such that it ensures that the approver of the expense authorization captures the date on which the expense authorization has been approved.

The above result in a risk that the entity will not be able to reconcile what the outstation has procured to what the outstation is receiving before making the payment for the goods and services. Furthermore, the absence of a captured authorization date, the entity will not be able to determine when an expense authorization was approved.

Internal control deficiency

Leadership

The management of the outstation did not implement a consistent system or process in order to enable the entity to satisfy that what the outstation is paying for is what has been procured and that this has been received.

Recommendation

Country manager and regional finance manager should develop a consistent system of purchase orders that they should use when procuring goods and/or services, especially those goods and/or services where there is no standing contract and /or agreement.

Country manager and regional finance manager shall develop a system of goods received notes that they should use when receiving goods and/or services.

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Management's response

Management comment on audit finding: We have provided other documents that can be used as evidence that a service has been rendered. There are no goods received notes as the station does not use the PO/SAP system. We have also mentioned that the signatories on the expense claim will not sign the expense claim if there is doubt that the service has not been rendered. We will amend the expense authorisation forms to include a date going forward.		
Management comment on internal control deficiencies: SAP PO system will need to go Live soon.		
Management comment on recommendation: Implementation of the SAP PO system would solve this problem. Expense authorisation forms will be amended to include a date.		
Remedial action: Implementation of correct system and amended expense authorisation forms		
What actions will be taken:	By whom: Country Manager and IT department Person Position	By when: 6 – 12 months

Auditor's conclusion

Management comments are noted, the corrective action will be followed up in the next audit cycle.

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9. Outstanding information- Limitation of scope

Audit finding

In terms of section 54(1) of the PFMA (Act 1 of 1999), "*an accounting authority for a public entity must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require.*"

With reference to request for information, request no 1N of 2016/17 dated 24 April 2017 and request no 2N dated 2 May 2017 the following documentation is outstanding:

1.1. Bank statements

Month	Bank
Apr-16	Bank Windhoek
May -16	Bank Windhoek
Jun -16	Bank Windhoek
July -16	Bank Windhoek
Aug -16	Bank Windhoek

1.2. Appointments

No.	Description
1	Shortlisted candidates for CSA position

1.3 Other operating costs (Request no 1N)

The following supporting documents were not received from the auditee for the selected items in the below table:

1) Invoice

2 Goods received note (Acknowledgement that goods/services were received)

3) Expense authorisation

No.	Doc. No.	Reference No	Posting Date	GL Account	Cost centre	Amount in Local Currency	Amount in Document Currency
1	217060469	1105888818	04/30/2016	Cabin Dressing (Aircraft Cleaning) On Contract	3928	9 547.84	9 547.84
2	217946492	1106170223	10/30/2016	Transport of Crew : Passenger Flight Crew	5928	44 247.28	44 247.28

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The following supporting documents were not received from the auditee for the selected items in the below table:

1) Purchase orders/Request for quotation

No	Document Number	Posting Date (D)	GL Account	Amount in Local Currency
1	218385018	12/23/2016	Advertising : Publicity - Newspapers/Periodicals	13 043.48
2	218385018	12/23/2016	Advertising : Publicity - Newspapers/Periodicals	13 043.48
Total				**26 086.96**

The following supporting document was not received from the auditee for the selected items in the below table:

1) Good received note (Acknowledgement that goods/services were received)

No	Document Number	Posting Date (D)	GL Account	Amount in Local Currency
1	217500479	08/18/2016	Security services	6 079.30
2	217060469	04/30/2016	Cabin Dressing (Aircraft Cleaning) On Contract	9 547.84
3	217431017	07/31/2016	Passenger Handling by Foreign Operators Abroad	547 983.89
4	217946492	10/30/2016	Transport of Crew : Passenger Flight Crew	44 247.28
5	218385062	12/23/2016	Advertising : Publicity - Newspapers/Periodicals	10 631.11
6	217544427	08/31/2016	Rail & Road Transport : Freight	10 000.00
7	217893829	10/31/2016	Apron Service Costs by Foreign Operators Abroad	9 867.30
Total				**638 356.72**

1.4 Other operating costs (Request no 2N)

The following supporting documents were not received from the auditee for the selected items in the below table:

1) Invoice

2 Goods received note

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3) Expense authorisation

No.	Document Number	Reference Number	Posting Date	GL Account	Amount NAD/R
1	218242988	1106222064	11/30/2016	Transport of Crew : Passenger Flight Crew	43 138.26
2	218373766	1106245731	12/19/2016	Security services	7 108.45
3	218210262	2100026446	11/23/2016	Rail & Road Transport : Freight	1542.28
Total					51 788.99

1.5 Supply chain management

The following supporting documents were not received from the auditee for the selected items in the below table:

1) Quotations
2) RFQ Email
3) Approval Schedule
4) Budget Confirmation
5) Contract
6) Invoice
7) RFQ Document
8) Supplier submitted documents with the RFQ

No	Document_Number	Document_Header_Text	Item_Text	Amount_in_Local_Currency
1	217191932	Inflight catering apr 16	Flamingo inflight catering handling inv apr 16	106 260.00
2	218210141	Flamingo inflight 11/16	flamingo inflight services catering handl 11/16	31 395.00

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Total	**137 655.00**

This might result into non-detection of errors or fraudulent activities as there will be no supporting documents to support the transactions that took place.

Internal control deficiency

Financial and performance management

The country manager did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

There is a over dependence on the finance supervisor at the outstation, in her absence there was no one who could reconcile the information that was requested to the actual request for information.

There is a general lack of proper record keeping at the Windhoek outstation because:

- Information requested was not readily available and could not be easily located.
- If a staff member responsible for the section is absent, it is hard to obtain the requested information from any other person present.
- No proper filing system in place to ensure that information is easily accessible.

Recommendation

The country manager should ensure that supporting documents for each transaction are filled and kept safe to ensure that complete, relevant and accurate information is available for auditors.

Management's response

Management comment on audit finding:

Regional Finance Manager:

The file with the documents required by the auditors was prepared by the Finance Supervisor. Unfortunately the Finance supervisor fell ill from Monday 8/5/2017 to 10/5/2017. The Country Manager and Finance assistant could not assist the auditors with the queries on the documents as the Finance supervisor is the subject expert.

The Finance assistant is still new in her position, and very junior. She is still undergoing training and would not have been in a position to assist with the audit queries. However, the Finance Supervisor did assist to explain and provide the documents to the auditors upon her return to the office.

The matter regarding the outstanding documents was only escalated to the RFM on Thursday 11 May 2017 which was only one day before the final date of the audit. However, the missing documents were obtained from the station and forwarded to the auditors. The

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documents forwarded cover the following findings: Bank statements – These documents were not part of the initial request sent to the station for preparation. Only requested on 10 May 2017. Other Operating Costs		
Management comment on internal control deficiencies: There is proper filing and record keeping in the office. Documents requested were provided. It was unfortunate that a key staff member fell ill.		
Management comment on recommendation: There is currently good filing measures in place, the transfer of knowledge between staff will be addressed.		
Remedial action : As per above		
What actions will be taken:	By whom Country Manager Person: Juanita Klassen	By when: 3-6 months

Auditor's conclusion

A meeting was held with the regional finance manager for African region and the outstanding information was provided. The information was audited and no further findings were noted on the information.

The finding has been resolved, however it will be included in the management report since internal control deficiencies exists in the outstations as the SAP module is not fully rolled out to ensure that the purchase orders and goods received notes are generated and confirmed when goods and services are rendered.

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EMPLOYEE COSTS

10. Overpayment of subsistence allowance

Audit finding

Section 51(1)(a)(i) of the Public finance management Act 1 of 1999," *states the general responsibilities of accounting authorities. An accounting authority for a public entity must ensure that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control."*

The following differences were noted between what was paid to the employee and the recalculated amount using the approved rate for RSA travel:

Information as per GL		Recalculation				
Description	Amount Paid N$	Rate for travel to RSA	No of days	Exchange Rate	Total in N$	Difference N$
Subsistence allowance Benjamin AKN	4 578.00	$50	4	15.2512	3 050.24	1 527.76

This resulted in overpayment of the subsistence allowance by N$ 1 527.76.

The misstatements identified will be aggregated with the misstatements from the outstations audits being performed and the misstatement assessed for outstations as a whole.

Internal control deficiency

Leadership

The country manager did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. This resulted in overpayment of subsistence allowance.

The expense authorisation was not properly reviewed to ensure the errors are detected before the amount is paid.

Recommendation

The regional finance manager should review the expense authorisation forms for accuracy before approval is done on the system.

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Management response

Management comment on audit finding: As per SAA policy subsistence allowance is payable per day or part thereof from the time of arrival at destination up until the time of departure form destination, provided that at least 24hrs is spent away from station. Employee travel details were as follows: SA077 19Jun WDHJNB Depart 15:00 Arrive 17:45 SA078 24Jun JNBWDH Depart 19:25 Arrive 20:20 In this case the subsistence allowance is calculated from date of arrival in JNB to the date of departure from JNB, which is six days. The subsistence allowance was therefore calculated correctly. The subsistence policy can be provided if required.		
Management comment on Internal control deficiency: The subsistence allowance was paid correctly in line with SAA policy		
Management comment on recommendation: None		
Remedial action: None		
What actions will be taken:	By whom	By when:

Auditor's conclusion

Management comment noted, however, for the finding above the employee travel request was as follows:

- Departure time: 26 June 2016 15.00
- Arrival date: 29 June 2016 20:20

Based on the above, the employee was away for 4 days and should have been paid N$3 050.24.

There was no audit evidence submitted to substantiate the changes to the approved travel request, the finding was based on the information that was presented to us for audit and no other information to the contrary was presented, therefore the finding still remains unresolved.

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11. Subsistence and travel claim not approved by the financial controller

Audit finding

In terms of duty travel management policy paragraph 7, all travel requests must be approved by the financial controller before approval from the CCO is obtained. It further states that all costs all costs relating to the travel request, budget availability and necessity of the trip is to be checked by the financial manager before approval.

The following travel requests were not approved by the financial controller:

The expense authorisation that was provided included the pre authorisation from the SAP system with the authorisation number, there is no evidence of who approved the travelling and who authorised he payment of the subsistence allowance

No	Description	Document Number	Amount N$
1	Subsistence allowance Herlinde Tjihepo	217345681	4 578.00
2	Subsistence allowance Melliken Hofnie	217345681	3 080.00
3	Juanita Klassen subsitence allowance :28 May- Jun	217234721	5 640.00
4	Eunice Shihepo Subsitence Allowance16 - 20 May 16	217234721	3 720.10
5	Subsistence allowance Eunice 03-08 July 2016	217434229	4 560.00
6	Subsistence allowance Benjamin Kan	217345681	9 156.00
7	Subsistence allowance Eunice Shihepo	21734581	7 820.00
8	Subsistence allowance Kamutukauta Lt	217158289	6 688.00
	Subsistence allowance Kapunda D	217158290	6 688.00
TOTAL			**51 930.10**

This may result in the outstation incurring losses as there may not be a budget for the trip.

Internal control deficiency

Leadership

The regional financial manager did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. This might result into the outstation incurring expenditure that was not budgeted for.

The travel request is not sent to the financial controller in head office to approve. This may be because the trip is not necessary or the budget may not be available.

There is no audit trail of the approval process on the SAP system.

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Recommendation

The country manager should ensure that travel requests are sent to the financial controller for approval to ensure that only the trips that are necessary and budgeted for are authorised.

In addition, subsistence allowance should not be paid out if the travel request is not approved by the financial controller unless there is an emergency and the reasons for the emergency must be clearly documented.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding:

The duty travel plan is approved as per HR structure. The approval process is system driven and linked to the employee's reporting lines. The financial controller/HOD/GM for each division is one of the approvers on the workflow. There are two financial controllers responsible for the stations, one for Commercial and the other for Operations. It is not always a requirement for the Financial Controller to sign as a Finance Supervisor or Finance Manager can also check the budget with the relevant HOD/GM also being a "checking" signatory on the workflow.

Once the duty travel is fully approved the employee concerned receives an electronic email advising of the approval .The same information will be sent to the duty travel office to issue the ticket and the Finance office receives the email for payment of the subsistence allowance.

At the station the subsistence allowance is processed and paid based on the duty travel approval and the DOA applicable to the station. The only authorisations required is that of the Finance Supervisor, who recommends the payment and the Country Manager who approves.

The Financial Controller does not approve expense authorisations at the stations. Due to the number of SAA stations worldwide it will not be practical for the Financial controller to approve payments. There are designated signatories at each station for the approval of payments.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:

The internal controls regarding duty travel at the stations are adequate and there are no deficiencies.</td></tr>
<tr><td colspan="3">Management comment on recommendation:

We will look at the current process and together with HR/IT see if we can include the Regional Finance Manager in the approval workflow for each region</td></tr>
<tr><td colspan="3">Remedial action : Check if workflows can be updated to reflect RFM</td></tr>
<tr><td>What actions will be taken:</td><td>By whom : RFM

Person: Frank Kgaswane</td><td>By when: 3 – 6 months</td></tr>
</table>

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Auditor's conclusion

Management comments are noted, the workflow approval on SAP was inspected to confirm the authorisation on the system, finding has been resolved.

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CASH AND CASH EQUIVALENTS

12. Bank reconciliations are not authorised

Audit finding

Section 51(1)(a)(i) of the Public finance management Act 1 of 1999, "*states the general responsibilities of accounting authorities. An accounting authority for a public entity must ensure that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

The following deficiencies in the internal control environment were identified:

There is no evidence that bank reconciliations are approved by the delegated official as the following reconciliations are not signed by the regional financial manager:

Month	Bank
Apr-16	Standard Bank & Bank Windhoek
May -16	Standard Bank & Bank Windhoek
Jun-16	Standard Bank & Bank Windhoek
Jul-16	Standard Bank & Bank Windhoek
Aug-16	Standard Bank & Bank Windhoek
Sep -16	Standard Bank & Bank Windhoek
Oct -16	Standard Bank & Bank Windhoek
Nov -16	Standard Bank & Bank Windhoek
Dec -16	Standard Bank & Bank Windhoek
Jan -17	Standard Bank & Bank Windhoek
Feb -17	Standard Bank & Bank Windhoek
Mar - 17	Standard Bank & Bank Windhoek

There is no evidence that the following bank reconciliations were sent to the regional financial manager for authorisation:

Month	Bank
Sep -16	Standard Bank & Bank Windhoek
Oct -16	Standard Bank & Bank Windhoek
Nov -16	Standard Bank & Bank Windhoek
Mar - 17	Standard Bank & Bank Windhoek

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Furthermore, the bank reconciliation for December 2016 was prepared by the finance supervisor on 31 December 2016. Through inspection of the December attendance register, confirmed that the employee was not at work and as it appears that the bank reconciliation has been backdated.

This may result into non-detection of errors on the bank reconciliations as there is no evidence that the bank reconciliations are reviewed by the delegated official.

Internal control deficiency

Financial and performance management

The regional financial manager did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. This might result into non-detection of errors on bank reconciliations.

There are no clear instructions as to what is the appropriate approval process for bank reconciliations.

Recommendation

The country manager should ensure that bank reconciliations are sent to the delegated officials for approval to ensure that errors are detected on time.

Management response

Management comment on audit finding: The procedure regarding reconciliations for the stations is that they must be prepared after month end system closure, once the revaluation programme has been run (the 15th of the following month). They must then be submitted to the Regional Finance Manager before the end of the following month for review. The reconciliations for Windhoek were forwarded by email to Head Office. The December 2016 reconciliation was submitted to RFM on the 28th of February 2017 as per email. We will ensure that going forward this process is enhanced and stations comply with the process and submit the recons timeously Due to the number of stations for Africa it is not possible to review all recons at once.		
Management comment on internal control deficiencies: Recommendations will be implemented to ensure that reconciliations are submitted and reviewed on time.		
Management comment on recommendation: Recommendations are accepted.		
Remedial action : Reconciliations will be submitted to the Regional Finance Manager on time.		
What actions will be taken:	By whom Regional Finance Manager Person: Frank Kgaswane	By when: 30 June 2017

Auditor's conclusion

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Management response is noted; however, not all the issues mentioned on the finding have been addressed. It is not clear how the regional finance manager follows up with the stations where the bank reconciliations have not been received for a particular month. Proof that that bank reconciliations for the months mentioned above were sent to the regional finance manager could not be provided by the station. The finding still remains.

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Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

SUMMARISED MANAGEMENT REPORT

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AUDITOR-GENERAL SOUTH AFRICA

MANAGEMENT REPORT

SOUTH AFRICAN AIRWAYS SOC LTD

31 March 2017

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AUDITOR-GENERAL
SOUTH AFRICA

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MANAGEMENT REPORT

South African Airways SOC LTD
31 March 2017

CONTENT

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MANAGEMENT REPORT OF THE SOUTH AFRICAN AIRWAYS SOC LTD LONDON OUTSTATION FOR THE YEAR ENDED 31 MARCH 2017

INTRODUCTION

1. This management report includes audit findings arising from the audit of the financial information and compliance with legislation for the year ended 31 March 2017 which were communicated to management and includes their response to these findings.
2. The management report consists of executive summary and detailed audit findings which are contained in annexures A and B.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

1. Our responsibilities include the following:
    - Performing procedures to obtain audit evidence about financial information and compliance with legislation applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement.
    - Considering internal controls relevant to the processing of the financial information and compliance with legislation.
    - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial information and compliance with legislation.
2. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial information and or compliance with all applicable legislation.

MANAGEMENT'S RESPONSIBILITIES

3. Management's responsibilities include the following:
    - Designing, implementing and maintaining proper record keeping and internal controls necessary to enable head office management to prepare financial statement that are free from material misstatement whether due to fraud or error.
    - Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
    - Designing, implementing, reviewing and monitoring of compliance with legislation.
    - Providing access to all information that is relevant to our audit, such as records and documents.

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EXECUTIVE SUMMARY

SECTION 1: MATERIAL MATTERS

PART A – MATERIAL MISSTATEMENTS

4. Material misstatements were identified during the audit that were not prevented or detected by the outstation's system of internal control. These material misstatements also constitute non-compliance with the PFMA.

Material misstatements	**Finding** (brief description of misstatements)	**Impact** R	**Internal control deficiency**
Material misstatements not corrected			
Financial statement item			
Irregular expenditure	Non-compliance with SCM prescripts where services were procured without inviting competitive bids and the reasons for deviation were not recorded	5 731 753.54	Regional Finance Manager did not review and monitor compliance with the SCM policy and legislation to ensure that goods and services with a transaction value above R 500 000 are procured by through a competitive bid and that reasons are recorded for deviating from the process
	Procurement for the transaction below occurred without obtaining at least three written price quotations from prospective suppliers and the reasons were not recorded for the deviation	165 871.22	Regional Finance Manager did not review and monitor compliance with the SCM policy and legislation to ensure that goods and services with a transaction value between R1500 and R500 000 are procured by obtaining at least three written price quotations from prospective suppliers and that reasons are recorded for deviating from the process.
	From inspection of the outstation's management accounts for the year under review and through enquiry from the Country Manager, it was confirmed that the country manager does indeed approve settlement of sums in excess of his delegated R1million (±£58k) per month	10 964 684.61	Leadership did not adequately monitor the Power of Attorney for the Country manager to ensure it is updated and aligned to business requirements or that corrective action is taken where there are breaches.

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PART B – FINDINGS ON COMPLIANCE WITH LEGISLATION

Included below are findings on material non-compliance with laws and regulations applicable to the entity.

Expenditure management

5. Effective steps were not taken to prevent irregular expenditure amounting to R16 862 309.37 as disclosed in note xx to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA

Procurement and contract management

6. Goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA

PART C – INTERNAL CONTROL

Achievement of internal control objectives

7. Significant deficiencies that resulted in the material misstatement of the financial statements and findings on compliance with laws and regulations are summarised below:

- **Financial and performance management**

  Management has failed to ensure legislative prescripts are adhered to and the requirements of the PFMA are enforced.

SECTION 2: RATINGS OF DETAILED AUDIT FINDINGS

8. For the purposes of this report, the detailed audit findings have been included in annexures A and B reflecting material matters (may potentially impact on the auditor's report) and non-material matters, respectively.

SECTION 3: CONCLUSION

9. The matters communicated throughout this report should be addressed to achieve sustained clean administration. The AGSA staffs remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Zolisa Zwakala
Business Executive: National E

26 May 2017

Enquiries: Jermina Demana
Telephone: 084 288 5566
Email: ndaedzod@agsa.co.za

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Distribution:
CEO
CFO
Audit committee
Head of internal audit
Country manager

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DETAILED AUDIT FINDINGS

ANNEXURE A: MATERIAL MATTERS

PROCUREMENT AND CONTRACT MANAGEMENT

1. Services not procured through a competitive bid.

Audit finding

Public Finance Management Act (PFMA) section 51(1) (a)(iii) states that "*An accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective*"

South African Airways (SAA) supply chain management (SCM) policy paragraph 16.13 states that *the "Procurement threshold of above R500 000 per request, a competitive tender mechanism is followed*"

It was noted that the services below were procured without inviting competitive bids and the reasons for deviation were not recorded.

No	Vendor Name	Description of procurement	Value of Award GBP	Value of Award ZAR
1	United Airlines	Arrivals lounge	312 945	5 731 753.54
Total				**5 731 753.54**

There is a non-compliance with SAA SCM policy and PFMA resulting in irregular expenditure.

Internal control deficiency

Financial and performance management

Regional Finance Manager did not review and monitor compliance with the SCM policy and legislation to ensure that goods and services with a transaction value above R 500 000 are procured by through a competitive bid and that reasons are recorded for deviating from the process.

Recommendation

Regional Finance Manager must:

- Ensure that goods and services with a transaction value above R 500 000 are procured through a competitive bid from prospective suppliers.
- Amount paid to supplier listed above should be reported to the head office and disclosed as irregular expenditure

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Management's response

Management comment on audit finding: SAA moved from terminal 1 to terminal 2 in 2014. There was only one arrivals lounge and a noting to BAC was submitted by Commercial and supported by Operations. However there was an error in that the submission stated the use of the Arrivals lounge fell under "Star Alliance" agreement for lounges. This was then retracted and a correction process started. It is important to note that at this time there was no other arrival lounge in the terminal. The Regional Finance Manager was aware of the lack of compliance and indeed the item has been declared on the quarterly PFMA returns submitted to JNB. The contract approval procedure is now in the process of BAC approval.
Management comment on internal control deficiencies: This item has been declared. Also note that the appointment of Seabury in Feb 2017 required us to restart the process.
Management comment on recommendation: See comments above.
Remedial action : BAC approval is currently in progress in order to obtain approval for the contract for the remaining period and condonement of earlier spend.

What actions will be taken: See above	By whom: HOD International Operations, HOD Marketing and Procurement Person: Tim Atkinson, Kim Thipe Position:	By when: When tender is finalised

Auditor's conclusion

Management's comment is noted. All deviations from the process must recorded and duly approved before the incurring the expenditure. The finding still remains and the disclosure in the financial statements should be made indicating the irregular expenditure incurred.

A follow up will be done to ensure that the disclosure at year end has been updated with the irregular expenditure incurred for completeness purposes

2. Three quotations not obtained and the reasons not documented

Audit finding

Public Finance Management Act (PFMA) section 51(1) (a)(iii) states that "*An accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective*"

South African Airways (SAA) supply chain management (SCM) policy paragraph 16.5.2 states that "*Notwithstanding the forecasted value that is within the threshold (between R1500 and up to R500 000 per request), a minimum of three written quotations must be obtained whenever it is possible*"

It was noted that procurement for the transactions below occurred without obtaining at least three written price quotations from prospective suppliers and the reasons were not recorded for the deviations.

No	Vendor Name	Description of procurement	Value of Award GBP	Value of Award ZAR
1	St John Ambulance	Emergency first aid at work	420.00	9 631.00
2	Chancery management Limited	Payroll Processing services	3 835.81	70 254.89
3	Lyreco UK Limited	L/PAP 60G 11X9.5 and PAPER A4 80G WH	103.94	1 903.72
4	Azure support services Ltd	Entertainment Expenses	295.6	6 538.67
5	Nu-Swift	Cleaning Materials	679.26	15 025.23
6	BT Business	Telephone Services: External (Telcom Etc.)	3 153.96	62 517.71
TOTAL				**165 871.22**

There is non-compliance with SAA SCM policy and PFMA resulting in irregular expenditure.

Internal control deficiency

Financial and performance management

Regional Finance Manager did not review and monitor compliance with the SCM policy and legislation to ensure that goods and services with a transaction value between R1500 and R500 000 are procured by obtaining at least three written price quotations from prospective suppliers and that reasons are recorded for deviating from the process.

The Regional Finance Manager is not updated in terms of the latest approved (January 2016) SCM policy which has different thresholds from the policy approved in February 2011

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Recommendation

Regional Finance Manager must:

- Ensure that goods and services with a transaction value between R1500 and R500 000 are procured by obtaining at least three written price quotations from prospective suppliers.
- Amount paid to suppliers listed above should be reported to the head office and disclosed as irregular expenditure

Global Supply Management (GSM) at the Head Office must ensure that the latest approved SCM policy is communicated to the outstation

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:

The finding highlights a number of contracts with values above R1,500 for which three written quotes have not been obtained. The process followed by the station in regard to this is governed by the last policy document circulated which states that for purchases between R1,500 and R50,000 three verbal quotes only need to be obtained. This finding was also noted in Windhoek and on investigation it was found that the revised policy had not been circulated to stations. Documentation supporting the policy being used and a letter confirming that the revised policy had not been circulated from the Chief Procurement Officer was passed to the audit team.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:

The policy used by the station complied with the policy circulated to the station as described above. Where revisions to policy have not been circulated then the station cannot be expected to amend procedures. This point was confirmed by the CPO.</td></tr>
<tr><td colspan="3">Management comment on recommendation:

Once a revised policy is circulated we will look at alternative procedures. However we do note that the level of R1,500 is around £90 which could be an area of concern in the UK region.</td></tr>
<tr><td colspan="3">Remedial action :

Awaiting circulation/discussion of new policy.</td></tr>
<tr><td>What actions will be taken:

See above</td><td>By whom

Person: Richard Midgley

Position: RFM Europe</td><td>By when:

On receipt of new policy</td></tr>
</table>

Auditor's conclusion

Management comment is noted; however the finding still remains.

- Communication between the Head Office, Global Supply Management (GSM) and the outstations on the latest SCM policy must take place, including the provision of the necessary training on the implementation of the policy to the staff.

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- A follow up will be done to ensure that the disclosure at year end has been updated with the irregular expenditure incurred for completeness purposes.

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EMPLOYEE COST

3. Country Manager approves spend in excess of his Power of Attorney

Audit finding

In terms of the Power of Attorney for the UK Country Manager –Gary Kershaw signed with GM: Commercial in 2012, he is given authority and appointed to be the true and lawful agent and delegate on behalf of South African Airways (Proprietary) Limited in respect of the Territory to:

1) Exercise on behalf of SAA, subject to all applicable legislation amended from time to time, such as powers and perform such functions and to execute all such sections as may be necessary or required including identification and reporting risk matters for appropriate approval by the authority for the purpose of managing, conducting, operating and carrying out the day to day activities in the normal course of business.

2) Without derogating from the generality of the afore-going, he shall subject to the availability of the pre-approved budget be entitled to:

   - Enter into any contract to the maximum value of R1,000,000.00 (One million rand) excluding the acquisition, alienation or encumbering of immovable property.
   - Authorise and conclude amendments to the maximum value of R1,000,000.00 (One million rand).
   - Enter into the contract to lease, hire or rent movable property to a maximum period of 1 (one) year to the maximum value of R1,000,000.00 (One million rand).

- Settlement of a sum or sums from the SAA banking account in order to pay any ad-hoc sums which may be due or become due by SAA, provided such sum or sums of money do not exceed R1million
- Pay salaries, remittance and gratification to all agents and employees and obtain the receipt.
- Accept on behalf of SAA services of all process that may be issued against SAA or by or on behalf of any individual, corporation or Government agency.
- Take such steps as shall be necessary to comply with the requirements of any local laws or regulations with regard to the procurement of license, permits or otherwise, and sign all documents and file all notices and returns with the appropriate authorities as may be required.
- Represent SAA at the customs office and consequently sign on behalf of SAA all declarations, submissions for temporary admissions, receipts under guarantee, acknowledgements for consignments, receipts under guarantee, acknowledgement of consignments, receipts of repayment of customs duties erroneously paid, liquidations or premiums, minutes regards seizures and provision transactions, as a result of infringements of laws and regulations, undertaking to obtain delivery before payments of duty and all acts generally with the said Customs Office.
- Accept on behalf of SAA services of all process that may be issued against SAA by or on behalf of any individual, corporation or Government agency, execute any actions referred to in this clause, irrespective of the amount involved, if the specific action was approved by the CEO in terms of the Delegation of Authority and/or Board of Directors of SAA.

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From inspection of the outstation's management accounts for the year under review and through enquiry from the Country Manager, it was confirmed that he does indeed approve settlement of sums in excess of his delegated R1million (±£58k) per month.

The contract with UM Mediabrands and SAA was signed and approved by the Country Manager in contravention with the Power of Attorney requirements is just one example of this instance noted.

Year	Amount spent GBP	Amount spent ZAR
2013/14	50 400.00	918 473.39
2014/15	239 569.79	4 274 225.38
2015/16	87 749.47	1 902 224.06
2016/17	204 567.37	3 865 918.45
	236.27	3 843.33
Total	582 522.90	10 964 684.61

There may be an overreach by the Country Manager in terms of his delegation of powers and limits per the Power of Attorney assigned to him which may result in irregular expenditure.

Internal control deficiency

Leadership

Leadership at head office: human resource did not adequately monitor the Power of Attorney for the Country manager to ensure it is updated and aligned to business requirements or that corrective action is taken where there are breaches.

Recommendation

The Power of Attorney for the country manager should be regularly reviewed and updated by Head Office as necessary to align with business requirements at the outstation.

Head Office management should consider setting approval limits in the Power of Attorney based on local currency to avoid the effects of significant currency fluctuations.

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Management's response

Management comment on audit finding: The finding is noted. UM act as a portal for our advertising spend using their greater buying power to source better rates for spend. Our contract with them is for a monthly retainer of £750 and a 5% commission on advertising placed. The contract was not renewed on expiry on 31 March 2017 following CCO instructions regarding the centralization of marketing. The main elements of the payments then are for third party suppliers contracted via UM.
Management comment on internal control deficiencies: POA was issued in 2012 for ZAR1M, for the UK this does not compare like for like with other markets in terms of purchasing power, which was commented on to the CCO at the time. The UK is one of the costliest places to do business on the SAA network. However the POA not indicate whether the amount is fixed at the exchange rate on the date of issue. The rand has fluctuated by over 100% over the past 5 years and means that any invoice around this number is subject to change on a daily basis. A Sterling rate number and a number reflective of the local market would be a better solution.
Management comment on recommendation: The POA levels for the UK will be looked at.
Remedial action : The POA levels for the UK will be looked at.

What actions will be taken: See above	By whom Pienie Jacobs Position: JNB Head Office	By when: 0 -3 months

Auditor's conclusion

Management comment is noted; however approval of amounts that are above the threshold as indicated/stated in the POA must be done according to the DOA, as non-compliance with this result in irregular expenditure. The amount of R10 964 684.61 must be disclosed in the notes to the financial statements as irregular expenditure

Regarding the changes in the exchange rates, management must amend the POA in order to accommodate outstations where the foreign currency is stronger against the rand. The finding remains as the country Manager did not have authority to approve the contract of sums in excess of his delegated R1million (±£58k) per month. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

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PROPERTY, PLANT AND EQUIPMENT

4. Deficiencies identified on fixed assets

Audit finding

Paragraph 3.3.6 of SAA's Fixed Assets Finance Policy states that "*a capex 4 form must be sent to the user by the Financial Officer: Capex once the asset has been capitalized and thus recorded in the fixed assets register*"

Paragraph 3.2.12 of SAA's Fixed Assets Finance Policy states "*that all assets must be tagged with the asset identification number*"

A sample of the assets below was selected from the floor for testing but could not be individually traced to the asset register this constituting a limitation. It was further noted that these assets had no tag in order to uniquely identify them in the asset register.

No	Asset description	Asset number(if available)	Cost centre selected from
1	Chair without wheels	No barcode/tag	7286
2	Plasma screen TV	No barcode/tag	7286
3	Fridge	No barcode/tag	7286
4	Chair without wheels	No barcode/tag	7286
5	Cupboard in the open area	No barcode/tag	7286
6	Table in the boardroom	No barcode/tag	7286

There is a risk that asset register may be incomplete due to the assets not being individually tagged and identifiable in the register

Internal control deficiency

Financial and performance management

The Regional Finance Manager did not implement controls over processing and reconciliation of transactions to ensure that assets are properly maintained in the asset register

Recommendation

Regional finance manager must:

- Maintain a separate asset register with individualized assets whose values reconcile back to the main asset register at the head office
- Ensure that the assets are tagged and that this is communicated to the head office

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Management's response

Management comment on audit finding: As per the SAA capex policy clause 3.4.7 furniture forms part of pool assets. Because of the nature or quantity of these items they cannot be recorded individually in the asset register. However the stations are required to keep a listing of all furniture items in the office. Steps will be taken to ensure that the assets not in the register are included.		
Management comment on internal control deficiencies: Noted – we are aware of the assets in the office and would, I believe, notice any that go missing. However we do accept that this is not the same as a full scale reconciliation to a list held locally.		
Management comment on recommendation: The recommendation is noted. We do not have the capacity to use bar codes to tag items but can develop a more 'low tech' system to enhance control.		
Remedial action : Discussion with the assets team on how to tag these items or alternative measures to be implemented		
What actions will be taken: See above	By whom Assets team and RFM Person: Richard Midgley Position: RFM Europe	By when: 0 – 6 months

Auditor's conclusion

Management's comment is noted and the maintenance of a separate listing with values by the outstation that reconciles to the asset register from the Head Office should be sufficient to ensure that the assets are complete going forward. Misstatements identified will however be projected to determine the combined extent of this issue.

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5. Assets with zero book values still in use and not reassessed for useful life

Audit finding

IAS16.51 states that *"The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors."*

The asset listed below has a zero book values in the asset register, is still in use and its useful life was not re-assessed

No	Asset	Date Capitalized	Description	Serial number	Acquisition value	Accumulated depreciation	Book value
					R	R	R
1	2701002956	2014/04/03	X1 Notebook for London - Tim Atkinson	C/1783-84	17 513.21	-17 513.21	0

There is a risk of non-compliance with the accounting standard and incorrect valuation of assets.

Internal control deficiency

Financial and performance management

The Regional Finance Manager did not review the asset register and ensure that compliance with accounting standards is adhered to

Recommendation

Regional finance manager must review the asset register and reassess the useful lives according to the accounting standard

Management's response

Management comment on audit finding: SAA only re-values its aircrafts and land and buildings. Assets are assessed on an annual basis when doing a fixed asset verification, however the decision to revalue an item happens on the larger items only.
Management comment on internal control deficiencies: We do not revalue immaterial items.
Management comment on recommendation: See above
Remedial action :

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None		
What actions will be taken: See above	By whom Person: Position:	By when:

Auditor's conclusion

Management comment is noted; however a request was made for the resolution made in this regard exempting SAA from assessing the smaller items in the register and no response was obtained. The finding remains as SAA is required by IFRS standards to assess the useful lives of all categories of assets on an annual basis. Misstatements identified will however be projected to determine the combined extent of this issue

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6. Assets without tag /barcode and not physically verifiable

Audit finding

Section 51(1) (a) (i) of the Public finance management Act 1 of 1999, states the "*general responsibilities of accounting authorities. An accounting authority for a public entity must ensure that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Paragraph 3.2.12 of SAA's Fixed Assets Finance Policy states that "*all assets must be tagged with the asset identification number*"

Paragraph 3.2.12 of SAA's Fixed Assets Finance Policy furthermore states that "*SAA group corporate assets include the following:*

- *Office furniture*
- *Computer equipment*
- *Land*
- *Buildings*
- *Light motor vehicles, and*
- *General purpose vehicles*

a) For the sample tested below, it was noted that the assets, selected from the asset register, could not be physically verified as they did not have a tag/barcode matching to the asset register

No	Asset	Capitalized on	Description	Acquisition value	Accumulated depreciation	Book value
1	2700000411	2007/04/30	Data Equipment for the Relocation of London Office	R 119 788.94	R -119 788.94	R 0.00
2	2700000910	2012/10/01	Fujitsu Primergy TX200S6 Server incl. Fujitsu 2TB	R 56 972.27	R -51 275.04	R 5 697.23
3	2000000604	2012/11/01	Avaya Telephone System	R 1 431 460.92	R -312 934.05	R 1 118 526.87
Total				**R 1 608 222.13**	**R -483 998.03**	**R 1 124 224.10**

There is a risk that assets in the asset register may not exist as they are not individually verifiable nor is a unique tag/barcode attached on the individual assets

b) It was noted that the leasehold improvement cost (as analysed below) included furniture items which were incorrectly classified as leasehold improvements

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No	Description	Document Date	Supplier name	Invoice No	Invoice GBP	Invoice ZAR
1	Digital relocation printer	30/10/2014	Itodigital Networks Ltd	7701249	166.40	3 024.96
2	White Boards	30/10/2014	Sam International	VF00200620	366.33	6 659.45
3	Modesty Panel	23/10/2014	Wantdontwant.com Limited	13279	480.00	8 725.84
Total					**1 012.73**	**18 410.25**

Internal control deficiency

Financial and performance management

The Regional Finance Manager did not implement controls over processing and reconciliation of transactions to ensure that assets in the asset register are uniquely identifiable during physical verification and that they are correctly classified

Recommendation

Regional finance manager must:

- ensure that each asset is individually verifiable, tagged/barcoded and that this is communicated to the head office for updating in the asset register
- ensure that assets are correctly classified according to the correct asset category

Management's response

Management comment on audit finding: We can identify the assets concerned but accept that there is no marking system. The leasehold improvements classification will need to be adjusted by the assets team to reflect the correct treatment.		
Management comment on internal control deficiencies: Tags or alternative barcodes need to implemented with discussion with the assets team		
Management comment on recommendation: As per above		
Remedial action : As per above		
What actions will be taken: See above	By whom Person: Richard Midgley Position: RFM Europe	By when: 0 – 3months

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Auditor's conclusion

Management's comment is noted; the finding remains and misstatements identified will however be projected to determine the combined extent of this issue

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ANNEXURE B: OTHER MATTERS

PERFORMANCE MANAGEMENT AND MONITORING

7. No Balance Score Card in place

Audit finding

Treasury Regulations 29.3.1 states that "*the accounting authority for a public entity must establish procedures for quarterly reporting to the executive authority in order to facilitate effective performance monitoring, evaluation and corrective action*".

There is no evidence that the London outstation has a balance score card in place for 2016/17 financial year that has been cascaded from the company's Long term turnaround strategy (LTTS).

The South African Airways (SAA)'s LTTS has five strategic objectives i.e. support national development agenda, achieve and maintain financial sustainability, provide excellent customer service, achieve consistent, efficient and effective operations and foster performance excellence. These five strategic objectives are supported by key performance indicators as per 2016/17 SAA shareholders compact (SHC). As the SHC sets the planned key performance indicators for SAA, it is expected that the Balance Score Card (BSC) of the outstation and the region is aligned to the SHC of the company.

The impact of this is that the outstation may not be able to monitor its performance and its contribution to the overall strategy of the company. This may also result in lack of accountability as there are no set performance indicators and targets in place to ensure that there is effective performance monitoring, evaluation and corrective action.

Internal control deficiency

Leadership

The executive leadership from head office has not established and communicated policies and procedures for quarterly reporting in order to facilitate effective performance monitoring, evaluation and corrective action. Furthermore roles and responsibilities of outstations regarding performance monitoring and accountability in executing the company strategy are not clearly defined.

Recommendation

It is recommended that SAA should formulate an overall company policy on performance information that clearly defines the roles and responsibilities of divisions, regions and outstations on performance planning, monitoring, evaluation and corrective action.

Management's response

Management comment on audit finding:
Balance scorecards are done at an individual level and not at a country level. The individual BSC's do incorporate the wider strategic objectives of SAA. If a Country BSC needs to implemented, this decision will need to be made by the relevant GM/EXCO level. Monthly reporting on cost variances is prepared for Operational Areas covering all main areas of expenditure and forwarded to the relevant Airport Managers and the Operations FC in JNB. Local expenditure reviews on Commercial expenditure are made monthly and discussed with the local Leadership Team. Revenue reports are also prepared for JNB Commercial

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Management comment on internal control deficiencies: N/a.		
Management comment on recommendation: N/a		
Remedial action : N/a		
What actions will be taken:	By whom Person: Position:	By when:

Auditor's conclusion

Management comment is noted; however the finding still remains as the balance score card is still not aligned to the SHC of the company. This must be communicated to the appropriate level (GM/EXCO level) for auctioning during the 2017/18 financial year. We will follow up on the action plans relating to the balance score card alignment to the SHC

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8. Significant deficiencies in budget approval and monitoring

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Paragraph 1.7 of SAA budget instructions procedure manual requires all budgets to be signed-off by the relevant Business Unit GM's, Financial Controllers and their respective head of department (HOD's) / cost center managers - which they can be measured against and held accountable for.

During the audit of the outstation it was noted that there is no evidence that the 2016/17 budget of the UK outstation has been signed-off by the general manager, financial controller and its respective HOD. On enquiry and discussion with management at the outstation, the proposed budget is submitted to head office, however there is no feedback received whether the budget submitted is approved or not. The outstation will monitor by checking the amounts captured on the system and will deem it as the final approved amounts. This is contrary to the requirement of paragraph 1.7 of SAA budget instruction procedure mentioned above as the outstation need to be measured and held accountable for its own budget.

Furthermore, the following internal control deficiencies regarding budget monitoring in monthly management accounts of the outstation were noted:

- The accounts are not consolidated into one report i.e. they are prepared in silos and submitted to different role players in head office with no proper co-ordination,
- No evidence that the accounts were reviewed and approved by a delegated official before submitting to head office,
- Explanation of variances between budgeted and actual income & expenditure are not prepared for UK Commercial and RFM –Europe
- Action plans to address shortcomings identified between budget and actual are not documented,
- No evidence that these reports are also submitted to the office of the CFO or finance department within SAA.

The following is an example of variances with no explanations under UK Commercial (TK31 report):

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MARCH 2017				MARCH 2017 YEAR TO DATE		
Act. Costs (£)	**Plan Costs (£)**	**Variance (£)**	**Cost elements**	**Act. Costs (£)**	**Plan Costs (£)**	**Variance (£)**
118 847.55	122 793.66	-3 946.11	Total Labour cost	1 456 940.47	1 475 076.77	-18 136.3
	5	-5	Material costs	0	25	-25
367.71	250.25	117.46	Depreciation	7 372.52	6 213.23	1 159.29
180 012.16	116 370.86	63 641.30	Other Operating Expenses	1 757 394.93	1 396 525.25	360 869.61
0	0	0	Finance Charge	29.88	0	29.88
299 227.42	*239 419.77*	***59 807.65***		*3 221 737.80*	*2 877 840.32*	**343 897.48**

Internal control deficiency

Leadership

The leadership has not established and communicated budget and forecasting policies and procedures to facilitate effective preparation and monitoring of budget for the company.

Recommendation

The leadership of South African Airways (SAA) should formulate an overall budget and forecasting company policy that include, among others, budgeting principles, clearly defined roles and responsibilities, key monitoring controls and delegation of authority on budget preparation and approval

Management's response

Management comment on audit finding:

Budgets

Budgets from the stations are submitted to the RFM and Financial Controller at Head Office. Certain adjustments are made to these budgets by the RFM and FC to make them more realistic. The final budget gets discussed at an EXCO meeting where the relevant GM acknowledges the final budget for that area. The Financial Controller and RFM are also aware of the final budgets after specific adjustments are made. Therefore the relevant GM, Financial Controller and RFM are aware of the final approved budgets and ownership happens at that level before filtering to lower levels. The RFM also requests commentary from the relevant cost centre managers for any variances greater than 5%. If not decent feedback is provided, the budget is cut accordingly. This is standard process for cost budgets. The revenue budgets are more consultative between the Head Office and the RGM's in the regions.

The budget policy will be amended going forward for cost budgets. The format that Head office

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uses is TM1 and the format the regions use is SAP. Getting them to sign a TM1 format will make no sense to them. Variance analysis The Financial Controller does a variance analysis for all stations at head office. Only material differences are followed up where the reason is not known. Commentary for variances gets included whilst preparing reports for FinExco and for the consolidated divisional report. The RFM also reviews his costs and follows up on large variances on a monthly basis and is also directly involved during the month end close process. Each RFM is responsible for their own budget and feedback is only provided to the relevant FC when required from the FC. Budget adherence is also one of the KPI's on each RFM's BSC.
Management comment on internal control deficiencies: Local review of expenditure is undertaken – both for Operations and Commercial. Where accounts are submitted to Head Office they are prepared by the RFM Europe indicating approval of the numbers used. Documentation is circulated to the UK Team and discussed with action taken as necessary.
Management comment on recommendation: None
Remedial action : None

What actions will be taken:	By whom Person: Position:	By when:

Auditor's conclusion

Management comments are noted, the reports indicated in the management comments regarding variance analysis have not been attached to validate the management comments that a variance analysis has been done per outstation. The finding remains unresolved.

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PROCUREMENT AND CONTRACT MANAGEMENT

9. There is no approved supplier list at the outstation

Audit finding

In terms of SCM Policy Par 15.2.1 *SAA Group shall establish and maintain in accordance with the law an adequate Prospective Suppliers Database that is linked and aligned to the Central Suppliers Database*

Par 15.2.2 of the SCM policy states that *notwithstanding the provisions of 15.2.1 SAA Group's prospective suppliers are also required to register and ensure that correct information is loaded on both the Prospective Suppliers Database and the Central Suppliers Database*

SAA-London outstation does not have an approved suppliers list as required by the SCM policy.

This will result in a non-compliance with the SCM Policy

Internal control deficiency

Leadership

Regional Finance Manager did not exercise oversight responsibility to ensure that London outstation complies with the SCM policy by having an approved supplier list.

Recommendation

Regional Finance Manager should ensure that SAA-London complies with the SCM policy by ensuring that they create an approved suppliers list.

Management's response

Management comment on audit finding: We do not maintain an approved supplier list at the station. For the most part our suppliers are limited – notably in the area of operations – and we tend to use a limited number. From a UK perspective we do not have the same requirements as JNB, such as BBBEE, as these would not be legally valid here. We have engaged with SAA compliance office and they have confirmed that the policy being referred to above is not yet effective as this is in the 2016 policy. The current signed SCM policy applicable to stations is dated February 2011.
Management comment on internal control deficiencies: We do not see control deficiencies arising from this. Larger contracts are generally operational and managed form JNB with limited if any participation with London. Our locally sourced contracts will be with established suppliers with whom we have had a relationship or who have been recommended to us by other members of the airline community
Management comment on recommendation: A list can be compiled but not serve the same purpose as a list compiled in SA and would essentially be just a list of our suppliers.

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Remedial action : To be discussed with JNB		
What actions will be taken: See above	By whom Person: Richard Midgley Position: RFM Europe	By when: TBC pending discussion

Auditor's conclusion

Management comment is noted; however the finding still remains. Communication between the Head Office, Global Supply Management (GSM) and the outstations on the latest approved (2016) SCM policy must take place, including the provision of the necessary training on the implementation of the policy to the staff. This will enable compliance with the policy as required.

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DD20-PS-0825

OPERTAING COSTS

10. Expenses recorded in the incorrect accounting period

Audit finding

In terms of the Conceptual Framework for Financial Reporting paragraph 4.49, "*expenses are recognized in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.*"

The following expenditure items (or part thereof) that were part of the sample that was selected for testing were incorrectly recognized and recorded in 2016/17 financial year end as the goods/service (or part thereof) were not received during the 2016/17 year end.

No	Expense Description	Transaction date as per the Invoice	Invoice Number	Amount (ZAR/£)
1	Entertainment Expenses- The Dove	22/03/2016	(03/3978) and(04/3665)	R1 696.23 (£74)
2	Dry-Cleaning and Laundry - Aeroserve (MPS) Limited	31/03/2016	39714	R 133 575.06 (£6 389)
3	EXPEDIA UK AD CAMPAIGN 01-310116	29/02/2016	4067080	R 118 684.00 (£5 428)
4	Met Office open runway – Navigation Fee	01 Dec 2016 - 30 Nov 2017	I0104413	R 96 183.81 (£5 643.89)
5	HAL 26-310316 NAVIGATION FEE	26 - 31 March 2016	11006620	R 94 335.77 (£4 314)

Internal control deficiency

Financial and performance management

The Regional Finance Manager did not implement controls over processing and reconciliation of expenditure transactions to ensure that expenses are recorded in the correct accounting period.

Recommendation

Regional finance manager must:

- Ensure that the invoices are received and processed on a timely manner in the correct accounting period.
- Implement controls to raise all accruals at year end for expenses already incurred whose invoices are still outstanding.

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Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:

Where these are UK based cost centres (1, 3) accruals are raised at the year end. The accruals though will form part of a larger accrual to cover general entertainment expenses outstanding at the year-end (1) or as part of the marketing accrual (3). Thus whilst the individual amounts are not identifiable an accrual is made against which they are set when posted in the new financial year. The small nature and large number of individual amounts makes any other approach impractical. For JNB cost centres (2,4,5) accruals are raised we believe in the normal course of business – indeed in the initial sample of navigation expenses (5) all the items initially selected were for accruals raised in JNB.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:

We do not believe there to be any significant control deficiencies.</td></tr>
<tr><td colspan="3">Management comment on recommendation:

Accruals are made to cover expenditure incurred but not recorded at the month/year end. This may be done in 'buckets' but does represent an accurate picture of outstanding items in total.</td></tr>
<tr><td colspan="3">Remedial action : N/A</td></tr>
<tr><td>What actions will be taken:

See above</td><td>By whom

Person: Richard Midgley

Position: RFM Europe</td><td>By when:

N/A</td></tr>
</table>

Auditor's conclusion

Management comments noted; however although an accrual was raised, the expenses should have been recorded in the period in which they were incurred being 2015/16. There is an issue with the invoices with a transaction dates that falls outside the 2016/17 financial period but were recorded in this financial period.

The finding remains and the differences noted will be included in the schedule of unadjusted differences

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11. Control deficiency relating purchase orders and goods received notes

Audit finding

In terms of section 51 (1)(a) (i) of the PFMA, *"An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

During the audit of the London outstation for SAA (SOC) Ltd, it was noted that the office does not make use of the purchase orders to procure goods and/or services and also does not use goods received notes to receive goods and/or services. It was however also noted that the office does make use of different documents that are checked to satisfy that services were rendered or that goods were received.

The above result in a risk that the entity will not be able to reconcile what the outstation has procured to what the outstation is receiving before making the payment for the goods and services, Furthermore, the absence of a captured authorization date, the entity will not be able to determine when an expense authorization was approved.

Internal control deficiency

Leadership

The management of the outstation did not implement a consistent system or process in order to enable the entity to satisfy that what the outstation is paying for is what has been procured and that this has been received.

Recommendation

Country manager and regional finance manager should:

- Develop a consistent system of purchase orders that they should use when procuring goods and/or services, especially those goods and/or services where there is no standing contract and /or agreement.
- Develop a system of goods received notes that they should use when receiving goods and/or services.

Management response

Management comment on audit finding: Purchase orders are controlled by the responsible manager with documentation available for only an element of the purchases. Operational purchases are controlled from the airport based on loads etc and so will be advised to the supplier on a daily basis. These are matched to requests prior to invoice approval. In the commercial sphere purchases like marketing have a confirmation schedule from the supplier – this refers primarily to the booking of space in publications.
Management comment on internal control deficiencies: As noted above there are controls in place to ensure that all goods and services ordered are received. However we should note that, with the exception of stationary purchases and some operational items, very few if any of our purchases are of a physical nature rendering a GRN irrelevant. We do therefore have controls over the purchases made so are not entirely sure as to the level of deficiency identified.
Management comment on recommendation: The recommendation is noted however, for the reasons noted above, it is felt that additional paperwork would not add to the controls currently in place but would rather increase the amount of work and paper to be filed. In a paperless environment this is not the approach the London office uses.
Remedial action:

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Not anticipated.		
What actions will be taken: See above	By whom Person N/A Position	By when: N/A

Auditor's conclusion

Management comment is noted; however the purchase order being referred to by management were not provided to the team for audit as a result the finding was raised. Furthermore, in cases of purchases that are not physical a nature, a stamp can be used on the invoice verifying the goods were received satisfactorily or this can be done using a module on SAP. The finding still remains

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PROPERTY, PLANT AND EQUIPMENT

12. Deficiencies in the fixed asset management

Audit finding

Section 51(1)(c) of the Public Finance Management Act 1 of 1999, states that "*the accounting authority for a public entity 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.*"

Section 55(1)(b) of the Public Finance Management Act 1 of 1999, states that "*the accounting authority for a public entity must prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity.*"

Paragraph 9 of International Accounting Standard 36: *Impairment of Assets* states that "*an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset*".

Paragraph 51 of International Accounting Standard 16: *Property, Plant and Equipment* states that, "*the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate in accordance with IAS 8 Accounting Policies Changes in Estimates and Errors.*"

During the audit of fixed assets the audit team identified the following deficiencies relating to asset management:

i) There is no assessment of impairment for the stations assets

ii) Residual values and useful lives of the outstation assets are not reviewed at least on an annual basis

iii) Annual physical verification is not performed for outstation assets

The impact of the above would result in a misstatement of property, plant and equipment and amount to a limitation for the audit team in assessing the International Accounting Standard 16;36 requirements on correct valuation of assets at year end and existence of the assets thereof.

Internal control deficiency

Financial and performance management

Regional Finance Manager and Head office asset management did not review and monitor compliance with applicable legislation to ensure assets are correctly accounted for in accordance with accounting standards.

Recommendation

Regional Finance Manager and Head office asset management should implement monitoring and follow-up controls to ensure that the outstations comply with the accounting standards and SAA's Fixed Assets Finance Policy to ensure that assets are appropriately accounted for.

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Management's response

Management comment on audit finding: As we do not hold the majority of the IT assets in the station, these are owned by SITA, the main assets we hold relate to furniture and equipment. We do not have a formal assessment process for impairment but note that they have a long useful life and do not suffer impairment in the way that other asset classes might. Physical verification of assets can be carried out once the local asset register is compiled.
Management comment on internal control deficiencies: Noted – given the nature of the assets we do not consider the issue of impairment to be of material nature but will monitor going forward.
Management comment on recommendation: The recommendation is noted.
Remedial action : An asset register is to be compiled and a review of impairment completed at the same time.

What actions will be taken:	By whom	By when:
Asset register to be compiled and impairment review conducted,	Person: Richard Midgley Position: RFM Europe	30 September 17

Auditor's conclusion

Management's comment is noted. It must be noted that the accounting standards requires management to assess for impairment and useful lives of the asset on an annual basis. It is stated that the action plan will be implemented by September 2017, this is worrying. A follow up will be made in the future audits.

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EMPLOYEE COST

13. Power of Attorney for Country Manager not aligned to Delegation of Authority

Audit finding

In terms of the Power of Attorney signed by UK Country Manager –Gary Kershaw with GM: Commercial in 2012, he has authority and approval limit up to R1million (±£58k) whereas paragraph 7.14, table 1 of the revised Delegation of authority 2015, provides that Heads of department (M2) who report to GM (Gary's level) may approve up to R2.5million (±£147k)

The misalignment in terms of the approval limits of the Country manager per the Power of Attorney versus the latest Delegation of authority creates confusion which may result in internal control lapses and irregular expenditure.

There may be confusion and overreach by the Country Manager in terms of his delegation of powers which may result in unauthorised transactions and possibly irregular expenditure

Internal control deficiency

Financial and performance management

Management at Head Office has failed to align the Power of Attorney for the Country Manager to the Delegation of Authority approved by the Board

Recommendation

The Power of attorney should be regularly monitored and aligned to the latest Delegation of authority approved by the Board

Management's response

Management comment on audit finding: Point noted – DOA levels are set by JNB and periodically revised. We agree that levels should be monitored and reviewed to properly reflect the situation at the outstations.
Management comment on internal control deficiencies: There is a clear mismatch of POA authority here between the Country Manager and direct reports. POA was issued in 2012 for ZAR1M, for the UK this does not compare like for like with other markets in terms of purchasing power, which was commented on to the CCO at the time. The UK is one of the costliest places to do business on the SAA network. However the POA does not indicate whether the amount is fixed at the exchange rate on the date of issue. The rand has fluctuated by over 100% over the past 5 years and means that any invoice around this number is subject to change on a daily basis. A Sterling rate number and a number reflective of the local market would be a better solution.
Management comment on recommendation: Payments are made in line with DOA as appropriate without impacting the day to day operation of the station both from a Commercial and Operational viewpoint.
Remedial action :

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POA levels to be reviewed by Head Office		
What actions will be taken: See above	By whom: Pienie Jacobs Person: Position: JNB Head Office	By when: 0 – 3 months

Auditor's conclusion

Management comments are noted, follow up will be made with management from Head Office to determine whether there will be changes made to the POA as there is currently mismatch to the current POA when compared to the DOA also considering the fact that the POA indicates that the country manager is allowed to spend up to R1 million which is equivalent to £ 55 555.55

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14. Outstanding information - Limitation of scope: Human Resource

Audit finding

In terms of section 54(1) of the PFMA (Act 1 of 1999), "*an accounting authority for a public entity must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require.*"

With reference to request for information, request no 01-UK of 2016/17 dated 05 May 2017 the following documents were not included in the employee files as requested:

- ***The qualifications of newly appointed employees (Appointments):***
  - In terms of the vacancy advertised for the leisure sales manager, it required that the candidate applying for the position should have a degree or similar. For the corporate account manager the candidate applying needed to have "A" level or equivalent and for the Business Development executive candidates needed to have a degree or equivalent.
  - As per the inspection of the employee files it has been determined no employee qualifications are kept on file.
  - Below is the list of employee whose files do not include the employee qualification. This posed a limitation in that it could not be verified that employees appointed possessed the correct qualification.

Pension number	Position	Date of appointment
F02952D	Leisure Account Manager	13/09/2016
F02951C	Business Development Exec	19/10/2016
F02950B	Corporate Account Manager	28/09/2016
F02725S	Commercial Manager - Promotion	01/10/2012
F02736D	Leisure Sales Manager - Promotion	12/04/2012

- ***Employee master data form (Appointments):***
  - The "Human resource standard operating procedure manual for international employees" requires that the outstations must ensure that all the relevant information of the employee is correct and valid and any changes to the employee master data are updated by means of an employee master data form.
  - A newly appointed employee needs to complete the Master data form detailing their personal details, the master data form should be used to capture the information on SAP R3 HR system.
  - From inspection of the employee files it has been determined that no master data form has been completed by newly appointed employees.

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- Below is the list of employees who were appointed in the current year but did not have the master data form on file.

Pension number	Position	Date of appointment
F02952D	Leisure Account Manager	13/09/2016
F02951C	Business Development Exec	19/10/2016
F02950B	Corporate Account Manager	28/09/2016
F02725S	Commercial Manager - Promotion	01/10/2012
F02736D	Leisure Sales Manager - Promotion	12/04/2012

- ***No proof that the HR Head Office has been notified of the employee terminations (Terminations):***
    - During the audit of terminations it has been determined that the United Kingdom does not notify Head Office of any terminations made during the year.
    - The UK outstation office has a "centralised/decentralized" HR system which allows them to add and terminate employees on the system.
    - SAA Head Office prepares an Annexure F which indicates all the employees that are currently employed at outstations. Since SAA head office is not informed of employees that are terminated this raises the risk that the UK Annexure F is incorrect.

There is a limitation and/or lack of proper record keeping due to the following reasons:

- Information requested was not readily available due to the fact that some of the information is not kept in the employee file due to the data protection act.

- No proper filing system in place to ensure that information is easily accessible.

Qualifications of newly appointed employees:

- The impact of the above finding may result in appointment of candidates who do not qualify for the position as advertised or a post can be filled without proper approval as the employee file does not include all the required documents.

Employee master data form:

- The impact of the above finding might further result in incorrect information of the newly appointed candidates being recorded in SAP R3 HR system.

No proof that the HR Head Office has been notified of the employee terminations:

- The impact of the above finding is that during the budgeting process which is done by SAA head office in September, Annexure F is used as a basis to determine the budget amounts thus the incorrect budget could be determined which will be based on the incorrect Annexure F.

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Internal control deficiency

Leadership

The Country manager did not exercise adequate oversight responsibility over employee files and matters are stipulated in the "Human resource standard operating procedure manual for international employees"

Recommendation

Country manager should:

- ensure SAA policies and procedures as relates to employee matters are adhered to

An asset register is to be compiled and a review of impairment completed at the same time.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:

The responsibility for HR matters rests primarily with the HR Executive employed by the office. Whilst we are aware that checks on qualifications are not always in place we are surprised that basic items such as the master data form were not completed and filed. Employee terminations should be advised directly, probably by an e-mail to JNB and separately by the monthly report of UK employees.

UK was declined a replacement HR position by the CCO and there were issues around the maternity cover for the previous incumbent that were only identified when she left in December 2016. Until we have the resource, we are not able to rectify this issue appropriately. It is also not normal UK protocol to request evidence of qualifications unless it is a professional qualification for a defined role. eg: Pilot license and evidence of experience and hours.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:

We cannot be certain that the master data forms were not prepared but accept that they could not be found in the employee files. We would note that we were subject to an internal audit earlier in the year which covered similar ground but did not raise this specific point. As non-HR staff we do have access to the files but do not at any point refer to the contents, these being confidential. We are thus unable to verify what is there and what should be there. Unfortunately our last HR Executive (who was acting as maternity cover) left SAA's employment at the end of December 16 and we do not have access to her correspondence with HR JNB so cannot confirm whether notifications on leavers were sent to Head Office.</td></tr>
<tr><td colspan="3">Management comment on recommendation:

The recommendation is noted.</td></tr>
<tr><td colspan="3">Remedial action :

SAA UK has not had an HR presence in the office since 1 January 17 and has been declined the approval from JNB to recruit a new staff member. The situation will continue until the vacancy is filled and improvements cannot be made until that time.</td></tr>
<tr><td>What actions will be taken:

Recruitment of an HR</td><td>By whom</td><td>By when:</td></tr>
</table>

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Executive request and approval awaited	Person: Gary Kershaw Position: GM UK&I	TBC

Auditor's conclusion

Management comments are noted, due to the Data Protection Act which requires that only certain individuals have access to employee data, management should ensure that an HR Executive with the appropriate skills and qualification is appointed at the London outstation to ensure that all the information is filed as per the company policy.

Furthermore management should consider changing the policies to align to the outstation legislative requirements.

P.S
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15. HR procedures and compliance (appointments)

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that *"an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

During the audit of appointments at the London outstation the following matters were identified in relation appointments.

a) Confidentiality undertaking not signed

From inspection of the employee files it has been determined that the confidentiality undertakings for newly appointed employees in the year under review were not signed by an SAA representative which is the Country manager as stipulated by the "Human resources standard operating procedure manual for international employees"

Below are name of the employees whose confidentiality undertaking is not signed by SAA:

Pension number	Date of appointment
F02952D	13/09/2016
F02951C	19/10/2016

Furthermore it has been determined that for a confidentiality undertaking that was signed, an incorrect employee number was included on the document.

Incorrect details included in the confidentiality undertaking

Pension number as per Annexure F	Pension number as per Confidentiality undertaking	Date of appointment
F02950B	F02952D	28/09/2016

b) Employment contracts for newly appointed candidates are not signed by the Country Manager

In terms of SAA employment policy it requires that a formal offer should be made in writing by the Country manager.

From inspection of the employment contracts for the following employees, the appointment letters were signed by the HR Executive (Sophie Lindberg) instead of the Regional manager Gary Mark Kershaw who is the country manager for the United Kingdom.

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Pension number	Employee level / Grade	Date of appointment	Signatory
F02952D	11	13/09/2016	Employment contract signed by the HR Executive Sophie Lindberg
F02951C	11	19/10/2016	Employment contract signed by the HR Executive Sophie Lindberg
F02950B	11	28/09/2016	Employment contract signed by the HR Executive Sophie Lindberg

c) Employment contract for a newly appointed manager at level M3 was not signed by the Acting GM: HR or the Head of department

From inspection of the employee files it was determined that the appointment letter of the following employee was signed by the country manager Gary Mark Kershaw instead of the Acting GM: HR or the Head of Department

Pension number	Position	Employee level / Grade
F02725S	Commercial Manager - Promotion (07 July 2016)	M3

d) Discrepancies in salary scales used when appointing new staff

During the audit of appointments of employees it was determined that the salary packages of the newly appointed employees are not based on the entry salary scales as determined by the Head Office. Furthermore it was been determined there is no policy in place for the UK outstation indicating how the entry level salary should be determined. Thus the salary packages determination is at the discretion of the outstation management.

This raises the risk that the entry level packages could be highly inflated by management when the appointments are made.

Below are the discrepancies in salary scales used for the newly appointed employees in the current year:

Pension number	Position	Salary per the entrance salary scales from Head Office	Salary as per payslip	Difference	Salaries paid to previous employees employed to the post	Difference
		A	B	C= A-B	D	E =
F02952D	Leisure Account Manager	£ 26 842.00	31 071.96	-£ 4 229.96	£ 31 072.00	-£ 0.04
F02951C	Business Development Exec	£ 26 842.00	30 999.96	-£ 4 157.96	£ 28 375.44	£2 624.52
F02950B	Corporate Account Manager	£ 26 842.00	31 071.96	-£ 4 229.96	£ 25 625.04	£5 446.92

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Pension number	Position	Salary per the entrance salary scales from Head Office	Salary as per payslip	Difference	Salaries paid to previous employees employed to the post	Difference
		A	B	C= A-B	D	E =
F02725S	Commercial Manager - Promotion (07 July 2016)	£ 34 928.00	48 557.04	-£13 629.04	£ 56 379.96	-£7 822.92
F02736D	Leisure Sales Manager - Promotion (04 April 2016)	£ 30 642.24	37 237.56	-£ 6 595.32	£ 36 788.04	£ 449.52

- **Confidentiality undertaking not signed**
  - An employee can disclose confidential information to third parties without the prior written consent of SAA as there is no representative from SAA who has signed the confidentiality undertaking which might result in reputation risk and financial loss for SAA. This could result in SAA not being able to hold the employee accountable should the employee disclose any SAA confidential information.

- **Employment contract for newly appointed candidates are not signed at the appropriate level**
  - Employees could be appointed without proper authorisation.

- **Discrepancies in salary scales used when appointing new staff**
  - Salaries could be highly inflated by management when appointments are made resulting in unaffordable increases in employee cost

Internal control deficiency

Financial and performance management

The country manager did not ensure that there is proper oversight and record-keeping over employee files and matters.

Recommendation

- The country manager should register (or delegate that an authorised official is registered) with the Information Commissioners Office (ICO) to ensure that they are able to access the confidential information of the employees when required.
- A periodic review of the employee files should be performed to ensure that all the information included in the employee file is correct and valid.
- The country manager should ensure that the new appointments are approved at the correct level.
- Management should implement a standard policy in place to determine the entry salary scales for new employees

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Management's response

Management comment on audit finding: (a) This would be the responsibility of the HR Executive to implement as part of the induction process. We are not aware of the reason why this would not be done. (b) Employment offers have, in the past, been made and signed by the HR Executive on behalf of the GM UK&I and this process has continued in the year under review. This can be amended for future appointments however. (c) As above, point noted. All new positions are subject to approval by JNB prior to being advertised, this will currently include the GM HR and Head of Commercial. All appointments are therefore approved at the appropriate level. (d) The salary scales show a wide variation between lower and higher limits and staff entering the company will be paid somewhere within the scale based on experience and market factors. It is not correct to state that all should start at the lower level.
Management comment on internal control deficiencies: (a) Noted (b) Noted (c) Noted (d) Point noted but procedures in place to ensure appropriate salary levels paid. UK was declined a replacement HR position by the CCO and there were issues around the maternity cover for the previous incumbent that were only identified when she left in December 2016. The maternity cover was not provided with appropriate training on SAA policies and at times acted with a somewhat maverick attitude. Until we have the resource, we are not able to rectify this issue appropriately.
Management comment on recommendation: (a) Agreed (b) Agreed (c) Agreed (d) Salary levels are reviewed prior to an offer of employment being made based on the expectations for the role and the level of experience required. We also take part in an annual salary survey amongst airlines which provides a level of salary information that is being paid in the market for similar jobs. Salary proposals are made to JNB prior to the appointment for approval. This ensures that we pay market rates and that these are approved by JNB HR.
Remedial action : See comments above. In future we will ensure that confidentiality agreements are signed as part of the induction process and filed on the employee file and that job offers and appointments are signed at the appropriate level. We will continue to ensure that salaries paid to new staff reflect the current market position and are approved by HR JNB. The employment of a local HR

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Executive (see above) will of course improve the overall level of control.		
What actions will be taken: See above	By whom Person: Gary Kershaw Position: GM UK&I	By when: Immediately

Auditor's conclusion

Management comments are noted, going forward management should ensure that the salary scales determined take into account employees who have experience in order to ensure that the determination of the salary scale is not left at the discretion of the outstation management but rather agreed on by the Head Office.

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DD20-PS-0842

16. One time vendor accounts used to pay the temporary staff

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

In terms of the SAA employment policies and procedures relating to recruitment procedures it states that "*once an approved manpower requisition form is received, the Country manager may advertise the position*".

The manpower requisition form used to request for temporary position/ staff requires that the temporary resource should only be considered when all other revenues have been exhausted (i.e. divide responsibilities between existing staff, request assistance from another department, use of limited overtime, etc.). Also only service providers on SAA's preferred list of suppliers may be utilized through collaboration with the Human Resource Business Partner to source a temporary contractor.

During the audit of one time vendors accounts it was been determined that one time vendor accounts are used to pay the temporary staff without an approved manpower requisition form approving the appointments of the temporary staff.

Also it was determined that the recruitment company that the temporary staff is sourced from is not part of the preferred list of suppliers since the supplier is being paid out of the one-time vendor account.

Below are the details of the temporary payments made:

Information as per the GL				Information as per the supporting documents					
GL Lookup	**Document Number**	**Total Value in Transaction Curr**	**Offsetting Account Number**	**Employee number**	**Employee name**	**Number of days/ hours worked**	**Rate**	**Total amount**	**Month of transaction**
						A	B	C = A*B	
SAA10217474959001	217474959	491.11	LONZ70	F02937N	Maryam Yari	37.5	14.66	549.75	29-Jul-16
SAA10217538021001	217538021	549.75	LONZ70	F02937N	Maryam Yari	37.5	14.66	549.75	19-Aug-16
SAA10217534196001	217534196	549.75	LONZ70	F02937N	Maryam Yari	37.5	14.66	549.75	12-Aug-16
SAA10217739699001	217739699	549.75	LONZ70	F02937N	Maryam Yari	37.5	14.66	549.75	14-Oct-16
SAA10218202751001	218202751	549.75	LONZ70	F02937N	Maryam Yari	37.5	14.66	549.75	23-Sep-16
SAA10218234512001	218234512	588.81	LONZ70	F02937N	Maryam Yari	37.5	14.66	549.75	25-Nov-16
						1	39.06	39.06	
SAA10218338173001	218338173	688.81	LONZ70	F02937N	Maryam Yari	37.5	14.66	549.75	02-Dec-16
						1	100	100	

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Information as per the GL				Information as per the supporting documents					
GL Lookup	Document Number	Total Value in Transaction Curr	Offsetting Account Number	Employee number	Employee name	Number of days/ hours worked	Rate	Total amount	Month of transaction
						1	39.06	39.06	
SAA10218373827001	218373827	413.25	LONZ70	F02937N	Maryam Yari	1	413.25	413.25	09-Dec-16
SAA10218396907001	218396907	549.75	LONZ70	F02937N	Maryam Yari	37.5	14.66	549.75	30-Dec-16
SAA10218396907002		39.06	LONZ70			1	39.06	39.06	
SAA10218461988001	218461988	329.85	LONZ70	F02937N	Maryam Yari	22.5	14.66	329.85	30-Dec-16
SAA10218461988002		39.06	LONZ70			1	39.06	39.06	
SAA10218538890001	218538890	549.75	LONZ70	F02937N	Maryam Yari	37.5	14.66	549.75	20-Jun-17
SAA10218538890002		39.06	LONZ70			1	39.06	39.06	
SAA10218522235001	218522235	549.75	LONZ70	F02937N	Maryam Yari	37.5	14.66	549.75	13-Jun-17
SAA10218522235002		39.06	LONZ70			1	39.06	39.06	
SAA10218496671001	218496671	439.80	LONZ70	F02937N	Maryam Yari	30	14.66	439.8	06-Jan-17
SAA10218496671002		39.06	LONZ70			1	39.06	39.06	
					Total amount			7053.82	

This results in non-compliance with SAA policies and procedures
This may also result in the outstation over spending on their budgets since the payments for the temporary staff were not approved as per the manpower requisition form.

Internal control deficiency

Financial and performance management

The country manager did not ensure compliance with the SAA policies when appointing the temporary staff.

Recommendation

The country manager should:

- ensure that proper process are followed when contracting the temporary staff
- ensure the before temporary staff is employed a manpower requisition form is completed and approved by the Head Office.

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Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:

Approval for temporary staff was obtained from JNB prior to staff being employed, we have approval for two temp staff in the call centre and this is rolled forward to allow us to recruit new staff if a temp staff member decides to leave or we decide to terminate their employment. We would note that we use local temp agencies who have a reputation in the market for aviation expertise, these may not appear on the JNB HR departments list of approved HR suppliers as I suspect this covers only JNB. Note that the one-time vendors account is used for payment due to the ongoing issues we have in obtaining approval to open new vendor accounts on the SAP system.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:

Controls are in place over the appointment of temp staff. We are unable to locate the initial approval form JNB largely as a result of the changes in HR Executives over the last two years and due to the fact that we cannot access all correspondence over this period. Copies were requested from JNB HR department but were not received by the time the audit team left London.</td></tr>
<tr><td colspan="3">Management comment on recommendation:

Noted but procedures were followed in the recruitment process. We do appreciate that the evidence to prove this is missing.</td></tr>
<tr><td colspan="3">Remedial action :

Adjustments to our process will be made going forward to ensure adequate recording of all approvals and transactions. This will be helped by the recruitment of an HR Executive for the London station if approved.</td></tr>
<tr><td>What actions will be taken:

See above</td><td>By whom

Person: Gary Kershaw

Position: GM UK&I</td><td>By when:

Immediately</td></tr>
</table>

Auditor's conclusion

Management comments are noted, auditors will evaluate the approval form that has been requested by management from Head Office once received.

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REFUNDS

17. Refunds policy not adhered to

Audit finding

In terms of the South African Airways (SAA) Refunds Policy 001, Version 3.0 final; section 1.15 states that;

1.15 Supporting documentation

> *A refund will only be processed if the original travel document and supporting documentation as required have been attached to the correct refund application form and forwarded to our offices for processing.*
>
> *Only in the following instances will photocopies of the documents required for a refund be accepted:*
>
> * *Lost document refund application,*
> * *Death certificates,*
> * *Hospital bills*
> * *Passport or I'D. Documentation of the passenger,*
> * *The Agent or Travel consultant's copy of the document,*
> * *In the case of cabin occupancy downgrade, the copies of the passenger's travel document together with a boarding pass of the passenger.*

From the sample of refunds tested at the outstation, there was no evidence that before refunds are processed, the copy of the passport or ID is obtained from the passenger. The following are refunds that were processed and paid to the passengers even though there is no evidence that copies of the passport or ID were obtained before processing the refund:

No	Date	Refund Document Number	Ticket Number	Passenger Name	Refund Amount (£)	Admin + cancellation fee (£)
1	6-Sep-16	2250021956	0832125427669	HIGH/TIMOTHY	4 463.85	25.00
2	16-Sep-16	2250022091	0832125478312	CORDINGLEY/RONALD	2 076.05	25.00
3	18-Nov-16	2250022719	0832125658715	TABB/CHRISTOPHER	2 943.05	25.00
4	13-Apr-16	2250020912	0832124966180	DEMENTEV/KIRILL	1 177.45	25.00
5	24-Nov-16	2250022783	0832126174638	TAVONESA/IAN	2 254.15	607.00
6	31-Oct-16	2250022502	0832126111424	ROGERS/MORGAN	2 034.90	25.00

The impact of the above is that the refunds paid did not comply with the requirements of the SAA refunds policy as the refunds are processed without the minimum required documentation submitted. As a result, we were unable to determine if the refunds were validly paid to the original passenger.

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The control deficiency consequently indicates that fraudulent payments of refunds may not be adequately prevented. This could also result in an understatement of the forward sales liability in the Annual Financial Statements as SAA could still reflect a liability towards the original ticket holder in instances where the booked flight has not yet occurred at year-end.

Internal control deficiency

Financial and performance management

The regional finance manager did not implement adequate controls over daily and monthly transactions to ensure that adequate evidence exists to validate recorded transactions.

Recommendation

Outstation management should ensure that staff responsible for processing refunds are sufficiently familiarised with the refunds policy requirements regarding minimum documentation that must be submitted by passengers when applying for a refund.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:

Copies of passports are not obtained prior to processing a refund. For our own sales, call centre and flysaa.com, in addition to the practical difficulties this would entail, and potential legal issues regarding security of passport details, it should be noted that it is not necessary for the purchaser to be the same person as the traveler. This would be the case for sponsored tickets, tickets bought for family members or tickets bought by a company for its staff to travel. For tickets bought via the BSP these will all be refunded to the agent making this requirement equally impractical.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:

Control is maintained over the refund process by only refunding the ticket to the credit card used for the purchase thereby ensuring that the purchaser only can receive the funds.</td></tr>
<tr><td colspan="3">Management comment on recommendation:

We note the recommendation but are not able to implement the policy in full due to the practical difficulties involved. The fare rules do not require that a passport be provided for refunds and hence such a policy cannot be applied. The only way that this may be applied is at a company level as part of our general terms and conditions and we are not currently aware that this is the case.</td></tr>
<tr><td colspan="3">Remedial action :

No changes will be made</td></tr>
<tr><td>What actions will be taken:

None</td><td>Person: Richard Midgley

Position: RFM Europe</td><td>By when:

N/a</td></tr>
</table>

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Auditor's conclusion

Management's comment is noted; however the policy clearly states the minimum documents that must be included in the file when a refund is made. The finding remains as the documents were not included as required by SAA policy

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18. Refunds policy not adhered to with regards to maintaining standard refunds reports

Audit finding

Paragraph 3.4.1 of SAA's Refunds Policy and Procedures Document states that:

"On a daily basis, the station must print the necessary refund report out of the SAP system. This report will indicate all the respective refunds that were paid out for the particular day. This report will be in refund number order. This will make reconciliation and accounting for the station very easy to control. The refund supporting documentation must be attached in the same sequence to the refund report, and filed at the station".

When a request for the SAP daily refunds reports was made to the Finance team they did not seem to be familiar with the requirement for these reports, their objective or how to go about obtaining them from the system. On further interrogation of SAP by R. Wilson, he was eventually able to print the refunds reports for the sample selected.

The impact of the above is that there is non-compliance with the SAA Refunds policy to have these reports in place, monitored and readily available. Inadequate monitoring over refund payments may result in suspicious or unusual activity and trends not being timely detected for corrective action.

Internal control deficiency

Financial and performance management

The Regional Finance Manager did not implement sufficient monitoring controls over daily and monthly transactions for refunds to ensure that payments are sufficiently and timely monitored.

Recommendation

Outstation management should ensure SAP refunds reports are maintained, monitored and available as required by the SAA Refunds Policy.

Management's response

Management comment on audit finding: We see no point in printing a document that can be reviewed on screen for any given period and which provides no additional control safeguards. In the London office space is at a premium since a move in June 14 and we simply do not have the time or space to run or store reports that will not be used subsequently. The ability to see reports on the SAP system allows control to be maintained over this area.
Management comment on internal control deficiencies: We do not believe that the use of a report generated on the screen reduces the level of control over the process compared to a report that has been printed and filed.
Management comment on recommendation: The UK office has moved to a largely paperless environment where we do not print reports such as this. There were no anomalies picked up which means the controls are working. The policy may need to be updated going forward.

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Remedial action : None anticipated. Policy updates going forward.		
What actions will be taken: N/A	By whom Person: N/A Position: N/A	By when: N/A

Auditor's conclusion

Management comment is noted; however the requirement of including the printed document in the file is per the policy and does not provide for any exceptions in cases where credit card was used. The policy should be updated to include exceptional cases such as those stated above. The remedial action indicates that a policy update will be done, however there is no indication by when this will done and this is concerning. The finding still remains.

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19. Inadequate controls over processing and approval of refunds

Audit finding

Whilst completing audit procedures on refunds it was discovered that Financial officer Richard Wilson has capabilities to both process and approve refunds less than R20,000 all by himself. At least 144 transactions (approximately £45,034) were identified to have been processed by him wherein he would also have been the sole approver in terms of the Delegations in SAP. A sample as indicated below was selected wherein it was confirmed he was both the creator and sole approver of the refunds:

No	Date	Refund Document Number	Ticket Number	Passenger Name	Refund Amount (£)	Refund Amount (ZAR)
1	2016/11/18	2250022717	0832124752627	ALBERTS/VOLENTEANTHEA	191.35	R 3 709.74
2	2016/04/29	2250021071	0832125035114	CALLOW/AMELIA	227.60	R 833.37
3	2016/08/01	2250021734	0832125317336	LOIZOU/GEORGE	398.30	R 4 060.26
4	2016/11/17	2250022704	0832125307800	MONZANI/PAULA	620.05	R 3 724.10
5	2016/05/31	2250021295	0832124466268	SEARLE/WILLIAN	573.25	R 6 385.43
6	2017/03/22	2250023765	0832126892262	KOTOSAKA/MASAHIRO	1 078.70	R 13 984.41

Inadequate segregation of duties poses a risk that errors and fraud can go undetected and uncorrected.

Internal control deficiency

Financial and performance management

The Regional Finance Manager did not ensure that adequate segregation of duties is in place over processing and approval of refunds less than R20 000.

Recommendation

The Regional Finance Manager must ensure that the person who processes refunds is never also the sole approver of the transactions he processes. The Regional Finance Manager should rather approve refunds where the financial officer was the capturer.

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Management's response

Management comment on audit finding: Finding noted. In the London office staff numbers and requirements for leave/sickness etc may sometimes leave us short of coverage in certain areas. Refund calculations are prepared by the Call Centre team who are trained in the Fares and Ticketing area. The completed calculation is then forwarded to Finance for entry and processing. The levels of control are system generated and do allow this process to occur. Note that any items above R20,000 or which have 'flags' (such as different form of payment) are forwarded for RFM approval.
Management comment on internal control deficiencies: Accepted – there does are circumstances where refunds can be entered and approved by the same person up to the limit of R20,000. This will need to be fixed with the help of IT.
Management comment on recommendation: Noted
Remedial action : This will require discussion with IT/system programmers to be implemented

What actions will be taken:	By whom	By when:
	Person: Richard Midgley Position: RFM Europe	0 - 3 months

Auditor's conclusion

Management comment is noted. On the issues relating to limited staff available due to leave, there should be alternative individuals required to process the refunds and this must be documented and approved beforehand. A follow up on the amendment of the IT system and implementation will be done in the future audits for implementation.

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20. Fraud Risk Assessment

Audit finding

Management has not conducted or documented a fraud risk assessment for the outstation.

Absence of a formal and documented process for fraud risk may expose the outstation to unforeseen and unmanaged risks which will in turn render the overall internal control environment of the outstation weak and ineffective

Internal control deficiency

Leadership

Outstation management has not established, documented and communicated a fraud risk assessment for the outstation which will strengthen the internal control environment and adherence to policies and procedures

Recommendation

Outstation management should oversee the establishment and documentation of a formal fraud risk assessment for the outstation which will also be communicated to all employees for awareness and action to strengthen the overall internal control environment

Management's response

Management comment on audit finding: There is no formal fraud risk documentation prepared and held within the station.		
Management comment on internal control deficiencies: The absence of documentation in itself does not constitute a control deficiency though it is accepted that it would allow details of controls already in place to be formally documented. The station does apply measures to combat fraud, notably with regard to fraudulent credit card transactions where the Call Centre Manager has, by her own review, stopped or reversed fraudulent tickets with a value of over R1m in the past 18 months. We are aware of the risks, particularly in this area, and work hard to ensure that the overall level of risk is reduced.		
Management comment on recommendation: The point is noted and will be raised at Head Office level. This would presumably be a requirement for all stations, international and domestic, and so should be driven from JNB.		
Remedial action : To be discussed with JNB Commercial department.		
What actions will be taken: See Above	Person: Richard Midgley Position: RFM Europe	By when: Subject to JNB timelines

Auditor's conclusion

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Management comment is noted. The finding remains as management is required to perform a risk assessment and internal audit should be involved in the process.

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DD20-PS-0854

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AUDITOR-GENERAL SOUTH AFRICA

SUMMARISED MANAGEMENT REPORT SOUTH AFRICAN AIRWAYS SOC LTD

31 March 2017

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AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

MANAGEMENT REPORT

South African Airways SOC LTD
31 March 2017

CONTENT

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MANAGEMENT REPORT OF THE SOUTH AFRICAN AIRWAYS SOC LTD ACCRA OUTSTATION FOR THE YEAR ENDED 31 MARCH 2017

INTRODUCTION

1. This management report includes audit findings arising from the audit of the financial information and compliance with legislation for the year ended 31 March 2017 which were communicated to management and includes their response to these finding.
2. The management report consists of executive summary and detailed audit findings which are contained in annexure A.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

1. Our responsibilities include the following:
   - Performing procedures to obtain audit evidence about financial information and compliance with legislation applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement.
   - Considering internal controls relevant to the processing of the financial information and compliance with legislation.
   - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial information and compliance with legislation.
2. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial information and or compliance with all applicable legislation.

MANAGEMENT'S RESPONSIBILITIES

3. Management's responsibilities include the following:
   - Designing, implementing and maintaining proper record keeping and internal controls necessary to enable head office management to prepare financial statement that are free from material misstatement whether due to fraud or error.
   - Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
   - Designing, implementing, reviewing and monitoring of compliance with legislation.
   - Providing access to all information that is relevant to our audit, such as records and documents.

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EXECUTIVE SUMMARY

SECTION 1: MATERIAL MATTERS

PART A – MATERIAL MISSTATEMENTS

4. The Accra outstation is commended for submitting financial information that is free of material misstatements.

PART B – FINDINGS ON COMPLIANCE WITH LEGISLATION

5. There was no significant non-compliance with legislation.

PART C – INTERNAL CONTROL

Achievement of internal control objectives

6. Significant deficiencies that resulted in the material findings on limitation of scope on procurement and contract management, employee cost and performance monitoring are summarized below:

Financial and performance management

7. The personnel officer did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting relating to employee leave.

8. The outstations do not have the SAP modules for the purchase orders and goods received notes, the expense authorisations used at the outstations do not confirm the date of the goods/services that have been received by the outstations.

Leadership

9. The executive leadership from head office has not established and communicated budget and forecasting policies and procedures to facilitate effective preparation and monitoring of budget for the company.

10. The executive leadership from head office has not established and communicated policies and procedures for quarterly reporting in order to facilitate effective performance monitoring, evaluation and corrective action. Furthermore roles and responsibilities of outstations regarding performance monitoring and accountability in executing the company strategy are not clearly defined.

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SECTION 2: RATINGS OF DETAILED AUDIT FINDINGS

11. For the purposes of this report, the detailed audit findings have been included in annexures A and B reflecting material matters (may potentially impact on the auditor's report) and non-material matters, respectively.

SECTION 3: CONCLUSION

12. The matters communicated throughout this report should be addressed to achieve sustained clean administration. The AGSA staff remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Polani Sokombela
Senior Manager: National E

26 May 2017

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Distribution:
CEO
CFO
Audit committee
Head of internal audit
Outstation management

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DD20-PS-0859

DETAILED AUDIT FINDINGS

ANNEXURE A: MATERIAL MATTERS

PROPERTY, PLANT AND EQUIPMENT

1. Fixed asset register discrepancies and general asset management principles

Audit finding

In terms of Section 51(1)(a)(i) of the PFMA, *"An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

The Fixed Asset Finance Policy, Policy reference number GFP-2010-002 VersionV0.2 Effective 01/04/2010 approved by Veona Chaithram HOD Group Accounting under paragraph 3.3.12 "*requires that all assets must be tagged with an asset identification number.*"

a) <u>Assets could not be traced from the floor to the fixed asset register (FAR)</u>

Assets were selected from the Ghana Accra station office and terminal building for the purpose of confirming the completeness of the FAR for cost centers 1046, 1491 and 4491. The following assets however could not be traced to the fixed asset register.

No.	Asset description	Asset number (If available on the asset)	Audit finding
1	Desks in the ticket office x5	No asset number	The desks in the ticket office of the Millennium Heights building are not included in the asset register. These were assets shared previously with Swissair and they left were left for SAA to use which should have been added to the asset register.
2	Fridge GHT	3800000547	The fridge in the kitchen of the Millennium Heights Building is not included in the asset register. The asset is tagged with an SAA asset number and in use.
3	SAA chairs in the terminal building	No asset number	The chairs in the terminal building are not tagged. There are no visible markings on the asset to facilitate confirmation that the assets are included in the asset register. Confirmed through enquiry and inspection of the asset register that the furniture included in the register relates only to the new furniture purchased for the Millennium Heights building. The chairs at the Terminal building which are in use are therefore not included in the asset register
4	Safe in the cashiers Office	3100000225	The safe in the cashiers' office is not included in the fixed asset register despite being marked with an SAA asset number.

All the above assets that are being used and belong to SAA should form part of SAA's outstations asset register.

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b) Assets held under an operating lease agreement are included in the FAR

It was noted that the following assets which are included in the fixed assets register are tagged with SITA tag numbers. Through further enquiry with SITA it was confirmed that the assets do not belong to South African Airways (SAA) but are held in terms of an operating lease agreement between SITA and SAA. The fixed assets finance policy reference number GFP-2010-002 VersionV0.2 Effective 01/04/2010 approved by Veona Chaithram HOD Group accounting under paragraph 5.1.7 further states that "*SAA do not own any computer hardware, title belongs to SITA*"

The following assets therefore should not be included in the fixed asset register.

No	Asset	Capitalized on	Description	Inventory number	Acquisition. Value (R)	Book value (R).
1	2701002412	2014/08/07	IBM X240 Laptop for Gloria Yirenkyi - Accra	ZA048967 (RFP2014SAA009)	18 190.81	2 021.20
2	2701002961	2014/11/10	IBM T530 Laptop for Ghana	ZA048785	12 524.00	2 435.22

c) Useful life and residual values not assessed: Assets in the FAR with a nil carrying value

It was noted that there are assets in the fixed asset register with a carrying value of nil and through inspection of the assets and enquiry with management it is apparent that the assets are still in use.

IAS 16.51 requires that "*The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies Changes in Accounting Estimates and Errors.*"

SAA is still deriving use from the vehicles and may, potentially, obtain proceeds from their eventual disposal. This indicates that the useful life and residual value should be re-assessed. There is no evidence to suggest that the useful lives and residual values of the below assets were reviewed.

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No.	Asset No.	Capitalisation date	Description	Inventory number	Cost	Depreciation	Book Value/ Carrying Value
1	3300000802	2009/10/26	Mitsubishi Pajero Reg No GC1090-09 / LMD432W	GC1090-09 / LMD432W	328 391.38	-328 391.38	0
2	3300000803	2009/10/27	Chevrolet Optra Reg No GC763-09/LDF787W	GC763-09/LDF787W	128 083.91	-128 083.91	0

As a result of furniture not being tagged, difficulties arise at the stations as the relevant finance employees are not able to reconcile assets to the fixed asset register. Furthermore when the station performs physical asset verifications, head office is not alerted as to the differences noted between the physical assets at the station and per the FAR.

Laptops which are leased from SITA in terms of an operating lease agreement but are included in the fixed asset register may result in the overstatement of assets.

Assets such as chairs and furniture which are not tagged and are not included in the fixed asset register may result in the understatement of assets by an undeterminable amount.

Assets which are tagged but not included in the fixed assets register may result in the understatement of assets.

The misstatements identified will be aggregated with the misstatements from the outstations audits being performed and the misstatement assessed for outstations as a whole.

Internal control deficiency

Financial and performance management

Proper record keeping by the station manager was not implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Recommendation

Station manager should institute the following:

- Develop a detailed register indicating the individual assets that belong to SAA at the outstation. Ensure that that this register agrees to the overall register of SAA
- Tagging all assets and having a list of all the assets in a specific room.

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- Differences noted during asset counts needs to be communicated to Head office to ensure that the asset register is up to date.

- The FAR and the financial records need to be appropriately updated to reflect errors noted.

Management's response

Management comment on audit finding:		
Finding 2 (a) As per the SAA capex policy clause 3.4.7 furniture forms part of pool assets. Because of the nature or quantity of these items they cannot be recorded individually in the asset register. However the stations are required to keep a listing of all furniture items in the office. Steps will be taken to ensure that the assets not in the register are included. Finding 2 (b) The 2 laptops were bought outside the baseline agreement with SITA. The baseline agreement with SITA specified "x" amount of laptops to be supplied to SAA. If SAA required more than "x", SAA had to raise the necessary Capex to obtain the additional number of laptops from SITA that were greater than "x". The 2 laptops identified form part of these additional laptops. The agreement with SITA also mentioned that these additional laptops will be returned to SITA after a 3 year period. Therefore these 2 laptops will be taken off the asset register on the 30th of June 2017 as that is when the 3 year period comes to an end. Finding 2 (c) SAA only re-values its aircrafts and land and buildings. Assets are assessed on an annual basis when doing a fixed asset verification, however the decision to revalue an item happens on the larger items only.		
Management comment on internal control deficiencies: The station inherited some of the assets from previous GSA, which are very old. All new assets are included in the register. There is also a shortage of capex funds and the station therefore tries to maximise the use of an asset rather than simply replacing it.		
Management comment on recommendation: Recommendations will be discussed with the assets department		
Remedial action :		
What actions will be taken:	By whom Person: Gloria Yirenkyi Position: Country Manager	By when: 0 -3 months

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Auditor's conclusion

Management comments related to finding 2a indicate that management is in agreement with the finding however the following is provided for clarity with regard to pool assets.

It is noted that the fixed assets finance policy paragraph 3.3.7 states that "*pool assets are those assets of the same type which cost less than R20 000.00 and cannot, because of the nature or quantity of the items, be recorded individually within SAA's asset register*".

The policy also mentions that pool assets are allocated number 2801; however there are no assets on the asset register that start with 2801. Therefore, management should be in a position to provide the auditors with information as to which asset number the selected asset is grouped to, this should be accompanied by a list of all the assets (with values) that make up a particular project which the selected asset is part of to enable the auditors to trace it to the asset register.

Finding 2a is therefore not resolved and remains valid.

Management comments related to finding 2b is noted however, additional evidence has not been provided to support the ownership of the asset. Confirmation was received from SITA that the 2 laptops specifically mentioned is owned by SITA and not SAA. The finding therefore remains valid.

Management comments related to finding 2c is noted however this is inconsistent with the fixed asset finance policy and the requirements of IAS16. IAS16 IN11 states that "*An entity is required to measure the residual value of an item of property, plant and equipment as the amount it estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life.*"

An assessment should therefore be made regarding the residual value of the asset. The fixed Asset Finance Policy par 5.1.7 states that "*the residual values should be set as determined by market forces, and use should be made of the industry publication, Mead & McGrouter. When setting the residual value consideration should be given to the expected useful life and what the proceeds would be today if the same vehicle at the end of its useful life, to the BU, were to be sold. Residual values need to be determined at initial recognition of the asset and reviewed at least prior to each financial year end.*"

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ANNEXURE B: OTHER MATTERS

PERFORMANCE MANAGEMENT AND MONITORING

2. No balance score card in place at the outstation

Audit finding

Treasury Regulations 29.3.1 states that "*the accounting authority for a public entity must establish procedures for quarterly reporting to the executive authority in order to facilitate effective performance monitoring, evaluation and corrective action*".

The Africa region set its performance targets and report through its commercial report to the executive committee (RGM report) on revenue and route profitability. On a monthly basis progress on the achievement of revenue targets and route profitability are sent to head office. There is however no evidence that the Accra outstation and Africa region has a balance score card in place for 2016/17 financial year that has been cascaded from the company's long term turnaround strategy (LTTS). The SAA LTTS has five strategic objectives i.e. support national development agenda, achieve and maintain financial sustainability, provide excellent customer service, achieve consistent, efficient and effective operations and foster performance excellence. These five strategic objectives are supported by key performance indicators as per 2016/17 SAA shareholders compact (SHC). As the SHC sets the planned key performance indicators for SAA, it is expected that the BSC of the outstation and the region is aligned to the SHC of the company. The RGM report is based only on revenue targets and route profitability and is not clear how it is linked to the five strategic objectives of SAA.

The impact of this is that the outstation and the region may not be able to monitor its performance and its contribution to the overall strategy of the company. This may also result in lack of accountability as there are no set performance indicators and targets in place to ensure that there is effective performance monitoring, evaluation and corrective action.

Internal control deficiency

Leadership

The executive leadership from head office has not established and communicated policies and procedures for quarterly reporting in order to facilitate effective performance monitoring, evaluation and corrective action. Furthermore roles and responsibilities of outstations regarding performance monitoring and accountability in executing the company strategy are not clearly defined.

Recommendation

It is recommended that South African Airways SOC Ltd (SAA) should formulate an overall company policy on performance information that clearly defines the roles and responsibilities of divisions, regions and outstations on performance planning, monitoring, evaluation and corrective action.

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Management's response *(please use the format provided below to provided responses)*

Management comment on audit finding: Balance scorecards are done at an individual level and not at a country level. The individual BSC's do incorporate the wider strategic objectives of SAA. If a Country BSC needs to implemented, this decision will need to be made by the relevant GM/EXCO level.		
Management comment on internal control deficiencies: None		
Management comment on recommendation: None		
Remedial action: None		
What actions will be taken:	By whom Person: Position:	By when:

Auditor's conclusion

Management comments is noted above, however the finding is still valid as no balance score card exist for the outstation. Making use of a station balance score card will be allow for better alignment to the LTTS and for better monitoring of the outstations contribution to achieve the LTTS.

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3. Significant deficiencies in budget approval and monitoring

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Paragraph 1.7 of SAA budget instructions procedure manual requires all budgets to be signed-off by the relevant Business Unit GM's, Financial Controllers and their respective head of department (HOD's) / cost centre managers - which they can be measured against and held accountable for.

During the audit of the outstation it was noted that there is no evidence that the 2016/17 budget of Ghana region has been signed-off by the general manager, financial controller and its respective HOD. On enquiry and discussion with management at the outstation, the proposed budget is submitted to head office, however there is no feedback received whether the budget submitted is approved or not. The outstation will monitor by checking the amounts captured on the system and will deem it as the final approved amounts. This is contrary to the requirement of paragraph 1.7 of SAA budget instruction procedure mentioned above as the outstation need to be measured and held accountable for its own budget.

Furthermore, the following internal control deficiencies regarding budget monitoring in monthly management accounts of the outstation were noted:

- The accounts are not consolidated into one report i.e. they are prepared in silos and submitted to different role players in head office with no proper co-ordination,
- No evidence that the accounts were reviewed and approved by a delegated official before submitting to head office,
- Explanation of variances between budgeted and actual income & expenditure are not documented,
- Action plans to address shortcomings identified between budget and actual are not documented,
- No evidence that these reports are also submitted to the office of the CFO or finance department within SAA.

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The following is an example of variances with no explanations:

MARCH 2017				MARCH 2016/17 YEAR TO DATE		
Act. Costs (Cedes)	Plan Costs (Cedes)	Variance (Cedes)	Cost elements	Act. Costs (Cedes)	Plan Costs (Cedes)	Variance (Cedes)
132 192	127 729	(4 463)	Personnel cost	1 772 214	1 369 128	(403 086)
7 563	2 184	(5 378)	Depreciation	90 750	26 209	(64 541)
38 335	29 949	(8 386)	Energy Cost	539 664	359 382	(180 282)
68 795	70 287	1 493	Distribution Cost	283 603	476 731	193 128

Internal control deficiency

Leadership

The executive leadership from head office has not established and communicated budget and forecasting policies and procedures to facilitate effective preparation and monitoring of budget for the company.

Recommendation

The leadership of SAA should formulate an overall budget and forecasting company policy that include, among others, budgeting principles, clearly defined roles and responsibilities, key monitoring controls and delegation of authority on budget preparation and approval process.

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Management's response

Management comment on audit finding: <u>Budgets</u> Budgets from the stations are submitted to the RFM and Financial Controller at Head Office. Certain adjustments are made to these budgets by the RFM and FC to make them more realistic. The final budget gets discussed at an EXCO meeting where the relevant GM acknowledges the final budget for that area. The Financial Controller and RFM are also aware of the final budgets after specific adjustments are made. Therefore the relevant GM, Financial Controller and RFM are aware of the final approved budgets and ownership happens at that level before filtering to lower levels. The RFM also requests commentary from the relevant cost centre managers for any variances greater than 5%. If not decent feedback is provided, the budget is cut accordingly. This is standard process for cost budgets. The revenue budgets are more consultative between the Head Office and the RGM's in the regions. The budget policy will be amended going forward for cost budgets. The format that Head office uses is TM1 and the format the regions use is SAP. Getting them to sign a TM1 format will make no sense to them. <u>Variance analysis</u> The Financial Controller does a variance analysis for all stations at head office. Only material differences are followed up where the reason is not known for e.g. Labour is a material variance but it is known that a vacancy that was meant to be budgeted for was removed from the budget as it was envisaged that the head was going to be filled when the budget was prepared in Sept 2015. The actual head was filled however as the need for that head subsequently changed. Commentary gets included whilst preparing reports for FinExco and for the consolidated divisional report. • The RFM also reviews his costs and follows up on large variances on a monthly basis and is also directly involved during the month end close process. Each RFM is responsible for their own budget and feedback is only provided to the relevant FC when required from the FC. Budget adherence is also one of the KPI's on each RFM's BSC.
Management comment on internal control deficiencies: Better communication to be implemented going forward for budgets
Management comment on recommendation: N/A
Remedial action : N/A

What actions will be taken:	By whom	By when:
N/A	Person: Position:	

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Auditor's conclusion

Management comment is noted above; however the finding is still valid. Upon finalisation of the budgeting process regional finance manager must inform the outstation of the final approved budget, this allows for outstations to better have better accountability. Explanations on all significant variances should be explained as every little bit of cost savings will contribute to the overall performance of the SAA.

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4. Performance agreements not signed in the prescribed timeframe

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

In terms of integrated performance management policy, all managers, together with their direct report/s, must contract annually. The performance contract should be concluded and signed by both parties within the prescribed period and submitted to Human Resource department for verification and record keeping. Performance contracting should take place in the beginning of each financial year (Apr/May).

Performance contract were not signed by management in Ghana, as per discussion with management it has been determined that excel contracting documents are sent to South Africa however the excel documents are not signed by both the employee and the manager.

The following serve as examples of employees that have not signed their performance agreement:

Employee number	Position number	Position
F01795X	50123797	Country Manager
F01810M	50123795	Sales Manager

The impact of the above is non-compliance with the integrated performance management policy.

In addition this could result in South African Airways not achieving its strategic objectives as performance agreements are cascaded from the companies balance score card and strategy.

Internal control deficiency

Leadership

- Leadership did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
- Leadership might not be able to hold the employees accountable due to there being no performance contract in place.

Recommendation

- Management should ensure that performance contracts are submitted during the timeline stipulated in the policy as performance contracting is the cornerstone of performance management at an individual level. These performance contracts should be monitored and evaluated on a regular basis to ensure that employees are executing the strategic objectives of SAA adequately,
- In addition, there should be consequences for employees that did not comply with the policy.

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Management's response

Management comment on audit finding: There were no printed copies of Signed BSC readily available. Soft Copies had no signatures appended.		
Management comment on internal control deficiencies: BSC's can be sent electronically thus no signature will be applied. Performance Management Office to instruct managers to only submit signed copies.		
Management comment on recommendation:		
Remedial action: Manager will issue a written notice to Direct Reports for strict compliance with submission of BSCs as per policy with consequences for Noncompliance. Manager to liaise with IT to design an automated signature for purposes of applying to BSCs for the station.		
What actions will be taken:	By whom: Person: Gloria Yirenkyi Position; Country Manager	By when: 0 to 3 months

Auditor's conclusion

Management comment is noted and a follow up will be made in the next years audit on the process of the implementation of the commitments made to address the above finding.

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PROCUREMENT AND CONTRACT MANAGEMENT

5. Non-compliance with the SCM Policy, treasury regulation and practice notes

Audit finding

In terms of paragraph 3.2 of practice note No. 08 of 2007/08, *"Accounting officers / authorities may procure requirements by obtaining at least three (3) verbal or written quotations from, where applicable, a list of prospective suppliers. The order should, however, be placed against written confirmation from the selected supplier if the quotation was submitted verbally."*

In terms treasury regulations paragraph 16A6.1, *"Procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury."*

In terms of paragraph 16.13.3 of the SAA SCM policy, *"For SAA Group outstations and relevant subsidiaries, the procurement of goods and services with an estimated value of less than R500 000; the relevant outstation or subsidiary will follow the quote process and approval will be in line with the relevant DOA."*

It was noted that there was no evidence that the procurement of goods and/services process were not followed that requires that written three quotes should be obtained for transaction procuring below R500 000, It was further noted that when good and or services are being procured there three quotes or more quotes are not obtained from various suppliers who provides particular goods and/service.

The details of transaction affected are as follows:

No.	Reference Number	Posting Date (D)	Amount in Local Currency	GL Account
1	1106074835	08/30/2016	20 320.50	Entertainment Functions and Ceremonies (Not Staff)

This was due to the fact guidance on the application of the supply chain management policy was not provided to the outstation in Ghana Accra by management of SAA (SOC) Ltd, and copy of the supply chain management has not been provided to the management of the outstation.

Non - compliance with supply chain management policy will result in non-compliance with the Public Finance Management Act (PFMA), which might result in irregular expenditure.

Internal control deficiency

Leadership

- Country manager did not implement controls over daily and monthly processing and reconciling of transactions.
- Regional manager did not provide outstation with the supply chain management policy that the outstation should use when procuring goods and services.
- Management of SAA (SOC) Ltd did not offer training and awareness of the provisions that needs to be followed when goods and services are to be procured.

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Recommendation

- Regional finance manager should ensure that finance related policies are communicated and shared and implemented at the outstations as the supply chain management policy applies to the outstations in terms of paragraph 16.13.3.
- Country management should ensure that training is provided to the staff that needs to implement the policies required by SAA.

Management's response

Management comment on audit finding: The fact of the finding is factual to the extent that the 3 written quotes was not sourced for services in question. However, the sole sourcing was driven by recommendations from two major stakeholders for on the supplier a service provider; The Ghana Airports company and the South African High Commission. Furthermore, the anniversary activities included the celebration of the "ALL FEMALE CREW FLIGHT "operated by SAA in commemoration of the International Women's day for which ...Photo shoots of the Aircraft, All female Flight Crew and all female employees at station on the Airport Tarmac.. The decision to sole source JON Williams was made because the supplier has Airport permit for access to the tarmac for the photo shoots and subsequently negotiating an all-inclusive package for Décor sound and entertainment for the Stakeholders dinner held at the RSA High Commissioner's residence in Aug 2016.		
Management comment on internal control deficiencies: SCM policy has been communicated by RFM via email to Station as a guide for procurement process, Country manager was required to follow process for sole sourcing by documenting motivation and sign it off with the Regional Finance manager in support of the transaction.		
Management comment on recommendation:		
Remedial action: Motivation for sole sourcing will be documented for a sign off with Regional Finance Manager for the record. Adherence to the policy for compliance.		
What actions will be taken:	By whom Person Gloria Yirenkyi Position Country manager	By when: 0 – 3 months

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K.T.D

Auditor's conclusion

Management reasons for using the supplier is noted however, the finding still remains valid as the SCM policy was not followed by obtaining written approval to deviate from the policy. A follow up will be made during the next audit validate the updated process implement by management. Irregular expenditure amount needs to be included in the note to the annual financial statements.

P-S
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OPERATING EXPENDITURE

6. Control deficiency relating purchase orders and goods received notes

Audit finding

In terms of Section 51(1)(a)(i) of the PFMA, *"An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

During the audit of the Accra outstation for SAA (SOC) Ltd, it was noted that the office does not make use of the purchase orders to procure goods and/or services and also does not use goods received notes to receive goods and/or services. It was however also noted that the office does make use of different documents that are checked to satisfy that services were rendered or that goods were received.

Additionally, it was noted that the expense authorization of the SAA (SOC) Ltd is not designed such that it ensures that the approver of the expense authorization captures the date on which the expense authorization has been approved.

The above result in a risk that the entity will not be able to reconcile what the outstation has procured to what the outstation is receiving before making the payment for the goods and services. Furthermore, the absence of a captured authorization date, the entity will not be able to determine when an expense authorization was approved.

Internal control deficiency

Leadership

The management of the outstation did not implement a consistent system or process in order to enable the entity to satisfy that what the outstation is paying for is what has been procured and that this has been received.

Recommendation

- Country manager and regional finance manager should develop a consistent system of purchase orders that they should use when procuring goods and/or services, especially those goods and/or services where there is no standing contract and /or agreement.
- Country manager and regional finance manager shall develop a system of goods received notes that they should use when receiving goods and/or services.

P.S
KTD

Management's response

Management comment on audit finding: We have provided other documents that can be used as evidence that a service has been rendered. There are no goods received notes as the station does not use the PO/SAP system. We have also mentioned that the signatories on the expense claim will not sign the expense claim if there is doubt that the service has not been rendered. We will however amend the expense authorisation forms to include a date.		
Management comment on internal control deficiencies: SAP PO system to be implemented at a future date (dependence on IT).		
Management comment on recommendation: Expense authorisation forms to be amended		
Remedial action:		
What actions will be taken:	By whom Gloria and Hester Person Position	By when: 0 -3 months

Auditor's conclusion

Management comment is noted; it is correct that alternative documentation was provided a standard form and method of confirm that the service has been delivered needs to be put in place. Furthermore, in cases of purchases that are not physical a nature, a stamp can be used on the invoice verifying the goods were received satisfactorily or this can be done using a module on SAP. The finding still remains.

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EMPLOYEE COST

7. 13th Salary paid differences noted

Audit finding

In terms of Section 51(1)(a)(i) of the PFMA, *"An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

Paragraph 17 of the collective bargaining agreement for Ghana states:

"17.1 13th salary

17.1.1 An employee who has completed twelve (12) months with the company shall be entitled to a thirteenth (13th) salary equal to his basic salary paid out each year with his November salary"

During the audit, the differences below were noted on the 13th salary paid to employees. 13th salaries paid out were not in line with the employee's package as outlined in the letters for notch increases and wage agreement. No evidence of back payment or recovery of the noted differences.

Position number	13th Salary - As per the payslip (A)	Monthly salary - As per the employee salary package (Cides)	13th cheque Salary recalculated (B)	Difference (A - B)
50123788	1 770.48	1 823.59	1 823.59	-53.11
50154994	2 925.19	3 012.94	3 012.94	-87.75
50163954	1 778.00	1 600.2	1 600.20	177.80
		7 526.51	**7 526.51**	**-1 052.84**

Internal control deficiency

Financial and performance management

Management, through the leadership of the country manager did not ensure that effective and timely review processes of notch increases are in place to ensure that employees' service bonuses are accurately determined and that any shortfall/overpayment is reimbursed/recovered by the entity.

Recommendation

Country manager and HR representative should ensure that the entity implements adequate and timely reviews of service bonuses to determine any discrepancies. Further investigations should be done to determine whether to reimburse/recover the differences.

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Management's response

Management comment on audit finding: The finding is consistent with the records
Management comment on internal control deficiencies: Timely review and implementation of service bonuses will effectively forestall such occurrence
Management comment on recommendation: Recommendations will be implemented together with HR Specialist HR Specialists comments on remedial action: • Notch increases for recommendation are submitted by HQ on a quarterly basis and is approved on receipt of the recommendation by the stations. • Notch increase date for position 50154994 is December of each year. The incremental date changed when she was promoted to a higher level. The revision date is the date of appointment in the last position.
Remedial action : • Station will develop a Notch increase date register as a tool for timely engagement with HO for approval processing. A lead time of One month prior to implementation date will be adopted to keep within schedule. • Misapplication of Prorate months for computation of 13th Cheque for Position 50163954 will be officially discussed with the incumbent and agree on the recovery of the difference back to chest. This will be documented for the records • HR will be consult with regards to position 50154994 for alignment of the most appropriate notch anniversary date to apply for notch increment of the incumbent. Employee officially joined the company in Oct 2003 and was promoted in Dec 2006. The Outcome will be documented for the file and register. • Employee position 50123788 will be reimbursed on Payroll for May 2016.

What actions will be taken:	By whom Person: Gloria Yirenkyi Position : Country Manager	By when: 0 – 3 months

P.S
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Auditor's conclusion

Management comment is noted and a follow up on the matter will be done in the next financial year to assess the adequacy of the proposed controls implemented.

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8. Differences in leave provision balance

Audit finding

In terms of Section 51(1)(a)(i) of the PFMA, *"An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

Paragraph 10 of IAS 37 states

"A provision is a liability of uncertain timing or amount."

Paragraph 36 of IAS 37 further states

"The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period."

During the audit, the below differences were noted in the calculation of leave provision:

Details per leave provision schedule		Auditors recalculation				
Employee Number	Leave provision per schedule (A)	Closing leave balance - Per entity's leave schedule	Monthly salary (Cedis)	Daily pay rate	Leave provision (B)	Difference (A -B)
F02296J	2949.30	15	2 315.96	105.27	1 579.06	1 370.24
F02153C	7473.70	65	2 861.48	130.07	8 454.36	-980.66
F01795X	10504.97	26	5 204.23	236.56	6 150.45	4 354.52
F02017K	3296.70	16	2 160.82	98.22	1 571.50	1 725.20
F02292E	2279.40	27	2 313.32	105.15	2 839.07	-559.67

The leave provision at year end is misstated due to the above.

Internal control deficiency

Financial and performance management

Management, through the leadership of the country manager and human resource personnel at head office did not ensure that effective review processes are in place to ensure that the leave provision is accurately determined.

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Recommendation

The country manager and human resources representative should ensure that the entity approves, captures, reviews and timeously brings into effect any adjustments made to employees salary packages so as to ensure that there are no discrepancies in determining the leave provision at year end. Management should further ensure that an accurate record of leave day balances is maintained.

Management's response

Management comment on audit finding: The detected error on the Leave days Record and ultimately Leave Provisioning is factual While the financial computation of the employee accumulated leave days is the direct responsibility of HR. It is also noted that the significant differences (A - B) resulted from the application of Feb 2016 leave balances instead of Mar 2016. The station shares accumulated leave balances with HO on a monthly basis and has email proof of having shared YTD March balances for the financial computation
Management comment on internal control deficiencies: Regular audit of the Leave days record is required for checks and balances as the master source document at station
Management comment on recommendation: Recommendations to be implemented with HR. The payroll for Ghana must also be automated on SAP HR to avoid the discrepancies on leave days.
Remedial action : • Adjust the Leave record with the differences noted and consequently adjust the closing balance for March 2017 for resubmission to HO to review the financials • Update the Opening balance for April 2017 onwards • The Adjusted Master Record of Leave days and leave provisioning will be signed by employees and Country manager for the records. • Signed records will be shared with HR as the reference point for building on. • Accumulated Leave Provisioning will be signed by the Country Manager monthly before submission to HO for checks and balances. Employees will be mandatorily required to check their leave records at the end of the financial year to verify balances

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What actions will be taken:	By whom Person: Pienie Jacobs / Gloria Yirenkyi Position: HR Specialists / Country Manager	By when: 0 to 3 months

Auditor's conclusion

Management comment is noted; however consideration should be given to recalculating the overall leave provision at year end as there have been significant differences noted.

PS
KTD

9. Leave provision: Differences in leave days

Audit finding

In terms of Section 51(1)(a)(i) of the PFMA, *"An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

During the audit, differences were noticed in leave balance as at March 2017 and leave balances use in the calculation of leave provision in the same period

Detail per provision calculation		Auditors leave balance recalculation – per leave report				
Employee Number	**Leave balance (A)**	**Opening balance**	**Leave taken**	**Leave accrual**	**Closing balance (B)**	**Difference in leave days (A - B)**
F02296J	30	20	-27	22	15	15
F01795X	47	35	-31	22	26	21
F02017K	37	22	-28	22	16	21
F02292E	30	29	-24	22	27	3

The leave provision at year end is misstated due to the above.

Internal control deficiency

Leadership

Management, through the leadership of the country manager and human resource division at head office did not ensure that effective controls are in place to ensure that leave balances utilised in determining the leave provision at year end are accurate

Recommendation

Management should ensure that the entity effective controls are in place to ensure that accurate leave balances are used in determining the leave provision

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Management's response

Management comment on audit finding: Notwithstanding the inaccuracy of the Master leave days record (leave days not accrued per the policy), this finding is primarily due to misapplication of Leave provision record in deriving the financial values by HR head office. The Year End Data (YTD Mar 17) had been submitted on schedule to the resource person at head office; however, Feb 17 data was applied. Comment from Payroll Officer at Head office: The stations only provide the accumulated and non-accumulated leave days per individual at the end of each month. The time framing in submission of data may result that the previous month's information is used to determine the Leave Provisioning. Finance is responsible for the calculation taking into account of the salaries that are kept on SAP/R3 Human Resources system and determining a daily rate and then multiplied of actual days owed to employees. Provisioning is raised monthly at the end of the month and then entirely reversed in the following month. This process is repeated monthly. Leave Provisioning are recorded in the SAP/R3 FI system on individual sub-accounts per station.		
Management comment on internal control deficiencies: There is no official channel or policy for Station to access financial Record for employees accumulated Leave on a regular basis for checks and balances. To this extent, the deficiency is systemic structure of flow of information and not wholly due to ineffective control		
Management comment on recommendation: HR Head office should report monthly on Financial Record for Leave provision to Local Station for checks and sign off		
Remedial action : Engage with HR in writing to provide monthly feedback on Leave Provision financials following the submission of the Leave provision balances by Station.		
What actions will be taken:	By whom Person: Pienie Jacobs / Gloria Yirenkyi Position: HR Specialists / Country Manager	By when: 0 to 3 months

Auditor's conclusion

Management comment is noted; however the revised year end balances should be communicated to head office to allow them to re-compute the correct leave provision at year end.

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10. Leave days: leave days not accrued per the policy

Audit finding

In terms of Section 51(1)(a)(i) of the PFMA, *"An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

Paragraph 08 of the collective bargaining agreement for Ghana states:

"8.1 Annual leave

8.1.1 The employee shall be entitled to eighteen (18) working days leave per annum, accrued at a rate of 1.5 working days per month for the first five (5) years of continuous service.

8.1.2 An employee shall be entitled to twenty-two (22) working days leave per annum, accrued at 1.83 working days per month from the six (6) continuous year of service"

During the audit it was identified the entity accrues 18 leave days per annum for the first four years and the 22 days from the fifth year. This is in contravention of the above collective bargaining agreement. This was a practice that was implemented across the board for all employees, thus resulting in the leave accrued to the all employees have been overstated by 4 days.

The leave provision at year end is overstated by the staff members that are over 5 years at the entity.

List of employees affected by policy application:

AUTHORISED POSITION GENERIC JOB TITLE	POSITION NUMBER	EMPLOYEE #	SAP #	DATE OF EMPLOYMENT
Manager for Ghana	50123797	F01795X	54355	2003/06/23
Administrative Officer	50123788	F02296J	54357	2006/10/25
Messenger	50123787	F01561J	54358	2001/06/01
Sales representative	50154994	F01811N	54359	2003/11/03
Cust Services Supervisor	50123795	F01810M	54360	2003/11/03
Cust Services Agent	50123789	F02292E	54361	2007/01/08
Cust Services Agent	50123791	F02294G	54364	2007/01/08
Cust Services Agent	50123792	F02015H	54365	2005/07/18
Airport Supervisor	50126686	F02153C	54371	2006/03/09
Customer Services Agent	50123804	F02017K	54373	2005/07/18

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Internal control deficiency

Leadership

Management, through the leadership of the country manager and human resource division at head office did not ensure that effective controls are in place to ensure that human resource personnel understand and accurately implement the human resource policies and bargaining agreements of the entity. They further did not ensure that effective review processes are in place to monitor implementation of the policies and agreements

Recommendation

The country management and HR representative should ensure that the entity has effective controls in place to ensure that appropriate implementation of human resource policies is in place. Quantification of the error should be made and the consideration should be done in terms of how to adjust for the excess leave provided.

Management's response

Management comment on audit finding: There finding is factual as it can be traced on the Leave days record		
Management comment on internal control deficiencies: Periodic tracking , checks and balances required to authenticate balances		
Management comment on recommendation: Recommendations to be implemented		
Remedial action : • All Employees over 5 years of Service will have their accrued leave days adjusted for Year five to 18 days instead of 22 days to correct the Master Leave days. • Documentary proof to be put on file and shared with HR • Employees will be notified accordingly of the Audit finding and the remedial action taken.		
What actions will be taken:	By whom Person: Gloria Yirenkyi Position: Country Manager	By when: 0 – 3 months

-Auditor's conclusion

Management comment is noted; however the revised year end balances should be communicated to head office to allow them to re-compute the correct leave provision at year end.

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11. Annexure F (master-file data for outstation) not properly maintained

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

During the audit of employee benefit expense for Ghana it was determined that the Annexure F is not properly maintained as the detail kept in the Annexure F does not agree with the details per the salary notch increase and the wage agreements.

Differences were noted in the basic salaries of employee as an example – please be referred to audit finding on differences in the 13th salaries paid

Annexure F is not regularly reviewed and updated with latest information of the employees i.e. when employee salaries are increased based on the cost of living increases. This could be as a result of the fact that Ms. Pienie Jacobs is the only employee responsible for the review of the countries Annexure F, furthermore it could be as a result of the Finance supervisor not updating Annexure F regularly.

This could lead to incorrect salaries being paid resulting in over or understatement of the employee cost since the salary payments are based on what has been documented in Annexure F.

This could also lead to incorrect taxes being paid which might to interest and penalties being incurred.

Since the Annexure F is used as a basis to determine the budget for the employee cost for the outstations the differences identified might result in incorrect figures used during the budgeting.

The daily rate used to calculate the leave provision is based on the salaries as per Annexure F, thus if Annexure F is incorrect it will lead to incorrect leave provision being recognised.

Internal control deficiency

Leadership

- Leadership did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
- Management does not regular review and update the Annexure F, which serves as Master database of the employee details and salaries that need be paid.

Recommendation

- The Finance supervisor should regularly update the Annexure F with the latest employee information. For example, during notch increase cycle, wage agreement or any changes to employee cost
- Management should ensure that Annexure F is reviewed regularly.

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DD20-PS-0888

Management's response

Management comment on audit finding: Annexure F is exclusively managed by HR Head Office as a Master Database		
Management comment on internal control deficiencies: Station gets opportunity for checking Annexure F during the budgeting process in Sept / Oct		
Management comment on recommendation: Recommendation for collaborative responsibility by HR and Station to review Annexure F alongside the Notch increment cycles and wage agreements is an efficient and effective plan to keep it updated throughout the year.		
Remedial action: Keep A record Chart for updating Annexure F in line with the Notch Increment Register for signing off A system solution need to be identified between HR and IT to assist the station with payroll management		
What actions will be taken:	By whom: Person: Pienie Jacobs / Gloria Yirenkyi Position; HR Specialist / Country Manager	By when: 0 to 3 months

Auditor's conclusion

Management comment is noted and a follow up on the matter will be done in the next financial year to assess the adequacy of the proposed controls implemented.

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K.T.D

12. Terminations: Discrepancies noted in final payslip

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

During the audit, the below discrepancies were noted in the final payslip of an employee whose services were terminated

Client information				**Auditors recalculation**				
Pension number	**Basic salary**	**leave balance**	**Leave encashment**	**Daily rate**	**Leave balance**	**Leave encashment**	**Difference (leave days)**	**Difference (encashment)**
F02249G	3487.03	12	2 133.22	158.50	15.32	2 428.24	-3.32	-295.02

Internal control deficiency

Financial and performance management

Management, through the leadership of the country manager and human resource division at head office did not ensure that effective controls are in place to ensure that employee's leave encashment is accurately determined

Recommendation

Management should ensure that the entity effective controls are in place to ensure accuracy of final payslips. Investigation must be done whether any salary needs to be paid to employee in terms of SAA's policies

Management's response

Management comment on audit finding: The finding is factual
Management comment on internal control deficiencies: Internal controls will be enhanced to ensure that such errors do not recur.
Management comment on recommendation: According to Auditor's recalculation, Leave Encashment was rather underpaid by 3.32 days.
Remedial action : Management will make an effort to reach the employee for reimbursement after all the recommended corrections have been implemented on the leave days record and Leave

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provision YTD Feb 17		
What actions will be taken:	By whom Person: Pienie Jacobs / Gloria Yirenkyi Position: HR Specialist / Country Manager	By when: 0 to 3 months

Auditor's conclusion

Management comment is noted, however the misstatement occurred and follow up will be made interims of the corrective actions implemented during the next financial year audit.

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REFUNDS

13. Refunds Policy not adhered to

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that *an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

"1.15 Supporting documentation

> *A refund will only be processed if the original travel document and supporting documentation as required have been attached to the correct refund application form and forwarded to our offices for processing.*
>
> *Only in the following instances will photocopies of the documents required for a refund be accepted:*
>
> * *Lost document refund application,*
> * *Death certificates,*
> * *Hospital bills*
> * *Passport or I'D. Documentation of the passenger,*
> * *The Agent or Travel consultant's copy of the document,*
> * *In the case of cabin occupancy downgrade, the copies of the passenger's travel document together with a boarding pass of the passenger."*

It was identified that the refunds policy was not adhered with. A sales staff member issued a new ticket in her own name reportedly with the view to hold a seat for a frequent flyer who had called towards the end of check in to book a seat for travel that same night. The holding of seat was needed at the time because the flight was moving into boarding mode soon and that would prevent a sale to be made even though there were seats available. The CSA failed to reverse the ticket in the same or next day. This was picked up by the finance team when they were clearing reconciling items and posted a refund.

The employee did not highlight the difference on the date which the ticket was issued to management and the cash up reports

Refer to the table for the items that does not meet this requirement as per the SAA policy.

Date	Doc Number	Ticket number	Amount per ticket	Admin fee levied
30-Sep-16	4040004598	0832125595775	19 919.80	0

The impact of the above is that the refunds paid did not comply with the requirements of the SAA refunds policy as the refunds are processed without the minimum required documentation submitted.

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Internal control deficiency

Financial and performance management

The customer service agent knowingly did not comply with the policy of SAA by issuing a ticket in her own name for a client.

Recommendation

- The country manager should ensure that all staff are trained and are well aware of the policy in place and must adhere to it.
- In addition, country manager should consider taking disciplinary action against the staff and cover the admin fee.

Management's response

Management comment on audit finding: The employee was not compliant to the extent of issuing a ticket without payment and failing to void the ticket before closing. Audit finding is accepted.		
Management comment on internal control deficiencies: The internal controls in place are efficient as the Finance office picked up the discrepancy when reconciling the sales and brought the matter to the attention of the employee and management.		
Management comment on recommendation: All staff is trained on Amadeus reservation and ticketing and aware of ticketing rules. Disciplinary steps will be taken against the employee.		
Remedial action : The disciplinary process has been initiated with a query and employee response. Manager will issue a warning letter and also recover $25 admin fee as per policy.		
What actions will be taken:	By whom Person: Gloria Yirenkyi Position: Country Manager	By when: 0-1 Month

Auditor's conclusion

Management comment is noted that the employee did not follow the required protocol. A follow up will be made during the next audit regarding the action taken.

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A U D I T O R - G E N E R A L
S O U T H   A F R I C A

Auditing to build public confidence

SUMMARISED MANAGEMENT REPORT

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AUDITOR-GENERAL SOUTH AFRICA

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MANAGEMENT REPORT

SOUTH AFRICAN AIRWAYS SOC LTD

31 March 2017

RS KTD

Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

MANAGEMENT REPORT

SOUTH AFRICAN AIRWAYS SOC LTD OUTSTATION – SAO PAULO

31 March 2017

CONTENT

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MANAGEMENT REPORT TO THE COUNTRY MANAGER OF SOUTH AFRICAN AIRWAYS SOC LTD BRAZIL OUTSTATION FOR THE YEAR ENDED 31 MARCH 2017

INTRODUCTION

1. This management report includes audit findings arising from the audit of the financial information, and compliance with legislation for the year ended 31 March 2017 which were communicated to management and includes their response to these findings.
2. The management report consists of executive summary and detailed audit findings which are contained in annexures A and B.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

3. Our responsibilities include the following:
    - Performing procedures to obtain audit evidence about financial information, and compliance with legislation applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement.
    - Considering internal controls relevant to the processing of the financial information, and compliance with legislation.
    - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial information, and compliance with legislation.
4. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial information, or compliance with all applicable legislation.

MANAGEMENT'S RESPONSIBILITIES

5. Management's responsibilities include the following:
    - Designing, implementing and maintaining proper record keeping and internal controls necessary to enable head office management to prepare financial statement that are free from material misstatement whether due to fraud or error.
    - Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
    - Designing, implementing, reviewing and monitoring of compliance with legislation.
    - Providing access to all information that is relevant to our audit, such as records and documents.

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EXECUTIVE SUMMARY

SECTION 1: MATERIAL MATTERS

PART A – MATERIAL MISSTATEMENTS

6. Material misstatements were identified during the audit that were not prevented or detected by the Outstation's system of internal control. These material misstatements also constitute non-compliance with the PFMA.

Material misstatements		Impact	Internal control deficiency
	Finding (brief description of misstatements)	R	
Material misstatements not corrected			
Financial statement item			
Fruitless and wasteful expenditure	The accounting authority did not take effective and appropriate steps to prevent fruitless and wasteful expenditure that was levied and is still being levied against SAA.	700 089.32	SAA Head Office: Security Head failed to design a prompt response plan to deportation requests for SAA passengers and to provide the necessary escorts within the time window allowed by Sao Paulo authorities, which resulted in a financial loss to the company. There is a deficiency in SAA's booking system as it allows for overbookings of its flights and as a result SAA would be subjected to litigation. Check-in crew at OR Tambo airport failed in its responsibility of ensuring that travellers to Sao Paulo airport have the necessary documents that will allow entry to the country.
Irregular expenditure	Non-compliance with SCM prescripts resulting in irregular expenditure that was not previously identified and disclosed as irregular	2 981 650.95	Review and monitor compliance with applicable laws, regulations and internal policy. The regional finance manager and station manager did

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Material misstatements		Impact	Internal control deficiency
	Finding (brief description of misstatements)	R	
	expenditure.		not ensure that supply chain management prescripts were adhered to when extending supplier agreements. This is due to a lack of knowledge and / or understanding of the prescripts and the required processes as well as there being no formal communication from Head Office to enforce compliance with the prescripts. The SCM unit from SAA headquarters did not provide oversight to ensure that the outstation comply with SCM prescripts by properly documenting deviations in light of the cash conservation initiatives which do not allow for conclusion of contracts that last more than six months.
Material misstatements corrected			
None			

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PART B – FINDINGS ON COMPLIANCE WITH LEGISLATION

Included below are findings on material non-compliance with laws and regulations applicable to the entity.

Expenditure management

7. The accounting authority did not take effective steps to prevent fruitless and wasteful expenditure, as required by Section 51(1)(b)(ii) of the PFMA.

Procurement and contract management

8. Goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

PART C – INTERNAL CONTROL

Achievement of internal control objectives

9. Significant deficiencies that resulted in the material misstatement of the financial statements and findings on compliance with laws and regulations are summarised below:

Financial and performance management

10. Management has failed to ensure legislative prescripts are adhered to and the requirements of the PFMA are enforced.

SECTION 2: RATINGS OF DETAILED AUDIT FINDINGS

11. For the purposes of this report, the detailed audit findings have been included in annexures A and B reflecting material matters (may potentially impact on the auditor's report) and non-material matters, respectively.

SECTION 3: CONCLUSION

12. The matters communicated throughout this report should be addressed to achieve sustained clean administration. The AGSA staffs remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Polani Sokombela
Senior Manager: National E
26 May 2017

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Distribution:
CEO
CFO
Audit committee
Head of internal audit

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DETAILED AUDIT FINDINGS

ANNEXURE A: MATERIAL MATTERS

EXPENDITURE MANAGEMENT

1. Fruitless and wasteful expenditure on fines paid

Audit finding

Section 51 of the Public Finance Management Act (PFMA) states the following general responsibilities of accounting authorities relating to fruitless and wasteful expenditure:

(i) Section 51(1)(b)(ii): The accounting authority must take effective and appropriate steps to prevent fruitless and wasteful expenditure;

(ii) Section 51(1)(e)(iii): The accounting authority must take effective and appropriate disciplinary steps against any employee who makes or permits fruitless and wasteful expenditure;

(iii) Section 55(2)(b)(i) & (ii): The annual report and financial statements must include particulars of fruitless and wasteful expenditure that occurred during the financial year and any disciplinary steps taken as a consequence of such fruitless and wasteful expenditure; and

(iv) Section 57(c): An official in a public entity must take effective and appropriate steps to prevent any fruitless and wasteful expenditure within that official's area of responsibility.

The following payments made to the Sao Paulo Police department are fines issued to SAA for non-compliance with the orders issued by the department. The background of each case and the respective fine is captured below:

Document number	Nature	Amount (ZAR)	Description
1500086448	DPF PENALTY FOR PXS INADTSAGUE+LAETICIA+DOUDOU	159 231.00	SAA Failed to deport undesirable passengers back to SA within 24 hrs.
1500087182	Lawsuit payment to Angela Sepra Caldeira E Silva	47 669.00	Court case payment where SAA was condemned due to overbooking.
1500086951	Lawsuit payment to Angela Sepra Caldeira E Silva	47 568.30	Court case payment where SAA was condemned due to overbooking.
	Thiago Lindolpho Chaves and Others	59 33.56	Court case payment where SAA was condemned due to overbooking.
1500086450	DPF PENALTY FOR PAX INAD ADEYAN / SIKIRUKUNLE	53 76.99	SAA was fined due to lack of assistance
1500086476	DPF PENALTY FOR PAX INAD CHI MWANA/JUDETITA 25AUG	53 76.99	SAA was fined due to lack of assistance
1500086504	DPF PENALTY FOR PAX INAD MANZENZA/PEDRO 21AUG	17 92.33	Passenger was denied by GRU immigration due to lack of passport.

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Document number	Nature	Amount (ZAR)	Description
1500086505	DPF PENALTY FOR PAX INAD IMAM HOSSAIN RUBEL 16AUG	17 692.33	Passenger was denied by GRU immigration due to lack of VISA to Sao Paulo.
1500086531	DPF PENALTY FOR PAX INAD EZENWA CHRISTIAN KENECHI	53 76.99	Passenger arrived on SA222/25AUG16 and was denied by GRU immigration due to false VISA. Passenger refuse to board back to JNB/LOS. SAA provided meals and he was escorted by security in Sao Paulo. ZA escort was requested.
1500086756	DPF PENALTY FOR PAX INAD JOYNAL ABEDIN 03SEP16	17 09.81	Passenger was denied by Sao Paulo Airport immigration due to lack of VISA to Sao Paulo.
1500086781	DPF PENALTY FOR 6 PAXES INAD 19SEP16	105 8.86	Passenger was denied by Sao Paulo Airport immigration due to lack of VISA to Sao Paulo.
1500086797	DPF PENALTY FOR PAX GODWIN EMMANUEL 22SEP16	17 09.81	Passenger was denied by Sao Paulo Airport immigration due to lack of VISA to Sao Paulo. Passenger refuse to go back to JNB
1500086798	DPF PENALTY FOR PAX UWA ENDURANCE OKODOMI 22SEP16	17 09.81	Passenger was denied by Sao Paulo Airport immigration due to lack of VISA to Sao Paulo. Passenger refuse to go back to JNB
1500086884	DPF PENALTY FOR PAX ADAMU SHARIFF 05OCT16	17 09.81	SAA was fined as the passenger boarded with irregular documentation. As Asylum seeker he should have a Sao Paulolian VISA.
1500086885	DPF PENALTY FOR PAX CAROLINE AGOLA AGENGO 05OCT16	17 09.81	SAA was fined as the passenger boarded with irregular documentation. As Asylum seeker he should have a Sao Paulolian VISA.
1500086903	DPF PENALTY FOR PAX TULASANI GANYO 02OCT16	17 09.81	Passenger was denied by Sao Paulo Airport immigration due to lack of VISA to Sao Paulo. He could disembark for being an asylum seeker.
1500087117	DPF PENALTY FOR PAX TAYE SARR 15OCT16	18 67.86	Passenger was denied by Sao Paulo Airport immigration due to lack of VISA to Sao Paulo.
1500087118	DPF PENALTY FOR PAX BABACAR GUEYE 21OCT16	18 67.86	Passenger was denied by Sao Paulo Airport immigration due to lack of VISA to Sao Paulo.
1500087194	DPF PENALTY FOR EBENEZA ILOME+FRANKLIN ASHU03NOV16	36 35.73	Passenger was denied by Sao Paulo Airport immigration due to suspect profile.
1500087255	DPF PENALTY FOR MAMADOU ABIB DIALLO 01NOV16	18 67.86	Passenger travelling from Senegal to Sao Paulo without VISA.
1500087545	INAD FINE PAX JACINTO FIETE CANDA SA224/07DEC16	17 18.93	Passenger travelling from Angola to Sao Paulo without VISA. There is no restriction but the fine was applied
1500088025	DPF PENALTY FOR INAD GLADYS WANJIKU KANYUA 26JAN17	17 38.28	SAA was fined due to passenger with irregular documentation.
1500088029	DPF PENALTY FOR INAD SEAN NELSON RILEY 26JAN17	17 38.28	SAA was fined due to passenger without return ticket

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Document number	Nature	Amount (ZAR)	Description
1500088249	DPF PENALTY FOR INAD KHAMIS SAID MPATE 11FEB17	17 74.05	Passenger was denied by Sao Paulo Airport immigration due to lack of VISA to Sao Paulo.
1500088343	DPF PENALTY FOR INAD ABUL HASNAT 19FEB17	17 38.28	Passenger was denied by Sao Paulo Airport immigration due to lack of VISA to Sao Paulo.
1500088343	DPF PENALTY FOR INAD IMAM HOSSAIN RUBEL 19FEB17	17 38.28	Passenger was denied by Sao Paulo Airport immigration due to lack of VISA to Sao Paulo.
1500088343	DPF PENALTY FOR INAD MEZBA UDDIN 19FEB17	17 38.28	Passenger was denied by Sao Paulo Airport immigration due to lack of VISA to Sao Paulo.
1500088343	DPF PENALTY FOR INAD SHEIKH MOKTER 19FEB17	17 38.28	Passenger was denied by Sao Paulo Airport immigration due to lack of VISA to Sao Paulo.
		854 659.88	

This results in non-compliance with the PFMA and fruitless and wasteful expenditure.

Internal control deficiency

Financial and performance management

SAA Head Office: Security Head failed to design a prompt response plan to deportation requests for SAA passengers and to provide the necessary escorts within the window allowed by Sao Paulian authorities, which resulted in a financial loss to the institution.

There is a deficiency in SAA's booking system as it allows for overbookings of its flights and as a result SAA would be subjected to litigation.

Check-in crew at OR Tambo airport failed in its responsibility of ensuring that travellers to GRU airport have the necessary documents that will allow entry to the country.

Recommendation

A proper response plan should be developed by both the station manager and head office officials on the most economical and efficient response to Sao Paulian authorities request to SAA, to deport inadmissible passengers. An example of best practice for other airlines in the region is to contract local/Sao Paulian security companies for the task.

SAA Head Office should review the policy on bookings and manage risks associated with overbooking and the extent of litigation SAA would be exposed due to the practice.

These matters should be investigated to identify deficiencies in SAA system of internal controls – including the role of the operations team/check in crew and interventions should be put in place to ensure the risks are mitigated as they result in financial losses for SAA. Preventative controls should also be put in place.

SAA should consider consequence management for the employees who are responsible for transgressing Sao Paulian immigration laws as this result in fruitless and wasteful expenditure.

Management response - Outstation

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Management comment on audit finding: SAA has clear guideline policy on the carriage of deportees and person in custody. SAA also has guidelines on how to access information regarding documentation that passengers need to hold to travel to or to transit in Sao Paulo. It is responsibility of the staff at the first point of origin (where passenger first check-in a SAA flight) to check documentation to guarantee that all is in order accordingly to International rules. All rules on travel documentation requirements are available at the "TIMATIC" system available for all SAA and SAA 3rd party staff. In case of any doubt the staff can access SAA headquarters for clarification. SAA Operations and Security Services met Sao Paulian Federal Police authorities to seek for clarification on their interpretation of the legislation and seek solutions. Federal Police stuck to their local requirement, despite the provisions of International Regulations. SAA explained our processes and despite SAA still having to pay for detention security the fines have been less for deportees. According to our files SAA incurred in 35 immigration penalties applied to 40 customers that arrived in Sao Paulo without the proper documentation, being the major part of it due to lack or expired visa and Nigeria is responsible for 25% of the irregularities. 35.99% of the value above (BRL 74.497,50 equivalent to R 297.990,00) reason for fine described as "No Assistance Provided", was recommend by the airport team to try to appeal on court decision once it was applied due to customers involved refused to return to their point of origin and all of them (06 customers) were authorized to disembark under refugee status (please enclosed see email communication exchanged).
Management comment on internal control deficiencies: In most of the cases passengers are denied entry Sao Paulo or connect to 3rd countries due to problems with Visa. There's a deficiency on checking documentation at the points of origin. The local accounting authority does not play any role on the transportation and acceptance of the passenger so cannot interfere to prevent deportation or related fines, taking this in consideration GRU airport keeps records of all fines applied by Immigration with the supporting documentation such as customers' routing, reason for refusal / fine, station responsible for the irregularity and authorization from SAA Head office regarding cost allocation and the date EA was raised and sent to local finance for payment
Management comment on recommendation: Regarding revision on overbooking policy this has no relation to the denied entry cases. Overbooking is a common practice of the industry and above that a real necessity for airlines to achieve profitability due to high levels of no-shows. To be noted that penalties related to overbookings are related to only 3 cases, so it is minimal and marginal. We agree with the recommendation to revise controls at airports of origin. We will review the escort procedure. We cannot use local as it is more cost effective to escorts from Johannesburg. Identify and Analyse the main root causes related to irregular customer acceptance; We are in the process of looking at inviting Federal Police over to ORT to show them the measures being taken from our side and to seek their assistance in improving the sharing of information.
Remedial action : a) A meeting with Federal Police Senior Office was conducted and he agreed with our request to review the penalties that SAA incurred on due to counterfeit passports and visas as well as lack of passports / documents on arrival. A procedure is in place and shared with SAA supervisors. Federal Police also offered to provide a training to key personnel of SAA in order to clarify documentation doubts, identify the profile of potential INAD customers and interaction with local authorities b) As we have identified the origins of passengers that have entry refused, that are, Nigeria and South Africa, the idea is to schedule additional training for SAA and SAA contracted GSA – General Sales Agent staffs on such outstations for them to properly check passports, Visa and other travel requirements to lower possibility to have clients being refused to enter in Sao Paulo, or to connect to 3rd countries or being refused at final destination.

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c) Cost analysis to be carried out to compare local escorts versus current SA based escorts.		
What actions will be taken: a. Perform additional training for check-in staff at the outstations to enable them to properly check travel documentation. b. Procure and contract local escort supplier to send deportees back to their countries of origins in case deportation is required by Sao Paulian Police authority. c. Further engage with Sao Paulian Recommend to SAA Head Office to send SAA key personnel / instructors to attended Federal Police training at GRU	By whom Person: Manuela Silva / Tim Atkinson / SAA Had Office Security Position GRU Airport Manager / Position Head Airport Operations International	By when: 0-3months

Auditor's conclusion

Auditors conclude as follows on the three issues raised in the exception:

- For fines incurred on customers that did not have valid travelling documents, we will follow up during the 2017/18 financial year audit on the effectiveness on management's intervention in relation to training check-in staff and assess the effectiveness on such intervention based on nature of fines levied after the proposed implementation date
- For fines incurred due to overbooked flights, managements comment is accepted and amounts paid for these fines will be removed from the total amount of fruitless and wasteful expenditure identified at the outstation
- For the fines incurred as a result of security escorts from Johannesburg arriving after the window given by Authorities has expired. In the absence of a cost-benefit analysis by management presented to the audit team on insisting on using JHB escorts, the finding will stay and fines incurred considered fruitless and wasteful expenditure.

Management should add to the schedule of fruitless and wasteful expenditure the 2016/17 financial year the following figure:

Total identified at the outstation:	854 659.88
Less: Resolved issue on overbookings:	(154 571.56)
Net amount to be added to the fruitless and wasteful expenditure schedule:	700 089.32

It is further not evident how management has enforced the following guidelines as per the SAA General Conditions of Carriage:

14.3. REFUSAL OF ENTRY

14.3.1. If you are denied entry into any country, you will be responsible to pay any fine or charge assessed against us by the Government concerned and for the cost of transporting you from that country. The fare collected for carriage to the point of refusal or denied entry will not be refunded by us.

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PROCUREMENT AND CONTRACT MANAGEMENT

2. **Supply Chain Management processes not followed on extension/new supplier contracts**

Audit finding

Section 51(1)(b)(ii) of the PFMA, requires the accounting authority to take effective and appropriate steps to, among others, prevent irregular expenditure.

During the audit, there is no evidence that quotations or competitive bids were obtained for the procurement of goods and/or services detailed below:

#	Supplier	Contract status	Contract Cost on FY16-17 (ZAR)	Managements motivation or actions being undertaken
1	Arktec	Evergreen after 01 year term, last anniversary 23Nov2016	107 439.88	Management is still in process to prepare motivation and forward to Procurement for approval for the contract extension.
2	Brinks	Evergreen after 01 year term, last anniversary 10Aug2016	90 344.77	Only 2 bidders available that caters to GRU airport and none of them accepts less than 24 months of contract, waiting for cash conservation to approve contracts for more than 06 months
3	Copy Supply - CS	Evergreen after 02 years term, last anniversary 01Aug2016	65 302.23	We quoted new providers and was able to get a reduction of 35% to enter a lease agreement, where it would be supplied 04 new multi-functional equipment's for a 36 month contract a 20% penalty if terminated before the duration. Still cash conservation office explained that the board will not approve agreements for more than 6 months.
4	Claro	Evergreen after 02 years of term, last anniversary 11Dec2014	369 963.42	We're paying month to month waiting to see if the 6 month condition will be lifted. We got the 03 quotations from Claro, Vivo and Tim but minimum of 24 months, need cash conservation to approve the contracts for more than 06 months
5	Fedex	Evergreen since signature	82 289.73	None
6	MJR	Evergreen since signature, last anniversary 24May2016	206 109.61	To prepare motivation and forward to Procurement for approval
7	Olitel	Evergreen after 3 years term, last anniversary 21Jan2017	31 363.56	Prepare motivation and send to BAC for approval. Services to be adjusted to new CTP premises.
8	Predial /Top Service	Evergreen after 01 year term, last anniversary 01Nov2016	162 587.26	The board is still not approving any agreements over 6 months, even when presenting a alternative with a reduction. For this service we received a quotation 20% less than current provider

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#	Supplier	Contract status	Contract Cost on FY16-17 (ZAR)	Managements motivation or actions being undertaken
9	Vivo	Evergreen since signature, last anniversary 23May2016	520 804.17	No telephone operator in Sao Paulo signs contracts with less than 24 months, most common being an evergreen contract, the common practice is to charge a penalty if agreement is terminated before the due date
10	WBS	Evergreen since signature	165 979.82	Conclude bidding process and send motivation to Procurement.
11	World Aviation	Evergreen since signature, last anniversary 18Dec2016	490 764.71	Conclude bidding process and send motivation to Procurement.
12	Mazars	Evergreen since signature, last anniversary 01Sep2016	665 220.41	We were able to get a quotation from a reliable provider with a reduction of 40% for 24 month contract with a terminating for convenience clause of sending a 30 days written notice and no penalties charged, however the board is still not approving any agreements over 6 months. Received the approval today to change providers and will go forward with procurement process.
		Total	2 958 169.57	

These result in non-compliance with supply chain management prescripts and constitute irregular expenditure.

Internal control deficiency

Financial and performance management

The regional finance manager and station manager did not ensure that supply chain management prescripts were adhered to on extension of supplier agreements due to a lack of knowledge and / or understanding of the prescripts and the required processes as well as there being no formal communication from Head Office to enforce compliance with the prescripts.

The chief procurement officer of SAA did not provide oversight to ensure that outstations comply with SCM prescripts by properly documenting deviations in light of the cash conservation initiatives which do not allow for conclusion of contracts that last more than six months.

Recommendation

The station manager should ensure that bids are invited in accordance with the requirements of SAA's SCM policies and procedures for the outstation.

Should that be that be impractical, the outstation should document the reason for the deviation and this must be approved by the accounting officer.

It is also recommended that the Irregular Expenditure incurred should be disclosed in the notes of the financial statements or would otherwise be considered a misstatement to the annual financial statements.

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Management response - Outstation

<table>
<tr><td colspan="3">Management comment on audit finding: The Procurement process is centralised. Local stations do not tender. The local office facilitates the process by providing vendor and supplier details and sending reminders on expired contracts. A record is kept of the contract progress. After change in management, a contract register was created during 2015 and new procedures put in place to review the contracts in compliance with SAA policies and procedures. The revision is ongoing. Resource constraints have contributed to the delays at the station. A proper structure has now been instituted in order to expedite the correct policies and procedures.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: For past year and a half when the internal audit was done here in the station, communication with Head Office was done regularly updating the status of the contracts and due to volume HO stablished a grace period until June 2017 to regularize the contracts above and assigned contract Managers at headquarters that are following up the process which are naturally lengthy especially when Seabury recommended that contracts could not be valid for more than six months. This prevented outstations to conclude most of the negotiations as suppliers are not willing to signed contracts with such short term validity.</td></tr>
<tr><td colspan="3">Management comment on recommendation: Station goal is to be compliant with all internal policies and procedures and will make the best effort to do so. From the 12 contracts reported above station have received the quotations for five of them where the issue to go forward with the agreement is the duration of them. Station will enquire with HO procurement how can we do the correct reporting of deviations since all the emails that were exchanged during the year of 2016 it's not accepted as the correct reporting system.

The station recommends that headquarters allow us to sign contracts with a larger expiring period as in practical terms the rule of 6 months is not feasible to comply for the outstations. Note: CCO approved today May 25th, 2017 to change providers for Accounting services considering a larger expiration period and station is going forward with procurement process. We think this was a correct approach and we hope we could have the same applied for the remainder pending processes.</td></tr>
<tr><td colspan="3">Remedial action:
As recommended by AGSA, station will report in a formal document to be sent to Procurement and Compliance department at HO that at this time the contracted services will continue to be paid based on signed evergreen contracts until the restrictions for signing the agreements for longer periods are lifted.</td></tr>
<tr><td>What actions will be taken:
Station will do their best to negotiate 06 month agreements, even though this practice is not likely to be accepted by local suppliers. As soon as duration restriction is lifted, station will work Head Office to expedite the procurement process for the quotations already received in order to sign the agreements asap.</td><td>By whom: Station and HO
Person: Altamiro Medici, Tauane Andrade, Manuela Silva
Position; station manager, finance supervisor, airport manager, user departments and procurement department</td><td>By when:
With the restrictions on agreements term is difficult to give an exact date. If the restriction is lifted station would need 4 months to process the renewal of the agreements above considering that HO responds in a timely manner</td></tr>
</table>

Auditor's conclusion

Management's effort in resolving the backlog of irregular contracts is noted. As per the auditor's recommendation, when management could not follow an open tender procurement process due to the circumstances noted in the response, a deviation should be documented and duly approved. In the absence of an approved deviation, the audit team deems the expenditure amount of

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R2,9 million as irregular expenditure and amount should be added to the schedule to be disclosed in the 2016/17 financial statements.

PROPERTY, PLANT AND EQUIPMENT

3. Deficiencies in fixed asset management

Audit finding

Section 51(1)(c) of the Public Finance Management Act 1 of 1999, states that "*the accounting authority for a public entity 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.*"

Section 55(1)(b) of the Public Finance Management Act 1 of 1999, states that "*the accounting authority for a public entity must prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity.*"

- Paragraph 9 of International Accounting Standard (IAS) 36: *Impairment of Assets* states that "*an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset*".
- Paragraph 51 of IAS 16: *Property, Plant and Equipment* states that, "*the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate in accordance with IAS 8 Accounting Policies Changes in Estimates and Errors.*"

During the audit of fixed assets the audit team identified the following deficiencies relating to asset management:

i) There is not assessment of impairment for the stations assets
ii) Residual values and useful lives of the station assets are not reviewed at least on an annual basis
iii) Annual physical verification is not performed for station assets
iv) Fixed assets selected from the floor that could not be traced to the asset register

#	Asset description	Asset number (if available)	Cost centre selected from	Identified on asset register
1	White Consul fridge	None	1877	No
2	Desk	None	4877	No
3	Cupboard	5163	4877	No
4	Microwave oven	10311CBA	4877	No
5	Cabinet - small	None	4877	No

The impact of the above would result in a misstatement of property, plant and equipment and amount to a limitation for the audit team in assessing the IAS 16 and IAS 36 requirements on correct valuation of assets at year end and existence of the assets thereof.

Internal control deficiency

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Financial and performance management

Management did not review and monitor compliance with applicable legislation to ensure assets are accounted for in accordance with generally accepted accounting practice.

Both the outstation manager and regional finance manager-head office failed to implementing/enforce SAA's fixed asset finance policy that requires the above to be undertaken each financial year.

Recommendation

Head Office management should implement monitoring and follow-up controls to ensure stations comply with the generally accepted accounting practice and SAA's Fixed Assets Finance Policy to ensure assets are appropriately safe-guarded and accounted for.

Management response

Management comment on audit finding: Station Consulted Head Office assets department and the equipment for cost centre 1877 was registered under asset nbr 2500001540, it didn't show in the asset register as this was identified under catering equipment. The remaining assets are registers as per the SAA capex policy clause 3.4.7 where due to nature or quantity of these items they cannot be recorded individually in the asset register. However the stations are required to keep a listing of all furniture items in the office. Microwave due to the amount being less than ZAR 7,000 does not need to be registered as fixed asset.		
Management comment on internal control deficiencies: The items in airport cost centre, 4877 were part of the revamp when ticketing office had to changes terminals as per Guarulhos airport management decision and at the time it was supervised by Head Office Facilities department. Since none of the managers (airport and finance) that overlooked the works are not in SAA employment anymore we're verifying with Head office the procedure to register these assets.		
Management comment on recommendation: Recommendations will be discussed with the assets department.		
Remedial action:		
What actions will be taken:	By whom: Person: Tauane Andrade, Manuela Silva, Eleni Sakulias Position: Finance Supervisor, GRU Airport Manager, Projects Manager	By when: 0-2 months

Auditor's conclusion

Management's response is noted and the deficiency in internal control identified will be assessed at head office with other fixed assets findings.

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4. Asset not capitalized at cost

Audit finding

Section 55 (1)(b) of the Public Finance Management Act 1 of 1999, states that "*the accounting authority for a public entity must prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity.*"

Paragraph 15 of International Accounting Standard 16: *Property, Plant and Equipment* states that "*an item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost*". Paragraph 23 of the same standard further states that, "*the cost of an item of property, plant and equipment is the cash price equivalent at the recognition date.*"

During the testing of assets at the station it was identified that the items listed below were capitalized in the asset register based on instalment payments made and not the cash price of the asset(s).

No	Asset	Capitalized on	Description	Instalments to date –Client capitalised value R$	Invoice amount – Value of the asset R$
1	3800001106	10/03/2017	Various Furniture for Sao Paulo Ticket Office	27 060.64	29 019.40

The impact of the above would result in an understatement of property, plant and equipment.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable legislation to ensure assets are accounted for in accordance with generally accepted accounting practice.

Recommendation

Head Office management should review Capex 4 forms submitted to Head Office for recording additions to assets are reviewed to ensure assets are capitalized based on cost as invoiced.

Management response

Management comment on audit finding: The assets acquired for the office relocation followed the payment plan negotiated with the contractor and the last instalment and invoice was received in April2017 and when sending the Capex4 for asset register it was not taken in account the amount paid in different fiscal years and that's why the register was different than invoice amount.
Management comment on internal control deficiencies: Due to the size of the project and the numerous vendors involved in the relocation project the payment plan split in 4 four different deadline and that all documents had to be triangulated between facilities dept, station finance and assets dept with station without access to assets module increased the exposure for incomplete register as this is a still a work in progress project.
Management comment on recommendation: As the project was under way during the closing

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<table>
<tr><td colspan="3">of fiscal year. The assets that were paid up to 31 March17 were capitalized correctly and the remaining amount that was paid in this fiscal year (April2017) has been capitalized as per payment date</td></tr>
<tr><td colspan="3">Remedial action: Station has sent the invoice copy to assets dept at Head Office requesting the amendment of asset register to update the correct amount and Head Office assets department has confirmed that all expenses paid in April regarding furniture has been also registered as per email attached. RE SAO CTO CAPEX ASSET DEPRECIATIOI</td></tr>
<tr><td>What actions will be taken: : As relocation project is now coming to an end, station will hand over to facilities dept the documentation as warranties, certificates and the copy of all invoices so HO can ensure that all assets have been recorded properly</td><td>By whom:
Person: Tauane Andrade, Eleni Sakulias and Sankie Badenhorst
Position; Finance Supervisor, Project Manager, Projects & Capex Department</td><td>By when: 0-2 months</td></tr>
</table>

Auditor's conclusion

The internal control deficiency will be assessed with other related fixed assets finding at head office. The misstatement identified will be transferred to the schedule of uncorrected misstatements and assessed with other misstatements at a company level.

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DD20-PS-0913

ANNEXURE B: OTHER MATTERS

PERFORMANCE MANAGEMENT AND MONITORING

5. No Balance Score Card in place

Audit finding

Treasury Regulations 29.3.1 states that "*the accounting authority for a public entity must establish procedures for quarterly reporting to the executive authority in order to facilitate effective performance monitoring, evaluation and corrective action*".

The Sao Paulo set its performance targets and report through its commercial report to the executive committee (RGM report) on revenue and route profitability. On a monthly basis progress on the achievement of revenue targets and route profitability are sent to head office. There is however no evidence that the Sao Paulo outstation has a balance score card in place for 2016/17 financial year that has been cascaded from the company's long term turnaround strategy (LTTS). The SAA LTTS has five strategic objectives i.e. support national development agenda, achieve and maintain financial sustainability, provide excellent customer service, achieve consistent, efficient and effective operations and foster performance excellence. These five strategic objectives are supported by key performance indicators as per 2016/17 SAA shareholders compact (SHC). As the SHC sets the planned key performance indicators for SAA, it is expected that the BSC of the outstation and the region is aligned to the SHC of the company. The RGM report is based only on revenue targets and route profitability and is not clear how it is linked to the five strategic objectives of SAA.

The impact of this is that the outstation may not be able to monitor its performance and its contribution to the overall strategy of the company. This may also result in lack of accountability as there are no set performance indicators and targets in place to ensure that there is effective performance monitoring, evaluation and corrective action.

Internal control deficiency

Leadership

The leadership has not established and communicated policies and procedures for quarterly reporting in order to facilitate effective performance monitoring, evaluation and corrective action. Furthermore roles and responsibilities of outstations regarding performance monitoring and accountability in executing the company strategy are not clearly defined.

Recommendation

It is recommended that SAA should formulate an overall company policy on performance information that clearly defines the roles and responsibilities of divisions, regions and outstations on performance planning, monitoring, evaluation and corrective action.

Management response

Management comment on audit finding: As per Head Office confirmation the balance scorecard of the company is managed at head Office where all the regions form part of it. Sao Paulo station has a proper Business plan which is aligned with the Commercial objectives and targets of the organization globally. Such business plan is discussed/agreed at America's level and from it at Head Office level and it does include revenue and profitability targets as well as cost

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<table>
<tr><td colspan="3">controls.
Headquarters provide a series of monthly reports to outstations (RCE – Route Contribution report; Territory Analysis report, e-commerce sales report; Forward booking report, among many others) from which we can monitor all aspect of the station performance, including revenue (passenger, cargo, ancillary, Voyager and other) as well as a list of all and each costs for the route operation. Such reports help station to make adjustments on strategic and tactical action whenever is necessary, again aligned with the overall strategy of the company and also guarantee accountability to each station manager.
On the other hand the station provides to headquarters a series of reports, including but not limited to performance, costs and market intelligence ones, to enable Head Office to take proper change of action measure when demanded. On top of that weekly conference calls are perfomed with stakeholders at headquarters such as Pricing, Revenue Management to provide information for speedy responses to competitors' actions/movements or market changes due to economic or political reasons.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: Regional office has stablished Balance scorecard for all employees as a performance manager tool. The country manager has the station business plan that is draw up for the entire fiscal year and the balance scorecard is used at least twice in one year to measure if the KPIs and the targets designed in the station business plan are being reached. Furthermore, the monthly budget variance analysis also can be considered as a performance tool to track the expenditure flow of the station. Head Office also send to all stations the revenue reports so station can keep track of targeted budget and performance based on last fiscal year

The reports mentioned above are done and received not at a quarterly basis but on a monthly basis. As also mentioned ad-hoc conference calls are done whenever necessary (mostly at a weekly basis) for evaluation and to implement corrective actions. All such reporting and change of action follows head office global guidelines.</td></tr>
<tr><td colspan="3">Management comment on recommendation: Each Station Manager has its Power of Attorney and Delegation of Attorney as well as the Balanced Scorecard with well define responsibilities, objectives, targets, performance measures.as well timings, list of activities and interdependencies. It is linked to SAA global strategy and it is revised on a quarterly basis.</td></tr>
<tr><td colspan="3">Remedial action: Continue monitoring the station performance with the available tools on hand that were explained above and solidifying the communication to Head Office.</td></tr>
<tr><td>What actions will be taken:</td><td>By whom
Person: Altamiro Medici
Position: Country Manager</td><td>By when:</td></tr>
</table>

Auditor's conclusion

Management comments are noted, the finding relates to the cascading of the strategic objectives from the LTTS, SHC to the BSC has not been addressed by the attached midyear review provided. The outstations of SAA should have a BSC which is derived from the key strategic objective s of the entity. The absence of the BSC at the outstation level does not allow for the outstations to contribute directly to the key strategic objectives of SAA.
The finding remains unresolved and will be reported in the management report of SAA.

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6. Significant deficiencies in budget approval and monitoring

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Paragraph 1.7 of SAA budget instructions procedure manual requires all budgets to be signed-off by the relevant Business Unit GM's, Financial Controllers and their respective head of department (HOD's) / cost center managers - which they can be measured against and held accountable for.

During the audit of the outstation it was noted that there is no evidence that the 2016/17 budget of Sao Paulo outstation has been signed-off by the general manager, financial controller and its respective HOD. On enquiry and discussion with management at the outstation, the proposed budget is submitted to head office, however there is no feedback received whether the budget submitted is approved or not. The outstation will monitor by checking the amounts captured on the system and will deem it as the final approved amounts. This is contrary to the requirement of paragraph 1.7 of SAA budget instruction procedure mentioned above as the outstation need to be measured and held accountable for its own budget.

Furthermore, the following internal control deficiencies regarding budget monitoring in monthly management accounts of the outstation were noted:

- The accounts are not consolidated into one report i.e. they are prepared in silos and submitted to different role players in head office with no proper co-ordination,
- No evidence that the accounts were reviewed and approved by a delegated official before submitting to head office,
- Explanation of variances between budgeted and actual income & expenditure are not documented,
- Action plans to address shortcomings identified between budget and actual are not documented,
- No evidence that these reports are also submitted to the office of the CFO or finance department within SAA.

Internal control deficiency

Leadership

The leadership has not established and communicated budget and forecasting policies and procedures to facilitate effective preparation and monitoring of budget for the company.

Recommendation

The leadership of South African Airways (SAA) should formulate an overall budget and forecasting company policy that include, among others, budgeting principles, clearly defined roles and responsibilities, key monitoring controls and delegation of authority on budget preparation and approval process.

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Management response

Management comment on audit finding: Budget process is rolled out in the middle of the fiscal year and the stations submit their proposal for budgets to Head Office. Final decision is made by the Board and the approval document is kept at Head Office as per confirmation from finance department. All stations are advised when budget is approved and the amounts are uploaded in SAP in the corresponding cost centres.		
Management comment on internal control deficiencies: During budget process outstations prepare their budgets and responds to headquarters requests for clarifications and corrections on budgeting submissions. Communications are concentrated into the Regional Finance Managers to who the Station responds of Finance level.		
Management comment on recommendation: On a monthly basis Station revises the forecast for monitoring and control purposes. Any discrepancy needs to be reported and explained to Finance Regional Manager, the Head of Americas and finance operations at head office.		
Remedial action: At station level we can't identify any other actions that can be taken at this point. Whenever significant discrepancies between actual x forecast are identified, this exercise is done monthly, they're highlighted to management level for awareness and monitoring		
What actions will be taken:	By whom Person: Position:	By when:

Auditor's conclusion

Management comments are noted, the reports indicated in the management comments regarding variance analysis have not been attached to validate the management comments that a variance analysis has been done per outstation. The finding remains unresolved.

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7. Performance agreements not signed

Audit finding

Section 51 (1) (a) (i) of the PFMA states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

In terms of SAA integrated performance management policy, all managers, together with their direct report/s, must contract annually. The performance contract should be concluded and signed by both parties within the prescribed period and submitted to Human Resource department for verification and record keeping. Performance contracting should take place in the beginning of each financial year (Apr/May).

There is no evidence that individual performance contracts were signed by Sao Paulo outstation management. As per discussion with management, it has been noted that no notice of individual performance contracts were provided from Head Office to the Sao Paulo outstation management.

The following employees that have not signed their performance agreements:

Employee number	Position number	SAP number	Position
F02961N	50167982	64874	Airports Manager

The impact of the above is non-compliance with the integrated performance management policy. In addition this could result in SAA not achieving its strategic objectives as performance agreements are cascaded from the companies balance score card and strategy.

Internal control deficiency

Leadership

Regional Manager-Head Office did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Regional Manager-Head Office might not be able to hold the employees accountable due to there being no performance contract in place.

Recommendation

Management should ensure that performance contracts are submitted during the timeline stipulated in the policy as performance contracting is the cornerstone of performance management at an individual level. These performance contracts should be monitored and evaluated on a regular basis to ensure that employees are executing the strategic objectives of SAA adequately,

In addition, there should be consequences for employees that did not comply with the policy.

Management response

Management comment on audit finding: GRU Airport Manager was hired on Dec 1st, 2016 (employee number F02961N) and reports to her line manager, the Head of Airport Operations – International, Mr Tim Atkinson who is the responsible for performance agreements at airport level. Staff was hired on a 6 months' probation period (which ended at May 31th) and

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performance evaluations have been conducted by the line manager. Performance contracting will be put in place for FY17/18.		
Management comment on internal control deficiencies: Airport Manager was appointed in December 1st, 2016. Due to less of 06 months on the position at the time of first personal performance evaluation it was decided by senior management to conduct a 1 to 1 meeting that took place in March 19th, 2017 with the line manager		
Management comment on recommendation: Staff 6 months' probation period ended at May 31th, 2017 and during this period performance evaluation has been conducted. Performance contracting will be put in place for FY17/18.		
Remedial action: Performance contracting will be put in place for FY17/18.		
What actions will be taken: See above	By whom: Person: : Tim Atkinson Position; Head of International Airports	**By when:** June/2017

Auditor's conclusion

Managements comment is noted and the finding should be considered as resolved.

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OPERATING EXPENDITURE

8. Accrual basis of accounting concept not applied consistently

Audit finding

International Accounting Standard 1 Presentation of Financial Statements (IAS 1) on the accrual basis of accounting specifies that – "*An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting*".
When the accrual basis of accounting is used, an entity recognizes items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework.

The Framework further provides that "*accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period.*"
This is important because information about a reporting entity's economic resources and claims and changes in its economic resources and claims during a period provides a better basis for assessing the entity's past and future performance than information solely about cash receipts and payments during that period.

During the audit of operating expenses the audit team identified an item that was paid in the 2016/17 financial year, but the event to which the expense related to would only take place during the 2017/18 financial year.

The details of the transaction are captured below:

Document Number	Description	Posting Date (D)	Planned event date/s	Amount ZAR
1500087930	Exhibition booking fee	01/24/2017	July 4 2017; August 15 2017 and December 4 2017	93 561.00

This would result in overstatement of expenses and understatement of prepayments at year end.

Internal control deficiency

Financial and performance management

The outstations finance manager did not apply the accrual basis of accounting principle consistently throughout the year, due to dependency of SAP on how to process certain supplier payments.

Recommendation

Expenses should only be recognized for transactions that relate to the current financial year.

Finance Manager –Outstation should review payments made in advance for the 2017/18 financial year activities and reverse those payments from the current year expenses.

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Management response – Outstation

Management comment on audit finding: Finance staff that posted the expense did not have proper system training on how to record the prepayments on the system and induction to ensure that the best accounting practices are in Management comment on internal control deficiencies: Station faced a headcount issue where the senior finance position was vacant for the past year and a half where even though station counted with the support from regional office the work volume was very high to ensure that all procedures were being done correctly		
Management comment on internal control deficiencies: Recommendation accepted and query for guidance on reverting previous fiscal year entries was sent to head office finance.		
Management comment on recommendation: Recommendation accepted and query for guidance on reverting previous fiscal year entries was sent to finance controller.		
Remedial action : Guidance and orientation sent to finance Head Office requesting the procedure on how to proceed with future similar cases		
What actions will be taken: We have sent queries to HO for proper system training and due to cash conservation all training except for compliance and safety are suspended so as soon as training sessions are back send staff for proper training	By whom Person: : Tauane Andrade, Francisco Arguello Position: Finance supervisor, regional finance manager Position	By when: June/2017

Auditor's conclusion

The identified misstatement will be transferred to the schedule of uncorrected misstatements and assessed with other misstatements at head office.

The audit team will follow up on the 2017/18 audit on the internal control deficiency identified and assess effectiveness of management's intervention.

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EMPLOYEE COST

9. Annexure F (master-file data for outstation) not properly maintained

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

During the audit of the human resources function it was noted that the Annexure F - Master file data kept at Head Office is not maintained and updated on a regular basis.

The following serve as an example of issues relating to the data not being maintained:

a) Four new appointments made at the outstation have not been included in Annexure F maintained at head office which resulted in a misstatement in the leave provision at year end calculation.

Pension number	Surname	Initials	Appointment date
F02962P	MICHELETTI	NE	15-Dec-2016
F02961N	PAIXAO SILVA	MMG	01-Dec-2016
F02956H	KAWABATA ANDRADE	T	01-Nov-16
F02957J	GARCIA DIAS DA SILVA	F	01-Nov-16

b) Salary notches included in Annexure F do not agree with the current salary notches of the employees as evidenced in the latest salary increase letters and that has an impact the leave provision at financial year end.

Pension Number	Basic Salary as per Annexure F (BRL)	Basic Salary as per notch increase letters (BRL)
F02296J	4997.54	5 646.64
F02360E	5462.79	6 172.33
FO02918T	9786.18	11 035.36
F02015H	5687.51	6 426.23
F02751U	8503.3	11 21.00

Since the Annexure F is used as a basis to determine the budget for the employee cost for the outstations the differences identified might result in incorrect figures used during the budgeting for the outstation.

This would also have an impact on the completeness, valuation and allocation of the leave provision at year end.

Internal control deficiency

Financial and performance management

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Head of Human Resource did not ensure that Annexure F for the outstation is review and update the as it serves as master database of employee details used for leave calculations.

Recommendation

The finance supervisor at head office should regularly update the Annexure F with the latest employee information. For example, during notch increase cycle, wage agreement or any changes to employee cost, appointments or terminations.

Management should ensure that Annexure F is reviewed and approved on a regular basis.

Management response

Management comment on audit finding: Annexure F is an in-house document that's being used by International HR at Head Office for non-SAP HR payroll, i.e. those outstanding that are no "live" on SAP HR. Since all of the employee information for Sao Paulo is on SAP HR, manual Annex F form was not updated. There is an Annex F report produced by SAP HR on a monthly basis, similar to the one in the USA. Currently we are fine-tuning the report for Sao Paulo. The Annex F report given to the auditors was a sample form to enable them to identify areas to audit on payroll.		
Management comment on internal control deficiencies: Please note our comments on audit findings. The manual form does not serve as a master database for employee details as all employee details are already in SAP HR. We can send the auditors screen shots of the data in SAP for verification.		
Management comment on recommendation: For those stations who are not on SAP HR, International HR office is responsible for updating the Annex F. However, since Sao Paulo is already on SAP HR, the reports can be generated at Head Office and at Station. Each payroll, these reports from SAP HR are verified by Personnel Office. Currently we are in the implementation stage of SAP HR due to issues with Citibank for direct deposit payments. However, this will be finalized by June 25, 2017 (next payroll).		
Remedial action: action plan to be advised by head office		
What actions will be taken: See above	By whom: Person: Anay Miller, Pienie Jacobs Position; Personnel Officer, Specialist International Human Resources	By when: 0-2 months

Auditor's conclusion

Managements response in finding number 8 notes that the HR SAP system for the Sao Paulo outstation is anticipated for full implementation in June 2017. Therefore the response by management does not address the issue raised by the team and the internal control deficiency identified will be assessed with other related HR findings at head office.

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LEAVE PROVISION

10. Discrepancies in accrued leave days and leave provision balance in the AFS

Audit finding

Section 51 general responsibilities of accounting authorities of the Public Finance Management Act (PFMA) states:

"General responsibilities of accounting authorities.—(1) An accounting authority for a public entity—must ensure that that public entity has and maintains—effective, efficient and transparent systems of financial and risk management and internal control;"

International Accounting Standards (IAS) 37 Paragraph 36 stipulates that: *"The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period."*

I. Differences in leave provision balance

During the audit, the audit team noted the differences below when comparing client workings and auditors recalculations of the leave provision:

Details per leave provision schedule		Auditors recalculation				
Employee Number	Leave provision per schedule (BRL) (A)	Closing leave balance - Per entity's leave schedule	Monthly salary (BRL)	Daily pay rate (BRL)	Leave provision (BRL) (B)	Difference (BRL) (A -B)
F02551Z	7 823.4	0	5 843.33	268.66	-	7 823.40
F01674B	8 242.8	15	6 205.70	285.32	4 279.79	3 963.01
F02169V	12 179.4	0	11 921.00	548.09	-	12 179.40
F2756Z	11 336.7	0	8 879.42	408.25	-	11 336.70
F02360E	8 204.1	5	6 172.33	283.79	1 418.93	6 785.17
						42 087.68

II. Leave provision: Differences in leave days

During the audit, differences were noticed in leave balance as at March 2017 and leave balances use in the calculation of leave provision in the same period:

Detail per provision Calculation		Auditors leave balance recalculation Per leave Report/Applications				
Employee Number	Leave balance (A)	Opening balance	Leave taken	Leave accrual	Closing balance (B)	Difference in leave days (A - B)
F02551Z	30	0	-30	22.5	0	30
F01674B	30	7.5	-15	22.5	15	15
F02169V	30	0	-30	27.5	0	30

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F2756Z	25	12.5	-30	12.5	0	25
F02360E	30	12.5	-20	12.5	5	25

The leave provision at year end is misstated due to the above. This will result in the misstatement on valuation and allocation of the leave provision account in the annual financial statements.

Internal control deficiency

Financial and performance management

Management, through the leadership of the country manager and human resource personnel at head office did not ensure that effective review processes are in place to ensure that the leave provision and leave balances are accurately determined.

Both the country manager and human resource personnel did not ensure leave balance calculations at Head Office took into account labour law provisions on leave for Sao Paulo. I.e. calculation of accrued leave days and what is considered as total package/cost to company in Sao Paulian labour law.

Recommendation

The country manager and human resources representative should ensure that the entity approves, captures, reviews and timeously brings into effect any adjustments made to employees salary packages in line with Sao Paulian labour law so as to ensure that there are no discrepancies in determining the leave provision at year end.

Management should further ensure that accurate record of leave day balances are maintained having given consideration to regulations applicable to the country the outstation is located.

Management response – Outstation

Management comment on audit finding: Difference in provision balance: The leave calculations in Sao Paulo is based on employee's salary plus an average of all allowances paid for the past 12 months (i.e. night shift, overtime, housing, car, etc.). We are not sure how the leave provision listed in column A is being calculated at Head Office. We also believe that the number in this column is higher because the 13th salary advance and 1/3 vacation bonus was considered in the calculation. These two items should not be part of the leave provision calculation. II. Differences in Leave days, head office did not have an updated report from the station to ensure the correct leave balances are reflected. This lead to miscalculation of leave provisions.
Management comment on internal control deficiencies: We believe there was a miscommunication of leave reporting to head office due to staffing changes and responsibilities in reporting leave effective November 2016. The control at station level are in place and leave balances are reconciled on a monthly basis.
Management comment on recommendation: With the appointment of new management and new structure for the Americas Region, human resources policies and procedures as well as compliance with local employment law were reviewed. The discrepancies in internal policies as well as regulatory non-compliance items were identified. Head Office was requested to fast track the implementation of SAP HR for Sao Paulo. The implementation started May 2016 and

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programming completed with employee data loaded in September 2016. We also ran into problems with Citibank with regards to direct payroll payments to employees and problems with interfacing SAP HR and Citibank. Even though we were ready to roll out SAP HR, there were numerous delays from Citibank Sao Paulo. These issues were escalated to SAA Treasury as well as Citibank account managers in South Africa for resolution. We started running parallel payrolls in SAP HR and we are currently testing the system as well as the various payroll reports that will be generated by SAP each month. We are anticipating to fully activate SAP payroll this month. Once the payroll part of SAP is completed, we will then roll out the leave application with the MyERP module. All of the leave requests will be approved via SAP and it will interface to payroll. The accruals and provisions will be automated by SAP HR and all the calculations will be done by SAP HR. The interface between SAP HR and SAP FI will also be automated. Head Office HR as well as Americas HR will have access to these applications. Monthly payroll reports will be generated and shared with management.		
Remedial action : See above		
What actions will be taken:	By whom Person: Anay Miller, r and Tauane Andrade Position: Personnel Office and , Financial Supervisor	By when: 0-2 months

Auditor's conclusion

Auditors' conclusions on the two matters raised in this finding are as follows:

- On leave provision discrepancies', the misstatements identified will be transferred to the schedule of uncorrected misstatements at head office
- The internal control deficiencies identified in this finding will be assessed at the company level and considered with other HR related findings.

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CASH AND CASH EQUIVALENTS

11. Bank reconciliations not prepared and reviewed on a monthly basis

Audit finding

Section 51 (1) (a) (i) of the PFMA, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

During testing of the bank reconciliations of the entity the following issues were identified:

a. Bank reconciliations below were not prepared monthly:

Month	Reconciliation	Date Prepared
September 2016	Citibank Sao Paulo - Acc 1474189	13-Dec-16
October 2016	Citibank Sao Paulo - Acc 1474189	13-Dec-16
December 2016	Citibank Sao Paulo - Acc 1474189	08-Feb-17
February 2017	Citibank Sao Paulo - Acc 1474189	10-Apr-17

b. Bank reconciliation below was not reviewed by the Regional Finance Manager:

Month	Reconciliation
April 2016	Citibank Sao Paulo - Acc 1474189

c) Bank reconciliations below were prepared and reviewed by the same employee:

Month	Reconciliation	Preparer & Reviewer
May 2016	Citibank Sao Paulo - Acc 1474189	Regional Finance Manager
June 2016	Citibank Sao Paulo - Acc 1474189	Regional Finance Manager
July 2016	Citibank Sao Paulo - Acc 1474189	Regional Finance Manager
August 2016	Citibank Sao Paulo - Acc 1474189	Regional Finance Manager

The above incidents could result in non-compliance with the PFMA.

Internal control deficiency

Financial and performance management

Regional finance manager failed to implement controls over daily and monthly processing and reconciling transactions by ensuring that bank reconciliations are performed and reviewed monthly thought the financial year.

Recommendation

- The Regional Finance Manager should ensure that the entity prepares monthly bank reconciliations within a reasonable time after month-end.
- The Regional Manager should review all the monthly reconciliations prepared.
- The Regional Manager should ensure duties of preparing and reviewing monthly bank reconciliations are performed by different employees.

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Management response – Outstation

Management comment on audit finding: Station would like to highlight that all bank reconciliations have been done in SAP FI following and complying with the month end financial calendar set by Head Office. The delay pointed above regards to reporting format (today month-end reports stands at copying and pasting balances from bank SAP accounts to excel) that can be justified by the issues with low headcount at the station, Station went without a supervisor position locally for one year and a half until the position was once again approved and filled in November 2016, during this period the reports were prepared and reviewed by Regional Finance Manager.		
Management comment on internal control deficiencies: Station does not interpret the finding below as a failing of control. As explained above, due to a low headcount it was prioritized identifying and clearing the bank transactions directly in SAP and as possible to fill the reconciliation in the excel format		
Management comment on recommendation: Recommendation is appreciated and has been implemented in the last 2 months (Mar and April17 closings) and will be inserted in Finance Supervisor routine as the employee is now more familiarized with the routine and deadlines as guided by regional manager		
Remedial action : Exposure was identified by Regional Finance Manager and it's one of the reasons why Head Office approved the finance supervisor position for Sao Paulo to ensure finance routine including reports and monitoring of banking transactions are done properly.		
What actions will be taken: Finance Supervisor has for the past months assumed the month end preparation of reports and will make the effort to submit all reports timely to regional finance manager for review. Also to go over with Head Office on the format of the reports as the objective of the actual report format are not clear to station	By whom Person: Tauane Andrade, Francisco Arguello Position: Finance Supervisor, Regional Finance Manager	By when: On going and implemented in monthly routine

Auditor's conclusion

The auditors notes managements response, and in concluding the internal control deficiency will be changed to Human resource practices, more directly the delay in recruitment of staff.

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12. Petty Cash: Absence of petty cash register and pre-approval of petty cash usage

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

During testing of the petty cash it was determined that the petty cash register was not maintained to record petty cash usage. It was also noted that no documented pre-approval was required when drawing from petty cash.

Absence of the above controls creates a risk of the entity's petty cash being misappropriated. This may also result in non-compliance with the Public Finance Management Act.

Internal control deficiency

Financial and performance management

The finance manager did not implement controls over daily and monthly processing and reconciling transactions around petty cash transactions.

Recommendation

- The Regional Finance Manager should implement controls to ensure approval is granted by an authorised official before petty cash is used.
- The Regional Finance Manager should implement controls to ensure usage of petty cash is consistently monitored and tracked by making use of a petty cash register.

Management response

Management comment on audit finding: Petty cash handling at town office is centralized on accounts payable staff to avoid misappropriation of funds but no written controls are in place, during the relocation it was acquired a new safe with individual digital passwords, where audit can be done to check the users that had access to the safe (finance team only). Airport headcount changed throughout 2016 with the dismissal of duty officer, on December airport supervisor and manager were hired and starting on February17, month end counting forms started being submitted to finance.
Management comment on internal control deficiencies: The reconciliation of petty cash was done at the time of replenishment even if not formally documented before finance supervisor started. As of 2017 airport petty cash that had the higher float started submitting the month end reports and at town office physical counting of petty cash was done.
Management comment on recommendation: based on recommendation station now will prepare a sequential voucher form where it will be informed petty cash balance previous of expenditure request, amount given as expense advance and amount returned upon receipt presentation, signed by requestor, petty cash handler and a supervisor or manager.

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Remedial action : new procedure described above will be implemented immediately		
What actions will be taken: new procedure described above will be implemented immediately	By whom Person: Tauane Andrade, Cassiano Tafuri, Nicolas Micheleti, Giovanna de Almeida and Manuela Paixao Position	By when: June/2017

Auditor's conclusion

Managements comment is noted and the implementation of the new procedure will be assessed in the 2017/18 financial year.

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13. Bank reconciliation: Long-outstanding deposits not cleared

Audit finding

Section 55 (1)(b) of the Public Finance Management Act 1 of 1999, states that "*the accounting authority for a public entity must prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity.*"

- Paragraph 4.4(a) of the IASB's Conceptual Framework for Financial Reporting defines an asset as follows, "*an asset is a resource controlled by the entity as a result of a past event and from which future economic benefits are expected to flow to the entity.*"

- Paragraph 4.44 of the Conceptual Framework further states that "*an asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.*"

During testing of the bank reconciliations it was identified that the reconciliations contained long-outstanding reconciling items that had not been cleared. Based on enquiries with management and our inspection of these items in the clearing account general ledger 650582, it was determined that the items should have been cleared related to website ticket sales made using American Express credit cards.

Enquiries with management indicated that the website was not set up to actually accept payments from sales made using these credit cards. However, ticket sales were still processed online and the related monies had not been received. It was also noted through enquiries with management that these tickets would have been flown by year end. The oldest of such tickets dates back to 28th April 2015. The total value of these items is R$18 147.14.

The impact of the above incidents is that the bank balance in the financial statements is overstated as it is unlikely these amounts will be recoverable and revenue would be overstated as the amount of sale would not be recovered from the customer.

Internal control deficiency

Financial and performance management

Station Manager did not implement controls over daily and monthly processing and reconciling transactions to ensure long-outstanding deposits that become irrecoverable are written off.

Management did not ensure that information technology systems implemented prevent and detect system deficiencies that allow for website sales to be made with payment methods that cannot be processed through respective sales channels.

Recommendation

- Management should begin the process to write off the long outstanding deposits that are not recoverable.

- Management should put measures in place to ensure the design and implementation of formal controls over information technology systems to prevent and detect system deficiencies that

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allow for website sales to be made with payment methods that cannot be processed through respective sales channels.

Management response

Management comment on audit finding: The issue reported above has been reported to e-commerce head office department several times, e-commerce whenever updating flysaa.com allows Voyager issuance where taxes needs to be charged for the passenger to use their American express card even though the set up was not done by them. Please see attached the communications sent to head office about this matter. RE Disable Amex FOP for EMDs and Request 3725774 IIRESOLVED Disable RE 3725774 Remove DC and AX

Management comment on internal control deficiencies: As explained above once the issue was identified it was reported to responsible stakeholder for action and at the time issue was solved, but from time to time the same issue returns and once is identified is again reported to head office.

Timely reconciliation of deposits accounts suffered a delay due to short headcount at finance department at station. The differences regarding long outstanding items are being identified and reported periodically and will be cleared.

Management comment on recommendation: Station will verify with head office the correct procedure for write off of this balance and make the best effort to bring the reconciliation of accounts up to date.

Remedial action : Go over the account once more to see if the newer open transactions can be recovered with the passengers and monitor the account closely

What actions will be taken:	By whom	By when: 0-3 months
Prepare the write off process in order to clear the account and work with e-commerce dept to solve the issue once and for all	Person: Tauane Andrade, Francisco Arguello, Tricia Ally and Michelle Marques. Position; Finance Supervisor, Regional Finance Manager, Accounts Receivable Manager, E-Commerce Specialist	

Auditor's conclusion

Audit team is still following up on the finding with the assistance of our IT team. The auditors' conclusion will be updated once that process is concluded.

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REFUNDS

14. Refunds policy rules and regulations for complicated tickets not adhered to

Audit finding

Paragraph 3.1.4 of the refunds policy states that "Refund applications received by the station, which requires H/O approval must be captured and registered by the station receiving the refund request". Such refund must be specifically marked for "H/O Allocation". This process triggers the refund to be logged onto the H/O queue for action and approval. Such refunds typically adhere to all or some of the following conditions:

- Refunds for traffic documents, where the ticket was NOT originally issued by the station
- Refunds for partially utilized tickets, or tickets where fare construction and pro-ration is required
- Waiver requests or involuntary refund situations
- Lost and stolen tickets
- The passenger is not the sponsor of the ticket, or the payment instructions are different to the payment of the original ticket (e.g. credit cards closed/ revised forms of payment where travel agencies closed down)
- Complicated re-issuance of tickets or intermediate ticketing transactions such as upgrades/ change of routings/ other station withdrawn of documents.

The audit team identified a ticket that was booked by a customer with the by Sanchez Marcela Claudia with an interline segment, details of the ticket were as follows:

Ticket number	Routing	Total fare USD
0839125051751-752	1. *AEP/GRU*GRU/JHB*JHB/NBO*NBO/JHB*JHB/GRU*GRU/AEP	2. $ 1 069.00

On the sample selected for refunds, when testing the audit team found that the client missed the flight for the first leg of the trip .i.e. Buenos Aries (Argentina) to Sao Paulo (Brazil). The customer then proceeded to book their own ticket to Sao Paulo, and on arrival in GRU airport was advised that the above ticked was no longer valid and would have to purchase a new ticket as the conditions of carriage could not allow the customer to use the same ticket.

The customer proceeded to book a new ticket with the details captured below:

Ticket number	Routing	Total fare USD
0832125782884-885	3. *GRU/JHB*JHB/NBO*NBO/JHB*JHB/GRU*GRU/AEP*	4. $ 2 312.00

However the team identified contradictions when auditing the refund that was processed. The customer flew ticket 0839125051751-752 even though the rules of carriage did not allow the customer to fly with this ticket as he/she had missed the first leg of the trip.

Ticket 0832125782884-885 was then processed for refund.

Because the ticket involved proration and contradictions with the conditions of carriage were noted, based on the system allowing the customer to fly on a ticket after not flying the first leg of the trip, the ticket should have been processed at head office as per the refund policy. This may result in fraudulent payments of refunds.

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Internal control deficiency

Leadership

The regional finance manager did not exercise oversight responsibility by ensuring that there is compliance with SAA policies and procedures for refunds.

Recommendation

Management should ensure that officials processing the refunds received adequate training and refresher sessions are managed within reasonable frequency. Management should orientate each new member of staff before they assume their full responsibilities.

Management response

Management comment on audit finding: The agent at the check-in incorrectly denied passenger to board with ticket used out of sequence and requested passenger to purchase a new one, but on the system he selected the wrong ticket. Unfortunately the Airport Ticketing Office realized the mistake after CSR closed making it impossible to cancel the sales, and the way to give the money back to the passenger would be to refund as made. Sao Paulo and Argentina are very pro-consumer as they understand that passenger is the weak part of the relation. So we decided to refund immediately to avoid any court case.		
Management comment on internal control deficiencies: This punctual case is clearly lack of attention by the check-in agent who selected the wrong ticket. City Ticketing Office and Airport Ticketing Office are totally compliant with policy and procedure for ticketing and refunds.		
Management comment on recommendation: Training sessions were performed last February/2017 by the Customer Service Supervisor with Airport Ticketing Office team leaders and SAA Airport Staff to reinforce SAA policies and procedures. Ticketing / refund / customer service were addressed.		
Remedial action: An additional training session will be scheduled for June/2017 for all staff at GRU Airport where the case happened. SAA will train the 3rd party staff (Proair) which is responsible to attend passengers at the Airport Ticketing office. Quarterly training will be scheduled to guarantee higher levels of knowledge from such staff.		
What actions will be taken: Specific training about refund and customer experience will take a place right after the auditing conclusion	By whom: : airport staff / GHA Person: Cássio Lucas (Kadu) / Manuela Silva Position; CTO Customer Service Supervisor / Airport Manager	By when: June/2017

Auditor's conclusion

Managements comment does not adequately address the issue of deviating from SAA General Conditions of Carriage and with no written evidence noting such deviation approved by a delegated official, the identified internal control deficiency will be assessed at the company level.

On managements insistence that agents complied with the policy in allowing the customer to fly ticket out of sequence, below is an extract form SAA's conditions of carriage:

<u>3.3. COUPON SEQUENCE AND USE</u>

<u>3.3.1. The Ticket you have purchased is valid only for the transportation as shown on the Ticket,</u> from the place of departure via any Agreed Stopping Places to the final destination. The fare you have paid is based upon our Tariff and is for the transportation as shown on the Ticket. It forms an essential part of our contract with you. The Ticket will not be honoured and will lose its validity if all the Coupons are not used in the sequence provided in the Ticket.

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15. Administration fee rules and regulations for refunds not adhered to

Audit finding

Section 1: refund rules and regulations, Paragraph 1.8.1 on administration fees states that "Administration fees are charged for the work performed to process a refund on a traffic document. This is not to be confused with a cancellation penalty. An administration fee is to be charged where there is no cancellation fee on the fare concerned. This fee is applicable even when a travel agent is processing the refund direct. In cases where the cancellation is less than the administration fee, the latter will be applicable.

SAA Stations
SAA stations reserve the right to charge administration fees to process refunds, in accordance to the market conditions in that particular Country. Administration fees will be deducted from the refund amount, and will be accounted for as income. Refund fees charged by stations must be communicated to the passenger at time of ticket sale, and must also be advised to SAA Head Office Refunds department for publication."

The audit team found on the sample selected for refunds two tickets to which an admin fee of USD 25 charged as a standard fee.

Refund number	Rand amount	Total fare
1010005446	5. 327.57	6. 59 694.25
7. 1010005496	8. 340.02	9. 7 412.71

This may result in the admin fee revenue recognised in the annual financial statements not complete, accurately accounted for or not supported by valid evidence in the context of approved fee structure.

Internal control deficiency

Leadership

The regional finance manager did not exercise oversight responsibility by ensuring that there is compliance with SAA policies and procedures for refunds.

Recommendation

- Management should ensure that officials processing the refunds received adequate training and refresher sessions are managed within reasonable frequency.
- Management should orientate each new member of staff before they assume their full responsibilities.
- Refund fees charged by stations must be advised to SAA Head Office Refunds department for publication.

Management response

Management comment on audit finding: Sao Paulo has a very restrictive regulation about fare penalties. Airline transportation are inspected by many institutions which not allow carriers to be aggressive in our penalties. In the day of issuance the rules to be applied was ANAC 676 – Art 7º - paragraph 1 – The penalty should not be more than USD25.00 in case of non-promotional fare as the case below (D class / fare basis DRT3 – business class fare).
-1010005446 – According fare rules originating in South America, no penalty apply. Passenger also issued a new ticket to fly on the same date for inbound flights and different flight on

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outbound flights.

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**  RULES DISPLAY  **                     TAX MAY APPLY
                                          SURCHG MAY APPLY-CK RULE
31MAY17**31MAY17/SA SAOHKG/NSP;SA/TPM ...../MPM 13530
LN FARE BASIS    OW   USD  RT   B PEN  DATES/DAYS   AP MIN MAX R
10 DRT3                   4550 D  +      -      -    +  + -   -  R
FCL: DRT3       TRF: 786 RULE: PRIO BK:  D
PTC: ADT-ADULT                FTC: BR -BUSINESS CLASS RESTRICTED

ORIGINATING SOUTH AMERICA - SOUTH ATLANTIC AREA -
    CHANGES/CANCELLATIONS
      BEFORE DEPARTURE
        CHARGE USD 500.00 FOR NO-SHOW.
        CHILD/INFANT DISCOUNTS APPLY.
         NOTE -
          CHARGE NO SHOW FEE PLUS IF THE SAME REBOOKING
          CLASS IS AVAILABLE YOU CAN BOOK THE PASSENGER IN
          THE SAME BOOKING CLASS.
```

1010005496 – According fare rules passenger could request waiver in case of medical reason, in the process there is a hospital certificate to proof the reason..

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**  RULES DISPLAY  **                     TAX MAY APPLY
                                          SURCHG MAY APPLY-CK RULE
16SEP16**16SEP16/SA SAOJNB/NSP;AT/TPM  4634/MPM  5560
LN FARE BASIS    OW   USD  RT   B PEN  DATES/DAYS   AP MIN MAX R
40 GLXBR                   545 G  +      -     1234+  + -  12M R
                                     S16JUL  02DEC
FCL: GLXBR      TRF:  27 RULE: SAVE BK:  G
PTC: ADT-ADULT                FTC: XAP-ADVANCE PURCHASE EXCURSION
16.PENALTIES
BEFORE DEPARTURE
        CHARGE 25 PERCENT FOR CANCEL/REFUND.
        WAIVED FOR ILLNESS OR DEATH OF PASSENGER OR FAMILY
          MEMBER.
         NOTE -
          WAIVERS MUST BE EVIDENCED BY DEATH CERTIFICATE OR
          HOSPITAL ACCOUNT/ADMISSION FORM.
```

Management comment on internal control deficiencies: Management does not consider this a violation or deviation as fare rules and exceptions were respected and the maximum fee permitted by law was applied to passenger.

Management comment on recommendation: Training and refresher sessions are scheduled on a quarterly basis for all Customer Services Agents of the CTO.

Remedial action: Communicate to head office refunds department the additional service fee that is being applied for Sao Pauloian issued tickets

What actions will be taken:	By whom:	By when: June/2017
Station will send the communication explained above as remedial action.	Person: : Cássio Lucas / Altamiro Medici Position: Customer Service and Ticketing Supervisor / Altamiro Medici	

Auditor's conclusion

Managements comment is noted and the finding should be considered as resolved.

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SECTION 10: Summary of detailed audit findings

Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
ANNEXURE A - MATTERS AFFECTING THE AUDITOR'S REPORT									
FINANCIAL STATEMENT RELATED FINDINGS									
	Property, plant and equipment								
1	Existence of Property, aircraft and equipment could not be confirmed	✔					✔		
2	Discrepancies identified between SAP and MEMIS system relating to A class rotables	✔					✔		
3	Useful lives and residual values of property, aircraft and equipment not appropriately assessed in terms of IAS 16	✔		✔			✔		
4	Impairment loss calculation not properly supported by assumptions and data used not adequately justified, affecting the accuracy of the calculation	✔					✔		
	Maintenance costs								
5	Power- By- The- Hour (PBTH) C-check portion incorrectly recognised as an expense when paid	✔						✔	
6	Expenses not recorded in the financial year ending 2016/17	✔						✔	
7	Foreign currency transactions incorrectly translated at spot rate for the maintenance costs not in line with the adopted accounting policy	✔						✔	
8	Provision for C-check not recognised in the annual financial statements	✔						✔	
	Procurement and contract management								
9	Lack of management and processing of contract detail information captured on CLM	✔		✔			✔		
10	Services not procured through the process prescribed by the SAA SCM policy.	✔		✔			✔		

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Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
11	Quotation process followed for services above the quotation threshold	✔		✔			✔		
12	Total payments made exceeding quotation value	✔		✔			✔		
13	Deviation from competitive bidding process not justified	✔		✔			✔		
14	Award made to supplier without a valid tax clearance from SARS (Quotations)	✔		✔			✔		
15	Reason for confining (limited bidding) to one/specific suppliers not found to be justifiable since there are more suppliers who can offer the required services	✔		✔			✔		
16	Contract extension not done in accordance with SAA SCM policy 2	✔		✔			✔		
17	Supplier with highest preference points was not awarded the quotation	✔		✔			✔		
18	Three quotations not obtained and the deviation not approved	✔		✔			✔		
19	Contract extension not done in accordance with SAA SCM policy 1	✔		✔			✔		
20	Tender awarded to supplier who did not meet critical criteria evaluation	✔		✔			✔		
21	Tenders not advertised for a minimum period prescribed in the SCM policy before closure	✔		✔			✔		
22	Tender documents of the winning supplier not received before the closing date and time	✔		✔			✔		
23	Official procurement process not followed for contract renewals	✔		✔			✔		
24	Award made to a foreign supplier without a valid tax clearance from SARS certifying that tax affairs are in order (Tender)	✔		✔			✔		
25	Bids not evaluated in accordance with the preference point system as prescribed by the PPPF Act	✔		✔			✔		
26	Award made to a supplier without a valid tax clearance from SARS certifying that tax affairs are in order (Tenders)	✔		✔			✔		
27	Postponement of the closing date for RFP 068/2015 was not done in accordance with SAA SCM policy	✔		✔			✔		
28	Procurement issues identified on Swissport SA	✔		✔			✔		
29	No valid Tax Clearance Certificate (TCC) (GSM067/13)	✔		✔			✔		
30	Limitation of scope on the information requested relating to SCM 1	✔		✔			✔		
31	Official procurement process not followed in the Bidair contract renewal	✔		✔			✔		

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Finding no.	Finding	Classification: Misstatements in financial statements	Classification: Misstatements in annual performance report	Classification: Non-compliance with legislation	Classification: Internal control deficiency	Classification: Service delivery	Rating: Matters affecting the auditor's report	Rating: Other important matters	Rating: Administrative matters
	Irregular, Fruitless and Wasteful Expenditure								
32	Fruitless and wasteful expenditure due to overpayments of supplier	✔					✔		
33	Lack of investigations/actions for irregular expenditure incurred	✔		✔			✔		
34	Lack of effective and appropriate steps to prevent irregular and fruitless and wasteful expenditure	✔		✔			✔		
35	Subsidiary irregular and fruitless and wasteful expenditure included in the separate annual financial statement of SAA	✔		✔			✔		
36	Limitation of scope on the information requested relating to Irregular expenditure, Fruitless and wasteful expenditure and Consequence management	✔		✔			✔		
OTHER MATERIAL NON-COMPLIANCE									
37	SAA did not submit financial statements for audit within two months after the end of the 2016/17 financial year			✔			✔		
38	Non-compliance with section 45 of the Companies Act - Financial assistance provided to South African Airways Technical (SAAT) by South African Airways (SAA)			✔			✔		
39	Loan to Air Chefs issued without complying with section 45			✔			✔		
40	Loan to South African City Centre SOC Limited (SATC) issued without complying with section 45			✔			✔		
41	Potential additional financial assistance provided to SATC			✔			✔		
42	Non-compliance with the PFMA regarding maintaining and safeguarding of the Property, aircraft and equipment	✔		✔			✔		
	Audit of performance information								
43	Performance indicators and targets not measurable		✔				✔		
44	In-year changes made to the signed 2016/17 Shareholders Compact		✔				✔		
45	Net Promoter Score: The reported target is not accurate and completeness thereof of the reported data could not be confirmed		✔				✔		

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Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
46	Reported target for performance management not supported by valid performance contracts		✔				✔		
47	Misstatements of the validity, accuracy and completeness of local spend and total spend		✔				✔		
48	Misstatements on the validity, accuracy and completeness of BEE compliant spend		✔				✔		
49	Misstatements on total procurement spend, local spend and spend on BEE compliant companies listings		✔				✔		

ANNEXURE B - OTHER IMPORTANT MATTERS

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Finding no.	Finding	Classification: Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Rating: Matters affecting the auditor's report	Other important matters	Administrative matters
FINANCIAL STATEMENT RELATED FINDINGS									
	Property, plant and equipment								
50	Differences between the values capitalised on the Fixed Asset Register (FAR) and the documentation provided to support the values	✔						✔	
51	Maintenance expenses incorrectly capitalised as assets in the Fixed Asset Register (FAR)	✔						✔	
52	Operating expenditure incorrectly capitalised in Capital Work in Progress (CWIP) account	✔						✔	
53	Aircraft additions not componentised and depreciated as required by IAS 16 and the Fixed Asset Policy of the Entity	✔						✔	
54	Differences between the values in Capital Work in Progress (CWIP) and the documentation provided to support the values	✔						✔	
55	Discrepancies identified in the additions to Property, aircraft and equipment	✔						✔	
56	Existence of A class Rotables could not be verified	✔						✔	
57	Differences between the values capitalised on the Fixed Asset Register(FAR) and the documentation provided to support the values	✔						✔	
58	Foreign currency transactions incorrectly translated at spot rate for PAE not in line with the adopted accounting policy	✔						✔	
59	Assets selected from the floor could not be traced to the fixed asset register	✔						✔	
60	Opening Balance as per the 2016/17 draft AFS does not agree to the closing balance as per 2015/16 audited financial statements	✔						✔	
61	Differences identified between the annual financial statements and the fixed asset register	✔						✔	
	Intangible assets								
62	Amount per trial balance does not agree to the amount disclosed on Note 36 on the Annual Financial Statements	✔						✔	
63	Existence of assets could not be confirmed through physical verification	✔						✔	

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Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
64	Amortisation period and residual values of intangible assets not appropriately assessed in terms of IAS38	✓						✓	
	Non-current assets held for sale								
65	Non-current asset classified as held for sale recognised at an incorrect amount	✓						✓	
	Cash and cash equivalents								
66	Incorrect disclosure of the bank overdraft balance of R 725 million (Group R755 million) considered to be from financing activities	✓						✓	
67	Non-disclosure of the significant amount of cash and cash equivalents not available for use	✓						✓	
68	Inadequate internal controls over credit/debit card clearing accounts				✓			✓	
69	Differences between bank confirmation balances and the bank balances in the trial balance	✓						✓	
	Equity: Subordinated loan								
70	Incorrect classification of the R1, 3 billion subordinated loan with Nedbank as equity	✓						✓	
	Trade and other receivables								
71	Consolidated issues noted on the neutrality advance assets affecting valuation and disclosure	✓						✓	
72	Opening balances: Maintenance Reserves debtors reflected as negative amounts	✓						✓	
73	Auxiliary Power Unit (APU) and Airframe hours not correctly calculated	✓						✓	
74	No documentary evidence to support estimated event costs for maintenance reserve payments	✓						✓	
75	Maintenance Reserves balance for certain components not separated in maintenance reserve calculation spreadsheet	✓						✓	

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Finding no.	Finding	Classification: Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Rating: Matters affecting the auditor's report	Other important matters	Administrative matters
76	Prepayment accruals are not timeously expensed	✔						✔	
77	Disclosure of foreign currency denominated accounts receivables are not restated at the spot rate at year end	✔						✔	
78	Discrepancies between gross debtor list and trial balance	✔						✔	
79	Interline provision for cargo were incorrectly allocated to provision for doubtful debt	✔						✔	
80	Pre-delivery payment amount incorrectly calculated due to impairment loss and reversal that were not supported by valid evidence	✔			✔			✔	
	Income tax and deferred tax								
81	Acknowledgement of receipt of the Group Annual Financial Statements (AFS) and the Annual Performance Report (APR) of the South African Airways SOC LTD (SAA) for the year ended 31 March 2017	✔						✔	
	Inventory								
82	Inventory listings totals do not reconcile to the balance in the AFS	✔						✔	
	Deferred revenue from tickets sales								
83	Disclosure of deferred revenue on ticket sales is not a true reflection of its components	✔						✔	
84	Disclosure of the revenue accounting provisions is not complying with IFRS	✔						✔	
	Non-current liabilities								
85	Misstatements identified on the SAA Share Incentive Trust	✔						✔	
	Voyager								

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Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
86	The fuel levy incorrectly calculated	✓						✓	
87	Incomplete Accrual of Voyager miles for SAA	✓						✓	
88	Incorrect period and incomplete recording of the SAA accrual and redemption	✓						✓	
89	Other airline redemption costs accrual account not cleared	✓						✓	
90	Discrepancies in the accrual of Voyager miles for SAA	✓						✓	
91	Profit/ loss journal erroneously processed	✓						✓	
92	Redeemed transactions not recorded in the SAA burn redemption report as well as the IFRIC 13 revenue recognition miles utilized report	✓						✓	
93	Differences identified in the recalculation of fair value	✓						✓	
94	Inconsistencies between the static file and the average revenue rates	✓						✓	
	Trade Payables								
95	Overstatement of trade and other Payables (GR/IR account)	✓						✓	
96	Long outstanding invoices as at 31 March 2017 not being cleared within SAA standard payment terms of 30 days	✓						✓	
97	No assessment was performed regarding discounting of account payables for the year 2016/17	✓						✓	
98	Incorrect classification of general ledger accounts into account payable	✓						✓	
99	Reclassification of prior year trade and other payables to provisions (current liabilities) without a prior period error note (IAS) 8	✓						✓	
100	Fruitless and wasteful expenditure due to double payment on invoices	✓		✓				✓	
	Provisions								
101	Provision for aircraft return conditions not in accordance with applicable financial reporting framework	✓						✓	
102	Engines covered by Power By the Hour agreement incorrectly stated as not covered by Power By the Hour on the Provision for lease liability calculation	✓						✓	

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Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
103	Contingent liabilities incorrectly classified as provisions	✔						✔	
104	Assumptions and key judgements made by management on maintenance reserves and provision for lease liabilities not adequately documented and approved	✔						✔	
	Post-employment benefits								
105	Differences identified on the Defined Benefit Plan disclosure – German fund	✔						✔	
106	Discrepancies noted on the data validation performed on employees at SAA Frankfurt office	✔							
	Revenue								
107	Incorrect classification of general ledger accounts in revenue and receivables	✔						✔	
108	Prescribed and unutilised taxes aren't recognised with other prescribed tickets	✔						✔	
109	Deficiencies in the internal controls for loading of special proration agreements on APRA				✔			✔	
110	Internal control deficiencies identified in the approval and loading of airline fare prices				✔			✔	
	Cargo revenue								
111	Material misstatements relating to completeness, accuracy and occurrence of the reported cargo revenue figure	✔						✔	
112	Completeness of mail revenue could not be confirmed: Delivery bills (CN38) could not be traced to the statement of weights data (CN66)	✔						✔	
113	Revenue freight and mail - overstatement of unreported sales	✔						✔	
	Other income								

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Finding no.	Finding	Classification					Rating		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters
114	Under collection of operating lease income due rental rates not escalated according to contractual terms	✓						✓	
115	Deficiencies in lease contract administration and keeping of a rental database	✓						✓	
116	Incomplete operating lease income disclosure for aircraft leases	✓						✓	
	Human resources								
117	Reasons for suspensions not documented on the suspension report	✓						✓	
118	Suspension- Excessive duration for suspensions	✓						✓	
119	Acting/ responsibility allowances: employees acting for more than 6 months in management positions	✓						✓	
120	Leave accrual discrepancies in leave closing balances	✓						✓	
121	Leave accrual discrepancies in opening and closing leave balance	✓						✓	
122	Organisational Structure: Discrepancies between approved hard copy organisational structures and what is captured on SAP Organisational Management	✓						✓	
	Aircraft lease costs								
123	Aircraft lease cost translated at an incorrect exchange rate	✓						✓	
124	Aircraft lease costs expenses incorrectly recorded in the financial year ending 2016/17	✓						✓	
	Commissions and distribution costs								
125	Over accrual of marketing incentives payments at yearend	✓						✓	
	Goods and services								
126	Inconsistencies identified in the recalculation of the accommodation and refreshments amounts	✓						✓	

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Finding no.	Finding	Classification: Misstatements in financial statements	Classification: Misstatements in annual performance report	Classification: Non-compliance with legislation	Classification: Internal control deficiency	Classification: Service delivery	Rating: Matters affecting the auditor's report	Rating: Other important matters	Rating: Administrative matters
	Operating expenses								
127	Transactions relating to expenses recorded in the incorrect accounting period	✔						✔	
128	Invoices not paid within the agreed payment terms	✔						✔	
129	Supporting documentation relating to other operating expenditure not submitted for audit purposes	✔						✔	
	Foreign Exchange Transactions								
130	Internal control deficiency: inconsistent application of exchange rates for financial reporting	✔			✔			✔	
	Income tax								
131	Incorrect tax laws application relating to componentisation of fixed assets	✔						✔	
132	Renovations to immovable property	✔						✔	
133	Adjustment of accumulated loss for non-deductible legal fees	✔						✔	
134	Taxation opening balances differences	✔						✔	
135	Withholding tax on royalties	✔						✔	
136	Apportionment on wear and tear on additions incorrectly done	✔						✔	
137	Incorrect accounting of passenger service charges for income tax and VAT	✔						✔	
138	No Value-Added Tax reconciliation to the revenue per the trial balance done	✔						✔	
139	No Value-Added Tax output accounted for on long outstanding creditors	✔						✔	
	Indirect taxes - VAT								
140	No policies and procedures to identify personal service providers				✔			✔	
141	No fringe benefit assessment done on the use of cell phones				✔			✔	
142	Perks tax not levied on free flights confirmed	✔						✔	
143	No tax withheld on bursaries awarded to employees	✔						✔	

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Finding no.	Finding	Classification: Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Rating: Matters affecting the auditor's report	Other important matters	Administrative matters
	Disclosure matters								
144	Findings from analysis of the disclosures in the consolidated annual financial statements for compliance with IFRS	✓						✓	
145	Impairment for the SAAT loan account of R1.2 Billion not provided for and remaining investment not impaired	✓						✓	
146	Contractual capital commitments not disclosed in the current and prior periods in the annual financial statements	✓						✓	
OTHER NON-COMPLIANCE									
	PFMA and Companies act								
147	Amounts payable to Mango by South African Airways			✓				✓	
	Audit of performance information								
148	Prescribed time frames for submission of quarterly reports to National Treasury not achieved			✓				✓	
149	Inadequate risk assessment procedures to identify risks regarding performance information reporting			✓				✓	
	Procurement and contract management								
150	Suppliers in which partners or associates of employees of SAA have an interest			✓				✓	
151	No bid specification and evaluation compiled by the committee prescribed by the SCM policy			✓				✓	
152	Supplier who did not meet minimum threshold of 70% for functionality was evaluated further			✓				✓	
153	Incorrect calculations for preference points			✓				✓	
154	Quotations obtained from suppliers who are not registered on SAA's approved			✓				✓	

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Finding no.	Finding	Classification: Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Rating: Matters affecting the auditor's report	Other important matters	Administrative matters
	prospective supplier database								
155	B-BBEE points awarded during evaluation using an invalid certificate B-BBEE certificate			✓				✓	
156	Bid committees not constituted by representatives prescribed by the SCM policy			✓				✓	
157	Bid specifications not approved in terms BAC terms of reference			✓				✓	
158	Contracts not signed by both the successful bidder and a delegated official			✓				✓	
159	Significant deficiencies of internal controls in contract management			✓				✓	
160	SCM policy deficiencies identified			✓				✓	
161	Limitation of scope on the information requested relating to SCM 2	✓		✓				✓	
	Irregular, fruitless and wasteful expenditure								
162	Inadequate measures/controls in place to prevent irregular and fruitless and wasteful expenditure				✓			✓	
163	Disclosure note for irregular and fruitless and wasteful expenditure does not separate between expenditure relating to the company and group	✓		✓				✓	
164	Inaccurate disclosure of fruitless and wasteful expenditure for recoveries	✓		✓				✓	
165	Internal audit function the owner of the fraud prevention plan				✓			✓	
	IT audit - procurement and payables related								
166	Inadequate configuration of cost centre budget validation controls				✓			✓	
167	Vendors record attributes created in production are not unique				✓			✓	
168	Segregation of duties in the SCM process				✓			✓	

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Detailed audit findings

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

FINANCIAL STATEMENT RELATED FINDINGS

Property, plant and equipment

1. **Existence of Property, aircraft and equipment could not be confirmed**

Audit finding

Section 54 (1) of the Public Finance Management Act 1 of 1999, states that "*The accounting authority for a public entity must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.*"

With reference to request for information number 83 dated 17 May 2017, 85 dated 18 May 2017 and 122 dated 14 June 2017 of 2016/17 assets listed in the table 1 below could not be physically verified:

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Table 1: Assets that could not be physically verified

No.	Asset	Sub number	Capitalized on	Description	Inventory number	Serial number	Acquis.val.
1	2300001052	0	2010/03/31	1.6kg 3000 ANSI Luminescent Projector; XGA, USB			10 575.00
2	2701002072	0	2014/05/31	ME407 Apple IPAD 128Gig Wi-Fi with 3G Incl Front	S/N 990002890158403	C/1776	8 070.19
3	2700000931	0	2012/06/14	Fujitsu Primergy RX200S6 Server : RFP2011SAA032	RFP2011SAA032	C/1732-01	128 460.56
4	2700001156	0	2016/04/01	Domestic CAN		C/1825-02	7 445 889.00
5	3601000014	0	1992/04/01	B737-800 Simulator (Replaced the A320 Simulator)	SIMULATOR		64 250 203.03
6	3601000272	0	2012/02/06	Second Trent 700 Spare Engine S/N 42016	42016	C/1589 & C/1467	140 558 534.75
7	3601000097	0	2005/02/11	V2500 SPARE ENGINE FOR A319 AIRCRAFTS : ESN 11843	11843	C/0409-01	31 963 580.00
8	3601000231	0	2010/05/01	APS3200 APU P/N 4500001A	4500001A	C/1182-01-01	607 000.00
9	3601000168	0	2006/11/30	Seat Belt Demo for A340-200 Lie Flat Seat Retrofit	SEATS	C/0620-08	2 617.36
10	3601000083	0	2004/07/29	CFM56-5C4P SPARE ENGINE :A340-300 SERIAL NO 567269	567269	C/0333	63 477 134.47
11	3601000157	0	2006/05/31	A340-300 Spare Engine: ESN 567299 : CFM56-5C4P	567299	C/0693	51 967 616.30
12	3601000185	0	2008/01/31	CFM56-5C4/P Spare Engine for A340-300: ESN 567324	567324	C/0818-01	42 171 456.91
13	3601000186	0	2008/01/31	QEC Kit for CFM56-5C4/P Spare Engine ESN 567324	567324	C/0818-02	15 318 506.60

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No.	Asset	Sub number	Capitalized on	Description	Inventory number	Serial number	Acquis.val.
14	3601000052	0	2004/03/31	FIFTH TRENT 556-61 SPARE ENGINE: NO. ESN 71300	71300	C/0167-06	80 843 144.18
15	3601000053	0	2004/01/15	THIRD TRENT 556-61 SPARE ENGINE: NO. ESN 71172	71172	C/0167-03	86 443 946.87
16	3601000054	0	2004/07/29	FOURTH TRENT 556-61 SPARE ENGINE: NO. ESN 71221	71221	C/0167-04	84 547 543.14
17	3601000055	0	2004/03/31	SIXTH TRENT 556-61 SPARE ENGINE: NO. ESN 71481	71481	C/0167-05	82 831 674.36
18	3601000060	0	2003/04/01	FIRST TRENT 556 SPARE ENGINE -SERIAL NO.ESN 71071	71071	C/0166-01	110 285 712.87
19	3601000061	0	2003/04/01	SECOND TRENT 556-61 SPARE ENGINE: NO. ESN 71082	71082	C/0167-02	107 297 981.66
20	3601000374	0	2013/08/01	V2527-5 Spare Engine S/N V16901	V16901	C/1796	91 314 157.07
21	3601000426	0	2015/06/30	V2527 A5 Spare Engine S/N V17813	V2527 A5	C/1846	95 147 364.96
22	3601000432	0	2013/08/01	V2500 ENGINE STAND FOR THE A320-200 (NO 1)	AIRCRAFT ENGINE STAND	C/1796	477 810.99
23	3601000433	0	2015/06/30	V2500 ENGINE STAND FOR THE A320-200 (NO 2)	AIRCRAFT ENGINE STAND	C/1846	532 473.47
24	3601000094	0	2004/06/01	A Class rotables A340-200	A CLASS ROTABLES		2 934 872.95
25	3601000243	0	2010/12/01	A330-200 A Class Rotables - Initial Provisioning	A CLASS ROTABLES	C/1182-05-01	45 142 375.51
26	3601000244	0	2010/12/01	A330-200 A Class Rotables - Initial Provisioning	A CLASS ROTABLES	C/1182-05-03	30 471 878.33
27	3601000350	0	2013/06/01	A330-200 A Class Rotables Components for 2013/14	A CLASS ROTABLES	C/1746-04-02	10 069 764.35

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No.	Asset	Sub number	Capitalized on	Description	Inventory number	Serial number	Acquis.val.
28	3601000088	0	2004/10/31	A319-100 A CLASS ROTABLES -FINANCIAL YEAR 2004/5	A CLASS ROTABLES	C/0423-01	29 912 194.77
29	3601000089	0	2005/03/03	A319-100 A CLASS ROTABLES - ENGINES - 2004/2005	A CLASS ROTABLES	C/0423-03	24 090 961.05
30	3601000354	0	2013/07/01	A319 A Class Rotables Components for 2013/14	A CLASS ROTABLES	C/1797-01	12 865 676.44
31	3601000118	0	2005/02/28	A Class rotables A340-300	A CLASS ROTABLES		26 427 550.18
32	3601000134	0	2006/01/31	A340-300 A CLASS ROTABLES COMPONENTS:2005/2006	A CLASS ROTABLES	C/0651-01	10 453 872.66
33	3601000234	0	2010/06/30	A340-300: A Class Comp for Thrust Reverser:2010/11	A CLASS ROTABLES	C/1182-03-02	19 905 146.13
34	3601000042	0	2003/03/01	A CLASS ROTABLES A340-600 FY 2002/2003	A CLASS ROTABLES		94 019 861.04
35	3601000065	0	2003/10/01	A" CLASS ROTABLES A340-600	A CLASS ROTABLES		84 697 768.81
36	3601000090	0	2004/10/31	A340-600 A CLASS ROTABLES - FINANCIAL YEAR 2004/5	A CLASS ROTABLES	C/0424-01	22 069 688.96
37	3601000045	0	2002/10/01	A CLASS ROTABLES B737-800 2002/2003	A CLASS ROTABLES		14 056 218.81
38	3601000057	0	2004/02/01	AIRBUS A340-600 ZS-SNG	ZS-SNG	C/0162-05-01	622 638 668.99
39	9900007660	0	2013/01/01	78 x Samsung 23" Wide Series LED Monitor	CWIP		137067.84
40	9900008662	0	2015/02/28	Zebra Printer - Lindokuhle Myuni	CWIP		8238.83
41	9900007808	0	2015/02/28	20 X 2gb memories & 13 X early refreshes	CWIP		21178
	Total						2 207 554 537

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Supporting documentation relating to assets not submitted for audit purposes

With reference to request for information, request no. 122 dated 14 June 2017 of 2016/17, the following information remains outstanding:

- Purchase agreement / contract / invoice clearly indicating the owner and purchase price of the asset (Table 2)
- Where the asset relates to a qualifying expense capitalised (e.g. Hedge losses) provide a calculation of how the loss was calculated as well as the relevant sources from which the rates were derived.(Table 3)
- A breakdown of the assets which are recognised in groups with the cost of each individual asset clearly indicated in the breakdown.
- The workings for calculating impairment processed to land and buildings in the 2015/16 financial year and the workings confirming that no impairment was processed for land and buildings in the 2016/17 financial year.
- Value in use calculation for the 2016/17 financial year.

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Table 2: requested information not provided

No.	Asset	Sub number	Capitalized on	Description	Inventory number	Serial number	Acquis.val.	Auditors comments
1	3601000064	0	2004/03/31	AIRCRAFT A340-300 - ZS-SXA Buyer Furnished Equip.	ZS-SXA	C/0164-01-02	32 594 196.29	Information not received
2	3601000064	1	2004/03/31	Galleys - A340-300 - ZS-SXA,	ZS-SXA	C/0164-01-02	6 901 076.58	Information not received
3	3601000064	2	2004/03/31	In Flight Entertainment - A340-300 - ZS-SXA	ZS-SXA	C/0164-01-02	23 463 660.37	Information not received
4	3601000064	5	2004/03/31	ZS-SXA - iPRAM (Software card for Announcement Sys	ZS-SXA	C/0747	10 923.05	Information not received
5	3601000082	0	2004/04/01	AIRCRAFT A340-300 - ZS-SXC Buyer Furnished Equip.	ZS-SXC	C/0163-03-02	12 297 600.98	Information not received
6	3601000123	2	2005/03/31	In Flight Entertainment - A340-300 - ZS-SXE	ZS-SXE	C/0163-05-01-01	23 591 874.59	The support was labelled no. 11, 20 and 25 but could not identify in the file supporting documentation related to this aircraft
7	3601000124	1	2005/03/31	Galleys - A340-300 - ZS-SXF	ZS-SXF	C/0163-06-01-01	7 118 221.11	Unable to identify support
8	3601000124	2	2005/03/31	In Flight Entertainment - A340-300 - ZS-SXF	ZS-SXF	C/0163-06-01-01	25 036 770.00	The supporting documentation titled A340-300 BFE - Inflight entertainment (no. 11,20,25) did not have information for SXF MSN 651. The file had support for MSN582 590 2268 547 557 544, there are invoices in the file
9	3601000124	4	2005/03/31	Seats - A340-300 - ZS-SXF	ZS-SXF	C/0163-06-01-01	11 309 803.86	Could not identify support for this aircraft MSN 651 in the file marked 12,21 and 26 Information relates to MSN590 582 544

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No.	Asset	Sub number	Capitalized on	Description	Inventory number	Serial number	Acquis.val.	Auditors comments
10	3601000056	1	2003/11/01	Seats Modification - A340-600 - ZS-SND: LIE FLAT S	ZS-SND	C/0162-04-02-01	8 877 371.66	Expense authorisations for PDPs provided. Unable to assess purchase price and rights.
11	3601000056	2	2003/11/01	Seats Modification - A340-600 - ZS-SND: SAAT SEAT	ZS-SND	C/0162-04-02-04	161 000.00	Expense authorisations for PDPs provided. Unable to assess purchase price and rights.
12	3601000056	4	2003/11/01	Airframe - Professional Fees - ZS-SND	ZS-SND	C/0162-04-01-01	16 498 257.66	Expense authorisations for PDPs provided. Unable to assess purchase price and rights.
13	3601000056	5	2003/11/01	Galleys - A340-600 - ZS-SND	ZS-SND	C/0162-04-01-01	7 322 883.87	Expense authorisations for PDPs. Unable to assess purchase price and rights.
14	3601000056	7	2003/11/01	Galleys - Professional Fees - ZS-SND	ZS-SND	C/0162-04-01-01	180 703.81	Expense authorisations for PDPs. Unable to assess purchase price and rights.
15	3601000056	10	2003/11/01	In Flight Entertainment-Professional Fees:ZS-SND	ZS-SND	C/0162-04-01-01	614 392.95	Expense authorisations for PDPs. Unable to assess purchase price and rights.
16	3601000056	14	2003/11/01	Seats - A340-600 - ZS-SND	ZS-SND	C/0162-04-01-01	11 716 614.19	Expense authorisations for PDPs. Unable to assess purchase price and rights.
17	3601000056	16	2003/11/01	Seats - Professional Fees - ZS-SND	ZS-SND	C/0162-04-01-01	289 126.09	Expense authorisations for PDPs. Unable to assess purchase price and rights.
18	3601000056	17	2003/11/01	AIRBUS A340-600 ZS-SND Repitch Y/Class Seats	ZS-SND	C/0619	1 447 123.70	Expense authorisations for PDPs. Unable to assess purchase price and rights.
19	3601000056	18	2003/11/01	ZS-SND - iPRAM (Software card for Announcement Sys	ZS-SND	C/0747	10 923.05	Expense authorisations for PDPs. Unable to assess purchase price and rights.
20	3601000231	0	2010/05/01	APS3200 APU P/N 4500001A	4500001A	C/1182-01-01	607 000.00	Information not received

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No.	Asset	Sub number	Capitalized on	Description	Inventory number	Serial number	Acquis.val.	Auditors comments
21	3601000168	0	2006/11/30	Seat Belt Demo for A340-200 Lie Flat Seat Retrofit	SEATS	C/0620-08	2 617.36	Information not received
22	3601000157	0	2006/05/31	A340-300 Spare Engine: ESN 567299 : CFM56-5C4P	567299	C/0693	51 967 616.30	Information not received
23	3601000185	0	2008/01/31	CFM56-5C4/P Spare Engine for A340-300: ESN 567324	567324	C/0818-01	42 171 456.91	Information not received
24	3601000186	0	2008/01/31	QEC Kit for CFM56-5C4/P Spare Engine ESN 567324	567324	C/0818-02	15 318 506.60	Information not received
25	3601000060	0	2003/04/01	FIRST TRENT 556 SPARE ENGINE -SERIAL NO.ESN 71071	71071	C/0166-01	110 285 712.87	Letter provided additional agreement to general purpose agreement, No invoice
26	3601000326	0	2012/04/01	MAINTENANCE: PAYMENT REPAIR ENGINE : V11843	V11843	A319-100	1 189 740.00	Information not received
27	3601000342	0	2013/02/01	MAINTENANCE: REPAIR ENGINE : S/N V11921	V11921	A319-100	17 159 394.00	Spreadsheet provided, No invoices
28	3601000094	0	2004/06/01	A Class rotables A340-200	A CLASS ROTABLES		2 934 872.95	No file provided
29	3601000243	0	2010/12/01	A330-200 A Class Rotables - Initial Provisioning	A CLASS ROTABLES	C/1182-05-01	45 142 375.51	Information not received
30	3601000244	0	2010/12/01	A330-200 A Class Rotables - Initial Provisioning	A CLASS ROTABLES	C/1182-05-03	30 471 878.33	Information not received
31	3601000350	0	2013/06/01	A330-200 A Class Rotables Components for 2013/14	A CLASS ROTABLES	C/1746-04-02	10 069 764.35	Information not received
32	3601000089	0	2005/03/03	A319-100 A CLASS ROTABLES - ENGINES - 2004/2005	A CLASS ROTABLES	C/0423-03	24 090 961.05	Information not received
33	3601000354	0	2013/07/01	A319 A Class Rotables Components for 2013/14	A CLASS ROTABLES	C/1787-01	12 865 676.44	Information not received
34	3601000118	0	2005/02/28	A Class rotables A340-300	A CLASS ROTABLES		26 427 550.18	Information not received
35	3601000134	0	2006/01/31	A340-300 A CLASS ROTABLES COMPONENTS:2005/2006	A CLASS ROTABLES	C/0651-01	10 453 872.66	Information not received
36	3601000234	0	2010/06/30	A340-300: A Class Comp for Thrust Reverser:2010/11	A CLASS ROTABLES	C/1182-03-02	19 905 146.13	Information not received

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No.	Asset	Sub number	Capitalized on	Description	Inventory number	Serial number	Acquis.val.	Auditors comments
37	3601000065	0	2003/10/01	A" CLASS ROTABLES A340-600	A CLASS ROTABLES		84 697 768.81	Information not received
38	3601000090	0	2004/10/31	A340-600 A CLASS ROTABLES - FINANCIAL YEAR 2004/5	A CLASS ROTABLES	C/0424-01	22 069 688.96	Information not received
39	9900008694	0	2014/05/31	Amadeus Monthly Billing Charges	CWIP	N/A	16725216.64	Information not received
40	9900009095	0	2015/07/31	Month Resource Fees	CWIP	N/A	452448	Information not received
41	9900009177	0	2016/01/31	6 x Radiant Tube Eclipse Gas Burners	CWIP	N/A	94908.8	Information not received
	Total						734 546 698.66	

Table 3.1: requested information not provided

No.	Asset	Sub-number	Capitalized on	Description	Inventory number	Serial number	Acquis.val.	Auditors comments
1	3601000123	0	2005/03/31	AIRCRAFT AIRBUS A340-300 ZS-SXE	ZS-SXE	C/0163-05-01-01	653 452 612.85	Only expense authorisations for PDPs provided in the file. Unable to assess, purchase price and rights
2	3601000124	0	2005/03/31	AIRCRAFT AIRBUS A340-300 ZS-SXF1995/1996	ZS-SXF	C/0163-06-01-01	652 781 064.72	Only expense authorisations for PDPs provided in the file. Unable to assess, purchase price and rights
3	3601000040	0	2003/03/06	AIRCRAFT AIRBUS 340-600 - ZS-SNC	ZS-SNC	C/0162-03-01-01	816 225 909.93	invoice 26630 for deposits, the invoice makes reference to a working party agreement. The invoice relates to a deposit and is not clear what the actual purchase price of the aircraft is.
4	3601000056	0	2003/11/01	AIRCRAFT AIRBUS A340-600 ZS-SND	ZS-SND	C/0162-04-01-01	668 579 297.00	Only expense authorisations for PDPs provided in the file. Unable to assess, purchase price and rights

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No.	Asset	Sub-number	Capitalized on	Description	Inventory number	Serial number	Acquis.val.	Auditors comments
5	3601000057	0	2004/02/01	AIRBUS A340-600 ZS-SNG	ZS-SNG	C/0162-05-01	622 638 668.99	proforma 3360119/04
6	3601000058	0	2004/02/01	AIRCRAFT AIRBUS A340-600 ZS-SNF	ZS-SNF	C/0162-06-01-01	623 169 677.25	proforma 3361273/03
7	3601000122	0	2005/03/31	AIRCRAFT AIRBUS A340-300 ZS-SXD	ZS-SXD	C/0163-04-01-01	637 233 619.00	Only expense authorisations for PDPs provided in the file. Unable to assess, purchase price and rights
	Total						4 674 080 849	

Table 4: Supporting documents for qualifying expenditure not provided

No.	Asset	Sub number	Capitalized on	Description	Inventory number	Serial number	Acquis.val.	Auditors Comments
1	3601000056	3	2003/11/01	Airframe - Hedge Losses - ZS-SND	ZS-SND	C/0162-04-01-01	331 056 812.90	Information not received
2	3601000056	6	2003/11/01	Galleys - Hedge Losses - ZS-SND	ZS-SND	C/0162-04-01-01	3 626 033.00	Information not received
3	3601000056	9	2003/11/01	In Flight Entertainment - Hedge Losses - ZS-SND	ZS-SND	C/0162-04-01-01	12 328 512.20	Information not received
4	3601000056	15	2003/11/01	Seats - Hedge Losses - ZS-SND	ZS-SND	C/0162-04-01-01	5 801 652.80	Information not received
	Total						352 813 010.90	

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This will result in a projected limitation of R 4 276 672 042.61 for assets that are unverified and a projected misstatement of R10 715 243 530.21 for requested information that has not been submitted.

Internal control deficiency

Financial and performance management

The divisional financial controller did not ensure that complete, relevant and accurate information is accessible and available to support assets which are capitalized in the asset register.

There is no proper co-ordination of the request for information between relevant departments.

The assets could not be verified due to the lack of proper record keeping around the recognition and measurement of assets. A class rotables are grouped per fleet with no details to enable the verifications and submission of information.

The asset register is not kept in a manner that enables the information that is recorded in the assets register to be easily retrievable when requested for audit and assets verifiable when selected for audit.

The fixed asset register is not broken down into individual assets for A class rotables which are grouped on the asset register, as a result of this, SAA does not have information related to the composition of an asset readily available to support grouped assets on the asset register.

The responsibilities relating to A class rotables are divided between SAA and SAAT with no clear ultimate official; who is accountable for the proper record keeping for the A class rotables.

Recommendation

The divisional financial controller should co-ordinate the submission of information requested by the auditors in support of assets capitalised to the fixed asset register.

The submission of information to the auditors should be coordinated by the financial controller and submitted to the auditors within the specific timeframes as agreed in the engagement letter.

The asset register should be detailed to enable physical verifications to be conducted so that assets can be uniquely identifiable.

MEMIS/AMOS should be reconciled to SAP on an individual asset basis to enable a sub population to be drawn for each grouped A class rotable asset on SAP.

The divisional financial controller should facilitate and review the physical verification process to ensure that assets listed on the fixed asset register exists.

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Management response

Management comment on audit finding:
TABLE 1 : Assets that could not be physically verified A Class Rotable assets on this list are being investigated. The Capex department has prepared a full analysis for asset selected. This analysis of each asset selected is available for inspection. The two types of transactions that make up the value of each asset that is shown on the analysis are : 1. Assets purchased by SAA through the work flow Capital Expenditure system on SAP 2. Entries processed by SAAT from the MEMIS system Documentation will be produced as follows: 1. Assets purchased by SAA through SAP The Capex department has made copies of all purchase order details. The purchase orders have been given to Robin Grove who will now locate the invoices An additional set of these purchase orders details is available at the Capex department for inspection who will now locate the invoices. 2. Entries processed by SAAT from the MEMIS system Robin Grove is analyzing all the transactions generated by MEMIS. He will produce a n analysis detailing what assets each entry relates to and he will produce supporting documentation This process is now totally dependent on the speed at which SAAT can analyze the Memis transactions and how quickly Mariette Muller can locate the invoices The transactions making up these assets are complex and a reasonable expectation would be that this task could be completed by 30 September. I am awaiting feedback from SAAT to confirm when we can expect completion. All other assets selected on table 1 has been inspected by AGSA or we are awaiting AGSA to come and inspect the assets. This was communicated to AGSA TABLE 2 1. The purchase date of many of these assets selected is more than 7 years ago. Capex documentation has been supplied but invoices are not available. 2. Two invoices for more current acquisitions will be supplied by 30 September 3. The A-class rotables selected here correspond to the A class rotables selected on Table 1 and will be completed as per comments under table 1 above 4. Other items selected are complete TABLE3&4 The transactions for aircraft costs selected here and the analysis of the hedge losses and how they were allocated to aircraft all happened from 2002 to 2005. Capex has supplied documentation available but we are not able to locate the analysis detailing how the acquisition prices in the fixed asset register were made up.
Management comment on internal control deficiencies:

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Management accepts that the finding on the weaknesses in the management in A class retables. The MEMIS system was terminated on 31 March 2017 and Management will ensure that the system to be implemented on Amos is better managed and interfaced with SAP
Management comment on recommendation: • Management accepts these recommendations and will implement procedures to remedy the shortcomings. This will be done for the new system once all interfaces and procedure are fully implemented
Remedial action :

What actions will be taken:	By whom	By when: Available
Outstanding information will be provided Systems will be implemented in to produce the required information	Person Pierre de Villiers Position :	Information will be supplied by 30 September 2017 (dependant on SAAT) New systems implementations during new financial year depending on SAAT AMOS implementation dates

Auditor's conclusion

Table 1: A class rotables

Management comments noted regarding A class rotables which were selected and included in this finding. The A class rotables which were included in this finding which are recorded in a group per fleet could not be physically verifiedas indicated in the table below. This will result in a projected overstatement of R 758 156 945.53for the assets that have not been verified

No.	Asset	Sub num ber	Capitalize d on	Description	Inventory number	Serial number	Acquis.val.	Auditors comment
3	3601000094	0	2004/06/01	A Class rotables A340-200	A CLASS ROTABLES		2 934 872.95	Asset could not be physically verified
4	3601000243	0	2010/12/01	A330-200 A Class Rotables - Initial Provisioning	A CLASS ROTABLES	C/1182-05-01	45 142 375.51	Asset could not be physically verified
5	3601000244	0	2010/12/01	A330-200 A Class Rotables - Initial Provisioning	A CLASS ROTABLES	C/1182-05-03	30 471 878.33	Asset could not be physically verified

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No.	Asset	Sub num ber	Capitalize d on	Description	Inventory number	Serial number	Acquis.val.	Auditors comment
6	3601000350	0	2013/06/01	A330-200 A Class Rotables Components for 2013/14	A CLASS ROTABLES	C/1746-04-02	10 069 764.35	Asset could not be physically verified
7	3601000088	0	2004/10/31	A319-100 A CLASS ROTABLES - FINANCIAL YEAR 2004/5	A CLASS ROTABLES	C/0423-01	29 912 194.77	Asset could not be physically verified
8	3601000089	0	2005/03/03	A319-100 A CLASS ROTABLES - ENGINES - 2004/2005	A CLASS ROTABLES	C/0423-03	24 090 961.05	Asset could not be physically verified
9	3601000354	0	2013/07/01	A319 A Class Rotables Components for 2013/14	A CLASS ROTABLES	C/1787-01	12 865 676.44	Asset could not be physically verified
10	3601000118	0	2005/02/28	A Class rotables A340-300	A CLASS ROTABLES		26 427 550.18	Asset could not be physically verified
11	3601000134	0	2006/01/31	A340-300 A CLASS ROTABLES COMPONENTS :2005/2006	A CLASS ROTABLES	C/0651-01	10 453 872.66	Asset could not be physically verified
12	3601000234	0	2010/06/30	A340-300: A Class Comp for Thrust Reverser:2010/ 11 .	A CLASS ROTABLES	C/1182-03-02	19 905 146.13	Asset could not be physically verified
13	3601000042	0	2003/03/01	A CLASS ROTABLES A340-600 FY 2002/2003	A CLASS ROTABLES		94 019 861.04	Asset could not be physically verified
14	3601000065	0	2003/10/01	A" CLASS ROTABLES A340-600	A CLASS ROTABLES		84 697 768.81	Asset could not be physically verified
15	3601000090	0	2004/10/31	A340-600 A CLASS	A CLASS ROTABLES	C/0424-	22 069 688.96	Asset could not be

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No.	Asset	Sub num ber	Capitalize d on	Description	Inventory number	Serial number	Acquis.val.	Auditors comment
				ROTABLES - FINANCIAL YEAR 2004/5		01		physically verified
16	3601000045	0	2002/10/01	A CLASS ROTABLES B737-800 2002/2003	A CLASS ROTABLES		14 056 218.81	Asset could not be physically verified
	Total						**427 117 829.99**	

Table 2: Information not provided

It is noted on the management response that:

- The purchase date of many of these assets selected is more than 7 years ago. Capex documentation has been supplied but invoices are not available. We have accepted that these documents are not within the retention period and the finding has been resolved regarding the documents that are more than seven years.
- Two invoices for current acquisitions will be supplied by 30 September 2017. These invoices were not provided by 20 October 2017 and will be regarded as a limitation of scope. The projected impact of the limitation of scope is R52 811 570.59 and will be aggregated with other individually not material misstatements in the schedule of uncorrected misstatements.
- The A-class rotables on this finding correspond to the A class rotables selected for physical verification. There link could not be provided between SAP and MEMIS report provided, we could not confirm the detailed breakdown of these A Class rotables and we could also not confirm the link between the two systems by alternative means. This will result in a modification of audit opinion of SAA on property, aircraft and equipment.

TABLE 3: Supporting documents for qualifying expenditure not provided

- We have accepted that these documents are not within the retention period and the finding has been resolved regarding the documents that are more than seven years.

The overall impact which will be included in the audit report of the items which could not be resolved is a projected limitation of R758 156 945.53 for assets that could not be verified and a projected misstatement of R52 811 570.59 for requested information that was not submitted.

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2. Discrepancies identified between SAP and MEMIS system relating to A class rotables

Audit finding

Section 51 (1) (c) of the Public finance management Act 1 of 1999, states that "*an accounting authority for a public entity is responsible for the management, including the safeguarding, of the assets of the public entity*".

South African Airways (SAA) maintains its fixed asset register (FAR) for all asset classes within the Finance (FI) module on SAP. The FAR includes A class rotables which are identifiable by the description "A class rotables" in the FAR. The A Class rotables are major spare parts which are procured by, and owned by SAA for both owned and leased aircraft. These are recognised, measured and disclosed in the financial statements of SAA in terms of IAS 16.

As these A class rotables are used to repair the aircraft for SAA, they are located at South African Airways Technical (SAAT), the maintenance, repair and operations (MRO) of SAA and are also managed by SAAT on behalf of SAA. It is noted that SAAT keeps and maintains a separate inventory listing in MEMIS for A class Rotables that are owned by SAA.. There is no agreement in place which sets the roles and responsibilities between SAA and SAAT regarding the management of the A class rotables which are kept at SAAT on behalf of SAA.

On recognition in the FI module on SAP, A class rotables are grouped according to the class of aircraft for which the rotable was procured and all the A class rotables for a particular year and fleet are allocated to one asset number. The listing from MEMIS in which these major spare parts are recorded does not contain all necessary fields such as acquisition date, acquisition cost and a unique field between MEMIS and SAP to identify the spare parts between the two systems.

These weaknesses in the two accounting systems (SAP and MEMIS) resulted in a limitation of scope on the audit since we were unable to isolate assets which were acquired in the current financial year and those which relate to opening balances.

The reconciliation that has been performed throughout the years between the two system is made on a total basis, the individual assets between the two systems cannot be linked. The officials at SAAT are able to pass corrective journal entries on SAP to make SAP agree to MEMIS on total basis. These journals are not supported by documentation and thus making the reconciliation prepared not adequate as the differences are not properly investigated and support by valid documentation.

The following matters are noted regarding the A class rotables:

A. There is no link between the A class Rotables recognised in SAP and the those of the same class recorded on MEMIS

As the A Class rotables are recorded as a group as described above, there is not detailed listing from MEMIS indicating all the individual assets which make up the amount disclosed in SAP FAR. This makes verification of assets (A class rotables) recorded in the FAR impossible as the asset numbers on the FAR cannot be attributed to a specific asset on the floor. There is also no

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link between the asset numbers as disclosed in the asset register and the MEMIS register kept by SAAT. On MEMIS, the assets (A class rotables) are individually identifiable by part number and serial number.

Although we have physically verified the assets noted in this finding, we could not trace these assets to the SAP fixed assets register as a results we could not confirm whether these assets are recorded in the fixed assets register which ultimately supports the financial statements of SAA.

We also could not ascertain the acquisition dates and costs of these assets. This was because we could not receive the purchase documents of these specific assets selected from MEMIS and physically verified.

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Below is the list of a class rotables on MEMIS by part number and serial number which were physically verified and cannot be traced to the FAR on SAP

No.	FMQ10TAG Asset Tag	FMQ10DES	FMQ10CON	FMQ10PNR Part Number	FMQ10SNR Serial Number	Mean Price
1	42743550	DETECTOR	IN WAREHOUSE	4735975	25377A	20 874.27
2	42757430	ACTUATOR-SPOILER#2 THRU#5. B737-800.	IN WAREHOUSE	251A12403	4387	1 482 161.75
3	42759200	INTERGRATED DRIVE GENERATOR	AWAITING INSTALLATION	761574B	1574	2 490 150.97
4	42809320	POWERPLANT (QEC FITTED)	IN REPAIR AT THIRD PAR	CFM567B	PP889283	66 642612.50
5	42982960	COMPUTER FLIGHT MANAGEMENT	IN WAREHOUSE	1762000101	000306	1 274 934.12
6	43055160	MOD-ELECTRIC METERS	IN WAREHOUSE	285A18408	D00771	295 575.29
7	43069550	FLAP DRIVE	IN WAREHOUSE	126344251	79P3976	20 613.96
8	43111140	`UNIT ASSY-PNEU DRIVE FOR L/E FLAPS B747	IN REPAIR IN WORKSHOP	126344171400	45P2712	20 613.96
9	43127720	NOSE COWL - U/O B737-800 ENG. CFM56-	AWAITING INSTALLATION	31421003	2414001	3 914 950.26
10	43154070	POWERPLANT (QEC FITTED)	IN REPAIR IN WORKSHOP	CFM567B	PP890236	66 642 612.50
11	43177030	FWC-FLIGHT WARNING COMPUTER	IN REPAIR IN WORKSHOP	LA2E20202T30000	2E0000995	1 416 821.41
12	43182210	AUXILIARY POWER UNIT (A340-600)	IN WAREHOUSE	38006102	P1011	10 214 490.65
13	43196700	OIL PRESSURE PUMP (RB211-79-E750) TRENT	IN WAREHOUSE	317510840465	44780219	297 704.50
14	43197700	GENERATOR – APU	IN WAREHOUSE	BA04105	2092CAA	737 357.73
15	43198540	CHILLER – REMOTE	IN WAREHOUSE	3407	0134	440 743.22
16	43221570	ELMU U/O: A340-600	IN WAREHOUSE	77450032	774500IN00194	425 517.70
17	43225340	POWER PLANT TRENT 556. UNIT PRICE FOR	IN REPAIR IN WORKSHOP	TRENT556	71063	92 068 608.99

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No.	FMQ10TAG Asset Tag	FMQ10DES	FMQ10CON	FMQ10PNR Part Number	FMQ10SNR Serial Number	Mean Price
18	43225400	AUXILIARY POWER UNIT (A340-600)	IN WAREHOUSE	38006102	P1012	10 214 490.55
19	43234030	OIL PRESSURE PUMP (RB211-79-E750) TRENT	IN WAREHOUSE	317510840495	44780882	297 704.50
20	43291010	FORWARD ATTENDANT PANEL	IN WAREHOUSE	Z133H031351A	133H03000596	299 788.18
21	43361540	FAN THRUST REVERSER ASSY	IN REPAIR IN WORKSHOP	315A2295673	000835	3 093 200.00
22	43392660	VOICE RECORDER	IN REPAIR IN WORKSHOP	9806022001	CVR12006179	68 209.96
23	43401850	VALVE-CHECK U/O A340-300	IN REPAIR AT THIRD PAR	2293B020000	01118	47 897.37
24	43403780	GENERATOR – APU	IN WAREHOUSE	BA04105	3224CE	737 357.73
25	43413290	NOSE COWL - U/O B737-800 ENG. CFM56-	AWAITING INSTALLATION	31421003	2771001	3 914 950.26
26	43442390	CONCENTRATOR - FUEL DATA	AWAITING INSTALLATION	367328003	581114	295 261.89
27	43444820	POWER PLANT TRENT 556. UNIT PRICE FOR	IN REPAIR IN WORKSHOP	TRENT556	71131	92 068 608.99
TOTAL						359 443 813.11

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B. A class rotables selected from the floor could not be traced to the fixed asset register on SAP as listed in the table below:

The following A class rotables were selected from the floor, traced to MEMIS, however could not be traced to the Fixed asset register in SAP as the asset tag numbers on the physical assets do not correspond with the asset numbers on the fixed asset register in SAP.

No	Asset Tag number	Serial Number	Part Number
1	42810240	42F0005	28B5457
2	42872050	YA012233C	28230018
3	43556550	581190	367328003
4	45113830	38754F1	34600P1
5	45375800	106	7926140001
6	43561810	2E2001118	LA2E20202T30000
7	43561400	2E0002173	LA2E20202T30000
8	43868430	1XL9H	8221152131
9	45058760	N1208100105	4360004850018
10	43505230	48	D31AB454
11	43869980	748	27120002502C
12	45006910	13420A	3810056108
13	43129780	4862A	3810056108
14	42654200	76218185J	AAA6016667
15	43060080	11053D1	10327523
16	45602020	120562	64752001003
17	42080190	121972	64752001003
18	42045500	120273	64752001003
19	43928050	31001067	64752001003
20	42360700	130823	64752001003
21	44547330	1005	72011402B
22	44576740	531	72011402B
23	43716120	738	72011402B
24	44578980	665	72011402B

The total balance of A class rotables which are grouped by fleet and year will result in a factual limitation misstatement of R 983 295 210 in the annual financial statements.

Internal control deficiency

Financial and performance management

The divisional financial controller did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

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The fixed asset register is not broken down into individual assets for A class rotables which are grouped on the asset register, as a result of this, SAA does not have information related to the composition of an asset readily available to support grouped assets on the asset register.

The responsibilities relating to A class rotables are divided between SAA and SAAT with no clear ultimate official who is accountable for the proper record keeping for the A class rotables.

A class rotables are allocated in groups in SAP and a sub population is not maintained by SAA.

Recommendation

The HOD: Financial accounting of SAA should clearly establish the roles with regard to management of A class rotables within SAA in order to establish accountability with regard to A class rotables.

The divisional financial controller should manage the assets on the FAR in SAP in such a way that each rotable capitalised is accounted for separately.

The divisional financial controller should reconcile the fixed asset register on SAP to the register in MEMIS on an individual asset basis and not on a total basis only.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding:

We agree with this finding. Management have employed an IT consulted to extract information form MEMIS in order to provide the information needed. It is difficult to agree the assets individually on SAP to what is maintained on MEMIS as there are fundamental differences in the two systems, i.e MEMIS is an inventory system and averages the cost prices of the items purchased and scrapped/issued. The two systems are balanced monthly on a control total basis.

We have provided the AGSA with the physical quantities on MEMIS as at 31 March 2017 and a breakdown of the individual rotables that was extracted by the IT expert.

We are preparing the reconciliation for AFS purposes based on this information.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
We agree with the internal control deficiency.</td></tr>
<tr><td colspan="3">Management comment on recommendation:
We agree with the recommendation.</td></tr>
<tr><td colspan="3">Remedial action :</td></tr>
<tr><td>What actions will be taken:
MEMIS information will be checked, corrected and the totals will be posted to SAP to update the FAR.</td><td>By whom
Person:
Pierre de Villiers
Position HOD Fixed Assets</td><td>By when:
25 October 2017</td></tr>
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Auditor's conclusion

Management response is noted, management agrees with the finding and all the required actions to resolve the finding were not finalised and implemented on 20 October 2017 being the agreed final date to receive all information regarding long outstanding information.

The physical quantities provided on 20 October 2017 do not agree to the information that has been presented on SAP. The reconciliation referred in the management comments was not submitted with the AFS on 31 October 2017.

Based on the physical quantities submitted by management the matters raised in the audit finding were not addressed and we also could not agree the assets communicated in the audit finding to the quantities provided, furthermore the information provided included A class rotables valued at one cents.

The finding is not resolved and will result in a modification of the audit opinion of SAA on property, aircraft and equipment

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3. Useful lives and residual values of property, aircraft and equipment not appropriately assessed in terms of IAS 16

Audit finding

International Accounting Standard (IAS) 16 Paragraph 51 of the International Financial Reporting Standards (IFRS) states that *"the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors."*

IAS 16 paragraph 6 of IFRS states that *"Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life".*

IAS 16 paragraph 16 of IFRS states that *"the cost of the item of Property, Plant and Equipment comprises:*

(a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) Any directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in manner intended by management"

IAS 16 paragraph 6 defines the residual value and useful life of an asset and it states that: "*The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Useful life is: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity".*

IAS 1 paragraph 15 of IFRS states that *"financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework."*

During the performance of physical verification procedures it was noted that the following assets were still in use, it was also noted that the assets have a carrying value of zero while SAA was still deriving economic benefits. The assets are therefore available for use for a period longer which was initially assessed, the useful life of the assets are therefore not in accordance with the prescripts of IAS16. These assets are being used in order to derive economic benefits through use and should be represented by a carrying value in the Fixed Asset Register (FAR).

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No.	Asset	Sub-number	Capitalized on	Description	Inventory number	Acquis.val.	Accum.dep.	Book val.
1	3601000064	0	2004/03/31	AIRCRAFT A340-300 - ZS-SXA Buyer Furnished Equip.	ZS-SXA	32 594 198.29	(32 594 198.29)	0
2	3601000064	1	2004/03/31	Galleys - A340-300 - ZS-SXA,	ZS-SXA	6 901 076.58	(6 901 076.58)	0
3	3601000064	2	2004/03/31	In Flight Entertainment - A340-300 - ZS-SXA	ZS-SXA	23 463 660.37	(23 463 660.37)	0
4	3601000064	3	2004/03/31	Seats - A340-300 - ZS-SXA	ZS-SXA	11 041 722.53	(11 041 722.53)	0
5	3601000064	4	2004/03/31	AIRBUS A340-300 - ZS-SXA Re-pitch Y/Class Seats	ZS-SXA	1 491 151.35	(1 491 151.35)	0
6	3601000064	5	2004/03/31	ZS-SXA - iPRAM (Software card for Announcement Sys	ZS-SXA	10 923.05	(10 923.05)	0
9	3601000082	0	2004/04/01	AIRCRAFT A340-300 - ZS-SXC Buyer Furnished Equip.	ZS-SXC	12 297 600.98	(12 297 600.98)	0
10	3601000082	1	2004/04/01	Galleys - A340-300 - ZS-SXC	ZS-SXC	6 901 076.58	(6 901 076.58)	0
11	3601000082	2	2004/04/01	In Flight Entertainment - A340-300 - ZS-SXC	ZS-SXC	23 463 660.37	(23 463 660.37)	0
12	3601000082	3	2004/04/01	Seats - A340-300 - ZS-SXC	ZS-SXC	11 041 722.53	(11 041 722.53)	0
13	3601000082	4	2004/04/01	AIRBUS A340-300 - ZS-SXC Re-pitch Y/Class Seats	ZS-SXC	1 491 151.35	(1 491 151.35)	0
14	3601000082	5	2004/04/01	ZS-SXC - iPRAM (Software card for Announcement Sys	ZS-SXC	10 923.01	(10 923.01)	0
20	3601000123	2	2005/03/31	In Flight Entertainment - A340-300 - ZS-SXE	ZS-SXE	23 591 874.59	(23 591 874.59)	0
25	3601000124	2	2005/03/31	In Flight Entertainment - A340-300 - ZS-SXF	ZS-SXF	25 036 770.00	(25 036 770.00)	0
28	3601000040	1	2003/03/06	Seats Modification - A340-600 - ZS-SNC: LIE FLAT S	ZS-SNC	8 877 371.66	(8 877 371.66)	0

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No.	Asset	Sub-number	Capitalized on	Description	Inventory number	Acquis.val.	Accum.dep.	Book val.
31	3601000040	4	2003/03/06	Galleys - A340-600 - ZS-SNC	ZS-SNC	8 940 042.83	(8 940 042.83)	0
32	3601000040	5	2003/03/06	In Flight Entertainment - A340-600 - ZS-SNC	ZS-SNC	32 975 568	(32 975 568)	0
33	3601000040	7	2003/03/06	Seats - A340-600 - ZS-SNC	ZS-SNC	14 304 068.52	(14 304 068.52)	0
35	3601000040	10	2009/05/02	AIRBUS 340-600 ZS-SNC Sound Proofing	ZS-SNC	126 750.52	(126 750.52)	0
43	3601000056	8	2003/11/01	In Flight Entertainment - A340-600 - ZS-SND	ZS-SND	27 477 159.61	(27 477 159.61)	0
44	3601000056	9	2003/11/01	In Flight Entertainment - Hedge Losses - ZS-SND	ZS-SND	12 328 512.20	(12 328 512.20)	0
45	3601000056	10	2003/11/01	In Flight Entertainment-Professional Fees:ZS-SND	ZS-SND	614 392.95	(614 392.95)	0
50	3601000056	18	2003/11/01	ZS-SND - iPRAM (Software card for Announcement Sys	ZS-SND	10 923.05	(10 923.05)	0
54	3601000168	0	2006/11/30	Seat Belt Demo for A340-200 Lie Flat Seat Retrofit	SEATS	2 617.36	(2 617.36)	0
55	3601000040	0	2003/03/06	AIRCRAFT AIRBUS 340-600 - ZS-SNC	ZS-SNC	816 225 909.93	(816 225 909.93)	0
56	2300001052	0	2010/03/31	1.6kg 3000 ANSI Luminescent Projector; XGA, USB	No inventory number in the FAR	10 575.00	(10 575.00)	0
Total						(1 101 231 403.21)	(1 101 231 403.21)	0.00

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The acquisition value of nil value assets amounts to R1 101 231 403 for assets which were physically verified and confirmed to be in a working condtion, the entire balance of the Property, aircraft and equipment amounting to R 3 060 000 000 is misstated by an amount which management should quantify since the assessment does not only affect the nil value assets but all assets which are owned by SAA.

The current and prior year depreciation amount is understated, the retained earnings are overstated and the whole property, plant and equipment is misstated due to the assessment of residual value and useful lives not performed, if this assessment is not performed at least annually, assets which have not reached nil value will also reach the end of their useful lives.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller did not ensure that cost centre managers provided the respective supporting evidence/assumptions to support the useful life and residual values of assets.

The Divisional Financial Controller did not perform a reassessment of the useful lives and residual values of assets on an annual basis as required by IAS 16.

The Divisional Financial Controller did not consider the network and fleet plans when assessing the periods over which SAA would derive economic benefits from the Aircraft related assets

Recommendation

The divisional financial controller should ensure the following:

A procedure within the existing asset management procedures should be included and communicated to all cost centre managers who are responsible for assets in their respective cost centres. This should specifically address the assessment of useful lives based on market norms. The procedures should include amongst others:

- What methodology will be adopted and how will it be consistently applied, i.e. conditional assessment
- How evidence should be gathered to support the assessment made
- How the impairment exercise can be built into this process so there is no duplication of efforts
- How the verification exercise should support this exercise to ensure there is no duplication of efforts
- How each unit presents the assessment, for example layout of report
- Other factors that each unit considered
- A specific procedure to assess assets nearing a carrying value of R1.
- Timing of the process.
- Responsibilities of individuals performing the assessment.
- Review responsibilities should be assigned.
- Staff with the required experience and skills should be appointed to assist in the process of making conditional assessments on the assets and their useful lives.

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- A formal assessment and methodology which explains why SAA has adopted zero residual values in depreciating the assets.

The Chief Financial Officer together with the Head of Department: Financial Accounting should enforce controls and appropriate consequence management through regular monitoring of support to asset management from other divisions to ensure that the systems in place are enforced and that the different divisions respond timeously to asset management. This will ensure that the preventative mechanisms developed by asset management are effective to ensure that the disclosure of property, aircraft and equipment is complete and accurate and in line with the requirements of the accounting standards.

The divisional financial controller should ensure that the fixed asset register is revisited to correct the misstatements so than not only the misstatements identified through the audit process are corrected. The corrections should thereafter be included in the annual financial statements in the form of a prior period error disclosure note. Additional procedures will be performed to verify the corrections to the population of the fixed asset register.

Management response

Management comment on audit finding: Assessment of useful lives and residual valu Management disagrees with this finding. Refer to the attached write-up.		
Management comment on internal control deficiencies: Management disagrees with the Internal control deficiency.		
Management comment on recommendation: We take note of the recommendations and will apply some of actions and controls for the year ended 31 March 2018		
Remedial action :		
What actions will be taken: Journals relating to the re-assessment of useful lives on aircraft have been processed.	By whom Person: Position	By when: 20 October 2017

Auditor's conclusion

Management response is noted, however the response does not address the audit finding that has been raised. Included in the asset register of SAA for example are leasehold improvements that have been effected on leased aircraft and these are not taken into consideration when the value in use calculation is performed. Therefore, the value in use calculation addresses the requirements of IAS 36, whereas this finding was raised based on the requirements of IAS 16.

The following needs to be addressed adequately in order for this finding to be resolved:

- A formal assessment of residual values and useful lives of all assets needs to be performed and not only the nil value assets as these assets are only an indication that this assessment has not been carried out annually.

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- This assessment should clearly indicate why SAA has no residual values in the calculation of the depreciation charge and that the all the depreciation rates are adequate for the assets.
- The prior period error disclosure note regarding the assessment which relates to the prior years to restate all assets with nil values in the asset register.
- The assets register for the revised population should be submitted so that we can perform additional audit procedures to verify that the misstatements have been resolved.

We have evaluated the write-up provided on 23 October 2017, the write up is a desktop exercise that was performed by management and does not address the requirements of IAS 16.51 and IAS 8 regarding all the years that SAA had not performed the assessment of useful lives and residual values.

The finding remains unresolved and will result in the modification of the audit opinion of SAA on property, aircraft and equipment in the audit report.

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4. **Impairment loss calculation not properly supported by assumptions and data used not adequately justified, affecting the accuracy of the calculation**

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that "An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control".

IAS 1 paragraph 125 states that "An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

their nature, and

their carrying amount as at the end of the reporting period."

Paragraph 8 of IAS 36 states that :An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset

IAS 36, paragraph 8 of the International Financial Reporting Standards further states that: "An asset is impaired when its carrying amount exceeds its recoverable amount."

Paragraph of IAS 36 states that "In measuring value in use an entity shall:

(a) base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence.

(b) base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified.

(c) estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified."

Paragraph 30(c) of IAS 36 states that "the time value of money represented by the current market risk free rate of interest shall be reflected in the calculation of value in use."

Paragraph 55 of IAS36 states that "The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of:

(a) the time value of money; and

(b) the risks specific to the asset for which the future cash flow estimates have not been adjusted."

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IFRS 5 paragraph 6 states that: An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

As part of its core mandate of engaging in passenger airline and cargo transport services, air charter services and other related services, South African Airways SOC Ltd (SAA) own some of the fleet of aircrafts which it uses to fulfil its core mandate. SAA prepares its financial statements according to the International Financial Reporting Standard (IFRS). As the requirement of IAS 36 of IFRS, SAA is required to assess the impairments of all assets it owns on an annual basis for impairment indicators. Hence, this led to impairment of owned aircrafts assets.

The following issues were noted during the audit of impairment of aircraft assets:

- Assumptions used in the value in use calculation for both the current and prior year were not provided for audit. The calculation of cash flows starts from operating profit line and since assumptions on how the calculations of these cash flows were not provided, we are unable to determine what these cash flows are made of. Management has also included "unknown aircraft" in the calculation and we could not confirm which aircrafts these relate to. The assumptions should clearly define the inputs and sources of data used in the calculation in order for the work performed by management to be re-performable and this should be supportable and reasonable as required by IAS 36.
- The value in use calculation provided only addresses the impairment of the owned aircrafts and not all assets owned by SAA. Furthermore, there was no demonstration from management that the impairment was assessed on other assets other than owned aircrafts.
- In measuring the recoverable amount, we noted the following:

Differences between the book values used in the calculation and the book values as per fixed asset register submitted for audit. The table below demonstrate as reference of differences noted:

Fleet	Tail	Year of Manufacture	Book value per impairment Calculation	Book Value Per Asset register	Difference
A340-600	SNC	2003	47 310 419	15 337 476.39	31 972 942.61
A340-600	SND	2003	67 562 113	166 325 762.31	-98 763 649.31
A340-600	SNF	2004	81 734 601	223 804 645.11	-142 070 044.11
A340-600	SNG	2004	165 336 085	283 885 986.22	-118 549 901.22
A340-300	SXD	2005	120 042 145	232 158 972.35	-112 116 827.35
A340-300	SXE	2005	114 773 546	258 503 176.47	-143 729 630.47
A340-300	SXF	2005	136 387 443	272 811 414.94	-136 423 971.94
A340-300	SXG	2001	100 146 482	89 808 833.33	10 337 648.67
A340-300	SXH	1997	83 838 491	95 962 587.93	-12 124 096.93

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Fleet	Tail	Year of Manufacture	Book value per impairment Calculation	Book Value Per Asset register	Difference
Total			917 131 324.00	1 638 598 85505	- 721 467 530.05

Fair Value less cost sell of $ 5000 000.00 were used in determining impairment, however we have noted that the market values from AVITAS book are significantly higher than the fair less cost to sell as used by Management. It is not justified as to what makes up the difference between market values and the fair value less cost to sell, as the estimated costs to sell the assets was not provided. The table below demonstrate as reference of differences noted:

Fleet	Tail	Year of Manufacture	Avitas Market Value 1st Half USD	Fair value less cost to sell in used on impairment calculation USD	Difference
A340-600	SNC	2003	14 700 000,00	5 000 000,00	9 700 000,00
A340-600	SND	2003	14 700 000,00	5 000 000,00	9 700 000,00
A340-600	SNF	2004	15 800 000,00	5 000 000,00	10 800 000,00
A340-600	SNG	2004	15 800 000,00	5 000 000,00	10 800 000,00
A340-300	SXD	2005	12 900 000,00	5 000 000,00	7 900 000,00
A340-300	SXE	2005	12 900 000,00	5 000 000,00	7 900 000,00
A340-300	SXF	2005	12 900 000,00	5 000 000,00	7 900 000,00
A340-300	SXG	2001	9 000 000,00	5 000 000,00	4 000 000,00
A340-300	SXH	1997	5 800 000,00	5 000 000,00	800 000,00
Total			**114 500 000,00**	**45 000 000,00**	**69 500 000,00**

- The weighted average cost of capital (WACC) which is a post-tax rate of 14.8% was used in the calculation as opposed to the pre-tax discount rate required to be used in terms of IAS 36. Furthermore, the WACC that was used by SAA reflects capital structure of 48.5% equity and 51.5% debt. SAA is currently on negative financial position and the capital structure used doesn't reflect the current capital structure of SAA.

- The assumptions used to prepare the WACC calculation are not adequately detailed and management did not provide the justification of each variable used in detail other than indicating in each variable that it is made based on management best estimate.

  There is no justification on selecting the comparable airlines beta which SAA has used in the calculation of the WACC, and how these airlines compare to the risk applicable to SAA. Therefore we were unable to determine whether the calculation of WACC and the value in use is accurate.

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The alpha that was used in the calculation was assumed to be 10% however there is no adequate justification in place to support the 10%.

Pre-tax cost of debt was assumed to be JIBAR plus 3% and the justification for adding with 3% was not included in the calculation.
The above comments relating to WACC also applies to the calculation of provision for return conditions as the discount rate used is similar to the one used in impairment calculation.

- The impairment is calculated on the assumption that the aircrafts will be parked and sold six months after 31 March 2017. No documentation was provided to prove that the sale of the aircrafts was approved at an appropriate level to support this assumption. The six months has elapsed and the aircrafts have not been parked and sold.

  It is also not justified on the calculation why these aircrafts are still classified as items of property, aircraft and equipment and not as non-current assets classified for sale as required by IFRS 5 in the annual financial statements if management's intention was to dispose them six months after year end and essentially recovering the carrying amount through a sale rather than through continued use.

This will result in the material limitation on the impairment amount of R 200 000 000.00 disclosed in note 11 of the annual financial statements as we could not establish whether this amount is fairly stated or not. The impairment line item disclosed in profit and loss will be modified in the audit report of SAA and the non-current assets will be understated by an amount which is not quantifiable due to differences noted in fair values of the assets which not have been correctly reclassified as required by IFRS 5.

The prior year value in use calculation is also impacted by the WACC and the cash flow assumptions which have not been documented which has an impact on the prior year amounts regarding to impairment considerations.

The differences noted in book values audited and the book values used in the calculation will result in a modification of the depreciation line item and the accumulated depreciation which will have a consequential impact on the property aircraft and equipment by an unquantifiable amounts as we could not establish the reasons for using different book values in the impairment calculation.

The impairment amount disclosed in the AFS is understated by an amount we could not not quantify as management has not assessed all assets for impairment annually as required by IAS 36.

Internal control deficiency

Financial and performance management

The Divisional financial controller: Fleet, HOD: Accounting and the Chief Financial Officer (CFO) did not ensure that there are documented assumptions in place to support the calculation of impairment and value in use.

The HOD: Accounting and CFO did not adequately review the impairment calculation to ensure that all the requirements of IAS 36 and adequate supporting documents are available to support the calculation.

The Divisional financial controller: Fleet, HOD: Accounting and the Chief Financial Officer (CFO) did not ensure that there are policies and procedures in place to address the

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requirements of the accounting standards so that the impairment considerations and/ assessments are performed annually for all the assets which are owned by SAA.

Recommendation

The Divisional financial controller: Fleet, HOD: Accounting and the CFO should ensure that assumptions used in calculation of impairment calculation are documented and these are adequate to justify all variables used in the calculation of impairment and value in use calculation.

The HOD: Accounting and CFO should adequately review the impairment calculation to ensure that all requirements of IAS 36 are complied with and ensure that adequate documents are kept.

The conditional assessment should be performed on all assets and applicable requirements per the accounting reporting framework should be adequately addressed so that SAA will have an IFRS compliant asset register.

Management's response

Management comment on audit finding: Management acknowledges the finding, errors were accepted were applicable and revised workings provided.

1. The revised workings show that there is no impairment of assets. A document detailing process followed is attached as Annexure A.
2. Management notes the finding. The impairment testing is required by IAS 36 to carry PAE at the lower of Carrying Amount and Recoverable Amount. Management previously accepted the finding relating to assessment of useful lives and residual values confirmed that the current Carrying Amounts recognized in the asset register are not reliable.
    a. Due to time and resource constraints management was only able to rework the Carrying Amounts relating to Aircraft and Land & Building categories.
    b. Land & Buildings were revalued, the Carrying Amount adjusted therefore impairment testing would not be necessary.
    c. It is only practical to conduct the impairment testing on Aircrafts due to availability of both a more reliable/determinable Carrying Amount and that the recoverable amount is/are readily available.
3. Management reassessed the useful lives of the assets for the 343 fleet from five years to 18 months as per the revised fleet plan The system had already calculated depreciation on the original useful lives, the depreciation of which was reversed and a revised depreciation value was determined based on the revised useful lives.
    a. Also note that the USD$5m calculated by Seabury represents the residual values at the end of the useful lives of the assets, which was also considered in the calculation of revised carrying amounts
    b. The attached workings reflect these changes under the sheet "*YEAR END Net Book Values*"
4. Due to no impairment indications existing at year end, Value in Use calculations were not necessary.
5. Due to no impairment indications existing at year end, Value in Use calculations were not necessary
6. Management considered IFRS 5 required for classification as held for sale and had determined that these assets did not meet the definition as at 31 March 2017 therefore could not classify them under IFRS 5. At year end management determined that it was only foreseeable that the assets will be used and therefore generate cash flows for six months.

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Management comment on internal control deficiencies: Management accepts the control deficiencies identified.		
Management comment on recommendation: Management acknowledges the recommendations.		
Remedial action: Management is in the process of improving internal controls within Asset division.		
What actions will be taken: Comprehensive review of resource challenges within Assets. CPD training for all staff. Adequate reviews of workings by senior management.	By whom: Person: Pierre De Villiers Position; Controller	By when: 31 March 2018

Auditor's conclusion

Management response is noted, we have inspected the workings provided by management for the owned aircrafts and noted that the figures indicate that there is no impairment. Furthermore, management has not demonstrated that the impairment was assessed on rotables, machinery, equipment and furniture, vehicles and cabin loaders, containers and intangible assets resulting in non-compliance with IAS 36 resulting in a material limitation on the valuation of assets other than aircrafts and land and buildings as disclosed in note 12 and note 37 of the annual financial statements. This is an indication that the impairment loss is not complete as other assets have not been considered for impairment. Since we could not verify all items of property aircraft and equipment during physical verification procedures, this is a further indication that the impairment loss is not complete in the annual financial statements.

This resulted in a material valuation limitation misstatement of the carrying value of property, aircraft and equipment (excluding owned aircraft and land and buildings) stated at R 1 096 679 660.43 and a valuation limitation of the carrying amount of intangible assets of R 224 000 000.

The impact of this finding will be reported in the audit report of SAA and will result in a modification of the audit opinion of SAA.

Maintenance costs

5. Power- By- The- Hour (PBTH) C-check portion incorrectly recognised as an expense when paid

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that *"An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control"*.

IAS 1 Paragraph 27 of the International Financial Reporting Standards (IFRS) states that *"an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting"*.

IAS 1 Paragraph 28 of IFRS states that *"When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework"*

Conceptual framework OB17 states that *"Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. This is important because information about a reporting entity's economic resources and claims and changes in its economic resources and claims during a period provides a better basis for assessing the entity's past and future performance than information solely about cash receipts and payments during that period. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment)"*

Conceptual framework paragraph 4.25(b) states that *"Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants"*.

Conceptual framework paragraph 4.49 states that *"Expenses are recognised in the income statement when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably"*

IAS 8 Paragraph 42 states that *"Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented."*

Accounting policy adopted by South African Airways SOC Ltd (SAA) for Power By The Hour states that *"Expenditure for engine overhaul costs covered by power by the hour (fixed rate charged per hour) maintenance agreements is charged to profit or loss over the life of the contract."*

South African Airways SOC Ltd (SAA) financial statements are prepared on IFRS; therefore the financial statements should be prepared on accrual basis of accounting as opposed to cash flow basis. South African Airways Technical (SAAT) contracted with SAA to provide aircraft

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maintenance. The maintenances that are provided by SAAT include Power by the Hour (PBTH) covered maintenance and non PBTH covered maintenance, both of these maintenances are concealed in one agreement which is called Maintenance agreement between SAAT and SAA. The Non- PBTH covered maintenance are expensed as they occur.

SAA pays a fixed rate per flying hour to the SAAT as per maintenance agreement in order for SAAT to maintain the aircrafts in the event of breakdown, regular checks or other checks. These payments are recorded as maintenance costs expenditure in the general ledger when the payment is made by SAA to SAAT. Included in these payments are portions that relate to C-checks which are in general only performed after 20-24 months. These payments therefore include expenditure relating to a C-Check that will be incurred in the future.

The C-check maintenance event that will be conducted in 20-24 months SAAT has an obligation to render the services in future and SAA has the right to receive the services in future and where the service is not received SAA is entitled to a credit note for the amount paid for which the service was not received. Therefore, the amount contributed by SAA towards a C-Check should be regarded as a prepayment and expensed when the C-Check is performed. SAAT accounts for these payments as income received in advance which should at consolidation be an intragroup elimination with the prepayment in the accounting records at SAA. The accounting treatment of SAA results in the understatement of the maintenance costs when the expense is eliminated against the deferred income of SAAT

The accounting policy adopted by SAA for PBTH as included in the annual financial statement has not adequately addressed the expenditure that is being paid to SAAT as per the maintenance agreement, only engine overhauls are addressed in the accounting policy. The SAA and SAAT PBTH is not addressed in the accounting policy disclosed in the annual financial statements.

During the audit, it was noted that the C-Check portions included in the following invoices were incorrectly classified as maintenance costs instead of recording a prepayment for the amounts contributed for the C check:

Details as per the invoice				
Invoice no.	**Invoice date**	**Description**	**Invoice Amount(R)**	**Total C-check**
95773585	26/04/2016	PBTH: B738 April 2016	11 538 492.00	837 537.03
95773590	26/04/2016	PBTH: A340-300: April 2016	38 955 196.00	3 237 988.66
95775172	31/05/2016	PBTH: A320-100: ZS-SZA & B: May 2016	2 985 344.00	162 798.81
95774986	31/05/2016	PBTH: A330-200: ZS-SXV,W,X,Y, & Z: May 2016	19 961 620.00	1 086 750.84
95775114	31/05/2016	PBTH Overflown hours: A319-100: January 2016	408 727.31	57 609.62
95775098	31/05/2016	PBTH Overflown hours: A340-600: October 2015	1 128 314.95	199 045.18
95775476	14/06/2016	PBTH: A319: June 2016	16 635 936.00	1 638 661.45
95776866	19/07/2016	PBTH: A319: July 2016	16 259 888.00	1 583 454.87
95777043	22/07/2016	PBTH: A320-100 July 2016	3 450 320.00	165 052.67
95778181	24/08/2016	PBTH: A330-200: ZS-SXW,X,Y, & Z: August 2016	15 959 958.00	868 787.65
95779498	21/09/2016	PBTH: A320-100 September 2016 A&B	2 958 752.00	159 971.80
95779486	21/09/2016	PBTH: A340-600 September 2016	42 176 578.50	3 465 712.12
95780847	26/10/2016	PBTH: A330-200: ZS-SXV,W,X,Y, & Z: October 2016	19 656 787.50	1 067 108.53

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Details as per the invoice				
Invoice no.	Invoice date	Description	Invoice Amount(R)	Total C-check
95782502	30/11/2016	PBTH Overflown Hours Apr - June 2016	1 075 436.08	148 563.57
95782187	25/11/2016	PBTH: A320-100 November 2016	3 816 012.00	160 771.10
95782869	09/12/2016	PBTH: B737-800: Dec 2016	11 220 648.00	801 678.26
95783837	17/01/2017	PBTH: A320-100 January 2017	1 433 924.00	80 707.87
95784057	17/01/2017	PBTH: A340-300: January 2017	35 664 692.00	3 086 258.51
95784964	09/02/2017	PBTH: A330-300: February 2017	7 946 242.50	635 059.74
95784966	09/02/2017	PBTH: A340-600 February 2017	40 016 119.50	3 427 857.92
95786221	22/03/2017	PBTH: A340-300: March 2017	34 996 080.00	2 971 213.35
			328 245 068.34	**25 842 589.55**

The C-Check components paid in advance will result in a projected overstatement of maintenance expenses and projected understatement of prepayments by R 146 222 539.60 relating to current year expenditure. The prior periods' annual financial statements (not just the comparative year of 2015/16) are also misstated as a similar accounting practice was adopted in prior periods; hence SAA needs to revisit the prior period population of maintenance costs element which includes C-Check and account for a prepayment where required.

This will possible increase the impact on the current projected prepayment noted above, because C-checks are generally performed after a 20-24 month period. This adjustment should be accounted for as a prior period error in the financial statements in line with IAS8. SAA will also have to show a third balance sheet due to the prior period error (retrospective restatement) in terms of IAS1 par 40A.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller: Fleet did not ensure that there are proper policies and procedures in place to ensure that the C- Check portion on the invoice is charged as prepayment.

The C-Checks are expensed in order to achieve a consistent charge over the life of the contract to avoid showing large balloon expenses in years in which C-Check occur regardless of whether the expense has been incurred or not

There is no assessment done by SAA when the PBTH invoices are received from the SAAT to determine which portion of the PBTH relates to C-Check.

Recommendation

The Divisional Financial Controller: Fleet should put policies and procedures in place to ensure that prepayments relating to C-Check are recognised correctly.

The Divisional Financial Controller: Fleet should adequately review the invoices received from SAAT to ensure that the C-Check portion is identified and recorded appropriately as a prepayment and only be recognised as maintenance expense when the C-Check is performed.

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The population for the current and prior year should be revisited to correct the misstatements so that not only the misstatements identified through the audit process are corrected, thereafter additional procedures will be performed to verify the corrections to the population of the maintenance expenses.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:

Management agree with the finding. Proposed journals that raises a prepayment for C-Checks payments made in advance were provided to AG.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:

Management agree with the internal control deficiency.</td></tr>
<tr><td colspan="3">Management comment on recommendation:

Management agree with the recommendation.</td></tr>
<tr><td colspan="3">Remedial action: Will comment when SAA position has been determined</td></tr>
<tr><td>What actions will be taken:

Correcting journals will be passed and a prior period error disclosed.</td><td>By whom:

Person:

Position;</td><td>By when: 20 Oct 2017</td></tr>
</table>

Auditor's conclusion

Management agrees with the audit finding, internal control deficiencies and the recommendations. On 20 October we received a correcting journal and revised population. A sample was selected and the additional audit procedures were performed on the revised population and there were misstatements identified to still exist in the revised population. The amount recognised as a prepayment is not valued appropriately based on the correct labour rate, material rate and IATA exchange rate applied on the event month.

The finding is not resolved, we have reverted to the initial misstatement that was communicated in the audit finding and it will be aggregated with other non-material misstatements and evaluated together which may have an impact on the audit opinion of SAA.

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6. Expenses not recorded in the financial year ending 2016/17

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that *"An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control"*.

IAS 1 Paragraph 27 states that *"An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting"*.

Paragraph OB17 of IFRS Conceptual framework states that *"Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period"*.

South African Airways SOC Ltd (SAA) records the maintenance expenditure in SAP accounting system when the payment is made by SAA to the service providers. It was noted that the following maintenance expenses incurred in the 2016/17 financial year were incorrectly recorded in the 2017/18 financial year:

Table 1.1 Engine Power by the Hour

Invoice number	Name of vendor	Invoice date	Description	Amount $	Amount R
76481658	Lufthansa Technik	08/03/2017	CFM56 - 7B flat rate cost from 01/02/2017 until 28/02/2017	1 238 013.36	16 367 774.63
95305166	Rolls-Royce	05/04/2017	EFH - Totalcare Sales item march 2017	3 605 105.34	48 344 462.61
95305171	Rolls-Royce	05/04/2017	EFH - Totalcare flex Sales item march 2017	955 357.15	12 912 607.24
97904806	International Aero Engines	08/03/2017	Feb 2017 - A320 fleet	1 652 564.37	22 914 457.55
97904806	International Aero Engines	08/03/2017	Feb 2017 - A319 fleet	428 942.12	5 947 711.44
97962034	International Aero Engines	12/04/2017	March 2017 - A319 fleet	458 416.72	6 031 847.20
97962034	International Aero Engines	12/04/2017	March 2017 - A320 fleet	1 820 234.56	23 950 646.[illegible]
Total				**10 158 633.62**	**112 518 860.67**

This will result in a projected understatement of maintenance expenses and projected understatement of accruals by R184 985 449.99.

Prior year(2015/16) expenses recorded in the current accounting period

The following expenses relating maintenance services which were incurred during 2015/16 financial year were recorded in the 2016/17 financial year:

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Table 2.1 Technical Power by the hour

Invoice number	Name of vendor	Invoice date	Description	Amount [R]
95775114	SAA Technical	31/05/2016	PBTH Overflown hours: A319-100: January 2016	408 727.31
95775098	SAA Technical	31/05/2016	PBTH Overflown hours: A340-600: October 2015	1 128 314.95
Total				**1 537 042.26**

Table 2.2 Engine power by the hour

Invoice number	Name of vendor	Invoice date	Description	Amount $	Amount R
97325503	International Aero Engines	10/03/2016	Feb 2016 FHA charges (A319)	60 046.56	887 187.92
76388739	Lufthansa Technik	13/05/2016	10 AST Service	245 946.59	3 740 355.74
76388757	Lufthansa Technik	13/05/2016	10 AST Service	259 514.83	3 946 701.53
Total				**565 507.98**	**8 574 245.19**

This will result in a projected overstatement misstatement of R8 696 892.48 for the financial year ended 2016/17 for maintenance expenditure: technical power by the hour and a projected overstatement misstatement of R 40 683 214 for maintenance expenditure: engine power by the hour. Consequently, these misstatements have resulted in understatement of maintenance costs and accrual liabilities in 2015/16 financial year by the same amounts.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller: Fleet did not ensure that policies and procedures to record all expenses relating to the particular financial year are properly implemented. Furthermore, the monthly reconciliation conducted by fleet accounting to detect and correct the errors was not effectively functioning as the review did not detect the misstatements.

The Divisional Financial Controller did not ensure that maintenance expenditure in SAP is recorded when the expenditure is incurred to make sure that expenses are recorded on accrual basis of accounting rather than on a cash basis.

Recommendation

The Divisional Financial Controller: Fleet should put policies and procedures in place to ensure that the expenses are recorded when they occur in SAP accounting system rather than when payments are made.

The Divisional Financial Controller: Fleet should review the monthly reconciliation to ensure that the monthly reconciliation adequately detects the errors and omissions on timely basis.

The Divisional Financial Controller: Fleet should review the invoices received close to year end to ensure that the expenses are recorded in correct accounting period.

The population should be revisited to correct the misstatements so than not only the misstatements identified through the audit process are corrected, thereafter additional

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procedures will be performed to verify the corrections to the population of the maintenance expenses.

Management's response

Management comment on audit finding: Firstly, the initial invoices were raised in Jetshop co-ordination. There is a misunderstanding in that the payables section only processes invoices once all signatories have approved the expense authorisation. The result of this miscommunication is that invoices are raised once payment is done. The initial invoice should have been sent to creditors section once it has been sent to Jet shop co-ordination.
Secondly I realised that the misstatement as raised in the finding is inaccurate and misleading. The actual understatement would have been **R3 320 930.98** should the figures have been looked at retrospectively.

Below is a calculation/my assessment of the misstatement.

Invoice No	Name of Vendor	Invoice Date	Description	Amount $	Amount
7008/04/2016	International Aero Engines	MR ADJUSTMENT	REFUND TO IAE ON ENGINES	1940855.38	29 832 752.19
97325503	International Aero Engines	10-Mar-16	A319/A320 FEB2016	60046.56	887 187.92
97325503	International Aero Engines	10-Mar-16	A319/A320 FEB2016	1445209.83	21 352 975.24
97343984	International Aero Engines	23-Mar-16	A319/A320 FEB2016	-1520.79	-22 469.67
76369034	Lufthansa Technik	03-Mar-16	FEB16 FLT HRS	1384455.52	20 632 540.61
2000364907	Rolls Royce	24-Feb-16		-906 297.00	-14414653.79
75119715	Lufthansa Technik	05-Apr-16	FLT HOURS MAR16	-4 510.00	-67717.2
97381000	International Aero Engines	14-Apr-16	A319/A320 MAR2016	62 693.54	981655.45
97381000	International Aero Engines	14-Apr-16	A319/A320 MAR2016	1 521 474.00	23823239.89
76377478	Lufthansa Technik	05-Apr-16	FLT HOURS MAR16	1 744 428.48	26192419.18
TOTAL INVOICED DURING APRIL-MAY 2016				**7 246 835.52**	**109 197 929.8**
TOTAL UNDERSTATEMENT REPORTED					**-112 518 860.68**
ACTUAL UNDERSTATEMENT					**- 3 320 930.98**

Another issue which is problematic is that the adjustments and figures to SAAT PBTH were only received during May 2016 after year end. The hours were only issued after SAAT has reconciled their differences which happened in the next financial year. SAAT only does their recon for every 3 months hence the overflown hours are only picked up on our side. Example January 2016 Overflown hours picked up in May 2016.

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Management comment on internal control deficiencies: The payables and payments is a separate function to fleet accounting. I agree that a policy needs to be implemented where the invoice is recognised initially in the payables of SAA. The discords between departments was mainly the issue: I would suggest that the policy is as follows: Jetshop receives invoice. Fleet Management Approves invoice. Payables recognises the invoice immediately and raises the creditor. Expense authorisations are created and approval requested. Payment made.
Management comment on recommendation: The raising and payments procedures should be coordinated between all departments and SAAT so that we achieve a successful audit. This monthly recon in relation to SAAT would have achieved the same amounts paid in the periods of Jan 2016 and October 2015: Actual Hours * Per Hour = Invoiced amount Paid To ensure that charges are made every month with regards to overflown hours then SAAT should initiate a process to charge for overflown hours every month or prior to year-end a recon should be done. That would be an internal process SAAT needs to initiate. I will await your feedback on the amount understated so we can reach a decision and the calculation.
Remedial action: As stated the misstatement needs to be confirmed by AG so that corrective action can be applied.

What actions will be taken:	By whom:	By when:
Clearly Policy on payments documented and communicated within Payables. Determination of SAAT PBTH Timeframe for overflown hours Confirmation of understatement amount by AG. Accruals to be processed-Financial Year	SAAT- Makhotso Mosese-Management Accountant Jetshop-Iain Sinclair SAA Fleet Management	27 JULY 2017

Auditor's conclusion

Management comments are noted, on 20 October 2017 the correcting journal and revised population was received. A sample was selected, the additional audit procedures were performed on the revised population and there were misstatements identified on the revised population. There were invoices within the revised population relating to the 2017/2018 accounting period incorrectly recorded in the 2016/2017 accounting period.

The finding is not resolved, we will revert back to the projected misstatements which was initially identified and will be aggregated with other non-material findings and evaluated together which may have an impact on the audit opinion of SAA.

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7. Foreign currency transactions Incorrectly translated at spot rate for the maintenance costs not in line with the adopted accounting policy

Audit finding

IAS 8.13 states that an entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an IFRS specifically requires or permits categorization of items for which different policies may be appropriate. If an IFRS requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.

IAS 8 Paragraph 42 states that "Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented."

South African Airways SOC Ltd (SAA) has elected an accounting policy which states that "in preparing the annual financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the ruling rates of exchange, which are taken as being the International Air Transport Association (IATA) five day average rate applicable to the transaction month".

During the audit we noted the following transactions which were incorrectly recorded at the spot rate of the payment date not in line with the adopted accounting policy of SAA:

Accounting Document no.	Invoice no.	Amount($)	Amount in Local Currency as per GL R	IATA rate for the month of the event	Amount translated to local currency using the IATA rate.	Difference between the rand amount in GL and the amount recalculated
1900642422	97325503	60 046.56	887 187.92	15.37	922 969.67	35 781.75
1900647962	94904253	791 954.13	11 771 606.19	15.72	12 445 717.54	674 111.35
1900647959	76388739	245 946.59	3 740 355.74	15.72	3 865 099.85	124 744.11
1900652969	94986013	4 242 036.30	60 902 915.16	14.29	60 625 061.78	-277 853.38
1900655720	95030275	906 329.27	12 229 100.84	13.77	12 476 710.00	247 609.16
1900657389	95030271	3 615 945.39	50 703 147.85	13.73	49 654 523.69	-1 048 624.16
1900658319	97645657	1 250 000.00	16 688 750.00	13.73	17 165 125.00	476 375.00
1900662252	95115560	920 821.17	12 951 349.76	14.16	13 039 380.26	88 030.50
1900664987	97801862	795 000.00	10 770 660.00	14.05	11 166 649.50	395 989.50
1900669355	97872839	568 513.02	7 318 468.11	13.04	7 414 376.25	95 908.14
1900667716	97845171	795 000.00	10 387 470.00	13.04	10 368 151.50	-19 318.50
1900650628	97487147	1 594 329.20	22 700 059.15	14.75	23 518 109.46	818 050.31
1900651534	94938838	1 514 534.50	20 343 227.40	14.29	21 644 969.81	1 301 742.41
1900666118	97808080	1 765 272.29	23 792 339.92	13.47	23 786 867.58	-5 472.34
1900647958	76388757	259 514.83	3 946 701.53	15.72	4 078 327.46	131 625.93
1900648317	94897596	1 514 534.50	23 193 581.33	15.72	23 801 212.57	607 631.24
1900657230	97620570	1 787 380.12	25 654 266.86	13.73	24 544 482.55	-1 109 784.31

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Accounting Document no.	Invoice no.	Amount($)	Amount in Local Currency as per GL R	IATA rate for the month of the event	Amount translated to local currency using the IATA rate.	Difference between the rand amount in GL and the amount recalculated
1900648474	94911132	791 954.13	11 728 048.71	15.72	12 445 717.54	717 668.83
1900665309	95184515	2 325 577.50	30 962 738.84	13.47	31 336 924.25	374 185.41
1900669664	97900822	795 000.00	10 703 085.00	13.04	10 368 151.50	-334 933.50
Total						**3 293 467.46**

This will result in a projected understatement of maintenance expenses amounting to R 15 626 896.78, misstatements in the fair value and translation movements in the statement of profit or loss and other comprehensive income and the retained earnings relating to the prior year exchange rates differences

The prior periods' annual financial statements (not just the comparative year of 2015/16) are also misstated as a similar accounting practice was adopted in prior periods; hence SAA needs to revisit the prior period population of maintenance costs which are denominated in foreign currency. This will possibly increase the impact on the current projected exchange rate differences noted above. This adjustment should be accounted for as a prior period error in the financial statements in line with the requirements of IAS8.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller: Fleet did not ensure that policies and procedures to record foreign expenses using correct exchange rates are properly implemented.

SAA started applying spot rates at the date of payment when the exchange rates in South Africa were extremely fluctuating because of instability in the economy and never reverted back to applying the policy adopted

Recommendation

The Divisional Financial Controller: Fleet should put policies and procedures in place to ensure that the expenses are recorded at the IATA exchange rate applicable that month.

The Divisional Financial Controller: Fleet should review the invoices received by SAA which are denominated in foreign currencies to confirm that they are translated at the correct exchange rate as per the approved accounting policy.

The Divisional Financial Controller: Fleet should put policies and procedures in place to ensure that accounting policies elected are s applied regardless of economic changes.

The Divisional Financial Controller: Fleet should revisit all the population of the transactions which are denominated in foreign currency and verify whether the accounting policy was appropriately applied in the prior period and effect the necessary adjustments and disclosures so that we can perform additional audit procedures on the corrected population of the maintenance costs for both prior periods and current year.

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Management's response

Management comment on audit finding: Agree with finding		
Management comment on internal control deficiencies: Agree with finding		
Management comment on recommendation: Agree with finding		
Remedial action:		
What actions will be taken: The Financial Accounting Department implemented corrective measures to adhere to the accounting policy	By whom Person: Lindsay Olitzki Position HOD Financial Accounting	By when: Complete
Past two financial years are being reviewed to determine adjustments necessary	Person: Pierre d e Villiers Position; Controller	20 Sep 2017

Auditor's conclusion

It is noted that management agrees with the finding, internal control deficiencies and recommendations. On 31 October 2017 a correcting journal was submitted however, we have not received a revised population. A sample of the supporting documents could not be selected because the population was not submitted. The finding will be aggregated with other individually immaterial findings and will be evaluated together and this may have an impact in the audit opinion of SAA.

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8. Provision for C-check not recognised in the annual financial statements

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that *"An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control".*

IAS 8 Paragraph 42 states that *"Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented."*

IAS 37 Paragraph 10 defines a provision as *"a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits."*

IFRS Conceptual framework paragraph 4.37 states that *"an item that meets the definition of a liability should be recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably."*

The accounting policy of South African airways SOC Ltd (SAA) elected for lease aircrafts states that *"Provision is made for aircraft maintenance expenditure which the Group incurs in connection with major airframe and engine overhauls on operating leased aircraft, where the terms of the lease imposes obligation on the lessee to have these overhauls carried out"*

Present obligation of SAA arising from past event

According to lease agreement, SAA need to perform maintenance(C-check) on the aircraft to ensure that it meets the maintenance conditions of the agreement. According to the agreement, SAA at its own expense, shall, at all times during the lease term until the aircraft is returned pursuant to the requirements of the lease agreement, maintain, service, repair, test, inspect and overhaul the aircraft in accordance with:

- Lessee's maintenance programme;
- The rules and regulations of the aviation authority; and
- Lessee's general maintenance practices.

SAA need to utilise the aircraft first and the present obligation for C-Check will arise when utilise the aircraft components. At each reporting period, an assessment of utilisation of the aircraft should be made to determine the present obligation at year end (i.e. how many months have elapsed towards the next required check).

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Obligating event

The past event triggering the obligation should be the usage of the aircraft and the provision should be raised to the extent that SAA has used the aircraft at year end.

The settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits

The performance of the required C-check will result in the outflow of resources from SAA (i.e. prepayments already paid to SAAT). This is due to the lease agreement which specify that the C-check costs should be borne by SAA.

Probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation

The performance of the required C-check will result in the outflow of resources from SAA. This is due to the lease agreement which specify that maintenance costs should be borne by SAA and SAA needs to abide to lessee maintenance programme. From the understanding of the maintenance agreement, SAA already have a kitty with SAAT which they pay in advance on monthly basis based on utilisation.

The amount at which the settlement will take place can be measured reliably.

SAA should be able to make a reliable estimate based on past experience in collaboration with SAAT. The estimate can include past maintenance events (i.e. C-Checks) and the costs associated with those past C-Check which have been incurred in the past adjusted for assumptions to determine the reliable estimate.

Based on arguments documented above, we concluded that SAA should recognise a provision for C-Checks based on the utilisation of the aircraft at year end.

This will result in the understatement of the provision for the C-checks and maintenance expenses by an undeterminable amount to the extent that SAA has utilized the aircrafts at year end. The prior periods' annual financial statements (not just the comparative year of 2015/16) are also misstated as a similar accounting practice was adopted in prior periods; as the provision for C C-checks were not included in the calculation of the provision for major maintenance. This adjustment should be accounted for as a prior period error in the financial statements in line with IAS8. SAA will also have to show a third balance sheet due to the prior period error (retrospective restatement) in terms of IAS1 par 40A.

Internal control deficiency

Financial and performance management

There is no accounting policy governing the provision of C-Check maintenance as they do not consider it as major maintenance since a provision is only raised for D checks.

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The Divisional Financial controller: fleet did not ensure that the adopted accounting policy relating to provision for major maintenance includes the requirements to provide for the provision for C-check as part of major maintenance.

Recommendation

The Divisional Financial Controller: Fleet should adopt an accounting policy governing the provision for C-Check.

The divisional financial controller should quantify the understatement of the provision for C-Check which is not disclosed in the financial statements.

The population for the current and prior year should be revisited to correct the misstatements so that not only the misstatements identified through the audit process are corrected, thereafter additional procedures will be performed to verify the corrections to the population of the maintenance expenses.

Management's response

Management comment on audit finding:		
Management comment on internal control deficiencies:		
Management comment on recommendation:		
Remedial action:		
What actions will be taken:	By whom: Person: Position;	By when:

Auditor's conclusion

Management did not provide a formal management response to this finding. The calculations and journals were submitted for raising the C check provision on 20 October 2017.

Based on the record of work done on the calculation and journals provided, the finding remains unresolved. The misstatement will be included in the schedule of uncorrected misstatement and aggregated with other individual immaterial findings which will have an impact in the audit report of SAA.

We could not confirm whether the correction made of the amount of R135 614 416.71 in the current year and of R224 242 832.32 in the prior year was properly calculated as there were errors identified and information could not be provided.

We reverted back to the initial limitation misstatement identified in the annual financial statements and this matter will be aggregated with other individually not material findings and may have an impact on the audit opinion of SAA.

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Procurement and contract management

9. Lack of management and processing of contract detail information captured on CLM

Audit finding

PFMA 51(1) (b) (iii) General responsibilities of accounting authorities states that *"an accounting authority for a public entity must take effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity".*

The Contract Lifecycle Management (CLM) system was implemented at SAA in order to create, implement and monitor the contract/agreement lifecycle from inception to execution. As such all SAA contracts/agreements should be loaded on the CLM system and approved by a delegation of authority (General Manager: Legal Risk and Compliance) to ensure the validity of the contract and the CLM line items. Once contracts are approved on CLM they are published onto the SAP Finance system by procurement where a second layer of approval by a delegation of authority (DoA) takes place. Once approved on the SAP FI, the budget amount of the contract is available for purchase orders to be processed against it. The SAP FI system is not configured to restrict the creation of purchase orders to the available budget of the contract therefore payments can be made in excess of the contract value without any error message on SAP

A. A key control for mitigating the risk of unauthorised and/or invalid contracts being processed on the CLM and SCM system is to ensure that the detail (line and header information) captured on CLM for all approved contracts are reviewed and approved by a delegation of authority (DoA) that includes General Manager: Legal Risk and Compliance and supply chain representatives on both the CLM and SCM systems.

Our review of contract management within SAA highlighted the following exceptions:

- A number (+-25) of active contracts on the SAP FI system were created directly on SAP FI and not captured nor approved on the CLM system;
- The detail captured for a number of approved contracts captured on the CLM system were not verified and approved by Legal on the CLM system before it was published to SAP FI.;
- Although the system is configured to block the creation of a purchase order against an expired contract, the system can be bypassed by creating a purchase for the same vendor and not referencing the contract/agreement number.

Violation of internal controls in the management of contracts/agreements may result in fraudulent and/or unauthorized approvals of contracts that may result in overpayments of contracts and financial statements being inaccurate.

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Upon further investigation into the payments made on the contracts stated below, it appears that there were overpayments. A limitation of scope finding has been raised as we could not establish whether the overpayment results into irregular or fruitless and wasteful expenditure.

Table A.1

No	Supplier	Description	Award value	Start date	End date	Amount spent	Possible Overpayment	Auditors comment
1	Edward Nathan Sonnenberg Inc	Legal services	R 17 837 641.00	Information not submitted	Information not submitted	R 18 278 467.14	R 440 826.14	Information requested relating to an award was not submitted as communicated as per the limitation of scope finding
2	Tshintsha Business Solutions (Pty) Ltd	Support & Maintenance for AMOS System	R 2 112 000.00	19/09/2016	18/09/2017	R 14 078 880.71	R 11 966 880.71	Information requested relating to an award was not submitted as communicated as per the limitation of scope finding
3	QPR Software PLC	QPR Software Licenses – Annual	R 265 900.00	05/01/2006	On-going	R 931 479.00	R 665 579.00	Information not submitted has been reported under limitation of scope
4.	ICTS(UK) Limited	Aviation security at Heathrow International Airport	R 4 126 478.00	Information not submitted	Information not submitted	R 4 141 565.00	R 15 087.00	Information not submitted has been reported under limitation of scope
6	Grapetiser & Appletiser South Africa (Pty) Ltd	Supply of Appletiser & Grapetiser for on-board SAA flights	R397 016.81	month to month	month to month	R 4 246 333.36	R 1 467 215.69	The tender was awarded on the 2nd of September 2016 by BAC for R397 016,81 per month, therefore from award date to year end 31 March 2017 is seven months which is equivalent to R2 779 117,16
						Total	R 15 867 490.52	

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B. It was noted that the performance of contractors under the following contracts was not monitored to ensure that they comply with the specific goals. Upon further investigation into the payments made on the contracts, it appears that there were overpayments which supports the notion that the measures and methods SAA may have in place to monitor contractor are insufficient.

Table A.2

No	Supplier	Description	Contract value	Payment made	Possible overpayment
1	Renform cc, Leitam cc, LKMN cc	Extension on Supply & Delivery of Pre-printed Stationery	R 4 218 523,26	R 42 239 081,13	R 38020557,87
2	King Fahd Palace Hotel	Crew Accommodation in Dakar	R 2 626 560,00	R 0,00	N/A
3	SITA BRS	End Date Change on the Baggage Reconciliation System (BRS) Services.	R 575 824,00	R 562 256 580,96	R 561 680 756,96
4	Dimension data (Proprietary) Limited	Software as a Service - E-Mail Solution	R 22 947 800,00	R476 664 604,72	R 453 716 804,72
5	Servopak Supplies Pretoria CC	Supply Of Disposable Headrest Covers & Pillow Cases	R 12 320 564,00	R 17 072 862,00	R 9 398 202,00
6	House of Monatic (Pty) Ltd	Supply & Delivery Of Fdc Suiting	R 1 500 000,00	R 5 025 441,48	R 3 172 294,25
7	Rendezvous hotel	Flight Deck Crew / Cabin Crew Accommodation	R 30 332 165,76	R 0,00	N/A
8	LKMN	supply and delivery of pre-printed stationery	R 2 000 000,00	R 25 381 899,82	R 23 381 899,82
9	Global Eagle Entertainment(IFE service limited) & Inflight Dublin	Video & Audio Content Used On Board SAA Flights	R 30 179 662,99	R 0,00	N/A

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No	Supplier	Description	Contract value	Payment made	Possible overpayment
10	SITA (Societe internationale de telecommunications aeronatiques)	Domestic Desktop And Network Services Agreement	R 463 494 184,00	R 570 493 450,07	R 106 999 266,07
11	Westin new york grand central	Flight Deck Crew Accommodation In New York	R 11 528 350,00	R 0,00	N/A
12	Indra technology south Africa (Pty) Ltd	Scope Increase - Web Translation & Integration Change Request Of New Flysaa.Com	R 11 033 527,00	R 586 565,38	N/A
13	Hewlett - packard south Africa (proprietary) limited	IT Services Facility Management	R 399 160 310,00	R 577 476 542,34	R 178 316 232,34
14	Afric Oil (Pty) Ltd	Petrol And Diesel Supply And Delivery	R 33 000 000,00	R 19 347 534,62	N/A
15	Jaff & Company Limited	Supply of ground & cabin crew uniform	R 57 896 139,78	R 75 439 292,08	R 17 543 152.30
16	Standard bank	Extension On Banking Services To SAA	R 128 321 264,00	R 29 853 443,02	N/A
17	ACSA	Airport Lease	R 2 981 8343,70	R 1 038 207 735,94	R 1 008 389 392,24
18	Sky supply	Supply of amenity kits	R 95 716 680,00	R 77 525 554.00	N/A
19	KWE	Provision of integrated supply chain management services	R 5 337 2004,36	R 192 277 855,00	R 138 905 850,64
20	Global Elite Group Inc	Aviation security for IAD/JFK stations	R 3000 000,00	R 0,00	N/A
Total			**R1 353 901 250,34**	**R3 709 848 442,56**	**R 2 539 524 409,21**

Table B

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No	Supplier	Description	Award value	Start date	End date	Amount spent	Possible Overpayment
1	United Airlines	Arrival passenger services at Washington	R 6 306 300.00	01/07/2016	30/06/2019	R 68 012 207.76	R 61 705 907.76
2	AMOS Hexaware Technologies	Data Migration from the Legacy MRO Application & the testing of AMOS	R 3 034 457.22	01/05/2016	31/07/2016	R 14 296 412.86	R 11 261 955.64
3	CIRO Beverages Solutions (Pty) Ltd	Supply of Coffee & Tea & Coffee Machine Rentals for use on board and lounges	R 5 187 784.70	01/07/2016	28/02/2017	R 8 789 914.47	R 3 602 129.77
4	Cub 3D	Brand Design Services	R 20 000 000.00	01/03/2014	31/12/2016	R 21 057 126.00	R 1 057 126.00
5	Zimbabwe Airport Leases	Civil Aviation Authority of Zimbabwe	R 2 566 578.61	01/02/2016	31/01/2019	R 136 736 625.74	R 134 170 047.13
6	Havas World Wide	Global advertising services	R77 500 000.00			R129 029 613.05	R51 529 613.05
Total							**R 263 326 779.35**

There is a risk of non-compliance with PFMA resulting in the amount of R15 867 490, 52 (Table A.1) and R263 326 779,35 (Table B) paid to suppliers which may be fruitless and wasteful expenditure and the amount of R 2 539 524 409, 21 (Table A.2) paid to suppliers may be irregular. Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to establish the reasons why the overpayment was made and whether proper processes as per SCM

Internal control deficiency

Financial and performance management

- Inadequate implementation/enforcement of contract management controls on the CLM and SAP FI system by the Head of department Enterprise Resource Planning (ERP) and General Manager: Legal and the Acting Chief Procurement Officer.
- Acting Chief Procurement Officer, User department, General Manager: Legal Risk and compliance and Chief Financial Officer did not exercise oversight responsibility to ensure that, monitoring of contracts is done and that all payments made are not above awarded values as per SAP module finance is not exceeded due to a lack of capacity in Global Supply Management (GSM) and legal business unit to manage and approve contracts.
- Furthermore there is a lack of coordination between GSM, Legal, Information Technology (IT), User and Finance business unit in order to manage contracts effectively and avoid irregular and fruitless and wasteful expenditure.

Recommendation

Management should configure the CLM and SAP FI system such that the contract management controls are enforced and cannot be bypassed by users through the following:

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- A contract captured and approved on CLM should not be published to the SAP FI system if legal has not physically approved on the CLM system as part of the DoA.
- A contract published and approved on the SAP FI system should not be active unless legal has physically signed off as part of the DoA.
- The SAP FI system should enforce purchase orders created for vendors to be linked to a contract number. In the event of one time vendors where the vendor will not have a contract, management should ensure that there is adequate monitoring controls in place to limit the abuse of one time vendors (e.g. a one-time vendor cannot be paid more than once).
- The SAP FI system should be further configured to restrict the creation of purchase orders to the available budget of the contract.

Acting Chief Procurement Officer, user department, General Manager: Legal and Chief Financial Officer must ensure that monitoring of contracts is done, that accurate amount as per contract is captured on the system and payments made are not above the contract value by performing high level checks through quarterly analysis of contracts.

Furthermore:

- Fruitless and wasteful expenditure of R15 867 490, 52 (Table A.1) and R263 326 779,35 (Table B) and irregular expenditure of R 2 539 524 409.21 (Table A.2) incurred must be investigated and it must be determined whether goods and or services were received.
- There should be consequence management on those who failed to comply.
- Contract management and monitoring must be included in the performance contracts of management.
- Coordination between GSM, Legal, Information Technology (IT), User and Finance business unit must take place and formalised in the policies and procedures.

Management's response

Management comment on audit finding:

Table A.1 & A.2

We do not accept the limitation of scope finding pertaining to some of the listed contracts above and on the consolidated limitation of scope document attached hereto, we have indicated the available documents. However, we accept the limitation of scope finding pertaining to the information recorded as untraceable on the document attached and management actions recorded below will be implemented.

Table B

The finding is not accepted in full as noted below:

Regarding CIRO Beverages Solutions (Pty) Ltd, we do not agree with the finding. This is because the approved quantities and prices are loaded on the MRP (Material Requirement Planning system). Orders are then placed against the loaded quantities, which cannot be exceeded unless adjusted by GSM official.

Regarding United Airlines, we do not accept the finding. The amount declared (R 68 012 207,76) is covering full ground handling services provided by several service providers and not only the

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aspect of passenger arrival services provided by United Airlines. Evidence to this effect was provided and is available.

Regarding CUB 3D and Havas, we accept the finding.

Regarding Zimbabwe Airport leases, we disagree with the finding as the total spend indicated (R 136 736 625.74) is for all the services the Airport Authority provides, namely navigation fees, landing and parking bays, airport taxes and office lease fees. The contract in question is only for office lease fees and the spend is R 2 566 578.61.

Regarding Amos Hexaware, we disagree with the finding and it should also be noted that the contract was awarded in 2014 however, based on the requirements (as per the scope of work), the contract was extended and payment was done per milestone and considering the project incurred delays, it resulted in late payment. Evidence if required, can be made available.

Regarding the number of approximately 25 agreements loaded directly on SAP FI and not captured or approved on the CLM System, the finding is correct. Evidence if required, can be made available.

Regarding the detail captured for a number of approved contracts captured on the CLM system were not verified and approved by Legal on the CLM system before it was published to SAP FI, the finding is incorrect. This is because the approval process does not take place in CLM, as only signed agreements are captured in CLM. Evidence to support this may be made available if required.

Management comment on Internal control deficiency:

Table A.1 & A.2

We accept the noted deficiency pertaining to the untraceable information noted on the attached document.

Table B
We accept the noted deficiency relating to the accepted findings.

Management comment on recommendation:

Table A.1 & A.2

Noted and reference is also made hereto, to the comment on internal control deficiency.

Table B
Recommendations noted and will be considered in the SAP Optimization Project.

Remedial action:

What actions will be taken:		
Table A.1 & A.2 Information Management Committee (IMC) has been established to oversee adequate management and control of GSM information (including introducing information management technologies such cloud). Also, the revamp of the GSM storages and ensuring files are labelled and properly stored has commenced.	**By whom:** Commodity Management team, Reinette Slabbert IMC and CPO.	**By when:** December 2017

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Table B GSM is already working with the Projects Office on SAP CLM optimization. We will work with IT on the configuration of the SAP FI system to restrict the creation of purchase orders to the available budget of the contract		
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management's response is noted and additional engagements were held with management on the 12/09/2017, where they partially agreed with the finding. Management agreed with the section relating to IT and disagreed with the possible overpayments. A conclusion was established that management will provide proof/evidence on the possible overpayment included on the tables above that these were not overpayments by 13/09/2017.

Subsequent to the discussion held, management could not provide evidence to prove that there were no overpayments and conceded to the finding on the 20/10/2017 as a result did not adjust or revise the irregular and fruitless and wasteful expenditure population. The finding remains in the management report and the impact, being a qualification of irregular/fruitless and wasteful expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

IT part of the finding

With regards to the contract approvals on CLM, the risk is still applicable as the purpose of the CLM system is to manage contracts. Considering that CLM contract entries are performed based on signed contracts from legal the risk of contracts being captured incorrectly is still applicable without the review and approval of legal on CLM.

Furthermore, the absence of an approved contract management procedure document on the processes to be followed in the use of CLM, the return on investment on the CLM application cannot be justified and may result in the underutilization of CLM

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10. Services not procured through the process prescribed by the SAA SCM policy.

Audit finding

Public Finance Management Act (PFMA) section 51(1) (a)(iii) states that *"An accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective".*

Supply chain management (SCM) policy paragraph 11.10 states that *"competitive tender process must be done for procurement above R500 000, 00".*

1. We noted that competitive tender process was not done for the awards in the below table and there were no documented reasons for deviating from the process. There was no evidence of a market analysis being done before occupying RB Properties.

Item	Supplier	Date contract signed	Description	Amount spent
1	Pathfinders International Limited	14/01/2013	Security services company at the Lagos airport	R 2 267 632.23
2	RB Properties Limited	05/02/2013	Property Lease Company for the Lagos outstations offices	R 18 216 051.53
Total				**R 20 483 683.76**

There is non-compliance with SCM policy and PFMA resulting in irregular expenditure of R20 483 683.76 .

2. We noted that competitive open tender process was not done for the contract and that the appointment of Edward Nathan Sonnenberg (ENS) incorporation to conduct an investigation into certain financial matters within SAA was not in accordance to the requirements of SCM.

Reasons provided why it would be impractical to follow the prescribed company procurement procedures was that the investigation itself may impact those responsible for procurement and related supply chain functions to be investigated.

No.	Supplier	Description	Award value	Amount spent
1	Edward Nathan Sonnenberg Inc.	Forensic investigation	R17 837 641.00	R18 278 467.14

There is non-compliance with SCM policy and PFMA resulting in irregular expenditure.

Internal control deficiency

Leadership

Board of Directors did not follow competitive tender process when awarding contracts above R500 000, 00 to ENS Inc. to ensure compliance with the SCM policy and PFMA requirements.

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Financial and performance management

Regional manager and Commodity manager did not follow competitive tender process when awarding contracts above R500 000, 00 to suppliers due to lack of understanding of SCM policy and PFMA requirements.

Recommendation

Board of Directors, Regional manager and Commodity manager must:

- Ensure that the procurement process detailed on the SCM policy is followed at all times in order to ensure compliance with regulations
- Ensure that training/workshops are held at the head office and outstations to equip staff with knowledge and understanding of the requirements of the SCM policy and PFMA.
- Ensure that an amount paid to suppliers is disclosed as irregular expenditure in the financial statements and that an investigation is conducted

Management's response

Management comment on audit finding: We agree with the finding.		
Management comment on internal control deficiency: We accept the deficiency.		
Management comment on recommendation: Item 1: The recommendation is noted.		
Remedial action: Refer below:		
What actions will be taken: The recommendations will be implemented, commencing with the declaration of irregular spend and condonement thereof by the relevant authority.	**By whom:** Business Unit and Commodity Management: B Steyn and T Sogwazile	**By when:** October 2017

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

Subsequent to agreeing to the finding raised, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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11. Quotation process followed for services above the quotation threshold

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that *"an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

Section 16.13.4 of the SAA SCM Policy states that,*" A competitive tender must be followed for awards above R500 000*

Section 7.15 of SAA delegation of authority (DOA) effective 27 May 2016 states that *"the CPO can make an award up to R500 000 (for quotes)"*

It was noted that the procurement of disaster recovery awarded to Blake Emergency Services which followed the request for quotation (RFQ) process exceeded the quotation threshold. The request for quotation (RFQ) was not cancelled to allow for a competitive tender process to be followed. Furthermore, the award was approved by the Acting Chief Procurement Officer (ACPO) for a value of award which falls outside his delegation of authority (DOA).

No	Supplier name	Procurement description	Approved by	Date approved	Value	Conversion rate	Value	Amount spent
1	Blake Emergency Services	Disaster Recovery	ACPO	01/06/2016	£28 000,00	22.54	R 631 122,80	R 137 369.29

There is non-compliance with DOA and PFMA resulting in the amount of R137 369.29 paid to the supplier as irregular expenditure.

Internal control deficiency

Financial and performance management

The Acting Chief Procurement Officer (ACPO) approved a foreign amount without converting it to rand to ensure the value falls within his delegation of authority. In addition, it appears that the ACPO did not refer and review to the updated delegation of authority which was effective 27 May 2016 when approving the award to ensure compliance.

Recommendation

- Acting Chief Procurement Officer must review the updated version of the DOA to ensure that approval is done on awards within his authority in order to comply with the DOA and PFMA
- Amount of R137 369,29 paid to Blake Emergency Services must be disclosed as irregular expenditure in the financial statements

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Management's response

<table>
<tr><td colspan="5">Management comment on audit finding: Agree with the finding.</td></tr>
<tr><td colspan="5">Management comment on Internal control deficiency: We accept the deficiency noted.</td></tr>
<tr><td colspan="5">Management comment on recommendation: Recommendation noted.</td></tr>
<tr><td colspan="5">Remedial action: Refer below:</td></tr>
<tr><td>What actions will be taken: Commodity Management team with the assistance of Governance Unit, will review and familiarised themselves with the revised DoA and Commodity Managers will verify and provide assurance to CPO that the correct process has been followed, prior to approval.</td><td colspan="2">What actions will be taken: Commodity Management: T Sogwazile</td><td colspan="2">By When: November 2017</td></tr>
<tr><td colspan="5">If the above finding affects an amount(s) disclosed in the financial statements:</td></tr>
<tr><td colspan="2">Please give an indication of whether a correcting journal entry shall be processed</td><td colspan="2">Yes</td><td>No</td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry</td></tr>
<tr><td colspan="5">If no, please provide the reason why such a conclusion has been reached</td></tr>
</table>

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

Subsequent to agreeing to the finding, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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12. Total payments made exceeding quotation value

Audit finding

Section 51(b)(iii) of the PFMA (Act 1 of 1999)states that general responsibilities of accounting authorities requires that *"(1) An accounting authority for a public entity must take effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity".*

Section 57(c) of the PFMA (Act 1 of 1999)states that *"An official in a public entity 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".*

It was noted that total payments made to the suppliers listed below for goods or services procured under the request for quotation (RFQ) process exceeded the original quoted amount.

Item no.	Supplier name	Description of procurement	Quotation amount	Payments made	Possible overpayment
1	Gijima Holdings	Ipad Mini Repair	R 338 769.24	R 1 487 848.20	R 1 149 078.96
2	Infinite Glamour (Pty) Ltd	Support Stockings	R 497 979.81	R 497 993.50	R 13.69
3	Bennie Howard & Associates	Rfq Wine Consultant	R 139 600.00	R 159 144.00	R19 544.00
4	Molori Trading Cc	Soup Flasks	R 354 649.88	R 354 650.86	R 0.98
5	Cfx Travel & Tours	Staff Transport Harare	R 467 798.25	R 1 008 354.21	R 540 555.96
6	Jamaric Pump & Value Engineering	Request For Quotation For Hydro Boils L&D	R 42 273.36	R 42 273.38	R 0.02
7	Zimele Technologies	Data Migration For Sentinal Into Iqsms	R 401 280.00	R 900 878.16	R 499 598.16
8	Thabiso & Ice Cleaning & Maintenance (Tick)	Wipes And Adapters	R 50 950.00	R 291 779.51	R 240 829.51
9	Hollis System Zwane Cc	Bulkflier For SAA	R 136 787.40	R 155 937.64	R 19 150.24
10	Eyam Projects Cc	Cargo Calendars	R 186 000.00	R 309 960.30	R 123 960.30
11	Clean Dot Waste	Waste Removal	R 67 176.00	R 338 947.43	R 271 771.43
12	Summat Training Institute Pty Ltd	Executive Coaching	R 450 000.00	R 513 000.00	R 63 000.00
13	Govchat (Pty) Ltd	Advertising	R 240 000.00	R 273 600.00	R 33 600.00
14	Lkmn Media Connexion Cc	Platinum Stationary	R 377 580.00	R 8 980 624.79	R 8 603 044.79
15	Faculty Training Institute(Pty) Ltd	Advanced Business Analysis Programme /Nvba For Gavin Murugan (18-21 Oct 16)8 Months Part-Timefrday - Full Day	R 38 999.00	R 616 947.14	R 577 948.14
Total			**R 3 789 842.94**	**R 15 931 939.12**	**R 12 142 096.18**

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There is a risk of non-compliance with PFMA resulting in the amount of R 12 142 096.18 paid to suppliers may be irregular expenditure. Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to establish the reasons why the overpayment was made and whether there is proper processes as per SCM.

Internal control deficiency

Financial and performance management

- Acting Chief Procurement Officer, User department, General Manager: Legal Risk and compliance and Chief Financial Officer did not exercise oversight responsibility to ensure that all payments made are not above quoted values due to a lack of capacity in Global Supply Management (GSM) and legal business unit to manage quotations.
- Furthermore there is a lack of coordination between GSM, Legal, Information Technology (IT), User and Finance business unit in order to manage quotations effectively and avoid irregular expenditure.

Recommendation

Acting Chief Procurement Officer, user department, General Manager: Legal and Chief Financial Officer must ensure that the reconciliation of payments made to date and quoted price is performed to ensure that no payments in excess of approved quoted are made on SAP.

Coordination between GSM, Legal, Information Technology (IT), User and Finance business unit must take place and formalised in the policies and procedures

Management's responses

Management comment on audit finding: We do not accept the finding. AGSA used the spend based on supplier vendor numbers and not the spend arising from PO's which are linked to specific RFQ's. AGSA needs to match spends to PO's (and not the consolidated spend per vendor).		
Management comment on internal control deficiencies: We do not agree with the noted deficiencies.		
Management comment on recommendation: Not applicable.		
Remedial action: None.		
What actions will be taken: None	By whom: Person: Position;	By when:

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Auditor's conclusion

Management's response is noted and additional engagements were held with management on the 12/09/2017, where they disagreed with the finding. A conclusion was reached that management will provide proof/evidence on the possible overpayment included on the table above that these were not overpayments by 13/09/2017.

Subsequent to the discussion held, management provided some proof that there was no overspending. The finding has been partially resolved. Out of the 15 suppliers where an overpayment was noted and evidence was required to prove otherwise, only 11 suppliers were resolved as supporting evidence was provided and assessed as sufficient/acceptable by the auditors. On the remaining 4 suppliers listed below, no supporting evidence was received.

1. CFX travel tours (staff transport harare)

2. Clean dot waste

3. Eyam projects cc

4. LKMN media cc

Subsequent to the discussion held, management could not provide evidence to prove that there were no overpayments on the remaining 4 suppliers and conceded to the finding on the 20/10/2017. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations

13. Deviation from competitive bidding process not justified

Audit finding

In terms of section 51(1) (a) (iii) of the PFMA ,"*an accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective*".

SAA SCM policy refers to the following paragraphs for limited/confined bidding:

16.10.1) Subject to compliance with the Procurement Regulatory Framework, SAA Group may in the following but not limited circumstances use confinement process for procurement of goods and services:

16.10.1.1) a genuine and unforeseeable emergency or urgency that is not attributable to a lack of planning on the part of SAA Group has risen. Under this circumstance, appropriate action must be taken against the individual responsible for the urgency that has been self-created or resulting from poor planning and dereliction of duties.

16.10.1.2) multiple sources bidding where there are proven limited competition in the market and there are good reasons to restrict it to only those few bidders existing in the market at the time. However, this shall not preclude or excuse SAA Group from finding ways of opening access to and unlocking opportunities for other Suppliers having an interest to compete in the said market.

16.10.2) the invoking of any of the exceptions listed under article 16.10.1 of this SCM Policy shall be highly motivated and recommended by the End-User/BU. Where the value of the Works is below the open tender threshold, the CPO shall consider and approve the End-User/BU" submissions that raise any of the exception listed under article 16.10.1 of this SCM Policy. All other submissions containing any of the exceptions listed under article 16.10.1 of this Policy and to which value threshold requires an open tender process, shall be considered and approved by the BAC in line with the DOA. "

16.11.1) Emergency situation for purposes of this SCM Policy is regarded as an incident that is urgent, serious, unexpected and potentially dangerous, where amongst other there will be a significant pollution of the environment, loss of life, breach of legal duty and financial loss may occur or a serious disruption of SAA Group" business may result

16.11.2) where the emergency situation described in article 16.11.2 of this SCM Policy occurs; the procurement process requirements described in this SCM Policy may be circumvented

16.11.3) notwithstanding article 16.11.1 and 16.11.2 of this SCM Policy, SAA Group must ensure that the requirements provided in the Procurement Regulatory Framework for emergency procurement are complied with.

Preferential Procurement Policy Framework paragraph 4(4) states that "*No tender must be regarded as an acceptable tender if it fails to achieve the minimum qualifying score for functionality as indicated in the tender invitation*".

Preferential Procurement Regulation 2011 paragraph 14 states that "*No tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order*".

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Treasury instruction 3 of 2014-15 paragraph 3.6(d) states that *"The accounting officer of a department or constitution institution or the accounting authority of public entity must ensure that the bids documents provide for bidders who are not resident in the Republic of South Africa ,to apply for tax clearance at SARS."*

A. Reasons for confinement

The appointment of Seabury Corporate Advisors LLC as a restructuring strategic advisor followed the confined bidding process. The reasons cited in the submission for approval dated 24 November 2016 made by the Acting group CEO to the long-term turnaround strategy committee (LTTSC), a sub-committee of the board set up to assist and advise the board in monitoring the implementation of the long term turnaround strategy of SAA and its subsidiaries were as follows:

1.1. The financial institutions participating in Project Phoenix strongly recommended and submitted a list of the following bidders SAA should issue RFP to:

- Seabury
- Deloitte
- PWC
- Mckensey
- FTI, London
- Mott MacDonald

1.2. The scope of work contained in the RFP is considered highly sensitive and confidentiality thereon should be maintained. Based on the reasons cited above the following is noted:

- The reasons do not fall within the context of an emergency in terms of the above references made to SAA SCM policy
- The financial institutions participating in Project Phoenix only recommended and did not impose on SAA to issue RFP to the above bidders. This suggests that SAA was not limited to the above list of bidders and it was practical to invite competitive bids by following the official competitive bid process.
- The confidentiality and sensitivity of the scope of work contained in the RFP is not listed as a justifiable reason to follow a limited bidding process according to SAA SCM policy.

Supplier	Procurement description	Contract value	Amount spent
Seabury Corporate Advisors LLC	Restructuring strategic advisor	R60 988 950.00	R 7 664 115.04

B. Evaluation of Seabury

2.1. First evaluation

Furthermore, the initial RFP was issued on 29 November 2016 with a closing date of 5 December 2016 at 11am and of the four bidders (Seabury, Deloitte, PWC & McKinsey) who responded to the RFP, only three bidders (Seabury, Deloitte & McKinsey) met the critical evaluation criteria and proceeded to the functional criteria evaluation phase where bidders were required to score minimum of 80% in order to be evaluated further on pricing and B-BBEE. Of the three bidders, McKinsey who scored 100% (Seabury scored 70%) was the only bidder who proceeded to be evaluated further on pricing and B-BBEE, however McKinsey proposed a risk share pricing model which the evaluation team found impossible to ascertain the total cost of the project. A request was made to McKinsey to provide a fixed project cost to ensure

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compliance with the applicable preferential procurement policy framework act's 90/10 preferential point system and PFMA, however McKinsey insisted on the variable pricing model which led to a decision by the evaluation team in consultation with the acting CEO and LTTSC chairperson to re-open the RFP to all suppliers.

2.2. Second evaluation

The re-opened RFP was issued on 8 December 2016 and closed on 12 December 2016 at 11am which included a pricing template to avert the challenges experienced in the initial RFP. Five bidders (Seabury, Deloitte, PWC, and McKinsey & FTI London) responded to the RFP but only three bidders (Seabury, FTI London & McKinsey) met the critical evaluation criteria and proceeded to the functional criteria evaluation phase where bidders were required to score minimum of 80% in order to be evaluated further on pricing and B-BBEE.

Of the three bidders, McKinsey scored 100% and Seabury scored 80% due to an extra 10% awarded for the criteria "transfer of knowledge and experience" was part of the both RFP's. The criteria stated that "bidders must have the ability to work closely with SAA, South African National Treasury to transfer knowledge and experience to ensure value long after the project is complete and was measured as follows: a) full plan for knowledge transfer and handover to business during close out of the project included training interventions = 10%; b) Provide training and notes = 5% and none =0 %.

The information submitted by Seabury in response to both RFP's was inspected and it was noted that both RFP's contained almost similar information relating to knowledge transfer and handover to business. In addition, the additional information contained in the second RFP (not found in the first RFP) was insufficient to conclude that a full plan for knowledge transfer and handover to business during close out of the project which includes training interventions was submitted. Refer to the table below

Supplier	First evaluation		Second evaluation		Extra points awarded(B-A)
	Date	Points (A)	Date	Points (B)	
Seabury Corporate Advisors LLC	05/12/2016	70%	12/12/2016	80%	10%

This results in non-compliance with SAA SCM policy, preferential procurement regulation (PPR) and treasury instruction which results into irregular expenditure of R7 664 115.04

C. Tax matters

Treasury instruction 3 of 2014-15 paragraph 3.6(d) states that *"The accounting officer of a department or constitution institution or the accounting authority of public entity must ensure that the bids documents provide for bidders who are not resident in the Republic of South Africa ,to apply for tax clearance at SARS."*

It was noted that Seabury Corporate Advisors LLC as an international supplier who's rendering services in South Africa, the award was made without tax clearance from SARS. A Reportable Arrangement was completed and signed on the 18/04/2017 however this was after the award date of 10/01/2017

This results in non-compliance with SAA SCM policy, preferential procurement regulation (PPR) and treasury instruction which results into irregular expenditure

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Internal control deficiency

Financial and performance management

- The Acting Group CEO and LTTSC did not exercise oversight responsibility to ensure that SAA complies with SAA SCM policy when deviating from official procurement processes (competitive bidding process) by requesting advice and guidance from global supply management (GSM) from the inception of the tender.
- Evaluation committee did not ensure that bids are evaluated based on submitted information and all bids that do not meet minimum threshold for functionality are disqualified.
- Bid specification committee did not ensure that bids documents requires bidders who are not resident in the republic of South Africa to submit tax clearance from SARS when they bid.

Recommendation

- The Acting Group CEO and LTTSC must ensure that deviations from official procurement processes are only approved in cases where it is impractical or impossible to follow the official procurement process (competitive bidding process) with the advice and guidance from GSM.
- Amount of R7 664 115,04 must be disclosed as irregular expenditure in the financial statements, and
- Evaluation committee must ensure that they adhere to the criteria and that the evidence to support the points scored can be substantiated.
- Bid Specification Committee must ensure that bids documents requires bidders who are not resident in the republic of South Africa to submit tax clearance from SARS when they bid.

Management's response

Management comment on audit finding:
Management disagree with the finding that there was non-compliance with the SCM policy. There is more than sufficient evidence to support the invoking of the Emergency Clause of the SCM policy. The Emergency Clause was invoked in a way that accommodated the requirements of the Lenders. The cited correspondences indicate the timelines SAA was required to adhere to in order for the required funds to be released. Management disagree with the finding pertaining to evaluation of this contract. This is because the evaluation criterion was the same as the initial bid which was cancelled. Seabury' second bid submission was improved and because of this their points on the new bid differed with the points allocated in their first bid submission. This is evident from the two bid submissions, which copies thereof are available and were provided to AGSA. Management disagree with the finding on Seabury's tax matters, which is based on *Paragraph 3.6(d) of Treasury instruction 3 of 2014-15 dated 15 July 2014 which states that "the accounting officer of a department or constitution institution or the accounting authority of public entity must*

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DD20-PS-1017

<table>
<tr><td colspan="5">ensure that the bids documents provide for bidders who are not resident in the Republic of South Africa, to apply for tax clearance at SARS".

Notwithstanding the fact that the implementation date of the cited clause of the National Treasury instruction no. 3 of 2014/2015 was deferred until further notice by Instruction No 3A of 2014/2015 dated 31 October 2014, the finding does not consider the context within which the award was made. The award was hurriedly made in order to meet the deadline that was set by the funders hence the reportable arrangement was completed after the award. The appointment of Seabury was a condition precedent for funds that were required before the end of December 2016 to be released by the funders. It has to be noted that the team was given only four (4) days to start and conclude the sourcing process that led to the appointment of Seabury. The emergency procurement clause of the SCM policy allows the appointment of the service provider to take place before approval. The transaction will then be ratified by the appropriate DOA (Refer to the Emergency Clause of the SCM policy). Given the leeway provided for by the aforesaid clause of the SCM policy, completion of the reportable arrangement after appointment cannot be regarded as a violation of the governing statutes.</td></tr>
<tr><td colspan="5">Management comment on Internal control deficiency:

Management disagree with the findings. The situation warranted the exercising of the emergency clause as the matter had a serious impact on SAA's business continuity.</td></tr>
<tr><td colspan="5">Management comment on recommendation:

Management disagree with the findings. The emergency clause of the SCM policy allows for such cases to be ratified after the service provider has started rendering services. This means that some issues may be resolved after award i.e. during the ratification of the transaction.</td></tr>
<tr><td colspan="5">Remedial action: The remedial action is not applicable given that management disagree with the findings.</td></tr>
<tr><td colspan="2">What actions will be taken: The remedial action is not applicable given that management disagrees with the findings.</td><td>By whom</td><td colspan="2">By when:</td></tr>
<tr><td colspan="5">If the above finding affects an amount(s) disclosed in the financial statements:</td></tr>
<tr><td colspan="3">Please give an indication of whether a correcting journal entry shall be processed</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry</td></tr>
<tr><td colspan="5">If no, please provide the reason why such a conclusion has been reached</td></tr>
</table>

Auditor's conclusion

Management's response is noted and additional engagements were held with management on the 17/08/2017 and 12/09/2017, where management continued to disagree.

The finding is based on the requirements of section 217 of the Constitution of the Republic of South Africa which requires an organ of state, which contracts for goods or services, to do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.

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This requirement is further emphasized in section 51(1)(a)(iii) of the PFMA and the Preferential Procurement Policy Framework Act in the case of SAA as it is a schedule 2 public entity. The system that public entities use to ensure that they comply with this legislative requirement is to ensure that procurement of goods and services is fair, equitable, transparent, competitive and cost-effective.

Reasons for deviation/confinement

On the reasons given for deviating from the normal process, consideration was done on the state/circumstances that SAA was faced with during 2016. In terms of project Phoenix, there was a condition precedent for the hiring/obtaining a restructuring adviser and SAA had to confine the process to the lenders suggested by the lenders in terms of project Phoenix. The reasons for deviating from the normal procurement process are valid and the finding is not applicable and has been partially resolved.

Bid evaluation

Seabury's proposal did not constitute a full plan and as a result, the 10% given on the evaluation was not valid.

Exhibit 1A & 1B.pdf Exhibit 2A & 2B.pdf Exhibit 4.pdf

See attached proposal submitted by Seabury

It is must be pointed out to management that for the transfer of knowledge and experience both RFP's specifically mentioned the following" bidders must have the ability to work closely with SAA, South African National Treasury to transfer knowledge and experience to ensure value long after the project is complete and was measured as follows: a) full plan for knowledge transfer and handover to business during close out of the project included training interventions = 10%; b) Provide training and notes = 5% and none =0 %".

Clause 3.5.5 & 3.5.7 referred to by management above do not disclose a full plan for knowledge transfer and handover to business during close out of the project included training interventions which was specifically required in the RFP to award Seabury the 10%. In addition it is a concern that the 10% was only awarded for the evaluation of RFP GSM125/16 and not RFP GSM244/16, yet both the mentioned clauses appeared in both RFP's.

Tax matters

It was concluded that management will consult treasury on this matter immediately and submit the responses for evaluation.

Subsequent to the finding raised and the discussions held on the 17/08/2017 and 12/09/2017, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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14. Award made to supplier without a valid tax clearance from SARS (Quotations)

Audit finding

Preferential Procurement Regulation 2011 paragraph 14 states that "No tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order".

It was noted that an award was made to the following suppliers who submitted a copy of a tax clearance certificate which is not considered valid according to SARS. SARS have stated on the certificate that "photo copies of this certificate are not valid.

No	Supplier Name	Description of procurement	Value of award	Payments made
1	Gijima Holdings.	IPAD MINI repair	R 338 769.24	R 1487 848.2
2	Blue Brighten	Supply support and maintain HP Design jet plus 1050c	R 165 243.00	R 144 950.00
3	Infinite Glamour (PTY) Ltd	Support Stockings	R 497 979.81	R 497 993.5
4	Bennie Howard & Associates	RFQ wine consultant	R 139 600.00	R 159 144.00
5	Molori Trading CC	Soup Flasks	R 35 4649.88	R 354 650.86
6	Stepahead Military Headwear Distributors CC	Pilot caps	R 258 780.00	R 258 780.00
7	Buntu - Mabande Investments holdings (Pty)Ltd (Trading as BMI)	RFQ for Office Revamp for Crisis Media Centre	R 48 421.58	R 48 421.58
8	Broadband college of technology	Request for quotation for MS Office Training	R 485 640.00	R 0.00
9	Jamaric pump & value Engineering	Request for quotation for Hydro Boils L&D	R 42 273.36	R 42 273.38
10	DDP Valuation and Advisory services	SAA Property Portfolio Valuations	R 48 222.00	R 48 222.00
11	Xicon Solutions CC	Request for Quotation for CSD Migration Tool	R 436 050.00	R 210 900.00
12	K2013146009 (South Africa) Pty Ltd	USB	R 285 399.00	R 285 399.00
13	AAFSA(Aviation academy for Southern Africa)	AAFSA training	R 376 200.00	R 0.00
14	EES-Siyakha	Request for Quotation for EE Committees	R 433 600.00	R 91 200.00
15	Global carbon exchange(GCX) SA (pty) Ltd	Carbon Footprints	R 127 680.00	R 0.00
16	Zimele Technologies	Data Migration for Sentinal into IQSMS	R 401 280.00	R 900 878.16
17	Zamane projects	Request for quotation for Supporting of day-to-day operations. skilled technicians that can assist in trouble shooting email. internet and applications-2.	R 418 608.00	R 418 608.00
18	Thabiso & Ice cleaning & Maintenance (TICK)	Wipes and Adapters	R 50 950.00	R 291 779.51
19	Black Economic Employment Support Services(BEESS)	BAC Training	R 38 239.98	R 38 239.98
20	AGS Frasers	The Move of Furniture and Personal Effects from Banana Island Nigeria to Maputo Mozambique (Miss T. Duma 2016)	R 193 799.00	R 193 799.00
21	Hollis system Zwane CC	Bulkflier for SAA	R 136 787.4	R 155 937.64
22	Eyam projects CC	Cargo Calendars	R 186 000.00	R 309 960.30
23	Clean Dot waste	Waste Removal	R 67 176.00	R 338 947.43
24	Summat Training Institute	Executive Coaching	R 450 000.00	R 513 000.00

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No	Supplier Name	Description of procurement	Value of award	Payments made
	Pty Ltd			
25	Blackspace IDP Pty Ltd	sliding Doors	R 158 681.23	R 0.00
26	ADAGIO Toulouse Parthenon	Accommodation contract in Toulouse	R 448 576.74	R 347 226.21
27	GovChat (Pty) Ltd	Advertising	R 240 000.00	R 273 600.00
28	Landelane Trading (Pty)Ltd	RFQ Framing of Service Recognition Certificates	R 381 889.93	R 0.00
29	Hove Construction and Projects (Pty)Ltd	Lanyards	R 132 582.00	R 115 800.00
30	Inkezo HR Solution	RFQ For Occupational Health and Safety Training for All Station	R 438 475.50	R 70 328.88
31	Silver Star Trading 37 CC	RFQ for New Exports Office	R 397 905.96	R 0.00
32	LKMN Media Connexion cc	Platinum Stationary	R 377 580.00	R 8 980 624.79
33	Faculty Training Institute(Pty) Ltd	Advanced Business Analysis Programme /NVBA for Gavin Murugan (18-21 Oct 16)8 months part-timeFrday - Full Day	R 38 999.00	R 616 947.14
34	Archblue - Afrika Pty(Ltd)	Global supply management structure, processes and remuneration	R 419 937.00	R 419 937.00
35	Sizwe Ntsaluba Gobodo Advisory Services (Pty) Ltd	Appointment of audit firm to conduct assessment of the internal audit function	R 339 954.38	R 339 954.38
36	Pink Dot Creations (Pty) Ltd	Provision for event set up	R 74 100.00	R 74 100.00
Total			**R 1 243 393683.66**	**R302 669 606.53**

Amount has been reported as irregular expenditure as per contract extension not done in accordance with SAA SCM policy finding

There is a non-compliance with preferential procurement regulation (PPR) and treasury instruction which resulted to amount paid to supplier to be irregular expenditure. Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements

Internal control deficiency

Financial and performance management

The purchasing researchers, Bid Evaluation Committee, commodity managers and Bid Adjudication Committee did not ensure that winning suppliers submitted original tax clearance certificates from SARS when they respond to the quotations and tenders due to a lack of understanding of the requirements of PPR

Recommendation

- The purchasing researchers, Bid Evaluation Committee, commodity managers and Bid Adjudication Committee must ensure that winning suppliers submit original tax clearance certificate from SARS when they respond to the quotations.
- The purchasing researchers, Bid Evaluation Committee, commodity managers and Bid Adjudication Committee must ensure that they have full understanding of the requirements in the PPR to ensure compliance

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- Amount paid to suppliers must be disclosed as irregular expenditure in the financial statements.

Management's response

Management comment on audit finding: We disagree with the finding and submit the following for consideration: <u>Compliance to Preferential Procurement Regulations (PPR):</u> The PPR 2001 regulations required that an original Tax Clearance Certificate (TCC) be submitted but it was withdrawn when the PPR 2011 took effect. Paragraph 14 of the PPPR 2011 reads as follows "No tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order". The bidder in question submitted a valid Tax Clearance Certificate (TCC) which is in line with the purpose of paragraph 14 whereby it is required that the State will only do business with persons whose tax affairs, as declared by SARS, is in order. The submitted TCC is valid, and its validity can be confirmed by contacting SARS and therefore this TCC copy substantially confirm the purpose of paragraph 14 of PPR 2011. Paragraph 14 of the PPPR 2011 does not require that an original TCC must be submitted neither does it have a 'submit by close of tender' requirement. Therefore perfect compliance to paragraph 14 with the requirement for an original certificate cannot be expected. In fact the repealed PPR of 2001 had the requirement for an original certificate but it was replaced with the 2011 and 2017 regulations which do not require that an original TCC must be submitted, *reaching the conclusion that no effective PPR were contravened.* <u>Compliance to National Treasury Instruction No. 3 of 2014/2015:</u> National Treasury Instruction No: 3 of 2014/2015 issued on 15 July 2014 introduced the new Electronic Tax Compliance Status (TCS) System. This instruction dealt with tax compliance measures for persons who are doing business with the state, where institutions are no longer required to obtain a hardcopy of an original and valid TCC but check the tax compliance status of bidders on through an electronic Tax Compliance Status system. National Treasury Instruction No 3A of 2014/2015 dated 31 October 2014 suspended Instruction No 3 until further notice. *The conclusion can be reached that no effective National Treasury Instruction were contravened.* <u>TCC - "photo copies of this certificate are not valid":</u> Previous TCC issued by SARS had the line included that copies of the certificate is not valid as it was in line with PPR 2001 which required original TCC to be submitted with bids. After implementation of PPR 2011, SARS then included the line "Verification of this certificate can be done at any SARS Revenue office nationwide". *The conclusion can be reached that the line in question does not apply to in effect PPR 2011 or PPR 2017.* In conclusion, the tax compliance status of bidders was verified by confirming that the submitted TCC are valid by contacting the SARS call centre or by using the e-filing system. The validity can be confirmed using a hardcopy of the original valid TCC. Therefore submission of an original TCC is not required by any regulation or National Treasury Instruction note and this finding should be withdrawn as all the bidders in question had valid tax clearance certificates. Submitting a hard copy of an original and valid certificate does not invalidate the tax compliant status of a bidder.
Management comment on Internal control deficiency: There is no Internal Control deficiency in light of management comments above.

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Management comment on recommendation: We do not accept the recommendation.		
Remedial action:		
What actions will be taken:	**By whom**	**By when:**
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No** - None is required
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management's response is noted and an additional engagement was held with management on the 12/09/2017, where management continued to disagree with the finding. It was concluded that management will consult with National Treasury (NT) on the tax clearance certificate matter immediately and submit the responses for evaluation.

Management submitted the consultation to NT on the 14/09/2017 and the response received on the letter dated 18/09/2017 (See attached)

Bidders Tax's Matter.pdf

The letter clearly states that SAA had to verify tax matters of the suppliers before awarding the contract to the supplier (Local or foreign). Preferential Procurement Regulation (PPR) clearly states that a tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order of which SAA did not comply with the requirement.

Based on the letter from treasury and the PPR requirement, it was concluded the finding remains and the non-compliance results in irregular expenditure.

Subsequent to the discussion held and consultation received from NT, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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15. Reason for confining (limited bidding) to one/specific suppliers not found to be justifiable since there are more suppliers who can offer the required services

Audit finding

PFMA sec 51(1) (a) (iii) state that, *"an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective".*

SAA SCM policy paragraph 16.1.10 state that, *"multiple sources bidding where there are proven limited competition in the market and there are good reasons to restrict it to only those few bidders existing in the market at the time. However, this shall not preclude or excuse SAA Group from finding ways of opening access to and unlocking opportunities for other Suppliers having an interest to compete in the said market".*

SAA SCM policy paragraph 16.1. State that, *"Sole source bidding where no competition exists and it is proven that only one bidder exists in a certain market. However, this shall not preclude or excuse SAA Group from finding ways of opening access to and unlocking opportunities for other Suppliers having an interest to compete in the said market".*

Part A

We noted that tender was only confined to few suppliers for ground handling services, while there are more suppliers that were not considered for the tender, which limited competition among suppliers and resulted into unfairness to suppliers that were not given an opportunity to participate in the tender due to confining to a few only. We also noted that SAA rely on the confirmation that is signed by the regional managers indicating suppliers that a tender can be confined to but no supporting evidence to support the confirmation.

No.	Tender and Description	Amount of award.	Amount spent	Supplier/s that tender was confined to as per confirmation	Auditors search of suppliers that provide ground handling services
1.	Full ground handling services at Nairobi- Swissport Kenya	R7 442 989.00	R2 240 565.03	1.Swissport Kenya, 2.Tradewing , 3.Aelutech Kenya, 4. Kenya airways 5.African flight services.	1.Africa Flight services 2.AN Aviation service company 3.Expedair 4.Eurocraft agencies ltd 5.Kenya aerotech ltd 6.Kenya airways 7.Supreme aviation 8. Swissport Kenya 9.Tradewinds aviation services
2.	Full Ground Handling Services at Dar Es Salaam	R50 835 994.1	R15 282 074.25	1.Swissport Tanzania	1.Africa flight services (AFS) 2.Equity aviation services (T) LTD 3.Mwanza ground handling 4.National aviation services 5.Supreme aviation 6.Swissport Tanzania 7.Wings flieght services
3.	Arrival passenger services at Washington	R6 306 300.00	R68 012 207.76	1.United Airlines 2.Swissport USA 3.Worldwide Flight Services	1.Swissport USA 2.Worldwide flight services 3. Aero port services Inc. 4.Airport terminal services 5.Intergrated airline services 6.Airserv aircraft ground support
4.	Full Ground Handling Services at Doula International Airport	R2 378 376.00	R0.00	Aeroprt Du Cameroon SA (ADC)	1. Aeroprt Du Cameroon SA (ADC) 2. Air -Aqua cargo and freight 3.Cameroon Global handling 4.Cameroon Handling services 5.Global link support 6.Nathou Handling services 7.United Cameroon handling

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No.	Tender and Description	Amount of award.	Amount spent	Supplier/s that tender was confined to as per confirmation	Auditors search of suppliers that provide ground handling services
5.	Lounge services	R6 082 560.00	R0.00	1. Amushe Departure Lounge (operated by Menzies)	1. Amushe Departure Lounge (operated by Menzies) 2.Oshoto Lounge
6.	Data Migration from the Legacy MRO Application & the testing of AMOS	R3 034 457.22	R 14 296 412.86	1.AMOS Hexaware Technologies	1.Accenture 2.Wipro systems 3.Infosys 4.Tata consultancy services 5.Capgemini 6. AMOS Hexaware Technologies
7.	Fuel Plus system	R3 541 598.22	R 2 176 065.95	1. Fuel Plus Software GmBh	1.Varec 2.TouchStar 3.Aerologistix 4.Fuel Plus Software GmBh
	Total	**R79 622 274.54**	**R102 007 325.9**		

No compliance with PFMA and SAA SCM policy and it result into irregular expenditure of R102 007 325.90 and it should be disclosed as irregular expenditure.

Part B

We noted the reasons provided / stipulated for confinement are not under the circumstances allowed by the SCM policy but it is due to the fact that SAA has an evergreen relationship with Sungard since 2005 which is not supporting why SAA had to go on confinement and deviate from the normal SCM requirements.

No.	Supplier	Description	Award value	Amount spent
1	Sungard Kiodex Inc.	Maintenance and support of the Treasury system	R3 665 087.00	R3 665 087.00

Part C

We noted that there was no evidence contained in the file confirming that a thorough market analysis was done to conclude that the suppliers the tender was confined to are the only accredited suppliers to provide the services listed below

In addition, it was noted that SAA places reliance on the confirmation that is signed by the regional /station managers indicating suppliers that a tender can be confined without any evidence to support the confirmation.

No.	Tender and Description	Amount of award.	Amount spent	Supplier/s that tender was confined to as per confirmation
1.	Laundry services of on-board cabin & catering items in London	R6 090 815.88	R 0.00	1.Aeroserve 2.OCS 3.Aviserv Limited
2.	Aircraft Parking / GPU	R11 472 548.30	R 0.00	1. British Airways London
3.	Baggage Repair Services in Mauritius	R138 000.00	R 0.00	1. Hassen Kalyam Bolaky
	Total	**R17 701 364.18**	**R 0.00**	

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Internal control deficiency

Financial and performance management

Acting Chief Procurement Officer did not validate accuracy of submission made by regional managers regarding suppliers that a tender can be confined to by obtaining 3rd party confirmation (Airport confirmation) and only relied on confirmation done by the regional managers due to the internal processes and procedures which have significant deficiencies.

Bid adjudication committee (BAC) did not ensure that reasons for confinement are justified and reasonable before approving the confinement to Sungard Kiodex Inc. due to the internal processes and procedures which have significant deficiencies.

Recommendation

Acting Chief Procurement Officer should:

- Request regional managers to attach supporting documents to substantiate their confirmation regarding suppliers that a tender can be confined to.
- Ensure that market is regularly tested to identify more suppliers that can provide the required services before any confinement is approved.
- Perform independent verification with the airport authorities to substantiate confirmation received from regional managers.

Disclose irregular expenditure in the annual financial statement

BAC should ensure that reasons provided for confinement are reasonable and justified before approving the confinement.

Management's response

Management comment on audit finding: We are disagreeing with this finding. We based this on the following: Item No. 1-4 - GSM is reliant on the SAA Station Managers to confirm the available Handlers at each Airport and in the specific Terminal that SAA operates in. As per the discussion with the Auditor on this matter is was explained that a number of factors play a role in confining: What is the supplier licensed to provide in terms of service (third party – full handling, self-handling or a specific service i.e only wheelchairs), at which terminal the supplier is able to operate also plays a role. It was agreed in the meeting with the Auditor that GSM would send the above concern to the stations seeking their confirmation on the Googled Suppliers shown as available (as googled by AGSA) compared to the confined document signed off. SAA sent this information to the relevant stations and has received a response from the USA, Kenya and Cameroon, so far. (See attached e-mails) It needs to be noted that the Google finding provides ALL the handlers available in that Country. It is not Airport specific. Item 4 – Arrival Passengers at Washington – please refer to the BAC submission in which it is motivated as to why SAA is confining this service to United Airlines. UA are a Star Alliance member who is the only Supplier that operates out of a centralised Arrival area at IAD to star burst the SAA passengers to further onward travel. The other suppliers operate from different concourses with different Airlines and would disadvantage SAA passengers in terms of connecting flights, Please also note the corrected spend.
Management comment on Internal control deficiency: We do not accept the deficiency.
Management comment on recommendation: We do not accept the recommendations, as we deem the confirmation by station managers as sufficient supporting documentation and we have no reason to doubt

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their confirmation- as they deal with licencing authorities in their jurisdictions of responsibility.		
Remedial action:		
What actions will be taken: None.	**By whom**	**By when:**

Auditor's conclusion

Management's response is noted and additional engagements were held with management on the 12/09/2017, where management still disagreed with the finding. The confirmation that SAA receives from the station manager of SAA is not sufficient evidence submitted by management as it does not provide assurance that the market was tested, through obtaining confirmation from the airport authorities on the ground handling services required by SAA.

For Aeroprt Du Cameroon SA (ADC), management submitted a letter from airport which indicated that there is only one accredited supplier which is ADC, therefore the finding is resolved.

For the rest of the items on the finding, management was required to submit the auditors with a third party confirmation (airport authorities) for the list of all accredited suppliers to provide ground handling services in the airport, of which was not received by 20/10/2017. Due to lack of evidence from management, there is a disagreement. The finding will remain in the management report as a disagreement.

Subsequent to the discussion held on the 12/09/2017, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA,* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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16. Contract extension not done in accordance with SAA SCM policy 2

Audit finding

PFMA sec 51(1)(a)(iii) states that *"an accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective".*

Paragraph 19.2.1 of the SAA supply chain management policy dated September 2011 under contract management states that "*contract and/or extensions in terms of scope, value and term will be performed in accordance with the law and line with the approved DOA.*"

Paragraph 19.2.2 of the SAA supply chain management policy states that *"Extensions and amendments may be considered, provided that requests are made prior to the contract expiry date. Approval of a request or submission for contract extension by the authority concerned (BAC, CEO or Board of Directors) shall not be granted retrospectively nor shall the contract extension take effective retrospectively."*

The month to month contracts for the supply and delivery of jet A1 fuel expired in December 2016. Thereafter, fuel continued to be provided for the period, 01 January 2017 to 31 March 2017 and payments were made to the service providers.

The request to approve this extension of contract was considered only after the contracts had expired. In respect of the period covering 01 January 2017 to 31 March 2017, the BoD retrospectively approved this extension of contract on 7 April 2017.

The table below illustrates the period for the period and payments made to service during the time of which there was no contract extension.

No	Supplier name	Contract extension value	Start date	End date	Period	Amount spent to date
1	Sasol	R 840 766 105.00	01-Jan-17	30-Jun-17	01 Jan 2017 to 31 March 2017	R 175 963 362.00
2	Shell	R 1 219 172 798.00	01-Jan-17	30-Jun-17	01 July 2016 to 31 March 2017	R 278 018 384.00
Total						**R 453 981 746.00**

The practice by the board of directors (BoD) to consider and approve the request for extension of contracts after the contracts had expired, is not in compliance with paragraph 19.2.1 and 19.2.2 of the SAA supply chain management policy which prescribes that requests or submissions for contract extension shall not be granted retrospectively.

There is non-compliance with paragraph 19.2.1 and 19.2.1 of the SAA SCM policy and PFMA, resulting in irregular expenditure of R453 981 746.00. Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

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Internal control deficiency

Leadership

Oversight by the BoD was not properly exercised to prevent non-compliance with the relevant SCM requirements due to insufficient understanding of SCM laws and regulations and formulating a compliance driven internal control environment. This resulted in material non-compliance concerning the procurement of services.

Financial and performance management

Control weaknesses with regard to compliance monitoring with the requirements of contract extensions/amendments was inadequate to determine that approval for extensions are done prior to expiry of the contract.

Recommendation

We recommend that:

- BoD should exercise stricter oversight by creating compliance driven internal control environment so that SAA can comply with the requirements of the SCM policy.
- Management should improve oversight over the monitoring of contracts to ensure that the request for contract extension/amendments are prepared, submitted and considered prior to expiry.
- All payments made to the oil suppliers of R 453 981 746.00 are disclosed as irregular expenditure in the financial statements, the matter must be investigated and expenditure condoned.

Management response

Management comment on audit finding: We agree with this finding.		
Management comment on internal control deficiency: The internal approval process for a strategic commodity such as fuel is long and tedious and SAA has no competitive advantage as a result of internal approval process		
Management comment on recommendation: The recommendations are noted. However, context must be given that FINCO wrote to oil majors requesting their approval of the extension of domestic fuel contracts in December 2016. The oil majors only returned to SAA after the beginning of the year in 2017. The submission had to include the responses from the oil maj and their prices. By the time the submission reached the Board it was already in the middle of the year.		
Remedial action: Refer below:		
What actions will be taken: The payments made to the oil suppliers to be disclosed as irregular expenditure and condoned accordingly.	**By whom:** Commodity Manager: T Sogwazile	**By when:** September 2017

Auditor's conclusion

Management's response is noted and agrees with the finding, internal control deficiency and the recommendations.

Subsequent to agreeing with the finding raised, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

K.T.D

17. Supplier with highest preference points was not awarded the quotation

Audit finding

PFMA sec 51(1)(a)(iii) states that *"an accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective"*

Paragraph 6 (5) of preferential procurement regulation (PPR) states that *"Subject to regulation 7, a contract must be awarded to the tenderer who scores the highest total number of points"*

Paragraph 7 of preferential procurement regulation (PPR) further states that *"a contract may be awarded to a tenderer that did not score the highest total number of points, only in accordance with section 2 (1) (f) of the Act"*

Section 2 (1) (f) of preferential procurement policy framework act (PPFA) states that *"the contract must be awarded to the tenderer who scores the highest points, unless objective criteria in addition to those contemplated in paragraphs (d) and (e) justify the award to another tenderer"*

It was noted that RFQ GSM121/2016 was issued on 15 May 2016 requesting for quotation of senior technician from suppliers and closing date was on the 29 of July 2016 at 16:00.Through inspection of information submitted for audit, we noted that the following three suppliers responded to the quotation.

Refer to table below for details

Supplier	Quotation per hour	Quotation date
Vululwani Technologies (Pty) Ltd	R800-Senior technician R400-Junior technician	25/07/2016
Zammane Projects	R790-Senior technician	28/07/2016
Revival Technologies and Academy (Pty) Ltd	R550-Senior technician	29/07/2016

Suppliers were then requested to offer discount and the following quotations were re-submitted

Supplier	Quotation per hour	Quotation date
Vululwani Technologies (Pty) Ltd	R450-Senior technician R250-Junior technician	08/09/2016
Zammane Projects	R540-Senior technician	13/09/2016
Revival Technologies and Academy (Pty) Ltd	R550-Senior technician	05/09/2016

Supplier's evaluation scores for preference points

Bidder	Amount	B-BBEE points(A)	Price points(B)	Total points(A+B)
Revival Technology	R426 360,00	20,00	36,36	56,36
Zammane	R418 608,00	20,00	37,82	57,82
Vululwane Technologies	R193 800,00	20,00	80,00	100,00

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We therefore re-performed calculations and noted that points awarded to Zammane Projects and Revival Technologies and Academy (Pty) Ltd was incorrect. See below:

No	Quotation No	Supplier	Amount quoted	Lowest quoted amount	SAA calculations			Auditors recalculation		
					Price point	B-BBEE points	Total points	Price point	B-BBEE points	Total points
1	RFQ121/2016	Revival Technology	R426 360.00	R193 800.00	36.36	20.00	56.36	(16.00)	20.00	4.00
2	RFQ121/2016	Zammane Projects	R418 608.00	R193 800.00	37.82	20.00	57.82	(12.80)	20.00	7.20
3	RFQ121/2016	Vululwani Technologies	R193 800.00	R193 800.00	80.00	20.00	100	80	20	100

Through inspection of approval schedule which was prepared on 04 September 2016 and approved by commodity manager on 06 August 2016 we noted that quotation was evaluated and approved before receiving written revised quotations from suppliers and an award was made to Zammane Projects who did not score highest points

There is a risk of non-compliance with paragraph 6 (5) of preferential procurement regulation which leads to R418 608 amount paid to Zammane Projects to be irregular expenditure.

Internal control deficiency

Financial and performance management

Acting Chief Procurement Officer did not review the evaluation sheet, ensuring that points were accurately calculated and that the objective criteria applied is reasonable and justifiable.

Recommendation

Acting Chief Procurement Officer should:

- Ensure that where a contract is not awarded to the tender who scored the highest points, the objective criteria is applied to justify the award to another tender as required by paragraph 7 of preferential procurement regulation.
- R418 608 amount paid to Zammane Projects must be disclosed as an irregular expenditure in the financial statements.

Management's response

Management comment on audit finding: GSM engaged Audit department on the matter before decision was taken. The sourcing specialist was instructed to close the bids as they are, meaning the supplier quoted R250 for a senior technician. They clearly under-quoted even by their own admission. The sourcing specialist continued with the remaining bidders and made a recommendation between

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the two. The bidder who under-quoted was not going to deliver the service at the price they forwarded to SAA as they instead opted to be given an opportunity to submit a revised higher price.		
Management comment on Internal control deficiency: Had the tender been cancelled and the bidder allowed to submit a revised price even after they admitted they under quoted, that would have undermined the whole process.		
Management comment on recommendation: Same as above, it was important to get the view from internal audit and that was done.		
Remedial action:		
What actions will be taken:	**By whom**	**By when:**

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

Subsequent to agreeing with the finding raised, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA,* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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18. Three quotations not obtained and the deviation not approved

Audit finding

PFMA sec 51(1)(a)(iii) states that *"an accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective."*

SAA SCM policy paragraph 16.5.2 states that *"Notwithstanding the forecasted value that is within the threshold (between R1500 and up to R500 000 per request), a minimum of three written quotations must be obtained whenever it is possible."*

SAA SCM policy paragraph 16.6.1 states that *"SAA group is allowed to procure certain Works through one quote, where it is not feasible to apply the full RFQ or tender process".*

SAA SCM policy paragraph 16.6.2 states that *"The following are some of the examples of Works that can be procure in terms of article 16.6.1:*

- *-Specific and/or specialised events or trainings offered by one institution.*
- *-Venues and facilities for conferencing.*
- *-Catering in specific areas and events.*
- *-Tender or promotional adverts in the media.*
- *-Participation in marketing, sponsorship or Corporate Social Responsibility (CSI) events"*

There is no evidence that the following goods and services with a transaction value between R1500 and R500 000 were procured without obtaining at least three written price quotations from prospective suppliers. Furthermore there is no evidence that reasons for not obtaining three written quotations were recorded and approved by a delegated official for the deviation. These goods and services are not from the sole supplier or as a result of an emergency.

Table A

No	Vendor Name	Description of procurement	Value of Award R	Number of quotes obtained
1	Gijima Holdings	IPad Mini Repair	338 769.24	One
2	Blue Brighten	Supply Support And Maintain HP Design Jet Plus 1050C	165 243.00	Two
3	Infinite Glamour (Pty) Ltd	Support Stockings	497 979.81	Two
4	Bennie Howard & Associates	Wine Consultant	139 600.00	one
5	Molori Trading Cc	Soup Flasks	354 649.88	Two
6	Stepahead Military Headwear Distributors Cc	Fdc Caps	258 780.00	one
7	SJF Transport Services	Adhoc Transport Cabin Crew	220 000.00	Two
8	Buntu - Mabande Investments Holdings (Pty)Ltd	Office Revamp For Crisis Media Centre	48 421.58	one
9	Broadband College Of Technology	Request For Quotation For Ms Office Training	485 640.00	one

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No	Vendor Name	Description of procurement	Value of Award R	Number of quotes obtained
10	Ddp Valuation And Advisory Services	SAA Property Portfolio Valuations	48 222.00	one
11	K2013146009 (South Africa) Pty Ltd	Usb	285 399.00	one
12	Ees-Siyakha	Request For Quotation For EE Committees	433 600.00	one
13	Global Carbon Exchange(Gcx) Sa (Pty) Ltd	Carbon Footprints	127 680.00	one
14	Zimele Technologies	Data Migration For Sentinal Into Iqsms	401 280.00	Two
15	Thabiso & Ice Cleaning & Maintenance (Tick)	Wipes And Adapters	58 083.00	one
16	Hollis System Zwane Cc	Bulkflier For SAA	136 787.40	Two
17	Summat Training Institute Pty Ltd	Executive Coaching	450 000.00	Two
18	Blackspace Idp Pty Ltd	Sliding Doors	158 681.23	Two
19	Inkezo Hr Solution	Occupational Health And Safety Training For All Station	438 475.50	one
20	Lkmn Media Connexion Cc	Platinum Stationary	377 580.00	one
21	Faculty Training Institute(Pty) Ltd	Advanced Business Analysis Programme /Nvba For Gavin Murugan (18-21 Oct 16)8 Months Part-Time Friday - Full Day	38 999.00	one
Total value			**5 463 870.23**	

Table B

No	Vendor Name	Description of procurement	Value of Award	Number of quotes obtained	Amount spend
1	Pink Dot Creations (Pty) Ltd	provision for event set up	R 74 100.00	Two	R 74 100.00
2	Sizwe Ntsaluba Gobodo Advisory Services (Pty) Ltd	Appointment of audit firm to conduct assessment of the internal audit function	R 339 954.38	Two	R 339 954.38
Total					R 414 054.38

Table C

No	Vendor Name	Description of procurement	Value of Award	Number of quotes obtained
1	Liberty Health Holdings	Uganda SAA Medical Contribution	R292 348,68	One

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2	Bupa Health Insurance	Medical Plan Renewal for Thailand /H.O. 1014086399	R65 167,09	One
Total value			**R 357 515.77**	

There is a risk of non-compliance with SAA supply chain management policy and section 51 (1) (a) (iii) of the PFMA which result into irregular expenditure. Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

Internal control deficiency

Financial and performance management

- Acting Chief Procurement Officer and Commodity Manager did not exercise oversight responsibility to ensure that goods and services with a transaction value between R1 500 and R500 000 are procured by obtaining at least three written price quotations from prospective suppliers and that reasons are recorded for any deviations.
- The purchasing researchers in the procurement division do not follow up on emails sent to suppliers requesting quotes to ensure that 3 quotations are obtained as per SAA SCM policy.
- The low staff complement and tight deadlines in the SCM department is the reason for not complying with the SCM policy.

Recommendation

The Acting chief procurement officer and commodity manager should:

- Review the approval process for successful quotations to ensure that the 3 quotations were obtained and reasons were documented if not
- Ensure that purchasing researchers in procurement follow up on the initial emails sent to suppliers requesting quotes to ensure that 3 quotations are obtained to comply with SAA's SCM policy.
- Disclose the amount as irregular expenditure in the financial statements

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Management's responses

Management comment on audit finding: **Table A** We do not agree with the finding. The quoted SCM Policy provision contains a *proviso* that we obtain three quotations "whenever it is possible" and not at all times. Three quotations are requested in all instances, but prospective suppliers do not respond for whatever reasons they may have. Where RFP has been sent out to at least three suppliers and we receive 1 or 2 responses, that does not constitute a deviation that ought to be approved by the delegated official. **Table B** We do not agree with the finding. The quoted SCM Policy provision contains a *proviso* that we obtain three quotations "whenever it is possible" and not at all times. Three quotations are requested in all instances, but prospective suppliers do not respond for whatever reasons they may have. Where RFP has been sent out to at least three suppliers and we receive 1 or 2 responses, that does not constitute a deviation that ought to be approved by the delegated official. **Table C** We do not accept the finding. Medical aid forms part of employee benefits and no procurement process is followed. The amounts reflected are not from quotations submitted in the course of RFQ, but quotations received for employer's contribution.
Management comment on internal control deficiencies: **Table A** We do not agree with the noted deficiency. The Commodity Management is responsible for providing CPO with assurance that at least three quotations were requested. GSM has no adequate resources to follow up and obtain reasons for supplier lack of response to RFQ. There is also no requirement in the SCM Policy that the RFQ team must follow up with suppliers. **Table B** We do not agree with the noted deficiency. The Commodity Management is responsible for providing CPO with assurance that at least three quotations were requested. GSM has no adequate resources to follow up and obtain reasons for supplier lack of response to RFQ. There is also no requirement in the SCM Policy that the RFQ team must follow up with suppliers. **Table C** Not applicable
Management comment on recommendation: **Table A** We accept the recommendation to document reasons why it was not possible to receive three quotations after we had approached more than two potential suppliers. **Table B** We accept the recommendation to document reasons why it was not possible to receive three quotations after we had approached more than two potential suppliers. **Table C**

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Not applicable		
Remedial action:		
What actions will be taken:	**By whom:** N/A	**By when:**

Auditor's conclusion

Table A, B and C

Management's response is noted and additional engagements were held with management on the 17/08/2017, where management agreed that reasons for not obtaining 3 quotations will be sufficiently documented and approved by a delegated official.

Subsequent to the discussion held on the 17/08/2017 and agreeing to the finding raised, management conceded to the finding on the 20/10/2017, as a result did not adjust or revise the irregular expenditure population. The finding remains in the management report and the impact, being a qualification of irregular/fruitless and wasteful expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

KTD

19. Contract extension not done in accordance with SAA SCM policy 1

Audit finding

Public Finance Management Act (PFMA) section 51(1) (a)(iii) states that "*An accounting authority for a public entity must ensure that the public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective*"

Supply Chain Management Policy paragraph 19.2.2 states that "Extensions and amendments may be considered, provided that requests are made prior to the contract expiry date. Approval of a request or submission for contract extension by the authority concerned (BAC, CEO or Board of Directors) shall not be granted retrospectively nor shall the contract extension take effective retrospectively"

We noted that, for the contracts listed below, extension were not done prior to expiry date of the old contract and were approved retrospectively:

		Old contract details		Extension contract details						
Item no	**Supplier**	**Start date**	**End date**	**Award date**	**Start date of contract**	**End date of contract**	**Period before award up to 31 March 2017**	**Contract value**	**Amount spent as at 31 March 2017**	**Auditors comments**
1	BP	01/01/2016	31/12/2016	07/04/2017	01/01/2017	30/06/2017	3 months	R 654 912 110.15	R 154 800 518.92	Information not submitted is stated on the limitation of scope finding
2	IFE services Ltd(Global Eagle Entertainment)	01/07/2013	30/06/2016	23/08/2016	01/07/2016	Month to month	1 month 23 days	R 175 937 405.15	R 138 026 150.57	We also noted that tender documents for IFE were received after closing date. *Refer to finding"Tender documents of the winning supplier not received before the closing date and time "for details*
3	Total	01/01/2016	31/12/2016	07/04/2017	01/01/2017	30/06/2017	3 months	R 533 322 714.33	R 91 088 921.69	Information not submitted is stated on the limitation of scope finding

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		Old contract details		Extension contract details						
Item no	Supplier	Start date	End date	Award date	Start date of contract	End date of contract	Period before award up to 31 March 2017	Contract value	Amount spent as at 31 March 2017	Auditors comments
4	Swissport Nairobi	01/05/2013	30/04/2016	13/05/2016	01/05/2016	30/04/2017	12 days	R 7 442 989.00	R2 240 565.03	None
5	Dube Trade Port Corporation	01/05/2014	30/04/2016	03/05/2016	01/05/2016	30/04/2018	2 days	R 6 706 729,98	R 3 280 653.00	None
Total									R 389 436 809.21	

There is non-compliance with SCM policy and PFMA which results in the amount of R389 436 809.21 paid to suppliers being irregular expenditure. Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

KTD

Internal control deficiency

Financial and performance management

- There is no sufficient capacity in global supply management (GSM) in terms of staff to monitor contracts and ensure compliance with the SCM policy
- Commodity managers and users from departments do not monitor contracts to ensure that contracts approaching expiry date, where continued needs of the services will require procurement process, appoint a new supplier and that this is done on time before the contract expires
- There is slow response in terms of approval by the board for contracts that are within their delegation of authority
- There is also poor planning by (GSM) as contracts are not initiated on time for the procurement process before they expire and to ensure that necessary approvals are done on time
- There is Inadequate implementation/enforcement of contract management controls on the CLM and SAP FI system by the Head of department Enterprise Resource Planning (ERP) and General Manager: Legal and the Acting Chief Procurement Officer

Recommendation

- Amount of R389 436 809,21 paid to suppliers should be disclosed as irregular expenditure in the financial statements, the matter must investigated and expenditure condoned
- Management must ensure that GSM department appoint official who will be responsible for monitoring of contracts,
- The board must ensure that approvals of contracts is done on a timely basis to avoid delays in the procurement process
- Monitoring of contracts should be part of key performance indicators (KPI's) for performance contracts of commodity managers and heads of departments responsible for the contracts
- The procurement plan must ensure that strategic sourcing is aligned to the budget to know what to expect from a procurement point of view and in turn aligned to a contract register so that any gaps identified are addressed
- Management must ensure that IT controls are in place to block payments from being processed for contracts that have expired

Management's response

Management comment on audit finding: We agree with the finding. However record that the contracts extensions sampled were processed on time and delayed by the relevant approving authorities. Furthermore, the amount to be declared as irregular is incorrect.
Management comment on Internal control deficiency: We accept the internal control deficiency, especially that the commodity management team and contracts management unit is not sufficiently resourced.
Management comment on recommendation: We accept the recommendation.
Remedial action: Refer below

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What actions will be taken: The implementation of the study recommendation, to sufficiently staff contracts management and commodity teams that will ensure extensions comply with the Policy. Furthermore management will declare as irregular the correct amount as noted in comments above.	**By whom:** CPO, HR and CFO	**By when:** Declaration and condonement of irregular expenditure: Immediately. Implementation of report: November 2017 or as soon as the recruitment embargo is uplifted.

If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

Subsequent to agreeing to the finding raised, management conceded to the finding on the 20/10/2017 and did not adjust or revise the irregular expenditure population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

KTD

20. Tender awarded to supplier who did not meet critical criteria evaluation

Audit finding

Preferential Procurement Regulations (PPR), section 8(1) (a), it states that *"In the event that, in the application of the 80/20 preference point system as stipulated in the tender documents, all tenders received exceed the estimated rand value of R1 000000, the tender invitation must be cancelled"*

The Preferential Procurement Regulations (PPR), section 4(3), further states that "evaluation of tenders on functionality;

(a) the evaluation criteria for measuring functionality

(b) weight of each criterion(c) applicable values and (d) minimum qualifying score for functionality must be clearly specified in the invitation to submit a tender"

Request For Proposal (RFP) evaluation criteria paragraph 1 states that "bidders must fully comply with all critical evaluation. Bidders that do not comply with any one of the critical evaluation criteria will be eliminated"

We noted the following issues regarding RFP GSM211/12 for procurement of global advertising services from Havas Worldwide for R77 500 000

A. Havas Worldwide did not meet the critical criteria evaluation (listed below) as indicated on the RFP but was evaluated further and awarded a contract of R77 500 000, 00

- Global footprint to support the SAA Head Office structure (Johannesburg), with an established African network, as well as an international network capability to service, where appropriate the markets of the United States of America, United Kingdom ,Germany ,Hong Kong, Sao Paulo, West Africa and East Africa was not submitted.
- Audited annual financial statements for the last 2 full financial years was not submitted by Havas 2010 audited annual financial statement was submitted and 2011 unaudited financial statement

B. Request For Proposal (RFP) indicated that the 80/20 preference point system will be used for tenders exceeding R1millon. All tenders received were above R1 million however the tender was not cancelled as required by PPR

C. Award was evaluated using functionality with required minimum threshold of 90% and the following criteria for functionality was used to evaluate tender however weight of each criteria was not indicated

- Methodology and approach to SAA brief
- Strategic relevance
- Quality of creative
- Methodology and approach to measure the effectiveness of the advertising

KTD

Refer to table below for more details

Item no	Supplier	Initial award value(A)	Extension award value(B)	Total award value(A+B)	Amount spent to date	Auditors comments
1	Havas World wide	R 67 500 000	R 10 000 000	R 77 500 000	R 129 029 613	Outstanding information has been reported under the limitation of scope finding Possible overpayment of R51 529 613,05 has been reported under the lack of management and processing of contract detail information captured on CLM finding

There is non-compliance with RFP and PPR for the contract awarded resulting in the amount spent to date of R129 029 613,05 paid being irregular expenditure.

Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

Internal control deficiency

Financial and performance management

- Bid Adjudication Committee(BAC) did not ensure compliance with PPR before approving tender evaluation criteria and advertising due to a lack of understanding of the PPR requirements
- Bid Evaluation Committee (BEC) did not ensure that all tenders are evaluated as per PPR and Havas World Wide tender is disqualified due to not meeting mandatory requirement

Recommendation

- BSC must ensure compliance with applicable legislations before advertising a tender and BEC must ensure that tenders evaluated further are only tenders that met all requirements as per RFP by compiling checklist with all the requirements to be met before advertising and evaluating tenders
- BAC must ensure that sufficient understanding is obtained with regards to the requirements of PPR by attending training on the requirements of PPR
- Amount of R129 029 613,05 must be disclosed as irregular expenditure in the financial statements, the matter must be investigated and condoned.
- The population for expenditure must be re-visited to ensure that all irregular expenditure from similar transactions are identified and disclosed as we selected on a sample basis.

Management's response

Management comment on audit finding: The finding is accepted.
Management comment on Internal control deficiency: The deficiency is acknowledged and corrective action will be instituted.

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<table>
<tr><td colspan="4">Management comment on recommendation: The recommendations are accepted and will be implemented immediately.</td></tr>
<tr><td colspan="4">Remedial action: The need to ensure adherence with the prescripts that govern public sector procurement will be emphasized during management meetings. Training on the prescripts will be regularly conducted.</td></tr>
<tr><td colspan="2">What actions will be taken: The PFMA violation was declared and condoned by the relevant authority. Regular training of BAC members will continue to be implemented.</td><td>By whom: The Business Unit will declare the irregular spend. The Chief Procurement Officer will arrange training on prescripts that govern public sector procurement.</td><td>By when: Completed</td></tr>
<tr><td colspan="4">If the above finding affects an amount(s) disclosed in the financial statements:</td></tr>
<tr><td>Please give an indication of whether a correcting journal entry shall be processed</td><td>Yes</td><td colspan="2">No</td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion has been reached</td></tr>
</table>

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

Subsequent to agreeing to the finding raised, management conceded to the finding on the 20/10/2017 and did not adjust or revise the irregular expenditure population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

KTD

21. Tenders not advertised for a minimum period prescribed in the SCM policy before closure

Audit finding

PFMA section 51(1) (a) (iii), General responsibilities of accounting authorities states that *"an accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective".*

SCM policy paragraph 21.4.2 states that. *"Bids shall be advertised for at least 14 days before closing time, except in urgent cases when bids may be advertised for such shorter periods as agreed with the Chief Procurement Officer or delegate".*

We noted that the following bids were not advertised for 14 days as required by SCM policy and there were no approvals and motivations from the Acting Chief Procurement Officer or delegate to advertise for shorter period

No	Bid number	Supplier	Description	Award value	Advertisement date	Closing date	Number of days advertised	Amount spent
1	GSM069/16	Radisson Blu M'bamou Palace	Hotel Accommodation & Transport at Brazzaville	R21 071 461,00	10/08/2016	22/08/2016	12	R 4 659 956.45
2	GSM103/16	Radisson Blu hotel and residence	Crew Accommodation & Transport Services in Maputo	R6 410 325.39	14/10/2016	24/10/2016	10	R 646 161.78
3	GSM:088/16	Multiple suppliers (35 suppliers were awarded)	Supply of wine and champagne for on board SAA flight and in the SAA lounges for a period of 1 year.	R33 188 346,07	11/09/2016	23/09/2016	13	R 1 702 216.63
Total								**R7 008 334.86**

This results in non-compliance with the SCM policy and the PFMA which results in irregular expenditure of R7 008 334.86 . Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

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Internal control deficiency

Financial and performance management

Bid Specification Committee did not request for approval to advertise bids for period less than 14 days from the Acting Chief Procurement Officer or delegate before advertising the tender resulting in non-compliance with the SCM policy and the PFMA due to poor planning and lack of understanding of the SCM policy and PFMA requirements.

Recommendation

- Bid Specification Committee must ensure that were tender needs to be advertised for less than 14 days approval is obtained from the Acting Chief Procurement Officer or delegate before advertisement.
- Bid Specification Committee must ensure projects are planned and managed properly by developing a compliance checklist on all active tenders and obtain training on the requirements of the SCM policy and PFMA
- Amount of R7 008 334,46, must be disclosed as irregular expenditure in the financial statements an investigation on the matter and condonement of the expenditure must be done.
- The population for expenditure must be re-visited to ensure that all irregular expenditure from similar transactions are identified and disclosed as we selected on a sample basis.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding: We accept the finding.</td></tr>
<tr><td colspan="3">Management comment on Internal control deficiency: The deficiency is noted.</td></tr>
<tr><td colspan="3">Management comment on recommendation: The recommendations are noted.</td></tr>
<tr><td colspan="3">Remedial action:</td></tr>
<tr><td>What actions will be taken:
Ensure that there is compliance with the relevant SCM Policy provision and in particular ensure that there is written approval from CPO to advertise bids for less than 14 days. The irregular expenditure will be declared and condoned.</td><td>By whom: Commodity Management teams: B Kowalski and N Masikane</td><td>By when: Immediately.</td></tr>
</table>

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

Subsequent to agreeing to the finding raised, management conceded to the finding on the 20/10/2017 and did not adjust or revise the irregular expenditure population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

KTD

22. Tender documents of the winning supplier not received before the closing date and time

Audit finding

PFMA sec 51(1) (a)(iii) states that "General responsibilities of accounting authorities *"an accounting authority for a public entity Must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective"*

Supply chain management policy paragraph 22.3.1 states that *"Bids/tenders are late if they are received at the address or place indicated in the bid documents after the closing date and time. Bidders, who have submitted late bids that were not admitted, shall be contacted to collect the unopened bids"*

Advert for Request for Proposal (RFP): GSM090/15, indicated that *"The closing date for the tender submission is: 28 October 2015 at 11:00 (GMT+2.) And No late submission will be considered"*

RFP paragraph 11.1 stated that *"Late submission of Bids will NOT be considered for evaluation and will be returned un-opened to the Bidder/s at the bidders' own costs accompanied by an explanation to the effect that it is late".*

We noted that bid proposals of the suppliers below were received after the closing date and the bidder was not disqualified even though the request for proposal stated that late submissions will not be considered. Furthermore the bidder was evaluated and awarded the contract

No	Reference	Supplier Name	Award value	Advert closing date	Closing time	Bid submission date	Time received	Amount spent	Audit Comments
1	GSM179/12	IFE Services Ltd	R 175 937 405.15	20/11/2012	11:00AM	04/12/2012	Not applicable	R 138 026 150.57	Amount spent has been disclosed as irregular expenditure., Refer to finding "Contract extension not done in accordance with SAA SCM policy " for details
2	GSM090/15	Yoks investment Ltd	R 5 582 526.69	28/10/2015	11:00AM	28/10/2015	2:00PM	R 0.00	None
Total								**R 138 026 150.57**	

KTP

There is non-compliance with PFMA and SCM policy which led to amount paid being irregular expenditure. Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

Internal control deficiency

Financial and performance management

- Bid Evaluation Committee did not review tender documents received on a timely manner to ensure that they were received before closing date due to a lack of understanding of the SCM and PFMA requirements.
- There is no checklist designed and completed for each bid to ensure this issue gets checked by an individual and give assurance to the bid committee

Recommendation

- Bid Evaluation Committee must ensure that all bids received are reviewed before evaluating to ensure that no late received bids is evaluated in order to comply with SCM policy and PFMA requirements
- A checklist must be developed and completed for each bid received and filed
- Amount of R136 888 367,40 must be disclosed as irregular expenditure in the financial statements, an investigation on the matter and condonement of the expenditure must be done
- The population for expenditure must be re-visited to ensure that all irregular expenditure from similar transactions are identified and disclosed as we selected on a sample basis.

Management's response

Management comment on audit finding: We disagree with this finding. In doing so, we submit the following on each: **IFE – Not in agreement.** The closing date of the tender was extended, to 04 December 2012, thus the tender document for IFE was not submitted late. The tender register also confirms that the tenders were submitted on time. The evidence has been appended below and is in the attached folder. **Yoks Investments:** – Not in agreement. The SAA server could not deliver the service provider's documents due to the limited bytes allowed. The service provider contacted GSM from SAA local office in Accra before the tender closing time 11h00 SA time highlighting the challenge. The service provider subsequently provided proof which is included in the file and the account was documented accordingly by the CFST and as per the relevant minutes in the file.
Management comment on Internal control deficiency: We disagree with the deficiency noted, as per explanation provided on management's comments to the finding.
Management comment on recommendation: We do not accept the recommendation, as per explanation that bids were not late. It is unclear how an irregular expenditure was incurred, if no PFMA or any other law provision was contravened.

RS KTD

Remedial action:			
What actions will be taken: None based on the management comment to the finding.		**By whom:**	**By when:**
If the above finding affects an amount(s) disclosed in the financial statements:			
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**	
If yes, please indicate the accounting entry			
If no, please provide the reason why such a conclusion has been reached			

Auditor's conclusion

Management's response is noted and additional engagements were held with management on the 12/09/2017, where management still disagreed and an assessment will be done further on the supporting evidence provided by management.

Regarding IFE, the delegation of authority was inspected to determine whether the commodity manager had authority to extend the closing date and it was noted that there was no delegation or minutes to prove that the cross functional sourcing team agreed to the extention thus finding remains

Regarding Yoks Investment, further evaluation of the documents submitted by management was done and it was concluded that tender was late and should not have been considered for the tender process, thus the finding remains.

Subsequent to the discussion held and further evaluation by the auditors, management conceded to the finding on the 20/10/2017 as a result did not adjust or revise the irregular expenditure population. The finding remains in the management report and the impact, being a qualification of irregular/fruitless and wasteful expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

KTD

23. Official procurement process not followed for contract renewals

Audit finding

Section 51(1) (a) (iii) of the PFMA states that ,*"an accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective".*

SAA has existing contracts with the following suppliers (Refer to table below) which expired on the dates listed in the table below. It was noted that instead of following a new procurement process to appoint a new service provider, SAA took a decision to renew the existing contracts with the current supplier which constitutes a deviation.

Furthermore, it was noted that prior to the latest contract renewal, SAA entered into multiple contract renewals with the same supplier which signifies that SAA does not maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective in line with section 51 of the PFMA.

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No	Supplier	Expiry date of previous contract	No. of renewals prior to original contract award but before latest contract renewal	BAC submission/record details			Reasons for renewals	Auditors comments
				Latest contract renewal period	Latest contract renewal value	Highest level of approval		
Part A								
1	Servopak Supplies Pretoria CC	31/12/2016	Two renewals as follows: 1)1/01/2016 - 30/06/2016 2)1/07/2016 - 31/12/2016	01/01/2017 - 31/03/2017	R1 532 160.00	GM: Operations	1/01/2016 - 30/06/2016 To conclude the relevant tender process whilst ensuring business continuity. 1/07/2016 - 31/12/2016 Tender could not be published as the GSM was still waiting for approval of the removal of the flame retardant treatment from disposable headrest covers and disposable pillow cases. Approval was granted 10 Mar 2016, however when the GSM wanted to publish the tender they were notified that the transformation and localization element should be part of the evaluation criteria for all future tenders. The transformations and localization weightings were only forwarded to GSM on 07 April 2016 to enable GSM to continue with the tender process 01/01/2017 - 31/03/2017 Due to the fact that the GSM awaited a very long time for permission to remove the flame retardant treatment from disposable headrest covers and	The notification that the transformation and localization weightings should form part of the evaluation subsequent to the delay for approval of the removal of the flame retardant treatment from disposable headrest covers and disposable pillow cases could have been avoided had evaluation criteria's been adequately scoped The reasons provided together with the multiple renewals on the same contract point out to poor planning

KTD

DD20-PS-1051

No	Supplier	Expiry date of previous contract	No. of renewals prior to original contract award but before latest contract renewal	BAC submission/record details			Reasons for renewals	Auditors comments
				Latest contract renewal period	Latest contract renewal value	Highest level of approval		
							disposable pillow cases and subsequently inputs regarding information pertinent to transformation and localization elements - The tender was published with a delay.	
2	Rendezvous hotel	31/07/2015	No renewals	01/08/2015 - 03/07/2017	R28 681 111.68	GM: Operations	01/08/2015-03/07/2017 GSM proposed to business and trade unions to extend contract for 2 years and avoid running the full open tender process which will not lead to a better outcome and at the same time being costly and time consuming. To ensure business continuity and to uphold the overarching hotel sourcing strategy, GSM requested the renewal of the contract	It is indicated that the GSM proposed to business and trade unions to extend contract for 2 years and avoid running the full open tender process which will not lead to a better outcome and at the same time being costly and time consuming The market needs to be tested in order to arrive at a conclusion that "tender process which will not lead to a better outcome and at the same time being costly and time consuming" and also to ensure compliance with the sec 51(1)(a)(ii) of PFMA

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DD20-PS-1052

No	Supplier	Expiry date of previous contract	No. of renewals prior to original contract award but before latest contract renewal	BAC submission/record details			Reasons for renewals	Auditors comments
				Latest contract renewal period	Latest contract renewal value	Highest level of approval		
3	LKMN Media Connextion	31/12/2011	Six renewals as follows: 1)1/01/2012 - 30/04/2012 2)1/05/2012 - 31/07/2012 3)1/08/2012 - 31/08/2012 4)1/09/2012 - 30/09/2012 5)1/10/2012 - 30/11/2012 6)1/12/2012 - 31/01/2013	01/02/2013 - 28/02/2016	R2 000 000.00	Acting CFO	Specifications issued with the tender was not clear and decision taken that the revised specification be issued to all bidders who attended the compulsory briefing session and a special look and feel session was arranged for the same bidders in order to confirm the correctness of the specification which resulted in the closing date of tender being delayed. CFST agreed that further scrutiny of the bidders operational capability is required to enable the CFST to conduct site visits where the bidder's premises to be inspected and a quality inspection of the prints they make will be conducted which resulted in delays.	The compulsory briefing session bidders had to attend where specifications were revised could have been avoided had initial specifications issued with the tender been clear. I addition, time should have been set aside to conduct site visits and assess the bidders operational capability prior to issuing the tender. The reasons provided together with the multiple renewals on the same contract point out to poor planning

KTD

DD20-PS-1053

No	Supplier	Expiry date of previous contract	No. of renewals prior to original contract award but before latest contract renewal	BAC submission/record details			Reasons for renewals	Auditors comments
				Latest contract renewal period	Latest contract renewal value	Highest level of approval		
4	Westin new York grand central	31/08/2014	Three renewals as follows: 1)1/09/2014 -30/11/2014 2)1/12/2014 - 28/02/2015 3)1/03/2015 - 28/02/2017	01/03/2017 - 03/10/2017	R6 349 316.31	GM: Operations	1/09/2014-30/11/2014 GSM received recommendations from SAAPA, AIWU and SATAWU on hotels that meet their criteria. Hudson hotel was the cheapest however SAAPA did not recommend the hotel due to concerns experienced during the period which the SAAPA representative was sample the hotel. 1/12/2014-28/02/2015 SAAPA EXCO meeting was held on 18th November 2014 to discuss the New York recommendation as the Hudson hotel was rejected. SAAPA had still not put forward a recommendation to GSM, therefore the Hudson Hotel cannot be considered. GSM is not in support of crew staying in separate hotels. Lack of required process of submitting the recommendations by SAAPA moved the conclusion date of the process closer to expiry of the existing contract hence the contract renewal. 1/03/2015-28/02/2017 Could not find reasons in the file 01/03/2017-03/10/2017 To enable alignment with the Cabin Crew Contract that is due to expire on 31 Oct 2017. Arrangement was to enable a tender process to consolidate crew accommodation and	SAAPA rejected the Hudson hotel and were awarded an opportunity to put forward a recommendation to GSM within the required time frame. GSM could have taken a decision as to proceed with the hotel selection rather than delaying the process due to SAAPA inefficiencies. The reasons provided together with the multiple renewals on the same contract point out to poor planning

KTD

No	Supplier	Expiry date of previous contract	No. of renewals prior to original contract award but before latest contract renewal	BAC submission/record details			Reasons for renewals	Auditors comments
				Latest contract renewal period	Latest contract renewal value	Highest level of approval		
Part B								
5	Accelya (Zero Octa UK Limited)	30/11/2012	Four renewals as follows: 1)30/11/2012 - 30/04/2013 2)1/03/2013 - 30/04/2016 3)1/05/2016 – 31/07/2016 4)1/08/2016 – 31/10/2016	01/11/2016 - 30/04/2017	R1 532 160.00	CFO	30/11/2012 - 30/04/2013 The period dates way back and the reasons for extension not in the file provided 1/03/2013 - 30/04/2016 The period dates way back and the reasons for extension not in the file provided 1/05/2016 – 31/07/2016 Given the importance of curtailing revenue leakages through sales and refunds audit, there is a need to extend the contract with current service provider until the tender process is finalised. 1/08/2016 – 31/10/2016 Given the importance of curtailing revenue leakages through sales and refunds audit, there is a need to extend the contract with current service provider until the tender process is finalised. The BEC is currently in evaluation phase of the tender process and requires a 3	All the reasons provided for the renewals were to finalise the tender process The reasons provided together with the multiple renewals on the same contract point out to poor planning

RM
KTD

No	Supplier	Expiry date of previous contract	No. of renewals prior to original contract award but before latest contract renewal	BAC submission/record details			Reasons for renewals	Auditors comments
				Latest contract renewal period	Latest contract renewal value	Highest level of approval		
							months extension to conclude the tender process. 01/11/2016 - 30/04/2017 Given the importance of curtailing revenue leakages through sales and refunds audit, there is a need to extend the contract with current service provider to ensure continuity of service delivery whilst the team is working on the tender. Taking into account the forthcoming festive season, the contract with the current service provider has to be extended	

PS

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DD20-PS-1056

No	Supplier	Expiry date of previous contract	No. of renewals prior to original contract award but before latest contract renewal	BAC submission/record details			Reasons for renewals	Auditors comments
				Latest contract renewal period	Latest contract renewal value	Highest level of approval		
6	Global Eagle Entertainment(IFE service limited) & Inflight Dublin	30/06/2016	No renewals	01/07/2016 - 28/02/2017	R29 577 151.18	GM: Operations	01/07/2016 - 28/02/2017 1) The submission deadline for both FIPCO sitting and SAA Board sitting has been missed due to the following: - The request for BAC to support and recommend to FIPCO was tabled on 08 April 2016 however was referred back for rework in order to address the comments made within. 2) The evaluation criteria and weightings approval process has also been delayed due to the need to incorporate transformation elements into the criteria. The BAC request to support and recommend to the SAA board the approval of the evaluation criteria and weightings prior to the publication of the bid was tabled on 20 May 2016 and was subsequently referred back for rework. 3) GSM noted that once the bid specification committee has addressed the comments made by the BAC, receiving signatures could take time due to a number of signatories and therefore requested renewal of the contract	Delays could have been prevented had the evaluation criteria and weightings incorporated the transformation elements and not send back for rework. In addition had the submission deadline for FIPCO and SAA board been met, delays could have been avoided. The reasons provided for the latest renewals on the same contract point out to poor planning

RS
KTD

No	Supplier	Expiry date of previous contract	No. of renewals prior to original contract award but before latest contract renewal	BAC submission/record details			Reasons for renewals	Auditors comments
				Latest contract renewal period	Latest contract renewal value	Highest level of approval		
7	House of Monatic (Pty) Ltd	30/10/2015	Two renewals as follows: 1)1/11/2015 - 31/03/2016 2)1/04/2016 - 30/09/2016	1/10/2016 - 30/09/2017	R3 508 542.66	Acting CFO	<u>1/11/2015 - 31/03/2016</u> A service provider had to be appointed to change the specification of the flight deck crew uniforms as they were outdated resulting in the delay in the tender process. <u>1/04/2016 - 30/09/2016</u> To allow sufficient time to restart the tender process which takes relatively long time given that the textile products to be sourced falls under the designated sector that requires samples to be tested by the south African bureau of standards (SABS) during the evaluation phase. Past experience has proved that SABS takes long to conduct and complete the testing which has a substantial knock on effect on tender timelines. In addition the delay resulted from the stoppage of the tender process pending the pilot's approval of the specification for new uniform. <u>1/10/2016 - 30/09/2017</u> To allow sufficient time to restart the tender process which takes relatively long time given that the textile products to be sourced falls under the designated sector that requires	Delays could have been avoided had the service provider been appointed in time to change the specification and had sufficient time been allocated for testing of samples by SABS. The reasons provided together with the multiple renewals on the same contract point out to poor planning

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No	Supplier	Expiry date of previous contract	No. of renewals prior to original contract award but before latest contract renewal	BAC submission/record details			Reasons for renewals	Auditors comments
				Latest contract renewal period	Latest contract renewal value	Highest level of approval		
							samples to be tested by the south African bureau of standards (SABS) during the evaluation phase. Past experience has proved that SABS takes long to conduct and complete the testing which has a substantial knock on effect on tender timelines	
8	Standard Bank	30/11/2015	Three renewals as follows: 1) 30/11/2015 - 28/02/2016 2) 01/03/2016 - 31/05/2016 3) 01/06/2016 - 30/11/2016	01/12/2016 - 31/05/2017	R 28 716 240.00	Acting CFO	<u>30/11/2015 - 28/02/2016</u> The extension of current contract is to allow sufficient time for the tender process to be concluded. <u>01/03/2016 - 31/05/2016</u> The current contract with Standard bank is due to expire on 28 Feb 2016. The tender evaluation is still underway and the final recommendation cannot be handed in for the November 2015 board meeting as the submission deadline is 06 November 2015. The extension of the current contract is therefore required to ensure uninterrupted service delivery. <u>01/06/2016 - 30/11/2016</u> There is a requirement for the migration of all domestic banking services and interfaces from Standard bank to Nedbank. This includes the	Delays could have been avoided had sufficient time been set aside to conclude the tender process. In addition the submission deadline to the board was not met and unnecessary delays in the migration lead to avoidable delays. The reasons provided together with the multiple renewals on the same contract point out to poor planning

KTD

DD20-PS-1059

No	Supplier	Expiry date of previous contract	No. of renewals prior to original contract award but before latest contract renewal	BAC submission/record details			Reasons for renewals	Auditors comments
				Latest contract renewal period	Latest contract renewal value	Highest level of approval		
							migration of all payments and revenue collection interfaces inclusive of interfaces with the Amadeus booking system from Standard bank to Nedbank. At the BAC of 08 April 2016, the six months migration period that had been requested by the CFST was discussed in detail by the BAC members from various departments within the company following which there was a unanimous resolution by the BAC that the request for extension of the current contract cater for the migration must be twelve months to ensure a complete and seamless migration. It was later decided that a migration period of twelve months will not instill a sense of urgency in implementing the transition from the current to a new service provide which has cost implications. 01/12/2016 - 31/05/2017 There is a requirement for the migration of all domestic banking services and interfaces from Standard bank to Nedbank. This includes the migration of all payments and revenue collection interfaces inclusive of interfaces with the Amadeus booking system from Standard bank	

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KTD

No	Supplier	Expiry date of previous contract	No. of renewals prior to original contract award but before latest contract renewal	BAC submission/record details			Reasons for renewals	Auditors comments
				Latest contract renewal period	Latest contract renewal value	Highest level of approval		
							to Nedbank. The migration can only commence when the new service provide has been appointed. Given the award of the tender to Nedbank was approved but deferred until the Transaction Advisor that was contracted to restructure SAA's balance sheet has completed the project, there is need is to extend the contract for the provision of banking services with current banker in order to cater for the aforesaid migration.	
Total					R101 896 681.83		-	

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There is non-compliance with section 51(1) (a) (iii) of the PFMA and SAA supply chain management policy which results in irregular expenditure. Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

Internal control deficiency

Financial and performance management

The commodity manager and user department did not exercise oversight responsibility to ensure that SAA complies with PFMA and SAA SCM policy when deviating from official procurement processes due to poor planning and lack of capacity which resulted in the renewal of contracts for reasons that are reasonable.

Recommendation

Commodity manager and user department must ensure that:

- Global supply management (GSM) unit has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective by following the competitive bid process when the contract expires in order to limit the renewal of existing contracts with the supplier.
- Adequate planning and proper monitoring of the contract register takes place in order to identify contracts approaching expiry in time.
- The amount spent on the contracts extended must be disclosed as irregular expenditure in financial statements, an investigation on the matter and condonement of the expenditure must be done.
- The population for expenditure must be re-visited to ensure that all irregular expenditure from similar transactions are identified and disclosed as we selected on a sample basis.

Human resource (HR) must ensure that capacity issues are addressed in the GSM unit to ensure sufficient planning and monitoring of contracts is done on contracts

Management's response

Management comment on audit finding: We do not agree with this finding and submit the following for consideration:

Part A

Rendezvous Hotel & Westin New York Grand Central: It should be noted that GSM always conduct a market analysis in respect of the requirements prior issuing a tender and/or considering a contract extension thus the action was informed by the outcome of the analysis in view of the budgetary constraints. It also has to be noted that there was no poor planning especially with regard to the NY process but the extension was done in accordance to the reviewed strategy to accommodate both crew in one establishment for cost savings.

LKMN –The contract was extended for a cumulative period of a year and this happened when the tender was in progress. This is a complex tender with a complex specification. The specification consists of not less than fifty line items each with its own specification. The

KTD

specification for each item includes design templates. From the information cited by the auditors, it can be established that there was a problem with the specification which delayed the tender process. This was part of the submissions requesting for extension of the contracts in order to ensure continuity of supply whilst the team was working on the tender. The fact that the contract was extended whilst the tender process was in progress annuls the assertion of poor planning and lack of effective contract management. Given that there were valid reasons why the contract was extended as the team was battling with the tender specification, the extension can therefore not be considered as irregular given that they were all approved by the appropriate Delegation of Authority.

Servopak– The Team responsible for the completion of the relevant Tender is of the opinion that the delays caused did not result from a bad planning, or wrongly scoped requirement (which originally had a flame retardant requirements (lately removed) – but the time the Team needed to wait for a confirmation from Safety that the requirement can be removed (as other airlines are presently doing same – in view of the to date 'relaxed' specification).

Part B

Global Eagle Entertainment - (IFE service limited) & Inflight Dublin. Not in agreement. It is to be noted that the relevant Tender Process started timely, i.e.18 December 2015, considering the contracts were to expire on 30 June 2016. However, shortly after the relevant Team realised that this Tender will require an extended Project Plan, i.e. beyond the expiry of the current contracts (reference to some of the following reasons: the transition period applicable to possible switch of the suppliers, the challenges experienced in the approval process of some of the aspects of the Evaluation Criteria (e.g. transformation element etc.).The mentioned were the reasons why extension of the applicable contracts have been requested.

The findings do not point out the fact that Procurement went out on tender for the services rendered by Accelya (Zero Octa) UK Limited, House of Monatic and Standard Bank. The awards were either deferred by the approval authority or the bids were not responsive. Accelya is the only service provider that responded to the RFP but failed to meet the set threshold. Thus the contract had to be extended to ensure continuity of service. The banking tender was conducted and finalised but the SAA Board deferred the award resulting into extensions. The tender for the supply of uniforms will have to be advertised as most of the prospective suppliers failed to make the cut due to the local content requirements. The findings do not take into account the context thus the conclusion that there is no justifiable reasons for the extension of the contracts under consideration.

Furthermore, the findings do not cite the clauses of the applicable legislation that was violated by the extensions which were approved by the appropriate DOA. Without citing the clauses of the regulations violated, the finding is subjective/speculative and therefore cannot be used as a basis to declare the cited transactions irregular.

Management disagree with the findings. The findings do not point out the fact that Procurement went out on tender for the services rendered by Accelya (Zero Octa) UK Limited, House of Monatic and Standard Bank. The awards were either deferred by the approval authority or the bids were not responsive. Accelya is the only service provider that responded to the RFP but failed to meet the set threshold. Thus the contract had to be extended to ensure continuity of service. The banking tender was conducted and finalised but the SAA Board deferred the award resulting into extensions. The tender for the supply of uniforms will have to be advertised as most of the prospective suppliers failed to make the cut due to the local content requirements. The findings do not take into account the context thus the conclusion that there are no justifiable reasons for the extension of the contracts under consideration.

Management comment on Internal control deficiency: We disagree with the finding and deficiency noted, as the extensions were done lawfully and based on reasons recorded hereto.

KTD

Standard Bank - Management disagree with the findings as it is of the view that the reasons cited for the extensions were reasonable given the context. We do not accept the deficiency noted, as there was not deviation from a procurement process and extensions were done lawfully.		
Management comment on recommendation: Procurement has been following a provisioning system which is fair, equitable, transparent, competitive and cost effective where possible. There is need to identify the root cause of the symptoms pointed out in order for the finding to validate irregular spend. We do not accept the recommendation, as they do not correlate to the finding and reasons for contract extensions.		
Remedial action: Not applicable as management disagree with the finding.		
What actions will be taken: None based on the comments on finding and internal control deficiency noted.	**By whom**	**By when:**
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management's response is noted and additional engagements were held with management on 17/08/2017, where management agreed that reasons for not procuring on open tender were not justifiable or reasonable.

Subsequent to the discussion held on the 17/08/2017 and agreeing to the finding raised, management conceded to the finding on the 20/10/2017, as a result did not adjust or revise the irregular expenditure population. The finding remains in the management report and the impact, being a qualification of irregular/fruitless and wasteful expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations

RS KTD

24. Award made to a foreign supplier without a valid tax clearance from SARS certifying that tax affairs are in order (Tender)

Audit finding

Preferential Procurement Regulation 2011 paragraph 14 states that *"no tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order".*

Paragraph 3.6(d) of Treasury instruction 3 of 2014-15 dated 15 July 2014 states that the accounting officer of a department or constitution institution or the accounting authority of public entity must ensure that the bids documents provide for bidders who are not resident in the Republic of South Africa ,to apply for tax clearance at SARS.

We noted that award was made to an international supplier who's rendering services in South Africa without valid tax clearance from SARS. Refer to table below for details

No	Tender number	Supplier	Description	Award value	Award value	Amount spent
1.	GSM001/2015	FT Solutions Ltd UK	Pre-printed stationery	20/11/2015	R 4 032 584.76	R 639 769.00

There is non-compliance with Preferential Procurement Regulation and Treasury Instruction which results in the amount of R639 769 paid to supplier being irregular expenditure.

Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

Internal control deficiency

Financial and performance management

Bid specification committee (BSC) did not ensure that bid documents included a requirement that bidders who are not residents in the Republic of South Africa (RSA) to submit tax clearance from SARS when they bid due to a lack of understanding of the requirements of PPR

Recommendation

- BSC must ensure that bid documents require bidders who are not resident in the RSA to submit tax clearance from SARS when they bid.
- BSC must ensure that they have full understanding of the requirements in the PPR to ensure compliance
- Amount of R639 769 must be disclosed as irregular expenditure in the financial statements and a revision of the population must done.

Management's response

Management comment on audit finding: We disagree with this finding and submit the following:

Paragraph 3.6(d) - Should read 3.6 (e) and not (d). Also refer to management comment under item 14

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Compliance to National Treasury Instruction No. 3 of 2014/2015:

The application and implementation of the instruction No 3 of 2014/2015 was deferred in accordance to the National Treasury Instruction No 3A of 2014/2015 dated 31 October 2014 (viz. Sec 3) and currently pending further notice.

The conclusion is reached therefore that no effective National Treasury Instruction were contravened thus the amount paid to the supplier cannot be categorised as irregular expenditure in this regard.

Management comment on Internal control deficiency:

There is no Internal Control deficiency as the Bid committee adhered to the National Treasury Instruction No3A in this regard.

Management comment on recommendation:

The Bid committee adhered to the National Treasury Instruction No3A in this regard.

The amount paid to the supplier cannot be disclosed as irregular expenditure in the financial statement as there was no contravention of the Preferential Procurement Regulation nor Treasury Instruction

Remedial action:

What actions will be taken: None	**By whom**	**By when:** None

If the above finding affects an amount(s) disclosed in the financial statements:

Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**

If yes, please indicate the accounting entry

If no, please provide the reason why such a conclusion has been reached

No regulation or National Treasury instruction was contravened.

Auditor's conclusion

Management's response is noted and additional engagements were held with management on 12 September 2017, where management continued to disagree and it was concluded that management will consult with National Treasury (NT) on the tax clearance certificate matter immediately and submit the responses for evaluation.

Management submitted the consultation to NT on the 14/09/2017 and the response received on the letter dated 18/09/2017 (See attached)

Bidders Tax's Matter.pdf

The letter clearly states that SAA had to verify tax matters of the suppliers before awarding the contract to the supplier (Local or foreign). Preferential Procurement Regulation (PPR) clearly states that a tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order of which SAA did not comply with the requirement.

Based on the letter from treasury and the PPR requirement, it was concluded the finding remains and the non-compliance results in irregular expenditure.

Subsequent to the discussion held and consultation received from NT, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

25. Bids not evaluated in accordance with the preference point system as prescribed by the PPPF Act

Audit finding

Treasury Regulations paragraph 16A6.3 (b) states that *"The accounting officer or accounting authority must ensure that bid documentation include evaluation and adjudication criteria, including the criteria prescribed in terms of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and the Broad Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003)".*

Preferential Procurement Point Policy Framework Act section 2(1) (a) on the Framework for implementation of preferential procurement policy states that *"an organ of state must determine its preferential procurement policy and implement it within the following framework, a preference point system must be followed".*

We noted that the following tenders were confined to more than one supplier however evaluation as required by Treasury Regulations and Preferential Procurement Point Policy Framework Act was not done. Refer to table below for details:

Table A

No	Description	Supplier	Award value	Amount spent	Suppliers confined to
1	Arrival passenger services at Washington	United Airlines	R 6 306 300.00	R 68 012 207.76#	1.United Airlines 2.Swissport 3.WFS
2	Lounge Contract at Maputo	CIP S Lounge	R 8 221 500.00	R 3 693 286.89	1.CIP Lounge 2.LAM the Lounge
3	Crew accommodation & transport services in Libreville	Park inn by Radisson	R 7 928 320.00	R 5 511 204.00	1.Park inn by Radisson 2.Hotel Le Cristal 3.Le Meridien Re Ndama Hotel 4.Momad Hotel
Total			**R 22 456 120.00**	**R 77 216 698.65**	

#Irregular expenditure has already been reported on another finding

Table B

No	Description	Supplier	Award value	Amount spent current year	Suppliers confined to
1	Flight deck crew accommodation	Peermont Global (Pty) Ltd t/a Emperors Palace D'oreale Grande Hotel	R4 291 938.00	R433 320,00	1.Peermont Global (Pty) Ltd t/a Emperors Palace D'oreale Grande Hotel 2.Southern Sun (OR tambo) 3.Premier Hotel (OR tambo) 4.Intercontinental (OR tambo)
2	Crew accommodation in Lagos	Protea Hotel Select Ikeja	R28 806 105.60	R10 482 519,46	1.Protea Hotel Select Ikeja 2.Four points by Sheraton 3.Rennaisance Lagos Ikeja

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					Hotel 4.Southern Sun Ikoyi Lagos 5.Eko Hotels & Suites 6.Radisson Blu Anchorage Hotel 7.Intercontinental Hotel Victoria Islands Lagos 8.Protea Leadway Hotel
Total			R 33 098 043.60	R10 915 839.46	

There is non-compliance with Treasury Regulations and Preferential Procurement Point Policy Framework Act which result into amount of R20 120 330.35 paid to suppliers to be irregular expenditure.

Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

Internal control deficiency

Financial and performance management

The bid specification and evaluation committees (tender committees) did not exercise oversight responsibility to ensure that tenders are evaluated as required by Treasury Regulations and Treasury Regulations and Preferential Procurement Point Policy Framework Act.

Recommendation

- The tender committees must always ensure compliance with Treasury Regulations and Treasury Regulations and Preferential Procurement Point Policy Framework Act
- Amount of R20 120 330.35 must be disclosed as irregular expenditure in the financial statements and investigated

Management's response

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Management comment on audit finding: **Table A** We disagree with the finding. CIPS Lounge– this was confinement to one supplier, as explained in the BAC Submission these were confinements and awards to the specified Supplier, due to valid reasons and risk. The CIPS Lounge at Maputo was confined due to the only other Lounge being LAM's Lounge who operate in direct competition with SAA on the JNB/MPM route, as well as the CIPS Lounge being done in SAA' branding was a huge market advantage to award the Lounge at Maputo to the CIPS Lounge. United Airlines - this was confinement to one supplier, the supplier is a STAR Alliance Carrier who is the only supplier at Washington that has a central arrivals hall and who is able to assist SAA with onward carriage for SAA passengers from one central point. Crew accommodation & transport services in Libreville – this is a confined tender and the specification was pre-approved by unions as part of the bargaining agreement (SAAPA) and the cabin crew hotel policy. **Table B** We do not agree with the finding. Documents were submitted to AGSA which confirms that there was a scope and evaluation criteria for each tender process.
Management comment on Internal control deficiency: **Table A** Not Applicable. **Table B** We do not accept the deficiency noted.
Management comment on recommendation: **Table A** Not applicable. **Table B** We do not accept the recommendation
Remedial action: Not applicable.

What actions will be taken: None	**By whom**	**By when:**

If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

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Management's response is noted and further engagement has been held with GSM management on the 12/09/2017 to ensure that this issue is clarified with management.

It was concluded in the engagement that the auditors will evaluate supporting evidence that will be provided by management.

Subsequent to the meeting held on the 12/09/2017 evaluated the following and came to the conclusions:

1. United airlines = WFS and Swissport were the other service providers for ground handling, however they were not considered and there are no documented reasons why or approval thereof, thus finding will remain and irregular expenditure must be disclosed (21/09/2017)

2. Park in Radisson = Finding has been resolved

3. CIPS lounge = Finding has been resolved

Subsequent to the discussion held on the 12/09/2017, management conceded to the finding on the 20/10/2017 and did not adjust or revise the irregular expenditure population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations

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26. Award made to a supplier without a valid tax clearance from SARS certifying that tax affairs are in order (Tenders)

Audit finding

Preferential Procurement Regulation 2011 paragraph 14 states that *"no tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order".*

It was noted that:

- Awarded contracts were extended without supplier's valid tax clearance from SARS for suppliers listed under Table A.
- Awards made to an international supplier rendering services in South Africa without valid tax clearance from SARS for suppliers listed under Table B.
- Awards made to suppliers under table C who submitted a copy of a tax clearance certificate which is not considered valid according to SARS.

Table A

No	Supplier	Description	Award value (Extension amount)	Amount spent
1	Dube Trade port	Office space at King Shaka International Airport	R 6 706 529.98	R3 280 653.00 #
2	Havas World Wide	Global advertising services	R10 000 000.00	R129 029 613.05 #
3	BP	Jet fuel supply	R 654 912 110.15	R154 800 518.92 #
4	Total	Jet fuel Supply	R 533 322 714.33	R 91 088 921.69 #
5	IFE Inflight Dublin	Supplier of the Inflight Entertainment	R 175 937 405.15	R 138 026 150.46 #
6	Grapetiser & Appetiser South Africa (Pty) Ltd	Supply of Appletiser & Grapetiser for on-board SAA flights	R 2 779 117.67	R4 246 333.36
7	Comair	Freighter Pilot Proficiency Checks	R 4 954 145.00	R 973 176.28
8	CIRO	Supply of Coffee & Tea & Coffee Machine Rentals for use on board and lounges	R 5 187784.70	R 8 789 914.47
9	Cub 3D Consulting services	Brand Design Services	R 20 000 000.00	R 21 057 126.00
10	Vusibheki Management Services CC	Maintenance and installation of CCTV and access control	R 13 641 773.20	R 4 518 156.25
Total			R 1 603 378 985.33	R555 810 563.48

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Table B

No	Supplier	Description	Award date	Award value (Extension amount)	Amount spent
1	AMOS Hexaware Technologies	Data Migration from the Legacy MRO Application & the testing of AMOS	24/06/2016	R 3 034 457.22	R 14 296 412.86
2	Fuel plus	Fuel Plus Software GmBh	24/06/2016	R 3 541 598.22	R 2 176 065.95
Total				**R 74 076 055.44**	**R 16 472 478.86**

#Irregular expenditure has already been reported on another finding

Table C

No	Supplier	Description	Award value	Amount spend
1	Banalo Trading Enterprise	Aircraft galley equipment locking mechanism and stoffel seals	R12 028 824.00	R 4 378 170. 00
2	43 Air School (Pty)Ltd	Cadet pilot & flight instructor training program	R 62 280 000.00	R 31 876 034. 91
3	Usizo Technologies services	HVAC refurbishment and replacement at Airways park and inflight services building	R 30 608 331.50	R 14 156 910.16#
4	Bidair	Interior Cleaning, Toilet & Water	R 236 703 105.00	R 75 361467.00
5	Tshintsha Business Solutions (Pty) Ltd	Support & Maintenance for AMOS System	R 2 112 000.00	R 14 078 880.71
6	QPR Software PLC	QPR Software Licences - Annual	R 265 900.00	R 931 479.00
7	Sungard Kiodex	Maintenance and support of the Treasury system	R 3 665 087.00	R 3 665 087.00
8	Edward Nathan Sonnenberg Inc	Forensic investigation	R17 837 641.00	R18 278 467.14
9	Microsoft Ireland Operations Ltd	Upgrade of Microsoft active dictionary and architectural design for Microsoft	R34 545 813.27	R25 454 805.00
10	Peermont D'oreale Grande Hotel	Flight deck accomodation	R4 291 938.00	R433 320.00
11	Amadeus	Award of the Altéa Roaming Agent	R7 856 878.00	R0.00
Total			**R 412 195 517.77**	**R 188 614 620. 92**

There is non-compliance with Preferential Procurement Regulation which results in the amount paid to supplier being irregular expenditure

Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements

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Internal control deficiency

Financial and performance management

- Commodity managers and delegated official who approves the award as per Delegation of Authority did not ensure that all suppliers of which contracts are being extended, submitted valid tax clearance certificate before approving an award for suppliers listed under Table A due to a lack of understanding of the requirements of PPR.
- Bid Specification Committee did not ensure that bid documents requires bidders who are not residents in the Republic of South Africa (RSA) to submit tax clearance from SARS when they bid for suppliers listed under Table B due to a lack of understanding of the requirements of PPR.

Recommendation

- Bid specification committee and commodity managers must ensure that proper understanding of the PPR regulations through training, is obtained and the implementation thereof of the requirements to avoid non-compliance issues.
- Commodity managers and delegated official to approve award must ensure that suppliers valid tax clearance certificate from SARS if submitted before approving an extension for suppliers listed under the tables.
- Bid specification committee must ensure that bids documents requires bidders who are not resident in the RSA to submit tax clearance from SARS when they bid for suppliers listed under the tables.
- Amount paid to suppliers must be disclosed as irregular expenditure in the financial statements and investigated including a revision of the population for irregular expenditure.

Management's response

Management comment on audit finding:

Table A:
Management disagrees with the finding. The proof is available.

Please note that Havas Worldwide and Global Eagle Entertainment and Inflight Dublin are international suppliers hence it should be included in Table B (not Table A).

Table B:
Management disagrees with the finding, which is based on *Paragraph 3.6(d) of Treasury instruction 3 of 2014-15 dated 15 July 2014 which states that "the accounting officer of a department or constitution institution or the accounting authority of public entity must ensure that the bids documents provide for bidders who are not resident in the Republic of South Africa, to apply for tax clearance at SARS".*

Table C:
Management disagree with the finding, based on the following:

<u>Compliance to Preferential Procurement Regulations (PPR):</u>

The PPR 2001 regulations required that an original Tax Clearance Certificate (TCC) be submitted but it was withdrawn when the PPR 2011 took effect. Paragraph 14 of the PPPR 2011 reads as follows "No tender may be awarded to any person whose tax matters have not been

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declared by the South African Revenue Service to be in order". The bidder in question submitted a valid Tax Clearance Certificate (TCC) which is in line with the purpose of paragraph 14 whereby it is required that the State will only do business with persons whose tax affairs, as declared by SARS, is in order. The submitted TCC is valid, and its validity can be confirmed by contacting SARS and therefore this TCC copy substantially confirm the purpose of paragraph 14 of PPR 2011. Paragraph 14 of the PPPR 2011 does not require that an original TCC must be submitted neither does it have a 'submit by close of tender' requirement. Therefore, perfect compliance to paragraph 14 with the requirement for an original certificate cannot be expected. In fact, the repealed PPR of 2001 had the requirement for an original certificate but it was replaced with the 2011 and 2017 regulations which do not require that an original TCC must be submitted, *reaching the conclusion that no effective PPR were contravened.* <u>Compliance to National Treasury Instruction No. 3 of 2014/2015:</u> National Treasury Instruction No. 3 of 2014/15 dated 15 July 2014, introduced the new Electronic Tax Compliance Status (TCS) System. This instruction dealt with tax compliance measures for persons who are doing business with the state, where institutions are no longer required to obtain a hardcopy of an original and valid TCC but check the tax compliance status of bidders on through an electronic Tax Compliance Status system. National Treasury Instruction No. 3A of 2014/15 dated 31 October 2014, however, suspended Instruction No. 3 until further notice. *The conclusion can be reached that no effective National Treasury Instruction were contravened.* <u>TCC - "photo copies of this certificate are not valid":</u> Previous TCC issued by SARS had the line included that copies of the certificate are not valid as it was in line with PPR 2001 which required original TCC to be submitted with bids. After implementation of PPR 2011, SARS then included the line "Verification of this certificate can be done at any SARS Revenue office nationwide". *The conclusion can be reached that the line in question does not apply to in effect PPR 2011 or PPR 2017.* In conclusion, the tax compliance status of bidders was verified by confirming that the submitted TCC are valid by contacting the SARS call centre or by using the e-filing system. The validity can be confirmed using a hardcopy of the original valid TCC. Therefore, submission of an original TCC is not required by any regulation or National Treasury Instruction note and this finding should be withdrawn as all the bidders in question had valid tax clearance certificates. Submitting a hard copy of an original and valid certificate does not invalidate the tax compliant status of a bidder.
Management comment on internal control deficiency: Not applicable given the above response.
Management comment on recommendation: Not applicable given the above response.
Remedial action: Not applicable

What actions will be taken:	**By whom**	**By when:**
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**

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If yes, please indicate the accounting entry
If no, please provide the reason why such a conclusion has been reached

Auditor's conclusion

Management's response is noted and additional engagements were held with management on 12 September 2017, where management continued to disagree and it was concluded that management will consult with National Treasury (NT) on the tax clearance certificate matter immediately and submit the responses for evaluation.

Management submitted the consultation to NT on the 14/09/2017 and the response received on the letter dated 18/09/2017 (See attached)

Bidders Tax's Matter.pdf

The letter clearly states that SAA had to verify tax matters of the suppliers before awarding the contract to the supplier (Local or foreign). Preferential Procurement Regulation (PPR) clearly states that a tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order of which SAA did not comply with the requirement.

Based on the letter from treasury and the PPR requirement, it was concluded the finding remains and the non-compliance results in irregular expenditure.

Subsequent to the discussion held and consultation received from NT, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population for irregular expenditure. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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27. Postponement of the closing date for RFP 068/2015 was not done in accordance with SAA SCM policy

Audit finding

PFMA section 51 (1) (a) (iii) "*An accounting authority for a public entity must ensure that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective*".

SAA SCM policy paragraph 21.10.1state that, "*the closing date may be postponed only if the necessary approvals have been obtained, as per the DOA*".

SAA SCM policy paragraph 21.10.2 state that, "*the closing date may be postponed only if all prospective bidders can be advised of the postponed date in writing before the original closing date*".

SAA SCM policy paragraph 21.10.3 state that, "*It is advisable that in the case of an advertised bid, the closing date may be postponed if the new closing date can be advertised in the media of advertisement used, and only before the original closing date*".

SAA SCM policy paragraph 21.10.4 state that, "*If there is a valid reason for the postponement of the bid and there is insufficient time to advertise the postponement, the cancellation of the bid may be considered and fresh bids must be invited*".

We noted that closing date indicated on the advertisement was 29 March 2016 and this date was postponed to 12 April 2016 as per email communication sent to bidders who attended briefing session on the 15 March 2016. Email communication indicated that bidders who attended briefing session requested an extension on closing date and extension was granted as per the email.

Reference	Supplier Name	Award value	Closing date and time	Closing date postponed to	Amount spent
RFP068/2015	Usizo technologies services cc	R30 608 331.50	29 March 2016	12 April 2016	R 14 156 910.16

This is non-compliance with SCM policy and PFMA and it result into irregular expenditure of R 14 156 910, 16 that needs to be disclosed in the annual financial statements. Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements

Internal control deficiency

Financial and performance management

Acting Chief Procurement Officer (CPO) did not ensure monitor and review compliance with SCM policy regarding postponement of closing date for advertised tender to ensure it in accordance with SCM paragraph 21.10.1- 21.10.4 due to a lack of understanding of the SCM policy requirements.

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Recommendation

Acting CPO should:

- Ensure he obtains proper understanding of the SCM policy requirements and that necessary approval is obtained as per delegation of authority
- Ensure reasons for postponement are valid and document
- Ensure where there is sufficient time, postponement is advertised and where there is insufficient time to advertise postponement, should consider cancelling the bid and a fresh bid be invited.
- Ensure that the amount spent on the supplier has been disclosed as irregular expenditure in the financial statements and an investigation must done including the revision of the population for irregular expenditure

Management's response

Management comment on audit finding: Management accepts the finding. However, it should be recorded that the process of the extension was fair, transparent and equitable as all the bidders that responded to the compulsory briefing session were the interested bidder for the tender.		
Management comment on Internal control deficiency: We accept the deficiency.		
Management comment on recommendation: We accept the recommendation.		
Remedial action:		
What actions will be taken: Compliance with the SCM policy requirements will be ensure by all Commodity Teams.	**By whom:** Commodity Management: T Sogwazile	**By when:** Immediately.
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

Subsequent to agreeing to the finding raised, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population for irregular expenditure. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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28. Procurement issues identified on Swissport SA

Audit Finding

A. Procurement delays

The AGSA noted that the procurement process for the ground-handling contract to Swiss port SA and Bid Air took over 4 years, from the tender closing date until the approval of the contract award by the Board of Directors (BOD).

Tender Reference number GSM029/08

- On the 11 June 2008 (advert date) SAA went on a confinement to procure Ground Handling Service (RFP GSM 029/2008) from the licensed ground handling service suppliers, being Equity Aviation, Menzies, Swissport SA and Bid Air.

- RFP GSM029/08 indicated under critical criteria "that the bidder must have a valid ACSA license in order to qualify for SAA business (without a valid ACSA license your bid will not be considered)". Swissport SA did not have a license from ACSA to provide ground handling services as at 01 July 2008, (which it the closing date for the tender). The letter dated 14 July 2008 from Swissport SA president and CEO addressed to SAA, indicated that Swissport SA has been awarded third ramp handling license, which was effective from 01 September 2008 for a period of five years with an option to renew.

- Upon inspection of an email from Rishi Thakurdin dated 04/06/2008 (Group Manager legal at ACSA), it was noted that at the time of submission of the proposal to bid by Swissport and Equity Aviation were only shortlisted for the ground handling service licence and did not have the licence. Swissport SA, was evaluated further by the evaluation committee although the critical criterion of having a valid ACSA license was not met as at 01 July 2008 (closing date).

- SAA evaluated the proposals submitted by Equity Aviation, Swissport SA and Bid Air and on the 22 October 2008 a letter of award was sent to bid air and Swiss port indicating that they have been awarded contract for ground handling services for tender number GSM029/08 effective from 01 February 2009 for a period of 5 years.

- On 30 June 2008, Menzies sent a letter requesting an extension on the submission of the bid document providing reasons that the other suppliers were at an advantage as they offered ground handling services to SAA in prior years, however SAA did not grant the extension and continued with the process as the closing date was 1 July 2008.

- Menzies took SAA to court as the request for the extension of the proposal submission was denied. On 04 December 2009, the High Court of Johannesburg ruled in favour of Menzies, under case number 08/22988, setting aside the tender process as it was found to be unconstitutional and unlawful in that, section 217 of the Constitution was not complied with, in that the process was not in accordance with a system which is fair, equitable, transparent, competitive and cost-effective on the basis that SAA granted an unfair advantage to Swiss port and Bid air since they were supplying SAA with ground handling services 6 months before the proposal was sent and also that they will be having all the required documents/equipment to carry out the request." However, SAA continued with the contract that was awarded from 01 February 2009 to Bid air (Toilet & water servicing, interior cleaning, excess baggage, curbside check-in, bussing) and Swiss port until the end of contract period (01 February 2014).

- Enquired from sourcing specialist that was responsible with ground handling tender and indicated that although high court set aside the tender process as it was found "unconstitutional and unlawful", the CEO of SAA (Mrs Mzimela), CEO of Swiss port SA and

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CEO of Bid air agreed to continue with the contract until the end of contract period (01 February 2014).

- The tender awarded to Swissport SA and Bidair is a non-compliance with legislation and unlawful, thus must be disclosed as irregular.

Tender Reference number GSM039/11

After the court ruling, on the 01 April 2011, SAA went on a new confinement to Swissport, Bidair and Menzies for ground handling services under tender number GSM039/2011; closing date for this tender was 27 May 2011.

18 May 2012 it was a final selection of suppliers, CFST recommended the award of the services to Bid air, Menzies and Swiss port SA for five years as follows (recommendation from CFST was based on supplier who scored the highest points):

Table A

Award of service	Supplier	Estimated costs
Ramp Handling	Swiss port SA	R1 219 030 016.34
PAU & Wheelchair	Swiss port SA	R131 766 184.27
Baggage Weighing	Not awarded	R0.00
Ground Power Unit (GPU)	Swiss port SA	R85 632 573.01
Bussing	Bid air	R81 353 793.30
Aircraft interior cleaning	Swiss port SA	R109 257 853.63
Document Verification	Swiss port SA	R20 674 827.30
Toilet & Water	Menzies	R96 935 325.43
Express & Courier Cargo	Not awarded	R0.00
Provision of driver flight operation	Not awarded	R0.00
Crew transport – Airside	Swiss port SA	R52 034 479.33

Services that were not awarded, it because SAA decided to consider in-sourcing the services. The recommendation was supported BAC and recommended to CEO by BAC on 30 May 2012.

On 29 May 2012, GSM made submission to BAC. On this submission it indicated further services that should be considered to be performed in house which are; GPUs, Toilet and Water services, Crew transport and Aircraft interior cleaning. CFST still recommended that BAC support award of the services as per submission dated 18 May 2012, as it was costly to perform services in house. This submission was compiled by the commodity manager and supported by strategic sourcing manager. The recommendation was supported by BAC and recommended to CEO by BAC on 30 May 2012.

On 25 July 2012, GSM CFST made submission to Procurement and Tender Processes Committee (PTPC). CFST submission was to request from PTPC to support the award of the local ground handling services based on the final estimated costs of the services as follows:

Table B

Award of service	Supplier	Estimated costs
Ramp Handling	Swiss port SA	R1 219 030 016.34
PAU & Wheelchair	Swiss port SA	R131 766 184.27
Baggage Weighing	Airport Operations	In-house
Ground Power Unit (GPU)	SAAT	R83 541 742.59
Bussing	Bid air	R81 353 793.30
Aircraft interior cleaning	SAAT	R82 914 265.72
Document Verification	Swiss port SA	R20 674 827.30
Toilet & Water	SAAT	R75 150 668.16

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Express & Courier Cargo	Cargo	In-house
Provision of driver flight operation	Flight operations	In-house
Crew transport - Airside	Air chefs	R51 962 504.54

This recommendation was approved by PTPC on the 25 July 2012 and by Board on 31 July 2012.

On 31 July 2012, Letter of awards (LOA) were sent to Swiss port SA and Bid air. LOA indicated that ramp handling, PAU & Wheelchair and Document verification has been awarded to Swiss port SA and Bussing was awarded to Bid air. LOA also indicated that internal procedures have not been completed for other services and further announcement regarding these services will follow.

On 12 December 2012, Letter of awards (LOA) were sent to Air Chefs and SAAT SOC TD indicating the services that have been awarded as per above table. LOA also indicated that the appointment is subject to the license conditions as set out by ACSA.

It should be noted that initially tender was confined to Equity Aviation, Menzies, Swiss port and Bid Air and suppliers must have a valid ACSA license in order to qualify for SAA business. When SAA decided to in-source some of the services that were confined to suppliers with valid ACSA license, SAA did not have a valid license to perform self-handling therefore disadvantaging suppliers with valid ACSA license as at 01 July 2008.

In November 2014, as per discussion with sourcing specialist that was responsible for ground handling tender, sourcing specialist indicated that an award was made in 2012 (as per above) and they only reached agreement with Swiss port SA regarding terms and conditions in November 2014. When they started sending the contract around for final sign off, they were advised by the company secretary to go back to board to approve terms and conditions. The next board meeting was held in February 2015 where the terms and conditions were supposed to be considered but they were deferred to the next board meeting.

On the 09 December 2015, the board of directors approved the terms and conditions of Swiss port SA contract for a duration of five years commencing from 1 January 2016 to 31 December 2020.As per the submission from CFO to SAA board dated 14 March 2016, it indicated that there was a meeting held on the 10 February 2016 between SAA and Swiss port SA and the parties could not agree on the model to be used for the involvement of a BBBEE company. The submission also indicated that on the 16 February 2016 SAA issued a letter of termination to Swiss port SA and provided them with 60 days' termination notice.

On 14 March 2016 board resolved to approve the contract with Swiss port SA for a period of 5 years commencing on 01 April 2016 to 31 March 2021 with the following conditions:

- Swiss port SA to acquire all the GPU equipment that has been purchased by SAAT; and
- Swiss port SA to enter into a contract with a BBBEE company that has representation of black women, youth, military veterans and disabled persons, from which Swiss port SA will purchase all their equipment required for the SAA contract.

Therefore, due to a prolonged procurement process from 01 April 2011 until the final award on the 14 March 2016, SAA was on a month to month basis with Swiss port SA and Bid air.

Validity period of the tender GSM039/2011

RFP GSM039/2011 indicated that the tender is valid for 370 days from the closing date (closing date is 27 May 2011). Therefore, tender was valid until 30 April 2012.

On 31 July 2012, Letter of awards (LOA) were sent to Swiss port SA and Bid air indicated that SAA wishes to extend the validity of the bids for a further period of three months and it also indicated that in the event that SAA does not receive any objection to its intent to extend the validity period, your acceptance thereto shall be assumed. Based on the information in the file there is no proof that extension of validity was also requested from Menzies Aviation South Africa (Pty) Ltd.

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As per case law, Telkom SA Ltd v Merid Trading (Pty) Ltd and others; Bihati Solutions (Pty) Ltd and others [2011] JOL 26617 (GNP):

Facts in case
"Telkom invited a proposal for the provision of network services. Tender documentation contained a provision that conditions and proposals were to remain valid for acceptance for 120 days, expiring on 12 April 2008. By 12 April 2008, Telkom shortlisted 15 proposals but had not yet accepted any. After the expiry date, Telkom invited the shortlisted bidders to extend validity of their proposals. Only some responded. Telkom awarded the tender to 6 of the shortlisted bidders. Complaints were lodged by some unsuccessful bidders and after receiving legal advice, Telkom applied to Higher Court to have the awards set-aside".

Judgement
"The High Court held that the purported extension of the bid validity period, after the validity period lapsed, was unlawful. As soon as the bid validity period had expired, without having made an award, the tender process is complete, albeit unsuccessfully. The institution is no longer free to negotiate with the shortlisted bidders. Any negotiations to extend the bid validity period after its expiry lacks transparency and is neither equitable nor competitive".

Therefore, SAA negotiations to extend validity period after expiry with Swiss port SA and Bid air only lacked transparency..

Below is a summary of the key dates relating to the approval process for this contract:

Date	Committee support/approval	Comment
25 May 2011	None	Tender closing date
30 May 2012	BID Adjudication Committee (BAC) support to award certain ground handling services to Swissport SA and BidAir	None
27 July 2012	(PTPC)Procurement and Tender Processes Committee and Chief Executive Officer (CEO) recommendation to the Board of Directors (BOD) supporting the award of ground handling services to Swissport SA and BidAir.	During the period July 2012 until March 2016, SAA was involved in negotiations with Swissport SA in respect of the contract's terms and conditions and the involvement of a B-BBEE supplier.
14 March 2016	Approval of the BoD for the appointment of Swissport SA	

It should be highlighted that the protracted procurement process may also hinder SAA's ability to fulfil its mandate and to capitalise on potential cost savings. The fact that SAA ignored the court ruling to set aside the GSM239/2008 tender is unlawful and thus irregular.

B. Tax Clearance Certificate (TCC)

Section 16 of the Preferential Procurement Policy Framework Act (Act 5 of 2000) states that, *"No contract may be awarded to a person who has failed to submit an original Tax Clearance Certificate from the South African Revenue Service ("SARS") certifying that the taxes of that person to be in order or those suitable arrangements have been made with SARS."*

The AGSA inspected Swissport SA's bid proposal and noted that the bidder should have been disqualified from further evaluation as they had submitted a copy of their TCC and not an original TCC, which is in contravention of Section 16 of the PPPFA.

No	Supplier Name	Description of the contract	Tender number	Award Value	Amount

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1	Swissport SA	Ground handling contract	GSM 039/2011	R864 908 552.00	R 362 232 578.37

C. Contract allocation/set aside to B-BBEE suppliers

In terms of Section 217 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), *"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 or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost effective."*

According to the excerpts from the minutes of the SAA BoD meeting held on 26 August 2015, the BoD resolved the following in respect of the B-BBEE scoring system:

"The SCM policy should be amended to align to the Board's developmental agenda including the 30% set aside for procurement from SMMEs as prescribed by the President at the State of the Nation address."

The AGSA obtained a letter dated, 13 September 2015 from the Department of Trade and Industry (DTI) Office of the B-BBEE Commissioner addressed to the Chairperson of the SAA Board wherein the following was indicated:

"We reiterate all the contents of the letter sent to SAA on 9 September 2015, and advised that the 30% set aside initiative that SAA is in the process of implementing, to the extent that it was explained to us in the meeting with SAA, is in our view not in line with the B-BBEE Act and the Codes of Good Practice.

We have also consulted with the Department of Trade and Industry and they have confirmed that based on their record, SAA has not been granted a deviation or an exemption from the Codes of Good Practice within the framework of the B-BBEE Act, as amended.

It is our view therefore that even though SAA's conduct may be in good faith, it is not aligned to the B-BBEE Act and the Codes of Good Practice, and therefore SAA should not proceed to implement the 30% set aside until approval is applied for and obtained from the competent authority, in this case the Minister of Trade and Industry."

Having said the above, we request SAA to send us written confirmation that it will not proceed to implement the 30% set aside initiative until it has applied for and received the authorization to do so in terms of the B-BBEE Act, as amended, as agreed in the meeting. We will appreciate if the person duly authorised person at SAA can send us this written confirmation by Friday, 18 September 2015."

The AGSA noted a letter dated, 28 September 2015 from National Treasury instructing SAA to discontinue the setting aside of 30% of key procurement transactions for black owned business as it was indicated that:

"the resolution of the Board to set aside 30% in its current form is not supported by any procurement legal framework and must be stopped with immediate effect. You are kindly requested to advise the Board not to take procurement decision that brings the name of SAA and National Treasury into disrepute. "

The SAA Board subsequently responded to National Treasury in a letter dated 7 October 2015 and indicated (amongst other aspects) that:

"The setting-aside of 30% of appropriate categories of State procurement for purchasing from SMME's, co-operatives as well as township and rural enterprises is government policy that is aligned to section 217(2) of the Constitution and more recently in the nine-point plan announced during the February 2015 State of the Nation Address".

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"Accordingly, we request that you consider in good faith and at an intergovernmental relations our submissions, suggestions and requests made herein above. Where appropriate, provide guidance on the implementation of this government transformation policy of setting aside 30% of procurement of goods and services to SMMEs, co-operatives, township and rural enterprises.

Apart from the above mentioned correspondence between the SAA BoD, National Treasury and the DTI, no further correspondence was provided to the AGSA as to how these matters between the respective parties were subsequently resolved.

The AGSA noted that SAA continued with the practice of the 30% set aside for B-BBEE SMME's despite National Treasury's and the DTI's instructions. According to the SAA board minutes, dated 26 August 2015 in relation to the extension of Swissport, the following was resolved:

"To approve the extension of Swissport SA contract for ground handling and cargo services at domestic locations with the agreed 30% set aside for BEE SMME's;

SAA should endeavor to sign the contract with the BEE SMME directly to assist the SMME to raise any required funding."

In this regard, the AGSA requested SAA to provide the agreements entered into between Swissport SA and their B-BBEE partners. Swissport SA subsequently responded to the AGSA's request confirming their list of B-BBEE partners.

Based on the information provided to the AGSA, the practice of allocating/setting aside of 30% of the contract award to B-BBEE suppliers is not in accordance with SAA's SCM policy, or any specific procurement legal framework and Section 217 of the Constitution.

The selection and evaluation process for the B-BBEE suppliers is further discussed below.

D. Process and selection/award of B-BBEE companies

D.1 No record of the selection process for Swissport SA's B-BBEE companies

According to the memorandum dated 14 March 2016 from the CFO to the SAA Board, it was noted that Swissport SA and SAA could not agree on the model to be used for the involvement of a B-BBEE company and that a letter of termination was issued to Swissport SA on 16 February 2016, wherein SAA provided them with 60 days termination notice.

It was also indicated in the said memorandum that SAA and Swissport SA representatives held off the record discussions and an agreement was reached to enter into a five-year contract with Swissport SA from 1 April 2016 until 31 March 2021. Since entering into the ground handling contract with SAA, Swissport SA had entered into various contracts with B-BBEE suppliers/sub-contractors.

The AGSA were not provided with copies of the minutes taken during the off-the record discussions or the actual agreements with the B-BBEE suppliers. Therefore the process followed and the basis of selection of these B-BBEE companies is unclear to the AGSA.

D.2 Common directors between Swissport SA and JM Aviation

According to information obtained from the Companies Intellectual Property Commission (CIPC) website, the AGSA noted that there is a common director of Swissport SA and JM Aviation. The director's details are shown in the table below:

RTD

Name	Surname	Type	Status
Vuyisile Aaron	Ndzeku	Director	Active

Due to the common directorship identified and JM Aviation being the preferred B-BBEE supplier for a number of other SAA Group contracts (refer to 4.3 below), there is a risk of JM Aviation receiving preferential treatment.

D.3 Multiple contract awards/allocation to JM Aviation

JM Aviation is one of Swissport's SA B-BBEE suppliers. The AGSA has noted that JM Aviation has partnered with a number of other service providers for contracts within the SAA Group. The details are shown in the table below:

No	SAA Group	Winning bidder	Tender number	Nature of tender	Common B-BBEE Partner
1	SAA	Swissport	GSM 039/2011	Ground handling contract	JM Aviation
2	SAAT	AAR	SP462/16	Components contract	
3	SAAT	Michelin	SAAT 024/15	Tyre contract	

Whilst, the AGSA was provided with the database of SAA's B-BBEE vendors, the AGSA could not ascertain if the process of including vendors on this database and the subsequent selection of preferred B-BBEE suppliers was done in a fair, equitable, competitive, cost effective and transparent manner.

Furthermore, in the absence of an approved policy and process, other B-BBEE companies may not be afforded an equal and fair opportunity to partner with the international suppliers.

The investigation revealed a number of findings in respect of non-compliance and other irregularities. Due to the nature of the findings and potential implications, the AGSA recommends that management ensure that:

- The investigation processes are duly completed;
- Corrective action is taken to prevent matters of this nature from recurring; and
- Consequence management is strictly implemented.

Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

Internal control deficiency

Financial and performance management

Acting Chief Procurement officer did not ensure that the SCM policy and PFMA requirements were adhered to a lack of understanding of legislation. The month to month contract including the delayed procurement process is due to poor planning by the commodity managers.

Recommendation

Management should:

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DD20-PS-1084

- Improve controls over record keeping to ensure the retrieval of documents necessary to verify compliance with supply chain management prescripts;
- Conduct contractual negotiations with preferred bidders in a timely manner in order to facilitate the signing of a service level agreement;
- Award future contracts on condition that the bidder has submitted proof that their tax matters are in order;
- Re-consider the approach of the supplier development programme and the 30% B-BBEE contract allocation and ensure that principles of section 217 of the Constitution and instructions of National Treasury and DTI are adhered to;
- Consider undertaking an investigation into the selection process of JM Aviation as a B-BBEE supplier;
- Ensure all procurement matters under investigation are duly completed; and that corrective action and consequence management is strictly implemented.
- Consider and disclose irregular expenditure of R362 232 578.37 arising from the above-mentioned findings.

Management's response

Management comment on audit finding: We do not accept these findings, based on the following:

- The contract with Swissport does not contain any set aside
- Swissport selected its own BBBEE counterparts and SAA was never involved. Consequently, there was no process for selection of BBBEE supplier for Swissport, as it was their election and prerogative to select who they wish to partner with.
- JM Aviation was never selected by SAA to be a partner of Swissport and SAA is unaware how Swissport selects its BBBEE partners. Furthermore, SAA has not awarded any contract to JM Aviation.
- SAA cannot comment on GPUs which were sold by SAAT, as it did not partake in the process of sale.

It ought to be made clear that SAA did not choose a BBBEE partner for Swissport nor did it recommend that such partner to be JM Aviation. Swissport chose its transformation partners independently from SAA and its agreement with SAA merely records Swissport' undertaking on transformation. The agreement makes no reference to Swissport having an obligation to contract with JM Aviation nor is JM Aviation a partner to the agreement between SAA and Swissport. Consequently, SAA cannot be expected to have a record of the process that was followed by Swissport in selecting their own BBBEE partners. SAA was also not involved in the sale of GPU and it is a matter for SAAT to comment on.

Regarding the off the record discussions, the aim was to prevent the cancellation of the contract which would have had been bad for SAA business. It is unclear in terms of what were these "off-the record discussion", were supposed to be minuted if at all they were held without prejudice and solely to avoid termination of the agreement.

Furthermore, to date SAA has always worked on a copy of the TCC, in future SAA will request an original. The recommendations are noted. It is also noted that the awarded value of R864 908 552.00 over 5 years will differ to the per annum cost of R362 232 578.37 due to the annual CPI escalations over the years.

Additionally, we disagree with the finding regarding Point B (TCC) and submit the following for consideration:

<u>Compliance to Preferential Procurement Regulations (PPR):</u>

The PPR 2001 regulations required that an original Tax Clearance Certificate (TCC) be submitted but it was withdrawn when the PPR 2011 took effect. Paragraph 14 of the PPPR 2011 reads as follows "No tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order". The bidder in question submitted a valid Tax Clearance Certificate

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(TCC) which is in line with the purpose of paragraph 14 whereby it is required that the State will only do business with persons whose tax affairs, as declared by SARS, is in order. The submitted TCC is valid, and its validity can be confirmed by contacting SARS and therefore this TCC copy substantially confirm the purpose of paragraph 14 of PPR 2011. Paragraph 14 of the PPPR 2011 does not require that an original TCC must be submitted neither does it have a 'submit by close of tender' requirement. Therefore perfect compliance to paragraph 14 with the requirement for an original certificate cannot be expected. In fact the repealed PPR of 2001 had the requirement for an original certificate but it was replaced with the 2011 and 2017 regulations which do not require that an original TCC must be submitted, *reaching the conclusion that no effective PPR were contravened.* Compliance to National Treasury Instruction No. 3 of 2014/2015: National Treasury Instruction No: 3 of 2014/2015 issued on 15 July 2014 introduced the new Electronic Tax Compliance Status (TCS) System. This instruction dealt with tax compliance measures for persons who are doing business with the state, where institutions are no longer required to obtain a hardcopy of an original and valid TCC but check the tax compliance status of bidders on through an electronic Tax Compliance Status system. National Treasury Instruction No 3A of 2014/2015 dated 31 October 2014 suspended Instruction No 3 until further notice. *The conclusion can be reached that no effective National Treasury Instruction were contravened.* TCC - "photo copies of this certificate are not valid": Previous TCC issued by SARS had the line included that copies of the certificate is not valid as it was in line with PPR 2001 which required original TCC to be submitted with bids. After implementation of PPR 2011, SARS then included the line "Verification of this certificate can be done at any SARS Revenue office nationwide". *The conclusion can be reached that the line in question does not apply to in effect PPR 2011 or PPR 2017.* In conclusion, the tax compliance status of bidders was verified by confirming that the submitted TCC are valid by contacting the SARS call centre or by using the e-filing system. The validity can be confirmed using a hardcopy of the original valid TCC. Therefore submission of an original TCC is not required by any regulation or National Treasury Instruction note and this finding should be withdrawn as all the bidders in question had valid tax clearance certificates. Submitting a hard copy of an original and valid certificate does not invalidate the tax compliant status of a bidder.
Management comment on internal control deficiencies: The internal control deficiency is unclear. Which policies and procedures was management supposed to communicate and to whom were these supposed to be communicated to?
Management comment on recommendation: Based on the management comments, the suggested investigation of how Swissport selects its own BBBEE partners would be frivolous. Matters being investigated are SAAT and SAA is not involved.
Remedial action: N/A

What actions will be taken:	By whom:	By when:
None in light of management comments on findings and recommendations.	Person: Position;	

Auditor's conclusion

Management's response is noted and additional engagements were held with management on the 12/09/2017 and management agreed that there were numerous issues relating to the tender. Regarding the tax matter, it was concluded that management will consult with National Treasury (NT) on the tax clearance certificate matter immediately and submit the responses for evaluation

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The finding is based on the requirements of section 217 of the Constitution of the Republic of South Africa which requires an organ of state, which contracts for goods or services, to do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.

This requirement is further emphasized in section 51(1)(a)(iii) of the PFMA and the Preferential Procurement Policy Framework Act in the case of SAA as it is a schedule 2 public entity. The system that public entities use to ensure that they comply with this legislative requirement is to ensure that procurement of goods and services is fair, equitable, transparent, competitive and cost-effective.

Procurement delays

Management's response did not address the finding in respect of the delays in the procurement process. The finding remains and be included in the management report.

Tax Clearance Certificate (TCC)

From the engagement held with management, it was concluded that management will consult National Treasury on this matter immediately and submit the responses for evaluation to the auditors once received from Treasury.

Management submitted the consultation to NT on the 14/09/2017 and the response received on the letter dated 18/09/2017 (See attached)

PDF

Bidders Tax's Matter.pdf

The letter clearly states that SAA had to verify tax matters of the suppliers before awarding the contract to the supplier (Local or foreign). Preferential Procurement Regulation (PPR) clearly states that a tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order of which SAA did not comply with the requirement.

Based on the letter from treasury and the PPR requirement, it was concluded the finding remains and the non-compliance results in irregular expenditure.

Contract allocation/set aside to B-BBEE suppliers & Process and selection/award of B-BBEE companies

It was concluded that the auditors will obtain the contract/agreement between SAA and Swissport to evaluate further the conditions stated and termination letter by the board to determine the fairness of the termination

With regards to the off the record meeting held with Swissport by management, that will not be accepted as the auditors cannot validate the discussions held because they were not recorded. This is an indicator of fraud and further investigation must be done.

The finding remains in the management report and the conclusion will be amended pending the further evaluation of supporting evidence and consultation with National Treasury.

Subsequent to the discussion held and consultation received from NT, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population for irregular expenditure. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations

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29. No valid Tax Clearance Certificate (TCC) (GSM067/13)

Audit Finding

Section 14 of the Preferential Procurement Regulations (PPR), 2011 states that, *"No tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service ("SARS") to be in order."*

Section 14.2.2 of the SCM policy (Board approval: February 2011) states that, *"SAA shall reject any bid from a supplier who fails to provide written proof from SARS that the supplier either has no outstanding tax obligations or has made arrangements to meet outstanding tax obligations at the time of bid submission or as allowed by SAA."*

The TCC issued by SARS states that, *"Photo copies of this certificate are not valid."*

The AGSA inspected the bid proposals for Shell and Sasol oil (refer to table below) and noted that the bidders had provided copies of their TCC which is not valid. Therefore, these bidders should have been disqualified from further evaluation but were not.

No	Supplier Name	Description of the contract	Tender number	Award Value	Amount
1	Shell	Supply and delivery of Jet A1 fuel	GSM067/13	R121 9572498.02	R 278 018 384.94#
2	Sasol Oil	Supply and delivery of Jet A1 fuel	GSM067/13	R840 766 105.81	R175 963 362.19#
Total				**R2060 338 603.83**	**R453 981 747.13**

#Irregular expenditure has already been reported on another finding

This is in contravention of Section 14 of the PPR and Section 14.2.2 of SAA's SCM policy. The amount spent results in irregular expenditure R453 981 747.13.

Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

Internal control deficiency

Financial and performance management

Management did not establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities due to a lack of understanding of the PPR requirements.

Recommendation

Management should:

- Obtain an understanding of the PPR requirements through training and ensure implementation thereof to avoid non-compliance issues
- Ensure that bidders tax matters are confirmed in terms of the prevailing SARS and PPR prescripts;

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- Quantify and disclose irregular expenditure accordingly; and
- Ensure all SCM record keeping is properly maintained and safeguarded to enable easy retrieval of information for audit purposes.

Management's response

Management comment on audit finding: We disagree with the finding and submit the following for consideration: <u>Compliance to Preferential Procurement Regulations (PPR):</u> The PPR 2001 regulations required that an original Tax Clearance Certificate (TCC) be submitted but it was withdrawn when the PPR 2011 took effect. Paragraph 14 of the PPPR 2011 reads as follows "No tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order". The bidder in question submitted a valid Tax Clearance Certificate (TCC) which is in line with the purpose of paragraph 14 whereby it is required that the State will only do business with persons whose tax affairs, as declared by SARS, is in order. The submitted TCC is valid, and its validity can be confirmed by contacting SARS and therefore this TCC copy substantially confirm the purpose of paragraph 14 of PPR 2011. Paragraph 14 of the PPPR 2011 does not require that an original TCC must be submitted neither does it have a 'submit by close of tender' requirement. Therefore perfect compliance to paragraph 14 with the requirement for an original certificate cannot be expected. In fact the repealed PPR of 2001 had the requirement for an original certificate but it was replaced with the 2011 and 2017 regulations which do not require that an original TCC must be submitted, *reaching the conclusion that no effective PPR were contravened.* <u>Compliance to National Treasury Instruction No. 3 of 2014/2015:</u> National Treasury Instruction No: 3 of 2014/2015 issued on 15 July 2014 introduced the new Electronic Tax Compliance Status (TCS) System. This instruction dealt with tax compliance measures for persons who are doing business with the state, where institutions are no longer required to obtain a hardcopy of an original and valid TCC but check the tax compliance status of bidders on through an electronic Tax Compliance Status system. National Treasury Instruction No 3A of 2014/2015 dated 31 October 2014 suspended Instruction No 3 until further notice. *The conclusion can be reached that no effective National Treasury Instruction were contravened.* <u>TCC - "photo copies of this certificate are not valid":</u> Previous TCC issued by SARS had the line included that copies of the certificate is not valid as it was in line with PPR 2001 which required original TCC to be submitted with bids. After implementation of PPR 2011, SARS then included the line "Verification of this certificate can be done at any SARS Revenue office nationwide". *The conclusion can be reached that the line in question does not apply to in effect PPR 2011 or PPR 2017.* In conclusion, the tax compliance status of bidders was verified by confirming that the submitted TCC are valid by contacting the SARS call centre or by using the e-filing system. The validity can be confirmed using a hardcopy of the original valid TCC. Therefore submission of an original TCC is not required by any regulation or National Treasury Instruction note and this finding should be withdrawn as all the bidders in question had valid tax clearance certificates. Submitting a hard copy of an original and valid certificate does not invalidate the tax compliant status of a bidder.
Management comment on Internal control deficiency: There is no Internal Control deficiency in light of management comments above.

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Management comment on recommendation: We do not accept the recommendation.		
Remedial action:		
What actions will be taken:	**By whom**	**By when:**
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No -** None is required
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management's response is noted and additional engagements were held with management on the 12 September 2017, where management continued to disagree and it was concluded that management will consult with National Treasury (NT) on the tax clearance certificate matter immediately and submit the responses for evaluation.

Management submitted the consultation to NT on the 14/09/2017 and the response received on the letter dated 18/09/2017 (See attached)

Bidders Tax's
Matter.pdf

The letter clearly states that SAA had to verify tax matters of the suppliers before awarding the contract to the supplier (Local or foreign). Preferential Procurement Regulation (PPR) clearly states that a tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order of which SAA did not comply with the requirement.

Based on the letter from treasury and the PPR requirement, it was concluded the finding remains and the non-compliance results in irregular expenditure.

Subsequent to the discussion held and consultation received from NT, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population for irregular expenditure. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations

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30. Limitation of scope on the information requested relating to SCM 1

Audit finding

Section 54(1) of the PFMA (Act 1 of 1999)states that *"an accounting authority for a public entity must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require".*

Section 15(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) states that *"when performing an audit referred to in section 11, the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to (a) any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee".*

The following requested information in relation to tenders were not submitted to auditors and is listed under Table A and B:

Table A

Item no.	Supplier	Description	Contract value	RFI No.	Information not submitted
1	Cliff Dekker Hofmeyr inc	Legal expenses	R 23 478 430.00	112	1.Approved Deviation/Confinement Memo (if applicable) 2.Needs Assessment Report 3.Requisition for Advert 4.Approved budget 5.Approved Bid Specifications 6.Evaluation and Adjudication criteria 7.Bid invitations (Advert) 8.BEC and BSC minutes of meeting 9.Tax Clearance Certificate 10.Declarations of interest by suppliers 11.BBBEE Certificates 12.Quotations submitted (if applicable) 13.Scoring/Evaluation Sheet/ Evaluation Report 14.Signed Contracts/Service Level Agreement with suppliers 15.Appointment letter/memo for BSC and BEC members 16.Declarations of interest by BSC & BEC members 17.Register of bidders that submitted the tender documents 18.Tender documents for winning bidder
2	Celestial Aviation trading 47 ltd	Legal expenses	R 250 344 694.00	112	1.Approved Deviation/Confinement Memo (if applicable) 2.Needs Assessment Report 3.Requisition for Advert 4.Approved budget 5.Approved Bid Specifications 6.Evaluation and Adjudication criteria 7.Bid invitations (Advert)

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Item no.	Supplier	Description	Contract value	RFI No.	Information not submitted
					8.BEC and BSC minutes of meeting 9.Tax Clearance Certificate 10.Declarations of interest by suppliers 11.BBBEE Certificates 12.Quotations submitted (if applicable) 13.Scoring/Evaluation Sheet/ Evaluation Report 14.Letter of award 15.Appointment letter/memo for BSC and BEC members 16.Declarations of interest by BSC and BEC members 17.Register of bidders that submitted the tender documents 18.Tender documents for winning bidder 19.Signed contract
3	TNA Media	Panel of media supplier	R 1 324 400.00	116	1.Requisition for Advert 2.Approved Bid Specifications 3.Evaluation and Adjudication criteria 4.Bid invitations (Advert) 5.BEC and BSC minutes of meeting 6.Tax Clearance Certificate 7.Declarations of interest by suppliers 8.BBBEE Certificates 9.Scoring/Evaluation Sheet/ Evaluation Report 10.Letter of Award (LOA) 11.Appointment letter/memo for BSC and BEC members 12.Declarations of interest by BSC and BEC members 13.Register of bidders that submitted the tender documents 14.Tender documents for winning bidder
4	Magnum Force Security	Security services	R 4 761 423.06	133	1.Approved Deviation/Confinement Memo (if applicable) 2.Needs Assessment Report 3.Requisition for Advert 4.Approved budget 5.Approved Bid Specifications 6.Evaluation and Adjudication criteria 7.Bid invitations (Advert) 8.BEC and BSC minutes of meeting 9.Tax Clearance Certificate 10.Declarations of interest by suppliers 11.BBBEE Certificates 12.Quotations submitted (if applicable) 13.Scoring/Evaluation Sheet/ Evaluation Report 14.Letter of award 15.Appointment letter/memo for BSC and BEC members

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Item no.	Supplier	Description	Contract value	RFI No.	Information not submitted
					16.Declarations of interest by BSC and BEC members 17.Register of bidders that submitted the tender documents 18.Tender documents for winning bidder 19.Signed contract
Total			R 279 908 947.06		

Table B

No	Supplier	Description	Contract value	RFI	Information not submitted
1	Swissport SA	Ground handling contract	R 864 908 552.00	174	1. Approval by the delegated official in respect of the composition of the CFST members; 2. Approval by the delegated official/committee in respect of the extension for the tender closing date; 3. Bid opening register; and 4. Preference points and evaluation criteria calculations.

This has resulted in a material limitation of scope in supply chain management (SCM) and as a result we are unable to conclude on the completeness and fair presentation of the irregular expenditure note. This will lead to a qualification in the audit report. In addition we are also unable to conclude on the compliance by SAA with the laws and regulations governing SCM.

Internal control deficiency

Financial and performance management

The supply chain management unit did not implement proper record keeping ensuring that all documents relating to tender awards are filed on a timely manner and information in the store room is accessible to support financial and performance reporting due to a lack of proper handover processes when staff resign and a lack of accountability in terms of record keeping in the global supply chain management unit.

Recommendation

- The Chief Procurement Officer should oversee the implementation of appropriate processes/systems to ensure proper record keeping in a timely manner. This will enable complete, relevant and accurate tender information being accessible and available upon request by the auditors.
- Chief Procurement Officer must ensure that a proper hand over process is designed, documented and implemented at all times when staff resigns and that disciplinary actions are taken against staff that do not comply with the process.

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- Supporting evidence should be filed on a regular basis and properly referenced and make reference to the responsible staff member so that documents could be obtained on a timeous manner when requested.

An SCM checklist must be done in order to ensure that information in the file is complete.

Management's response

Management comment on audit finding: We do not accept the limitation of scope finding pertaining to some of the listed contracts above and on the consolidated limitation of scope document attached hereto, we have indicated the available documents. However, we accept the limitation of scope finding pertaining to the information recorded as untraceable on the document attached and management actions recorded below will be implemented.		
Management comment on internal control deficiency: We accept the noted deficiency pertaining to the untraceable information noted on the attached document.		
Management comment on recommendation: Noted and reference is also made hereto, to the comment on internal control deficiency.		
Remedial action: Evergreen contracts will be regularised by going out on tender		
What actions will be taken: Information Management Committee (IMC) has been established to oversee adequate management and control of GSM information (including introducing information management technologies such cloud). Also, the revamp of the GSM storages and ensuring files are labeled and properly stored has commenced.	**By whom:** Commodity Teams, IMC and CPO	**By when:** December 2017
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management's response is noted and additional engagements were held with management on the 12/09/2017 where management will revise the responses provided and the documents subsequently located will be submitted by 13/09/2017 for audit.

Management subsequently submitted some of the information which was raised as a limitation and the finding was resolved in those instances. Where information could not be obtained, the finding remains in the management report and the impact will be reported in the 2016/17 audit report as a limitation on the irregular expenditure.

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31. Official procurement process not followed in the Bidair contract renewal

Audit finding

Section 51(1) (a) (iii) of the PFMA states that,*" an accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective".*

On the 11 June 2008 SAA went on a confinement to procure Ground Handling Service (RFP GSM 029/2008) from the licensed Ground Handling Service suppliers, the suppliers were Equity Aviation, Menzies, Swissport and Bid Air.

On 30 June 2008 at 16:50pm Menzies sent a letter requesting an extension on the submission of the BID document providing reasons that the other suppliers were at an advantage as they offered ground handling services to SAA in prior years, however SAA did not grant the extension and continued with the process as the closing date was 1 July 2008.

On 22 October 2008 a letter of award was sent to bid air and Swissport indicating that they have been awarded contract for ground handling services for tender number GSM029/08 effective from 01 February 2009 for a period of 5 years.

On 04 December 2009 the High Court of Johannesburg ruled in favour of Menzies under case number 08/22988 setting aside the tender process as it was found to be "unconstitutional and unlawful in that section 217 of the Constitution was not complied with in that the process was not in accordance with a system which is fair, equitable, transparent, competitive and cost-effective on the basis that SAA granted an unfair advantage to Swissport and Bidair since they were supplying SAA with ground handling services 6 months before the proposal was sent and also that they will be having all the required documents/equipment to carry out the request." However SAA continued with the contract that was awarded from 01 February 2009 to Bid air (Toilet & water servicing, interior cleaning, excess baggage, curbside check-in, bussing) and Swissport until the end of contract period (01 February 2014).

On the 01 April 2011 SAA went on a new confinement for ground handling services under tender number GSM039/2011, closing date for this tender was 27 May 2011 and contract was awarded to Swissport SA on 14 March 2016. Due to delays that were encountered on awarding the new confinement for ground handling services (GSM039/2011) from 02 February 2014 to 31 March 2017, SAA entered into a month to month contract for ground handling services without going on a formal procurement process.

The above signifies that SAA does not maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective in line with section 51 of the PFMA and also indicates poor planning. The initial contract set aside by the court and the month to month contract from 2014 is regarded as irregular.

Supplier Name	Contract Start Date	Contract End Date	Amount of initial contract	Amount for month to month contract until 31 March 2017	Total
Bid Air services	01-Feb-09	01-Feb-14	R428 157 617,40	R254 591 006,26	R682 748 623,66

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There is non-compliance with section 51(1) (a) (iii) of the PFMA and SAA supply chain management policy which results in irregular expenditure. Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all irregular expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

Internal control deficiency

Leadership

The Board of Directors did not properly exercise oversight responsibility to prevent non-compliance with PFMA ac and SCM Policies due to a lack of understanding of legislation. This resulted in material non-compliance with regards to the procurement of ground handling services.

Financial and performance management

The commodity manager and user department did not exercise oversight responsibility to ensure that SAA complies with PFMA and SAA SCM policy when deviating from official procurement processes due to poor planning and lack of capacity which resulted in the renewal of the Bidair contract for reasons that are reasonable.

Recommendation

Board of Directors should properly exercise oversight responsibility in ensuring compliance with PFMA and prevention of irregular expenditure.

Commodity manager and user department must ensure that:

- Global supply management (GSM) unit has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective by following the competitive bid process when the contract expires in order to limit the renewal of existing contracts with the supplier.
- Adequate planning and proper monitoring of the contract register takes place in order to identify contracts approaching expiry in time.
- The amount spent on the contracts extended must be disclosed as irregular expenditure in financial statements, an investigation on the matter and condonement of the expenditure must be done.
- The population for expenditure must be re-visited to ensure that all irregular expenditure from similar transactions are identified and disclosed as we selected on a sample basis.

Human resource (HR) must ensure that capacity issues are addressed in the GSM unit to ensure sufficient planning and monitoring of contracts is done on contracts

Management response

Management comment on audit finding: The finding is accepted
Management comment on internal control deficiencies: The internal control deficiencies are accepted

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Management comment on recommendation: The recommendations are accepted		
Remedial action : Management will investigate the population of Bids awarded to determine if similar issues exist in other contracts, report these as irregular. Furthermore GSM is in the process of implementing internal controls that will prevent, detect and report Irregular Expenditure.		
What actions will be taken: 1. The amount will be reported as irregular spend and condonement would be sought 2. Consequence management (if applicable/established) would be implemented	By whom Person: Adv. N Memela Position: ACPO	By when: 31 March 2018

Auditor's conclusion

Management response is noted and agrees with the finding, internal control deficiency and the recommendations.

Subsequent to agreeing with the finding, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population. The finding remains in the management report and the impact, being a qualification of irregular expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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Irregular, Fruitless and Wasteful Expenditure

32. Fruitless and wasteful expenditure due to overpayments of supplier

Audit Finding

Section 51 (1) (b) (ii) of the Public Finance Management Act states that "*an accounting authority for a public entity must take effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity*".

SAA entered into a contract with SFU Engineering for building, civil and general maintenance works for contract value of R20 460 033, 58 for a period of three years. The awarded contract was allocated / split as follows:

Division	Split
SAA	35.70%
Cargo	17.20%
SAAT	47.10%

The amounts to be paid were further spread between 3 years as follows:

Year 1:R7 440 012, 21

Year 2: R6 956 411, 42

Year 3:R6 063 609, 95

Paragraph 6 of the contract state that, as part of value add initiative (value add through reduction of the agreed amount) by the supplier to SAA, they will perform work of approximately 24% per annum of the amounts spread across the years and this will be effective in 2nd and 3rd year of the agreement.

After inspection of the SAA's payment schedule we noted that 12% was incorrectly used as a value add initiative for the 2nd and 3rd year, instead of 24% each year resulting in an overpayment of approximately R865 053.32. Refer to table below for details:

Information as per management calculation			Auditors recalculations		Actual Payment	Difference
Year	Planned	Value add percent	Planned A	Value add percent	B	Overpayment (A-B)
1	R2 656 877.04	N/A	R 2 656 877.04	N/A	R 2 656 877.04	R0.00
2	R 2 338 052.43	12%	R 2 019 226.55	24%	R 2 644 016.57	R 624 790.02
3	R 2 057 486.87	12%	R 383 653.04	24%	R 623 916.34	R 240 263.30
Total overpayment						**R 865 053.32**

The overpayment results in fruitless and wasteful expenditure as this could have been avoided had the contract been correctly interpreted and reviewed. Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all fruitless and wasteful expenditure relating to similar transactions

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have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

Internal control deficiency

Financial and performance management

The Head of Department: Facilities did not ensure that there is a review and correct interpretation of the contract terms

Recommendation

The Head of Department: Facilities should:

- Ensure that an investigation on this matter is conducted,
- Claim the amount relating to the overpayment from the supplier,
- Disclose the amount as fruitless and wasteful expenditure in the financial statements.

Management response

Management comment on audit finding: Contract management and the approval of expenses for services rendered for payment processing resides with the business unit, i.e. Facilities. All Facility contracts, which includes the SFU contract, contains a similar value add clause that informs 12% reduction of expenses in the 2nd and 3rd year of the contract term respectively which effectively means a 24% value add reduction per contract term. The SFU contract however, incorrectly states value add of 24% per annum which makes the clause inconsistent with other facilities contracts. The SFU contract however, is managed on the mutually agreed 12% value add per annum although the contract stipulates a 24% value add; which management, until being made aware of the anomaly in this finding, was unmindful of. The discrepancy will be referred to legal counsel for advice and assistance to have the necessary addendum drawn up to address the anomaly.
Management comment on internal control deficiencies: The calculation of framework agreements/orders are currently based on the annual (FY) budget value to allow flexibility for ad hoc and/or emergency processing. Controls can be improved by adjusting the framework agreement value to the value of the planned preventative maintenance values for contracts call-offs. The latter would then prevent authorising invoices for payment that exceeds contract values. A separate framework agreement/order will be created based on the anticipated value of ad hoc repairs derived from contractual guidelines. The above improved controls will enhance SAP systemic controls, thus optimising system usage.
Management comment on recommendation: Management will refer to legal counsel for review of the contractual terms and probable amendment of the value add clause.

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Remedial action: The 24% mentioned in the contract was to be broken down in half and spread over year 2 & 3 respectively. In year 2 SFU did not apply the 12%, neither did SAA pay them the 5,3% escalation for the same year. The credit notes were for the 12% that was not deducted in year 2, and they were submitted in March for processing.		
What actions will be taken: Management will refer to legal counsel for review of the contractual terms and probable amendment of the value add clause.	**By whom:** Facilities **Person:** Vusani Buthelezi **Position;** Manager: Engineering and Maintenance	: December 2017

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

Subsequent to agreeing to the finding, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population for fruitless and wasteful expenditure. The finding remains in the management report and the impact, being a qualification of fruitless and wasteful expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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33. Lack of investigations/actions for irregular expenditure incurred

Audit finding

PFMA sec 51(1) (e) (i)-(iii) states that *"An accounting authority for a public entity must take effective and appropriate disciplinary steps against any employee of the public entity who*

(i) Contravenes or fails to comply with a provision of this Act;

(ii) Commits an act which undermines the financial management and internal control system of the Public entity; Or

(iii) Makes or permits an irregular expenditure or a fruitless and wasteful expenditure"

According to best practice, Irregular and fruitless and wasteful expenditure investigations were properly/ effectively conducted a proper investigation must at least meet the following criteria:

a. The investigation was commissioned/ approved at the appropriate level.

b. Terms of reference of the investigations were approved.

c. The scope of the investigation addresses the allegation.

d. The recommendations/ findings were relevant to the allegation.

e. Investigations comply with auditee's policies with regard to independence and qualification/ position.

A. We noted that the board/delegated official did not take effective steps to conduct a formal investigation/take actions for the irregular expenditure in the 2016/17 financial year. The expenditures incurred in the current year were reported as follows in the financial statements

No	Date	Department	Supplier name	Non compliance	Irregular amount
1	11-Apr-16	Cargo	Cargo	PO created after work was done	R 59 440.00
2	14-Apr-16	Cargo	Cargo	PO created after work was done	R 122 596.00
3	July 2016 to Sept 2016	Commercial	World Media	Expired Contract	R 2 435 413.00
4	July 2016 to Sept 2016	Commercial	Go See Tell	Expired Contract	R 518 433.00
5	July 2016 to Sept 2016	Commercial	BCA Advertising	Expired Contract	R 2 863 457.00
6	Jan to March 2017	IT	Altech	Contract expired	R 64 389.00
7	Jan to Mar 2017	IT	Ignite	Contract expired	R 41 668.00
8	January 2017 to March 2017	IT	Infocentric	Contract expired	R 464 355.00
9	Jan to March 2017	IT	Neotel	Contract expired	R 4 548 296.00
10	Oct to Dec 2016	Company Secretariat	Director Travel	Unbudgetted travel expenses	R 91 511.00
11	July 2016 to Sept 2016	Airport Operations	Kings Transportation	Contract expired	R 25 425.00

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No	Date	Department	Supplier name	Non compliance	Irregular amount
12	Oct to Dec 2016	UK Airport	Ultra BRS Baggage	No contract	R 18 140.00
13	Oct to Dec 2016	UK Airport	Ultra BRS Baggage	No contract	R 29 490.00
14	Jan to March 2017	Germany Airport	DO & CO for Catering Aircraft	No contract and LOA in place.	R 6 143 031.00
15	Jan to March 2017	Germany Airport	DO & CO for Catering Aircraft	No contract and LOA in place.	R 5 906 860.00
16	Oct-15	KSIA	Vuza Medical	No contract in place	R 11 526.48
17	Oct to Dec 2016	Commercial	World Media	Expired Contract	R 3 052 702.00
18	Oct to Dec 2016	Commercial	Go See Tell	Expired Contract	R 501 018.00
19	Oct to Dec 2016	Commercial	BCA Advertising	Expired Contract	R 3 251 197.00
20	January 2017 to March 2017	Marketing	Cubed Consulting	Contract expired	R 24 400 000.00
21	Jan to March 2017	Commercial - UK	Commercial	Contract expired - HR related services	R 13 471.51
22	Jan to March 2017	Commercial - North America	World Media	Contract expired	R 3 121 908.00
23	January 2017 to March 2017	Commercial - North America	Go See Tell	Contract expired	R 485 414.00
24	January 2017 to March 2017	Commercial - North America	BCA Advertising	Contract expired	R 2 843 224.00
Total					R61 012 964.99

B. For the 2015/16 financial year, it was noted that there was no evidence that an investigation and disciplinary action (consequence management) was taken for the incurrence of irregular as listed on the sample tested below:

Irregular expenditure

No	Date	Department	Supplier name	Non compliance	Amount
1	Sep-15	Internal Audit	EY	The Contract period was 27/7/2015 to 26/7/2015. Work was completed after the contract period without a request for extension	R 692 683.38
2	Sep-15	Internal Audit	EY	This was cost incurred above the approved budget. Additional work had to be conducted to get to an appropriate and useful conclusion on a legal matter.	R 115 275.09
3	31-Mar-15	Cargo	Caspnet	Contract expired and delays have been experienced from procurement.	R 95 000.00
4	30-Sep-15	Cargo	Caspnet	Contract expired and delays have been experienced from procurement.	R 285 000.00
5	Oct-15	IT	Mobile at Work	No contract in place	R 29 059.00
6	01-Oct-15	IT	MTN	No contract in place	R 191 857.70
7	04-Feb-16	Cargo	Metrofile	Shortfall in the purchase order that was created for September invoices resulted in transgression	R 7 579.00
Total					R 1 416 454.17

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There is non-compliance with PFMA as no investigations/actions taken (consequence management) for irregular expenditure incurred.

Internal control deficiency

Leadership

The board/delegated official did not exercise oversight responsibility regarding financial reporting, compliance and related internal controls to ensure compliance requirements are met in order to prevent irregular expenditure as there is no formal documented process to address the deficiencies in the control environment.

Financial and performance management

Line managers did not ensure that that investigations are conducted relating to irregular expenditure incurred and that consequence management in the organisation is applied consistently.

Recommendation

The board/delegated official should:

- Review on a quarterly basis the compliance with PFMA reports and hold those responsible accountable for such contravention/non-compliance.
- Exercise stricter oversight by creating compliance driven internal control environment so that SAA can comply with the requirements of the SCM policy.

Line managers in business unit must:

- Ensure that investigations for responsible persons are formalised and follow up with management on the implementation.
- Adopt the best practices to strengthen the internal controls at SAA with regards consequence management of irregular expenditure incurred.

Management's response

Management comment on audit finding: The audit finding is partly accepted on these basis: • Where there is a PFMA non-compliance incurred responsible managers should institute investigation, and provide corrective actions as per the SAA Disciplinary Code. • The consequence management in the organisation is applied inconsistently, because the policy indicates that it is the responsibility of the line manager to execute the discipline to the transgressor. • In case of Immigration Penalties (classified as Unavoidable Fruitless and Wasteful expense) this finding is not correct based on the fact that, the cost incurred on Immigration Penalties is due to passenger not having adequate or appropriate documentation at the point of destination. The Aviation regulation require that the airline that has brought the inadmissible passenger should return such passenger to the point of origin at their own cost.
Management comment on Internal control deficiency: The internal control deficiency is not accurate, because:

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• All the management actions provided in the report were provided by individual line management. Also as indicated the application of disciplinary code is done inconsistently, therefore creating a challenge in ensuring that all transgressors are reprimanded and/or given a warning on the PFMA transgressions. • There is a PFMA policy that provides guidelines and there is also a SAA Disciplinary code in place.
Management comment on recommendation: 1) On quarterly basis, the review of the declarations and follows up are done with business. 2) To assist the organisation to strengthen the compliance with PFMA, Compliance office will ensure that all actions taken by line managers are in writing to support the management action provided in the declaration. This will strengthen accountability and responsibility of the line manager. 3) During the performance contracting, the KPI on PFMA should be measured in a manner that will provide adequate and/or appropriate actions taken by business units.
Remedial action: 1) In case of Immigration Penalties (classified as Unavoidable Fruitless and Wasteful expense) these costs should not be reported in the PFMA non-compliance, as there are inherent costs to the business. On review of the PFMA, these costs do not meet the definition of the act. 2) The Executive Management will be informed on the following areas of improvement in their respective business units: a. The Compliance office will request that all actions taken by line managers are in writing to support the management action provided in the declaration. This will strengthen accountability and responsibility of the line manager. b. During the performance contracting, the KPI on PFMA should be measured in a manner that will provide adequate and/or appropriate actions taken by business units. 3) Compliance office will escalate/highlight all those PFMA transgressions, were no consequence management has been taken by line manager.

What actions will be taken:	**By whom:** N Ntshalintshali	**By when:**
Please see remedial action above, for actions to be taken to correct going forward.	Chief Risk and Compliance Office	**Quarterly**

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

Subsequent to agreeing to the finding, management conceded to the finding on the 20/10/2017. The finding remains in the management report and the impact, being a non-compliance paragraph relating to a lack of consequence management where irregular expenditure was identified in the previous year and not being investigated thus no disciplinary actions taken as required by *section 51 (1) (e) (iii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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34. Lack of effective and appropriate steps to prevent irregular and fruitless and wasteful expenditure

Audit finding

PFMA sec 51(1)(b)(ii) states that "An accounting authority for a public entity must take effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity"

We noted that the board did not take effective steps to prevent irregular and fruitless and wasteful expenditure in the 2016/17 financial year.

A. The expenditures incurred in the current year were identified and reported by management as follows in the financial statements

No	Type of expenditure	Amount - 2017
1.	Fruitless and wasteful expenditure- current year	R40 400 000.00
2.	Irregular expenditure- current year	R125 900 000.00
Total		**R166 300 000.00**

B. The expenditures incurred in the current year were identified by the auditors

No	Description of finding raised	Irregular expenditure	Fruitless & wasteful expenditure	Communication No
1	Supplier with highest preference points was not awarded the quotation	R 418 608.00	R 0.00	15
2	Three quotations not obtained and the deviation not approved	R 11 359 357.05	R 0.00	15,98 & 57
3	Contract extension not done in accordance with SAA SCM policy	R 389 436 809.21	R 0.00	21
4	Award not approved by a delegated official	R 29 853 443.02	R 0.00	21
5	Tender awarded to supplier who did not meet critical criteria evaluation	R 129 029 613.05	R 0.00	21
6	Tenders not advertised for a minimum period prescribed in the SCM policy before closure	R 7 008 334.86	R 0.00	21
7	Tender documents of the winning supplier not received before the closing date and time	R 138 026 150.57	R 0.00	21
8	Official procurement process not followed for contract renewals	R 101 896 681.83	R 0.00	21 & 57
9	Award made to a foreign supplier without a valid tax clearance from SARS certifying that tax affairs are in order	R 639 769.00	R 0.00	57
10	Deviation from competitive bidding process not justified	R 7 664 115.04	R 0.00	57
11	Postponement of the closing date for RFP 068/2015 was not done in accordance with SAA SCM policy	R 14 156 910.16	R 0.00	98
12	Reason for confining (limited bidding) to one/specific suppliers not found to be justifiable since there are more suppliers who can offer the required services	R 85 534 847.04	R 0.00	57
13	Lack of management and processing of contract detail information captured on CLM	R 2 539 524 409.21	R 279 194 269.87	57 & 21
14	Services not procured through the process prescribed by the SAA SCM policy	R 20 483 683.76	R 0.00	57
15	Quotation process followed for services above the quotation threshold	R 137 369.29	R 0.00	57
16	Total payments made exceeding quotation value	R 12 142 096.18	R 0.00	57
17	Extension of the contract not done in accordance with the provision of the SCM policy	R 453 981 746.00	R 0.00	57

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No	Description of finding raised	Irregular expenditure	Fruitless & wasteful expenditure	Communication No
18	Bids not evaluated in accordance with the preference point system as prescribed by the PPPF Act	R 9 204 490.89	R 0.00	98
19	Award made to a foreign supplier without a valid tax clearance from SARS certifying that tax affairs are in order	R 56 780 165.92	R 0.00	57
20	Award made to a supplier without a valid tax clearance from SARS certifying that tax affairs are in order	R 53 220 720.72	R 0.00	98
21	Bids not invited through a public advert in media prescribed by the SCM policy	R 38 832 267.15	R 0.00	98
22	Excessive duration of suspension	R 0.00	R 8 405 691.13	27
23	No tax withheld on bursaries awarded to employees	R 0.00	R 997 000.00	67
24	No Value-Added Tax output accounted for on long outstanding creditors	R 0.00	R 418 383.00	43
25	No fringe benefit assessment done on the use of cell phones	R 0.00	R 4 431 817.46	20
26	Perks tax not levied on free flights confirmed	R 0.00	R 6 435 000.00	67
27	Fruitless and wasteful expenditure due to double payment on invoices	R 0.00	R 366 183.27	72
28	Non-compliance with the SCM Policy, treasury regulation and practice notes	R 20 320.50	R 0.00	Ghana
29	Services not procured through a competitive bid	R 5 731 753.54	R 0.00	London
30	Three quotations not obtained and the reasons not documented	R 165 871.22	R 0.00	London
31	Country Manager approves spend in excess of his Power of Attorney	R 10 964 684.61	R 0.00	London
32	No signed Power of Attorney in place	R 34 503 477.53	R 0.00	Nigeria
33	Fruitless and wasteful expenditure on fines paid	R 0.00	R 854 659.88	Brazil
34	Supply Chain Management processes not followed on extension/new supplier contracts	R 2 958 169.57	R 0.00	Brazil
35	Procurement process not followed to award contracts	R 6 047 610.17	R 0.00	Namibia
36	Procurement issues identified on Swissport SA	R 362 232 578.37	R 0.00	101
Total		**R 4 521 956 053.46**	**R 300 684 621.61**	

There is non-compliance with PFMA as irregular and fruitless and wasteful expenditure was not prevented.

The table above with the list of findings relating to irregular, fruitless and wasteful expenditure is not a complete list and some of the findings raised have not been assessed for auditor's conclusion, due to management comments being outstanding that may result in a of change our assessment.

Furthermore, the amount for opening balance relating to irregular and fruitless and wasteful expenditure is incomplete due to awards made in the prior years that were identified in the current year as irregular or relates to fruitless and wasteful expenditure. Management must quantify the expenditure and adjust the opening balance for irregular and fruitless and wasteful expenditure as this may affect the audit report if left unadjusted.

Internal control deficiency

Leadership

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SAA leadership did not exercise oversight responsibility regarding financial reporting, compliance and related internal controls to ensure that compliance requirements are met in order to prevent irregular and fruitless and wasteful expenditure because of insufficient understanding of SCM laws and regulations and formulating a compliance driven internal control environment

Recommendation

SAA leadership should:

- Obtain sufficient understanding of the SCM policy and PFMA requirements and formulate a compliance driven internal control environment
- Review on a quarterly basis the compliance with PFMA reports and hold those responsible accountable for such contravention/non compliance
- Ensure that investigations for responsible persons are formalised and follow up with management on the implementation
- Ensure corrective action is taken to prevent matters of this nature from recurring; and
- Ensure consequence management is strictly and consistently implemented to reduce the amount of irregular and fruitless and wasteful expenditure

Management must adjust the opening balance for irregular and fruitless and wasteful expenditure disclosed in the financial statements

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:
Partly agree with finding 3A. Finding 3B, still awaiting confirmation from Procurement and AG on this matter.

Finding 3A, on quarterly basis, the PFMA non-compliance report with all supporting documentation is provided to executive management and Audit & Risk Committee. The supporting documentation as provided to AG provides for management actions taken per transaction. The supporting documentation provides the business area, where transgression has happened. Therefore, compliance does provide detail information relating to PFMA non-compliance.</td></tr>
<tr><td colspan="3">Management comment on Internal control deficiency:
The internal control deficiency is not accurate, because:
• All the management actions provided in the report were provided by individual line management. Also as indicated the application of disciplinary code is done inconsistently, therefore creating a challenge in ensuring that all transgressors are reprimanded and/or given a warning on the PFMA transgressions.
• There is a PFMA policy that provides guidelines and there is a SAA Disciplinary code in place.</td></tr>
<tr><td colspan="3">Management comment on recommendation:
Compliance in assisting the Board in monitoring the implementation of consequence management in the organisation, it will escalate by including in the report all management actions, were no disciplinary actions were taken by respective management.</td></tr>
<tr><td colspan="3">Remedial action:
PFMA non-compliance report submitted on quarterly basis, will include the details of areas where no disciplinary action were not taken by respective management.</td></tr>
<tr><td>What actions will be taken:</td><td>By whom</td><td>By when:</td></tr>
</table>

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Escalate to Board, areas were no disciplinary action is taken by including it in the PFMA non-compliance report.	N Ntshalintshali Chief Risk and Compliance Officer	31 March 2018
If yes, please indicate the accounting entry N/a		
If no, please provide the reason why such a conclusion has been reached N/a		

Auditor's conclusion

The response was noted and partially agrees with the finding, internal control deficiency and the recommendations.

It must be noted that the auditors acknowledge the actions being taken by management to monitor irregular expenditure and fruitless and wasteful expenditure, however the fact that it occurred means that the accounting authority did not prevent irregular expenditure and fruitless and wasteful expenditure in the 2016/17 financial year hence the amounts reported.

Subsequent to partially agreeing to the finding, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population for irregular and fruitless and wasteful expenditure. The finding remains in the management report and the impact, being a qualification of irregular and fruitless and wasteful expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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35. Subsidiary Irregular and fruitless and wasteful expenditure included in the separate annual financial statement of SAA

Audit finding

PFMA sec 55(1)(2)(a) states that *"An accounting authority for a public entity must submit the annual report and financial statements that fairly present the affairs of the public entity, its business, financial results, performance against predetermined objectives and its financial position as at the end of the financial year concerned "*

A. We noted that transactions relating to irregular and fruitless and wasteful expenditure of subsidiaries were included in the schedule drawn by management and disclosed in the separate annual financial statements of SAA for the 2016/17 financial year. The expenditures incurred in the current year were reported as follows in the financial statements

Irregular expenditure

No	Date	Department	Supplier name	Non compliance	Amount
1	July 2016 to September 2016	Airchefs	Waymans	No contract in place	R 808 302.00

Fruitless and wasteful expenditure

No	Date	Department	Supplier name	Non compliance	Amount
1	July 2016 to Sept 2016	Air Chefs	SAA	Penalties	R 667 190.00
2	16 October 2017	Technical	SAA	Dispatch Reliability Penalty-Nov 2016	R 148 314.61
Total					**R 815 504.61**

There is non-compliance with PFMA as this will result in overstatement of irregular and fruitless and wasteful expenditure notes

B. It was noted that the amount disclosed as condonement for irregular expenditure, included amounts that were approved/signed for condonement after 31 March 2017. This results in overstatement of condonements. Refer to table below

No	Date of Transgression	Supplier name	Non compliance	PFMA non-compliance approved date	Approver	Amount
1	Apr-17	HAVAS Marketing	Contract expired	05 April 2017	M.Zwane	R 61 300 000.00
2	Mar-17	Cubed Consulting	Contract expired	05 May 2017	M.Zwane	R 24 400 000.00
Total						**R 85 700 000.00**

C. It was further noted that, included in the expenditure condoned during the financial year, was an amount relating to fruitless and wasteful expenditure and was incorrectly disclosed under irregular expenditure as condoned

No	Date of Transgres sion	Department	Supplier name	Non compliance	PFMA non-compliance approved date	Approve r	Amount
1	24-Nov-15	SAA Cargo Cape Town	A Brussel	Damage of Cooler room	30 November 2016	M.Zwane	R 7 524.00

Internal control deficiency

Financial and performance management

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Risk and Compliance did not exercise oversight responsibility regarding financial reporting, preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Risk and Compliance should:

- Implement adequate controls and review processes of the financial statements to ensure that financial statements are free from material misstatements.
- Ensure that the entity have effective monitoring controls in place to ensure that disclosures of the financial statements are supported by complete, relevant and accurate information
- Adjust the amount disclosed as condoned so that it can be disclosed correctly in the financial statements
- Disclose the amounts relating to the subsidiaries separately from the company (SAA) as a group

Management's response

Management comment on audit finding: The finding as identified in a) & c) is agreed. Finding b) is not acceptable. The irregular has occurred and therefore it has been recorded in the detail register. When the CEO has condoned the irregular, it reduces the total irregular cost to be reported in the AFS. The inclusion of the Subsidiary PFMA non-compliance into the reporting is because: • Compliance is shared service for the group and responsible for the collation and reporting of the information. • Previously the information has been submitted as such, even during the disclosure of information in the AFS and signed off by previous external auditors as acceptable. • The detail information is clearly broken down into SAA divisions and subsidiary that clearly provide information for SAA and Subsidiary. Therefore the information if requested as such could be provided.
Management comment on Internal control deficiency: The Compliance have ensured that the oversight responsibility is done. The challenge is when the information was requested by auditors. Please note during the process documentation, the information was provided as is there was no request to provide information separated.

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Management comment on recommendation: The controls are in place. The information is clearly separated for SAA and subsidiaries. Improvement going forward, we will ensure that the request from auditors is clear on which information required at a point in time so that we can provide the correct information at the time of request. Thirdly, on the recording of condonements, further clarity will be sourced so that we improve the understanding of what is expected during the reporting.		
Remedial action: Obtain clear understanding on how the condonements should be recorded in the figures, this will then inform the advisory, training and update of reporting templates to meet the requirements of the PFMA non-compliance reporting.		
What actions will be taken: • Obtain clarity and understanding on the reporting of condonement in the quarterly reports to Executive committee and board • Improve advisory to the business on the understanding of treatment of condonements. • Improve/update the reporting templates to assist the business in collating of information. • Improve the training material to further clarify the process of condonement.	**By whom** N Ntshalintshali Chief Risk and Compliance Officer	**By when:** 31 March 2018
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management agreed to correct the finding A and C

Management response was noted and partially agrees with the finding, internal control deficiency and the recommendations.

An additional engagement was held with management on the 21/09/2017 relating to part B which management initially disagreed with and clarity was provided. Management subsequently agreed with the finding.

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The agreed deadlines will apply for management to resolve this matter for re-audit. It is of a concern that the implementation date is 31 March 2018 as management would have submitted the final set financial statements for 2016/2017.

Subsequent to agreeing to the finding, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population for irregular and fruitless and wasteful expenditure. The unadjusted differences will be included in the schedule of unadjusted differences and evaluated in aggregate for the overall impact thereof

The finding remains in the management report and the impact, being a qualification of irregular and fruitless and wasteful expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA,* will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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36. Limitation of scope on the information requested relating to Irregular expenditure, Fruitless and wasteful expenditure and Consequence management

Audit finding

Section 54(1) of the PFMA (Act 1 of 1999)states that *"an accounting authority for a public entity must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require".*

Section 15(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) states that *"when performing an audit referred to in section 11, the Auditor-General or an authorized auditor has at all reasonable times full and unrestricted access to (a) any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee".*

The following requested information in relation to irregular expenditure, fruitless and wasteful expenditure and consequence management were not submitted to the auditors

A. Current year - Irregular Expenditure

No	Date	Department	Supplier name	Non compliance	Irregular amount	RFI	Information not submitted to auditors
1	Jan to March 2017	IT	Ignite	Contract expired	R 41 668.00	158	1.Invoices 2.PO 3.Expired contracts 4. Proof of payment.
2	Jan to March 2017	IT	Infocentric	Contract expired	R 464 355.00	158	
3	Oct to Dec 2016	UK Airport	Ultra BRS Baggage	No contract	R 18 140.00	158	
4	Jan to March 2017	Germany Airport	DO & CO for Catering Aircraft	No contract and LOA in place.	R 6 143 031.00	158	
5	Oct-15	KSIA	Vuza Medical	No contract in place	R 11 526.48	158	
Total					R6 678 720.48		

B. Current year - Fruitless and Wasteful Expenditure

No	Date	Department	Supplier name	Non compliance	Amount	RFI	Information not submitted to auditors
1	Jan to Mar 2017	IT	Swiss		R 7 132.00	158	1.Proof of penalties paid 2.Immigration penalties 3. Visa fines and proof of payment 4.custom penalties 5.Proof of payment 6.Invoices 7.PO 8. Expired contracts.
2	Jan to Mar 2017	IT	Enterprise Servise (HP) - Asset Management Module		R 2 802 408.00	158	
3	Jun-16	OR T ambo International Airport	Immigration Visas	Immigration penalties	R 174 681.65	158	
4	July to Sept 2016	Airport Operations	Immigration Visas	Visa Fines	R 2 366 894.64	158	
5	July to Sept 2016	Airport Operations	Immigration Visas	Immigration Penalties	R 1 059 783.00	158	

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No	Date	Department	Supplier name	Non compliance	Amount	RFI	Information not submitted to auditors
6	Oct to Dec 2016	Flight Technical and Maintenance Standards	CAE Company	PRAS Contract paid for supplier of fuel monitoring software and never developed	R 1 397 424.00	158	
7	Oct to Dec 2016	Hong Kong Airport	Immigration Visas	Visa Fines	R 7 351.52	158	
8	Jun-16	Hong Kong	Visa Fines	Visa Fines (Xue/Caiying)	R 3 953.87	175	1.Proof of penalties paid 2.Immigration penalties 3. Visa fines and proof of payment 4.custom penalties 5.Proof of payment 6.Invoices 7.PO 8. Expired contracts.
9	Jun-16	Hong Kong	Visa Fines	Security Costs (Case of Famodimu/Bola Mrs JNB/LOS)	R 3 874.22	175	
10	Jan to March 2017	Perth Airport	Immigration Visas	Immigration Penalties	R 1 970.09	175	
11	May-16	Hong Kong	Visa Fines	Visa Fines (Zheng/Lifang)	R 1 620.23	175	
12	Jan to March 2017	Hong Kong Airport	Immigration Visas	Visa Fines	R 1 028.51	175	
13	Jan to March 2017	Hong Kong Airport	Immigration Visas	Visa Fines	R 1 028.51	175	
Total					R7 829 150.24		

C. Consequence Management

Prior year – Irregular expenditure

No	Date	Department	Supplier name	Non compliance	Irregular amount	RFI	Information not submitted to auditors
1	April to June 2015	Europe and UK	Aeroserve	No contract in place for Cutlery and linen cleaning.	R 487 134,00	168	1. Investigation record of the of non-compliance 2. Disciplinary record relating to employee involved. 3. For recovered amounts – supporting documents for the recovery/proof of recovery 4. For amounts written off – supporting documents for those amounts/ authorisation to write off 5. PFMA Non-compliance form
2	April to June 2015	Various Regional Stations	Various	Lounge contracts not in place	R 1 422 907.00	168	
3	Jan-Mar 2016	East London Airport	Hotel	Use of Bed and Breakfast without contract	R 2 770.00	168	
4	Sep-15	Inflight Services and Logistics	Skip Waste	Contract expired on 01 August 2015 and was not renewed. NB: The service provider continued timeously to provide a service to SAA.	R 30 255.12	168	

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No	Date	Department	Supplier name	Non compliance	Irregular amount	RFI	Information not submitted to auditors
5	Mar-16	IT	Altech Card Solution	Licences - Altech Card Solution for licensing of Vensign Premium Management resulting in spending more than what the BAC has approved	R 16 859.00	168	
Total					R1 959 925,12		

Prior year – Fruitless and wasteful expenditure

No	Date	Department	Supplier name	Non compliance	Fruitless and Wasteful amount	RFI	Information not submitted to auditors
1	Apr-15	OR T ambo International Airport	Immigration Visas	Immigration penalties	R 105 982.86	168	1.Investigation record of the non-compliance 2. Disciplinary record relating to employee involved. 3.For recovered amounts – supporting documents for the recovery/proof of recovery 4.For amounts written off – supporting documents for those amounts/ authorisation to write off 5.PFMA Non-compliance form
2	Apr-15	Cape Town International Airport	Zimbabwe Immigration	Immigration penalties	R 48 041.20	168	
3	May-15	OR T ambo International Airport	Immigration Visas	Immigration penalties	R 15 266.96	168	
4	Jun-15	OR T ambo International Airport	Immigration Visas	Immigration penalties	R 192 264.09	168	
5	April to June 2015	Abu Dhabi (Regional Airports)	Immigration Visas	Immigration penalties	R 121 897.00	168	
6	July - Sept 2015	HRE	Immigration Visas	Immigration penalties	R 42 642.11	168	
7	July - Sept 2015	DKR	Immigration Visas	Immigration penalties	R 44 268.41	168	
8	July - Sept 2015	FIH	Immigration Visas	Immigration penalties	R 136 052.67	168	
9	July - Sept 2015	WDH	Immigration Visas	Immigration penalties	R 142 684.21	168	
10	July - Sept 2015	LAD	Immigration Visas	Immigration penalties	R 146 827.66	168	
11	July - Sept 2015	NBO	Immigration Visas	Immigration penalties	R 21 822.12	168	
12	July - Sept 2015	LUN	Immigration Visas	Immigration penalties	R 61 298.46	168	

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No	Date	Department	Supplier name	Non compliance	Fruitless and Wasteful amount	RFI	Information not submitted to auditors
13	July - Sept 2015	BZV	Immigration Visas	Immigration penalties	R 37 928.09	168	
Total					R1 254 365.85		

Fruitless and wasteful expenditure recoveries

No.	Date	Department	Supplier name	Non compliance	Recoveries	Outstanding information
1	Apr-16	OR Tambo International Airport	Recoveries	Staff Repayment on Immigration penalties incurred	-2 627.00	1. Acknowledgement of debt. 2. Journal
2	Jun-16	OR Tambo International Airport	Recoveries	Staff Repayment on Immigration penalties incurred	-3 527.00	
3	May-16	OR Tambo International Airport	Recoveries	Staff Repayment on Immigration penalties incurred	-3 900.32	
4	Jun-16	OR Tambo International Airport	Recoveries	80% Penalties - Swissport	-26 400.00	
5	May-16	OR T ambo International Airport	Recoveries	80% Penalties - Swissport	-31 630.65	
6	July 2016 to Sept 2016	Flight Operations	Recoveries	Visa Fines	-37 317.00	
7	Apr-16	OR T ambo International Airport	Recoveries	80% Penalties - Swissport	-85 498.75	
8	January 2017 to March 2017	Flight Operations	Recoveries	Recoveries on payment done for Annel Cronje with expired visa.	-7 346.21	
9	Jan-17	ORTIA	Recoveries	Immigration penalties recoveries	-67 452.55	
10	Jan-17	ORTIA	Recoveries	Immigration penalties recoveries	-3 829.22	
11	Feb-17	ORTIA	Recoveries	Immigration penalties recoveries	-3 829.22	
12	Mar-17	ORTIA	Recoveries	Immigration penalties recoveries	-4 029.22	
13	July – September 2016	Airport Operations	Recoveries	Immigration fines recoveries	-45 955.00	
Total					R323 342.12	

This has resulted in a material limitation of scope in fruitless and wasteful expenditure, Irregular expenditure and consequence management and as a result we are unable to conclude on the completeness and fair presentation of the fruitless and wasteful expenditure and irregular expenditure note and whether consequence management is being implemented. This will have an effect on the audit report. In addition we are also unable to conclude on the compliance by SAA with the laws and regulations governing consequence management.

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Internal control deficiency

Financial and performance management

The business unit and risk and compliance management did not implement proper record keeping ensuring that all documents relating to irregular expenditure, fruitless and wasteful expenditure and consequence management are filed on a timely manner and information in the store room is accessible to support financial and performance reporting.

Recommendation

- Management should oversee the implementation of appropriate processes/systems to ensure proper record keeping in a timely manner. This will enable complete, relevant and accurate information being accessible and available upon request by the auditors.
- Supporting evidence should be filed on a regular basis, properly referenced and make reference to the responsible staff member so that documents could be obtained on a timeous manner when requested.
- A checklist must be done in order to ensure that information in the file is complete.
- There should be regular communication between business and risk and compliance in order to ensure that supporting schedules and evidence are maintained.

Management's response

Management comment on audit finding:

Response for table A, B and C

1) There was a delay in obtaining the requested information for auditing purposes. This was due to lack of proper safeguarding of supporting information and timely retrieval of this.

2) Each head of department is expected to sign off the PFMA declaration with full view of the amount and the supporting documents. The signing of the declaration, provide assurance that the head of department is aware of the following;
   - The amount declared as PFMA non-compliance is valid, accurate and complete at the time of declaration.
   - The amount declared is based on the valid supporting document that is properly safeguarded or filed.
   - The evidence has been reviewed by the head of department and appropriate steps have been take to correct the non-compliance going forward.
3) Therefore, Compliance office obtain the approved or signed off declarations from the department and collate the information for reporting. There was no agreement with business that all supporting information will be kept with Compliance. Individual business units are responsible to safeguard the information.

Response for table D

No: 6 and 8; Pilot R Burton took his fiancé on a flight and she didn't have a valid Visa. The fined was R43 731,06 SAA recovered 80% from Checkport and 20% from R Burton. Another R932.35 was recovered from Burton for the entry Visa for A Cronje. Attached please find proof of recoveries

Management comment on Internal control deficiency:

Lack of proper filing in place.

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Management comment on recommendation: During the PFMA forum the financial controllers will be sensitized on safeguarding evidence. Compliance will perform random audits/verification on the supporting documents.		
Remedial action: 1) Improve filing and safeguarding of supporting documents by business. 2) Continuous awareness by Compliance office on the importance of availability of supporting documents.		
What actions will be taken: Awareness, Communication and verification Implementation of proper filing and safeguarding of evidence	**By whom** N Ntshalintshali All respective GM's of business/ HOD	**By when:** Quarterly 31 March 2018
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No** *(This has been included in the amount. What cannot be ascertained is supporting document as required.)*
If yes, please indicate the accounting entry N/A		
If no, please provide the reason why such a conclusion has been reached n/a		

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

We issued the finding which relates to Table D to management on 18 August 2017 and the responses received from management were inadequate. Numerous communication with management were sent and the responses to date are still inadequate

Subsequent to agreeing to the finding, management conceded to the finding on the 20/10/2017 and did not provide supporting evidence for irregular and fruitless and wasteful expenditure. The finding remains in the management report and the impact, being a limitation of scope will be reported in the 2016/17 audit report.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations

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OTHER MATERIAL NON-COMPLIANCE

37. SAA did not submit financial statements for audit within two months after the end of the 2016/17 financial year

Audit finding

Public Finance Management Act No.1 of 1999 section 55 (1) (c)(i) states that the accounting authority for a public entity must submit those financial statements within two months after the end of the financial year to the auditors of the public entity for auditing.

It was noted that South African Airways did not comply with the above mentioned law and regulation refer to the below table for identified cases of non-compliance:

No	Identified cases where the South African Post Office did not comply	Applicable laws and regulations
1	South African Airways did not submit the 2016/17 financial statements to the Office of Auditor General of South Africa as prescribed in the PFMA act.	PFMA act No.1 of 1999 section 55 (1)(c)(1)

This has resulted in non-compliance with the Public Finance Management Act No.1 of 1999 reported in the audit report. The following paragraph will be included in the auditor's report: *Financial statements were not submitted for auditing within two months after the end of financial year, as required by section 55(1)(c)(i) of the PFMA.*

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

The entity's ability to continue operating as a going concern was still being assessed because the entity required a commitment from lenders and/ support from Shareholder in resolving liquidity issues facing the airline.

Recommendation

Management should proactively attend to matters that relate to critical line items on the financial statements to ensure compliance with the legislated deadlines.

Management response

Management comment on audit finding: This finding is noted.
Management comment on internal control deficiencies: Management was fully aware of the requirement to submit draft AFS by 31 May 2017 for auditing. This was discussed at length with the ARC and both ARC and Board supported the

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holding back of the draft AFS until the going concern issue was resolved. The minister and AG were also advised of this course of action.		
Management comment on recommendation: Management notes the recommendation. At all times management endeavours to ensure legislation is adhered to.		
Remedial action: The issue of the Going concern remains a priority to be resolved. Once resolved the AFS will be submitted for audit.		
What actions will be taken: Going concern to be resolved	**By whom** **Person:** P Nhantsi/L Olitzki PositionCFO/HOD Financial Accounting	**By when:** ASAP

Auditors' conclusion

Management's comments are noted. The matter relates to material non-compliance with the PFMA and will be reported in the auditor's report.

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DD20-PS-1120

38. Non-compliance with section 45 of the Companies Act - Financial assistance provided to South African Airways Technical (SAAT) by South African Airways (SAA)

Audit finding - Reference

Section 45(3)(b) of the Companies Act state that, despite any provision of a company's Memorandum of Incorporation to the contrary, the board may not authorise any financial assistance to a related or interrelated company or corporation, unless the board is satisfied that-

(i) immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test; and

(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

In 2009 a Memorandum of Agreement ("MOA") was signed between SAA and SAAT.

The key elements of the agreement are as follows:

- SAA subordinated its claim against SAAT
- SAA subordinated R3 286 million for monies lent as an equity loan, long term loan and on current accounts
- The full amount of the subordinated loans shall not attract interest charges from SAA
- Subordination agreement shall remain in force and effect for so long as the liabilities of SAAT exceed its assets, fairly valued, and shall lapse immediately upon the date that the assets of SAAT exceed its liabilities and shall not, except by further agreement in writing, be reinstated if thereafter the liabilities of SAAT shall be deemed to continue to exceed its assets
- SAA hereby agrees that, until such time as the assets of SAAT, fairly valued, exceed its liabilities, and the auditors' certificate referred in the bullet above has been issued. It shall not be entitled to demand or sue for or accept repayment of the whole or any part of the amount subordinated owing to it by SAAT and set off shall operate in relation to the subordinated claim in respect of all debts owing by it now or in the future
- Should all or part of the amount due to SAA be repaid, inadvertently or deliberately, then SAA agrees that it will immediately refund to SAAT the amount paid
- SAA and SAAT undertake that in the event of cancellation or variation of this agreement in any respect, each will, as condition precedent to the coming into force and effect of such cancellation or variation.

The board in support of this made the following resolution:

- Subordinate the equity loan of R1.8billion.
- Have the subordinated loan of R1.8billion declared interest free.

Application

Section 45 of the Companies Act - Sufficient audit evidence could not be obtained to confirm whether section 45(3)(b) requirements were satisfied immediately after advancing funding to SAAT. This results in non-compliance with section 45 of the Companies Act.

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MOA - The subordination agreement was to remain in effect until the assets of SAAT exceed its liabilities fairly valued. From the review of the extracts from the financial statements, SAAT assets from 2011 exceeded its liabilities and have consistently done so since then. As a result of this, it meant that the MOA lapsed in 2011 as the assets of SAAT exceed its liabilities.

This means the MOA is no longer valid and binding. The historical financial statements have shown the following:

Year	Net Asset Value R'000	Intercompany Loan Balance R'000
31 March 16	R689 440	R1 297 849
31 March 15	R859 814	R1 262 357
31 March 14	R1 050 403	R1 169 219
31 March 13	R1 191 968	R1 305 868
31 March 12	R1 186 193	R1 228 225
31 March 11	R122 354	R1 273 441
31 March 10	(R1 741 111)	R3 247 918

This means the current loan advanced to SAAT is not regularised and has no repayment term. The above has resulted in material non-compliance with the Companies Act. The following paragraph will be included in the audit report:

The entity provided financial assistance to its subsidiary without obtaining a special resolution for these transactions, and did not assess the liquidity and solvency requirements prior to advancing the financial assistance, as required by section 45 of the Companies Act.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

- Management must ensure that SAA fully complies with S45 of the Companies Act
- A formal loan agreement or memorandum should be drafted and include the terms of agreements, duration of loan, interest payable, penalty clauses in case of non-payment
- Management should consider the affected laws and regulations before providing any financial assistance.

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Management response

Management comment on audit finding: The new companies act became effective in 2011. These transactions predate the new companies act. Management is acutely aware of the requirements of s45 regarding the provision of financial assistance.
Management comment on internal control deficiencies: Refer above
Management comment on recommendation: SAA and SAAT intend to enter into an agreement whereby SAAT will repay the loan over time and SAA will earn interest.
Remedial action: SAA and SAAT to draft an agreement as recommended.

What actions will be taken:	**By whom**	**By when:**
Agreement to be signed	**Person:** P Nhantsi/L Olitzki Position CFO/HOD Financial accounting	As soon as SAA is a going concern

Auditors' conclusion

Managements comment is noted. The matter identified by the team will be reported in the auditors' opinion as material non-compliance with legislation.

Managements response is not addressing the direct matter raised in the finding however. The team performed an analysis of the inter-account movement during the financial year and noted that in February 2017 the balance of the intercompany account exceeded the opening balance and in substance SAA has provided financial assistance to SAAT. To this effect the team could not establish that the liquidity and solvency test as per the requirements of companies' act sec 45 were satisfied.

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39. Loan to Air Chefs issued without complying with section 45

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that "*An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control*".

In terms of the Companies act 71 of 2008 section 45 subsection 2 – 6 states that"

2) Except to the extent that the Memorandum of Incorporation of a company provides otherwise, the board may authorise the company to provide direct or indirect financial assistance to a director or prescribed officer of the company or of a related or inter-related company, or to a related or inter-related company or corporation, or to a member of a related or inter-related corporation, or to a person related to any such company, corporation, director, prescribed officer or member,

3) Despite any provision of a company's Memorandum of Incorporation to the contrary, the board may not authorise any financial assistance contemplated in subsection (2), unless—

(a) the particular provision of financial assistance is—
(i) pursuant to an employee share scheme that satisfies the requirements of section 97; or
(ii) pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category; and

(b) the board is satisfied that—
(i) immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test; and
(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company".

4) In addition to satisfying the requirements of subsection (3), the board must ensure that any conditions or restrictions respecting the granting of financial assistance set out in the company's Memorandum of Incorporation have been satisfied.

5) If the board of a company adopts a resolution to do anything contemplated in subsection (2), the company must provide written notice of that resolution to all shareholders, unless every shareholder is also a director of the company, and to any trade union representing its employees—

(c) Within 10 business days after the board adopts the resolution, if the total value of all loans, debts, obligations or assistance contemplated in that resolution, together with any previous such resolution during the financial year, exceeds one tenth of 1% of the company's net worth at the time of the resolution; or
(d) Within 30 business days after the end of the financial year, in any other case.

6) A resolution by the board of a company to provide financial assistance contemplated in subsection (2), or an agreement with respect to the provision of any such assistance, is void to the extent that the provision of that assistance would be inconsistent with—

(a) This section; or
(b) A prohibition, condition or requirement contemplated in subsection (4).

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During the audit of accounts receivable from subsidiaries it was noted that South African Airways SOC Limited (SAA) advanced a loan to the total sum of R42 million to Air Chefs SOC Limited (Air Chefs) as at November 2014 as indicated in the Compliance Notice issued by Companies and Intellectual Property Commission Republic of South Africa which has grown subsequently to R178 million to date.

At the time SAA did not comply with requirements of s45 of the Companies Act 71 of 2008 as:

- No special resolution was passed by the shareholder authorising the provision of the financial assistance to its subsidiaries.
- SAA did not perform the solvency and liquidity test in respect to the loan granted to Air Chefs.
- The terms of the financial assistance were not fair and reasonable to the company providing the financial assistance as SAA did not charge interest on the loan agreement to Air Chefs.
- After the board provided the financial assistance no notice of resolution taken was sent to the Shareholder and recognised unions.

On the 19th of November 2014 the Companies and Intellectual Property Commission (CIPC) issued a Compliance Notice to the South African Airways which was a notice to bring the conduct of South African Airways into Compliance with the Companies Act no71 of 2008(As amended).

The notice acknowledged the letter dated 26 August 2014 and the follow up letter dated 5 November 2014 addressed to the CIPC by SAA where SAA acknowledged that it is in contravention of section 45 of the Act when it provided financial assistance to Air Chefs SOC Ltd (Air Chefs).

The CIPC stated that the steps proposed by the Chairperson of the Board of Directors of SAA to regularise the agreements entered between SAA and Air Chefs for the provision of financial assistance are not acceptable as the agreements are void.

The CIPC then requested the Chairperson of the Board of Directors of SAA to take the following steps:

A. Recover the loan of R 42 million granted to Air Chefs within 3 months from the date of the Compliance Notice
B. Provide documentary proof to the CIPC within 10 business days from the end of the 3 months period that the loan of R 42 million has been recovered from Air Chefs.

No documentary proof was submitted to the auditors to prove that SAA did comply with the requirements of CIPC, as to date SAA has granted Air Chefs a loan of R178 million.

SAA has attempted to rectify its non-compliance with Section 45 by taking the following steps:

A. The then Acting CEO prepared a SAA solvency and liquidity report for Air Chefs loan addressed to the Board of Directors on 25 August 2015. The purpose of the memorandum was to provide the Board with a legal review of SAA's solvency and

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liquidity position before to enable the Board to make an informed decision on the request to approve an advance of Loans to Air Chefs.

The solvency and liquidity test submitted to the Board was done to determine the financial year 2015 going concern requirement as at 9 July 2015. The period covered for the solvency and liquidity test and going concern assumptions relate to the period 1 April 2015 to 30 September 2016.

The conclusion of the solvency and liquidity test stated that SAA required an additional perpetual guarantee of R 5.063 billion to meet both its solvency and liquidity requirements.

B. The memorandum addressed to the Board of Directors from the then Acting CEO stated that SAA approached the Minister of Finance with the request for guidance and assistance in regularising the non-compliance loans.

The Minister issued a letter dated 6 June 2015 in which authorised SAA to advance new loan of R178 million to Air Chefs to regularise the non-compliance indicating that SAA would then grant the new loan to Air Chefs in order for the subsidiaries to utilise the funds to settle the non-compliant loans.

The Minister then made a special resolution 2015/01 whereby he resolved that the loan amounting to R178 million issued by the Company to its subsidiaries Air Chefs as at 31 December 2014 are allowed provided that all the requirements of the Companies Act are complied with.

The resolution was signed by the Minister on 24 August 2015.

C. SAA Board of directors held a meeting on 26 August 2015 during the meeting the Board was requested to authorise the CFO to sign the loan agreement between SAA and Air Chefs. The loan to Air Chefs was to rectify a previous loan issued without complying with section 45 of the Companies Act 2008.

The Board expressed concerns at the fact that the submission was circulated at the meeting. The audit and risk committee (ARC) chairperson gave the Board comfort that the submission had been interrogated by the ARC and recommended to the Board.

The Board then resolved that the Board notes the legal review of SAA's liquidity and solvency position provided to enable the Board to make an informed decision on the request to approve an advanced loan to Air Chefs.

The Board then authorised the CFO to sign the subsidiary loan agreement with Air Chefs.

D. SAA obtained a legal opinion from CDH dated 25 May 2017 and they concluded by stating that at this stage it cannot be said with absolute certainty that the financial assistance has been fully regularised under section 45.

As the Board resolution of the minutes of the Board meeting held on 26 August 2015 does not specifically state that the board applied themselves and was satisfied with the solvency and liquidity test in terms of section 45 was met. Subsequent to the legal opinion of 25 May 2017, the CDH revisited their opinion based on new information being

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made available by the SAA and concluded that financial assistance is valid because the requirements of section 45 of the Act was met. In the legal opinion dated 28 June 2017,

CDH indicates that the SAA Deputy Company Secretary indicated that the following documents were submitted to the SAA Board which informed their decision to approve the loan: Request to Board to authorize CFO to sign loan agreement (dated 26 August 2015) with the draft agreement attached, SAA's Solvency and Liquidity report for the Air Chefs loan regularization (dated 25 August 2017), FY2015 Going Concern Requirement as at 9 July 2015. It was acknowledged by the company secretary that these documents were not circulated prior to the meeting but handed out in the board meeting.

The CFO made a presentation to the board covering the info in the documents circulated. It is mentioned that board did pose question after the presentation to the CFO and chairperson of the Audit and Risk committee and there were deliberations but this was not recorded in the board minutes.

The board "relied" on the info presented by CFO and the "assurance" by the Audit and Risk committee in approving the loan agreement to Air Chefs. Based on the additional information considered by CDH they concluded that it appears that at least in substance, if not strict form, the board did in fact approve the financial assistance to Air Chefs in compliance with the provisions of section 45 of the Act. CDH then further recommended that the Board Minutes be updated to reflect the Board's deliberations on 26 August 2015 more accurately and in greater detail if at all possible.

E. In a memo dated 22 June 2017 from the CFO to the SAA Audit and Risk Committee, the following was confirmed that the shareholder approved the financial assistance after being informed of the CIPC non-compliance notice. It was resolved that SAA advance a "new" loan to Air Chefs and that Air Chefs would use the "new" loan to repay the existing non-compliant loans. A loan agreement was signed for 60 months with interest payable. SAA has not passed the solvency and liquidity test and therefore could not advance the "new" loan to Air Chefs.

Based on the above, even though SAA made efforts to regularizing the loan in terms of section 45 it can be concluded that SAA did not pass the solvency and liquidity test as the company needed a government guarantee of R5 billion.

The Directors approved the Loan to the Shareholder despite SAA not meeting the solvency and liquidity test. The Minister special resolution had a proviso which stated that he approves the financial assistance provided that all the requirements of the Companies Act are complied with. From the above it is evident that the SAA did not comply with all the requirements of section 45. Further there is no evidence on the compliance to s45 (4) and s45 (5) of the Companies Act. Since not all the requirements of Companies Act were met, the special resolution made by the Minister is not enforceable. The Audit and risk committee mislead the Board of Directors by stating that the submission (solvency and liquidity test) has been interrogated by the audit committee and recommended to the Board. To date, SAA has not advanced the new loan to Air Chefs because SAA will not pass the solvency and liquidity test if the loan is advanced. Since SAA will not be able to meet the requirements of section 45 on the new loan the current loans are void and the loan agreement is unenforceable.

The above is a result of the Board approving the loan to Air Chefs without meeting the solvency and liquidity test

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The impact of the above will result in non-compliance to section 45 of the Companies. This will result in a non-compliance matter being included in the audit report.

This will result in the Directors who were present at the meeting to be liable as they did not act in the best interest of the Company despite knowing that SAA would not meet the solvency and liquidity test.

Air Chefs is technically insolvent, SAA cannot recover the loan amount from it (Loan amount has been fully impaired in the books of SAA).

Internal control deficiency

Leadership

The Board of Directors did not exercise oversight responsibility in ensuring that SAA comply with s45 of the Companies Act before financial assistance is granted to the subsidiaries.

Governance

The Audit committee did not ensure that it promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of legislation as the audit committee mislead the Board by stating that they interrogated the solvency and liquidity test and they recommend it to the Board despite SAA not meeting the solvency and liquidity test.

Recommendation

SAA should regularise the s45 as soon as they pass the solvency and liquidity test, by following all the requirements to advance a new loan to settle the old loan.

SAA should do a legal consultation before they grant financial assistance to subsidiaries to ensure that they comply with all the requirements of s45 of the Companies Act.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding: Management is aware of the historical issue and notes the finding. Management is now acutely aware of the requirements of s45 of the companies act and the issues relating to financial assistance.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: The finding is noted. It will not reoccur.</td></tr>
<tr><td colspan="3">Management comment on recommendation: As soon as SAA is able to pass the liquidity and solvency test the loan will be regularized.</td></tr>
<tr><td colspan="3">Remedial action: Loan to be regularized ito s45</td></tr>
<tr><td>What actions will be taken: HOD Financial accounting will ensure compliance once SAA is in a position to do so.</td><td>By whom: L Olitzki
Person:
Position; HOD Financial Accounting</td><td>By when:
When SAA is able to pass the liquidity and solvency test.</td></tr>
</table>

Auditor's conclusion

Management's response is noted and they agree with the finding, internal control deficiency and the recommendations. Even though management will regularise the loan at later stage when

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SAA meets the requirements as set out in the companies act, SAA was not in compliance with the prescripts of the Companies act during the current financial year.

Note that the matter is still a non-compliance with legislation and will be reported in the audit report.

40. Loan to South African City Centre SOC Limited (SATC) issued without complying with section 45

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that "*An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control*".

In terms of the Companies act 71 of 2008 section 45 subsection 2 – 6 states that"

2) *Except to the extent that the Memorandum of Incorporation of a company provides otherwise, the board may authorise the company to provide direct or indirect financial assistance to a director or prescribed officer of the company or of a related or inter-related company, or to a related or inter-related company or corporation, or to a member of a related or inter-related corporation, or to a person related to any such company, corporation, director, prescribed officer or member,*

3) *Despite any provision of a company's Memorandum of Incorporation to the contrary, the board may not authorise any financial assistance contemplated in subsection (2), unless—*

   (a) the particular provision of financial assistance is—
   - *(i) pursuant to an employee share scheme that satisfies the requirements of section 97; or*
   - *(ii) pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category; and*

   (b) the board is satisfied that—
   - *(i) immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test; and*
   - *(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company".*

4) *In addition to satisfying the requirements of subsection (3), the board must ensure that any conditions or restrictions respecting the granting of financial assistance set out in the company's Memorandum of Incorporation have been satisfied.*

5) *If the board of a company adopts a resolution to do anything contemplated in subsection (2), the company must provide written notice of that resolution to all shareholders, unless every shareholder is also a director of the company, and to any trade union representing its employees—*

   (a) Within 10 business days after the board adopts the resolution, if the total value of all loans, debts, obligations or assistance contemplated in that resolution, together with any previous such resolution during the financial year, exceeds one tenth of 1% of the company's net worth at the time of the resolution; or

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(b) Within 30 business days after the end of the financial year, in any other case.

6) A resolution by the board of a company to provide financial assistance contemplated in subsection (2), or an agreement with respect to the provision of any such assistance, is void to the extent that the provision of that assistance would be inconsistent with—

(a) This section; or
(b) A prohibition, condition or requirement contemplated in subsection (4).

During the audit of accounts receivable from subsidiaries it was noted that South African Airways SOC Limited advanced a loan to the total sum of R4.9 million to South African City Centre SOC Limited (SATC) as at November 2014 as indicated in the Compliance Notice issued by Companies and Intellectual Property Commission Republic of South Africa which has grown subsequently to R17.4 million to date.

At the time SAA did not comply with requirements of s45 of the Companies Act 71 of 2008 as:

- No special resolution was passed by the shareholder authorising the provision of the financial assistance to its subsidiaries.
- SAA did not perform the solvency and liquidity test in respect to the loan granted to SATC.
- The terms of the financial assistance were not fair and reasonable to the company providing the financial assistance as SAA did not charge interest on the loan agreement to SATC.
- After the board provided the financial assistance no notice of resolution taken was sent to the Shareholder and recognised unions.

On the 19th of November 2014 the Companies and Intellectual Property Commission (CIPC) issued a Compliance Notice to the South African Airways which was a notice to bring the conduct of South African Airways into Compliance with the Companies Act no71 of 2008(As amended).

The notice acknowledged the letter dated 26 August 2014 and the follow up letter dated 5 November 2014 addressed to the CIPC by SAA where SAA acknowledged that it is in contravention of section 45 of the Act when it provided financial assistance to South African City Centre SOC Limited (SATC).

The CIPC stated that the steps proposed by the Chairperson of the Board of Directors of SAA to regularise the agreements entered between SAA and SATC for the provision of financial assistance are not acceptable as the agreements are void.

The CIPC then requested the Chairperson of the Board of Directors of SAA to take the following steps:

- Recover the loan of R4.9 million granted to SATC within 3 months from the date of the Compliance Notice was issued.
- Provide documentary proof to the CIPC within 10 business days from the end of the 3 months period that the loan of R 4.9 million has been recovered from SATC

No documentary proof was submitted to the auditors to prove that SAA did comply with the requirements of CIPC, as to date SAA has granted SATC a loan of R17.4 million.

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SAA has attempted to rectify its non-compliance with Section 45 by taking the following steps:

A. The then Acting CEO prepared a SAA solvency and liquidity report for SATC loan addressed to the Board of Directors on 25 August 2015. The purpose of the memorandum was to provide the Board with a legal review of SAA's solvency and liquidity position before to enable the Board to make an informed decision on the request to approve an advance of Loans to SATC.

   The solvency and liquidity test submitted to the Board was done to determine the financial year 2015 going concern requirement as at 9 July 2015. The period covered for the solvency and liquidity test and going concern assumptions relate to the period 1 April 2015 to 30 September 2016.

   The conclusion of the solvency and liquidity test stated that SAA required an additional perpetual guarantee of R 5.063 billion to meet both its solvency and liquidity requirements.

B. The memorandum addressed to the Board of Directors from the then Acting CEO stated that SAA approached the Minister of Finance with the request for guidance and assistance in regularising the non-compliance loans.

   The Minister issued a letter dated 6 June 2015 in which authorised SAA to advance new loan of R17.4 million to SATC to regularise the non-compliance indicating that SAA would then grant the new loan to SATC in order for the subsidiaries to utilise the funds to settle the non-compliant loans.

   The Minister then made a special resolution 2015/01 whereby he resolved that the loan amounting to R17.4 million issued by the Company to its subsidiaries SATC as at 31 December 2014 are allowed provided that all the requirements of the Companies Act are complied with.

   The resolution was signed by the Minister on 24 August 2015.

C. SAA Board of directors held a meeting on 26 August 2015 during the meeting the Board was requested to authorise the CFO to sign the loan agreement between SAA and SATC. The loan to SATC was to rectify a previous loan issued without complying with section 45 of the Companies Act 2008.

   The Board expressed concerns at the fact that the submission was circulated at the meeting. The audit and risk committee (ARC) chairperson gave the Board comfort that the submission had been interrogated by the ARC and recommended to the Board.

   The Board then resolved that the Board notes the legal review of SAA's liquidity and solvency position provided to enable the Board to make an informed decision on the request to approve an advanced loan to SATC.

   The Board then authorised the CFO to sign the subsidiary loan agreement with SATC.

D. SAA obtained a legal opinion from CDH dated 25 May 2017 and they concluded by stating that at this stage it cannot be said with absolute certainty that the financial assistance has been fully regularised under section 45.

   As the Board resolution of the minutes of the Board meeting held on 26 August 2015 does not specifically state that the board applied themselves and was satisfied with the

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solvency and liquidity test in terms of section 45 was met. Subsequent to the legal opinion of 25 May 2017, the CDH revisited their opinion based on new information being made available by the SAA and concluded that financial assistance is valid because the requirements of section 45 of the Act was met. In the legal opinion dated 28 June 2017,

CDH indicates that the SAA Deputy Company Secretary indicated that the following documents were submitted to the SAA Board which informed their decision to approve the loan: Request to Board to authorize CFO to sign loan agreement (dated 26 August 2015) with the draft agreement attached, SAA's Solvency and Liquidity report for the SATC loan regularization (dated 25 August 2017), FY2015 Going Concern Requirement as at 9 July 2015. It was acknowledged by the company secretary that these documents were not circulated prior to the meeting but handed out in the board meeting.

The CFO made a presentation to the board covering the info in the documents circulated. It is mentioned that board did pose question after the presentation to the CFO and chairperson of the Audit and Risk committee and there were deliberations but this was not recorded in the board minutes.

The board "relied" on the info presented by CFO and the "assurance" by the Audit and Risk committee in approving the loan agreement to SATC. Based on the additional information considered by CDH they concluded that it appears that at least in substance, if not strict form, the board did in fact approve the financial assistance to SATC in compliance with the provisions of section 45 of the Act. CDH then further recommended that the Board Minutes be updated to reflect the Board's deliberations on 26 August 2015 more accurately and in greater detail if at all possible.

E. In a memo dated 22 June 2017 from the CFO to the SAA Audit and Risk Committee, the following was confirmed that the shareholder approved the financial assistance after being informed of the CIPC non-compliance notice. It was resolved that SAA advance a "new" loan to SATC and that SATC would use the "new" loan to repay the existing non-compliant loans. A loan agreement was signed for 60 months with interest payable. SAA has not passed the solvency and liquidity test and therefore could not advance the "new" loan to SATC.

Based on the above, even though SAA made efforts to regularizing the loan in terms of section 45 it can be concluded that SAA did not pass the solvency and liquidity test as the company needed a government guarantee of R5 billion.

The Directors approved the Loan to the Shareholder despite SAA not meeting the solvency and liquidity test. The Minister special resolution had a proviso which stated that he approves the financial assistance provided that all the requirements of the Companies Act are complied with. From the above it is evident that the SAA did not comply with all the requirements of section 45. Further there is no evidence on the compliance to s45 (4) and s45 (5) of the Companies Act. Since not all the requirements of Companies Act were met, the special resolution made by the Minister is not enforceable. The Audit and risk committee mislead the Board of Directors by stating that the submission (solvency and liquidity test) has been interrogated by the audit committee and recommended to the Board. To date, SAA has not advanced the new loan to because SATC SAA will not pass the solvency and liquidity test if the loan is advanced. Since SAA will not be able to meet the requirements of section 45 on the new loan the current loans are void and the loan agreement is unenforceable.

The above is a result of the Board approving the loan to SATC without meeting the solvency and liquidity test

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The impact of the above will result in non-compliance to section 45 of the Companies Act. This will result in a non-compliance matter being included in the audit report.

This will result in the Directors who were present at the meeting to be liable as they did not act in the best interest of the Company despite knowing that SAA would not meet the solvency and liquidity test.

SATC is technically insolvent, SAA cannot recover the loan amount from it (Loan amount has been fully impaired in the books of SAA).

Internal control deficiency

Leadership

The Board of Directors did not exercise oversight responsibility in ensuring that SAA comply with s45 of the Companies Act before financial assistance is granted to the subsidiaries.

Governance

The Audit committee did not ensure that it promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of legislation as the audit committee mislead the Board by stating that they interrogated the solvency and liquidity test and they recommend it to the Board despite SAA not meeting the Solvency and liquidity test.

Recommendation

SAA should regularise the s45 as soon as they pass the solvency and liquidity test, by following all the requirements to advance a new loan to settle the old loan.

SAA should do a legal consultation before they grant financial assistance to subsidiaries to ensure that they comply with all the requirements of s45 of the Companies Act.

Management response

Management comment on audit finding: Management is aware of the historical issue and notes the finding. Management is now acutely aware of the requirements of s45 of the companies act and the issues relating to financial assistance.		
Management comment on internal control deficiencies: The finding is noted. It will not reoccur.		
Management comment on recommendation: : As soon as SAA is able to pass the liquidity and solvency test the loan will be regularized.		
Remedial action: Loan to be regularized ito s45		
What actions will be taken: HOD Financial accounting will ensure compliance once SAA is in a position to do so.	By whom: L Olitzki Person: Position; HOD Financial Accounting	By when: When SAA is able to pass the liquidity and solvency test.

Auditor's conclusion

Management's response is noted and they agree with the finding, internal control deficiency and the recommendations. Even though management will regularise the loan at later stage when

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SAA meets the requirements as set out in the companies act, SAA was not in compliance with the prescripts of the Companies act during the current financial year.

Note that the matter is still a non-compliance with legislation and will be reported in the audit report.

41. Potential additional financial assistance provided to SATC

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that "An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control".

In terms of the Companies act 71 of 2008 section 45 subsection 2 – 6 states that"

2) *Except to the extent that the Memorandum of Incorporation of a company provides otherwise, the board may authorise the company to provide direct or indirect financial assistance to a director or prescribed officer of the company or of a related or inter-related company, or to a related or inter-related company or corporation, or to a member of a related or inter-related corporation, or to a person related to any such company, corporation, director, prescribed officer or member,*

3) *Despite any provision of a company's Memorandum of Incorporation to the contrary, the board may not authorise any financial assistance contemplated in subsection (2), unless—*

   (c) the particular provision of financial assistance is—
   (iii) pursuant to an employee share scheme that satisfies the requirements of section 97; or
   (iv) pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category; and

   (d) the board is satisfied that—
   (iii) immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test; and
   (iv) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company".

4) *In addition to satisfying the requirements of subsection (3), the board must ensure that any conditions or restrictions respecting the granting of financial assistance set out in the company's Memorandum of Incorporation have been satisfied.*

5) *If the board of a company adopts a resolution to do anything contemplated in subsection (2), the company must provide written notice of that resolution to all shareholders, unless every shareholder is also a director of the company, and to any trade union representing its employees—*

   (c) Within 10 business days after the board adopts the resolution, if the total value of all loans, debts, obligations or assistance contemplated in that resolution, together with any previous such resolution during the financial year, exceeds one tenth of 1% of the company's net worth at the time of the resolution; or

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(d) Within 30 business days after the end of the financial year, in any other case.

6) *A resolution by the board of a company to provide financial assistance contemplated in subsection (2), or an agreement with respect to the provision of any such assistance, is void to the extent that the provision of that assistance would be inconsistent with—*

(c) This section; or
(d) A prohibition, condition or requirement contemplated in subsection (4).

During the audit of loan to SATC it was noted that SATC requested the group treasury to refund the Lufthansa City Centre affiliation fee due to one of SATC franchisees in Zambia. When the refund was made an error was made in converting the currency of the payment from EUR to ZMW.

SATC then erroneously used the ZMK as the conversion currency instead of ZMW. This resulted in an amount of ZMK 8 560 831 being paid to the franchisees in Zambia instead of 15 216 ZMW. SATC used ZMK as the conversion currency on the expense authorisation which was used to prepare the payment to the supplier and the recording on the general ledger.

The amount that should have been on the expense authorisation should have been ZMW 15 216.59. Therefore SAA made an overpayment of R 13 465 936 when the amount is converted in South African Rand.

The above overpayment on behalf of SATC meets the definition of financial assistance in terms of s 45. South African Airways failed to comply with s45 as the following steps were not taken by the Board of SAA before authorising the financial assistance to SATC.

- SAA did not obtain a special resolution from the Minister of finance
- The Board of directors did not pass a resolution to grant the financial assistance to SATC
- The Board did not satisfy themselves that SAA will be solvent and liquid immediately after granting financial assistance to the SATC.
- There is no loan agreement for the overpayment therefore we could not determine whether the terms are fair and reasonable to SAA

The above was as a result of human error by SATC accountant by not ensuring that the correct currency is used in preparing the payment which resulted in a loan to SATC being incurred.

The impact of the above will result in non-compliance to section 45 of the Companies Act and the loan agreement will null and void as the loan amount was issued without meeting the terms of Companies Act section 45.

SATC is technically insolvent, there is a risk that SAA may not be able to recover the outstanding balance from SATC. (Loan amount has been fully impaired in the books of SAA).

Internal control deficiency

Leadership

SAA finance management did not exercise oversight in ensuring that the amount paid is correct, this occurred due to the approver performing a rigorous review to confirm that large amount paid is correct.

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Recommendation

Money owed should be recovered from the Franchisee of SATC and SATC should pay that money over to SAA. A detailed rigorous review needs to be done by SAA finance team before making payments on behalf of SATC.

SAA should ensure that all the terms of the Companies Act are met before any loans are issued to subsidiaries.

Management response

Management comment on audit finding: The comment is noted. This was an unfortunate error between SATC and SAA Treasury department, there was never any intention to provide financial assistance to SATC.		
Management comment on internal control deficiencies: This was processed within SAA Treasury and the comment is noted and will be implemented.		
Management comment on recommendation: SATC has already entered into a repayment arrangement with the travel agent who is adhering to the terms of the agreement. The current amount outstanding is R2 252 455. As SATC recovers the overpayment, the loan by SAA to SATC is reduced by the same amount.		
Remedial action: Has already been taken.		
What actions will be taken: Debt recovery is underway.	By whom: SAA legal/Country manager Zambia Person: Position;	By when: Debt should be fully recouped by year end

Auditor's conclusion

Management's response is noted and they agree with the finding, internal control deficiency and the recommendations. Even though management has entered into a repayment arrangement, SAA was not in compliance with the prescripts of the Companies act during the current financial year.

Note that the matter is still a non-compliance with legislation and will be reported in the audit report.

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42. Non-compliance with the PFMA regarding maintaining and safeguarding of the Property, aircraft and equipment

Audit finding

Section 50(1) (a) of the PFMA states that "*The accounting authority for a public entity must exercise the duty of utmost care to ensure reasonable protection of the assets and records of the public entity*"

Section 51(1) (c) of the PFMA states that "*An accounting authority for a public entity is responsible for the management, including the safeguarding, of the assets and for the management of the revenue, expenditure and liabilities of the public entity*"

During the audit, a number of audit findings were raised regarding the state of accounting records of SAA relating the property, plant and equipment. The following amongst others are the material non-compliance matters that were identified which are in contravention with the above-mentioned PFMA prescripts:

- SAA assets which are managed by South African Airways Technical (SAAT) on behalf of SAA could not be properly accounted for in the financial records of SAA.
- There was a limitation of scope experienced regarding the information requested to support the valuation of assets which are disclosed in the Annual financial statements.
- The existence of assets could not be confirmed through physical verification
- There are no adequate policies and procedures in place for managing the assets of SAA.
- Material differences were identified in the balance of the property, aircraft and equipment which is an indication that the assets are not properly accounted for and maintained.

Through the observation of the access controls at the gate of SAA, it was noted that vehicles are not checked for assets such as laptops and individuals carrying items such as laptops are not verified whether they may be SAA assets or not. As a result SAA assets could be taken out of the premises as there are no proper security measures in place to ensure that the assets of SAA are not stolen.

This will result in material non-compliance with PFMA and will be reported in the audit report of SAA.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller, as the custodian of the fixed assets of SAA, did not ensure that there is an approved fixed asset management policy in place which has been approved at an appropriate level which will ensure compliance with the requirements of the PFMA.

The Chief Financial Officer did not adequately review the asset register of SAA to ensure that it is properly maintained in a way that will enable for assets verifications and compliance with the applicable legislation and accounting standards.

The asset management unit is not fully capacitated with appropriate level of skills and competencies to ensure that all accounting and legislative requirements are complied with at SAA.

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The Divisional Financial Controller: Fleet as the custodian of the fixed asset register (FAR) did not review the asset register to ensure it is accurate and complete

There is also no accountability regarding the assets which are maintained at SAAT on behalf of SAA.

Leadership

The board of SAA did not put mechanisms in place to hold management accountable so that the required policies to ensure compliance with PMFA are in place, which are approved and implemented appropriately.

Recommendation

The Divisional financial controller should develop an action plan to address the findings which are raised in the Property, aircraft and equipment which will entail a total clean-up of the fixed asset register.

This will enable SAA to properly account for the assets and institute asset management processes at SAA going forward.

The Chief Financial Officer should ensure the policies and procedures are developed which will be approved at board level regarding the maintaining of records and safeguarding of assets.

The Chief Financial officer should ensure that the asset management unit is adequately capacitated with appropriate skills and competencies and then institute consequence management for officials which the findings on the assets relates to their line of duty.

Management's response

Management comment on audit finding: <u>SAA assets which are managed by South African Airways Technical (SAAT) on behalf of SAA could not be properly accounted for in the financial records of SAA.</u> This finding is covered by other findings. Information is difficult to obtain and the system has limitations. We are in the process of providing all information and the new AMOS system has been introduced that should remedy all shortcomings <u>There was a limitation of scope experienced regarding the information requested to support the valuation of assets which are disclosed in the Annual financial statements.</u> Covered by other findings <u>The existence of assets could not be confirmed through physical verification</u> This finding is covered by other findings The process is still in progress <u>There are no adequate policies and procedures in place for managing the assets of SAA.</u> We will continue improving controls and processes <u>Material differences were identified in the balance of the property, aircraft and equipment which</u>

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is an indication that the assets are not properly accounted for and maintained. This finding is covered by other findings The process is still in progress Through the observation of the access controls at the gate of SAA, it was noted that vehicles are not checked for assets such as laptops and individuals carrying items such as laptops are not verified whether they may be SAA assets or not. As a result SAA assets could be taken out of the premises as there are no proper security measures in place to ensure that the assets of SAA are not stolen. SAA does not own most of the laptops. Periodic spot checks are carried out by security. SAAT conducts constant inspections of persons and vehicles leaving the premises
Management comment on Internal control deficiency:
Management comment on recommendation: Agree with recommendation
Remedial action: These findings will be addressed under the findings that deal with each individual issue

What actions will be taken:	By whom	By when:
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management response is noted; however the non-compliance with PFMA will be reported in the audit report of SAA.

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Audit of Performance Information

43. Performance indicators and targets not measurable

Audit finding

The National Treasury Framework for Managing Programme Performance Information (FMPPI) requires the following:

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use; and
- Performance targets must be specific in clearly identifying the nature and required level of performance, it must be measurable and the period or deadline for delivery of targets must be specified.

The audit team had selected strategic objectives 1, 2, 3, 4 and 5 from the shareholders compact for audit. As part of the audit, the following criterion that is based on the FMPPI was tested:

a) Measurability of indicators
- Evaluate whether planned and reported indicators are well defined
  - Does the indicator have a clear unambiguous definition?
  - Is the indicator defined so that data will be collected consistently?

- Evaluate whether planned and reported indicators are verifiable
  - Is it possible to verify the process and systems that produce the indicator?

b) Measurability of targets
- Is the planned and reported target specific?
  - **Is the nature** and required level of performance clearly identified?
  - Can the required performance be measured?

- Is the planned and reported target time-bound?
  - Is the time period/ deadline for delivery specified

The following audit findings were noted when evaluating the performance indicators and targets on the shareholders compact of SAA:

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Objective 1- Support national developmental agenda				
Performance Indicator	**Target as per Shareholders Compact**	**Audit finding on performance indicator**	**Audit finding on the performance target**	**Conclusions at Indicator/ objective level**
% procurement spend locally	>72%	Unambiguous definition The performance indicator is not well defined to determine whether the procurement spend is on new tenders and quotations issued in the current financial year or it includes contracts already awarded from the previous years. Through enquiries and discussions with management, it is also noted that SAA considers as part of this performance indicator, expenses paid to regulators and other government agencies i.e. SA Civil Aviation Authority, SARS, Air Traffic and Navigation, ACSA, departments, among others. These costs should not regard as procurement spent as the SCM Policy was not followed on their services. The SCM policy further excludes the following stakeholders/circumstances as part of procurement expenses: 1. Mango Airlines (SOC) Limited (in so far it has its own SCM governance systems). 2. Petty cash purchases which are subject to instructions as issued in terms of the applicable financial policy. 3. Professional memberships and subscriptions. 4. Water and electricity.	Based on the performance indicator, the target for this indicator is not specific in clearly identifying the nature and required level of performance. It is also not clear whether measurement process was predetermined and consistently applied throughout the year. Furthermore it cannot be confirmed that performance is measured and reported as originally intended and that all parties involved in the measurement and reporting process has the same understanding, applies the same principles and process, is clear on responsibilities and has done so throughout the year. This target will be tested for reliability and the concerns documented above will be considered in our risk assessment. If the testing yields positive results we will conclude on the reliability of the reported target.	As a result of the noted matters, the indicator is not well defined, however testing of the reliability of the target will be performed.

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Objective 1- Support national developmental agenda				
Performance indicator	**Target as per Shareholders Compact**	**Audit finding on performance indicator**	**Audit finding on the performance target**	**Conclusions at indicator/ objective level**
		5. Income generating transactions (that do not require compliance with RSA Constitution section 217 principles and/or administrative justice process). 6. Rates and taxes and other levies raised by local authorities or provincial administrations. 7. Procurement from or within and/or by any member and/or associate of the SAA Group. 8. Letting and hiring; and acquisition and alienation of land and fixed property where the bidding process cannot be utilised. 9. Sponsorships and donations. 10. Studying through specific institutions. 11. Landing and navigation services fees. Based on the above, it could not be established that the indicator was well defined to enable data to be collected consistently as the nature of what is regarded as procurement expenditure was not pre-determined by management.		
B-BBEE spend as % of local eligible spend	>91%	Unambiguous definition The performance indicator is not well defined. The team noted that SAA considers amounts spent to	The target for this indicator is not specific in clearly identifying the nature and required level of performance.	As a result of the noted matters, the indicator is not well defined, however

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Objective 1- Support national developmental agenda				
Performance indicator	**Target as per Shareholders Compact**	**Audit finding on performance indicator**	**Audit finding on the performance target**	**Conclusions at indicator/ objective level**
		all companies with B-BBEE certificates as part of this measure. *For example:* Industry norms and the criteria applied by subsidiaries in the group is that scores are allocated based on the B-BBEE Level of each supplier (i.e. a B-BBEE level 1 cannot have the same contribution as a level 8). It is further not clear to the team how as noted SAA Group SCM policy, the target as contained in SAA's Shareholder Compact is suggested to advance/support: ▪ The achievement of transformation objectives and other government developmental objectives such as the industrialisation program (focussing on local production and content). • In line with the RSA Constitution, to protect and/or advance the persons or categories of persons described in article 14.3 of the SCM Policy, that have been disadvantaged by unfair discrimination. • Aimed at unlocking opportunities for B-BBEE enterprises to participate in the Procurement of goods and services historically dominated by large firms and guided by the principles of fairness, equity, transparency, competitiveness and cost-efficiency. Also in determining what is eligible spent, client only considers Accredited supplies and does not consider	The team notes that the SAA reports the target in percentage, by dividing absolute values. The risk associated with the indicator being not well defined has pervasive effect in understanding what is being measured, In that for instance in determining local eligible spent, how does one decide which local suppliers to include or not include. Thus the team concludes that the target is not measurable. The target is time bound as the expenditure that's being measured relates to what has been incurred in the current year.	testing of the reliability of the target will be performed.

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Objective 1- Support national developmental agenda				
Performance indicator	**Target as per Shareholders Compact**	**Audit finding on performance indicator**	**Audit finding on the performance target**	**Conclusions at indicator/ objective level**
		any of the following: >Non Accredited>One time vendors>Prospective suppliers. Due to the inconsistencies identified above the team is not able to confirm the exact nature of what was planned to be reported, as well as the pre-determination of variables that are input for this target. Therefore the team cannot confirm that that the indicator was predefined to enable data to be collected consistently.		

Management comments

Noted. Definitions were added in the 2017/18 Draft Shareholder Compact. The Comments will be taken into consideration for enhancing the definitions going forward. We have dashboard definitions for these KPI's as per Dashboard automation Specifications. Please review these definitions forwarded to you.

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Objective 2- Achieve and maintain financial sustainability				
Performance indicator	**Target as per Shareholders Compact**	**Audit finding on performance indicator**	**Audit finding on the performance target**	**Conclusions at indicator/ objective level**
Operating cash flows	(R123m)	Unambiguous definition The performance indicator is not well defined as it is not clear whether the operating cash flows as an indicator refers to net cash flows from operating activities or cash (used in)/generated from operations as per the statement of cash flows. Due to the absence of pre-planning documents and that the indicator is reported for the first time this financial year, the team cannot confirm that indicator was pre-determined and consistently reported on.	The target could be measured as it is presented in rand amount. This target will be tested for reliability and the issues documented for usefulness will be considered in our risk assessment. If the testing yields positive results we will conclude on the reliability of the reported target.	As a result of the noted matters, the indicator is not well defined, however testing of the reliability of the target will be performed.
Net profit: RASK	121 c	Unambiguous definition The performance indicator is not well defined as the numerator in the calculation; the airline revenue that is obtained from SAP includes the Technical services and Cargo revenue and in its current form distorts the objective of the calculation. Thus the indicator is not defined to have a clear definition in what is being measured e.g. Passenger RASK (or PRASK) is passenger (or scheduled ticket) revenue per ASK. Operating RASK or Total RASK is the airline's total operating revenue per ASK.	The target could be measured as it is presented in rand amount. This target will be tested for reliability and the concerns documented above will be considered in our risk assessment. If the testing yields positive results we will conclude on the reliability of the reported target.	As a result of the noted matters, the indicator is not well defined, however testing of the reliability of the target will be performed.
Net profit: CASK	120 c	Unambiguous definition The performance indicator is not well defined as it does not explain what forms part of the operating costs for the purpose of this calculation. For example CASK excluding fuel is a commonly used measure to compare the cost performance of airlines excepting the cost of	The target could be measured as it is presented in rand amount. This target will be tested for reliability and the concerns documented above will be considered in our risk assessment. If the testing yields positive results we will conclude on the reliability of	As a result of the noted matters, the indicator is not well defined, however testing of the reliability of the target will be performed.

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Objective 2- Achieve and maintain financial sustainability				
Performance indicator	**Target as per Shareholders Compact**	**Audit finding on performance indicator**	**Audit finding on the performance target**	**Conclusions at indicator/ objective level**
		fuel. Due to the volatility of oil prices, airline fuel cost is generally not viewed as controllable (other than in the short-term via fuel hedging). Also, the team understands that direct operating costs are considered in this measure. As noted above the team could not establish through pre-planning documents what management planned to include as part of direct operating costs.	the reported target.	
Refinement of the LTTS	90%	<u>Unambiguous definition</u> The performance indicator is not well defined as it does not explain what activities are entailed in the refinement of the LTTS. Discussions with management revlled that the inclusion of this indicator in the APP was not correct, as they could not come up with any related targets.	The target for this indicator is not specific in clearly identifying the nature and required level of performance, measurable and did not specify the period or deadline for delivery during the planning process as required. The audit team could not establish what needed to be delivered as part of this target in order to achieve 90%.	As a result of the noted matters, the indicator is not well defined and the target not specific.

Management comments

Noted. Definitions were added in the 2017/18 Draft Shareholder Compact. The Comments will be taken into consideration for enhancing the definitions going forward. We have dashboard definitions for these KPI's as per Dashboard automation Specifications. Please review these definitions forwarded to you.

Operating cash flows; Net profit: RASK - Suggest you validate the calculation used to determine the targets and ensure that the same calculations was used for determining the actual. Going forward this clearly defined.

Refinement of the LTTS- The shareholder was requested to remove this as no requests were provided

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4 Objective 3- Provide excellent customer service				
Performance indicator	**Target as per Shareholders Compact**	**Audit finding on performance indicator**	**Audit finding on the performance target**	**Conclusions at Indicator/ objective level**
Net promoter score (referral rate)	60%	The performance indicator is not well defined as without data definitions, the team can not define what a net promoter score is and what is considered or not considered in defining the promoter rate.	~~The planned and reported~~ <u>target was identified as not specific.</u> The target for this indicator is not specific in clearly identifying the nature and required level of performance, measurable and did not specify the period or deadline for delivery during the planning process as required by the due to lack of definitions. e.g The Net Promoter Score cannot be presented as a percentage, but the target that is included in the Shareholders Compact is expressed as a percentage. Thus the required level of performance can be measured.	As a result of the noted matters, the indicator is not well defined and the target not specific.

Management comments

Noted. Net Promoter score was fixed in the 2017/18 Draft Shareholder Compact.

Just a summary on the Issue:

1. The Shareholder Compact reflected:

Where the NPS as such cannot be measured as a %, the Referral rate can be. A good target for the Referral rate is 60%.

SAA achieved the following Referral rates for the year (info from Bulisa).

	<u>**Referral rate**</u> (%)	YTD
April	68%	68%
may	68%	68%

<u>**NPS**</u> <u>**(#)**</u>	YTD
62	62
62	

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				62
June	68%	68%	62	62
July		68%		62
August	40%	61%	30	54
September	38%	56%	21	47
October		56%		47
November	37%	53%	19	43
December	68%	55%	51	44
January	34%	53%	11	40
February	40%	51%	27	38
March	41%	50%	29	37

This was identified as a problem as NPS and Referral rate were used in the same sentence and caused a bit of confusion for this year.

In the Shareholder Compact 17/18 we have enhanced the definition en moved away from the % measurement to the more numerical calculation of NPS. The target was also set as (+20) as this is a realistic NPS target.

18.1.1 Net promoter score (referral rate): The Net Promoter Score is calculated as the difference between the percentage of Promoters and Detractors. The NPS is not expressed as a percentage but as an absolute number lying between -100 and +100.

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In future we will remove the reference to Referral rate as it is confusing and use only the word NPS and the normal calculation thereof.

Hope this helps clarify the question on the %.

The Comments will be taken into consideration for enhancing the definitions going forward. On the other issues, we have dashboard definitions for these KPI's as per Dashboard automation Specifications. Please review these definitions forwarded to you.

Objective 4- Achieve consistent, efficient and effective operations				
Performance indicator	**Target as per Shareholders Compact**	**Audit finding on performance indicator**	**Audit finding on the performance target**	**Conclusions at indicator/ objective level**
Safety record	95%	Unambiguous definition The performance indicator is not well defined as safety record could have different meaning to different users. The indicator was also identified not to be reliable as the users will not be able to assess and respond to changes in the level of performance. E.g. Indicator is based on receipt of the compliance certificate, which is either 100% or 0%.	The planned and reported target was identified as not specific. The target for this indicator is not specific in clearly identifying the nature and required level of performance, measurable and did not specify the period or deadline for delivery during the planning process as required by the due to lack of definitions. e.g The target was set at 95% as the achievement may only be 100% if the certificate is obtained or 0% if the certificate is not obtained.	As a result of the noted matters, the indicator is not well defined and the target not specific.
Audit findings	95%	Unambiguous definition The performance indicator is not well defined as it does not define if its findings from what type of an audit are to be measured. E.g. External audit? Internal Audit? Regulator? Or from all the noted types of audit? With no definitions available both auditor and user will not be able to make that assessment.	The planned and reported target was identified not to be specific. The target for this indicator is not specific in clearly identifying the nature and required level of performance, measurable and did not specify the period or deadline for delivery during the planning process as required by the due to lack of definitions. e.g The corporate plan includes	As a result of the noted matters, the indicator is not well defined and the target not specific.

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			target on audit findings as a percentage target of 95%, however when performing the walkthrough the team established that management is not able to present the target as a percentage. Thus management is not able to calculate the percentage achievement as presented in the shareholders compact.	

Management comments

Noted. Definitions were added in the 2017/18 Draft Shareholder Compact. The Comments will be taken into consideration for enhancing the definitions going forward.

On Time Performance is only measured for the Airlines and the other subsidiaries (SAAT and Air Chefs) impact the Overall OTP of the Airlines through the service delivery.

Audit findings - After discussion with Chief Audit Executive of SAA we agree with the finding. This have been fixed in the 2017/18 Shareholder Compact. (please refer to the current draft of the 17/18 Compact). In addition a detail definition will be signed off indicating that it is referring to Internal Audit findings.

Safety record - This was better defined in the 2017/18 and target was changed to reflect 100%.

We have dashboard definitions for these KPI's as per Dashboard automation Specifications. Please review these definitions forwarded to you.

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Objective 5- Foster performance excellence				
	Target as per Shareholders Compact	Audit finding on performance indicator	Audit finding on the performance target	Conclusions at indicator/ objective level
Management stability %	10%		The planned and reported target was identified as not specific The target for this indicator is not specific in clearly identifying the nature and required level of performance did not specify the period or deadline for delivery during the planning process as required by the due to lack of definitions. e.g The numerator for the calculation speaks of Exco avoidable departures? How does one define avoidable suspensions? Resignations? Suspensions? Without clear data definitions one cannot determine the nature of the inputs. Management also contradicted in explanations provided to the team, and this was also explained to measure departures from level 3 upwards (Manager level) Not Exco only.	The target is not specific.

Management comments

This item was removed from the Draft Shareholders Compact 2017/18.

The reporting of the target is based on the Indicator as worded on the Shareholder's compact, notwithstanding that Management in the context of SAA depicts Managers from level 3 and above. In future, careful considerations will be taken to ensure that Indicators complies to the SMART principles to avoid ambiguity. The PMO should also ensure that the annual performance reporting is aligned to the shareholder's compact; no changes should be made on the wording and meaning of the indicators. It is important that the company has a library of the definitions of the indicators for consistent application and understanding.

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In this regard the risk exists that the reported performance information is not useful and result in a modified conclusion being expressed by the audit team.

This also has impact on the accuracy, completeness and validity of the information to be reported in the APR.

Internal control deficiency

Financial and performance management

The Acting Chief Strategy official was not trained in Public Sector requirements on managing performance information, more specifically on the requirements of the National Treasury Framework for Managing Programme Performance Information, in order to perform his duties effectively.

Roles and responsibilities with regard to the development, management and co-ordination of the process of developing measurable indicators and targets has not been clearly defined and assigned.

Recommendation

The Acting Chief Strategy and the relevant managers working on the development of strategic planning documents and management of performance information should receive adequate training on Public Sector requirements on managing performance information.

The Acting Chief Strategy and the relevant managers should ensure that technical indicator descriptions and documented systems descriptions are developed for each indicator.

A complete technical indicator definition example, from the best practice guide: *Framework for Strategic Plans and Annual Performance Plans* is included below:

Technical indicator descriptions and examples:

Indicator title	Identifies the title of the strategic outcome oriented goal, objective or programme performance indicator
Short definition	Provides a brief explanation of what the indicator is, with enough detail to give a general understanding of the indicator
Purpose/importance	Explains what the indicator is intended to show and why it is important
Source/collection of data	Describes where the information comes from and how it is collected
Method of calculation	Describes clearly and specifically how the indicator is calculated
Data limitations	Identifies any limitation with the indicator data, including factors that might be beyond the department's/entity's control
Type of indicator	Identifies whether the indicator is measuring inputs, activities, outputs, outcomes or impact, or some other dimension of performance such as efficiency, economy or equity
Calculation type	Identifies whether the reported performance is cumulative, or non-cumulative

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Reporting cycle	Identifies if an indicator is reported quarterly, annually or at longer time intervals
New indicator	Identifies whether the indicator is new, has significantly changed, or continues without change from the previous year
Desired performance	Identifies whether actual performance that is higher or lower than targeted performance is desirable
Indicator responsibility	Identifies who is responsible for managing and reporting the indicator

These documents should be further rolled out to all relevant employees to ensure they it is fully understood.

Management response

Management comment on audit finding: Targets were developed that is measureable but was not clearly defined in the Shareholder Compact making auditing difficult. The first step to rectify this was done in the 2017/18 Draft Shareholder Compact and additional clarity based on the audit findings will be incorporated. Also discussed in detail during our meeting. Some of them was also defined in detail in order to automate reporting.		
Management comment on internal control deficiencies:		
Management comment on recommendation:		
Remedial action :		
What actions will be taken:	By whom Person: Position	By when:

Auditor's conclusion

The identified misstatements on measurability of indicators and targets will be reported in the current financial year on opinions of the reported indicators and targets.

The audit team will assist management in reviewing definitions developed for the indicators ant targets for the 2017/18 financial year.

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44. In-year changes made to the signed 2016/17 Shareholders Compact

Audit finding

Treasury Regulation 29.2.1 states that, *"the accounting authority for a public entity listed in schedule 2, 3B or 3D must, in consultation with its executive authority, annually conclude a shareholders compact".*

During the audit of performance information it was noted that SAA made changes to the reported targets. The first planned target as per the Shareholders Compact provided for audit as approved by the Shareholder on 20th of October 2016 was changed by management at reporting.

The following changes to KPI's in the annual performance report related to achieve consistent, efficient and effective operations objective was made:

Key performance indicator	Annual target as per Version 1 of the Shareholders compact	Annual target as per Annual Performance Report	Change
Audit findings (No repeat, material findings)	95%	<10	Changed from a percentage to a number.

It was further noted that changes to the planned target was made after year end, and planning information is therefore not predetermined for the year considering that adjustments cannot be applied retrospectively.

Internal control deficiency

Financial and performance management

The Acting Chief Strategic Office did not ensure that the reported targets are consistent to the planned as per the Shareholders Compact for 2016/17 dated 20 October 2016.

The Acting Chief Strategic Officer did not ensure adequate oversight of changes to performance information to ensure that planned targets are not adjusted for, to ensure that the Entity reports on the targets as set in advance.

Recommendation

In-year changes to targets should not be amended and if the need arises the changes should be made in the subsequent shareholders compact relating to the next financial year in order to ensure consistency on planned and reported targets.

Management response

Management comment on audit finding:
It should be noted that line management was not involved when the KPIs were developed. They were developed by National Treasury in consultation with the SAA Finance and later communicated to line management for monitoring and reporting. When the KPI was

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communicated to the CAE, the expectations were not clear, i.e. The KPI was not well defined and understandable. Furthermore, we did not know how we were going to measure it. My understanding is that Finance enquired from Treasury but could not get the answers to my questions or concerns. Given that we did know what to do; we reverted to the prior year KPI that was talking about significant outstanding/recurring audit findings. We do agree with AG finding that we were not supposed to have changed the KPI in-year. Reverting to the better defined, measurable and understandable prior year KPI was however the best one could do at that point. That was better than not reporting at all. Going forward, we will follow appropriate processes if KPI changes are made in-year. This specific KPI was however amended in 2017/18 SHC.
Management comment on internal control deficiencies: Going forward, we will follow appropriate processes if KPI changes are made in-year. This specific KPI was however amended in 2017/18 SHC. Going forward, the KPIs should be discussed and finalised with affected line managers before they are included in the SHC.
Management comment on recommendation: Going forward, we will follow appropriate processes if KPI changes are made in-year. This specific KPI was however amended in 2017/18 SHC.
Remedial action:

What actions will be taken:	By whom: Siyakhula Vilakazi Position: Chief Audit Executive Agreed by: Josua Du Plessis Position: PMO	By when: 2017/18 SHC

Auditor's conclusion

Management's comments are noted. As the finding stands it will result in a modified conclusion on usefulness for the identified indicator and target.

Further discussions with management indicated that the reported information on this target is inconsistent with what was planned to be reported. I.e. the reported information related to internal audit findings, whereas the planned target was to measure external audit findings.

The team concluded that the usefulness misstatements relating to this indicator are pervasive and a modified conclusion will be reported for the target presented in the Annual Performance Report.

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45. Net promoter score: The reported target is not accurate and completeness thereof of the reported data could not be confirmed

Audit finding

The National Treasury Framework for Managing Programme Performance Information (FMPPI) requires that institutions have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

The reported Net Promoter Score (NPS) as per the annual performance report submitted for audit is 29%. The auditor's recalculated score was -6.35 (using data obtained from the Arial database system) and thus the reported NPS is incorrect. (*Detailed extracts available on request*)

The team also had a limitation in testing completeness of the reported data. It is not predetermined as to whom the survey should be sent to (regional, domestic or international passengers) as the criteria used to identify passenger who receives the surveys is not predetermined nor documented.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities with regards to calculation and collection of data needed to calculate the Net Promoter Score.

Recommendation

Management should establish and document policies and procedures (objective, planning, processing of data and reporting responsibility should be clear) to enable and support the understanding Net Promoter Score (NPS) calculation. All steps to be followed and data to be used to calculate the NPS should be clear and formally documented and detail.

The population to be used (and criteria used to identify that population) to calculate the Net Promoter Score should be formally documented and approved to ensure that adequate data is collected and taken into account in the calculation.

Management response

Management comment on audit finding:
The YTD approach for NPS is not a good number for averages. It is for this reason; we will look at another matrix. This particular matrix is a management tool, therefore not the best matrix for YTD and average calculations. It will still be used in management reports.

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Management comment on internal control deficiencies:

The portfolio moved and the internal requirements of breaking down the NPS to domestic, regional and international is of value internally. The move to have a measurement that can move across the whole company is far better and we will look at this along with the IT tools to support this.

Management comment on recommendation:

The recommendation is a good one.

Remedial action:

The use of the referral rate is to be discussed and signed off by EXCO going forward and it will be weighed as a matrix vs customer satisfaction. This will be managed by marketing. A supporting policy will be drafted.

What actions will be taken:	By whom: Bulisa Nazo	By when:
Management will evaluate best practice for NPS and then look at another matrix, IE customer satisfaction which can give an aggregate score.	**Position:** Insights & research Manager	Next Fiscal/ We can beginning from April 2018 for consistency, however, we will be advised if this should happen sooner to coordinate the updated corporate plan. We will do begin with the other matrix as well as a parallel process.

Name: Kim Thipe

Position: HOD Marketing

Date: August 2017

Auditor's conclusion

Managements comment is noted. As the finding stands there is a limitation on testing of the reported target for net promoter score and this will result in a modified opinion for this target in the auditor's report.

The audit team is available for consultation with management once a decision has been made on the best practices for reporting the NPS.

That reporting model will have to ensure that an independent third party could be able to confirm that all the data that was supposed to be reported for the target was reported, the reported information is the accurate representation of the actual feedback received from participated customers etc.

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46. Reported target for performance management not supported by valid performance contracts

Audit finding

The National Treasury Framework for Managing Programme Performance Information (FMPPI) requires that institutions have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets

Section 55.2 (a) of the Public Finance Management act - Annual report and financial statements. *The annual report and financial statements must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year.*

Indicator: Compliance to performance management

Method of calculation per technical indicator description: Number of performance contracts submitted by management divided by total number of managers in SAA group.

In testing the validity and accuracy of the indicator above, it was established that the employee below were included in the listing of managers that submitted, but there was no supporting proof of submission of the performance contract.

Department	Employee name	Surname	Position
Airport Operations	ANNETTE	WOLHUTER	Manager Airport Operations: Cape Town
Airport Operations	CRISTINA	KUHN	Manager: Airport Ops Training & Pass Aut
Airport Operations	KHULE	SARAH	Specialist Direct Tax
Airport Operations	LABUSCHAGNE	JOHAN	Fleet Acq. & Sales
Airport Operations	MELLETT	GEORGE	Head: Revenue Acc & Div Fin Contr: Comm
Airport Operations	MICHAU	MIMI	Financial Manager: Inflight and OCC
Airport Operations	PEER	AHMED	Manager: Shared Services
Airport Operations	POTSANE	CAROLINE	Manager: Document Control
Airport Operations	PRETORIUS	GUILLAUME	Aircraft Fleet Engineer
Airport Operations	SMIT	LYNN	Specialist: Management Acc and Rep
EXCO	NCALA	PHINDA	Chief Information Officer
Human Capital	MAOKA	JOAN	Human Resources Business Partner

The above omissions and errors will result in the miscalculation of the reported target. The projected misstatement to the entire population has been calculated by the audit team to be 204 (44.44%)

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Internal control deficiency

Leadership

The Performance Management Specialist did not ensure that the data collation (contract submissions) was diligently attended into and that these contracts were stored appropriately.

Recommendation

The following corrective measures should be taken:

- The Performance Management Specialist should ensure that the contracts of performance are collected and stored safely to confirm that they are complete.

Management response

Management comment on audit finding: We are unable to access the QPR system to retrieve the scorecards for Airport Operation and IT, as SAA IT only maintains the server as there is a contracted company called EBS who deals with the maintenance and support of the QPR system. There is an outstanding invoice for EBS and QPR, therefore this has made it impossible for EBS to continue maintaining and supporting the QPR system as SAA owes them money. Refer to e-mail from IT..\Desktop\QPR System Support.msg. Joan Maoka did not submit her final year review/BSC.		
Management comment on internal control deficiencies: All contracts done manually are submitted to bsc@flysaa.com and those on QPR are stored on the QPR system itself. All manual contracts are then stored on Sharepoint		
Management comment on recommendation: All contracts done manually are submitted to bsc@flysaa.com and those on QPR are stored on the QPR system itself. All manual contracts are then stored on Sharepoint.		
Remedial action: The implementation of the SAP Success Factors system is intended to enable full automation of the Performance management system across SAA with less/no server inefficiencies		
What actions will be taken:	By whom Person: Hope Khoza and Helen Kgamanyane Position: AHoD Performance Improvement and Project manager	By when:31 March 2018

Auditor's conclusion

Management comment is noted. The finding relates to a limitation as the information was not available for testing by the audit team. The limitation is assessed to be material and this will result in a modified audit opinion for the reported target in the auditor's report.

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47. Misstatements of the validity, accuracy and completeness of local spend and total spend

Audit finding

The National Treasury Framework for Managing Programme Performance Information (FMPPI) requires that institutions have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Section 55 (2) (a) of the Public Finance Management act states that the annual report and financial statements must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year.

Section 54 (1) of the Public Finance Management Act 1 of 1999, states that the accounting authority for a public entity must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.

Indicator one: % procurement spend locally

A. Numerator (local spend)

The following local supplier registration certificates were not provided for audit purposes:

No.	Supplier name	Vendor no.	Amount (R)
1	Baileus Properties P2 (Pty) Ltd	CPTBASIL	609 987
2	SOUTH AFRICAN REVENUE SERVICES	EFTA22	208 216 740
3	Vacances (Pty) Ltd t/a Club Med	JNBC139	512 399
4	The City of Cape Town	JNBC330	1 282 186
5	Digital Activation (Pty) Ltd	JNBD116	640 126
6	DEPT OF HOME AFFAIRS	JNBD208	1 770 000
7	Ethekwini Municipality	JNBE129	910 505
8	Faculty Training Institute	JNBF102	583 318
9	HEMINGWAYS HOTEL	JNBH199	438 124
10	KEMPTON PARK TOWN COUNCIL	JNBK10	58 263 086
11	Praxos 250 CC	JNBP210	440 050
12	S.A.CIVIL AVIATION AUTHORITY	JNBS412A	84 682 343
13	WINGS CORPORATE SERVICES	JNBW100	2 460 459
TOTAL:			**360 809 323**

This results in a deviation rate of 59% and material misstatement of the validity and accuracy of the indicator.

B. Denominator (total spend)

The following documents were not provided for audit purposes

No.	Supplier name	Vendor no.	Amount (R)
1	WORLD FUEL SERVICES, LTD.	AFOB007	429 537 470
2	KUWAIT PETROLEUM	AFOB023	274 069 530
3	Oilibya Senegal	AFOB043	95 541 864
	TOTAL:		**799 148 864**

This results in a deviation rate of 19% and material misstatement of the validity and accuracy of the indicator

The following invoices could not be traced to the total spend listing:

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No.	Supplier name	Invoice no.
1	Skyway Aviation handling company	SI-5527
2	Federal Airport Authority of Nigeria	91918055
3	Emirates Taxi L.L.C.	16011308
4	AON insurance Company	ND12102
5	SITRACOM	201/2016
6	International Aero Engines	97524238

This results in a deviation rate of 22% and material misstatement of the completeness of the indicator

Internal control deficiency

Financial and performance management

The Manager Accounts Payable/ SAP Admin Manager, GSM did not ensure that all requested documents are provided for audit purposes.

Furthermore, the Logistics Manager, Information Technology & Services ERP did not ensure that the reports extracted are complete.

Recommendation

The Manager Accounts Payable/ SAP Admin Manager, GSM should provide all requested information for audit purposes.

The Logistics Manager, Information Technology & Services ERP should ensure that the spending reports drawn are valid, accurate and complete and that all SAP report system errors are detected and corrected.

Management response

Management comment on audit finding:

Part A:

We do not accept the finding for the following suppliers:

1) South African Revenue Services, Department of Home Affairs, The city of Cape Town, EThekwini Municipality, Kempton Park Town Council, and S.A. Civil Aviation Authority are Government Institutions and will not have Company Registration documents.
2) Faculty Training Institute, CSD report attached herewith
3) Wings Corporate Services, copy of Company Registration attached herewith.

We accept finding. Local supplier registration certificates were not provided for audit purposes. Record keeping has been a challenge. The Information Management Committee (IMC) is appointed by the ACPO to develop and implement the storage system for GSM department.

- Baileus Properties
- Vacances (Pty) Ltd t/a Club Med

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- Digital Activation (Pty) Ltd
- Hemingways Hotel
- Praxos 250 cc

Part B:

We do not accept the finding. Invoices attached.

1) World Fuel Services, Ltd.
2) Kuwait Petroleum
3) Oilibya Senegal

We accept the finding. Invoices could not be traced to the spend listing:

There is a pending IT ERP project to develop a reporting solution which would improve data accuracy and listing, but was not approved due to company financial constraints.

Management comment on internal control deficiencies:

We accept internal control deficiencies for the finding accepted and that proper record keeping measures by SAP Admin Manager, GSM will be implemented to ensure relevant and accurate information is accessible and available to support financial and performance reporting.

GSM SAP Admin will update and maintain data to be valid, accurate and that all SAP report system errors are detected and corrected. GSM Supplier Development will produce reports and validate its accuracy with Finance Accounts Payable and Information Technology & Services ERP- Finance before publishing.

Management comment on recommendation:

We accept recommendations for the SAP Admin Manager, GSM to provide all requested information for audit purposes.
We do not accept the recommendation for the Manager Accounts Payable. All information requested from Manager Accounts Payable is provided.
We do not accept the recommendation addressed to the Logistics Manager, Information Technology & Services ERP, but that SAP Admin needs to update and maintain data to be valid, accurate and that all SAP report system errors are detected and corrected. GSM Supplier Development will produce reports and validate them with Accounts Payable and Information Technology & Services ERP- Finance before publishing the reports.

Remedial action :

Refer below

What actions will be taken:	**By whom:**	**By when:** December 2017 or as soon as the budget is available.
1. The Information Management Committee (IMC) is appointed by the ACPO to develop and implement the storage system for GSM department. 2. The SAP Admin team will	Person: Nico Mookeletsi/ Reinette Slabbert/ Tumelo Mangena and Hester Kleinhans Position	

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ensure that data updated on SAP FI is supported by scanned documents for record keeping. 3. SAP Admin will also ensure that the vendor master data is cleaned and correctly captured. Refresher training will be provided. 4. GSM will approach IT ERP for the SAP reporting solution. 5. GSM Supplier Development will produce reports and validate them with Accounts Payable and Information Technology & Services ERP-Finance before publishing the reports.		

Auditors' conclusion

Part A

Management's comments are noted. We have inspected the additional submissions of the registration certificates subsequently submitted by management and accepted that for the entities the registered entities.

We also accepted that for the government organizations such as SARS and Department of Home Affairs, can be confirmed as they were established through legislation and alternatively their existence could be confirmed.

The remaining documents that were not submitted present an extrapolated error rate of 30% to the entire population of local expenditure. The error remains material and will result in a modified opinion on the reported target of the % percentage procurement spent.

Part B

Information remains not submitted to the team and the misstatement is still valid. The misstatement rate is above our acceptable threshold and this will lead to a modified auditor's opinion on the reported target.

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48. Misstatements on the validity, accuracy and completeness of BEE compliant spend

Audit finding

The National Treasury Framework for Managing Programme Performance Information (FMPPI) requires that institutions have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets

Section 55 (2) (a) of the Public Finance Management act states that the annual report and financial statements must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year.

Indicator two B- BBEE spend as a % of local eligible spend - Numerator

- The BEE certificates provided below did not have a validity period within the financial year:

No	Vendor no.	Supplier name	Validity period		Amount (R)
1	AFOS004	SHELL SOUTH AFRICA (PTY) LTD.	11-Apr-17	10-Apr-18	1 030 204 027
2	AFOS012	CALTEX OIL SA (PTY) LTD	07-Apr-17	06-Apr-18	258 369 496
3	EFTA19	AVIATION CO ORDINATION SERVICE	'05-Sep-13	04-Sep-14	100 636 710
4	JNBA248	Air Traffic and Navigation	20-Apr-13	19-Apr-14	97 613 095
5	JNBA248	Air Traffic and Navigation	20-Apr-13	19-Apr-14	227 881 639
TOTAL:					**1 714 704 967**

This results in a deviation rate of 19% and material misstatement on the validity and accuracy of the indicator.

- The BEE certificates below could not be traced to the BEE compliant spend listing:

No.	Certificate no.	Supplier name	Validity period	
1	N/A	Bidvest Waltons	14-Sep-16	13-Sep-17
2	G16J02382	Auditor General South Africa	02-Jun-16	01-Jun-17
3	N/A	Rainmaker Communications	17-Nov-16	[redacted]
4	EMELOS058711	Motalane Kgariya Incorporated	27-Jul-16	19-Jan-17
5	CVP/07188/R_REV.3	Tola Technical Solutions (Pty) Ltd	20-Mar-16	19-Mar-17
6	N/A	COURAGE2CHANGE	08-Jun-15	[redacted]
7	G14P00090	Armscor (SOC) Ltd	11-Feb-15	10-Feb-16
8	01/B-BBEE/2015/00233/GEN	Legadima Personnel (Pty) Ltd	30-Apr-15	29-Apr-16
9	BEE/GP01/07052015	Grande Provence Properties	07-May-15	06-May-16
10	GEN/S01/15/12/2016	Forrester Vineyards (Pty) Ltd	15-Dec-16	14-Dec-17
11	GEN-BBEE/SFP2016/01	Spoor and Fisher	23-May-16	22-May-17
12	EMEL3/6216/080115	Good Morning Logistics and Trading	03-Jul-16	02-Jul-17
13	G16J02286	Mindworx Consulting (Pty) Ltd	16-May-16	15-May-17

- The supplier below was included as part of BEE compliant spend, however the BEE status on the BEE certificate is "non-compliant contributor":

No.	Certificate no.	Supplier name	Validity period	
1	G16J02613	ADT Security (Pty) Ltd	19-Dec-16	18-Dec-17

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This results in a deviation rate of 56% and material misstatement on the completeness of the indicator

Internal control deficiency

Financial and performance management

The SAP Admin Manager, GSM did not ensure that all requested documents are provided for audit purposes.

Furthermore, the Logistics Manager, Information Technology & Services ERP did not ensure that the reports extracted are complete.

Recommendation

The SAP Admin Manager, GSM should provide all requested information for audit purposes.

The Logistics Manager, Information Technology & Services ERP should ensure that the spending reports drawn are valid, accurate and complete and that all SAP report system errors are detected and corrected

Management response

Management comment on audit finding: Part A I) **We do not accept the finding of the following** (supporting documents attached): Shell South Africa (Pty) Ltd and Caltex Oil SA (Pty) Ltd **We accept the finding of the following:** Aviation Co Ordination Service and Air Traffic and Navigation BEE certificates provided did not have a validity period within the financial year. 1. The Information Management Committee (IMC) is appointed by the CPO to develop and implement the storage system for GSM department. II) **We accept the finding** III) **We do not accept the finding** (supporting documents attached): ADT Security (Pty) Ltd
Management comment on internal control deficiencies: **We accept internal control deficiencies for the finding accepted** and that proper record keeping measures by SAP Admin Manager, GSM will be implemented to ensure relevant and accurate information is accessible and available to support financial and performance reporting.

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GSM SAP Admin will update and maintain data to be valid, accurate and that all SAP report system errors are detected and corrected. GSM Supplier Development will produce reports and validate its accuracy with Finance Accounts Payable and Information Technology & Services ERP- Finance before publishing.
Management comment on recommendation: **We accept recommendations** for the SAP Admin Manager, GSM to provide all requested information for audit purposes. **We do not accept** the recommendation addressed to the Logistics Manager, Information Technology & Services ERP, but that SAP Admin needs to update and maintain data to be valid, accurate and that all SAP report system errors are detected and corrected. GSM Supplier Development will produce reports and validate them with Accounts Payable and Information Technology & Services ERP-Finance before publishing the reports.
Remedial action : Refer below

What actions will be taken:	**By whom:**	**By when:** December 2017 or as soon as the budget is available.
1. The Information Management Committee (IMC) is appointed by the ACPO to develop and implement the storage system for GSM department. 2. The SAP Admin team will ensure that data updated on SAP FI is supported by scanned documents for record keeping. 3. SAP Admin will also ensure that the vendor master data is cleaned and correctly captured. Refresher training will be provided. 4. GSM will approach IT ERP for the SAP reporting solution. 5. GSM Supplier Development will	Person:Nico Mookeletsi/ Reinette Slabbert/ Tumelo Mangena and Hester Kleinhans Position	

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produce reports and validate them with Accounts Payable and Information Technology & Services ERP-Finance before publishing the reports.		

Auditors' conclusion

Management's response is noted. Additional documents submitted by managements have been considered.

The remaining misstatement rate on the BEE spent listing still remained material at 56%, and thus a modified opinion will be reported for this target..

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49. Misstatements on total procurement spend, local spend and spend on BEE compliant companies listings

Audit finding

The National Treasury Framework for Managing Programme Performance Information (FMPPI) requires that institutions have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets

Section 55 (2) (a) of the Public Finance Management act states that the annual report and financial statements must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year.

Objective one: Support national developmental agenda	
Indicator one	% procurement spend locally
Indicator two	B- BBEE spend as a % of local eligible spend

A. Discrepancies in the listing of procurement spend total

The listings for total procurement spend, local spend and spend on BEE compliant companies as per SAP were obtained and reviewed. Below is a summary of misstatements on the listing.

- Inclusion of payments to employees, payments made on one time vendor accounts and related parties.

No.	Employee name	Vendor no.	Amount
	One time vendors (OTV)		
1	EFT PAYMENTS	CP300	119 256 385
2	1-TIME PAYMENT	CSH01	15 697 440
3	1-TIME PAYMENT	CSH02	4 867 111
4	London OTA – Cheque	LONZ02	429 416
5	LONDON OTA – EFT	LONZ70	31 639 932
6	New York One Time Account	NYCZ01	66 193 079
6	FRANKFURT ONE TIME ACCOUNT	DEZ01	94 258 141
	SA Express/ Airlink		
1	SA AIRLINK	EFTS01	2 663 488 744
2	SA EXPRESS AIRLINES	EFTS03	1 770 812 546
3	PUMA ENERGY AVIATION LLC	PUMSAX	14 755 091
4	SASOL OIL PTY LIMITED	SASSAX	36 337 061
5	Shell South Africa (Pty) Ltd	SHDSAX	114 726 387
6	World Fuel Tramp Oil Aviation	TAMSAX	15 770 321
7	Air Total International	TITSAX	150 806
8	Total South Africa (Pty) Ltd	TOTSAX01	26 753 774
	Employee payments		
1	Du Toit.N	CBL664N	600
2	Nici Van Rensburg	JNBN15	64 525
3	Mr. T. J. Atkinson	LONA71	162 431
4	L.D Silva	LOND13	57 409
5	Alessia Andretta	LONE29	8 709
6	R.Glew	LONG04	249 251
7	Matthew Parr	LONM07	9 929
8	Richard Midgley	LONM85	2 850
9	Angela Price	LONP80	65 236
10	T.Robertson	LONR53	37 402
11	Michael Stevenson	NYCS56	163 112
12	Mphuroku Aphane	X14181	12 817
13	N Daule	X41026	184

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No.	Employee name	Vendor no.	Amount
TOTAL:			4 975 970 688

- Foreign companies included as part of local spend

No.	Supplier name	Vendor no.	Vendor type	Amount (R)
1	Engen Namibia	AFOB041	Foreign company	5 152 097
2	DTI software FZ-LLC	OJNBD45	Foreign company	511 533
3	Eurocontrol	OJNBE10	Foreign company	100 268 084
TOTAL:				105 931 714

- Suppliers with a BEE status of NC included as part of BEE compliant spend

No.	Supplier name	Vendor no.	BEE status	Amount (R)
1	Kimberley Clark SA	IFSC80	NC	2 692 859
2	SMS Aviation	JNBA110	NC	249 660
3	Aquazania	JNBA282	NC	10 518
4	Brand Inscentives (Pty) Ltd	JNBB28	NC	25 616
5	INCE (Pty) Ltd	JNBI82	NC	666 073
6	Mobile @ Work (Pty) Ltd	JNBM025	NC	596 395
7	Osgard Media	JNBO46	NC	1 311
TOTAL:				4 242 432

B. Completeness of the procurement spend listing

Only spending incurred for company code 1010 was included as part of the listing. Spending relating to 1000, 1020 and 1030 were not included in the listing.

This will result in misstatement of the listings provided by management resulting in misstatements of the reported indicators.

Internal control deficiency

Financial and performance management

The Specialist Supplier Development | Global Supply Management did not perform quality checks on the listings extracted from SAP.

Furthermore, the Logistics Manager, Information Technology & Services ERP did not ensure that the spending reports are appropriately drawn.

Recommendation

The following preventative, detective and corrective controls should be implemented by the Specialist Supplier Development | Global Supply Management:

- Perform quality control checks and review the listings generated to identify and exclude the following:
  - One time vendor payments including payments made to employees as well as reimbursements to clients
  - Revenue payments made to SA Express and Airlink for tickets sold on their behalf
  - Fuel purchased on behalf of SA Express

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- Foreign suppliers from local spend
- Non- compliant companies from BEE spend

- Ensure that the spending reports drawn include company codes 1000, 1010, 1020 and 1030
- Correct the items listed above and recalculate the actual achievement

The Logistics Manager, Information Technology & Services ERP should ensure that the spending reports are extracted as per the requirements from the Specialist Supplier Development.

The SAP Admin Manager, GSM should ensure that thorough review of the supplier added to the database is performed so as inaccuracies and discrepancies are identified and corrected.

Management response

Management comment on audit finding:

Part A

I. **We accept the finding.** Inclusion of payments to employees, payments made on one time vendor accounts and related parties. Incorrect capturing of the data on the system by administrators, lack of system maintenance and quality control checks.

II. **We accept the finding.** Foreign companies included as part of local spend. Incorrect capturing of the data on the system by administrators, lack of system maintenance and quality control checks.

1. Engen Namibia AFOB041
2. DTI software FZ-LLC OJNBD45
3. Eurocontrol OJNBE10

III. Suppliers with a BEE status of NC included as part of BEE compliant spend. Incorrect capturing of the data on the system by administrators, lack of system maintenance and quality control checks.

We accept the finding for the following:

1. SMS Aviation JNBA110
2. Brand Inscentives (Pty) Ltd JNBB28
3. INCE (Pty) Ltd JNBI82
4. Osgard Media JNBO46

We do not accept the finding for the following: (Supporting documents attached)

1. Kimberley Clark SA IFSC80
2. Aquazania JNBA282
3. INCE (Pty) Ltd JNBI82
4. Mobile @ Work (Pty) Ltd JNBM025

Part B

I) **We accept the finding.** Only spending incurred for company code 1010 was included as part of the listing.

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Spending relating to 1000, 1020 and 1030 were not included in the listing. Total reliance on the report was as a result of the SAP system intelligence to produce correct reports. There was no predetermined listing of transactions to exclude, but the notion that all transaction with vendor numbers and value are included. Recently developed with PMO the definitions of the KPI to guide the extraction process. Quality Checks will be done on the report.		
Management comment on internal control deficiencies: **We accept internal control deficiencies for the finding we accepted.** And that proper record keeping measures by SAP Admin Manager, GSM will be implemented to ensure relevant and accurate information is accessible and available to support financial and performance reporting. GSM SAP Admin will update and maintain data to be valid, accurate and that all SAP report system errors are detected and corrected. GSM Supplier Development will produce reports and validate its accuracy with Finance Accounts Payable and Information Technology & Services ERP- Finance before publishing.		
Management comment on recommendation: **We accept recommendations** for the SAP Admin Manager, GSM to provide all requested information for audit purposes. **We do not accept** the recommendation addressed to the Logistics Manager, Information Technology & Services ERP, but that SAP Admin needs to update and maintain data to be valid, accurate and that all SAP report system errors are detected and corrected. GSM Supplier Development will produce reports and validate them with Accounts Payable and Information Technology & Services ERP-Finance before publishing the reports.		
Remedial action : Refer below.		
What actions will be taken: 6. The Information Management Committee (IMC) is appointed by the ACPO to develop and implement the storage system for GSM department. 7. The SAP Admin team will ensure that data updated on SAP FI is supported by scanned	**By whom:** Person: Nico Mookeletsi/ Reinette Slabbert/ Tumelo Mangena and Hester Kleinhans	**By when:** December 2017 or as soon as the budget is available.

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documents for record keeping. 8. SAP Admin will also ensure that the vendor master data is cleaned and correctly captured. Refresher training will be provided. 9. GSM will approach IT ERP for the SAP reporting solution. 10. GSM Supplier Development will produce reports and validate them with Accounts Payable and Information Technology & Services ERP-Finance before publishing the reports.		

Auditors' conclusion

Managements accepted the finding raised on various deficiencies identified in the listing used for calculation of the two indicators for objective: Support national developmental agenda.

The misstatements considered with the sampling misstatements identified above on the two indicators are material and pervasive. These considered with the misstatements above will result in a modified opinion for the two indicators.

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ANNEXURE B: OTHER IMPORTANT MATTERS

FINANCIAL STATEMENT RELATED FINDINGS

Property, plant and equipment

50. Differences between the values capitalised on the Fixed Asset Register (FAR) and the documentation provided to support the values

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act 1 of 1999, states that "*An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*".

IAS 16 paragraph 7 of the International Financial Reporting Framework (IFRS) defines the cost of an asset as *"the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs"*.

IAS 8 Paragraph 42 states that "Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented."

During the audit of property, aircraft and equipment, the following differences were noted between the values recognised on the Fixed Asset Register (FAR) and the invoices provided to support the values:

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No	Asset	Date capitalised	Description	Serial no.	Acquis. Val.	Supplier	Invoice Number	Invoice Date	Invoice amt.	Difference between invoice and acquisition value
1	2900000120	2016/03/31	Collapsible Water Ballast Tank (900 litre)	605555	52 532.42	TURTLE PAC PTY LTD	4767	22/08/2015	21 684.00	30 848.42
2	3800000991	2014/04/30	Furniture for Revamp of Auditorium AWP	C/1793	309 749.28	SAA JNB Projects Invoicing	291	30/09/2013	407 081.63	(97 332.35)
3	3800000992	2014/04/01	Furniture for Centralization of Group Security	C/1764	359 382.28	Hollis System Zwane CC	10211	29/02/2016	145 732.80	213 649.48
						Gxakwe Projects	2117	23/03/2015		
4	3800000964	2013/05/01	Various Furniture for Revamp of Domestic Restroom	C/1770 -03	331 588.59	Spacio Offices Dezigns CC	202863	06/05/2013	38 934.24	292 654.35
							202852	17/04/2013		
						Lectron Manufacturing CC	2540	17/04/2013		
5	3800000853	2010/05/31	Furniture:ORTIA First & Business Class Lounge:2010	C/0968 -03	3 274 644.97	MGCO Exterior Furniture	324	26/01/2010	113 127.02	3 161 517.95
							316	02/02/2010		
							255	26/01/2010		
						Fundametal Designs	2789	15/02/2010		
						MAC BROTHERS CATERING EQUIP S(PTY)LTD	126728	16/04/2010		
						Fundametal Designs	2636	04/08/2009		
						Home Fabrics	101001338	01/02/2010		
6	3100000810	2012/04/01	CCTV Upgrade for Airways Park	C/1015	6 066 487.00	AV Enforce Electronics (Pty) Ltd	2540	09/01/2009	5 167 850	898 637.00
7	2300001052	2010/03/31	1.6kg 3000 ANSI Luminescent Projector;		10 575.00	Mustek Limited	336635	2010/03/23	12 500.00	(1 925.00)

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			XGA, USB							
8	2300001196	2013/12/11	6 Floor Projector Upgrade Incl Winscribe Training	605441	80 022.81	OMEGA Digital Technologies (Pty) Ltd	862	29/11/2013	110 057.49	(30 034.68)
9	2500001495	2014/12/31	Atlas LWT HS Meal Trolleys SA3001 (385 off)	C/1826 -02	2 392 016.95	Zodiaxc Aerospace Aircatering Equipment	20922701	29/10/2014	5 879 812.63	(3 487 795.68)
10	2701002072	2014/05/31	ME407 Apple iPAD 128Gig WI-Fi with 3G incl Front	C/1776	8 070.19	Gijima Technology People	90185060	17/02/2014	6 725 160.00	(6 717 089.81)
11	2700001098	2014/08/07	Webmarshall Server Fujitsu RX3007S7 6x3.5	605430	69 334.31	SITA Information Networking Computing BV	721630	14/01/2014	155 995.92	(86 661.61)
TOTAL					12 954 403.80				18 777 935.73	(5 823 531.93)

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This will result in a projected understatement of the opening balance of property, aircraft and equipment of R 225 467 599.60 and a projected understatement of accumulated depreciation and a consequential impact on retained earnings of R 147 320 950.50. This will also result in an understatement of the prior period error disclosure note by an undeterminable amount.

Internal control deficiency

Financial and performance management

The divisional financial controller did not ensure that complete, relevant and accurate information is accessible and available to support assets which are capitalised in the fixed asset register.

The divisional financial controller did not review the fixed asset register to ensure that the values capitalised agree to supporting documentation.

The asset register is not kept in a manner that enables the information that is recorded in the assets register to be easily retrievable when requested for audit.

Recommendation

The divisional financial controller should review the asset register to ensure that the values capitalised for assets recognised on the register are supported by invoices or equivalent purchase documentation.

The divisional financial controller should ensure that the fixed asset register is revisited to correct the misstatements so than not only the misstatements identified through the audit process are corrected. The corrections should thereafter be included in the annual financial statements in the form of a prior period error disclosure note. Additional procedures will be performed to verify the corrections to the population of the fixed asset register.

Management response

Management comment on audit finding: This information is readily available and was provided to AGSA. The understanding of projects is complex and is best resolved by a face to face meeting. A reconciliation has been prepared for each item selected to demonstrate why there are differences between invoice values and amounts capitalised		
Management comment on internal control deficiencies: We disagree with this finding. Current year information is readily available.		
Management comment on recommendation: Will comment further when queries have been resolved The SAP workflow and procedures ensure that the amounts capitalized is supported by documentation		
Remedial action : None required		
What actions will be taken:	By whom	By when:

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	Person: Position	

Auditor's conclusion

Management comments are noted, a meeting was held on 18 September 2017 to engage face to face with regards to the differences noted in this finding. We have received invoices on 20 October 2017 and 23 October 2017 and this information.

The invoices received were audited and no further differences were identified the finding has been resolved however it will be included in the management report as a significant internal control deficiency relating to poor record keeping at SAA.

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51. Maintenance expenses incorrectly capitalised as assets in the Fixed Asset Register (FAR)

Audit Finding

Section 51 (1) (a) (i) of the Public finance management Act 1 of 1999, states that *"an accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control".*

Section 3.2.12 of the Fixed Assets Finance policy states that *"Major inspections: SAA have identified D-checks as overhaul costs that should be capitalised and depreciated. Other maintenance costs like C checks would be expensed when incurred .Replacement parts: The Aircraft engine consists of life limited parts which will require to be replaced by new ones during the useful life of the engine. These parts have not been recognised as a separate component of the aircraft as its costs are insignificant in proportion to the total costs of the aircraft".*

IAS 8 Paragraph 42 states that *"Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented."*

IAS 1 paragraph 40A of IFRS states that *"An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum*

comparative financial statements required in paragraph 38A if: (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and (b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period."

Section 5.1.1 of the Fixed Assets Finance Policy states that the useful life of an engine is 15 years and the useful life of a D-check is 5 years.

A decision was made by management to capitalise major maintenance and overhauls. This decision however is not documented in the fixed asset finance policy.

It was further clarified that the expenses are capitalised in terms of the accounting policy which states that *"Owned aircraft: Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the expected life between major overhauls. All other replacement spares and other expenditure relating to maintenance of owned fleet assets is charged to profit or loss on consumption or as incurred."*

A major maintenance is however not defined in the accounting policy, as per the fixed asset policy major maintenance which qualifies to be capitalised are the D checks. The accounting policy in the financial statements does not include details of what is major maintenance and overhauls which are being capitalised by SAA.

During the audit of property, aircraft and equipment opening balances it was noted that maintenance events which are not D-checks have been recognised as assets in the FAR. The following expenses which are not D-checks were incorrectly capitalised to the FAR:

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No.	Asset	Capitalized on	Description	Acquis.val.	Accum.dep.	Book val.
1	3601000303	2012/04/01	MAINTENANCE: F PAYMENT ENGINE REPAIR : S/N 567233	8 232 274.00	(6 629 994.64)	1 602 279.36
2	3601000306	2012/04/01	MAINTENANCE: PAYMENT REPAIR ENGINE : S/N 567233	9 989 467.00	(8 045 178.32)	1 944 288.68
3	3601000361	2013/04/01	Payment for Repair Engine V11921	9 553 681.03	(5 459 246.31)	4 094 434.72
4	3601000341	2012/11/01	MAINTENANCE: REPAIR ENGINE : S/N 567324	10 711 215.00	(6 678 757.59)	4 032 457.41
5	3601000364	2013/06/01	Prelim payment 567269	14 554 160.27	(7 876 369.09)	6 677 791.18
6	3601000365	2013/06/01	Repair Engine ESN 567269	12 018 910.29	(6 504 351.45)	5 514 558.84
7	3601000380	2014/02/28	REPLACE BLADES - ENGINE 42016	45 842.00	(29 033.27)	16 808.73
8	3601000338	2012/09/01	MAINTENANCE: REPAIR ENGINE : S/N 567299	22 616 812.00	(14 634 407.80)	7 982 404.20
Total				**87 722 361.59**	**(55 857 338.47)**	**31 865 023.12**

This will result in a projected overstatement of property, aircraft and equipment of R201 980 766.56 and a related overstatement of retained earnings of R201 980 766.56 as well as a consequential projected overstatement of accumulated depreciation of R139 855 799.36. The prior periods' annual financial statements (not just the comparative year of 2015/16) are also misstated. The adjustment should be accounted for as a prior period error in the financial statements in line with IAS8. SAA will also have to show a third balance sheet due to the prior period error (retrospective restatement) in terms of IAS1 par 40A.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller did not assess the expenditure related to maintenance to confirm that the expense is a qualifying asset in terms of the fixed assets finance policy before capitalising the asset to the FAR.

The Divisional Financial Controller implemented decisions with regard to capitalisation of maintenance expenses without defining which major maintenance expenses qualify for capitalisation. This decision was made in contravention of the current approved fixed assets finance policy of SAA.

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The Financial Controller implemented decisions with regard to capitalisation of maintenance costs without updating the fixed assets finance policy.

The Financial Controller capitalises major maintenance and overhauls without proper understanding of the definition of what a major maintenance event is and what qualifies to be capitalised.

The accounting policy included in the annual financial statements is not clear what costs are qualifying major maintenance at SAA.

Recommendation

The Divisional Financial Controller should update the fixed assets finance policy to indicate clearly which major maintenance qualifies for capitalization on the FAR based on the accounting policy choice of SAA. The policy should also indicate which maintenance costs are not qualifying major maintenance expenses so that only qualifying major maintenance costs are capitalised.

Qualifying major maintenance should be clearly defined and elaborated in the policy to ensure that all the accountants within the fleet department will be able to draw the same conclusions as to whether a maintenance cost is qualifying expenditure or not when inspecting the relevant invoices and work scope.

The Divisional financial controller should revisit the population of all maintenance costs which are capitalised incorrectly to the assets and disclose the correction as a prior period error as required by IAS 1 and IAS 8.

Management response

Management comment on audit finding: Capitalisation of major maintenance is in terms of the accounting policies as stated in the annual financial statements. We agree that the fixed assets finance policy must be updated.		
Management comment on internal control deficiencies: We agree that the fixed assets finance policy must be updated.		
Management comment on recommendation: Management agrees that the fixed assets finance policy must be updated.		
Remedial action : Update the fixed assets finance policy		
What actions will be taken: Update the fixed assets finance policy	By whom Person: Pierre de Villiers Position Controller	By when: 30 September 2017 proposed amendment to the policy Approval as soon as possible after this date

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Auditor's conclusion

Management response is noted, the finding has been resolved. We inspected the financial statements submitted on 27 November 2017 and confirmed that the accounting policies in the AFS were updated to clearly distinguish the maintenance that is capitalised by SAA.

The finding will be reported as significant internal control deficiency in the management report and audit report as management lack appropriate competence and skills to prepare the financial statements in accordance with the requirements of IFRS. The corrections in the accounting policies were made as a result of the audit process.

52. Operating expenditure incorrectly capitalised in Capital Work in Progress (CWIP) account

Audit finding

The conceptual framework for financial reporting paragraph 4.4 (a) of the International Financial Reporting Standards (IFRS) defines an asset as *"a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity."*

IAS 16 paragraph 16 of the IFRS states that "*The cost of an item of property, plant and equipment comprises: (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management."*

IAS 16 paragraph 17 of IFRS lists the examples of directly attributable costs as:

(a) costs of employee benefits (as defined in IAS 19 Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment;

(b) costs of site preparation;

(c) initial delivery and handling costs;

(d) installation and assembly costs;

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

(f) professional fees."

IAS 16 Paragraph 21 of IFRS states that: "Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, income may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations

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are recognised in profit or loss and included in their respective classifications of income and expense."

IAS 8 Paragraph 42 states that "*Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.*"

IAS 1 paragraph 40A of IFRS states that "An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements required in paragraph 38A if: (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and (b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.

The CWIP account of South African airways SOC LTD is disclosed in the financial statements as part of PAE and is used for the recognition of assets that are not as yet available for use, it was identified that this account is used to record expenditures for items of PAE and intangible assets. This accounting treatment results in classification inconsistencies of the intangible assets and items of PAE.

During the audit it was noted that the following items capitalised in capital work in progress do not meet the definition of asset and do not constitute as qualifying expenses to be capitalised as required by both the conceptual framework for financial reporting and IAS 16 respectively:

No.	Asset	Capitalisation date	Description	Acquis. Val.	Audit finding	Management comment
1	9900006872	01-10-11	Flight Expenses	1 398 357.66	The flight expenses include flights, travel time as well as incidental costs. These should not be included in capital work in progress as they are not directly attributable to the construction or development of the item of PAE to be in the manner to be operated as intended by management. .	The flight expenses were paid to ensure that representatives of the supplier of AMOS could travel to South Africa to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. We consider these costs directly attributable costs as defined in IAS paragraph 16 specifically being: (d) installation and assembly costs and (e) costs of testing whether the asset is functioning properly
2	9900008148	01-04-13	Hotel Accommodation	157 658.64	This is an incidental cost and it is not directly attributable to	The Hotel Accommodation

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No.	Asset	Capitalisation date	Description	Acquis. Val.	Audit finding	Management comment
					the construction or development of the item of PAE to be in the manner to be operated as intended by management. This should be excluded from capital work in progress and appropriately expensed.	expenses were paid to ensure that representatives of the supplier of AMOS could stay in South Africa to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. We consider these costs directly attributable costs as defined in IAS paragraph 16 specifically being: (d) installation and assembly costs and (e) costs of testing whether the asset is functioning properly
3	9900008694	31-05-14	Amadeus Monthly Billing Charges	16 725 216.64	Amadeus is a service provider which runs the reservation of tickets process in South African Airways. This billing charge relating to the service being provided should be expensed not included in capital work in progress as there is no related assets which the monthly charge relates to.	Management is in agreement that the asset should have been classified as an Intangible Asset. The costs are capital in nature as they were paid to Amadeus to migrate information, develop, modify and custom design (development phase) of the APRA system for SAA – the R16.7m paid was for the customisation of the system by Amadeus (the owner of the software/module). The costs meet the requirements for capitalisation as management can prove the following: • the technical feasibility of completing the intangible asset (so that it will be available for use or sale) • intention to complete and use the asset • ability to use the asset • the usefulness of the asset • availability of adequate

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No.	Asset	Capitalisation date	Description	Acquis. Val.	Audit finding	Management comment
						technical, financial, and other resources to complete the asset • the cost of the asset can be measured reliably. The customisation of the system is declared an intangible asset as SAA will enjoy the benefits over a period of time exceeding one year similar to website development costs. This approach was adopted in line with the matching principles of accounting as benefits will be derived over time and the asset will be amortised over such useful life. SAA capitalised these development costs and amortised it over the period of the agreement with Amadeus.
Total				18 281 232.94		

This will result in a projected overstatement of PAE by R 66 272 682 .16and a consequential understatement of the operating expenses and the retained earnings by the same amount. The prior periods' annual financial statements (not just the comparative year of 2015/16) are also misstated as these expenses date as far back as 01 January 201. This will possibly increase the impact on the current projected misstatement as noted above, as other expenses of this nature may have been capitalised in prior years. This adjustment should be accounted for as a prior period error in the financial statements in line with IAS8. SAA will also have to show a third balance sheet due to the prior period error (retrospective restatement) in terms of IAS1 par 40

Internal control deficiency

Financial and performance management

The divisional financial controller did not ensure that complete, relevant and accurate information is accessible and available to support expenditure recorded on the CWIP account.

The divisional financial controller did not review the CWIP account to ensure that what is capitalised on the CWIP account meets the definition of qualifying expenditure as required by IAS 16.

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One CWIP account is used for both PAE and intangible assets and the intangible assets in CWIP are not clearly differentiated from PAE as both have asset numbers that begin with "99".

There is a shortage of skills and competencies in the fixed assets management team of SAA to ensure that assets are recorded in line with the requirements of IFRS and are free from material misstatements. There is no evidence that the asset management team have been consistently trained on the IFRS requirements to enable them to comply with the accounting standards.

Recommendation

The divisional financial controller should review the CWIP account to ensure that what is capitalised on the CWIP account meets the definition of qualifying expenditure as defined in IAS 16.

PAE and intangible assets should be clearly differentiated in the fixed asset register in order to clearly distinguish between PPE CWIP and intangible assets CWIP to resolve the classification issues in this account.

The divisional financial controller should ensure that the CWIP account for the current and prior periods is revisited to correct the misstatements so that not only the misstatements identified through the audit process are corrected, thereafter additional procedures will be performed to verify the corrections to the population of the CWIP.

The Divisional financial controller should evaluate the skills and competencies of the asset management team and come up with the development plan and trainings which will enable the assets team to properly executive their duties in compliance with the IFRS requirements.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding:
Comments to justify why these costs should remain in Capital work in progress noted in the table above.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
We consider that the assets noted above are correctly stated as Capital work in progress however the CWIP will be categorised per asset class.</td></tr>
<tr><td colspan="3">Management comment on recommendation:
We consider that the assets noted above are correctly stated as Capital work in progress however the CWIP will be categorised per asset class.</td></tr>
<tr><td colspan="3">Remedial action :</td></tr>
<tr><td>What actions will be taken:
CWIP assets will be mapped to the correct asset class and disclosed as such in the AFS.
Population of CWIP will be revisited to ensure no incorrect classifications exist</td><td>By whom
Person: Pierre de Villiers
Position: Controller</td><td>By when: 6 October 2017</td></tr>
</table>

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Auditor's conclusion

Management has not demonstrated whether the costs incurred regarding AMOS were incurred during the development phase or the research phase. This should be demonstrated by supporting documentation and not explanations

The expenses relating to Amadeus monthly billing charges do not meet the definition of the intangible assets as per IAS 38 as APRA system belongs to Amadeus and not SAA therefore the finding remain valid in this regard. The invoice that was inspected indicates that this is Amadeus monthly billing charge, management should provide documentary evidence to prove that the invoice is incorrect. Submitting comments which are not backed by evidence will not resolve the finding.

The projected impact of the expenses which are incorrectly included as part of CWIP as indicated in the finding will be included in the schedule of uncorrected misstatements and aggregated with other findings which are not individually material and will have an impact on the audit report of SAA

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53. Aircraft additions not componentised and depreciated as required by IAS 16 and the Fixed Asset Policy of the entity

Audit finding

IAS 16 Paragraph 14 of the International Financial Reporting Standards states that "*A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.*"

IAS 16 Paragraph 43 of the International Financial Reporting Standards states that "each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately."

Section 5.1.1 of the fixed Assets Finance Policy states that: "*The following table shows the components, useful life of the Aircraft that should be applied at SAA.*"

Components	Proposed useful lives
Airframe	20 years
Engine	20 years
Seats	15 years
Galleys/ toilets	20 years
In-flight entertainment	10 years
D - checks	5-8 years

During the 2016/17 financial year South African Airways (SAA) acquired 2 A340-300 aircrafts that were previously held on an operating lease agreement. The Aircrafts were acquired from Airbus for a purchase consideration of $ 7 Million each.

SAA did not componentise the aircraft illustrated in the table below as required by IAS 16.14, IAS16.43 and para. 5.11 of the Fixed Asset Finance Policy during the recognition of these to the fixed asset register.

Asset No.	3601000480	3601000481
Capitalized on	2016/05/19	2016/05/19
Description	AIRBUS A340-313 ZS-SXG	AIRBUS A340-313 ZS-SXH
Inventory number	ZS-SXG	ZS-SXH
Acquisition .value $	7 000 000.00	7 000 000.00
Acquisition value ZAR	109 970 000.00	109 970 000.00

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Accumulated depreciation	-20 161 166.67	-20 161 166.67
Book value	89 808 833.33	89 808 833.33

After further inspection of the maintenance schedules relating to the aircrafts mentioned above, it was noted that the next scheduled maintenance event (D-Check) is due to take place in 2017 and 2018 as indicated in the table below. The useful life of the qualifying maintenance event (D-Check) is thus less than 5 years. This is an indication that not all the components have useful lives of 5 years.

The planned major maintenance events are as follows:

Aircraft Registration	SXG_AFR_378	SXH_AFR_197
Date of Last D-Check	28-Sep-11	29-Nov-12
Anticipated date of Next D-Check	2-Jan-18	8-Nov-17
Date capitalised aircraft capitalised	May-16	May-16
No of months between capitalisation and the next maintenance event i.e. Useful life of the D-Check	19	17

This will result in an overstatement of assets with an indeterminable amount since at initial recognition of the aircrafts significant components were not identified and allocated separate useful lives and depreciated separately.

Internal control deficiency

Financial and performance management

The divisional financial controller did not apply the fixed asset finance policy and the requirements of the accounting standards with regard to the componentisation of aircrafts purchased. The divisional financial controller recognized the aircrafts in terms of an assessment that the aircraft will only be used for a period of 5 years.

There is no evidence to substantiate how the assessment to allocate useful life of five years to the entire aircraft was made.

Recommendation

The divisional financial controller should assess the significant costs of the aircraft and capitalise the significant components separately in the asset register in accordance with the policy and the accounting standards.

The divisional financial controller should estimate the value of the significant components such as engines, D check, seats, galleys and inflight entertainment among others and perform an assessment that is informed by available information that supports the usage of the aircrafts so that at the initial recognition and the depreciation of the aircrafts is correct and the aircrafts are appropriately valued at year end.

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Management's response

Management comment on audit finding: Agree with the finding.		
Management comment on internal control deficiencies: The five year assessment was a provisional assessment. This will be finalized when the fleet plan is finalized		
Management comment on recommendation: Agree		
Remedial action :		
What actions will be taken: The two aircraft will be componentized in the fixed asset register The Fixed Assets Finance Policy will be amended to reflect market related depreciation periods and residual values.	By whom Person: Pierre de Villiers Position: Controller	By when: As soon as possible. Awaiting final approval of fleet plan Aiming for 20 September 2017

Auditor's conclusion

Management response is noted, the finding has been resolved. We inspected the financial statements submitted on 27 November 2017 and confirmed that the aircrafts purchased were projected to be used for five years. We confirmed through the inspection of the approved fleet plan and confirmed that the accounting treatment followed by management was appropriate.

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54. Differences between the values in Capital Work in Progress (CWIP) and the documentation provided to support the values

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act 1 of 1999, states that "An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"

IAS 16 paragraph 7 of the International Financial Reporting Framework (IFRS) defines the cost of an asset as "the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs".

South African Airways SOC Ltd (SAA) recognises expenditure incurred relating to buyer furnished equipment (BFE), pre-delivery payments (PDPs) and other qualifying expenditure that relating to assets still being constructed to Capital Work in Progress (CWIP). These amounts are released from CWIP and recognised as part of the asset when the construction is complete.

During the audit of the CWIP account relating to property, aircraft and equipment and intangible assets it was noted that the CWIP account is used for the recognition of assets which are not available for use, and will therefore not be depreciated while classified to CWIP. The following differences were identified between the values recognised in the CWIP account and the invoices provided to support the values recorded in this account.

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Asset No.	Date capitalised	Description	Acquis. Value per register	Supplier name	Invoice Number	Invoice Date	Invoice amount USD	Exchange Rate used	Invoice amount R	Total Invoice amount R	Difference between Invoice and acquisition value
9900006872	2011/10/01	Flight Expenses	1 398 357.66	Swiss AviationSoftware Ltd	106122	2011/10/07	7 400.00	9.01289	66 695.39	7 188 283.84	(5 789 926.18)
				Swiss AviationSoftware Ltd	106392	2012/01/05	4 166.00	8.80687	36 689.42		
				Swiss AviationSoftware Ltd	106636	2012/03/23	11 400.00	8.38827	95 626.28		
				Swiss AviationSoftware Ltd	106649	2012/03/23	15 630.00	8.38827	131 108.66		
				Swiss AviationSoftware Ltd	106638	2012/05/23	19 000.00	8.38827	159 377.13		
				Swiss AviationSoftware Ltd	106637	2012/03/23	4 208.00	8.38827	35 297.84		
				Swiss AviationSoftware Ltd	106992	2012/05/29	812.00	8.71760	7 078.69		
				Swiss AviationSoftware Ltd	107101	2012/06/22	12 775.00	8.71760	111 367.34		
				Swiss AviationSoftware Ltd	107147	2012/07/13	15 660.00	8.46725	132 597.14		
				Swiss AviationSoftware Ltd	108038	2013/03/25	3 687.00	9.82676	36 231.26		
				Swiss AviationSoftware Ltd	108031	2013/03/25	3 000.00	9.82676	29 480.28		
				Swiss AviationSoftware Ltd	108016	2013/03/19	7 370.00	9.82676	72 423.22		

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Asset No.	Date capitalised	Description	Acquis. Value per register	Supplier name	Invoice Number	Invoice Date	Invoice amount USD	Exchange Rate used	Invoice amount R	Total Invoice amount R	Difference between invoice and acquisition value
				Hexaware Technologies Limited ,Dubai Branch	1602DUB 001	2016/02/29	48 948.00	15.39344	753 478.10		
				Hexaware Technologies Limited ,Dubai Branch	1602DUB 002	2016/02/29	889.00	15.39344	13 684.77		
				Hexaware Technologies Limited ,Dubai Branch	1602DUB 003	2016/02/29	30 800.00	15.39344	474 117.95		
				Swiss AviationSoftware Ltd	113080	2016/02/26	12 300.00	15.78902	194 204.95		
				Swiss AviationSoftware Ltd	113091	2016/02/26	146 960.00	15.78902	2 320 354.38		
				Swiss AviationSoftware Ltd	113081	2016/02/26	8 550.00	15.78902	134 996.12		
				Hexaware Technologies Limited ,Dubai Branch	1603DUB 001	2016/03/31	30 800.00	14.31421	440 677.67		
				Hexaware Technologies Limited ,Dubai Branch	1603DUB 002	2016/03/31	50 394.00	14.31421	721 350.30		
				Swiss AviationSoftware Ltd	114077	2016/08/18	10 330.00	14.29573	147 674.89		
				Hexaware Technologies Limited ,Dubai Branch	1608DUB 004	2016/08/31	27 410.66	13.76622	377 341.18		

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Asset No.	Date capitalised	Description	Acquis. Value per register	Supplier name	Invoice Number	Invoice Date	Invoice amount USD	Exchange Rate used	Invoice amount R	Total invoice amount R	Difference between invoice and acquisition value
				Hexaware Technologies Limited ,Dubai Branch	1608DUB 006	2016/08/31	887.40	13.76622	12 216.14		
				Hexaware Technologies Limited ,Dubai Branch	1701DUB 002	2017/01/31	981.35	13.04166	12 798.43		
				Hexaware Technologies Limited ,Dubai Branch	1701DUB 003	2017/01/31	50 886.00	13.04166	663 637.91		
				Hexaware Technologies Limited ,Dubai Branch	1702DUB 004	2017/02/28	552.00	13.72900	7 578.41		
99000081 48	2013/04/01	Hotel Accomodation	157 658.64	Hotel Victoria Citylike Basel	Proforma invoice	2013/04/23	490.50	9.82676	4820.03	691 269.69	(533 611.05)
				Hotel Victoria Citylike Basel	Proforma invoice	2013/04/23	327.00	9.78542	3199.83		
				Hotel Victoria Citylike Basel	Proforma Invoice	2013/04/23	327.00	9.78542	3199.83		
				Africa Footprints Guest House	6461	2016/02/29	-	-	180 050.00		
				Africa Footprints Guest House	6377	2016/01/29	-	-	261 300.00		
				Africa Footprints Guest House	6481	2016/04/01	-	-	74 750.00		
				Africa Footprints Guest House	6519	2016/05/06	-	-	79 300.00		
				Africa Footprints Guest House	6668	2016/05/30	-	-	46 150.00		
				Peermont Global (Pty) Ltd T/A Metcourt at Emperors Palace	Proforma invoice	2016/07/14	-	-	7 000.00		

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Asset No.	Date capitalised	Description	Acquis. Value per register	Supplier name	Invoice Number	Invoice Date	Invoice amount USD	Exchange Rate used	Invoice amount R	Total invoice amount R	Difference between invoice and acquisition value
				Peermont Global (Pty) Ltd T/A Metcourt at Emperors Palace	Proforma invoice	2016/07/19	-	-	8 750.00		
				Peermont Global (Pty) Ltd T/A Metcourt at Emperors Palace	Proforma invoice	2016/08/29	-	-	3 500.00		
				Peermont Global (Pty) Ltd T/A Metcourt at Emperors Palace	Proforma invoice	2016/09/20	-	-	7 875.00		
				Peermont Global (Pty) Ltd T/A Metcourt at Emperors Palace	Proforma invoice	2016/09/26	-	-	2 625.00		
				Peermont Global (Pty) Ltd T/A Metcourt at Emperors Palace	Proforma invoice	2016/10/17	-	-	8 750.00		
9900008690	2014/06/30	AMOS Technical Support	1 411 685.31	Hewlett Pakard SA	6497906	2014/06/30	-	-	54 971.63	389 798.18	1 021 887.13
				Hewlett Pakard SA	6497027	2014/05/30	-	-	10 580.27		
				Hewlett Pakard SA	6001957	2016/01/29	-	-	1 477.69		
				Enterprise Services South Africa	6008818	2016/12/15	-	-	17 700.05		
				Enterprise Services South Africa	6008949	2017/01/31	-	-	69 575.78		
				Enterprise Services South Africa	6009145	2017/03/31	-	-	95 492.76		
				Tshinisha Business Solutions (Pty) Ltd	SAA2014/04	2014/12/02	-	-	140 000.00		

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Asset No.	Date capitalised	Description	Acquis. Value per register	Supplier name	Invoice Number	Invoice Date	Invoice amount USD	Exchange Rate used	Invoice amount R	Total Invoice amount R	Difference between invoice and acquisition value
9900008691	2014/08/31	Memis Data Migration Server Infrastructu	28 142 610.74	Hexaware Technologies Limited ,Dubai Branch	1408DUB 001	2014/08/29	47 244.00	10.99382	519 392.03	10 700 933.58	17 441 677.16
				Hexaware Technologies Limited ,Dubai Branch	1409DUB 001	2014/09/30	47 244.00	10.99382	519 392.03		
				Hexaware Technologies Limited ,Dubai Branch	1410DUB 001	2014/10/31	47 244.00	10.99382	519 392.03		
				Hexaware Technologies Limited ,Dubai Branch	1410DUB 002	2014/10/31	50 394.00	10.98914	553 786.72		
				Hexaware Technologies Limited ,Dubai Branch	1411DUB 001	2014/11/30	47 244.00	11.61337	548 662.05		
				Hexaware Technologies Limited ,Dubai Branch	1412DUB 001	2014/12/31	47 244.00	11.54854	545 599.22		
				Hexaware Technologies Limited ,Dubai Branch	1412DUB 002	2014/12/31	50 394.00	11.54854	581 977.12		
				Hexaware Technologies Limited ,Dubai Branch	1501DUB 001	2015/01/31	47 244.00	11.54854	545 599.22		
				Hexaware Technologies Limited ,Dubai Branch	1502DUB 002	2015/02/28	47 244.00	12.01030	567 414.61		

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Asset No.	Date capitalised	Description	Acquis. Value per register	Supplier name	Invoice Number	Invoice Date	Invoice amount USD	Exchange Rate used	Invoice amount R	Total invoice amount R	Difference between invoice and acquisition value
				Hexaware Technologies Limited ,Dubai Branch	1503DUB 001	2015/03/31	47 244.00	12.15066	674 045.78		
				Hexaware Technologies Limited ,Dubai Branch	1502DUB 003	2015/02/28	50 394.00	11.85732	597 537.78		
				Hexaware Technologies Limited ,Dubai Branch	1504DUB 004	2015/04/30	47 244.00	11.85732	560 167.23		
				Hexaware Technologies Limited ,Dubai Branch	1505DUB 002	2015/05/31	47 244.00	11.85732	560 167.23		
				Hexaware Technologies Limited ,Dubai Branch	1507DUB 001	2015/07/31	47 244.00	13.02034	615 132.94		
				Hexaware Technologies Limited ,Dubai Branch	1509DUB 001	2015/09/30	47 244.00	13.68664	646 611.62		
				Hexaware Technologies Limited ,Dubai Branch	1509DUB 003	2015/09/30	4 724.00	13.35162	63 073.05		
				Hexaware Technologies Limited ,Dubai Branch	1511DUB 001	2015/11/30	50 394.00	14.05157	708 114.82		
				Hexaware Technologies Limited ,Dubai Branch	1602DUB 001	2016/02/29	48 948.00	15.39344	753 478.10		

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Asset No.	Date capitalised	Description	Acquis. Value per register	Supplier name	Invoice Number	Invoice Date	Invoice amount USD	Exchange Rate used	Invoice amount R	Total invoice amount R	Differance between invoice and acquisition value
				Hexaware Technologies Limited ,Dubai Branch	1603DUB 002	2016/03/31	50 394.00	14.31420	721 350.00		
99000091 77	2016/01/31	6 x Radiant Tube Eclipse Gas Burners	94 908.80	HIVE GROUP	100579 & 100614	21/01/2016 & 22/02/2016	-	-	1 668 351.15	1 668 351.15	(1 573 442.35)
TOTAL			31 205 221.15							20 638 636.45	10 566 584.70

This will result in a projected overstatement of the opening balance of CWIP of R 130 370 057.88. There will be no resultant effect on depreciation directly as a result of these differences as CWIP assets are *not* depreciated however the prior period disclosure note is understated.

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Internal control deficiency

Financial and performance management

The divisional financial controller did not ensure that complete, relevant and accurate information is accessible and available to support expenditure recorded on the CWIP account.

The divisional financial controller did not review the CWIP account to ensure that what is capitalized on the CWIP account agrees to the supporting documentation.

The asset register is not kept in a manner that enables the information that is recorded in the assets register to be easily retrievable when requested for audit.

One CWIP account is used for both PPE and intangible assets and the intangible assets in CWIP is not clearly identifiable from PPE in CWIP.

Recommendation

The divisional financial controller should review the CWIP account to ensure that what is capitalised on the CWIP account is supported by relevant documentation.

The divisional financial controller should ensure that the CWIP account is revisited to correct the misstatements so than not only the misstatements identified through the audit process are corrected, thereafter additional procedures will be performed to verify the corrections to the population of the CWIP.

PPE and intangible assets should be clearly identifiable in order to clearly distinguish between PPE CWIP and intangible assets CWIP.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:
Disagree with the finding.
Reconciliations are available to prove that the entries in WIP account are correct</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
Disagree with finding</td></tr>
<tr><td colspan="3">Management comment on recommendation:
Disagree with finding</td></tr>
<tr><td colspan="3">Remedial action :
None required</td></tr>
<tr><td>What actions will be taken:
Supply information to clarify finding</td><td>By whom
Person: Pierre de Villiers
Position</td><td>By when: Information available for inspection by AGSA</td></tr>
</table>

Auditor's conclusion

A meeting was held on 18 September 2017 to receive and audit the information as stated in the management comments. It was established in this meeting that only purchase orders were available which did not address the differences noted in the finding. We it was agreed that all long outstanding information will be submitted on 20 October 2017.

The information relating to the transactions listed below was not submitted and this will result in a projected misstatement of R 68 883 727.58 which will be aggregated with other non-material audit findings and will have an impact in the audit report of SAA

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Asset	Capitalized on	Description	Acquis. Val.	Total Invoices received	Difference between invoice and acquisition value
9900006872	2011/10/01	Flight Expenses	1 398 357.66	3 771 329.61	(2 372 971.95)
9900008148	2013/04/01	Hotel Accommodation	157 658.64	100 069.69	57 588.95
9900008690	2014/06/30	AMOS Technical Support	1 411 685.31	378 100.69	1 033 584.62
9900008691	2014/08/31	Memis Data Migration Server Infrastructure	28 142 610.74	23 011 100.23	5 131 510.51
9900008694	2014/05/31	Amadeus Monthly Billing Charges	16 725 216.64	-	16 725 216.64
9900009177	2016/01/31	6 x Radiant Tube Eclipse Gas Burners	94 908.80	1 668 351.15	(1 573 442.35)
Total			**47 930 437.79**	**28 928 951.38**	**19 001 486.41**

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55. Discrepancies identified in the additions to Property, aircraft and equipment

Audit finding

Section 51 (1) (a) (i) of the Public finance management Act 1 of 1999, states that "*an accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Section 3.2.12 of the Fixed Assets Finance policy states that "*Major inspections: SAA have identified D-checks as overhaul costs that should be capitalised and depreciated. Other maintenance costs like C checks would be expensed when incurred .Replacement parts: The Aircraft engine consists of life limited parts which will require to be replaced by new ones during the useful life of the engine. These parts have not been recognised as a separate component of the aircraft as its costs are insignificant in proportion to the total costs of the aircraft*"

Section 5.1.1 of the Fixed Assets Finance Policy states that the useful life of an engine is 15 years and the useful life of a D-check is 5 years.

A. Maintenance expenses incorrectly capitalised to the fixed asset register

During the audit of property, aircraft and equipment it was noted that maintenance events which are not D-checks have been recognized as assets in the FAR. The table below indicates the expenses which are not D-checks that have been capitalised to the FAR

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No.	Asset	Sub number	Capitalised on	Description	Inventory number	Serial number	Acquis.val.	Audit finding
1	360100 0481	2	2016/07/01	ZS-SXH CKC 014	ZS-SXH	95775361	5 143 202.00	The description on the invoice is that the work performed was a CKC014. SAA has identified a D-check as qualifying capital expenditure. D check is identifiable by the following codes CKC4, CKC8 CKC12 CKC16. A CKC14 is therefore not a D check and should not be capitalised to the FAR.
2	360100 0123	9	2016/11/01	ZS-SXE LANDING GEAR : SN LGR007	ZS-SXE	95780372	18 954 718.00	During landing at JNB the aircraft experienced wind shear on final approach at 100ACL which resulted in a hard handing. A hard landing inspection was therefore carried out on the landing gear. SAA has identified a D-check as the major inspection expense which qualifies for capitalisation. a D-check is a scheduled maintenance event that takes place every 5-8 years. The expense was due to a hard landing which required inspection and repair of the landing gear. This was not a scheduled maintenance event and not a D-check. This is not a qualifying asset
3	360100 0124	7	2016/12/01	APU S/N P768	ZS-SXF	190065866 1	6 836 904.00	The expense authorisation and invoice describe the expense as being for the repair of APU SN P768 at Air France. The invoice is addressed to Air France and not to SAA. A repair of an APU is an expense and not a qualifying maintenance event (D-Check is the only qualifying maintenance event identified by the policy). A repair of an APU should therefore be expensed.
4	360100 0124	8	2017/01/01	CFM 56-5C4 S/N 567288	ZS-SXF	M9028924 0	33 348 694.00	The expense relates to the overhaul of an engine. The work includes labour testing replacement of blades materials handling fees etc. performed by SR technics. Work scope: Inspection of blades, fuel nozzles installed, nozzles checked for blockages overhaul of bearings. No evidence on the supporting quotations and expense authorisations that the expense relates to a D check. for this reason the expense should be expensed as per the policy and not capitalised.
5	360100 0473	0	2016/08/01	PAYMENT FOR REPAIR CFM56-5C4 S/N 741977	ZS-SXG	741977	56 332 945.00	Inspected the SR technics invoice and confirmed that the scope of the work is related to engine maintenance. The expenditure does not relate to a D - Check and therefore is not qualifying expenditure in terms of the fixed asset finance policy.

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No.	Asset	Sub number	Capitalised on	Description	Inventory number	Serial number	Acquis.val.	Audit finding
6	360100 0475	0	2016/06/01	Recon inv ESN567290 - ZS-SXF	ZS-SXF	567290	827 770.00	The expense documentation inspected does not confirm that a D-check was performed. It highlights components purchased relating to Ball screws for actuators and seals. The expense is isolated to the engine and is therefore not related to a D-check
7	360100 0481	1	2016/12/01	APU S/N R361C ZS-SXH	ZS-SXH	190065924 4 R361C	2 265 770.00	The invoice is addressed to Air France. The invoice relates to the APU only and is therefore not a D-check.
8	360100 0490	0	2017/01/01	APU SN R162C	APU	151015257 2 R162C	8 007 892.00	In the fixed assets finance policy, SAA indicates that major maintenance events are to be capitalised to the fixed asset register and then further identifies a D-check as a major inspection to be capitalised. A repair of an APU is not a D-c check and should not be capitalised.
9	360100 0057	23	2016/11/01	LLP"S ON TRENT 556 SN 71064	ZS-SNG	190065723 5	27 804 786	The expense relates to the replacement of parts within an engine and does not relate to a D-check.
11	360100 0477	0	2016/09/01	REPAIR OF APU 331-600 @ HONEYWELL	SPARE OWNED APU	P 1148	11 386 639	the expense is isolated to the APU and it therefore not qualifying expenditure in terms of the policy
Total							161 359 444	

A decision was made by management to capitalise major maintenance and overhauls. This decision however is not documented in the fixed asset finance policy.

It was further clarified that the expenses are capitalised in terms of the accounting policy which states that "*Owned aircraft: Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the expected life between major overhauls. All other replacement spares and other expenditure relating to maintenance of owned fleet assets is charged to profit or loss on consumption or as incurred.*"

A major maintenance is however not defined in the accounting policy, as per the fixed asset policy major maintenance which qualifies to be capitalised are the D checks. The accounting policy in the financial statements does not include details of what is major maintenance and overhauls which are being capitalised by SAA.

This will result in a factual overstatement of current year additions to the cost of property, aircraft and equipment by R186 459 991, an overstatement of depreciation by R 21 246 706.23 and an understatement of maintenance expenses of R186 459 991Similar

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instances of capitalising maintenance expenses to those assets which are not qualifying expenses might have occurred in the prior financial years, this will be confirmed once the testing on the opening balances has been concluded.

B. Useful life of assets not in accordance with the approved fixed assets finance policy

During the audit of property aircraft and equipment it was noted that the useful lives of the assets listed in the table below are not in accordance with the fixed asset finance policy. The maintenance events capitalised relate to owned aircraft and have not been depreciated as per the useful lives included in the approved policy for these major components of the aircrafts.

No.	Asset	Sub number	Capitalised on	Desc.	Acquis.val.	Accum.dep.	Book val.	UL of the Asset (Years)	UL according to the policy	Accumulated depreciation based on Policy UL	Over/Understatement of Depreciation based on 5 year UL of a D check and 15 Year UL of an Engine
1	360100 0122	7	2016/12/01	ZS-SXD CKC 008	3 511 752.00	-351 175.20	3 160 576.80	3.33	5	234 116.80	-117 058.40
2	360100 0040	14	2017/01/01	ZS-SNC CKC 008	16 901 276.00	-1 877 919.55	15 023 356.45	2.25	5	1 126 751.73	-751 167.82
3	360100 0057	22	2016/11/01	ZS-SNGCKC 008	18 254 910.00	-3 147 398.27	15 107 511.73	2	5	1 216 994.00	-1 930 404.27
4	360100 0472	0	2016/09/01	A320 Spare Engine S/N V2527-A5	106 174 214.87	-5 898 567.49	100 275 647.38	10.5	15	2 359 427.00	-3 539 140.49
Total					**144 842 152.87**	**-11 275 060.51**	**133 567 092.36**			**4 937 289.53**	**-6 337 770.98**

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Management has indicated that the useful lives of the assets have been estimated based on the decision to retire the aircraft, however the Entity's comprehensive network and fleet plan of 2 April 2015 paragraph 5.7 illustrates that SAA will be operating the A340-600 till 2021, the A340-300 till 2022 and the A320 beyond 2025.

This will result in a factual overstatement of depreciation of R 6 337 770.98 and an understatement of the carrying value of Property, aircraft and equipment of R 6 337 770.98 The error will not be projected as the population was not subject to sampling and all the assets within the population were tested.

Similar instances of incorrect application of useful lives might have occurred in the prior financial years, this will be confirmed once the testing on the opening balances has been concluded.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller did not assess the expenditure related to maintenance to confirm that the expense is a qualifying asset in terms of the fixed assets finance policy before capitalising the asset to the FAR.

The divisional financial controller did not confirm that the useful life of the asset in the FAR agrees to the useful life in accordance with the fixed assets finance policy.

The Divisional Financial Controller implemented decisions with regard to capitalisation of maintenance expenses without defining which major maintenance expenses qualify for capitalisation. This decision was made in contravention of the current approved fixed assets finance policy of SAA.

The Financial Controller implemented decisions with regard to capitalisation of maintenance costs without updating the fixed assets finance policy.

The Financial Controller capitalises major maintenance and overalls without a definition what a major maintenance event which qualifies to be capitalised and the accounting policy included in the annual financial statements is also not clear what costs are qualifying major maintenance at SAA.

Recommendation

The Divisional Financial Controller should confirm that the useful life of the asset in the FAR agrees to the useful life in accordance with the fixed assets finance policy at initial recognition of the asset and changes to the useful lives are made in accordance with documented and approved decisions.

- The Financial Controller should update the fixed assets finance policy to indicate clearly the w major maintenance will qualify for capitalisation based on the accounting policy choice of SAA.
- Which maintenance costs are not qualifying major maintenance expenses so that only qualifying major maintenance costs are capitalised

Qualifying major maintenance should be clearly defined and elaborated in the policy to ensure that all the accountants within the fleet department will be able to draw the same conclusions as to whether a maintenance cost is qualifying expenditure or not when inspecting the relevant invoices and work scope.

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The Divisional Financial Controller should revisit the entire asset register to confirm whether similar instances of capitalising maintenance costs and the incorrect application of useful lives have not also occurred in prior years and revise the entire fixed asset register and the impact on the annual financial statements

Management's response

Management comment on audit finding: Agree with finding		
Management comment on internal control deficiencies: Agree with finding		
Management comment on recommendation The depreciation rates were set based on the latest approved fleet plan. This plan is being revised and once approved the depreciation rates may have to be amended		
Remedial action :		
What actions will be taken: Amendment will be made to the finance policy to ensure compliance Based on most up to date approved fleet plan the depreciation rates may have to be amended	By whom Person: Pierre de Villiers Position: Controller	By when: 30 Sep 2017

Auditor's conclusion

A. Maintenance costs incorrectly capitalised

Management agrees with the finding, the accounting policies in the submitted annual financial statements was not updated to clearly distinguish between major maintenance and minor maintenance which should not be capitalised and the maintenance which should be capitalised.

The finding is not resolved and will be included in the schedule of uncorrected misstatements which will have an impact when aggregated with other misstatements which are not individually material.

B. Useful lives not in accordance with the approved fixed assets finance policy

Management response is noted. The approved amended finance policy and the most up to date was not provided for audit as indicated in the management response.

The finding remains unresolved and will be aggregated with other findings which are not individually material and will be evaluated together and will have an impact on the audit report.

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56. Existence of A class Rotables could not be verified

Audit finding

Section 51(1)(c) of the Public Finance Management Act 1 of 1999 states that: "*General responsibilities of accounting authorities. An accounting authority for a public entity is responsible for the management, including the safeguarding, of the assets and for the management of the revenue, expenditure and liabilities of the public entity*"

During the audit of Property Aircraft and Equipment, physical verification procedures were performed for the purposes of confirming the existence of A class rotables. The below mentioned assets however could not be verified.

No.	Asset Tag No.	Description	Status	Part No.	Serial No.	Mean Price
1	42759200	INTERGRATED DRIVE GENERATOR	AWAITING INSTALLATION	761574B	1574	2 490 150.97
2	42809320	POWERPLANT (QEC FITTED)	IN REPAIR AT THIRD PAR	CFM567B	PP889283	66 642 612.5
3	43111140	`UNIT ASSY-PNEU DRIVE FOR L/E FLAPS B747	IN REPAIR IN WORKSHOP	1.26344E+11	45P2712	20 613.96
4	43127720	NOSE COWL - U/O B737-800 ENG. CFM56-	AWAITING INSTALLATION	31421003	2414001	3 914 950.26
5	43177030	FWC-FLIGHT WARNING COMPUTER	IN REPAIR IN WORKSHOP	LA2E20202T3 0000	2E0000995	1 416 821.41
6	43361540	FAN THRUST REVERSER ASSY	IN REPAIR IN WORKSHOP	315A2295673	835	3 093 200
7	43392660	VOICE RECORDER	IN REPAIR IN WORKSHOP	9806022001	CVR12006179	68 209.96
8	43413290	NOSE COWL - U/O B737-800 ENG. CFM56-	AWAITING INSTALLATION	31421003	2771001	3 914 950.26
9	43442390	CONCENTRATOR - FUEL DATA	AWAITING INSTALLATION	367328003	581114	295 261.89
Total estimated price of the rotables which could not be verified						**81 856 771.21**

The total factual limitation within the sample amounts to R81 5856 771 and the projected misstatement on the population of A class rotables amounts to R 594 003 454.16. This is material and if not resolved may result in a modified audit opinion.

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Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

The Divisional Financial Controller has not implemented sufficient processes in order to track the location of assets which are not in the warehouse.

Recommendation

Management should ensure that procedures in place in order to track the movement of assets are implemented and that the movement of assets is monitored with sufficient regularity to ensure that the information regarding the location of the asset is not outdated.

Management response

Management comment on audit finding: *We have received some responses from Robin Grove. We will report backs one we have followed up with him*		
Management comment on internal control deficiencies: *SAAT to advise*		
Management comment on recommendation: *SAAT to advise*		
Remedial action:		
What actions will be taken: *SAAT to advise*	By whom: *Robin Grove* Person: Position;	By when: *SAAT to advise*

Auditor's conclusion

Asset verification procedures were performed and existence was confirmed for asset tag number 42809320 and 43111140. The assets remain on the table below were not verified. The finding is therefore partially resolved with assets with a value of R15 193 544.75 could not be verified. The impact on the financial statements is a projected misstatement of R 112 243 642.60

The below indicated information was not submitted on 20 October 2017, we have concluded and this finding will be aggregated with other individually not material findings and will have an impact in the audit opinion of SAA.

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No.	Asset Tag No.	Description	Status	Part No.	Serial No.	Mean Price
1	42759200	INTERGRATED DRIVE GENERATOR	AWAITING INSTALLATION	761574B	1574	2 490 150.97
4	43127720	NOSE COWL - U/O B737-800 ENG. CFM56-	AWAITING INSTALLATION	31421003	2414001	3 914 950.26
5	43177030	FWC-FLIGHT WARNING COMPUTER	IN REPAIR IN WORKSHOP	LA2E20202T 30000	2E000099 5	1 416 821.41
6	43361540	FAN THRUST REVERSER ASSY	IN REPAIR IN WORKSHOP	315A229567 3	835	3 093 200.00
7	43392660	VOICE RECORDER	IN REPAIR IN WORKSHOP	9806022001	CVR1200 6179	68 209.96
8	43413290	NOSE COWL - U/O B737-800 ENG. CFM56-	AWAITING INSTALLATION	31421003	2771001	3 914 950.26
9	43442390	CONCENTRATOR - FUEL DATA	AWAITING INSTALLATION	367328003	581114	295 261.89
Total amount that was not verified						**15 193 544.75**

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57. Differences between the values capitalised on the Fixed Asset Register(FAR) and the documentation provided to support the values

Audit Finding

Section 51 (1) (a) (i) of the Public Finance Management Act 1 of 1999, states that *"An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

IAS 16 paragraph 7 of the International Financial Reporting Framework (IFRS) defines the cost of an asset as *"the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs".*

During the audit of property, aircraft and equipment, the following differences were noted between the values recognised on the Fixed Asset Register (FAR) and the invoices provided to support the values:

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No.	Asset	Capitalized on	Description	Acquis. Val.	Invoice amount	Difference between invoice and FAR	Audit finding
1	3800001085	2016/04/01	Furniture for Procurement	143 339.03	132 932.96	10 406.07	Invoice amount does not agree to the value recognised in the asset register.
2	3800001079	2016/04/01	Furniture for IT Department	540 192.57	223 366.15	316 826.42	Invoice amount does not agree to the value recognised in the asset register.
3	3800001058	2016/04/01	Furniture for the Service Desk IT Call Centre	321 922.88	0	321 922.88	No invoice provided to support the amount recognised in the FAR.
4	3800001078	2016/04/01	Furniture Internal Audit 5th Floor A Block	282 129.24	276 468.24	5 661.00	Invoice amount does not agree to the value recognised in the asset register.
5	3800001100	2016/04/01	Furniture for Voyager and Facilities	1 415 492.36	394 784.68	1 020 707.68	Invoice amount does not agree to the value recognised in the asset register.
6	3800001046	2016/04/01	Furniture For Legal Department 1st Floor E	439 859.90	0	439 859.90	No invoice provided to support the amount recognised in the FAR
7	2200000130	2016/10/01	Franking Machine Neopost IJ-40 FH	51 410.00	0	51 410.00	No invoice provided to support the amount recognised in the FAR
8	1200000170	2016/04/01	Cabin Crew Standby Lounge	50 391.00	0	50 391.00	No invoice provided to support the amount recognised in the FAR
9	2300001260	2016/04/01	46" Flat Screen Television incl DSTV Decoder	9 100.00	0	9 100.00	No invoice provided to support the amount recognised in the FAR
10	3800001055	2016/04/01	Furniture for Cabin Crew Standby Lounge	206 733.84	0	206 733.84	No invoice provided to support the amount recognised in the FAR
11	3800001056	2016/04/01	Various Furniture for Cabin Crew Briefing Rooms	55 765.44	0	55 765.44	No invoice provided to support the amount recognised in the FAR

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No.	Asset	Capitalized on	Description	Acquis. Val.	Invoice amount	Difference between invoice and FAR	Audit finding
12	3800001064	2016/04/01	14 x Ergo Operator Chairs for HR Cargo	37 849.14	0	37 849.14	No invoice provided to support the amount recognised in the FAR
13	3800001083	2016/04/01	Furniture for ORTIA	828 383.15	0	828 383.15	No invoice provided to support the amount recognised in the FAR
14	3800001087	2016/04/01	Various Furniture for Revenue Accounting	1 457 009.76	0	1 457 009.76	No invoice provided to support the amount recognised in the FAR
15	2000000617	2016/04/01	Intercommunication System for ZS-SLA Cabin Trainer	742 405.61	547 396.18	195 009.43	Invoice amount does not agree to the value recognised in the asset register.
16	3300001007	2016/04/08	Canopy Nissan 1.6 NP200 LDV Reg CL92XXGP/ LJD608W	8 038.06	0	8 038.06	No invoice provided to support the amount recognised in the FAR
Total				6 590 021.98	1 574 948.21	5 015 073.77	

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This will result in a projected overstatement of property, aircraft and equipment of R19 277 880.06 and a consequential overstatement of depreciation by R853 531.00.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller did not ensure that complete, relevant and accurate information is accessible and available to support assets which are capitalised in the fixed asset register.

The divisional financial controller did not review the fixed asset register to ensure that the values capitalised agree to supporting documentation.

The asset register is not kept in a manner that enables the information that is recorded in the assets register to be easily retrievable when requested for audit.

Recommendation

The divisional financial controller should review the asset register to ensure that the values capitalised for assets recognised on the register are supported by invoices or equivalent purchase documentation.

The divisional financial controller should ensure that the fixed asset register is revisited to correct the misstatements so than not only the misstatements identified through the audit process are corrected. The corrections should thereafter be included in the annual financial statements in the form of a prior period error disclosure note. Additional procedures will be performed to verify the corrections to the population of the fixed asset register.

Management response

Management comment on audit finding: The current accounting policy is that all items of furniture are treated as pool items, depreciated over ten years and then removed from the fixed asset register A verification project has been started to identify all assets that are in use		
Management comment on internal control deficiencies: Invoices are maintained for 7 years and then destroyed.		
Management comment on recommendation: We will investigate methods of incorporating all this information on SAP		
Remedial action :		
What actions will be taken: Will implement system to scan all invoices for acquisitions and attach to the asset in SAP	By whom Person: Pierre de Villiers Position	By when: Project has started in the new financial year Feedback will be provided on verification project on 30 Sep 2017

Auditor's conclusion

Management response is noted, the following transactions remain unresolved, This resulted in a projected overstatement of property, aircraft and equipment of R10 308 710.62 and a consequential overstatement of depreciation by R504 872.09. The misstatements will be aggregated with other individually not material findings and will have an impact in the audit report of SAA.

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No.	Asset	Capitalized on	Description	Acquis. Val.	Invoice amount	Difference between Invoice and FAR	Audit finding
1	3800001079	2016/04/01	Furniture for IT Department	540 192.57	339 224.15	200 968.42	Invoice amount does not agree to the value recognised in the asset register.
2	3800001058	2016/04/01	Furniture for the Service Desk IT Call Centre	321 922.88	320 618.88	1 304.00	Invoice amount does not agree to the value recognised in the asset register.
3	3800001078	2016/04/01	Furniture Internal Audit 5th Floor A Block	282 129.24	276 468.24	5 661.00	Invoice amount does not agree to the value recognised in the asset register.
5	3800001100	2016/04/01	Furniture for Voyager and Facilities	1 415 492.36	1 311 494.36	103 998.00	Invoice amount does not agree to the value recognised in the asset register.
5	3800001046	2016/04/01	Furniture For Legal Department 1st Floor E	439 859.90	420 797.90	19 062.00	Invoice amount does not agree to the value recognised in the asset register.
6	3800001087	2016/04/01	Various Furniture for Revenue Accounting	1 457 009.76	1 375 478.29	81 531.47	Invoice amount does not agree to the value recognised in the asset register.
Total				**4 456 606.71**	**4 044 081.82**	**412 524.89**	

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58. Foreign currency transactions incorrectly translated at spot rate for PAE not in line with the adopted accounting policy

Audit finding

IAS 8.13 states that an entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an IFRS specifically requires or permits categorization of items for which different policies may be appropriate. If an IFRS requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.

IAS 8 Paragraph 42 states that *"Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented."*

South African Airways SOC Ltd (SAA) has elected an accounting policy which states that *"in preparing the annual financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the ruling rates of exchange, which are taken as being the International Air Transport Association (IATA) five day average rate applicable to the transaction month".*

During the audit it was noted that the following assets were incorrectly translated using an exchange rate of R15.71:1$. No reason was provided for using the specified rate and the source from which the exchange rate was obtained could not be provided.

Asset	Capitalized on	Description	Acquis.val.	Foreign Currency Cost Price USD	5 day IATA rate	Rand value recalculated based on 5 day IATA rate	Difference between spot rate used and 5 day IATA rate as per policy
3601000480	2016/05/19	AIRBUS A340-313 ZS-SXG	109 970 000.00	7 000 000	14.31	100 199 400.00	(9 770 600.00)
3601000481	2016/05/19	AIRBUS A340-313 ZS-SXH	109 970 000.00	7 000 000	14.31	100 199 400.00	(9 770 600.00)
Total							**(19 541 200.00)**

This will result in a factual overstatement of property, aircraft and equipment amounting to R 19 541 200 and misstatements in the fair value and translation movements in the statement of profit or loss and other comprehensive income.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller: Fixed Assets did not ensure that policies and procedures to record foreign expenses using correct exchange rates are properly implemented.

SAA started applying spot rates at the date of payment when the exchange rates in South Africa were extremely fluctuating because of instability in the economy and never reverted back to applying the policy adopted

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Recommendation

The Divisional Financial Controller: Fixed Assets should put policies and procedures in place to ensure that the assets are recorded at the IATA exchange rate applicable that month.

The Divisional Financial Controller: Fixed Assets should review the invoices received by SAA which are denominated in foreign currencies to confirm that they are translated at the correct exchange rate as per the approved accounting policy.

The Divisional Financial Controller: Fixed Assets should put policies and procedures in place to ensure that accounting policies elected are applied regardless of economic changes.

The Divisional Financial Controller: Fleet should revisit all the population of the transactions which are denominated in foreign currency and verify whether the accounting policy was appropriately applied in the prior period and effect the necessary adjustments and disclosures so that we can perform additional audit procedures on the corrected population of the maintenance costs for both prior periods and current year.

Management's response

Management comment on audit finding: Agree with finding		
Management comment on internal control deficiencies: NA		
Management comment on recommendation: Agree with finding		
Remedial action:		
What actions will be taken: Corrections will be made	By whom: Person: Pierre de Villiers Position; Controller	By when: 30 Sep 17

Auditor's conclusion

It is noted that management agrees with the finding and corrections will be made. We are awaiting journals passed together with the revised population to select additional sample and perform additional audit procedures in order to determine whether the misstatements identified have been corrected.

The finding is unresolved and will be aggregated with other non-material findings and evaluated together which may have an impact on the audit opinion of SAA..

The above indicated information was not submitted on 20 October 2017, we have concluded and this finding will be aggregated with other individually not material findings and will have an impact in the audit opinion of SAA.

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59. Assets selected from the floor could not be traced to the fixed asset register

Audit finding

Section 51 (1) (c) of the Public finance management Act 1 of 1999, states that *"an accounting authority for a public entity is responsible for the management, including the safeguarding, of the assets of the public entity".*

IAS 8 Paragraph 42 states that *"Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented."*

The Fixed Asset Finance Policy, Policy reference number GFP-2010-002 VersionV0.2 Effective 01/04/2010 approved by Veona Chaithram HOD Group Accounting under paragraph 3.3.12 requires that all assets must be tagged with an asset identification number.

South African Airways SOC Ltd (SAA) maintains its Property, aircraft and equipment (PAE) in a SAP system fixed asset register (FAR). When recognising assets of a similar nature in the FAR, SAA groups similar assets together and allocates the group of assets to one asset number on the FAR. Examples of these assets are office furniture, pallets and containers. These assets individually are not tagged with a unique number to ensure that they are easily identifiable.

During the audit, the assets listed below were selected from the floor however they could not be traced to the asset register. It could also not be determined whether these assets are correctly classified as they could not be traced to the fixed asset register. Furthermore, no reconciliation (sub population of the grouped assets) was provided to support the composition of the assets which are grouped in one asset number on the FAR.

No.	Manufacturers or Suppliers Unique Asset Number on Item	Description	Location
1	No tag	L shaped desks and 3 red and black visitors chairs	509C
2	IBL 05	Large Ice Maker	International Lounge Kitchen
3	IBL014	Mini Bar Fridge	International Lounge
4	No tag	Hisence Bar Fridge	509C
5	No tag	L2 Desk and 3 Visitors chairs	Suite 6 ,Block 3C Right
6	1362	Staff Parking -Boom Gate	Airways Park Parking
7	4106	Fire Detector	317C
8	AFMS000016	Main Lift	Airways Park
9	93470	10liter Boiler	4th Floor ,C Block Kitchen
10	AFMS003900	White KIC Fridge	5th Floor ,C Block Kitchen
11	AFMS003901	White KIC Microwave	5th Floor ,C Block Kitchen
12	No tag	1 Table and 3 visitors	Voyager Kitchen 3C
13	No tag	Black L shaped coach	Voyager Kitchen 3C
14	No tag	Boardroom table and 18 chairs	Voyager Executive Boardroom
15	No tag	72cm TV IT Service Desk	Room 314C
16	No tag	2 black coaches and side table -IT Service Desk	Room 314C
17	No tag	Desk Dividers -IT Service Desk	Room 314C
18	No tag	L Desks and chairs - Internal Audit	Room 508A

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No.	Manufacturers or Suppliers Unique Asset Number on Item	Description	Location
19	No tag	Desks with cupboard divider -Revenue Division	Room 511A
20	No tag	3 Black tub coaches and coffee table	5th Floor Kitchen ,C Block
21	No tag	2 Filing Cabinets -Procurement Department	Room 407A
22	No tag	Visitors desk and 4 visitors chairs -Procurement Department	Room 407A
23	No tag	2 L Desks with a Falcon High Back Chair	Room 401A
24	No tag	16 Meeting room garden chairs	Cabin Crew Briefing Room - Ground Floor ,G Block
25	No tag	Projector	6th Floor Main Boardroom
26	No tag	Boardroom table and 18 chairs	6th Floor Boardroom
27	No tag	Desks and chairs -Creditors Department	409C
28	No tag	Boardroom table and 20 chairs	Boardroom D4
29	No tag	17 Conference Desks and 30 Conference Chairs	Boardroom D3
30	AFMS000047	Mobile Silver Urn	4th Floor ,C Block Kitchen

This will result in a projected understatement of property, aircraft and equipment of R 599 000 000 and a consequential understatement of retained earnings and of accumulated depreciation of R 254 000 000. The prior periods' annual financial statements (not just the comparative year of 2015/16) are also misstated. The adjustment should be accounted for as a prior period error in the financial statements in line with IAS8. SAA will also have to show a third balance sheet due to the prior period error (retrospective restatement) in terms of IAS1 par 40A.

Internal control deficiency

Financial and performance management

- The Divisional Financial Controller did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Information to support the composition of grouped assets on the asset register is not readily available.
- The Divisional Financial Controller: Fleet as the custodian of the fixed asset register (FAR) did not review the asset register to ensure it is accurate and complete.
- The Chief Financial Officer did not adequately review the asset register of SAA to ensure that it is properly maintained in a way that will enable for assets verifications and compliance with the applicable legislation and accounting standards.
- Cost center managers are not held accountable for the assets under the control
- Individual assets are not given unique numbers to ensure that they are easily identifiable

Recommendation

- The HOD: Financial accounting of SAA should clearly establish the roles with regard to management of assets within SAA in order to establish accountability with regard to Assets.
- The divisional financial controller should maintain an asset register which provides full details of the assets which include a serial number or a unique identifier ,for assets that do

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not have such number ,such assets should be tagged with a unique number and this should be recorded in the FAR as a unique asset identifier.

- The Divisional Financial Controller should ensure that the asset register is updated regularly to ensure that all assets are recorded on the asset register.
- In addition, asset counts must be performed on a regular basis. This will help with the identification of assets not included in the FAR.
- The Divisional Financial Controller should develop asset count procedures and ensure that the asset count process is appropriately monitored at each cost center to ensure the completeness of the asset register.

The Divisional Financial Controller should ensure that the fixed asset register is revisited to correct the misstatements so than not only the misstatements identified through the audit process are corrected. The corrections should thereafter be included in the annual financial statements in the form of a prior period error disclosure note. Additional procedures will be performed to verify the corrections to the population of the fixed asset register.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding:
The assets selected have been traced to the fixed asset register and is available for inspection by AGSA.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
Agree in principle.
The approved policy provides that furniture is treated as pool items, depreciated for ten years and then retired from the fixed asset register.
A procedure manual is being prepared to ensure that assets are identified, evaluated, and cross referenced to the fixed asset register.</td></tr>
<tr><td colspan="3">Management comment on recommendation:
Agree with recommendation. The process to identify and tag assets will be started in the 2017/18 financial year
A verification process has been started to identify and assess the useful lives and values of all assets</td></tr>
<tr><td colspan="3">Remedial action : Process has been started to identify and assess all assets.</td></tr>
<tr><td>What actions will be taken:
What actions will be taken:
Devise and implement plan to identify and tag all assets</td><td>By whom
Person: Pierre de Villiers
Position</td><td>By when: Preliminary findings by 30 Sep 2017 and procedure will be initiated in the 2017/18 financial year for full identification and tagging of assets</td></tr>
</table>

Auditor's conclusion

Management response is noted. We have traced the asset which could not be traced to the fixed asset register based on the additional information provided on 23 October 2017, however the assets listed below have could not be traced. It was indicated that item 1 to 5 belongs to South African Airways Travel Centre (SATC) however management could not provide evidence that these assets belong to SATC.

No.	Manufacturers or Suppliers Unique Asset Number on Item	Description	Location

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1	No tag	L shaped desks and 3 red and black visitors chairs	509C
2	No tag	Hisence Bar Fridge	509C
3	No tag	L Desks and chairs - Internal Audit	508A
4	No tag	Desks with cupboard divider -Revenue Division	511A
5	No tag	Boardroom table and 20 chairs	D4

The projected final projected misstatement of the assets which management could not provide supporting evidence is R 99 833 333.33 and this will be aggregated with other individually not material misstatement which will have an impact on the audit report of SAA.

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60. Opening Balance as per the 2016/17 draft AFS does not agree to the closing balance as per 2015/16 audited financial statements

Audit finding

Paragraph 42 (a) of IAS 8 states that "*An entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred.*"

Paragraph 49 of the IAS 8 states that "*an entity shall disclose the following:*

a) *the nature of the prior period error;*

b) *for each prior period presented, to the extent practicable, the amount of the correction: (i) for each financial statement line item affected; and*

c) *the amount of the correction at the beginning of the earliest prior period presented; and*

d) *if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.*"

During the audit of Property, aircraft and equipment, the following differences were identified between the closing balance of land and buildings in the integrated annual report for the 2015/16 financial year and the opening balance disclosed in the 2016/17 draft annual financial statements (AFS) note 11 relating to property, aircraft and equipment:

Description	Closing balance as per 2015/16 Financial Statements Note 17 R 'Million	Opening balance as per Draft 2016/17 Financial Statements Note 11 R' Million	Difference R 'Million
Land	48	271	223
Building and Structures	1016	793	-223

In a footnote to Note 11 of the 2016/17 draft annual financial statements the following information is disclosed "*A restatement was done on the opening balances of land and buildings in order to reflect the correct split between land and buildings. The total carrying value of property, aircraft and equipment did not change in the prior years.*"

General ledger (GL) account number 400000 is used to disclose information for both land and buildings. The preparer of the financial statements is not able to split land and buildings using the trail balance information as land and buildings are allocated to the same GL account. The preparer is therefore dependent on the calculations from the FAR which is prepared by the Financial Controller: Fixed Assets

In analysing the fixed asset register it was noted that Assets allocated as land in the "Grade and category" field of the FAR amounts to R48.6 million, this approximates the closing balance of land in Note 17 of the annual financial statements for the 2015/16 financial year. This however is not a complete list of the assets allocated to the land class in the FAR.

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Assets which are allocated to the land class are identifiable in the FAR by the first four numbers of the asset number which begin with 1100.

When isolating all the assets in the FAR which begin with 1100, the total equates to the balance disclosed as the opening balance of land in note 11 of the draft annual financial statements for the 2016/17 financial year.

Description	Amount R
"Land" in the grade and category field of the FAs Closing balance land in the 2015/16 AFS	48 687 500.10
Land assets that begin with 1100 in the FAR Opening balance land in the 2016/17 AFS	271 255 099.77
Land assets classified as land in the FAR but classified as buildings in the 2015/16 annual financial statements	222 567 599.67

The re-classification of R223 million is material on a cost basis and therefore the disclosure as per the foot note quoted above is not sufficient as it does not indicate the nature of the error, the financial statement line items affected and the amount of the correction as required by IAS 8. The reclassification from buildings to land will not have an effect on depreciation as the classification error was at a financial statement preparation level and not with the class allocated in the FAR as this class of assets on SAP was allocated correctly to land.

Internal control deficiency

Financial and performance management

The HOD Financial Accounting did not review the draft annual financial statements in conjunction with the audited 2015/16 financial statements in order to confirm that the opening balance of the current year financial statements agree to the closing balance of the prior year financial statements.

The HOD Financial Accounting did not ensure where differences arose between the closing balance of the prior year financial statements and the opening balance of the current year financial statements, a corresponding prior period error note is disclosed as required by IAS 8 for material differences.

The Financial Controller Fixed Assets did not ensure that that the FAR was analysed correctly to ensure that accurate disclosure information is given to the preparer of the annual financial statements.

Land and buildings are allocated to the same general ledger account, instead of 2 separate general ledger accounts so that the financial statements can be prepared accurately based on trial balance information.

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Recommendation

The HOD Financial Accounting should ensure that a prior period error note is disclosed in the financial statements for all material prior period errors identified in order to comply with the requirements on IAS 8.

The HOD financial accounting should review the Property, aircraft and equipment note with the supporting schedules and year-end journals to ensure that note is presented accurately.

The financial controller should allocate two separate general ledger accounts for land and buildings to ensure that the Property, aircraft and equipment note can be easily prepared based on trial balance information.

Management's response

Management comment on audit finding: Finding is noted		
Management comment on internal control deficiencies: A reclassification was performed in the AFS in order to correct the carrying values of Land and buildings. This was done in order to reflect the correct "Land" amount as per title deeds and the Fixed assets register. Pierre De Villiers will ensure that a separate GL account is opened up for "Land" in SAP and Michael Ascencao will ensure that the appropriate disclosure is included in the AFS for the prior period restatement per IAS 8.		
Management comment on recommendation Refer above		
Remedial action : Refer above		
What actions will be taken: Refer above	By whom Person: M Ascencao and P De Villiers Position	By when: Prior to submission of final AFS

Auditor's conclusion

Management response is noted, the AFS submitted included the prior period error note regarding the restatement of land and buildings stating the nature and the impact of the amount restated on note 5 of the AFS. The finding has been resolved, however the internal controls of SAA could not prevent, detect and correct the misstatement this finding will be included as part of the internal control deficiencies which needs to be addressed by SAA going forward to ensure that similar misstatements do not occur. .

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61. Differences identified between the annual financial statements and the fixed asset register

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act 1 of 1999, states that "An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"

IAS 16 Paragraph 31 states that, "After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses."

South African Airways SOC Ltd (SAA) has elected an accounting policy which states that "Land and buildings are shown at fair value based on valuations performed by external independent valuers, less subsequent accumulated depreciation and accumulated impairment losses for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation and accumulated impairment losses at the date of revaluation are eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset".

The following differences were noted between the revaluation per DPP report and the revaluation on the Annual Financial Statements:

Buildings						
Row Labels	Sum of Acquis. val.	Sum of Accum.dep.	Sum of Book val.	Fair Value DDP	Buildings allocated to both SAA and SAAT. FV allocated based on SAA method of allocation	Fair Value adjustment
BLOEMFONTEIN (8)	931 819.50	-69 172.98	862 646.52	1 020 000.00	1 020 000.00	157 353.48
CPT : CARGO (152280)	42 163 323.11	-11 823 327.69	30 339 995.42	27 070 000.00	27 070 000.00	-3 269 995.42
CPT : SAAT (113304)	3 889 315.26	-1 674 914.68	2 214 400.58	10 900 000.00	2 818 847.51	604 446.93
DURBAN	36 881 064.37	-21 015 051.67	15 866 012.70	108 350 000.00	92 577 374.21	76 711 361.51
EAST LONDON (3&6)	4 995 308.84	-3 297 773.69	1 697 535.15	4 025 000.00	3 191 009.26	1 493 474.11
KEMP PK : AIRWAYS PK(332)	319 081 836.89	-91 958 376.37	227 123 460.52	326 160 640.00	326 160 640.00	99 037 179.48
KEMP PK : CARGO (260)	81 847 238.81	-13 261 347.68	68 585 891.13	76 200 000.00	76 200 000.00	7 614 108.87
KEMP PK : IFS (336)	51 376 728.70	-4 665 893.96	46 710 834.74	44 000 000.00	44 000 000.00	-2 710 834.74
KEMP PK : SAAT (333)	183 048 632.01	-13 271 209.19	169 777 422.82	780 600 000.00	169 837 785.70	60 362.88
KIMBERLEY (56)	775 267.23	-107 615.12	667 652.11	600 000.00	600 000.00	-67 652.11

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PE : (4051 & 5750)	17 199 507.45	-4 380 533.35	12 818 974.10	16 450 000.00	16 450 000.00	3 631 025.90
Grand Total	**742 190 042.17**	**-165 525 216.38**	**576 664 825.79**	**1 395 375 640.00**	**759 925 656.69**	**183 260 830.90**
Less Durban (Non-current asset classified as held for sale)						-76711361.51
Revaluation						106 549 469.39
Total revaluation on AFS (Note 11)						39 000 000.00
Difference						**67 549 469.39**

This will result an understatement of property, aircraft and equipment by R67 549 469.39 and an understatement of revaluation surplus by the same amount.

The following differences were noted between the value of land and buildings disclosed in note 12 of the annual financial statements and the fixed asset register:

Land and buildings	Amount per Asset register	Amount per AFS	Difference
Land	1 122 017 468.00	299 000 000.00	78 017 468.00
Buildings		682 000 000.00	
Non-current assets held for sale		63 000 000.00	
Total	**1 122 017 468.00**	**1 044 000 000.00**	

This will result in an overstatement of property, plant and equipment by R78 017 468.

The following differences were noted between the additions of property, plant and equipment in the annual financial statements and the fixed asset register:

Description	Per FAR	Per AFS	Difference
Aircraft	781 495 569.23	798 000 000.00	-16 504 430.77

This will result in an overstatement of property, plant and equipment by R16 504 430.77.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller: Fleet did not ensure that revaluation of land and buildings is accurately recorded.

The Divisional Financial Controller did not adequately review the report from the valuers to ensure that the revaluation was accurately recorded.

The HOD: Accounting did not adequately review the revaluation calculation to ensure accuracy of the non-current asset classified as held for sale balance.

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Recommendation

The Divisional Financial Controller: Fleet should put policies and procedures in place to ensure that revaluation adjustments are properly accounted.

The HOD: Accounting should adequately review the revaluation calculation and non-current asset held for sale calculation to ensure that the calculation is accurate and properly accounted.

The Divisional Financial Controller: Fleet should revisit the depreciation calculation.

The Divisional Financial controller: Fleet should ensure that the requirements of IAS 8 should be applied on the errors which have been identified.

Management's response

Management comment on audit finding: Regarding the Revaluation, management request to sit with AG to clarify the Revaluations. The basis of Management's disclosed amounts has been shared with AG for their appraisal beforehand. The reconciliation will be provided to AG for the amounts in the AFS. Part of the PAE is the restoration asset and other adjustments that occurred in period 13 that are not on the fixed asset register. The reconciliation of these will be provided with the AFS.		
Management comment on internal control deficiencies: Management agrees with the internal control deficiency.		
Management comment on recommendation: Management have provided their reconciliation to AG which agrees to the AFS.		
Remedial action: Reconciliations have been provided to AG		
What actions will be taken: Ensure that Valuation Reports are reviewed and the FAR is updated based on the results of the Revaluation.	By whom Person: Pierre de Villiers Position; Controller	By when: 31/03/2018

Auditor's conclusion

We met with management on 22 November 2017 as requested to clarify the revaluations and the reconciliation between annual financial statements and fixed asset register, after going through the basis of revaluations with management and differences, management committed to submit reconciliation another reconciliation on 23 November 2017 which agrees to the AFS as the current reconciliation did not agree with the AFS as indicated by management in the management comments. To date, this reconciliation has not been received. Therefore, the finding remains and it will be included in the schedule of unadjusted differences and evaluated for overall impact on the audit report

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Intangible assets

62. Amount per trial balance does not agree to the amount disclosed on Note 36 on the Annual Financial Statements

Audit finding

In terms of Public Finance Management Act (PFMA) 1 of 1999 Paragraph 51, *"General responsibilities of accounting authorities.—(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;"

During the audit of intangible assets, the following differences were noted between the trial balance and the amount disclosed in the Annual Financial Statements (AFS) note 36 relating to intangible assets:

Details	Details as per the Trail Balance (R)	Details as per the Annual Financial Statements (R)	Difference (R)
Cost	427 766 171.51	653 000 000.00	-225 233 828.49
Accumulated Amortisation/Impairment	-326 980 133.20	-552 000 000.00	225 019 866.80

This will result in an overstatement of the cost of the intangible assets by R 225 233 828.49 and an overstatement of the accumulated amortization/impairment by R225 019 866.80.

Internal control deficiency

Financial and performance management

The Manager Finance-Corporate did not obtain sufficient supporting documentation and sufficient reasons for the journal processed on an annual basis to make the opening balance to agree with prior year closing balance.

The Divisional Financial controller did not ensure that the intangible assets register agrees to the amount that has been disclosed in the AFS.

Recommendation

The Manager Finance: Corporate should obtain supporting documentation for every journal passed during the preparation of Annual Financial Statements.

The adjustments should be made to make sure that the cost disclosed on the trial balance agrees to the cost on the AFS and supporting documents for the journal processed should be provided to support the adjustment.

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The Divisional financial controller should work with the Manager Finance: Corporate to process the required adjustments.

Management's response

Management comment on audit finding: Finding is noted Finding is as a result of a legacy entry that the previous auditors (Deloitte in the early 2000's) required us to put through for the purposes of the AFS, it dates back to a very long time ago and we can't find the reason as to why this was done. The entry was never put through SAP or included in the fixed assets register. Each year the AFS were prepared this entry had to be put through in order to agree the opening balances in the AFS. The net carrying value of intangible assets is not affected, just the split between cost and accumulated amortization. Historic cost and accumulated amortisation journal that is put through for purposes of the AFS will be reversed and any prior period restatements will be disclosed in terms of IAS 8.		
Management comment on internal control deficiencies: Internal control deficiency is noted. Will correct this issue in the current AFS and make sure that should any such journal need to be passed in future, there will be appropriate support for the entry and also that the entry will be recorded in SAP as well as the fixed assets register.		
Management comment on recommendation Will implement the recommendation, will make sure that we pass a journal for the purposes of the AFS to correct the accumulated amortization and cost in the current AFS and that the prior years are restated and disclosure is made in the AFS in terms of IAS 8.		
Remedial action : As per comment on recommendation.		
What actions will be taken: **Refer above**	By whom Person: M Ascencao Position	By when: Prior to submission of final AFS, all dependent on consultation between the AG and SAA, will make changes to draft set of AFS and draft journal entries and then consult the AG by mid-September. Also dependent on the outcome of the other audit findings, will correct AFS all at once, once it has been decided what all needs to be changed.

Auditor's conclusion

Management response is noted, we have confirmed that there are no assets related to this journal that has been historically process to balance the AFS to the register. We inspected the final AFS submitted for audit and confirmed that this journal was not processed in the current year to balance the AFS. The asset register and the AFS agree and the finding has been resolved.

The matter will be included as part of the significant internal control deficiencies since the controls of SAA were not able to prevent, detect and correct the error as it was only corrected as a result of the audit process.

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63. Existence of assets could not be confirmed through physical verification

Audit Finding

Section 51 (1) (a) (i) of the Public Finance Management Act 1 of 1999, states that *"An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

SAA maintains its PAE in a fixed asset register (FAR). When recognising assets of a similar nature in the fixed asset register, SAA groups similar assets together and allocates the group of assets to one asset number on the FAR. Examples of these assets are office furniture, pallets and containers.

During the audit, the existence of the following assets could not be confirmed as there was no reconciliation provided with the details of all the assets that are grouped in one asset number:

No.	Asset	Capitalized on	Description	Acquis. Val.	Audit Finding
1	3800001058	2001/04/16	Furniture for the Service Desk IT Call Centre	321 922.88	No reconciliation provided therefore we cannot reconcile the amount per the fixed asset register to the amount on the invoices. We were unable to identify which assets were acquired and what invoice they relate to as a result physical verification could not be performed as we could not be satisfied that all the assets capitalised exist.
2	3800001046	2001/04/16	Furniture For Legal Department 1st Floor E	439 859.90	Reconciliation provided but the invoices don't reconcile with the amount on the invoices. We were unable to identify which assets were acquired and what invoice they relate to as a result physical verification could not be performed as we could not be satisfied that all the assets capitalised exist.
3	3800001083	2001/04/16	Furniture for ORTIA	828 383.15	Reconciliation provided but the invoices don't reconcile with the amount on the invoices. We were unable to identify which assets were acquired and what invoice they relate to as a result physical verification could not be performed as we could not be satisfied that all the assets capitalised exist..
4	3800001087	2001/04/16	Various Furniture for Revenue Accounting	1 457 009.76	Reconciliation provided but the invoices don't reconcile with the amount on the invoices. We were unable to identify which assets were acquired and what invoice they relate to as a result physical verification could not be performed as we could not be satisfied that all the assets capitalised exist.
Total				**3 047 175.69**	

This will result in a projected over statement of property, aircraft and equipment of R19 277 880. and a consequential overstatement of accumulated depreciation R853 531.

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Internal control deficiency

Financial and performance management

The divisional financial controller did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

There is no consistency in the provision of a reconciliation schedule which accounts for all the assets and their respective invoices. SAA does not have information related to the composition of an asset readily available to support assets on the asset register.

Multiple invoices are grouped and allocated one asset number without tracking which invoices support which asset recognised. One invoice may be split and allocated various asset numbers without a record of how the split was made in order to reconcile the invoices to the asset numbers. Individual assets are not given unique numbers to ensure that they are easily identifiable.

Recommendation

The divisional financial controller should clearly establish the roles with regard to management of assets within SAA in order to establish accountability with regard to Assets.

The divisional financial controller should maintain an asset schedule which provides full details of the assets which include the invoice details to ensure that accurate record keeping of assets can be maintained.

The divisional financial controller should ensure that include the invoice numbers in SAP in order to ensure that the assets can be easily traced to its supporting schedules. Where one invoice has been allocated many asset numbers, a description of the assets which are grouped should be included in SAP to ensure that one invoice may easily be traced to all the asset numbers which are capitalised to one invoice number.

Management response

Management comment on audit finding: The current accounting policy is that all items of furniture are treated as pool items, depreciated over ten years and then removed from the fixed asset register A verification project has been started to identify all assets that are in use		
Management comment on internal control deficiencies: Invoices are maintained for 7 years and then destroyed.		
Management comment on recommendation: We will investigate methods of incorporating all this information on SAP		
Remedial action :		
What actions will be taken: Will implement system to scan all invoices for acquisitions and attach to the asset in SAP Asset verification project has been started	By whom Person: Pierre de Villiers Position	By when: Project has started in the new financial year Feedback will be provided on verification project on 30 Sep 2017

Auditor's conclusion

Management comment is noted, there was no feedback provided on 20 October regarding this finding, we have concluded on the information that was not provided on the agreed date.

The finding remains unresolved and will be aggregated with other findings which are not individually material and will be evaluated together and may have an impact on the audit report.

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64. Amortisation period and residual values of Intangible assets not appropriately assessed in terms of IAS38

Audit finding

International Accounting Standard (IAS) 38 Paragraph 101 states that the "depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life."

Paragraph 102 states that: "An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each financial year-end. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors."

103 The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortisation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

104 of the International Financial Reporting Standards (IFRS) states that "The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IAS 8.

IAS 1 paragraph 15 of IFRS states that "financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework."

During the audit it was noted that the cost of the following assets with zero carrying values is included in the annual financial statements, There is no evidence of the assessment of the useful lives and residual values for these assets, it is also not evident whether the residual values and amortisation period of other intangible assets that have not reached zero values was assessed by management as required by IAS 38

No	Capitalized on	Description	Acquis.val.	Accum.dep.	Book val.
1	2012/04/01	Electronic Ticketing : Roll-Out of Elect Ticketing	2 380 875.86	-2 380 875.86	0
2	2011/04/01	Codeshare Agreements	1 389 464.55	-1 389 464.55	0
3	2012/04/01	Flysaa.com	1 205 171.67	-1 205 171.67	0
4	2011/02/01	Delay Predictor - PegaSys Change Control SA-CR-44	357 552.00	-357 552.00	0
5	2011/03/01	Software for ITS Infrastucture Upgrade - Airman	423 858.50	-423 858.50	0
6	2011/02/01	FuelPlus Upgrade - EFM Emissions	427 381.73	-427 381.73	0

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No	Capitalized on	Description	Acquis.val.	Accum.dep.	Book val.
		Module License &			
7	2011/09/01	FuelPlus Upgrade - Tender Module License &	633 272.12	-633 272.12	0
8	2012/04/01	Software for EDW Dashboard - SAA Enterprise	9 026 392.05	-9 026 392.05	0
9	2011/01/01	Flysaa Gigabit Network Upgrade:RFP2010SAA004	4 003 172.99	-4 003 172.99	0
10	2011/02/28	Software Infrastructure for CA Unicentre	83 474.27	-83 474.27	0
Total			22 803 215.79	- 22 803 215.79	-

The current and prior year amortisation amount is misstated, the retained earnings are misstated and the whole intangible assets balance is misstated due to the assessment of residual value and amortisation period not performed, if this assessment is not performed at least annually, assets which have not reached nil value will also reach it at the end of their useful lives.

We could not quantify the extent on the misstatements between the cost of the intangible assets of R 418 000 000.00 (2017/16): R583 000 000.00 (2016/15) and the carrying value of R91 000 000.00 (2017/16): R 68 000 000.00 (2016/15) disclosed in note 37 of the annual financial statements

Internal control deficiency

Financial and performance management

The Divisional Financial Controller did not ensure that cost centre managers provided the respective supporting evidence/assumptions to support the useful life and residual values of intangible assets.

The Divisional Financial Controller did not perform a reassessment of the useful lives and amortisation periods of intangible assets on an annual basis as required by IAS 38.

Recommendation

The divisional financial controller should ensure the following:

A procedure within the existing asset management procedures should be included and communicated to all cost centre managers who are responsible for assets in their respective cost centres. This should specifically address the assessment of useful lives based on market norms. The procedures should include amongst others:

- What methodology will be adopted and how will it be consistently applied, i.e. conditional assessment
- How evidence should be gathered to support the assessment made
- How the impairment exercise can be built into this process so there is no duplication of efforts
- How the verification exercise should support this exercise to ensure there is no duplication of efforts
- How each unit presents the assessment, for example layout of report
- Other factors that each unit considered
- A specific procedure to assess assets nearing a carrying value of R1.
- Timing of the process.
- Responsibilities of individuals performing the assessment.

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- Review responsibilities should be assigned.
- Staff with the required experience and skills should be appointed to assist in the process of making conditional assessments on the assets and their useful lives.
- A formal assessment and methodology which explains why SAA has adopted zero residual values in amortising the assets.

The Chief Financial Officer together with the Head of Department: Financial Accounting should enforce controls and appropriate consequence management through regular monitoring of support to asset management from other divisions to ensure that the systems in place are enforced and that the different divisions respond timeously to asset management. This will ensure that the preventative mechanisms developed by asset management are effective to ensure that the disclosure of Intangible assets is complete and accurate and in line with the requirements of the accounting standards.

Management response

Management comment on audit finding: Management agrees with the finding regarding assets with zero book values.		
Management comment on internal control deficiencies: Management agrees with the internal control deficiency.		
Management comment on recommendation: Management is currently reviewing the asset register relating to intangibles, unlike other assets, information relating to useful lives and impairment testing is readily available and the exercise will be conducted by the relevant department to resolve the finding. All items that should be retired from the FAR are being identified and removed via CAPEX 5 forms. Management is reassessing the useful lives of the remaining assets and		
Remedial action : Review of Intangible Asset useful lives and update the FAR		
What actions will be taken: Ensure policy and procedure manuals are updated an assessment of useful lives are conducted. Assets will be retired from the FAR as soon as they reach a zero useful life	By whom Person: Pierre de Villiers Position; Controller	By when: 31/03/2018

Auditor's conclusion

Management response is noted, the finding remains unresolved and the whole carrying amount of the intangible assets balance for the current and prior year will be included in the schedule of unadjusted differences and evaluated for overall impact in the audit report.

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Non- current assets held for sale

65. Non-current asset classified as held for sale recognised at an incorrect amount

Audit finding

IAS 16 Paragraph 31 states that, "After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses."

South African Airways SOC Ltd (SAA) has elected an accounting policy which states that "Land and buildings are shown at fair value based on valuations performed by external independent valuators, less subsequent accumulated depreciation and accumulated impairment losses for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation and accumulated impairment losses at the date of revaluation are eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset".

SAA has property in Durban (Portion 75 of the farm Durban Airport number 14263). The property was revalued in 01 April 2012 in compliance with the accounting policy of SAA. The board of directors resolved to sell the property to Transnet on 16 August 2013. The property was classified as non-current asset held for sale from 16 August 2016.

During the audit, the following differences were noted between the 2012 DDP valuation report and the value transferred to non- current asset classified as held for sale as a result of Concrete surface, Tarmac surface, Carports (land) that was not included in the land and buildings value as per DDP valuation report:

Description	AFS	DDP report before reclassification	Difference
Land	55 549 200	55 549 200	0
Buildings	7 700 800	7 700 800	0
Surplus land not included	0	35 924 400	-35 924 400
Non- current asset classified as held for sale	**63 250 000**	**99 174 400**	**-35 924 400**

This will result in an understatement of non-current asset held for sale by R 35 924 400 and revaluation reserve by the same amount both in the current year and prior year.

Internal control deficiency

Financial and performance management

The HOD: Accounting did not adequately review the revaluation calculation to ensure accuracy of the non-current asset classified as held for sale balance.

Recommendation

The HOD: Accounting should adequately review non-current asset held for sale calculation to ensure that the calculation is accurate and properly accounted for on the AFS.

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Management's response

Management comment on audit finding: Management agrees with the finding on Non-Current Assets held for sale. Regarding the Non-current assets held for sale Management acknowledge the error and this will be adjusted appropriately. The valuation of the Non-current Assets held for sale will be updated in terms of IFRS 5 and as such since the realisable value is less than the Revalued amount, the asset will be limited to Realisable value.
Management comment on internal control deficiencies: Management agrees with the internal control deficiency.
Management comment on recommendation: Management agrees with the recommendation
Remedial action: The FAR will be updated for the errors

What actions will be taken:	By whom	By when: 31/03/2018
Ensure that Valuation Reports are reviewed and the FAR is updated based on the results of the Revaluation.	Person: Pierre de Villiers Position; Controller	

Auditor's conclusion

Management comments are noted, we inspected the financial statements and confirmed that the adjustments relating to non-current assets held for sale were effected. The finding is resolved, however it will be reported as a significant internal control deficiency in the audit report and management report as the AFS were not prepared in accordance with the requirements of IFRS.

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Cash and cash equivalents

66. Incorrect disclosure of the bank overdraft balance of R 725 million (Group R755 million) considered to be from financing activities

Audit finding

International Accounting Standard 1 Presentation of Financial Statements par 15 states that "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation"

International Accounting Standard 7 Statement of Cash Flows par 8, Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

The team firstly acknowledges SAA correct presentation of the cash and cash equivalents and overdraft balance on the face of the statement of financial position, one as a current asset and the other as a financial liability. The two balances do not satisfy IAS 7.8 principle of including the accounts as a component of cash and cash equivalents/one line item or the principle of IAS 32.42 on offsetting financial asset and financial liability. Consequently, the disclosure in the notes should also follow the classification and presentation of the items on the face of the Annual Financial Statements. The audit team found that the bank overdraft amount of R725 million is presented as part of the cash and cash equivalents note 21 in the draft AFS submitted for audit.

The incorrect disclosure of the bank overdraft will result on SAA financial statements not achieving fair presentation as required by ISA 1.

Internal control deficiency

Financial and performance management

The HOD: Financial Accounting did not ensure that in the annual financial statements appropriate disclosure of the overdraft balance as required by IAS 7.8 and IFRS 7: Financial Instruments Disclosure.

The different units within SAA do not take accountability as to how the financial statements line items they responsible for on day-to-day of are presented in the AFS. In this instance, the finance team could not have known that some accounts that are managed by the treasury division are overdrafts and confirmation of this was done by the finance team to the treasury division after the AG finding.

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Recommendation

The bank overdraft balance should be presented in the notes as part of financial liabilities.

The HOD: Financial Accounting should develop an IFRS checklist on for all material balances and to ensure that key IFRS principles are considered before AFS are submitted for audit.

Example of a standard disclosure per the standard for cash and cash equivalents and bank overdraft:

Cash and cash equivalents	Company - 2017
Cash at bank and on deposit:	
Foreign bank accounts	xxxxx
Domestic bank accounts	xxxxx
Restricted cash: (*auditors finding # xxx*)	
Nature of the restriction	xxxxx
Total cash and cash equivalents in the AFS	xxxxx
Less: Overdraft (*Refer to note in financial liabilities*)	xxxxx
Cash and cash equivalents per the statement of cash flows	xxxxx

Restricted cash includes:

– Describe the nature and balance (both current year and prior year)

Overdraft and short term borrowings	Company - 2017
Overdrafts	xxxx
Loans from subsidiaries – non-interest bearing (refer to note xxx	xxxx
Current portion of long-term borrowings (Refer to note xxx)	xxxx
Overdrafts and short-term borrowings are held as follows: (*Group amount*)	
– SAA Company	xxxx
– SAAT	xxxx
– Mango	xxxx
Unutilised short-term borrowings and overdraft facilities:	
SAA	xxxxx
Mango	xxxxx

All of the above overdraft facilities are reviewed annually.

Overdrafts accrue interest at floating rates. Short-term borrowings accrue interest at market-related rates.

Management response

Management comment on audit finding: Finding is noted
Obtained a listing from Michael Kleyn detailing which accounts were actual overdrafts at year end during 2017, 2016 and 2015. This will now be shown as the overdraft on the face of balance sheet. The residual will remain in cash and cash equivalents. Bank overdraft will also now be given it's own note separate from cash and cash equivalents and will not form part of the cash and cash equivalents that ties back to the cash flow statement. The movement on the bank overdraft will be shown as a cash flow from financing activity in the cash flow statement. All of the above will obviously also lead to a restatement of the cash flow statement and cash flow note. The overdraft is now R41 million lower than previously reported (Group) and R62

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million lower at a company level. The residual would move into cash and cash equivalents along with other mapping changes made to cash and cash equivalents. Will have to restate prior years in terms of IAS 8. Disclosure in terms of IAS 8 will be added to the financial statements to notify users of the restatement of prior years. Will also include a sentence below the cash and cash equivalent note detailing the amount and nature of the restricted cash in the current and prior year.		
Management comment on internal control deficiencies: Refer commentary above		
Management comment on recommendation: Noted – Changes to be made as detailed above.		
Remedial action :		
What actions will be taken: **Refer commentary above**	By whom Person: M Ascencao Position	By when: Prior to submission of AFS

Auditor's conclusion

Management's comment is noted. The team has inspected the changes proposed by management to address this finding and has accepted the proposed disclosure. As the finding was material, it will be moved to non-material matters to highlight the significant internal control deficiency identified.

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67. Non-disclosure of the significant amount of cash and cash equivalents not available for use

Audit finding

International Accounting Standard 1 Presentation of Financial Statements par 15 states that "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation"

IAS 7.48 and 49 require an entity to disclose the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group, including an example of cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.

South African Airways has restricted cash to the amount of R1 960 million under cash and cash equivalent which is restricted in other jurisdictions. The cash and cash equivalents held by SAA in foreign countries are subject to exchange control restrictions and are therefore not available for general use by SAA.

The restriction together with its particulars was not disclosed by the entity as per the reporting framework requirements. Non-disclosure of the restricted amounts and explanation as to why the cash is regarded as restricted will result in SAA financial statements not achieving fair presentation as required by ISA 1.

Internal control deficiency

Financial and performance management

The HOD: Financial Accounting did not ensure that in the annual financial statements appropriate disclosure of restricted cash was made as required by IAS 7.8.

The Financial accounting personnel is not fully updated with the IFRS requirements for disclosure for material items in the AFS.

Recommendation

The cash and cash equivalent disclosure in SAA's AFS must thus, disclose the amounts held in foreign countries as restricted, together with an explanation of why the amounts are considered cash and cash equivalents and why the amounts are considered restricted.

The HOD: Financial Accounting should develop an IFRS checklist on for all material balances and to ensure that key IFRS principles are considered before AFS are submitted for audit.

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Management response

Management comment on audit finding: Finding is noted		
Management comment on internal control deficiencies: Noted – will be corrected going forward		
Management comment on recommendation: We will disclose the amount of restricted cash in the financial statements in the cash and cash equivalents note.		
Remedial action : Disclose restricted cash in cash and cash equivalents note		
What actions will be taken: Update disclosure	By whom Person: M Ascencao Position	By when: Prior to submission of AFS

Auditor's conclusion

Management's comments are noted. The proposed changes by management to the AFS have been inspected and confirmed to be adequate. The finding will be transferred to non-material items to highlight the significant internal control deficiency identified.

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68. Inadequate internal controls over credit/debit card clearing accounts

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA) states that *An accounting authority for a public entity must ensure that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.*

Section 55 (1) (a) of the PFMA further states that the accounting authority must "*keep full and proper records of the financial affairs of the public entity*".

A. Transactions dating back to 2014 still part of the clearing accounts pending items

The credit card/debit clearing accounts below appear to not have been cleared on a regular basis as some of the accounts my go as far back as the 2014 financial year without clearing.

Account number	Type of Clearing account	Amount as per SAP account
640002 Bank : SAA Retail Sales Deposit Clearing (S/Bank)	DEBIT CLEARINGS	20 581 895.78
640202 Bank : SAA.Com Deposit Clearing (S/Bank)	Credit Clearing	(48 633 187.90)
640102 Bank : Illovo Deposit Clearing (S/Bank)	DEBIT CLEARINGS	7 400 868.26

These uncleared transactions may not satisfy classification as part of cash and cash equivalents. This has a potential to result in a misstatement in the cash and cash equivalent balance which will distort the statement of financial position and the cash flow statement of the entity. This would also make it easy for money to be embezzled as there will always be reconciling items that are not followed up and cleared.

B. Cleared transactions in the bank not updated in SAP. i.e still accounted as pending receipts/payments

The credit card payment transactions below were included in the clearing account despite the fact that they had been cleared by the bank.

Account number	Type of Clearing account	Amount as per SAP account
660029 Bank : Citibank : Unknown Transaction USD	Credit Card Clearing account	(1 432 724.29)
660039 Bank : Citibank : Unknown Transaction USD	Credit Card Clearing account	(1 058 111.10)

The differences have resulted in a misstatement in the cash and cash equivalent balance which will distort the statement of financial position and the cash flow statement of the entity.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management did not implement adequate and effective procedures in reconciling of clearing accounts.

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Recommendation

The financial accounting and treasury team should ensure that proper procedures are in place in how clearing accounts should be reconciled and note the maximum ageing reconciling items can sit on the clearing account before being written off or reversed.

Management should review the clearing accounts and identify long outstanding items and document consideration of writing or not writing off those items.

Management response

Management comment on audit finding: The finding has been accepted and possible risk noted, the backlog was as a result of technical glitches of interfaces and SAPFI table maintenance, All that has now been resolved and accounts are now being cleared, this is with reference to account 640002 and 640202.(With reference again to 640202 we are also addressing the issue of IT spool files not interfacing). This exposure was also as a result of not able to fill vacancy for one of our positions due to moratorium in place. The balance with regards to GL account 640102 is also being cleared and the line manager has been informed regarding Deposits not interfacing on time, we are also in liaison with bank regarding this matter.		
Management comment on internal control deficiencies: Internal control deficiency has been noted and motivation to fill vacancy has been put on hold by CCO office.. We will prepare another motivation to fill the vacancy as soon as possible. However in the interim staff have been granted overtime to help resolve the backlog issue.		
Management comment on recommendation: Recommendation has been noted and will be discussed with stake holders		
Remedial action : Timelines set to clear backlog is three months		
What actions will be taken: As per above	By whom Ernest Mudau Person: Position	By when: Latest after three months

Name: Ernest Mudau
Position: Regional Finance Manager
Date: 04August2017

Auditor's conclusion

The effect of the transactions above was assessed no to be material. However management needs to ensure the controls are effective of the clearing account as the amounts may have a material effect in the next financial periods.

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69. Differences between bank confirmation balances and the bank balances in the trial balance

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA) states that An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Section 55 (1) (a) of the PFMA further states that the accounting authority must "keep full and proper records of the financial affairs of the public entity".

The bank balances as per the trial balance are different from the balances as per bank confirmations received/bank statements from the respective banks. The differences are disclosed in **Annexure A.**

The differences have resulted in a misstatement in the cash and cash equivalent balance which will distort the statement of financial position and the cash flow statement of the entity.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting Management under financial accounting cash and banking section and treasury function did not ensure that the correct balances were included in the trail balance and the annual financial statements.

Recommendation

The financial accounting cash team and treasury department should ensure that the entity implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management response

Management comment on audit finding:
The findings relating to the differences are correct for some of the accounts, however there are discrepancies on the finding for most of the accounts as the balances per TB are correct as per the banks statements. We have detailed the differences on annexure A, and also provided supporting documents for the accounts that are correct where we do not agree with the finding. The corrections make a significant contribution to the total value of the differences. The recalculated difference is ZAR106,898.98 (negative) and ZAR1,056,847.50 respectively.
Management comment on internal control deficiencies:
Accepted and will be implemented
Management comment on recommendation:

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Accepted and will be implemented		
Remedial action :		
What actions will be taken:	By whom Person: Frank Kgaswane Position: RFM	By when: Within 3 months

Auditor's conclusion

Managements comments are noted. The audit team received additional documents and explanations from management and confirmed some misstatements reported as not valid.

The remaining misstatements were assessed to be below clearly trivial. The finding will remain to highlight the deficiency in internal controls and the effectiveness the interventions to be implemented by management to be assessed during next years' audit.

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Equity

70. Incorrect classification of the R1, 3 billion subordinated loan with Nedbank as equity

Audit finding

Contractual terms

SAA entered into a subordinated loan agreement with Nedbank in March 2007 under the following relevant terms:

- Nedbank granted SAA a loan to the amount of R1.3 billion, subject to a guarantee from Government. (s. 2.2, 3, 4.1)
- Government (through the Minister of Public enterprises, with the concurrence of the Minister of Finance) unconditionally and irrevocably guarantees to Nedbank the due and punctual fulfilment and performance of SAA's obligations i.t.o. the loan agreement. (s. 1.2.11, 1.2.12)
- The R1.3 billion capital amount bears interest on a quarterly basis at the market related rate determined by Nedbank with reference to the applicable government risk. (s. 1.2.3, 5.1)
- In the event of SAA failing to make interest payments for whatever reason, Nedbank is deemed to have ceded its claim for such interest to Government, and Nedbank is entitled to claim payment of the interest from Government. (s. 5.3)
- The R1.3 billion capital amount is repayable by SAA to Nedbank on the initial repayment date. (s. 6.1)
- SAA is entitled, by written notice to Nedbank, to extend the capital repayment date to the subsequent repayment date. (s. 6.2)
- If SAA has not repaid the R1.3 billion capital amount by the subsequent repayment date, SAA's obligation to repay the capital is automatically extended by 1 year on a continuous basis, until SAA repays the R1.3 billion capital amount in full. (s. 6.5)
- Nedbank's claims against SAA with regard to the return of the R1.3 billion capital amount is wholly subordinated to the claims of all other creditors of SAA, should SAA be placed in final liquidation.

However, Nedbank's right to participate in the free residue of SAA's estate is in priority to the ordinary shareholder's rights in the free residue of SAA's estate. (s. 7.)

Current accounting treatment by SAA

SAA currently accounts for the subordinated loan as an equity instrument and not as a financial liability, providing their reason for classifying the loan as equity in note 22 to the draft 2017 AFS, as follows:

"The loan was obtained from a domestic market source and is secured by a government guarantee. This is a perpetual loan repayable only at the issuer's (SAA) option. The Group has no obligation to repay the capital or the interest on the loan except on final liquidation after all the creditors have been paid but ranking prior to the ordinary shareholders' right to participation. Should SAA elect not to make payment, the government guarantee will become effective. The loan of R1,3 billion bears interest at an aggregate of three months JIBAR plus 150 basis points and is payable quarterly from June 2007 at the sole discretion of the issuer. This loan has been classified as an equity instrument and interest paid accounted for as a dividend."

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IFRS requirements

IAS 32.11 contains the following relevant definitions:

- A financial liability is any liability that is:

(a) a contractual obligation:

i. to deliver cash or another financial asset to another entity; or

ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is:

i. a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments in accordance with paragraphs 16A and 16B, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D.

- An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
- A puttable instrument is a financial instrument that gives the holder (Nedbank) the right to put the instrument back to the issuer (SAA) for cash or another financial asset or is automatically put back to the issuer (SAA) on the occurrence of an uncertain future event or the death or retirement of the instrument holder (Nedbank).

IAS 32.16 explains that when the definitions in IAS 32.11 are applied to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument only if both conditions (a) and (b) below are met:

(a) The instrument includes no contractual obligation:

i. to deliver cash or another financial asset to another entity; or

ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

(b) If the instrument will or may be settled in the issuer's own equity instruments, it is:

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i. a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or

ii. a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the issuer's own equity instruments do not include instruments that have all the features and meet the conditions described in paragraphs 16A and 16B or paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments.

With the exception that, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in:

- IAS 32.16A and 16B;
- IAS 32.16C and 16D

IAS 32.16A and 16B only apply to puttable instruments, while IAS 32.16C and 16D only apply if liquidation either is certain to occur and outside the control of the issuer (SAA) or is uncertain to occur but is at the option of the instrument holder (Nedbank).

IAS 32.16A and 16C include a number of features, all of which must be present in order for an instrument that meets the definition of a financial liability to be classified as an equity instrument. One of the features that are included in both IAS 32.16A and 16C (sub-par. (b)) is that the instrument must be in the class of instruments that is subordinate to all other classes of instruments.

IAS 32.17 provides further guidance on distinguishing between a financial liability and an equity instruments and states that, with the exception of the circumstances described in IAS32.16A and 16B or IAS 32.16C and 16D, a critical feature in differentiating a financial liability from an equity instrument is the existence of a contractual obligation of one party to the financial instrument (the issuer) (SAA) either to deliver cash or another financial asset to the other party (the holder) (Nedbank) or to exchange financial assets or financial liabilities with the holder (Nedbank) under conditions that are potentially unfavourable to the issuer (SAA). Although the holder (Nedbank) of an equity instrument may be entitled to receive a pro rata share of any dividends or other distributions of equity, the issuer (SAA) does not have a contractual obligation to make such distributions because it cannot be required to deliver cash or another financial asset to another party.

IAS 32.AG6 further explains that "perpetual" debt instruments (such as "perpetual" bonds) normally provide the holder (Nedbank) with the contractual right to receive payments on account of interest at fixed dates extending into the indefinite future, either with no right to receive a return of principal or a right to a return of principal under terms that make it very unlikely or very far in the future. The holder (Nedbank) and issuer (SAA) of the instrument have a financial asset and a financial liability, respectively.

IAS 32.AG26, when preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. When distributions to holders (Nedbank) of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer (SAA), the shares are equity instruments.

The classification of a preference share as an equity instrument or a financial liability is not affected by, for example:

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(a) a history of making distributions;

(b) an intention to make distributions in the future;

(c) a possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares);

(d) the amount of the issuer's reserves;

(e) an issuer's expectation of a profit or loss for a period; or

(f) an ability or inability of the issuer to influence the amount of its profit or loss for the period.

Auditors' application

In terms of IAS 32.16 and 17, the most important element that differentiates a financial liability from an equity instrument is the presence of a contractual obligation on the issuer (SAA) to deliver cash or another financial asset to the holder (Nedbank). The existence of this obligation means that the instrument is a financial liability, and in the case of a lack thereof, means that it is an equity instrument.

In terms of the subordinated loan agreement between Nedbank and SAA, SAA has the right, and has so far exercised that right, to extend the repayment of the R1.3 billion capital loan amount in perpetuity. (s. 6.1, 6.2, 6.5).That is, the subordinated loan agreement between Nedbank and SAA is a perpetual debt instrument.

For financial accounting purposes, perpetual instruments may be considered a liability, equity or a hybrid instrument (including both categories) under IAS 32. Under IAS 32.11, an equity instrument carries no obligation to repay and no obligation to make periodical payments but merely evidences a residual interest in the assets of the issuer (SAA) after deduction of all its assets. To apply these principles, IAS32.AG6 and AG26 provide further guidance, as follows:

- IAS 32 AG6, perpetual debt instruments (such as "perpetual" bonds) normally provide the holder (Nedbank) with the contractual right to receive payments on account of interest at fixed dates extending into the indefinite future, either with no right to receive a return of principal or a right to a return of principal under terms that make it very unlikely or very far in the future. The holder (Nedbank) and issuer (SAA) of the instrument have a financial asset and a financial liability, respectively.
- IAS 32.AG26, when preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. When distributions to holders (Nedbank) of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer (SAA), the shares are equity instruments.

Paragraph AG6 is based on the premise that the issuer (SAA) is required to make interest payments on the instrument. Conversely, paragraph AG26, which discusses the classification of non-redeemable preference shares as debt or equity, indicates that when distributions to holders (Nedbank) of the instrument are at the discretion of the issuer (SAA) then the instrument is equity.

Based on the above, the accounting classification of a perpetual debt instrument, including the subordinated loan agreement between Nedbank and SAA, depends on whether the interest payments are at the discretion of the issuer (SAA) or not.

In order to correctly classify the subordinated loan agreement between Nedbank and SAA between either an equity instrument or a financial liability, it is necessary to carefully consider the contractual terms of the subordinated loan agreement:

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- SAA has the right, and has so far exercised that right, to extend the repayment of the R1.3 billion capital loan amount in perpetuity. (s. 6.1, 6.2, 6.5)
- SAA has the obligation to pay interest on the R1.3 billion capital amount on a quarterly basis at the market related rate determined by Nedbank with reference to the applicable government risk. (s. 1.2.3, 5.1) S.5.2 of the subordination agreement states that "interest in respect of an interest period is payable on the interest payment date in respect of that interest period." S. 1.2.13 and 1.2.14 define interest payment date as "the last business day of each interest period", and interest period as "the period commencing on signature date and ending on the day immediately prior to the next succeeding quarter, and thereafter each succeeding quarter".

It is important to note that s. 6 of the subordination loan agreement, which deals with the perpetual extension of loan repayments, only applies to the R1.3 billion capital loan amount and not to the interest on the loan. Therefore, based on the contractual terms of the subordinated loan agreement, the audit team does not agree with the statement in note 22 to SAA's draft 2017 AFS that SAA does not have an obligation to pay interest and that the payment of interest is at SAA's sole discretion. And consequently, the audit team does not agree with SAA's motivation for classifying the subordinated loan between Nedbank and SAA as equity.

As discussed above and based on the contractual terms of the subordinated loan agreement between Nedbank and SAA, SAA has a contractual obligation i.t.o. the subordinated loan agreement to pay interest (cash) to Nedbank on a quarterly basis. I.e. the payment of the interest is mandatory and is not at the SAA's discretion.

The existence of this mandatory obligation on SAA to pay interest to Nedbank on a quarterly basis means that the subordinated loan agreement between Nedbank and SAA is a financial liability for SAA and not an equity instrument. As SAA incorrectly accounted for the subordinated loan agreement as an equity instrument in the past, this must be corrected according to the requirements in IAS 8 on the correction of prior period errors.

Note: IAS 32.16A and 16B or IAS 32.16C and 16D also allows for a given financial instrument to be classified as an equity instrument under certain conditions. However, the loan between Nedbank and SAA does not meet the features and conditions in IAS 32.16A and 16B or IAS 32.16C and 16D for the following reasons:

- IAS 32.16A and 16B: the loan is not a puttable instrument as defined in IAS 32.11
- IAS 32.16C and 16D: liquidation is not certain and outside SAA's control or uncertain and at Nedbank's option

This will result in understatement of liabilities and distortion of the net asset position of SAA.

Internal control deficiency

Financial and performance management

The Chief Financial Officer did not ensure correct application of the conditions of the subordinated loan agreement, considered in line with the requirements of International Accounting Standard 32 Financial Instruments: Presentation (IAS 32) when classifying the Nedbank loan as equity.

Recommendation

The Chief Financial Officer should reclassify the subordinated loan from an equity instrument to a financial liability.

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The Chief Financial Officer should review the disclosure on the subordinated loan and ensure that the qualitative narrations are consistent with the substance of the loan agreement.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding:
Management notes the finding from the AG and will review the rationale for the current classification as equity. Management will engage with external experts in this field.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
Management will consider this in the light of the outcome of the external opinion.</td></tr>
<tr><td colspan="3">Management comment on recommendation:
The outcome of the external opinion will determine whether the recommendation is acted on or not.</td></tr>
<tr><td colspan="3">Remedial action:</td></tr>
<tr><td>What actions will be taken:
Engage with external experts in this subject matter and determine the way forward in light of their findings.</td><td>By whom: CFO/HOD Financial accounting
Position:
Agreed by:
Position:</td><td>By when: ASAP</td></tr>
</table>

Auditor's conclusion

Audit team received management's opinion and noted that management was in agreement with the team in relation to the classification of the subordinated loan as part of financial liabilities. The audit team confirmed the adjustments in the final AFS submitted for audit as proposed in our finding. The finding will be moved to other non-material matters to highlight the control deficiency identified.

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Trade and other receivables

71. Consolidated issues noted on the neutrality advance assets affecting valuation and disclosure

Audit finding

In terms of International Accounting Standard 39: *Financial Instruments – Recognition and Measurement* (IAS 39), par. 46(a) states, "*After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following assets:*

a) loans and receivables as defined in paragraph 9, which shall be measured at amortised cost using the effective interest method;"

IAS 39 par. 58 also states, "*An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired...*" Paragraph 59 includes indicators of objective evidence for impairment.

During the audit of SAA we held discussions with the Revenue Accounting department and performed procedures on the neutrality advance payments (Account 710180 S.A. Express Forward Sales & 710170 S.A. Airlink Forward Sales) made to SA Express Airways SOC Ltd ("SAX") in terms of the Passenger Revenue Accounting Services Agreement of 2011 and payments made to S.A. Airlink Pty Ltd ("SAL") Commercial & Alliance Agreement of 2000 respectively. In terms of the initial agreements, SAA performs all revenue accounting functions on behalf of SAX and SAL (i.e. ticketing, billing, etc.). As a result SAA would receive funds when making sales on SAX's behalf and pay over upon uplift of the related tickets nett of charged expenses. As such, the agreement requires SAA to make a prepayment to SAX and SAL for ticket sales made on their behalf.

A. Recognition of neutrality advance and contract management concerns

We obtained and inspected commercial agreements between SAA and the other two airlines, SAX and SAL. These agreements set out the commercial arrangements between the entities, including the provision of Passenger Revenue Accounting services by SAA.

Contract detailed requirements	SA Express Airlines	SA Airlink
Date of last commercial contract	1 October 2015 – This contract makes reference to a number of schedules including one for passenger revenue accounting services, we were however unable to obtain this schedule from either SAA or SAX. Both parties claiming that this was absent from the commercial agreement. This agreement however states that it overrides any previous arrangement between these parties.	20 December 2006 - we identified that the SAL arrangement is continuing based on a franchise extension letter indicating the relationship would be extended to 31 March 2007 and also repealing any previous agreements between the parties. We were unable to obtain agreements subsequent to this.
Date of last passenger revenue accounting services agreement	01 April 2011	01 September 1999
Advance payment of ticket sales conditions	Payments by SAA to SAX with respect to all SAX sectors sold will be made on the basis that a prepayment shall be stablished and made by SAA to SAX based on the following principles:	SAA will provide SAL with a loan equal to advance sales as per the formula laid out in Appendix 11. It is agreed that the amount advanced to Airlink will be revised at monthly intervals, with the first

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Contract detailed requirements	SA Express Airlines	SA Airlink
	- An estimated SAX Air Traffic Liability (ATL) will be calculated and paid to SAX to assist SAX to obtain the required Air Council's Guarantees. - The prepayment shall be made on the basis of an analysis performed by SAA on SAX ticket flown trends, UTL releases and Tax/Levy rations. - The advance which replaces the cash neutrality payment will be adjusted on a quarterly basis. March, June, September and December month end will be used and the prepayment will be adjusted up or down as required.	period starting on 1 September 1999. Par 3.8.13 of appendix 11 states that payments to SAL in respect of SAL ticket tickets flown – 63.76% of net revenue per month represents the current cash neutrality of SAL.
Repayment conditions or offsetting arrangements against advance payments	No repayment conditions are set; the contract does not make mention whether the adjustment would be considered a repayable or offset against future flown revenue. It is therefore unclear if SAA would have the right to net settlement.	Commercial Agreement 2011 Appendix 3.8.13.4 Earned revenues shall include SAL's lifted coupons, MCOs and excess baggage. SAA has the right to offset from amounts paid to Airlink any amounts due to SAA.
Current treatment in the AFS of SAA	Not offset against SAA's air traffic liability and the neutrality advance is shown as a debtor instead.	Not offset against SAA's air traffic liability and the neutrality advance is shown as a debtor instead.
Conclusion if the accounting treatment is correct based on the above	The accounting treatment is appropriate as the contract does not provide for offset arrangements.	The agreement allows for offsetting of prepayments to flown revenue invoices. The accounting treatment for SAA should therefore allow to include this balance in net of the air traffic liability in the AFS.
Value of forward sales recorded by SAA as at 31 March 2017	R350 537 944.00	R651 653 280.00
Neutrality payments made to airlines as at 31 March 2017.	R343 724 605.79	R83 201 802.11
Neutrality payments as % of forward sales SAA recorded for the respective airlines	98.06%	12.77%

From the assessment above, it is concerning that the contracts between SAA, SAX and SAL is not actively managed and frequently reviewed. Costs incurred by SAA might no longer be passed on or services adequately priced in terms of SAA's own internal cost structures. Although SAA might be enjoying the benefit of interest from forward sales made by SAL, this relationship should be carefully managed as any service cancellation by SAL might result in additional cash flow pressure for SAA. This matter gives rise to a control deficiency relating to the contract management.

B. Inadequate valuation of the neutrality advance

The accounting policy in the financial statements classifies the amounts for the neutrality advance under loans and receivables. These loans and receivables are measured at amortised cost using

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the effective interest rate method, less any impairment. The neutrality advances are currently not offset against forward sales balances of the two airlines. In terms of the agreements inspected, SAA does not currently have a legally enforceable right to set off the recognised amount for SAX and may not apply offsetting in terms of IAS32.42.

During our assessment of the valuation of the neutrality advances we identified there was no impairment or assessment of impairment of these financial assets even though there was objective evidence of impairment in terms of IAS39.59. With regards to SAX, one major indicator identified during our testing was the significant financial difficulty of SAX evidenced by the revision of their government guarantee, including extension of the guarantee period as indicated in the external auditors report in the 2015/16 annual report. It was also noted that sales for SAX were in decline after 31 March 2017 that required a downward adjustment in the neutrality prepayment. SAA would either require a repayment from SAX or hold back realised revenue, resulting in further pressure on the airline.

As per our communication to revenue management, a further note of concern is that SAA does not have internal controls in place to prevent other airline (SAL and SAX) customers from obtaining ticket refunds in the case where that airline would no longer be able to continue as a going concern. Not only would SAA be subject to risk of refunding these airline's customers from the air traffic liability, it would also be subject to impair the neutrality payments made to these airlines.

The amount is currently recorded in terms of the agreement based as the unflown net fare, usage taxes and fuel levy amount less discounts and commissions. The impact of the above is a potential overstatement of the neutrality advance amount due to the risk that the amount may not be recoverable as at year end. The balance relating to this amount as at year end is R343 724 605.79 for SAX.

C. Insufficient disclosure of credit risk exposure and related party transactions

Related party disclosure

In terms of International Accounting Standard 24: *Related Party Disclosures* (IAS 24), paragraph 18(a) states, *"If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17."* Paragraph 18 further states minimum information to be disclosed.

IAS 24 paragraph 26 further states, *"If a reporting entity applies the exemption in paragraph 25, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 25:*

(a) the name of the government and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence);

(b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

(i) the nature and amount of each individually significant transaction; and

(ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph 21"

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We further assessed whether the neutrality advance balance outstanding was subject to related party disclosure in terms of IAS 24. SAA and SAX are government-related entities as defined due to them being controlled by the same government through different accountable government departments (Department of Finance and Department of Public Enterprises respectively).

SAA has elected to apply the paragraph 25 exemption regarding certain related party transaction disclosure. However, the disclosure required when applying this exemption is not in accordance with paragraph 26. This is mainly because the nature and amount of the neutrality advance has not been disclosed separately as individually significant or collectively with other non-significant transactions or balances.

The impact of the above is incomplete related party disclosure in the notes to the financial statements.

Furthermore, the basis of the neutrality advance appears to be similar in both the SAX and SAL agreements, generally based on outstanding net fare, usage taxes and fuel levies. However, when the neutrality advances paid to the different airlines at year end are compared with each other, the forward sales for SAX advance (98.1%) is more in line with their forward sales whereas SAL's advanced amount (12.8%) is noticeably less (refer to the table in part A above). In disclosing this related-party balance, SAA should disclose the nature of the related-party relationship and other factors relevant in establishing the level of significance of the transaction. This includes considerations of whether in substance the advance payments made to SAX was at arm's length (i.e. non-market terms) in comparison with that of SAL.

Credit risk Disclosure

In terms of International Financial Reporting Standard 7: *Financial Instruments -Disclosures* (IAS 24), paragraph 33 states, *"For each type of risk arising from financial instruments, an entity shall disclose:*

a) the exposure to risk and how they arise;
b) its objectives, policies and processes for managing the risk and the methods used to measure the risk
c) any changes in (a) or (b) from the previous period."

During the audit we inspected note 27: *Risk Management* in the financial statements regarding credit risk management for loans and receivables. We noted that the credit management policy is used to manage credit risk relating to trade receivables. However, we could not identify disclosures relating to risk exposure, objectives and processes for risk management as well as methods used to measure risk for neutrality advances.

.Given the risk that SAA might refund SAX customer in the case where SAX cease to operate, SAA would have a double risk exposure as SAA could stand to lose both the amount prepaid to SAX as well as the forward sales it holds on SAX's behalf. In our inspection of the various commercial agreements we could not find a clause specifically indemnifying SAA should this eventuality occur.

The impact of the above is incomplete disclosure regarding financial instrument risk in the notes to the financial statements and non-compliance with IFRS.

Internal control deficiency

Financial and performance management

Revenue and commercial management did implement controls over daily and monthly processing and reconciling transactions relating to the amount advanced to SA Express in the financial to ensure that contractual agreements are updated and credit risk assessments are performed on a

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continuous basis. This is due to the internal control deficiencies identified around contract management practices applied for interline, franchise and revenue accounting service agreements.

The preparer of the financial statements did not review and monitor compliance with applicable legislation relating to accounting for financial assets in terms of IFRS, IAS39 and IAS 24 respectively due to formal process deficiencies in the preparation and review of financial statement.

Recommendation

As recommendation to the above finding, revenue and commercial management should:

A. Recognition of neutrality advance and contract management concerns

- Regularly monitor validity periods of commercial agreements with contracted parties to ensure SAA maintains contractual rights in terms of valid and enforceable agreements and not to subject SAA to additional financial risks.
- Contractual agreements between the parties indicated should be reviewed and re-established as a matter of urgency.

B. Inadequate valuation of the neutrality advance

- Perform an impairment assessment of neutrality advance amounts receivable from SA Express and SA Airlink. The recorded amounts should be restated to the impaired amount once determined. In determining what the impaired amount will be, management should also consider the factors that would indicate material uncertainty in the counterparty's (i.e. SA Express) ability to continue as a going concern ultimate recoverability of the balance.
- Going forward, perform the assessment for impairment at every period end.
- Restate the prior year balance relating to the neutrality advances for the effect of any impairment that should have been recorded in the prior year.
- Disclose the restatement as a prior period error note in accordance with IAS 8 and to the extent practicable, restate the retained earnings amount of the earliest presented financial year in the financial statements in accordance with IAS 8.
- Implement controls over the processing of refunds on behalf of SAX and SAL to prevent additional risk exposure in the event that these entities can no longer fulfil their obligation to their ticket holders.

C. Insufficient disclosure of credit risk exposure and related party transactions

- Management should update disclosures made for related parties and risk management relating to the neutrality advances. This should include a statement of whether the amount advanced to SAX was at arm's length or otherwise. Such disclosures should be substantiated.
- Management should implement IT controls to prevent other airline's associated tickets from being refunded through SAA channels (agencies, call centres or online applications) in events where SAA might be subject to further financial risk.

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- Management should monitor and review the related party and risk management disclosures made to ensure disclosure requirements under the respective standards and the relevant risks that it is associated with.

Management's response

Management comment on audit finding:

Passenger Revenue Accounting comments by HOD Revenue Accounting

Part A: *'...it is concerning that the contracts between SAA, SAX and SAL is not actively managed and frequently reviewed. Costs incurred by SAA might no longer be passed on or services adequately priced in terms of SAA's own internal cost structures. Although SAA might be enjoying the benefit of interest from forward sales made by SAL, this relationship should be carefully managed as any service cancellation by SAL might result in additional cash flow pressure for SAA. This matter gives rise to a control deficiency relating to the contract management.'*

Agree that contracts should be actively managed and reviewed.

In respect of Revenue Accounting component of contracts the changes in revenue accounting systems in 2006 and 2015 impacted on the review processes and finalisation of updated agreements. The changes in revenue accounting processes and recovery of costs incurred by SAA have been communicated to SAX and SAL and meetings did take place on an ad hoc basis.

SAA ensures that costs incurred by SAA on behalf of SAX and SAL are recovered to the extent that data is available to verify accuracy and reasonableness of cost recoveries.

Both SAX and SAL have the right to cancel the agreement.

Part B '*Inadequate valuation of the neutrality advance*'

Original agreements made provision for a percentage of SAX and SAL flown revenue to be advanced as a Cash neutrality payment to cover SAX and SAL for working capital not received on their advance ticket sales due to SAA collecting all SAA coded 083 ticket sales. With the implementation of RAPID in 2006 SAA could determine sector fare value of SAX and SAL ticket sales which improved the estimation of the 'neutrality advance' Ticket taxes could not be reconciled and SAX and SAL share not determined. As from May 2015 with the implementation of APRA all SAX and SAL flight sector values can be determined. The accuracy of these values cannot be verified as APRA phase 1 implementation is not yet finalised and the reconciliation of advance sales (fare and taxes) affected by system errors.

Amadeus has received a legal letter from SAA to resolve the system defects by end September 2017 that will allow SAA to close out phase 1.

SAX and SAL are aware of the system errors and monthly flown revenue and ticket taxes data and reports extracted for SAX and SAL are continuously verified and corrected as errors are detected. Phase 2 of the APRA implementation will include the enhancement of various reports to be extracted from APRA. The cash neutrality calculations will be replaced by actual net sales generated by SAX and SAL in order that SAX and SAL can pay VAT on their own sales. SAA currently paying vat on all 083 sales and is therefore not vat compliant. Reports will also be enhanced to calculate actual credit card commission paid on SAX and SAL flight sectors replacing current estimation.

Part C '*Insufficient disclosure of credit risk exposure and related party transactions*'

Cash neutrality advances to SAX and SAL as at end June 2015 presented to SAA Financial Risk Sub Committee (FRSC) in August 2016 with explanations of basis of calculations and credit risk if SAX and SAL cannot operate their flights. FRSC deliberated on risks and accepted that SAX and SAL are both going concerns and the risk is accepted. The point was raised that SAX and SAL is also exposed to SAA if SAA should stop to operate they will have to perform their services to 083 ticket holders with SAX and

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SAL flight sectors ticketed and claim from SAA revenues not covered by the cash neutrality advance. SAA pay flown revenues and taxes, fees and surcharges due to SAX and SAL at varying dates in the month following the month in which flights were operated. Typically a percentage of revenues by the 5th working day of the following month and +/-20th of the following month. Sales for SAX and SAL flight sectors would have been collected by SAA in that period. This audit finding will be discussed at the FRSC in August 2017. Credit risk will be eliminated if guarantees are obtained from SAX and SAL. SAA will most probably have to provide guarantees for sales not covered by the neutrality advance.
Management comment on internal control deficiencies: **Passenger Revenue Accounting comments by HOD Revenue Accounting** **Part A:** *'...it is concerning that the contracts between SAA, SAX and SAL is not actively managed and frequently reviewed.... gives rise to a control deficiency relating to the contract management.'* Agree that contracts should be actively managed and reviewed. **Part B** '*Inadequate valuation of the neutrality advance*' Valuation is currently done as best possible with data available and will be enhanced with the assistance of a dedicated specialist project manager facilitating the processes and actions required to make this happen. In respect of point made *'that SAA does not have internal controls in place to prevent other airline (SAL and SAX) customers from obtaining ticket refunds in the case where that airline would no longer be able to continue as a going concern'* SAA cannot prevent agents refunding – or exchanging tickets if SAA is continuing with operations. **Part C** '*Insufficient disclosure of credit risk exposure and related party transactions*' Credit risk exposure discussed at SAA FRSC
Management comment on recommendation: **Passenger Revenue Accounting comments by HOD Revenue Accounting** **Part A:** *'...it is concerning that the contracts between SAA, SAX and SAL is not actively managed and frequently reviewed...'* Agree that contracts should be actively managed and reviewed. **Part B** '*Inadequate valuation of the neutrality advance*' Agree that reports used for valuation be enhanced and SAA become VAT compliant in providing SAX and SAL their sales values and applicable VAT on a monthly basis Do not agree that SAA has to impair the neutrality advances as both airlines are considered going concerns and have airline operating licenses. **Part C** '*Insufficient disclosure of credit risk exposure and related party transactions*' Agree that credit risk be monitored on a regular basis (not only once a year) and that guarantees should be considered to eliminate this risk. Reports to be developed and implement vat compliant sales reporting and payments
Remedial action:

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Passenger Revenue Accounting comments by HOD Revenue Accounting **Part A:** '..*contracts between SAA, SAX and SAL is not actively managed and frequently reviewed.*' Review of current SAX and SAL revenue accounting agreements will be included in the project management processes for APRA phase 2 implementation. Will include Commercial department input and updating of Commercial agreements with SAX and SAL **Part B** '*Inadequate valuation of the neutrality advance*' Reports used for valuation be enhanced to ensure SAA become VAT compliant in providing SAX and SAL their sales values and applicable VAT on a monthly basis. **Part C** '*Insufficient disclosure of credit risk exposure and related party transactions*' Credit risk will be monitored on a regular basis (not only once a year) and guarantees will be considered to eliminate this risk.		
What actions will be taken:	By whom: Person: Position;	By when:

Auditor's conclusion

Part A- Management's response was noted and agrees with the finding, internal control deficiency and the recommendations. The audit recommendation will be noted in the management report that the contracts will be revisited by management to ensure that formal and effective agreements are in place.

Part B - Management's response is noted additional engagement were held to ensure that this issue is clarified with management. As SAX were signed off as a going concern within the financial period, the indicated governmental assistance provides sufficient assurance of continuous operations.

Part C - Management's response is noted and additional engagement were arranged to clarify this issue with management, specifically relating to the credit risk and related party disclosure in financial statements for the subject matter above. Proof were provided that this has been included in the FINCO meeting discussions. Seeing that SAX remains a going concern, the receivable were not highlighted as unfavourable.

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72. Opening balances: Maintenance Reserves debtors reflected as negative amounts

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that *"An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control".*

IAS 8 Paragraph 42 states that *"Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented."*

During the audit of opening balances, we noted that maintenance reserve accounts were incorrectly classified as debtors as at 31 March 2016 as they were recorded as negative amounts in the debtors balance. The amounts were subsequently corrected during the current year when SAA bought the two aircrafts from the lessor and management did not restate prior period to correct the error:

No	Account name	Amount (USD)	Exchange rate at year end	Amount (Rands)
1	Account ZS-SXG	(279 168.99)	14.76780	(4 122 711.81)
2	Account ZS-SXH	(296 296.23)	14.76780	(4 375 643.47)
Total		**(575 465.22)**	**14.76780**	**(8 498 355.28)**

This misstatement will result in a factual understatement of maintenance reserve debtors and understatement of maintenance expense of R8 498 355.28 in the financial statements.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller: Fleet did not adequately review debtors listing as at 31 March 2016.

There was no proper assessment done when adjusting provision for lease liabilities at the end of 31 March 2016 which resulted in over allocating the provision for lease liabilities to maintenance reserve debtors.

Recommendation

The Divisional Financial Controller: Fleet should put policies and procedures in place to ensure that to adequately review debtors listing at year end.

The Divisional Financial Controller: Fleet should correct the prior year misstatement and included the disclosure in the financial statements as required by IAS 8.

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Management's response

Management comment on audit finding: Agree with finding. The error was corrected in the financial year under review new financial year		
Management comment on internal control deficiencies: Agree with finding		
Management comment on recommendation: Agree with finding		
Remedial action:		
What actions will be taken: Feedback will be requested from the CFO as to whether a prior year adjustment should be processed	By whom: Person: Pierre de Villiers Position; Controller	By when: 30 Sep 2017

Auditor's conclusion

Management agreed to with the audit finding. Journal no 76 was passed to correct the factual misstatement. From the record of work done when evaluating the journal, we considered the adjustment to appropriate. Hence the finding is resolved.

This finding will be included in management report since the internal controls of SAA did not prevent, detect or correct the errors communicated as these were identified through the audit process. The matter will be reported as a significant internal control deficiency in the management report.

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73. Auxiliary Power Unit (APU) and Airframe hours not correctly calculated

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that "*An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control*".

During the calculation of maintenance reserves and provision for lease liabilities, the following assumptions amongst others are taken into account when calculating APU/Airframe hours:

- The time between overhauls is determined by a number of factors. For simplicity and uniformity, forecast APU hours are used to determine time between overhauls. Total time between events is estimated by SAA aircraft engineers based on historical trends and expected future performance.
- The APU forecast hours between overhauls used in the lease liability calculation is extracted from the APU Removal Schedules as prepared by South African Airways Technical (SAAT). SAAT prepares these APU Status Reports for each APU type.

The forecast monthly APU hours as used in the lease liability calculation is calculated as follows:

- The budgeted engine hours (as supplied with the engine information) are used as basis for this calculation.
- An estimate of the ratio between APU hours and Airframe hours is calculated by using the cumulative hour's data as supplied by SAAT.

The Airframe/APU hour ratio is applied to the budgeted engine hours to determine the forecast APU hours on a monthly basis. It is assumed that the aircraft will be used in a similar manner for the next year and that the ratio between APU hours and airframe hours will remain the same.

During the audit, it was noted that airframe cycles were incorrectly used to calculate APU/Airframe ratio instead of APU hours for the fleet listed below:

Management calculations		Audit work			Difference
Fleet	Ratio	Airframe Hours	APU hours	Recalculated ratio	
APU_A319	0.70	310 580.00	159 842.00	0.51	(0.19)
APU_A322	0.65	102 735.00	107 941.00	1.05	0.40
APU_A332	0.14	153 823.00	61 429.00	0.40	0.26
APU_A333	0.14	153 823.00	61 429.00	0.40	0.26
APU_A343	0.12	493 805.00	107 634.00	0.22	0.09
APU_A346	0.12	530 710.00	128 770.00	0.24	0.12
APU_B738	0.85	584 283.00	478 405.00	0.82	(0.03)

This will result in overstatement of provision for lease liabilities and overstatement of maintenance expense with amount of R 20 470 288.

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Internal control deficiency

Financial and performance management

The HOD: Financial accounting and Chief Financial Officer did not adequately review the maintenance reserve and provision for lease liability calculation to ensure that the calculation is accurate.

The maintenance reserve and provision for lease liability calculation is prepared by Divisional Financial Controller: Fleet and this affects the adequacy of the review processes as the first level reviews are done at HOD level.

Recommendation

The Divisional Financial Controller: Fleet, HOD: Financial accounting and Chief Financial Officer (CFO) should put policies and procedures in place to ensure that the maintenance reserve and provision for lease liability calculation is accurate.

The Divisional Financial Controller: Fleet should delegate the preparation of the maintenance reserve and provision for lease liability calculation to his junior staff; this will ensure that Divisional Financial Controller: Fleet performs first level review before submission to HOD: Financial Accounting and CFO.

The population for the current and prior year should be revisited to correct the misstatements so that not only the misstatements identified through the audit process are corrected, thereafter additional procedures will be performed to verify the corrections to the population of the maintenance reserves and provision for lease liability.

Management's response

Management comment on audit finding:		
Management comment on internal control deficiencies:		
Management comment on recommendation:		
Remedial action:		
What actions will be taken:	By whom: Person: Position;	By when:

Auditor's conclusion

Management response has not been submitted for this finding. Management submitted adjusted lease liabilities calculation on 20 October 2017. From the calculation submitted, we confirmed that the APU- Airframe ratios were updated. Based on the record of work done, we concluded that the exception is resolved. This finding will be included in management report since the internal controls of SAA did not prevent, detect or correct the errors communicated as these were identified through the audit process. The matter will be reported as a significant internal control deficiency in the management report.

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74. No documentary evidence to support estimated event costs for maintenance reserve payments

Audit finding

Section 54 (1) of the Public Finance Management Act 1 of 1999, states that "*The accounting authority for a public entity must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.*"

IAS 8 Paragraph 42 states that "*Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.*"

IAS 1 paragraph 40A of IFRS states that "*An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements required in paragraph 38A if: (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and (b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.*"

SAA accounting policy for provisions for lease liabilities states that "*For aircraft held under operating lease agreements, SAA is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfill such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts are accrued and charged to profit or loss over the lease term for this contractual obligation.*"

SAA accounting policy for maintenance reserves states that "*Maintenance reserves are payments made to certain lessors in terms of the aircraft lease contract. The lessors are contractually obligated to reimburse the Group and company for the qualifying maintenance expenditure incurred on aircraft if the Group and company has a maintenance reserves credit. Maintenance reserves are recognised as an asset. The recoverability of the asset is assessed annually against the entity's ability to claim against future maintenance events. Where it is deemed that the entity will be unable to claim for a future maintenance event, the maintenance reserve payments are expensed accordingly. Reimbursement amounts are only recognised as assets in respect of maintenance costs to be reimbursed if the work has been performed and it is probable that the amounts claimed are recoverable in terms of the aircraft lease contract and based on the available balance in the maintenance reserve account. The reimbursement amounts claimed from lessors in respect of qualifying maintenance are transferred to receivables until actually received.*"

"*Maintenance reserves prepayments unutilised at the expiry of the lease term are not refundable. The Group estimates the unutilised balance that is likely to remain at the end of the lease term based on planned events and assumed consumed life of leased aircraft and their components between year-end and the lease expiry date and uses this estimate as the basis for expensing maintenance reserve payments. The recognition of the maintenance reserves assets and values thereof are subject to critical judgements followed by management.*"

During the audit of provision for lease liabilities and maintenance reserve consumed life calculation, it was noted that "*estimated event costs*" and a percentage to determine the "*estimated*

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limited life part (LLP)" to be replaced during the next event are amongst others one of the variables used in deriving the amount to be provided for return conditions and consumed life component for maintenance reserves. Documentation to support these *"estimated event costs"* was requested and management was however unable to provide the documentary evidence to support the estimated event costs and *"estimated limited life part"* to be replaced during the next event as populated in the calculation for the following:

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A. Return conditions event costs

Component	A319 USD	A322 USD	A332 USD	A333 USD	A343 USD	A346 USD	B733 USD	B738 USD
C CHECK COST	79 741.24	479 741.24	618 613.71	618 613.71	618 613.71	681 737.56	473 428.86	479 741.24
Flight deck	16 727.82	16 727.82	40 146.77	40 146.77	40 146.77	40 146.77	11 642.56	16 727.82
Paint	96 352.24	96 352.24	147 204.81	147 204.81	147 204.81	200 733.84	96 352.24	96 352.24
AD'S, SB'S MODS, EO'S	53 529.02	53 529.02	107 058.05	107 058.05	107 058.05	107 058.05	53 529.02	53 529.02
Cabin interior	240 880.60	240 880.60	401 467.67	401 467.67	401 467.67	535 290.23	66 911.28	240 880.60
Cargo Hold	73 602.41	73 602.41	113 749.17	113 749.17	113 749.17	120 440.30	33 455.64	66 911.28
Wheels & Brakes	16 058.71	16 058.71	16 727.82	16 727.82	16 727.82	19 404.27	13 382.26	16 058.71
Time Controlled and Life Limited Components	46 837.90	46 837.90	281 027.37	281 027.37	281 027.37	281 027.37	40 146.77	46 837.90
Remove hud mod	-	-	-	-	-	-	-	58 881.93
Totals	**623 729.94**	**1 023 729.94**	**1 726 995.37**	**1 725 995.37**	**1 725 995.37**	**1 985 838.39**	**788 848.63**	**596 179.50**

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B. Major overhaul event costs

Fleet	Event	Search Key	Event cost (USD)
A319	AFR	AFR_A319	1 830 592
A322	AFR	AFR_A322	1 502 348
A332	AFR	AFR_A332	2 398 706
A333	AFR	AFR_A333	2 398 706
A343	AFR	AFR_A343	2 367 144
A346	AFR	AFR_A346	3 156 192
B733	AFR	AFR_B733	1 713 705
B738	AFR	AFR_B738	1 830 592
A319	APU	APU_A319	631 238
A322	APU	APU_A322	631 238
A332	APU	APU_A332	883 734
A333	APU	APU_A333	883 734
A343	APU	APU_A343	883 734
A346	APU	APU_A346	833 711
B733	APU	APU_B733	450 000
B738	APU	APU_B738	568 115
A319	ENG	ENG_A319	4 418 669
A322	ENG	ENG_A322	6 888 482
A332	ENG	ENG_A332	5 302 403
A333	ENG	ENG_A333	5 302 403
A343	ENG	ENG_A343	4 407 489
A346	ENG	ENG_A346	5 554 899
B733	ENG	ENG_B733	3 534 935
B738	ENG	ENG_B738	4 039 926
A319	LGR	LGR_A319	568 115
A322	LGR	LGR_A322	568 115
A332	LGR	LGR_A332	1 617 636
A333	LGR	LGR_A333	1 617 636
A343	LGR	LGR_A343	1 641 220
A346	LGR	LGR_A346	3 156 192
B733	LGR	LGR_B733	568 115
B738	LGR	LGR_B738	441 867
Totals			**72 149 724**

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C. Limited Life Parts event costs

Fleet	Event	Search Key	LLP Full stack price (USD)
A319	ENG	ENG_A319	3 538 590
A322	ENG	ENG_A322	3 538 590
A332	ENG	ENG_A332	5 692 005
A333	ENG	ENG_A333	5 692 005
A343	ENG	ENG_A343	3 318 280
A346	ENG	ENG_A346	5 424 253
B733	ENG	ENG_B733	3 097 230
B738	ENG	ENG_B738	3 097 230
Totals			**33 398 183**

D. Limited Life Parts next event replacement percentage

Fleet	Event	Search Key	% Replace next even
A319	ENG	ENG_A319	70%
A322	ENG	ENG_A322	0%
A332	ENG	ENG_A332	20%
A333	ENG	ENG_A333	20%
A343	ENG	ENG_A343	20%
A346	ENG	ENG_A346	85%
B733	ENG	ENG_B733	30%
B738	ENG	ENG_B738	50%

This will result in a limitation misstatement of maintenance reserve (consumed life) with amount of R1 808 442 583, Provision for major maintenance with amount of R3 594 507 446, return cost build up with amount of R448 529 330 and claimable major maintenance with amount of R1 028 691 729. The prior periods' annual financial statement (not just the comparative year of 2015/16) as the similar practice was applied in the prior year calculation. This adjustment should be accounted for as a prior period error in the financial statements in line with IAS8. SAA will also have to show a third balance sheet due to the prior period error (retrospective restatement) in terms of IAS1 par 40A.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller: Fleet did not ensure that complete, relevant and accurate information is accessible and available to support estimated event costs.

The HOD: Fleet management did not ensure that, documentary evidence to support t estimated event costs is adequately kept and provided for audit when requested.

The Divisional Financial Controller: Fleet did not scrutinise the estimated event costs submitted by Fleet management when assessing provision for lease liabilities and maintenance reserve consumed life, hence this led to documentary evidence relating to estimated costs not submitted.

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The HOD: Financial Accounting and Chief Financial Officer (CFO) did not adequately review the maintenance reserve consumed life and the provision for lease liabilities calculation to ensure that all variables included were supported by readily available evidence.

There is no proper coordination between Fleet accounting department and Fleet management department; this led to lack of ownership with regard to who should keep the documentary evidence to support the estimated event costs as per provision for lease liabilities and maintenance reserve consumed life calculation.

Recommendation

The Divisional financial controller: Fleet should ensure that complete, relevant and accurate is accessible and available to support estimated event costs.

The HOD: Fleet management should documents all the facts, data and assumptions used to arrive at the estimated event costs as documented in provision for lease liability and maintenance reserve consumed life calculations in such a way that when an independent partyer-perform the estimate based on facts and circumstances available at the date of preparation of estimated event costs, the independent party will arrive at similar conclusion regarding the estimate.

The Divisional Financial Controller: Fleet should scrutinise documentary evidence submitted by Fleet management when assessing provision for lease liabilities and maintenance reserve consumed life to ensure that all information necessary to support the concluded estimated event costs has been presented to him so that he will be able to supply it to auditors when requested.

The Divisional Financial Controller should assist Fleet management when documenting evidence for support estimated event costs in order to ensure that the evidence documented complies with relevant accounting requirements.

The HOD: Financial Accounting and Chief Financial Officer (CFO) should adequately review information to support the estimated event costs as detailed in the provision for lease liability and maintenance reserve consumed life calculation.

The HOD: Fleet management and Divisional Financial Controller: Fleet must take collective ownership of provision for lease liability and maintenance reserve consumed life calculation in order to ensure that all necessary documents used to arrive at concluded estimate are readily available for inspection and detailed enough for an independent party to reach similar conclusion based on available facts and circumstances.

The submission of information to the auditors should be co-ordinated by the Financial Controller and submits to the auditors within the specific timeframes as agreed in the engagement letter.

The population for the current and prior year calculation should be revisited to correct the misstatements so that not only the misstatements identified through the audit process are corrected, thereafter additional procedures will be performed to verify the corrections to the population of the maintenance expenses.

Management's response

Management comment on audit finding: Management agree with the finding. New workings which are supported by documentary evidence for event costs has been provided to AG. Further, where SAA has no history with the particular fleet for event costs, Engineer's best estimates were used for event costs based on

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similar aircraft. These assumptions have been provided to AG.
Management comment on internal control deficiencies: Management agree with the internal control deficiency. A fleet and asset management system has been identified that will maintain and track all the information required. This system will interface with SAP and Amos. The information will be system driven and accurate. Documentation will be provided
Management comment on recommendation: Agree with recommendation. New system to be implemented will ensure better control and accuracy
Remedial action:

What actions will be taken:	By whom:	By when:
Supporting information will be provided	Person: Pierre de Villiers Position; Controller	30 Sep 2017

Auditor's conclusion

Management agreed with the finding. Documentary evidence was submitted on 20 October 2017, the information was audited and no findings were noted in the information provided.

The finding has been resolved, however it will be reported in the management report and audit report as a significant internal control deficiency as there is no proper record keeping at SAA.

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75. Maintenance Reserves balance for certain components not separated in maintenance reserve calculation spreadsheet

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that *"An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control".*

IAS 8 Paragraph 42 states that *"Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented."*

IAS 1 paragraph 40A of IFRS states that *"An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements required in paragraph 38A if: (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and (b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period."*

SAA leases some of its aircrafts on operating leases. According to these lease agreements, SAA is obliged to make contributions to maintenance reserves for aircrafts components according to the planned maintenance programmes in order for SAA to withdraw funds when the actual maintenance event occurs. When the actual maintenance event occurs, the lessors reimburse SAA the amount claimable from the maintenance reserve available balance. The amount claimable from the "kitty" is limited to the amount contributed till date of the maintenance event and the amount that can be claimed only for the purposes of which the kitty was created for (for example, when conducting 4 year Airframe Check, the amount claimable will be limited to what is available for the 4 year Airframe Check not from other kitties that relates to D-Checks etc).

During the audit of the maintenance reserve calculation, it was noted that maintenance reserves for aircraft components with multiple kitties (e.g. Airframe 4Y Check, Airframe 8Y Check and 12Y Check) were combined in the maintenance reserve consumed life calculation rather than separated when making the assessment of consumed life which in turn will affect the amount to be written off as consumed life. This meant that for example if a ten year lease is entered, the contributions for maintenance reserves will be made for all checks on a monthly basis (Airframe 4Y Check, Airframe 8Y Check and 12Y Check) and on year ten only four year and eight year check will be claimed after performing the checks, then the contributions relating to twelve year check should be ones written off to consumed life and not the entire contributed balance:

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Search Key	Fleet	Serial	Maintenance Reserve Balance (USD)	April payments (USD)	Balance (4 Check/ Engine restoration) (USD)	LLP or 8 Check (USD)	12 Check (USD)	Total (USD)	MR Components included
SFG_AFR_2326	A319	2326	298 040.27	25 391.38	49 414.08	223 234.81	-	298 040.27	4 Check and 8 Check
SFI_ENG_V11820	A319	V11820	2 247 445.22	39 271.04	813 027.00	1 395 147.18	-	2 247 445.22	Engine Restoration and LLPs
SJA_AFR_29248	B738	29248	1 377 354.62	18 558.53	720 978.32	238 495.12	399 322.65	1 377 354.62	4 Check, 8 Check and 12 Check
SJE_ENG_876599	B738	876599	2 702 263.17	28 901.32	2 090 688.23	582 673.62	-	2 702 263.17	Engine Restoration and LLPs
SJF_ENG_877632	B738	877632	5 438 331.74	-	4 202 346.03	1 235 985.71		5 438 331.74	Engine Restoration and LLPs
SJM_AFR_30476	B738	30476	1 400 150.77	18 558.53	716 906.31	317 276.26	347 409.67	1 400 150.77	4 Check, 8 Check and 12 Check
SXA_AFR_544	A343	544	4 968 206.50	-	3 310 733.94	1 657 472.56	-	4 968 206.50	4 Check and 8 Check
SXC_ENG_567264	A343	567264	2 339 273.00	15 392.00	2 170 233.67	153 647.33	-	2 339 273.00	Engine Restoration and LLPs
SXI_AFR_1745	A333	1745	152 078.47	38 298.49	79 425.36	34 354.62	-	152 078.47	4 Check and 8 Check
SXK_ENG_42754	A333	42754	104 585.85	29 565.50	10 612.45	64 407.90	-	104 585.85	Engine Restoration and LLPs
SXU_AFR_1271	A332	1271	2 275 189.10	40 740.68	681 385.73	1 553 062.69	-	2 275 189.10	4 Check and 8 Check
SZA_AFR_5637	A322	5637	904 195.14	21 308.18	520 676.92	362 210.04	-	904 195.14	4 Check and 8 Check
Totals			24 207 113.85	275 985.65	15 366 428.04	7 817 967.84	746 732.32	24 207 113.85	

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This will result in a limitation misstatement of maintenance reserves consumed life with amount of R1 808 442 583 and maintenance reserve claimable amount with an amount of R1 028 691 729. The prior periods' annual financial statement (not just the comparative year of 2015/16) as the similar practice was applied in the prior year calculation. This adjustment should be accounted for as a prior period error in the financial statements in line with IAS8. SAA will also have to show a third balance sheet due to the prior period error (retrospective restatement) in terms of IAS1 par 40A

Internal control deficiency

Financial and performance management

The Divisional Financial Controller: Fleet did not put policies and procedures in place to ensure that when computing consumed life, kitties are analysed separately in order for consumed life estimation to be fairly computed.

The HOD: Financial Accounting and Chief Financial Officer (CFO) did not adequately review maintenance reserve consumed life calculation to ensure that maintenance reserves components kitties are analysed separately.

The provision for lease liability and maintenance reserve consumed life calculation is done on excel and Divisional Financial Controller: Fleet wants to keep the calculation simple by not separating the kitties because separating the kitties in the excel spreadsheet will result in additional work which will in turn affect the accuracy of the calculation.

There is no computerised system in place to compute, store and analyse data relating to provision for lease liability and maintenance reserve consumed life to ensure that human errors relating to the calculation is minimised.

Recommendation

The Divisional Financial Controller: Fleet should put policies and procedures in place to ensure that when computing consumed life, kitties are analysed separately in order for consumed life estimation to be fairly computed.

The HOD: Financial Accounting and Chief Financial Officer (CFO) should adequately review maintenance reserve consumed life calculation to ensure that maintenance reserve components kitties are analysed separately.

The Divisional Financial Controller: Fleet, HOD: Accounting and CFO should ensure that there is proper computerized system in place to compute, store and analyse data relating to provision for lease liability and consumed life in place to avoid human errors.

The population for the current and prior year should be revisited to correct the misstatements so that not only the misstatements identified through the audit process are corrected, thereafter additional procedures will be performed to verify the corrections to the population of the maintenance reserves balance.

KTD

Management's response

Management comment on audit finding: Management agree with the finding. New calculation spreadsheet that separates the maintenance reserve has been provided to AG.		
Management comment on internal control deficiencies: Management agree with the internal control deficiency. Policies and procedures will be put in place to ensure that when computing consumed life, kitties are analysed separately in order for consumed life estimation to be fairly computed.		
Management comment on recommendation: Management agree with the recommendation.		
Remedial action:		
What actions will be taken: Updated workings have been provided to AG	By whom: Person: Pierre de Villiers Position; Controller	By when: 20 October 2017

Auditor's conclusion

Management agreed to the finding raised. Discussion was held between management and auditors and the following was resolved:

- Airframes maintenance reserves balances should be split as per the checks to be performed as the timing of the Checks are different and the balance on the consumed life assessment calculation should reflect as such. Management subsequently split the checks in the calculation provided on 20 October 2017. We audited the adjustments and we concluded that the finding was resolved as no further findings were noted on the revised calculation.

- Management updated and clarified the assumptions for combining LLPs and Engines. It was assumed that the LLPs and Engines restoration should not to be separated as the timing of the events are the same and the costs relating to replacement of LLPs was factored using a replacement percentage in the calculation. We evaluated management assumptions made on this regard and we considered the assumptions to be reasonable.

Based on the record of work done subsequent to management response, the finding is resolved. This finding will be included in management report since the internal controls of SAA did not prevent, detect or correct the errors communicated as these were identified through the audit process. The matter will be reported as a significant internal control deficiency in the management report.

KTD

76. Prepayment accruals are not timeously expensed

Audit finding

The PFMA section 55 (2)(a) ,"states that the annual report and financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned."

As per the IFRS conceptual framework, an asset is a resource controlled by the entity as a result of past events from which future economic benefits are expected to flow to the entity. Prepayments relate to expenditures paid for in an initial accounting period, but for which the underlying asset's benefits will not realise until after the reporting date.

During the audit of prepayments we selected a sample of the items accounted for as prepayment current assets at yearend. We noticed that for some prepayments, the benefit had realised within the current or prior financial periods but are still reflected as outstanding as at 31 March 2017. The items below were included in our sample from prepayment accounts that have not been reallocated to the expenses even though the benefit relating to the prepaid events have expired:

Supplier/ Description	GL Account	Document date	Document number	Amount in local currency R
ACSA Airport and Lounge Leases:88852	624130	2011/04/13	1102578583	2 019 794.28
ACSA Airport and Lounge Leases:88852	624130	2011/03/01	1102534828	1 937 941.06
Reallocation to various accounts:88852	624130	2004/04/16	1100405058	1 958 772.33
Security services (1-31 Dec 2003) :88852	624130	2004/02/16	1100377089	1 183 852.68

From our testing, it is evident that prepayment accounts have not been reviewed for expired items from the beginning of the current financial year as they mostly relate to events that have occurred in periods prior to those disclosed in the financial statements. The above result in prepayments being overstated and expenses of prior periods (retained earnings) understated by an extrapolated amount of R 34 414 616.

Internal control deficiency

Financial and performance management

Prepayments accounts are managed under various departments within SAA; management did not implement controls over monthly reconciling of prepayments accounts to ensure that they are expensed in the expenses period which the benefit realised. Where vacancies occurred during, adequate distribution of unfilled position's responsibilities or acting positions were not adequately administered to safeguard internal processes.

KTD

Recommendation

- The group financial manager should revisit the population of prepayments accounts and clear all prepayment that relate to expenses that have been incurred and no longer meet the definition of an assets.
- Disclose the restatement as a prior period error note in accordance with IAS 8 and to the extent practicable, restate the retained earnings amount of the earliest presented financial year in the financial statements in accordance with IAS 8.
- Going forward, implement processes for the monthly reconciling of prepaid amounts to incurred expenses and have senior personnel review and approve these reconciliations.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:
Management agrees with the finding. This account resides with Airports Operations: Station Accounting. The staff members responsible for the pre-paid account has left the employ of SAA and it appears as if this account was not assigned to any one staff member at that time.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
The allocation and assignment of account clerks / managers will be reviewed and reassigned to a responsible person under the supervision of the applicable financial manager.</td></tr>
<tr><td colspan="3">Management comment on recommendation:
Journals will be raised for corrections and the necessary disclosures will be done accordingly.
This finding will be brought to the HOD: Management Accounts, once appointed.</td></tr>
<tr><td colspan="3">Remedial action :</td></tr>
<tr><td>What actions will be taken:
Correctional journals will be raised and the applicable disclosures will be made.</td><td>By whom :
Person: Hester Kleinhans & Michael Ascencao

Position: Manager: AP & TM and Final Accounts (respectively)</td><td>By when: 15 Sep 2017</td></tr>
</table>

Auditor's conclusion

Management's comment is noted and corrections to these accounts were followed up. Upon follow-up, we confirmed that the misstatements identified were due to isolated events. Replacement selection were performed and verified, no further exceptions were noted.

KTD

77. Disclosure of foreign currency denominated accounts receivables are not restated at the spot rate at year end

Audit finding

The PFMA section 55 (2)(a) ,"*states that the annual report and financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned.*"

As per IAS 21(23) (a)*:" foreign currency monetary items shall be translated using the closing rate*".

During the audit of trade and other receivables we noted that the foreign currency re-measurement (FCR) gains and losses as at year end are not included in the breakdown of accounts receivable. These FCR gains and losses were allocated to the general ledger account number 613390. This general ledger account is then allocated disclosed on its own as "Other debtors".

As a result, the trade and other receivable disclosure in note 20 to the financial statements do not show the accurate, restated balances at yearend. Below is a breakdown of the impact to individual disclosed receivable line items:

Trade and other receivables class	Unallocated foreign exchange difference R
BSP	12 201 818.04
Credit Cards	33 129.85
Stations	-74 086.79
Cargo	3 252 611.09
Prepayments	904 007 790.60

Based on the above, the disclosure of the receivables in the financial statements (note 20) is incorrect and not incompliance with IFRS requirements.

Internal control deficiency

Financial and performance management

The head of the financial accounting department did not review and monitor compliance with the applicable financial reporting framework in the process of approving the financial statement to ensure that the disclosure notes agree to the underlying information. This is due to process deficiencies in the preparation and review of financial statement.

Recommendation

- The individual line disclosures for the different types of items included in the trade and other receivables disclosure notes should be realigned to incorporate the foreign currency exchange re-measurements at the spot rate as at year end.

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- Going forward, the FCR gains or losses for trade and other receivables should be assigned to sub-ledger accounts contained within each type of control account as opposed to being accumulated in a consolidated general ledger account.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:
Finding is noted.

SAP is set up to post the revaluation gains or losses to Account # 613 390, it is not really possible to split the revaluation per category of debtor in SAP itself, however we will analyse the FCR gains and losses at each year end going forward and split it into the relevant debtor class per a manual calculation in the same way as calculated by the auditors.

We will then pass a reallocation entry for the purposes of the financial statements in the financial statement software and a full reconciliation will be done between the reallocation accounts in the financial statement production software and Account # 613 390 in SAP.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
Noted.

Manual recalculation of split will be performed and reallocation entries will be posted in the annual financial statements, this will be reviewed by the head of financial accounting at each year end.</td></tr>
<tr><td colspan="3">Management comment on recommendation:
Noted

As previously mentioned, in SAP the system will only allow this entry to be posted to one consolidated account.

However a manual recalculation of the split will be performed and reallocation entries will be posted in the annual financial statements, this will be reviewed by the head of financial accounting at each year end.

Will correct the disclosure for the current period and restate prior periods in terms of IAS 8.</td></tr>
<tr><td colspan="3">Remedial action :
As per comment on recommendation.</td></tr>
<tr><td>What actions will be taken:
As above</td><td>By whom
Person: Michael Ascencao
Position Manager – Corporate Financial Accounting</td><td>By when: Prior to submission of final AFS to auditors.</td></tr>
</table>

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. The corrections processed for the findings were noted in the updated financial statements but were not aligned to the auditors' recalculation. As the entire forex differences were posted to the prepayments, a difference within the disclosure note of R15.414 million would be noted.

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78. Discrepancies between gross debtor list and trial balance

Audit finding

The PFMA section 55 (2)(a) ,"*states that the annual report and financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned.*"

During the audit of trade and other receivables we noted a difference between the total gross debtor amount in the trial balance and debtor listing provided for audit. Some balances grouped under gross debtors in the trial balance were not included in the debtors listing and as a result, we could not identify the actual existence and validity of the balances contained in these accounts. Below is a breakdown of the total difference identified:

Reconciliation	R
Total as per Debtors List 31 March 2017	3 308 422 100.72
Less Technical Debtors	125 642 397.82
Less provision for foreign exchange differences	941 995 007.39
Gross Debtors as per listing	2 240 784 695.51
Gross Debtors as per the 31 Mar 2017 Trail Balance	2 280 124 509.96
Difference	39 339 814.45

The difference above was a result of the debtors list not being vetted against the trial balance during the preparation of the financial statements. Based on the above, the gross debtor balance in the financial statements is overstated by R39 339 814.45.

Internal control deficiency

Financial and performance management

The accounts receivable manager did not implement controls over daily and monthly processing and reconciling of transactions and balances to ensure debtor balances in the trial balance and financial statements are supported by reliable underlying information. The internal control deficiency exists due to misalignment between debtor control accounts and the nature of transactions that are posted to those accounts. The content of the account is then split during yearend reporting making reconciliations difficult to understand and creating room for unnecessary errors.

Recommendation

The gross receivables listing must be vetted against the gross receivable accounts in the trial balance to ensure amount disclosed in the notes to the financial statements are valid trade and other receivables and valued according to SAA's receivables policy.

Monthly controls should also be implemented to ensure receivable balances in the trial balance match underlying information included in the debtors listing.

KTD

Management's response

Management comment on audit finding: Finding is noted. Tricia has performed a reconciliation between the debtors listing and the accounts mapped to trade debtors in the financial statements. The reconciling accounts noted can't be added to the debtors listing per Tricia and were historically mapped to trade debtors in the AFS and TB. We will have a look at these reconciling accounts and determine whether they are in fact valid trade debtors and we will then makes changes to the AFS/TB if necessary. Any changes resulting in prior period restatements, if any, will be disclosed in terms of IAS 8.		
Management comment on internal control deficiencies: Recon will be performed between the TB and debtors listing by the accounts payable manager going forward.		
Management comment on recommendation: As per comments on finding and comments on internal control deficiency above.		
Remedial action : As above.		
What actions will be taken: As above.	By whom Person: Michael Ascencao and Tricia Ally Position	By when: Prior to submission of final AFS to auditors.

Auditor's conclusion

Management response is noted and agrees with the finding, internal control deficiency and the recommendations. Additional information has been submitted by management and a remaining difference is still noted and have been communicated to management in the letter of acceptance of the financial statements. This difference will be carried forward to the summary of uncorrected misstatements.

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79. Interline provision for cargo were incorrectly allocated to provision for doubtful debt

Audit Finding

The PFMA section 55 (2)(a) ,"*states that the annual report and financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned.*"

During the audit of trade and other receivables we performed procedures on balances included in provisions for doubtful debt. We noted the Provision for Cargo Debtors CCA's balance (account 611001) was grouped under provision for doubtful debts and disclosed as such in the notes to the financial statements. We were unable to obtain underlying information allocating the provisions in this balance to individual debtors. Discussions with cargo management subsequently indicated this account was used to provide for differences in interline billings that are normally settled a number of months after initial billing.

The impact of the above is an overstatement of the provision for doubtful debt balance and understatement of current provisions due to the incorrect allocation by R21 254 718.77.

Internal control deficiency

Financial and performance management

The accounts receivable department and manager responsible for preparation of financial statements did not review and monitor compliance with the applicable financial reporting framework to ensure information presented and disclosed in the financial statements is allocated to the appropriate financial statement line items. This is due to process deficiencies in the charter of general ledger accounts not being specifically allocated to AFS disclosure items.

Recommendation

- The provision for cargo debtors CCA's account should be moved from the provision for doubtful debts grouping in the trial balance to current provisions disclosed accounts.
- Going forward, cargo management should review financial information to be included in the financial statements to ensure account balances are appropriately allocated to the correct financial statement line items.

Management's response

Management comment on audit finding: Agreed.
Management comment on internal control deficiencies: Agreed.
Management comment on recommendation:

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Agreed.		
Remedial action : Move balance from the provision for doubtful debts grouping in the trial balance to current provisions disclosed accounts.		
What actions will be taken: As per remedial action	By whom Person: Ray Molefi Position Manager: Revenue Accounting	By when: If auditor agrees it is sufficient

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. Adjustments were verified in the updated financial statements received on 31 October 2017 and were in line with the auditor's recommendation.

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80. Predelivery payment amount incorrectly calculated due to impairment loss and reversal that were not supported by valid evidence

Audit finding

International Accounting Standard (ISA) 8 paragraph 42, *"an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:*

(a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented".

International Accounting Standard (ISA) 8 paragraph 49, "In applying paragraph 42, an entity shall disclose the following:

(a) The nature of the prior period error;

(b) For each prior period presented, to the extent practicable, the amount of the correction:

0(i) For each financial statement line item affected; and

(ii) If IAS 33 applies to the entity, for basic and diluted earnings per share;

(c) The amount of the correction at the beginning of the earliest prior period presented; and

(d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

A. Impairment loss and reversal

During audit of opening balances relating to pre delivery payments (PDP), we noted that there was an impairment loss and impairment reversal that was processed with no supporting evidence to support the assumptions or the calculations done by management resulting in an incorrect opening balance PDP at 31 March 2016. Furthermore, the exchange rates were incorrectly used to calculate the amounts disclosed in the financial statements.

Description	Transaction date	Document currency	Amount in document currency	Exchange rate used by SAA	Amount in local currency as per SAA	Exchange rate used by auditor (IATA)	Amount in local currency as per auditor recalculation	Difference due to exchange rate differences
PDP balance before impairment loss and reversal	31 March 2015	USD	103 213 342, 28	R12.132 1	R1 252 194 5 89, 83	R12.010 3	R 1 239 623 204.79	(R12 571 385.04)
Impairment (loss)	31 March 2015	USD	(20 000 000)	R12.132 1	(R242 642 00 0)	R12.010 3	-R 240 206 000.00	R2 436 000.00
Impairment reversal	31 March 2015	USD	10 000 000	R12.132 1	R121 321 000	R12.010 3	R 120 103 000.00	(R1 218 000.00)
PDP	31 March	USD	93 213 342,	R12.132	R1 130 873	R12.010	R 1 119	(R11 353

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balance after impairmen t loss and reversal	2015		28	1	589.82	3	520 204.79	385.03)

The PDP balance was understated by an amount of R120 103 000.00 since there is no evidence to substantiate how the amount was determined and overstated by R11 353 385.03 due to incorrect exchange rates used by SAA.

B. Revaluation of PDP

During the audit of pre delivery payments (PDP), we noted that there were revaluations performed on PDP as at 30 September 2015 and 31 March 2016. Based on the finding that has been raised above, revaluations calculated are incorrect as they have been based on incorrect PDP balance of 93 213 342.28 USD instead of 103 213 342.28 USD.

Description	**Transaction date**	**Exchange rate used by SAA**	**Amount in Local currency (SAA calculation)**	**Exchange rate used by Auditor(IATA)**	**Amount in Local currency (auditors recalculation**	**Difference over/ (understatement)**
Revaluation of PDP	30 September 2015	R13.8550	R160 597 267.41	R13.6866	R173 016 525.66	(R12 419 258.25)
Revaluation of PDP	31 March 2016	R14.7678	R85 085 138.83	R15.3709	R173 842 232.40	(R88 757 093.57)
Total revaluation as at 31 March 2016			**R 245 682 406.24**		**R346 858 758.05**	**(R101 176 351.81)**

The overall impact of revaluation is R101 176 351.81,

C. Overall impact on PDP balance as at 31 March 2016

Pre delivery payment balance as at	**Balance a per SAA records**	**Balance as per Auditors recalculation**	**Difference over/ understatement**
31 March 2015	R1 130 873 589.82	R 1 239 623 204.79	(R108 749 614.97)
31 March 2016	R1 376 555 996.06	R 1 586 481 962.79	(R209 925 966.73)

As a result of the above the PDP balance has been understated by R209 925 966.73 (R101 176 351.81 for revaluation for 31 March 2016 and R108 749 614.97 for impairment loss/reversal and exchange rate difference for 31 March 2015).

D. Impairment loss reversal processed on 30 September 2016

We noted that there was an impairment reversal that was processed for the year ended 31 March 2017, however there was no supporting evidence to support the assumptions or the calculations done by management.

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Description	Transaction date	Document currency	Amount in document currency	Exchange rate used by SAA	Amount in local currency as per SAA	Exchange rate used by auditor (IATA)	Amount in local currency as per auditor recalculation	Difference due to exchange rate differences
Impairment reversal	30September 2016	USD	10 000 000	R13.73	137 268 000.00	R13.73	137 268 000.00	0

Internal control deficiency

Financial and performance management

Divisional financial controller did not ensure that the impairment loss and reversal being processed is substantiated by valid supporting documents or calculations on how the amount was determined.

Recommendation

Divisional financial control should:

- Ensure that all impairment loss and reversals are substantiated by supporting documents or calculations on how the amount was determined.
- Ensure that a record of meetings and support documents is kept for audit purposes where decision was taken to impair or reverse impairment.
- Ensure that all journals for impairment loss and reversal are approved only if supported by detailed calculation and supporting documents on how the impairment loss/reversal was determined.
- Ensure that revaluations are calculated on the correct PDP balance.
- Ensure those pre delivery payment balances that were incorrectly calculated in the previous financial reporting period necessary adjustments are made and a retrospective error correction should be disclosed in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors.

Management's response

Management comment on audit finding:

1. Pre-delivery Payment amount incorrectly calculated due to impairments loss and reversal that were not supported by valid evidence.

A. Impairment loss and reversal

During audit of opening balances relating to pre delivery payments (PDP), we noted that there was an impairment loss and impairment reversal that was processed with no supporting evidence to support the assumptions or the calculations done by management resulting in an incorrect opening balance PDP at 31 March 2016.

We disagree with this finding. The $10 million impairment was not an error. Management made a judgement after consulting with Airbus that is should impair the pre delivery payments by $10

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million. This related to the engines that SAA has contracted for and was a possible penalty that IAE may have imposed. Airbus would have imposed – based on $500 000 per engine (20 engines iro 10 aircraft). The net pre delivery payment balance of 93 213 342.28 is correct. We are attempting to find any documentation that may support the initial raising of a $20 million impairment and the subsequent reversal of $10million There is no specific acknowledgement that the impairment could be reversed but the agreement forwarded together with finding 123 effectively agrees that IAE have settled with SAA. Please refer to Elsje du Preez if any further clarification required Furthermore, the exchange rates were incorrectly used to calculate the amounts disclosed in the financial statements. We disagree with this finding. It is SAA policy to revalue foreign currency balances at the closing year end rates and not at the IATA rate. The correct rate was used C. Overall impact on PDP balance as at 31 March 2016 We disagree with this finding as stated above D. Impairment loss reversal processed on 30 September 2016 We disagree with this finding. As stated when questioned by AGSA, prior to issuing the finding, please refer to Elsje du Preez who can verify that an agreement was reached with the engine supplier and that the impairment was no longer required
Management comment on Internal control deficiency:
Management comment on recommendation: Agree that documentation must be retained of calculations to support impairments. In this instance, it was not based on a calculation but on a judgement by management after informal discussions with Airbus
Remedial action: None necessary

What actions will be taken: Not applicable	By whom: P de Villiere	By when: 6 Oct 2017
If yes, please indicate the accounting entry Will attempt to find documentation to support the $10 million impairment		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

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Management comment is noted and management disagreed with the finding. Additional engagements were held with management concluded that additional supporting evidence will be submitted. The deadline of the 20/10/2017 was not met by management.

We have communicated to management on the 25/10/2017 that a detailed write-up of the sequence of events which is signed off by the CFO regarding this transaction, is required. The journal entry and the write-up must be submitted for audit by 26/10/2017

Management subsequently corrected the opening balance for pre-delivery payments. We inspected the adjusting journals and verified that the financial statements have been correctly adjusted. The finding will remain in the management report as an internal control deficiency and a follow up will be done in the 2017/18 to ensure that the deficiency has been addressed.

Income tax and deferred tax and other dislosures

81. Acknowledgement of receipt of the Group Annual Financial Statements (AFS) and the Annual Performance Report (APR) of the South African Airways SOC LTD (SAA) for the year ended 31 March 2017

Audit finding

We hereby acknowledge receipt of the AFS and the APR of SAA on 31 October 2017, which are subject to auditing by the Auditor-General of South Africa (AGSA) in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof.

We wish to highlight the following significant matters identified while performing a high-level review of the AFS and APR submitted to us:

(a). The following supporting schedules have not been provided with the AFS submitted for audit:

(i) The contractual capital commitments schedule for commitments as disclosed in note 17 to the AFS.
(ii) The revised populations relating to foreign exchange differences findings raised on aircraft lease cost and maintenance costs.
(iii) The reconciliation between SAP and MEMIS as noted in the management response of finding 14 (A Class rotables) was not submitted with AFS as indicated by management.

(b). The following material presentation and disclosure deficiencies were identified in the AFS submitted for audit.

(i) The capital commitments for acquisition of items of property, aircraft and equipment (PAE) are not disclosed in line with IAS 16. 74(c). We have noted that South African Airways Technical (SAAT) disclosure note complies with the requirements of IAS 16; however the disclosure is not consolidated in the group. Please revise the disclosure note for SAA Company to be in line with the requirements of IAS 16 and consolidate the disclosure of SAAT.
(ii) This resulted in the group figure not being consolidated with the same disclosure note for acquisition of items of PAE as included in the AFS of South African Airways Technical (SAAT).
(iii) Critical judgements in applying the accounting policies are still not adequate in the AFS regarding provision for lease liabilities and maintenance reserves. Management has not included details of critical judgements made such as event cots, the stack prices on life-limited parts, among others. The information currently provided is on a separate write-up which is outside the AFS. Please document more critical judgements in the AFS.
(iv) The amount of non-current portion of maintenance reserves as per note 13 of AFS is R2 267 million for separate AFS of SAA company. This amount does not agree with the net amount of maintenance balance of R1 899 million as per reconciliation in the same note. It is expected that there should be no difference between the amount disclosed as a non-current portion and the amount as per reconciliation. Please consider relooking at this disclosure note.
(v) Furthermore, we have noted that there is portion of maintenance reserve balance which is disclosed under note 21(Trade and other receivables) as prepayment. SAA should consider to have one disclosure note for maintenance reserves that is showing both current and non-current portion. This will enhance the user's understanding of the financial statements.

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(vi) The accounting policy on capital work in progress (CWIP) relates to pre-delivery payments and buyer-furnished equipment; however this account is made of items of intangible assets in nature. Furthermore this account has been mapped to PAE as disclosed in note 12 of the AFS. This was communicated previously on finding number 55 and has not been addressed in the final set of AFS.

(vii)The accounting policy relating to the provision for C-check refers to C-check as minor maintenance and this is contradicting the major maintenance accounting policy for owned aircrafts since C-checks have been capitalised on the owned aircrafts. The accounting policy on owned aircraft only relates to major maintenance that is being capitalised. If C check is not considered major maintenance then it does not meet the criteria to be capitalised according to the accounting policy presented in the AFS. This was communicated in the audit findings number 40 and 67. It appears that these findings were not addressed in the revised AFS.

(c). The following differences were identified between the AFS and the supporting schedules:

(i) The following difference were noted between maintenance reserve calculation and amount disclosed in AFS:

Description	Amount per schedule (Calculation)	Amount per AFS	Difference
Maintenance reserves receivables	R2 463 899 529.10	R3 736 000 000.00	R1 272 100 470.90
Maintenance reserves payments expensed (Consumed life)	-R1 836 752 085.52	-R1 837 000 000.00	-R247 914.48
Claimable amount	**R627 147 443.58**	**R1 899 000 000.00**	**R1 271 852 556.42**

(ii) The following difference were noted between provision for lease liabilities calculations submitted for audit and the total amount disclosed in AFS:

Description	Amounts (USD)	Forex	Amounts (R)
Provision for lease liabilities	$101 947 903.24	13.41365	R1 367 493 492.36
Provision for return conditions	$38 151 437.76	13.41365	R511 750 033.09
Provision for C-Check			R237 068 939.59
Total provision			**R2 116 312 465.04**
AFS amount			R2 512 000 000.00
Difference			**-R395 687 534.96**

(iii) The following difference was noted between maintenance cost, trade and other receivables, provision for litigations and claims, and amount disclosed in AFS:

	AFS 31 October 2017		
Component	**Amount per AFS**	**Supporting Schedule/TB, GL**	**Difference**

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Provisions for litigation and claims	1 466 000 000.00	1 131 722 793.61	334 277 206.39
Maintenance costs	6 119 000 000.00	6 206 759 273.94	-87 759 273.94
Other trade receivables (per note 21)	179 000 000.00	162 845 153.69	16 154 846.31

(iv) Findings previously issued with regards to the incorrect allocation of foreign exchange differences to trade and other receivables accounts have not been adjusted for in the disclosure of detailed debtors.

(d). Inconsistencies identified between the shareholders compact and the final APR

Identified change (inconsistency)	Implications on the management and auditor's report if inconsistency is not adjusted
Indicator: *Refinement of the LTTS* was part of the shareholders compact (SHC) approved for 2016/17 and reported in the initial APR submitted on the 26th of June 2017 as having been achieved at 100%. In the final APR, the indicator has been removed by management on the basis that minister's approval was received to the effect.	Schedule 2 entities are not allowed to make changes to their SHC mid-year. This was confirmed by National Treasury when consulted by the AGSA. With the removal of the indicator in the APR, the audit team will add a paragraph in the management report and auditor's report on consistency of reported indicators against planned indicators.
Indicator: *Net promoter score* as part of the shareholders compact (SHC) approved for 2016/17 target to be achieved was set at 60% (*Own emphasis on the unit of measurement i.e. percentage)* In the final APR submitted for audit as at 26 June, management's presentation was consistent with the SHC. However in the final APR, management has made changes on the presentation of both the planned indicator and reported target. The indicator is presented as a number -60 and target as a number as well – 29.	The audit team will include a paragraph as part of the basis for modification in the management report and the auditor's report stating that the planned indicators and targets are not consistent with the SHC.

Management's response

The acknowledgement letter was communicated to management on 08 November 2017 with the matters which have been highlighted above. A meeting was held on 09 November 2017 with the consultants on the direction of the CFO to clarify the content on the letter regarding the findings noted in the high level review of the AFS.

Management did not provide a formal response to the letter; however adjusted financial statements were submitted on 27 November which aimed to address all the matters which have been raised above.

Auditor's conclusion

The schedules not provide for audit

- It was communicated in the findings raised regarding the schedules not provided that they will no longer be considered in the finalisation of the audit as management did not submit the required information as per agreed time lines.

Material presentation and disclosure findings

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- The material presentation and disclosure matters were corrected in the revised financial statements.

- **Additionally, the following matters were identified on the adjusted AFS received on 27 November 2017**

Component	TB 27 November 2017	AFS 27 November 2017	Difference
	TB	AFS	
Maintenance costs	6 464 214 208.80	6 460 000 000.00	-4 214 208.80
Other trade receivables (per note 21)	162 845 153.69	179 000 000	16 154 846.31

- Findings previously issued with regards to the incorrect allocation of foreign exchange differences to trade and other receivables accounts have not been adjusted for in the disclosure of detailed debtors.

- Deferred tax asset raised was disclosed incorrectly, the amount on the face of the financial position does not agree to the amount in the note (Note 35). The amount per note is R242 million and amount per the statement of financial position is R33 million.
- Income tax note and deferred was note updated with the adjustments passed since 31 October.
- Note 12 reconciliation - there is a R42million transfer from capital work in progress (CWIP), It is stated that this amount is transferred from Capital work in progress to Software (Intangible assets) but no such amount appears in note 37.
- Note 37 reconciliation - there is a R30 million transfer from capital work in progress to Software but it has not been deducted from CWIP.
- Management provided a reconciliation of the CWIP account with a split between PAE and intangible assets however there was still an unexplained difference of R18million.

- The going concern note is not consistent within the group. SAA has not disclosed the total loss for the year and how the assets are exceeded by liabilities. The notes for the subsidiaries included these details
- Difference noted between Subsidiaries AFS related party disclosure and SAA related party disclosure

Description	Amounts per the Subsidiaries related party disclosure note	Amounts per the SAA related party disclosure note	Differences
Air Chefs			
Amounts included in trade receivable regarding related parties	21 240 678.00	13 733 533.97	7 507 144.03
Amounts included in trade payables regarding related parties	3 503 368.00	5 639 578.86	(2 136 210.86)
Sales to related parties	422 048 400.00	361 551 779.00	60 496 621.00
Expenses paid to related parties	19 511 052.00	7 162 708.94	12 348 343.06
			78 215 897.23
Mango			

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Purchases from related parties	399 351 616.00	359 964 566.04	39 387 049.96
Administration fees paid to related parties	784 436.00	894 257.04	(109 821.04)
Fuel paid to related parties	585 732 773.00	664 164 596.18	(78 431 823.18)
Aircraft leases paid to related parties	337 540 845.00	313 148 711.51	24 392 133.49
Total amount			**(14 762 460.77)**

Inconsistencies identified between the shareholders compact and the final APR

- The inconsistencies identified were not resolved and this will be included in the management report and the audit report as material audit finding.

The findings regarding the disclosure of the income tax and differed tax has been resolved on the final set on 05 December 2017

Overall conclusion: The matters which are not material have been aggregated together with other non- material findings and may have an impact on the audit report.

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Inventory

82. Inventory listings totals do not reconcile to the balance in the AFS

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA) states that An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Section 55 (1) (a) of the PFMA further states that the accounting authority must "keep full and proper records of the financial affairs of the public entity".

During the audit of inventory, the audit team identified that amounts presented in the AFS do not agree with the detailed supporting schedules/listings for each of the types of inventory.

Below is the table noting the differences:

No.	Type of inventory	AFS (R)	Listing/ sub system (R)	Difference (R)
1	Corporate clothing	18 635 798.00	18 860 911.00	225 113.00
2	In flight inventory	75 633 045.00	62 047 272.00	-13 585 773.00
3	Printed matter	3 821 027.00	3 813 984.01	-7 042.72
TOTAL:				-13 367 702.72

This will result in an overstatement of inventory balance presented in the AFS as at 31 March 2017.

Internal control deficiency

Financial and performance management

The Manager of Operations and Aircraft Acquisition: Procurement did not ensure that the inventory listings/sub systems reconcile to amounts presented in the annual financial statements for corporate clothing items and printed matter.

The Manager for Contracts, Procurement, Admin and Inventory: Cabin Services did not ensure that the inventory listings/sub systems reconcile to amounts presented in the annual financial statements for In flight inventory.

Recommendation

The responsible persons should implement the following preventative and corrective controls:

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- Update the amount in the trial balance to reflect the correct amount as per the sub system/ sub listing ensuring that the two reconcile
- Implement monthly controls by performing reconciliations between the balances in the GL/TB to sub systems/listings.

Management response - *Corporate clothing & Printed matter*

Management comment on audit finding: The value for the Corporate clothing as per the listing/sub system is correct as at 31 March 2017. The differences in the values are due to the listing/sub systems calculating the actual value of the inventory and the AFS calculating the moving weighted averages. The differences of the printed matter is also compounded due to rand versus pound or rand versus euro and the prices are dependent on the differences in exchange rate calculation from GRV to actual payments.		
Management comment on Internal control deficiencies: Due to segregation of duties, the re-conciliation between the AFS and the listing/sub system, is not within the duties of the Manager - Operations and Aircraft Acquisition: Procurement but falls under Finance Management.		
Management comment on recommendation: • Update the amount in the trial balance to reflect the correct amount as per the sub system/ sub listing ensuring that the two reconcile. This could not be done in line with Financial Accounting practices, rules and regulations, as per Finance Management • Implement monthly controls by performing reconciliations between the balances in the GL/TB to sub systems/listings. Financial Management to implement.		
Remedial action : Monthly reconciliation by Financial Management to be implemented, responsible person to be identified		
What actions will be taken:	**By whom** **Person:** **Position** HOD Financial Management	**By when:** Immediate

Name: Bertus Steyn

Position: Manager - Operations and Aircraft Acquisition: Procurement

Date: 26 June 2017

Management response – *Inflight inventory*

Management comment on audit finding: "The investigation has been done and it has been established that ITS requires the services of a skilled senior SAP resource who is going to assist in developing a program that would balance the stock consumed in materials management with the relevant stock value in the financials. Currently the book stock quantity is zero whereas the financial value is still reflected as R34 m. SAA does not have a senior Materials Management resource of the caliber that is required for this development. ITS has motivated to recruit or contract a senior materials management resource who will assist in developing such a reconciliation program. Estimated resolution date - Dependent on the approval of sourcing the SAP skilled resource."

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Management comment on internal control deficiencies:		
Management comment on recommendation:		
Remedial action :		
What actions will be taken:	**By whom** **Person:** **Position** HOD Financial Management	**By when:** Immediate

Noluthando Gando

Manager Contracts, Procurement, Admin and Inventory

Cabin Services

12 June 2017

Auditor's conclusion

The misstatement will be transferred to the overs and unders schedule and assessed with the rest of the other misstatements that are below materiality.

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Deferred revenue from ticket sales

83. Disclosure of deferred revenue on ticket sales is not a true reflection of its components

Audit finding

The International Accounting Standard (IAS) 1, paragraph 15 requires that the financial statements present fairly the financial position, financial performance and cash flows of an entity. "*...Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation:*"

In the disclosure note 1 of the financial statements for the SAA group, the following is stated for rendering of services: *"Passenger air ticket and cargo air waybill sales, net of discounts, are initially recognised as current liabilities in the Air Traffic Liability account and only recognised as revenue when the transportation service is provided. Commission costs are recognised in the same period as the revenue to which they relate."*

During the audit of the deferred revenue on ticket sales balance, we noted that the deferred ticket sales and air traffic liability (ATL) of both SA Express Airlines SOC Ltd (SAX) and SA Airlink (Pty) Ltd (LNK) forms part of SAA's disclosure without distinction. This is however not included in the definition of the accounting policy, neither does it conform to be recognised as deferred revenue for SAA as it would not be revenue for SAA in the future. Below as a table of the balances from APRA making up the ATL per detailed account as per note 15 to the financial statements:

Detailed component	SAX	LNK
COAM	-1 038 150.00	-1 584 607.00
Gross_Fare	141 563 788.00	238 834 543.00
RV	-57 191.00	429 082.00
Total	140 468 447.00	239 263 625.00
Franchise partner total		379 732 072.00

Evident from the table above, the air traffic liability for SAA should be considered overstated unless additional disclosure is made of the R 569 598 075 that SAA has received in forward ticket sales for SAX and LNK. This balance should ideally be disclosed as a separate balance of its own. Disclosure of the SAX balance should be included in the related parties disclosure note.

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Internal control deficiency

Financial and performance management

The group financial accountant and head of revenue accounting department did not ensure that the air traffic liability disclosure supports accurate disclosure to the users of the financial statements. This is due to process deficiencies in the preparation and review of financial statement.

Recommendation

The following is recommended as corrective measures:

- Disclosure to the air traffic liability should be updated to differentiate between amounts relevant to SAA as carrier and those tickets sold on behalf of SAX and LNK.
- Comparative disclosures should also be updated to indicate the balances as at 31 March 2016.
- A retrospective error correction note should be disclosed in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors to disclose the incorrect classification of the tax suspense flown-based taxes in the prior period financial statements.

Management response

Management comment on audit finding: SAA is not in agreement with audit finding that '*the deferred ticket sales and air traffic liability (ATL) of both SA Express Airlines SOC Ltd (SAX) and SA Airlink (Pty) Ltd (LNK) forms part of SAA's disclosure without distinction*' and should be excluded from SAA Net air traffic liability balance. SAA's Net air traffic liability consist of all 083 (SAA's IATA code) coded ticket sales not yet utilized and which SAA is responsible to refund or exchange into new flight itinerary's if passengers holding 083 coded tickets so decide at any point in time before service is rendered. It is not 'recognised as deferred revenue for SAA' as stated in the audit finding. Note 34 under Air Traffic Liability states 'This balance includes the value of coupons sold by SAA, which will be flown and claimed in future periods by code-share and interline partners. SAX and LNK are also interline partners
Management comment on internal control deficiencies: SAA does not agree that group financial accountant and head of revenue accounting department did not ensure that the air traffic liability disclosure supports accurate disclosure to the users of the financial statements. Disclosure notes are continuously reviewed and before the financial statements are finalized these specific discloser notes will be reviewed.
Management comment on recommendation: SAA does not agree that disclosure to the air traffic liability should be updated to differentiate between amounts relevant to SAA as carrier and those tickets sold on behalf

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of SAX and LNK and comparative disclosures should also be updated to indicate the balances as at 31 March 2016. A retrospective error correction note is also not required		
Remedial action : No remedial action required. Will however before the financial statements are finalized review these specific discloser notes.		
What actions will be taken:	By whom Person: Position	By when:

Auditor's conclusion

Management's response is noted. Although the current disclosure indicate the inclusion of tickets sold by SAA as well as interline partners and code-share agreements, this does not specifically reference that it includes the forward sales administered for revenue accounting services. This is a completely different service that SAA offers to SAL and SAX other than interlining contracts.

Disclosure in the AFS submitted on 31 October 2017 were verified, evaluated and considered adequate.

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84. Disclosure of the revenue accounting provisions is not complying with IFRS

Audit finding

Paragraph 84 of IAS 37 states that for each class of provision, an entity shall disclose:

(a) *The carrying amount at the beginning and end of the period*

(b) *Additional provisions made in the period including increases to existing provisions amounts used*

(c) *unused amounts reversed during the period and*

(d) *the increase during the period in the discounted amount arising from the passage of time and the effect of any change in discount rate*

Paragraph 85(b) of IAS 37 requires that an entity shall disclose a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits.

Furthermore, IAS 8.39 of the International Financial Reporting Standards (IFRS) states that *"An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods."* Par. 49 additionally requires that an entity shall disclose the nature of the prior period error and, for each prior period presented to the extent practicable, the amount of the correction for each financial statements line item affected.

A. Revenue provision accounts reclassification

During our audit of revenue and the air traffic liability, we've noted that the classification of the below-mentioned revenue provision accounts was changed from the prior year to the current period. These accounts were previously incorrectly included as part of trade and other payable accounts but were correctly reclassified to provisions due to the uncertainty in the liability's amounts. There was however no additional disclosure note provided in the financial statements as required by IAS 8 nor was the allocation of prior year amounts corrected during this process:

No.	Revenue provision accounts	Detail of the reasoning for the provision	Balance on 31 March 2016 R
1	Tax prescription provision	As per the Prescription Law passengers are allowed to claim a refund of the taxes charged on their ticket within 36 months from departure date. Most of the passengers are unaware of this and as a result, SAA prescribes taxes once they reach this age. Rapid (the previous Revenue Accounting System) did not contain a ticket tax reconciliation on coupon level therefore it resulted in ticket taxes not being released with the exception of the fuel levy. A provision was raised in this regard to separately account for this liability.	495 506 004
2	Interline Normal	SAA has to engage on a daily basis with other airlines (OAL) through interlining agreements allowing for SAA to sell passenger tickets that includes sectors that will be operated by OAL on the ticket. The OAL will provide a service on behalf of SAA in return for a specified amount which is usually stated in a Special Proration Agreement (SPA). The OAL will have to bill SAA through the IATA billing process. This process normally settles in 4 months therefore may not have been complete at yearend for flights that occurred up until 31 March 2017. A provision is raised in this regard for claims from other airlines	143 453 799

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No.	Revenue provision accounts	Detail of the reasoning for the provision	Balance on 31 March 2016 R
3	Interline Commission Adjustments	A balance sheet account was defined for the interline service charges paid by other airlines when SAA sells their ticket stock on their behalf. The balance sheet accounts were not cleared and therefore a provision to cater for incorrect classification of the interline service charge to the balance sheet.	41 609 217
4	Tax audit exposure	A provision is raised for tax audits which are performed by the relevant tax authorities. Each tax authorities have different requirements in terms of the amount payable to them and also other tax authorities have requirements in terms of how the tax data is presented by SAA to them.	19 315 363
5	Flight Interrupt Manifest (FIM) provision	There are also instances where SAA has to board their customers on other airlines planes due to unforeseen circumstances (bad weather, delays) and therefore a FIM is issued to the customer at the airport and a copy of the FIM has to courier to SAA head-office for capturing on APRA. Due to courier delays, claims against SAA may not be accounted for as at 31 March 2017 and therefore a provision will be raised based on past experience of such claims	4 004 137
6	APRA migration /Coupon differences	A provision is raised to cater for the migration differences identified between APRA and SAP.A monthly reconciliation is prepared to identify the variances between the two system	2 393 943
Total amount			**706 282 463**

The incorrect classification of the provisions to trade payables in the comparative figures satisfies the definition of a prior period error in terms of IAS 8 and therefore requires specific disclosure in the financial statements as at 31 March 2017. Without such a note, users of the financial statements would not be informed about the reclassification adjustments resulting in inconsistent comparative figures.

B. Change in accounting estimates

While auditing the interline suspense, other airline commission expenses against the interline provision and the interline provision accounts, we confirmed that there was an element of re-estimation applied in the current year. The change of estimate is as per the below table:

No.	Revenue provision accounts	Estimate explanation	Re-Estimation applied in 31 March 2017 R
1	Interline Commission Adjustments	• In the prior year when balances were migrated from Rapid to APRA,a balance sheet account was defined for the interline service charges paid by other airlines when SAA sells their ticket stock on their behalf • The balance sheet accounts were not cleared and therefore a provision was raised in the prior year • In the current year an income statement account was defined (810100) which takes in to account the interline service charges paid by the other airline • A journal was passed in the current financial year to reverse the provision raised in the prior year.	(43 077 300.52)

The impact of the above will result in users of the financial statements not to be informed about the re-estimation of the provision that occurred during the current period and that the no interline commission adjustment estimate was required in the current period due to having more accurate information available.

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Internal control deficiency

Financial and performance management

The group financial accountant and head of the revenue accounting department did not ensure that notes to the financial statements were adequately disclosed as required by the accounting standards. This is due to process deficiencies in the preparation and review of financial statement.

Recommendation

The following is recommended as corrective and preventative controls:

- The group financial accountant should review that the notes to the financial statements to determine if the notes are adequately disclosed as required by the accounting standards.
- A retrospective error correction should be disclosed in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors for the incorrect classification of the revenue accounting provision
- A brief disclosure of what the revenue accounting provision entails in the provision note in the financial statements should be made.

Management's response

Management comment on audit finding: Audit finding noted and before financial statements are finalised will review classification issues noted in finding as well estimation aspects noted		
Management comment on internal control deficiencies: Before financial statements are finalised will review classification issues noted in finding as well estimation aspects noted		
Management comment on recommendation: Before financial statements are finalised will review classification issues noted in finding as well estimation aspects noted		
Remedial action: Before financial statements are finalised will review classification issues noted in finding as well estimation aspects noted		
What actions will be taken:	By whom: Person: Position:	By when:

Auditor's conclusion

Management's response is noted, agrees to the finding and related internal control deficiencies. We verified the disclosure in the financial statements submitted on 31 October 2017 and noted that the separate classification of revenue related provisions have not been clearly documented. This finding will be evaluated for the qualitative nature of the disclosure along with other requirements of IAS 37 to determine the materiality thereof.

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Non-current liabilities

85. Misstatements identified on the SAA Share Incentive Trust

Audit finding

The International Accounting Standard (IAS) 1, paragraph 15 requires that the financial statements present fairly the financial position, financial performance and cash flows of an entity. "...Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation:" Paragraph 32 further states that, "an entity shall not offset assets and liabilities or income and expenses unless required or permitted by an IFRS."

The component auditors of the South African Airways Share Incentive Trust (Share Trust) have been unable to obtained sufficient audit evidence over the following balances included in the table below. The draft opinion provided is a disclaimer opinion on the 2016/17 financial statements that have not been signed off and approved by the trustees.

The following misstatements were identified during the audit of the Share Trust our component auditors:

No	Financial Statement Item	Amount disclosed
1	Impairment of Investment in South African Airways	R 64 937 295.00
2	Department of Public Enterprises - Loan due was not supported by confirmation	R 62 707 946
3	Loan due to SAA impaired by SAA	R 229 349
Total		**R 127 874 590**

We are unable to confirm whether the loan amounting to R62 707 946 is appropriately valued in the books of SAA group as the other two entries eliminate on consolidation of the SAA trust. Furthermore, there is insufficient evidence or disclosure in the SAA trust AFS indicating whether the employees of the SAA have a claim against the trust.

Internal control deficiency

Leadership

Leadership did not ensure that trustees were appointed in the SAA Share Incentive Trust that are able to exercise the necessary control over the trust and ensure that AFS are approved and supported by appropriate records due a lack prioritisation of addressing trust matters.

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Recommendation

Leadership should urgently appoint trustees that are able to exercise control over the trust. Furthermore, the appointed trustees should ensure that the financial statements comply with the requirements of the trust deed and that the disclosed amounts are supported by appropriate records before approving the AFS for sign off.

Management's response

Management comment on audit finding: Management notes the finding. The loan was taken on by DPE when SAA was sold to them by Transnet. The agreement of sale makes specific reference to the Share Trust loan but the loan has been included in DPE's investment in SAA balance. There is an account (720145) in SAA's books that relates to the balance of the amounts not claimed ito the settlement agreement between SAA, Transnet and the SAA Labour Restructuring Caucus. The balance on the account is R647 182.11. These funds were received back from the lawyers tasked with effecting the settlements once they had exhausted their search for claimants. R 656 600.48 was received in 2010, a payment of R9 418.37 made to a claimant in December 2010, and no further movement on the account.		
Management comment on internal control deficiencies: he comment is accepted that Trust matters have not been prioritised.		
Management comment on recommendation: As soon as the appointment of the trustees is approved by the Master of the High Court, SAA will embark on a process to regularise Trust matters.		
Remedial action:		
What actions will be taken: Trustees will be appointed to manage the affairs of the Trust.	By whom Person: R Kubeka Position Company Secretary	By when: Documents have been lodged with the Master of the High Court – we await his approval

Auditor's conclusion

Management comment is noted and they are in agreement with the finding. The loan amount will be taken to the summary of unadjusted differences.

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Voyager

86. The fuel levy incorrectly calculated

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Sec 57 (a) of the Public Finance Management Act (PFMA), responsibilities of other officials, states that "*an official in a public entity 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*"

During the detailed audit test on the SAA redemption of miles, a sample of flown coupons was selected from the Redemption Burn Reports to test and it was determined that the fuel levy was incorrectly calculated for the month of February due to an incorrect formula being used.

Burn reports are extracted onto an excel spreadsheet on a monthly basis. On each ticket at the time of booking a certificate is issued based on the sectors to be flown. Once the certificate has been used the information pulls through to the burn report. The total miles are split between base miles and fuel levy except sectors where fuel levy is exempt. The base miles are redeemed at 80% at a base fare at a rand cost of R0,076 per mile and 20% of the miles remaining are deemed to be the fuel levy at a rand cost of R0,08 per mile, the recalculation is based on the issued miles on the certificate based on the miles loaded per sector in ATPCO the fare filing chart. A recalculation was performed noted the differences below.

For the following coupons below it was noted that there were differences between the amounts recorded in the general ledger via the redemption burn reports and the amounts recalculated.

DEPARTURE_DATE	TICKET NUMBER	Rand Amount per GL	Voyager member no.	Voyager member name	Base FARE Miles (80% of Miles on Certificate)	Fuel Levy Miles (20% of Miles on Certificate)	Total Miles redeemed	Recalc of Base Fare at a rate of R0.076	Recalc of Fuel Levy at a rate of R0.08	Total Rand Value	Difference
		A			B	C	D=B+C	E=B*0.076	F=C*0.08	G=E+F	H=A-G
2017/02/18	0832126787438	44 105	2731914	K Shelly	537 339	134 335	671 674	40 838	10 747	51 585	7 480
2017/02/13	0832126474269	3 152	500050832	Alexendra Valentana	38 400	9 600	48 000	2 918	768	3 686	535
2017/02/03	0832126657527	4 150	102501	Gary Benatar	50 560	12 640	63 200	3 843	1 011	4 854	704

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This is caused by the preparer incorrectly multiplied the rand amount of base miles with fuel levy rate of R0,08 instead of using the fuel levy miles resulting in the calculation being calculated incorrectly.

Note that there is a factual difference noted of during the month of February resulting in an understatement of R 2.5 million in the income statement for account number 917071 Voyager Business cost account.

The table below shows the amounts that were processed and the auditor's recalculation for the month of February 2017:

Description	Base Amo:unt in Rand	Fuel Levy in Rand	Total Cost
Amount Processed in GL in February 2017	R13 728 285	R1 098 263	R14 826 548
Auditors Recalculation	R13 728 285	R3 612 706	R17 340 991
Difference	**R0**	**R2 514 443**	**R2 514 443**

Internal control deficiency

Financial and performance management

Voyager management has not implemented controls over daily and monthly processing of transactions to ensure that the correct formulas are being pulled in the SAA redemption report calculation of the amounts on fuel levy to be processed in the general ledger, due to lack of effective review.

Recommendation

- Voyager financial manager should perform subsequent reviews of the formulas before a journal is recorded into SAP.
- Voyager financial manager should quantify the magnitude of the error and determine if an adjustment in the annual financial statements is required.

Management's response

Management comment on audit finding: Management are in agreement that the fuel levy was incorrectly calculated on the Redemption Burn Report for February 2017. Management are however not in agreement with; there being an understatement in the income statement. The entry passed in the general ledger is an inter-departmental entry debiting the cost in Voyager and crediting the revenue in SAA Commercial. These entries are eliminated when the consolidated SAA financial accounts are prepared and therefore the calculated difference did not have any impact on the income statement for SAA.
Management comment on internal control deficiencies: Management are in agreement that adequate internal controls are not in place to ensure the accuracy of the calculation of the SAA redemption reports.

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<table>
<tr><td colspan="3">Management comment on recommendation:
All journals and supporting reports prepared by the Senior Account will be checked, verified and approved by the Airline and Non-airline Accountant and journals and supporting reports prepared by the Airline and Non-airline Accountant will be checked, verified and approved by the Senior Accountant before final approval and posting into the general ledger.
As indicated in the management comment on the audit finding there is no understatement in the income statement and hence no adjustment to the financial statements is required.</td></tr>
<tr><td colspan="3">Remedial action: Verification and review of journal entries as indicated under management comment on recommendation.</td></tr>
<tr><td>What actions will be taken:

Verification and review of journal entries as indicated under management comment on recommendation.</td><td>By whom: Ramendran Naidoo: Gina Seymore

Person: R Birch

Position: Financial Manager</td><td>By when: Immediate</td></tr>
</table>

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. We agree with the fact that the interdivisional entry eliminates at company level. Even though the difference noted is trivial, if the internal control deficiency is not addressed it may result be difference in future that may be material in aggregate.

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87. Incomplete accrual of Voyager miles for SAA

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*".

Sec 57 (a) of the PFMA, responsibilities of other officials, states that "*an official in a public entity 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*".

During the audit of SAA accrual of miles, samples of flown coupons were selected from the Amadeus Passenger Revenue Accounting (APRA) for voyager members who quoted their membership upon making a booking. These were traced and inspected on iFly System and on the SAA accrual reports for the complete automatic recording from data warehouse DCS feed.

It was determined that the coupon below was not recorded on iFly Loyalty system and in the SAA accrual reports which are used to process journals. The transaction was for a valid voyager member.

The Voyager member had booked four sectors on the ticket, the other three coupon sectors were loaded automatically via the DCS feed correctly onto iFly System.

This further indicates that not all transactions are being uploaded from Data warehouse to iFly loyalty system when a voyager member has flown a sector.

Below are details of the differences identified during the test performed on a sample that was selected:

No.	Ticket Number	Member number	Coupon Number	Route	Flown Date	Number of Miles
1	0832124897894	32896341	3	MRUJNB	06-May-16	1795

The above is caused by fact that the Data warehouse information with the Departure Control System did not upload all transactions into iFly.

This indicates that not all miles have been completely recorded and accrued for in the financial year leading to a possible understatement of the deferred revenue liability.

This has resulted in the miles being recorded on iFly Loyalty system being understated.

Management need to assess the population to determine the full extent of the issue identified.

Internal control deficiency

Leadership

Management has not exercised oversight responsibility regarding financial reporting related internal controls to ensure that all information is completely uploaded from data warehouse into

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iFly. It is not sufficient for management to place reliance on the reports from IBS without management executing further checks on the data completeness.

Recommendation

- Voyager IT team should quantify the magnitude of the error and determine if an adjustment in the annual financial statements is required.
- Voyager finance manager should perform reconciliation checks to ensure that all files as per APRA reconcile to the upload files for voyager transactions. If there are decisions made by management that has an impact on the financial statements.

Management's response

Management comment on audit finding: Management are not in agreement with the audit finding. Although the Voyager member's membership number was in the booking the membership number was changed in the system at the time of check-in at the airport for the sector in question. Due to the change in the membership number the sector did not track to the Voyager member's account which shows that the system is performing as expected. Any accrual transactions that have not tracked to the members account due to incorrect Voyager membership numbers being quoted as in the case above can be loaded as a retro claim after the member has flown		
Management comment on internal control deficiencies: There is no internal control deficiency. The system did not load the transaction since the Voyager number that was inserted at check-in was incorrect. The system has therefore performed as expected.		
Management comment on recommendation: Any transactions that did not load due to an incorrect Voyager membership number can be loaded as a retro claim. A provision of R6 312 659 was made at year end for all accrual transactions loaded after year end where the flight activity occurred before year end.		
Remedial action:		
What actions will be taken: N/A	By whom: N/A Person: Position;	By when: N/A

Auditor's conclusion

Management's response is noted and we agree that the entry was correctly treated. Furthermore management has made a retro claim provision which takes into account claims that will still be made in the next financial year. Thus no further adjustment is required to be made.

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88. Incorrect period and incomplete recording of the SAA accrual and redemption

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Sec 57 (a) of the PFMA, responsibilities of other officials, states that "*an official in a public entity 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*"

During the audit of SAA Accrual of miles and SAA redemption costs, it was determined that the accrual and redemptions were recorded into the general ledger via a monthly journal on the SAA Accrual report and the SAA redemption report extracted from the iFly Loyalty System. SAA Voyager have an agreement with IBS the service provider to run reports ending on the 25th day of month for example the report date for March would run from 26 February 2016 to 25 March 2017 however at year end management ensures that all coupons are recorded till the last date 31 March 2017 to account for all dates.

The transactions listed below relate to the 2016/17 year of assessment however they were only recorded in April 2017 which is the 2017/18 financial year. It was further noted that these transactions were not retro-claims and were flown in March 2017.

Management further stated that these were accounted for based on "*sector flown date*" which is the date the data is transferred from data warehouse to iFly not based on the flown date of the ticket.

Table 1 below indicates coupons that were flown in March but not accrued for in April 2017(note that these are only from sample tested):

Table 1 (April 2017) SAA Accrual Miles Report -

No.	Ticket Number	Member number	ORIGIN	DESTINATION	Flown Date	Number of Miles	Rand Amount
1	831322417095	32812612	JNB	LOS	2017-03-26	4789	R 402.28
2	839150825493	500045080	JNB	CPT	2017-03-26	1466	R 123.14
3	839150825323	900119	JNB	DUR	2017-03-26	1371	R 115.16
4	839150773341	5464416	ELS	JNB	2017-03-27	1097	R 92.15
5	839150799103	60037486	MPM	JNB	2017-03-27	418	R 35.11
6	831322444776	500080857	DUR	JNB	2017-03-30	497	R 41.75
7	831322256436	32979307	ABJ	JNB	2017-03-30	6410	R 538.44
8	839150841771	30670371	JNB	CPT	2017-03-31	1377	R 115.67
9	839150795511	202667	JNB	CPT	2017-03-31	2309	R 193.96
10	831322412964	5494480	JNB	ACC	2017-03-31	2575	R 216.30
11	831378768548	32972827	JNB	DAR	2017-03-31	1664	R 139.78

The business rules regarding the extraction of data from iFly for the SAA Accrual report is based on the "sector flown date" that is the date information is loaded from data warehouse into iFly. The

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date is not the same as the departure or flight date leading to the differences occurring. The impact is that as at 31 March 2017 SAA Accrual liability was understated in the financial statements.

Table 2 below indicates coupons that were flown but were not recognised as an expense in March 2017 period:

Table 2 (April 2017) SAA Redemption Report -							
No.	Ticket Number	Member number	ORIGIN	DESTINATION	Flown Date	Number of Miles	Rand Amount
1	832124614746	27010380	JNB	FRA	2017-03-29	63200	R 4 853.76
2	832124614745	27010381	JNB	FRA	2017-03-29	63200	R 4 853.76
3	832126695067	32598502	JNB	LOS	2017-03-29	16000	R 1 228.80
4	832127074341	4214010	LHR	JNB	2017-03-28	0	R 427.96
5	832127072761	500016424	JNB	DUR	2017-03-28	23372	R 1 794.97
6	832127025938	61006161	GRU	JNB	2017-03-28	34000	R 2 611.20
7	832127009568	32736080	JNB	DUR	2017-03-28	24994	R 1 919.54
8	832127070458	2640316	JNB	CPT	2017-03-29	41494	R 3 186.74
9	832126785802	7786887	JNB	ACC	2017-03-29	7500	R 576.00
10	832126953865	500229530	CPT	JNB	2017-03-29	36044	R 2 768.18
11	832127071787	29368559	JNB	DUR	2017-03-29	12497	R 959.77
12	832126788114	128378	LHR	JNB	2017-03-29	206842	R 15 885.47
13	832126783786	2001695	CPT	JNB	2017-03-29	72088	R 5 536.36
14	832127070506	500102265	BZV	JNB	2017-03-29	33167	R 2 547.23
15	832126787169	151805	CPT	JNB	2017-03-29	137679	R 10 573.75

The business rules regarding the extraction of data from iFly the SAA redemption report is based on the "sector flown date" that is the date information is loaded from data warehouse into iFly. The date is not the same as the departure or flight date leading to the differences occurring. The impact thereof in the annual financial statements as at 31 March 2017 is that the SAA expense was understated for Voyager in company code 1010.

The extrapolated error is R21 167 192, however management must assess the full extent of the cut off error to determine the factual difference that occurred.

Internal control deficiency

Financial and performance management

Voyager management has not implemented controls over daily and monthly processing of transactions to ensure that the all transactions as at 31 March 2017 have been recorded in the correct reports SAA Accrual and SAA Redemption report. Management has not exercised oversight responsibility in terms of the reports extracted by IBS. This is due to business rules not being updated to cater for yearend reporting.

Recommendation

- Management should quantify the magnitude of the error and determine if an adjustment in the annual financial statements is required.
- It is recommended to management that they should consider changing the requirements to extract using flight date so that transactions are accounted for in the correct period.

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Management's response

Management comment on audit finding: 1) SAA Accrual Liability – Management are in agreement with the finding with regards to the business rules regarding the extraction of the SAA Accrual reports. When considering the understatement for the March 2016 and March 2017 year ends the net impact is an overstatement of R525 099 of the accrual liability for the 2017 year end. 2) SAA Redemption Report (expense understated) - Management are in agreement with the finding with regards to the business rules regarding the extraction of the SAA redemption report. Management are however not in agreement that the SAA Accrual Liability is understated in the financial statements since the entry passed in the general ledger is an inter-departmental entry debiting the cost in Voyager and crediting the revenue in SAA Commercial. These entries are eliminated when the consolidated SAA financial accounts are prepared and therefore there will not be any impact on the income statement for SAA.
Management comment on internal control deficiencies: Management are not in agreement that controls have not been implemented to ensure SAA accrual transactions at year end have been recorded in the correct reports (SAA Accrual and SAA Redemption report). See management comment on recommendation below.
Management comment on recommendation: • The value of SAA accrual transactions recorded on the SAA Accrual reports after March 2017 but flown before year end is R4 913 168. The value for the year ended March 2016 was R5 438 267 and the resultant net impact an overstatement of the accrual liability of R525 099. It is not considered necessary to make an adjustment for the overstatement in the annual financial statements. The value of SAA redemption activities recorded on the SAA Redemption reports after March 2017 but flown before the year end is R3 504 478. The value for the year ended March 2016 was R15 077 603. Although there is an impact on the individual management accounts of SAA Commercial and Voyager there is no impact on the financial statements of SAA as the entries are eliminated on consolidation at a company level. • The recommendation to change the requirements for extracting the reports to flight date is not practical. The reports are generated at a set date and time each month. If requirements are changed and the report has run for the month any transactions where the flight date is after the report has been extracted will not be included in the report for that month and will be excluded for the following months report and all subsequent reports. A journal adjustment will be done at year end for accrual transactions processed after year end where the flight date was before year end. Subject to the quantity of the transactions an adjustment will be done for SAA redemption transactions processed after year end where the flight date was before year end although this entry will be reversed on when SAA's standalone financial statements are prepared.

Remedial action:		
What actions will be taken: N/A	By whom: N/A Person: Position:	By when: N/A

Auditor's conclusion

Management's response is noted and are in agreement that there is a cut off issue. We take note that the net impact of the inclusion of the 2016 flights being included and the 2017 flights being excluding resulting in a net difference of R500,000. However when evaluating the impact, an assessment made on both the opening and closing balance and the individual difference noted will be taken to the summary of unadjusted differences.

We are in agreement with the liability is not understated with regards redemption, management comment is noted, however these accounts are used to make informed business decisions and should be corrected to allow for decision to be based on factually correct figures when looking at voyagers performance.

Management at every year end assess the impact of the cut off matter note due to business set up to ensure that the financial statements are misstated..

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89. Other airline redemption costs accrual account not cleared

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Sec 57 (a) of the PFMA, responsibilities of other officials, states that "*an official in a public entity 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*".

During the audit of redemption cost it was noted that a journal amounting to R83 136 597.00 was incorrectly recorded by management to accrue for the expense of other airlines where voyager members have redeemed and utilised their miles using airlines other than SAA. It was determined that the redemption cost (account number 917070) relating only to the redemption of other airlines for the current year of assessment amounted to R32 297252.00.

It was further noted that journal amounting to R83 136 597 was as a result of transactions that have been accruing since April 2013.

Management has been debiting account 917070 with the redemption cost for the month and crediting account 701301 and at the end of each month a journal is then reversed against these accounts and a new journal is processed which will include the current month as well as the previous months transactions, as a result the cumulative amounts are being recognised every month and not only the transactions for that month.

Although the journal was being reversed every month the transitions were however not being cleared from the accrual account number 701301, the accrual was being carried over since 2013.

This has resulted in the net effect of R32 297 252 being correctly accounted for in account 917070 for voyager business cost for the current year of audit. However the difference of R 50 857 345 has not been cleared in the liability account 701301 in company code 1020. The amounts have been settled already to IATA, the billing occurs once when SAA received the net settlement.

Thus the only liability that should be recorded in account number 701301 should only be R32 297 252 and not R83 136 597.

This was due to the clearing of accounts between Revenue Accounting and Voyager resulting in a difference. In 2015 when APRA commenced in the coding it was marked as source code 01 which is normal revenue tickets instead of source code 90 voyager coupons. The coding of APRA led to transactions being accounted for in GL account 710095 the forward sales account. The Voyager team (1020) clear the balances in account number 701305 .

This has led to an overstatement of the liability by R50 857 345 has been noted under general ledger account 701301 as this should have been cleared as Voyager has no obligation to these amounts.

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Internal control deficiency

Financial and performance management

Management has not implemented controls over daily and monthly processing of transactions to ensure that the correct clearing rules and coding in the system are being utilised. Voyager accounting management and revenue accounting management were using different set of rules in posting the transactions.

Recommendation

- The clearing process between SAA Revenue Accounting company code 1010 and Voyager Company code 1020 should be clearly defined in a policy. Management should track the transactions that were incorrectly passed into account 710095 so that they are reversed and cleared.
- The voyager team is recommended to pass amounts after rejections as an adjustment in voyager's books

Management's response

Management comment on audit finding: The journal for R83 136 597 was processed in order to ensure that the Voyager redemption cost was correctly accounted for in the income statement. When the APRA system was implemented in May 2015 there was a system issue that resulted in only part of the cost being allocated to the Voyager Clearing Account 701305. In order to ensure that the correct cost was accounted for on a monthly basis Voyager Finance used the information from the IDEC reports to accrue for the redemption expense. The entire accrual journal has been reversed each month and a new journal processed including the current months expenditure. The coding in APRA did not cause transactions to be incorrectly accounted for. In APRA the rules are defined based on passenger type with source codes 90 and 92 being used to indicate rejections. When APRA was implemented there was a system issue which resulted in some transactions being incorrectly accounted for. An IR was raised with Amadeus to address the issue. The correction implemented in June 2016 was applied to transactions after implementation. It was not possible to correct transactions that occurred in APRA prior to implementation. A further issue was then identified with the aggregation in APRA which resulted in the Q surcharges being incorrectly allocated. The IR raised with Amadeus to enhance the aggregation by identifying FFP tickets and correctly allocating the Q surcharges was implemented in December 2016. As at June 2017 an amount of R206 900 has been identified by Revenue Accounting as a possible manual adjustment due to the incorrect allocation of Q surcharges. The APRA system issues resulted in incomplete entries being interfaced to the 701305 Voyager Clearing Account. The system issues together with insufficient transaction data resulted in Voyager Finance being unable reconcile and clear the Voyager clearing account. The liability that should be recorded in the Voyager Accrual Account 701301 should relate to amounts that have still not been settled through the IATA clearing house. This amounts to R4 248 326 at the end of March 2017. The deemed overstatement in the 701301 Voyager Accrual Account is therefore R78 888 271. A portion of the overstatement in the 701301 Voyager Accrual Account is offset by an overstatement in the Voyager Clearing Account 701305 of R33 330 992 and an overstatement in the Trade Creditors Account 701310 (CC1010) of R10 087 809. Management are in the process of investigating where the balance of the transactions has been accounted in order for any appropriate adjustments and clearing to be done.

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Management comment on internal control deficiencies: The correct rules and coding in the APRA system were being utilised. When APRA was implemented in May 2015 there were system issues which resulted in some of the frequent flyer redemption transactions being incorrectly allocated. As a result Voyager finance raised a separate accrual to ensure that the redemption cost was being correctly accounted in the income statement.		
Management comment on recommendation: A processes for clearing all transactions after June 2016 has been agreed between Revenue Accounting and Voyager Finance. Management are in the process of identifying where transactions prior to June 2016 that were incorrectly allocated were processed in order to determine what adjustments and clearing needs to be undertaken.		
Remedial action:		
What actions will be taken: Transactions prior to June 2016 that were incorrectly allocated being identified in order to determine what adjustments and clearing needs to be undertaken Voyager Finance to clear the items in the Voyager Clearing Account 701305 and Trade Creditors Account 701310 against the provision in the Voyager Accrual Account 701301.	**By whom:** Revenue Accounting; Voyager Finance Person: Position:	**By when:**

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. Management has provided the calculation of the items that will be cleared during the before 31 March 2018. An adjustment of the R39.6 mil is still be being audited.

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90. Discrepancies in the accrual of Voyager miles for SAA

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

Sec 57 (a) of the Public Finance Management Act (PFMA), responsibilities of other officials, states that "*an official in a public entity 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*"

There are differences noted in accrued miles between i-fly loyalty system (i-fly) and Amadeus Passenger Revenue Accounting (APRA) due to the changes made on the original ticket sold. This is due to the following:

- When a loyalty member purchase the ticket, the loyalty points for the transaction are transferred from APRA to i-fly,
- If there are any changes made to the original ticket by the loyalty member, the system is not configured to update the miles in the i-fly.

This has resulted in miles on the i-fly being over or under accrued. Below are details of the differences identified during the walkthrough performed:

Ticket Number	No. of accrued miles as per iFly Loyalty	No. of accrued miles as per APRA	Difference in Miles	Difference in Rand's
832126294349	995	1045	50	R4.20

The projected misstatement as at 31 March 2017 amounts to an overstatement 7 600 970 miles for the current year amount to approximately R638 000 assuming we use rate of 0.084.The quantification above does not consider the impact that the error covers more than one financial year end, which still needs to be determined. Even though the error is small, the balance is continuously changing depending on which way the errors that are identified throughout the year.

As per discussion with management it has been established a management decision was made to accept the differences as management deem it as immaterial, however there is no evidence that this decision was documented and approved at the appropriate level. The misstated will be added to our error schedule.

Internal control deficiency

Financial and performance management

The design and implement formal controls over voyager related systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

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Recommendation

The head of voyager should quantify the magnitude of the error and consider adjusting the annual financial statements according. System changes should be made ensure that more reliability data is produced. If there are decisions made by management that has an impact on the financial statements, it is recommended that this decision is documented and approved at the appropriate level in terms of the DOA. Proof of this should be kept for audit purposes; however this error will still have to be considered with other possible errors in the financial statements to confirm if in aggregate errors is material.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding:
The program changes implemented in Feb 2015 changing the accrual of miles by Voyager members on SAA from distance based to revenue based (dynamic accrual) resulted in a change in the time taken for accrued miles to reflect in the members accounts. Prior to revenue based accrual, members received their SAA accrual miles after flight closure. With revenue-based accrual, members have been advised that as per the program terms and conditions accrual of miles can take up to 15 days before reflecting on a member's account. In the APRA system an initial pro-rate is calculated when the first coupon of a ticket is uplifted while the final pro-rate is only undertaken once all coupons have been uplifted. In order to ensure that the members receive their miles within the time period given in the program rules, the initial pro-rate (or the final pro-rate if available) is utilised to allocate miles to members in the I-Fly loyalty system. The maximum variance between the initial and final pro-rate in APRA will be approximately 5% above or below the initial pro-rate amount as advised by the Revenue Accounting Head. Changes to miles allocated to members in the I-Fly loyalty system once the final pro-rate has been completed are not entertained as such adjustments would cause confusion for the members and would result in complications in instances where miles had been used and could not be reversed.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
The I-Fly loyalty system was setup to utilise the pro-rate information that was available in the APRA system at the time when the first coupon is uplifted. After implementation, some discrepancies were identified between the values in I-Fly loyalty and the final values in APRA due to the reasons indicted above. Due to the variances being immaterial and to mitigate customer confusion and meet customer expectations, it was decided that no changes were required to the system. The decision was not documented or updated in the business specifications document.</td></tr>
<tr><td colspan="3">Management comment on recommendation:
A report has been requested to quantify the variance between the miles allocated in I-Fly loyalty and the miles according to the final APRA pro-rate for the twelve months ended March 2017. No adjustment to the financial statements is required since both the liability in Voyager and the charge to SAA are in accordance with the miles actually issued to the members' accounts. In future, decisions of this nature will be documented as proof.</td></tr>
<tr><td colspan="3">Remedial action: Refer below.</td></tr>
<tr><td>What actions will be taken:
All future decisions will be documented as proof.</td><td>By whom:
Person: Zola Mabinya
Position: Voyager Systems Manager</td><td>By when: Immediate</td></tr>
</table>

Auditor's conclusion

Management's comment is noted. Even though the misstatement noted is trivial, management should ensure that they address the internal control deficiency noted as it may result in a misstatements in future that may be material in aggregate with other findings.

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91. Profit/ loss journal erroneously processed

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that *an accounting authority of a public entity must ensure that that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

Sec 57 (a) of the Public Finance Management Act (PFMA), responsibilities of other officials, states that an official in a *public entity 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;*

A. Journal erroneously processed relating to the profit/loss on Voyager bonus miles

During the audit of the profit/loss on SAA bonus miles journals, it was noted that the journal processed for the month of March 2017 was erroneously processed in the general ledger. The amount was incorrectly recorded as a debit amount instead of the credit amount in the general ledger.

Below is the description of the error made by management:

Month	Description	Debit Account	Credit Account	Amount
Description of how the journal was recorded by management				
17-Mar	Profit/Loss on SAA bonus miles	Revenue(810600)	Deferred Revenue Liability(720003)	R 3 417 326.00
Description of how the journal should be recorded based on auditors recalculation				
17-Mar	Profit/Loss on SAA bonus miles	Deferred Revenue Liability(720003)	Revenue(810600)	-R 3 417 326.00
			Difference	**-R 6 834 652.00**

This is caused by lack of proper review by the financial manager for Voyager during the authorisation of journals processed onto the system on a monthly basis. The error has resulted in an understatement of revenue as well as overstatement of Deferred revenue liability amount of R6 826 392.89 in the financial statements.

B. Difference in profit/ loss amount as result of management not using the prior year audited fair value rate as well as difference in miles when the audited reports are compared to management's reports

During the audit of profit/ loss it was determined that the data used to calculate the base miles as well as the bonus miles does not tie back to the data used by management which has resulted in differences being identified.

Furthermore it was noted the profit/loss calculated on a monthly basis by management was based on the rate of R0.026 rate instead of the prior year audited rate of R0.0258 which has also resulted in differences identified..

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Below is the list of the differences identified:

Information as per the clients Journals										
No.	Month	Description	Miles as per Journal, accrual report	Profit per mile	Amount	Miles as per the Accrual reports - As per ISA report	Difference	Profit per Mile - Based on the prior year audited amount	Recalculated Amount - As per the ISA report	Difference
			A	B	C=A*B	D	E=A-D	F	G=D*F	H=C-G
1	16-Apr	Base Miles	216 492 343.00	0.02595	R 5 618 565.54	219 649 550.00	-3 157 207.00	0.02589	5 686 726.85	R -68 161.31
1.1	16-Apr	Bonus Miles	69 303 977.00	0.02595	R 1 798 627.00	68 069 143.00	1 234 834.00	0.02589	1 762 310.11	R 36 316.89
2	16-May	Base Miles	264 575 917.17	0.02595	R 6 866 465.16	267 352 394.00	-2 776 476.83	0.02589	6 921 753.48	R -55 288.32
2.1	16-May	Bonus Miles	86 507 595.00	0.02595	R 2 245 108.00	87 337 515.00	-829 920.00	0.02589	2 261 168.26	R -16 060.26
3	16-Jun	Base Miles	267 142 995.00	0.02595	R 6 933 087.82	269 485 825.00	-2 342 830.00	0.02589	6 976 988.01	R -43 900.19
3.1	16-Jun	Bonus Miles	88 285 418.00	0.02595	R 2 291 247.00	88 412 183.00	-126 765.00	0.02589	2 288 991.42	R 2 255.58
4	16-Jul	Base Miles	266 508 409.00	0.02595	R 6 916 619.00	269 920 573.00	-3 412 164.00	0.02589	6 988 243.63	R -71 624.63
4.1	16-Jul	Bonus Miles	80 963 496.50	0.02595	R 2 101 223.00	82 150 832.00	-1 187 335.50	0.02589	2 126 885.04	R -25 662.04
5	16-Aug	Base Miles	242 359 557.00	0.02595	R 6 289 890.00	247 924 211.00	-5 564 654.00	0.02589	6 418 757.82	R -128 867.82
5.1	16-Aug	Bonus Miles	75 238 493.50	0.02595	R 1 952 644.00	75 896 373.00	-657 879.50	0.02589	1 964 957.10	R -12 313.10
6	16-Sep	Base Miles	289 774 891.07	0.02595	R 7 520 447.00	293 118 839.00	-3 343 947.93	0.02589	7 588 846.74	R -68 399.74
6.1	16-Sep	Bonus Miles	97 368 273.00	0.02595	R 2 526 972.00	96 802 634.00	565 639.00	0.02589	2 506 220.19	R 20 751.81
7	16-Oct	Base Miles	250 904 956.82	0.02595	R 6 511 667.00	252 140 422.00	-1 235 465.18	0.02589	6 527 915.53	R -16 248.53
7.1	16-Oct	Bonus Miles	87 040 521.00	0.02595	R 2 258 938.00	86 801 531.00	238 990.00	0.02589	2 247 291.64	R 11 646.36
8	16-Nov	Base Miles	328 101 167.00	0.02595	R 8 515 118.00	325 610 533.00	2 490 634.00	0.02589	8 430 056.70	R 85 061.30

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Information as per the clients Journals											
No.	Month	Description	Miles as per Journal, accrual report	Profit per mile	Amount	Miles as per the Accrual reports - As per ISA report	Difference	Profit per Mile - Based on the prior year audited amount	Recalculated Amount - As per the ISA report	Differen
			A	B	C=A*B	D	E=A-D	F	G=D*F	H=C-G
8,1	16-Nov	Bonus Miles	114 310 943.00	0,02595	R 2 966 680.00	116 590 837.00	-2 279 894.00	0.02589	3 018 536.77	R -51 856,77
9	16-Dec	Base Miles	264 224 921.00	0.02595	R 6 857 356.00	266 161 349.00	-1 936 428.00	0.02589	6 890 917.33	R -33 561.33
9.1	16-Dec	Bonus Miles	88 640 642.00	0.02595	R 2 300 466.00	90 345 651.00	-1 705 009.00	0.02589	2 339 048.90	R -38 582.90
10	17-Jan	Base Miles	184 133 923.00	0.02595	R 4 778 776.00	188 801 186.00	-4 667 263.00	0.02589	4 888 062.71	R -109 286.71
10.1	17-Jan	Bonus Miles	51 437 813.00	0.02595	R 1 334 951.00	53 035 631.00	-1 597 818.00	0.02589	1 373 092.49	R -38 141.49
11	17-Feb	Base Miles	235 412 535,00	0.02595	R 6 109 596,00	237 514 653.00	-2 102 118.00	0.02589	6 149 254.37	R -39 658.37
11.1	17-Feb	Bonus Miles	38 038 949.00	0,02595	R 987 214.00	102 079 115.00	-64 040 166.00	0.02589	2 642 828.29	R -1 655 614.29
12	17-Mar	Base Miles	293 091 905.00	0.02595	R 7 606 533.00	294 980 126.00	-1 888 221.00	0.02589	7 637 035.46	R -30 502.46
12.1	17-Mar	Bonus Miles	131 675 044.00	0,02595	R 3 417 326.00	95 543 496.00	36 131 548.00	0.02589	2 473 621.11	R 943 704.89
		Total amount	***4 111 534 685.06***		***R 106 705 516.52***	***4 175 724 602.00***	***-64 189 916.94***		***R 108 109 509.95***	***R -1 403 993.43***

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The above is caused by the reports received by management from IBS not being the final reports as management needs to manipulate the data in order to determine the actual accrued miles for SAA.

The error has resulted in an understatement of revenue as well as the overstatement of Deferred revenue liability of R 1 403 993.43 in the financial statements.

Internal control deficiency

Financial and performance management

- Management has not implement controls over daily and monthly processing and reconciling of transaction for journals processed.
- Management has not designed and implemented controls over the process that should be followed in extracting data from IBS the service provider when requesting reports to ensure that reliable and accurate information is being pulled from the system by IBS.

Recommendation

- The financial manager for voyager should ensure that a proper review of the journal is conducted before the journals are authorised and processed onto the system.
- The financial manager should consider processing the correcting journal in the financial statements with a proposed journal entry by debiting: Deferred revenue liability and crediting: Revenue with the amount of R 6 826 392.89.
- Management should implement controls in place over the pulling of data from IBS to ensure that the data pulled is the valid, accurate and it is the final data, in order to ensure that there is no further manipulation required on the data received from IBS to avoid human error.
- Management should consider using the final audited figures for the release of revenue.

Management response

Management comment on audit finding: a. Management are in agreement that the audit finding on the March 2017 journal relating to the profit /loss on bonus miles. The error in processing was detected by management in April 2017 but no adjustment was made as due to the yearend adjustment that had already been processed transferring additional liability from the deferred revenue liability account to sundry income: Voyager once the deferred revenue liability calculation had been finalised. Management do not agree however that the error has resulted in the deferred revenue liability being overstated and the sundry income: Voyager being understated due to the year-end adjustment that was processed transferring additional liability from the deferred revenue liability account to sundry income: Voyager once the deferred revenue liability calculation had been finalised. b. Management are in agreement with the audit finding. Management do not agree however that the error has resulted in the deferred revenue liability being overstated and the sundry income: Voyager being understated due to the yearend adjustment that was processed transferring additional liability from the deferred revenue liability account to sundry income: Voyager once the deferred revenue liability calculation had been finalised.
Management comment on internal control deficiencies: • Management is in agreement that adequate controls are not in place to ensure the accuracy of

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the preparation and processing of journals. • There is a finance specification document in place that details the reporting extract criteria for IBS to extract the reports. Management has worked with IBS to identify the causes of reporting discrepancies. The finance specification document has been updated accordingly and supplied to IBS to implement the required changes.		
Management comment on recommendation: • All journals and supporting reports prepared by the Senior Account will be checked, verified and approved by the Airline and Non-airline Accountant and journals and supporting reports prepared by the Airline and Non-airline Accountant will be checked, verified and approved by the Senior Accountant before final approval and posting into the general ledger. All journals processed will be verified in SAP by the Senior Account before system closure each month. • Management do not agree with processing a correcting journal in the financial statements due to the yearend adjustment that was processed transferring additional liability from the deferred revenue liability account to sundry income: Voyager once the deferred revenue liability calculation had been finalised. • There is a finance specification document in place that details the reporting extract criteria. The finance specification document has been updated in order to remedy the identified reporting discrepancies and supplied to IBS to implement the required changes. • The final audited fair value will be used to determine the rate that should be used profit/loss journal calculations going forward.		
Remedial action: The reporting changes as detailed in the finance specification document are to be implemented by IBS and tested by management before being taken live. Journal approval and checking to be implemented with immediate effect		
What actions will be taken: The reporting changes as detailed in the finance specification document are to be implemented by IBS and tested by management before being taken live. Journal approval and checking to be implemented with immediate effect	By whom: Person: IBS/R Birch Position: Service Provider/ Voyager Financial Manager	By when: Journal process -Immediate Updated system reports – 30 November 2017

Auditor's conclusion

Part A

Auditors are not in agreement with management comments as the additional R15 704 450.56 journal was processed at year end, however this journal is used to account for miles redeemed but not included in the IFRIC 13 release of revenue. The error has resulted in understatement of revenue by R 6 826 392.89 as a result of human error made during the processing of the journal. The amount will be included in summary of misstatements schedule and evaluated with the other misstatements noted.

Part B

Auditors are in agreement with management comments as an additional journal was processed at year end to account for additional revenue. The finding is reported as there is a control deficiency that needs to be addressed by management.

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92. Redeemed transactions not recorded in the SAA burn redemption report as well as the IFRIC 13 revenue recognition miles utilized report

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that *an accounting authority of a public entity must ensure that that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

Section 57 (a) of the PFMA, *"states that 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"*

A. Deficiency in internal control in relation to the pulling of the SAA redemption reports from the system

The SAA redemption reports are downloaded from the ifly system on a monthly basis, these reports should have all the miles redeemed in a particular month.

During the audit of redemption cost of miles redeemed at SAA it was determined that not all the miles/ transactions redeemed have been included in the SAA burn redemption report.

As per discussion with management it was indicated that all the miles redeemed at SAA during the month will form part of the IFRIC 13 revenue recognition miles utilized report. However it was determined that not all the miles redeemed have been included in the IFRIC 13 revenue recognition miles utilized report (refer to part B for further detail).

Below is the list of items that could not be traced to the SAA burn redemption report:

No	Ticket_Id	sector	Status of Coupon	Date of Flight	Certificate Number	Voyager member no.	Status of certificate	Miles redeemed
1	0832124621766	LVIJNB	Flown	29-Mar-16	1000322234	4175816	Used	76 337
2	0832123323732	JFKJNB	Flown	03-Apr-16	1000208899	701704	Used	32 600
3	0832126222668	CPTJNB	Flown	24-Oct-16	1000461778	2706308	Used	41 744
4	0832126222798	CPTJNB	Flown	25-Oct-16	1000483419	741505	Used	43 869
5	0832126126994	JNBPLZ	Flown	26-Oct-16	1000478742	871383	Used	14 747
6	0832126222869	JNBCPT	Flown	30-Oct-16	1000483443	473247	Used	38 994
7	0832126226093	JNBCPT	Flown	18-Nov-16	1000488154	2624287	Used	27 745

The above is caused by incomplete reports being pulled by IBS based on the scripts written to extract the data. The above does not have a financial impact as the amount for redemption cost relating to SAA forms part of the intra-group transactions which are eliminated at an entity level, however it results in an internal control deficiency which has led to the issues detailed in part B below.

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B. Miles redeemed not released to revenue

During the audit of revenue – IFRIC 13 release of revenue a sample of tickets issued to voyager member with zero fare amount as well as zero YR taxes as recorded in the APRA system (these tickets would be issued to voyager members who are redeeming their mile that were previously accrued) were selected for testing and it was determined that not all the redeemed tickets have been taken into account by management in the calculation of the release of revenue.

Thus the IFRIC 13 revenue recognition miles utilized report used to recognize part of revenue is not complete. The details of the above tickets are as follows:

No.	Ticket_ Id	Sector	Status of coupon	Date of Flight	Certificate Number	Voyager member no.	Status of certificate	Miles redeemed
1	0832126222668	CPTJNB	Flown	24-Oct-16	1000461778	2706308	Used	41 744

The above is caused by incomplete reports being pulled by IBS based on the scripts written to extract the data. Due to the above the revenue released from the deferred revenue liability (account no. 720003) has been overstated, while the sundry income: voyager (account no.810600) has been understated. The extrapolated error for the misstatement relating to IFRIC 13 release of revenue is R9 924 415.55

Internal control deficiency

Financial and performance management

Management has not designed and implemented controls over the process that should be followed in extracting data from IBS the service provider when requesting reports to ensure that reliable and accurate information is being pulled from the system by IBS.

Recommendation

Management should:

- Ensure that reconciliation is done between all the voyager tickets issued in redemption of the miles that have been uplifted during the month and monthly burn report for that particular month.
- Ensure that the redemption certificates that have been used as per the burn reports are included in the IFRIC 13 revenue recognition miles utilised report, this can be done by doing a reconciliation of redemption certificates between the burn report and the IFRC 13 revenue recognition miles utilised report.
- Management should implement controls in place over the pulling of data from IBS to ensure that the data pulled is the valid, accurate and it is the complete data, to ensure that the revenue recognised during the year is accurate, valid and complete.

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Management response

Management comment on audit finding: Part A: Management is in agreement with the finding that not all redemption transactions have been included in the SAA burn redemption reports due to the scripts utilized by IBS to extract the reports. Management is aware of this issue and has been working with IBS to identify the causes for the reporting discrepancies. The Finance Specification document has been updated accordingly and supplied to IBS to correct the scripts extracting the reports. Part B: Management is in agreement with the finding that not all redemption transactions have been taken into account in the calculation of the revenue release due to the scripts utilized by IBS to extract the reports. Management is aware of this issue and has been working with IBS to identify the causes for the reporting discrepancies. The finance specification document has been updated accordingly and supplied to IBS to correct the scripts extracting the reports. Management does not agree that the deferred revenue liability (account no. 720003) has been overstated and the sundry income: Voyager (account no. 810600) has been understated. Due to the reporting discrepancies and adjusted reports not being available at year end management made a decision to do a year end adjustment to transfer additional liability from the deferred revenue liability account to sundry income: Voyager once the deferred revenue liability calculation had been finalized.
Management comment on internal control deficiencies: There is a finance specification document in place that details the reporting extract criteria for IBS to write the scripts in order to extract the reports. Management has worked with IBS to identify the causes of the reporting discrepancies. The finance specification document has been updated accordingly and supplied to IBS to implement the required changes.
Management comment on recommendation: • A miles reconciliation and an unutilised award reconciliation are carried out on a monthly basis. These reconciliations enable management to determine if there are any reporting discrepancies. • A comparison between the redemption transactions on the SAA burn redemption report and the IFRIC 13 revenue release is being conducted on a monthly basis by the Airline and Non-airline Accountant to determine any discrepancies. • There is a finance specification document in place that details the reporting extract criteria. The finance specification document has been updated in order to remedy the identified reporting discrepancies and supplied to IBS to implement the required changes.

Remedial action:		
What actions will be taken: The reporting changes as detailed in the finance specification document are to be implemented by IBS and tested by management before being taken live.	By whom: Person: IBS/R Birch Position: Service Provider/ Voyager Financial Manager	By when: 30 November 2017

Auditor's conclusion

Management's response is noted and is in agreement with the internal control deficiency noted and amendments will be requested to be made by IBS. Management has recognised an additional R15 704 450.56 at year end as part of additional revenue to account for the under release of revenue based on the total miles redeemed at year end to cater for this.

Thus it can be concluded that management has accounted for the additional amount for miles not recorded in the system. This mater is still included in the report as there is an internal control deficiency that needs to be remedied.

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93. Differences identified in the recalculation of fair value

Audit Finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that an accounting authority of a public entity must ensure that that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"

Section 57 (a) of the PFMA, "states that An official in a public entity 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".

During the audit of Voyager fair value, a recalculation of the fair value determined by management at year end was reperformed and the following errors were noted.

The following reports used for the calculation of fair value were recalculated:

- Airline Awards Withdrawn AMD – Differences noted listed below
- Airline Awards withdrawn Excl AMD – Differences noted listed below
- Non-Airline Awards withdrawn – No differences notes

1) **Awards withdrawn for Air and Non-air partners** – This report is generated by the service provider IBS. The reports are based on the miles redeemed for awards even though the awards may not be utilised yet. The Fair Value calculation includes miles not yet utilised.

Below are the difference noted from the awards withdrawn for Air (both Air awards withdrawn AMD and Airline awards withdrawn Excl AMD)

1.1. Voyager tests miles are included in the fair value calculation.

During the recalculation of fair value it was noted that the voyager test miles/ test miles were included in the calculation.

The voyager test miles/ test miles should not form part of the fair value as these miles are created on the system to test the ifly system.

Below is the summary of differences due to Voyager test miles/test miles:

Report name	Total miles including the voyager test/ test miles as per the report	Total miles including the voyager test/ test miles	Difference - due to voyager test
Voyager Finance Reports _AirAwards (Airline Awards Withdrawal AMD.	3 623 118 854.00	3 629 120 194.00	-6 001 340.00
Voyager Finance Reports_ AirAwards_ ExclAMD (Airline Awards Withdrawal Excl AMD	296 814 220.00	296 411 970.00	402 250.00
			-5 599 090.00

For full details of the above refer to annexure A in the excel document attached:

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1.2. Cancellation of miles

During the audit we inspected the cancelled certificate in the Airline Amadeus Awards Withdrawn report and noted that there were cancelled certificates that were cancelled without having being ticketed initially, as a result the number on miles used in the fair value calculation has been distorted with the miles from these certificates.

An example of these certificates associated with these miles are listed in table below, it should be noted that these are not all the cancelled miles of this nature, as a results management should do an assessment in order to quantify the full impact of these miles.

No.	Certificate No.	Certificate status	Issued date	Given name	Membership No.	Points
1	1000502168	C	2016/11/25	Charlotte Emmeline Ms	100420	-29 122.00
2	1000578789	C	2017/03/31	Safura Ms	101084	-331 537.00
3	1000500246	C	2016/11/22	Eben Mr	101105	-43 744.00
4	1000548867	C	2017/02/27	Kenneth Mr	102325	-34 244.00
5	1000551866	C	2017/03/02	Loureen Mrs	103036	-19 872.00
6	1000390926	C	2016/04/13	Robert Mr	103048	-67 268.00
7	1000391024	C	2016/04/13	Charlotte Mrs	103048	-67 268.00
8	1000446147	C	2016/08/10	Raymond Mr	103123	-9 100.00
9	1000446324	C	2016/08/10	Raymond Mr	103123	-9 100.00
10	1000411547	C	2016/05/28	Lionel Adv	103339	-31 340.00
11	1000474682	C	2016/10/05	Andre	104155	-17 872.00
12	1000413150	C	2016/05/31	Nicholas Prof	104389	-15 295.00
13	1000545810	C	2017/02/22	Linda Mrs	105008	-15 747.00
14	1000545811	C	2017/02/22	Maureen Mrs	105008	-15 747.00
15	1000545541	C	2017/02/22	Sean Mstr	105335	-18 247.00
16	1000545542	C	2017/02/22	Shinde Mrs	105335	-18 247.00
17	1000390121	C	2016/04/11	Sean Mr	106931	-47 340.00
18	1000499687	C	2016/11/21	Geoff Mr	107317	-72 088.00
19	1000420143	C	2016/06/13	Leigh Mrs	109348	-99 498.00

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No.	Certificate No.	Certificate status	Issued date	Given name	Membership No.	Points
20	1000444642	C	2016/08/05	Leah Miss	109712	-23 200.00
21	1000488290	C	2016/11/03	Matthew Mr	109955	-178 767.00
22	1000399865	C	2016/05/04	Mzukisi Mr	110170	-197 985.00
23	1000399866	C	2016/05/04	Khanyisa Ms	110170	-197 985.00
24	1000412820	C	2016/05/30	Rolfe Mr	111529	-28 840.00
25	1000412821	C	2016/05/30	Luke Mr	111529	-28 840.00
26	1000496774	C	2016/11/15	Peter Mr	111690	-53 494.00
27	1000496775	C	2016/11/15	Valerie Mrs	111690	-53 494.00
28	1000497184	C	2016/11/16	Valerie Mrs	111690	-53 494.00
29	1000498034	C	2016/11/17	Peter Mr	111690	-53 494.00
30	1000562778	C	2017/03/15	Grantmilesmr	113736	-15 000.00

A full list of cancelled tickets has been attached to annexure B in the excel document attached below:

Management's quantification of this error is needed.

1.3. The Fair value document process

The document provided to the auditors for fair value calculation does not provide detailed step by step guidance as to how the fair value calculation is performed, it was noted that should this document be provided to any individual to re-perform the fair value calculation it will be very difficult to re-perform the calculation especially without having adequate understanding of how the frequent flyer process works.

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1.4. Differences in the allocation of the miles

During the audit of fair value per mile calculation differences were noted in the allocation of miles, these differences were due to the fact that the data in the column for the trip type and booking class column were blank for some certificate numbers.

Based on the detail in the fair value process document, the booking class assists in determining the type of the award the miles relates to. Since the booking class column in the report had blank spaces for some miles it could not be ascertained where the type of awards relates to.

When doing a pivot table as mention in the fair value process document some miles were therefore not allocated the type of miles they relates to.

The table below indicates miles not allocated to the type of miles they relates to and also miles that have been included from the voyager tests miles.

Category	Historical Usage per Category - Auditee	Historical Usage per Category - Auditor	Difference – Miles not allocated
Star Alliance	220 714 000.00	192 420 000.00	28 294 000.00
Non-Star Alliance	43 450 250.00	33 480 750.00	9 969 500.00
Total	**264 164 250.00**	**225 900 750.00**	**38 263 500.00**

A full list of no booking class has been attached to annexure C in the excel document attached below:

1.5. Difference in the fair value calculation

The above differences noted also contributed to the differences between the fair value per miles as calculated by management, and the fair value that was recalculated, the fair value per mile calculated by management amounted to R0.05667, the recalculated fair value per mile recalculated amounted to R0.05677 leaving the fair value per mile calculated by management being higher by R0.00010 per mile.

The overall result of the above is an overstatement by 0.00010 per mile in the fair value per mile calculation

Internal control deficiency

Financial and performance management

Management has not designed and implemented controls over the process of calculating the fair value per mile calculation, this includes not having a proper documented process of the fair value per mile calculation.

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Recommendation

Management should:

- Ensure that the fair value per mile calculation process is properly documented in a manual that can be used as a guidance to determine the fair value that is to be used in the determination of the rate that management uses to release revenue from the deferred revenue liability.
- Ensure that the above manual is properly approved
- Ensure that all assumptions that management have considered in the process of determining the fair value calculation, are properly documented in the manual they will have properly documented for calculating the fair value.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding:
1.1 Management are in agreement with the audit finding that test miles were included in the fair value calculation. Test miles will be excluded for all future fair value calculations.
1.2 Management are in agreement with the audit findings with regards to cancelled certificates. When the certificate is issued and cancelled on the same day only the cancellation transaction is indicated on the report. A system enhancement will be requested with the service provider for both the positive and negative transaction to be recorded on the report. Until the change is implemented the negative transactions will be excluded when filtering the report for all future fair value calculations. This will be detailed in the process documentation.
The report extracted from the system indicates that there are a total of 409 million miles relating to cancelled certificates for which the positive transaction was not reflected on the Airline Amadeus Awards Withdrawn Report. The impact on managements fair value calculation when adjusting for the negative transactions is to increase the fair value from R0.05667 to R0.05683.
1.3 Management take note of the comment on the document detailing the process for the fair value calculation. The document will be reviewed and formalised.
1.4 While management are in agreement that there are transactions where the trip type and booking class are blank however for such transactions the award code is used to determine the booking class, region and trip type as per the process document for the fair value calculation. Management are therefore not in agreement with the audit finding.
1.5 Management acknowledged the recalculated fair value per mile of R0.05653 after taking into account the differences identified in the points above. However, in light of 1.2 and 1.4 above management are not in agreement calculated difference in the fair value.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: Management are in agreement and the process for calculating the fair value will be reviewed for completeness and recorded in a formalized approved policy document.</td></tr>
<tr><td colspan="3">Management comment on recommendation: The process for calculating the fair value will be reviewed for completeness and recorded in a formalized approved policy document.</td></tr>
<tr><td colspan="3">Remedial action: Refer below</td></tr>
<tr><td>What actions will be taken: The process for calculating the fair value will be reviewed for completeness and recorded in a formalized approved policy document.</td><td>By whom: Robert Birch
Person:
Position: Voyager Financial manager</td><td>By when: 31 January 2018</td></tr>
</table>

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Auditor's conclusion

Management comment is noted and we are still engaging with management on the following matter and the meeting to resolve the matter is on 30 October 2017. The impact of the above finding is not material.

94. Inconsistencies between the static file and the average revenue rates

Audit finding

In terms of section 51(1)(a)(i) of the Public Finance Management Act states that "an accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"

In terms of IAS 18 par 7 states that "revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants."

In terms of IAS 18 par 7 states that "fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13 Fair Value Measurement)".

In terms of IAS 18 par 9 states that "revenue shall be measured at the fair value of the consideration received or receivable".

The Business Plan (Full Corporation of SAA Voyager wholly owned subsidiary of the SAA group) August 2014 which was prepared for the full corporatisation of SAA Voyager indicates the following:

- South African Airways ("SAA") Voyager has recognised the requirements of assigning a "monetary" value to the SAA Voyager Mile and to allow for real time interaction for redemption of SAA Voyager awards.
- Clear transparency of the profitability of the SAA Voyager programme (cost management, award cost management, operating cost management & liability management) is required to calculate the "economic value of a Mile". The new FFP structural option will enable SAA Voyager to calculate the economic value of a mile.
- SAA Voyager will therefore change to a mileage redemption model based on the going price of the desired flight with a straight conversion from the ZAR currency value (e.g. the bid price for the flight) to miles required for redemption, also referred to as "dynamic redemption.
- The dynamic redemption is defined in the business plan as the ability to redeem loyalty points in relation to the market price of any available seat for the desired flight.
- SAA Voyager members will be able to redeem their miles on any available SAA flight, irrespective of class and "payment" for the redemption ticket, in full or part will be facilitated for the base fare and fuel levy charged. Airport taxes will be for the members' account in cash or credit/ debit card.
- SAA Voyager will be able to convert SAA Voyager Miles into currency at 5% of the ZAR value spend.

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- Exclusively to SAA, from mileage accrual perspective, the award of loyalty credit (miles) will be based on the fare purchased instead of the distance travelled. From a redemption perspective, a new way to price rewards has also been considered where the "price" of an award ticket will no longer be determined by a fixed reward grid with capacity restrictions, but by the going price of a seat on the desired flight, inclusive of fuel levy. The proposed inclusion of the fuel levy as part of redemption will accelerate the decrease in the deferred liability revenue.

SAA Voyager has determined the economic value of a mile to be R0.08 for the redemption of miles. The R0.08 is based on the average revenue fares of fare paying passenger price per route, per class divided by the miles needed to travel to a specific destination.

During the audit of Voyager revenue it was noted that SAA Voyager uses the fare file (referred to as the Dynamic redemption fare file which is linked to Amadeus) to determine the number of miles that need to be redeemed by the Voyager member in order to fly using SAA airline. The fare file is a static file that is manually loaded onto the system for each route SAA travels to indicating the fixed amount of miles required to travel to a specific destination, for instance JNBCPT (Johannesburg to Cape Town).

When a voyager member redeems their miles by booking a ticket at SAA the system determines the number of miles required from the member to book a ticket based on the fixed miles as recorded in the fare file. It was determined that during October 2014 the dynamic accrual and redemption programme was implemented which was approved by the board. The agreed upon rate between SAA and Voyager was an accrual rate of R0.084 and redemption cost of R0.08.

During October 2014 a fare file was prepared where redemption miles needed for a Voyager member to redeem their miles using the SAA airline was determined, at the time of the preparation of the fare file the fares as well as well as the miles had a direct relationship with the R0.08.

On the 1st of June 2016 management made a decision to adjust miles for certain routes. These miles were increase to try and keep up with the increases in revenue fares of fare paying passengers, mostly domestic routes were increased. Adjusting the fare file is a process that is done manually on the system, each and every route needs to be manually updated on the system,

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No	Route	Class	Route* class	Revenue amount per route	Miles required as per the revenue amount	Miles on system(after the 01 June 2016 increase)	Difference in miles	Redemption rate	Amount as per static file - after 01 June 2016	Difference in amount	Recalculated rate based on the static miles and the expected revenue amount	Difference in rate calculated and R0.08
				A	B= A/0.08	C	D=C-B	E	F=C*E	G=A-F	H=A/C	I=E-H
1	ABJJNB	M	ABJJNBM	R 12 494.61	156 182.66	162 650.00	6 467.34	0.08	13 012.00	(517.39)	0.076819	0.00318
2	ABVJNB	Z	ABVJNBZ	R 19 224.89	240 311.10	333 724.00	93 412.90	0.08	26 697.92	(7 473.03)	0.057607	0.02239
3	ACCJNB	W	ACCJNBW	R 4 270.67	53 383.42	57 833.00	4 449.58	0.08	4 626.64	(355.97)	0.073845	0.00616
4	ACCWAS	Z	ACCWASZ	R 38 305.59	478 819.87	749 328.00	270 508.13	0.08	59 946.24	(21 640.65)	0.051120	0.02888
5	BZVJNB	W	BZVJNBW	R 3 889.32	48 616.45	108 236.00	59 619.55	0.08	8 658.88	(4 769.56)	0.035934	0.04407
6	DLAJNB	Y	DLAJNBY	R 13 342.29	166 778.68	180 928.00	14 149.32	0.08	14 474.24	(1 131.95)	0.073744	0.00626
7	FRAJNB	Z	FRAJNBZ	R 30 110.21	376 377.62	353 055.00	(23 322.62)	0.08	28 244.40	1 865.81	0.085285	-0.00528
8	JNBLBV	Z	JNBLBVZ	R 12 252.23	153 152.86	137 388.00	(15 764.86)	0.08	10 991.04	1 261.19	0.089180	-0.00918
9	JNBPER	Z	JNBPERZ	R 24 528.21	306 602.63	271 612.00	(34 990.63)	0.08	21 728.96	2 799.25	0.090306	-0.01031
10	NYCJNB	Z	NYCJNBZ	R 64 533.83	806 672.82	414 370.00	(392 302.82)	0.08	33 149.60	31 384.23	0.155740	-0.07574
11	WASJNB	M	WASJNBM	R 14 075.37	175 942.12	181 273.00	5 330.88	0.08	14 501.84	(426.47)	0.077647	0.00235
12	CPTJNB	W	CPTJNBW	R 854.64	10 683.03	17 122.00	6 438.98	0.08	1 369.76	(515.12)	0.049915	0.03009
13	JNBCPT	W	JNBCPTW	R 854.64	10 683.03	17 122.00	6 438.98	0.08	1 369.76	(515.12)	0.049915	0.03009
14	NBOJNB	Z	NBOJNBZ	R 16 711.92	208 899.01	222 298.00	13 398.99	0.08	17 783.84	(1 071.92)	0.075178	0.00482
15	MUCJNB	W	MUCJNBW	R 4 765.61	59 570.12	86 595.00	27 024.88	0.08	6 927.60	(2 161.99)	0.055033	0.02497
16	LOSJNB	M	LOSJNBM	R 10 642.35	133 029.37	127 691.00	(5 338.37)	0.08	10 215.28	427.07	0.083345	-0.00334
17	JNBHRE	W	JNBHREW	R 1 512.59	18 907.33	23 299.50	4 392.17	0.08	1 863.96	(351.37)	0.064919	0.01508
18	JNBPLZ	W	JNBPLZW	R 594.64	7 433.03	15 747.00	8 313.98	0.08	1 259.76	(665.12)	0.037762	0.04224
19	LONJHB	D	LONJHBD	R 30 156.08	376 951.00	379 366.00	2 415.00	0.08	30 349.28	(193.20)	0.079491	0.00051
20	JNBDUR	W	JNBDURW	R 454.64	5 683.03	12 497.00	6 813.98	0.08	999.76	(545.12)	0.036380	0.04362
21	FRAJNB	K	FRAJNBK	R 12 616.50	157 706.30	165 204.00	7 497.70	0.08	13 216.32	(599.82)	0.076369	0.00363
22	MRUJNB	J	MRUJNBJ	R 8 719.61	108 995.17	126 985.00	17 989.83	0.08	10 158.80	(1 439.19)	0.068666	0.01133
23	MRUJNB	H	MRUJNBH	R 4 479.59	55 994.91	63 326.00	7 331.09	0.08	5 066.08	(586.49)	0.070739	0.00926
24	JNBCPT	H	JNBCPTH	R 1 654.64	20 683.03	21 872.00	1 188.98	0.08	1 749.76	(95.12)	0.075651	0.00435
25	CPTJNB	H	CPTJNBH	R 1 654.64	20 683.03	21 872.00	1 188.98	0.08	1 749.76	(95.12)	0.075651	0.00435
26	MUCJNB	K	MUCJNBK	R 11 833.77	147 922.17	165 204.00	17 281.83	0.08	13 216.32	(1 382.55)	0.071631	0.00837
[illegible]	CPTJNB	Z	CPTJNBZ	R 2 804.64	35 058.03	36 044.00	985.98	0.08	2 883.52	(78.88)	0.077812	0.00219
28	JNBMPM	L	JNBMPML	R 1 462.59	18 282.33	21 064.00	2 781.67	0.08	1 685.12	(222.53)	0.069435	0.01056
29	JNBPER	K	JNBPERK	R 10 571.62	132 145.25	126 335.00	(5 810.25)	0.08	10 106.80	464.82	0.083679	-0.00368
30	MUCJNB	D	MUCJNBD	R 20 419.29	255 241.11	265 078.00	9 836.89	0.08	21 206.24	(786.95)	0.077031	0.00297
				R 379 791.24		**4 865 118.50**			**389 209.48**	**(9 418.24)**	**0.07153**	**0.00847**

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A test was performed to confirm whether the R0.08 used to redeem miles is still reasonable when comparing the static file to the actual average revenue prices for the year as documented in the Amadeus system. The following assumptions were used to determine/ recalculate the R0.08:

- For all the miles in the static file when multiplied by R0.08 should result in the actual average price as per passenger revenue.
- The miles should change in relation to the change in the revenue price in order for a voyager member to be able to redeem at R0.08.
- The fare file was compared to the average fares for fare paying passengers (these are fares per class, per route that is generated from revenue accounting for normal fare paying passengers for the period 01/04/2016 to 31/03/2017)
- The average fares for fare paying passengers takes into account the fare as well as the YR taxes.

Below is the detail of difference between the average fare file and the average fares for fare paying passengers indicating the based on the current static as recorded in the system the principle of redeeming miles at R0.08 does not hold:

The above is a cause of management not updating the system (fare file) regularly to link in with the ticket prices as per Amadeus.

Furthermore, SAA Voyager current system is not real time, meaning that the miles are not calculated based on the price at a particular moment but rather the fixed miles are used to determine the number of miles a member needs to redeem

This has resulted in the real time interaction of the redemption of SAA Voyager awards to the passenger revenue amount not materialising as there are no mechanisms in place to link the miles redeemed to the actual ticket price during redemption.

The impact of the above is that the liability may be impacted in future if the miles are not updated on the system regularly, which might result in an over or under statement of liability.

Internal control deficiency

Financial and performance management

Management did not establish and implement an IT governance framework that supports and enables the business to delivers value and improves performance as the current static file is not linked to the Amadeus system in order to ensure that the real time miles are determined as and when a Voyager redeems their miles.

There is no documented policy that indicates the process to be followed in identifying routes that needs updated when the revenue on changes, as well as no documented process is place indicating that steps to be followed from identifying the change to loading and approving the change on the system.

Recommendation

- The system used to track/ document fare file which is referred to as the Dynamic redemption fare file should be linked to the Amadeus report so that that it is real time.
- Management should evaluate regularly whether the R0.08 principle is being applied on the miles redeemed.

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- Management should develop, approve as per the DOA and implement a policy that indicates the process to be followed in updated the miles on the system, as well as the timing of the updating of the miles on the system.
- Management must perform a sensitivity analysis to indicate the impact if the 0.08 changes by 0.02 up or down.

Management response

Management comment on audit finding: Management are not in agreement with the assumptions that were used when trying to determine if the miles utilised for dynamic redemption on SAA as contained in the static file are in line when compared with market fares. The miles in the static file cannot be compared against the average fares for revenue passengers extracted from the revenue accounting system. The average fares by route and class as extracted from the revenue accounting system will not be representative of market fares due to corporate discounts granted to corporate account holders. The mileage comparison has been recalculated for the same sample selection comparing the filed market fares as at 1 October 2016 to the mileage contained in the static file. The result of the comparison is a 20.7% weighted variance in miles redeemed for the sample selection. The sample is representative of 28% of the total miles redeemed on dynamic SAA awards for the financial year. When excluding the proposed discount structure from the mileage comparison a 5.9% weighted variance in miles is obtained. The mileage in the static file as at 1 October is therefore more representative of the market fares before the application of any discount. The program members have no knowledge of the proposed discount structure applicable to Voyager dynamic redemptions or of Voyagers intention of passing to the members. While it is agreed that the mileage liability (deferred revenue) will be impacted when the miles in the static file are not kept in line with changes in the market fares it is not agreed that it will result in a misstatement of the liability. The mileage liability consists of the total value of all unredeemed miles in members accounts and unutilised SAA awards at a specific date. Once miles have been redeemed for an SAA award and the award utilised by the member the revenue related to the redeemed miles is released from the deferred revenue to the income statement in line with accounting standards. No consideration will be given to adjusting members accounts due to any over or under deductions that may have occurred resulting from a mileage variance between the static file and ruling market fares. As a result no adjustment would be required to the outstanding mileage liability or the revenue release as reflected in the financial statements.
Management comment on internal control deficiencies: The static file was implemented as a short term interim solution in order to enable the launch of dynamic redemption on SAA for Voyager members. The intention was for the static file to be replace with the cash and miles slider once developed. The cash and miles slider is a real time solution that would convert current market fares to miles at the agreed rate of R0.08 for SAA dynamic redemptions. The relaunch of the SAA website and other technical difficulties resulted in a delay in the development of the cash and miles slider and resulted in reliance being placed on the interim solution for far longer than was originally intended. Since the static file was only implemented as an interim short term solution while the cash and miles slider was being developed no policy was documented for identifying required adjustments to the static file when changes are made to market fares or the process that should be followed when implementing identified changes.
Management comment on recommendation: The Mileage Converter and the Cash & Miles Slider are AMADEUS solutions that cater for real time conversion of market fares the frequent flyer miles and have been identified as solutions to replace the static file. A business case for the implementation of the solutions has been prepared and submitted for approval. Implementation will take two months once approval has been obtained. The implementation of the AMADEUS Mileage Converter and the Cash and Miles Slider will negate the necessity to evaluate if the R 0.08 principal is being applied to all dynamic miles redeemed. The implementation of the AMADEUS Mileage Converter and the Cash and Mileage Slider will negate the requirement for documenting a policy on the timing of updates to the dynamic redemption miles on the

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system and the process to be followed when doing so. The comparison conducted by management indicates a 20.7% weighted variance in miles redeemed compared to market fares as at 1 October 2016. This amounts to 28% of the miles redeemed for SAA dynamic awards for the year ended March 2017. No consideration will be given to adjusting members accounts due to any mileage variance and therefore no adjustment is required to the outstanding mileage liability or the revenue release in the financial statements.		
Remedial action: Refer to the recommendation comments above		
What actions will be taken: Refer to the recommendation comments above	By whom: Person: IBS/R Birch Position: Service Provider/ Voyager Financial Manager	By when:

Auditor's conclusion

Management comment is noted. Management's considerations have been taken into account to refine our reasonableness test, however a difference still exist but it is considered to not have a significant impact. A significant control deficiency exists with regards to the finding noted. The impact of the finding will not result in a material misstatement of the financial statements

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Trade and other payables

95. Overstatement of trade and other Payables (GR/IR account)

Audit finding

The PFMA section 55 (2)(a) states that, *" the annual report and financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned".*

The International Accounting Standard (IAS) 1, paragraph 15 states that *"financial statements present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation:"*

During the audit of account payable (GR/IR), for the year ended 31 March 2017 we noted that a purchase order was posted for services which were never rendered as at 31 March 2017 and the purchase order was not reversed as at 31 March 2017.

Vendor	Document Number	G/L Account	Assignment	Posting Date	Amount in local currency ZAR
JNBS43	5000993097	706060	2000161494	30/03/2017	R345 197.70

This result to an overstatement of GR/IR (account payable) of R345 197.70 and the projected misstatement of R2 151 217.44

Internal control deficiency

Financial and performance management

Manager: Accounts payable did not review and monitor purchase orders for goods and services that are no longer required to ensure they are reversed on the system.

Recommendation

Manager: Accounts payable should ensure that purchase orders for goods and services that are no longer required are correctly reversed on SAP and that monthly reviews are done to the GR/IR account to ensure that reversals are regularly occurring.

Management's response

Management comment on audit finding:

In terms of the 3-way match applied in the Procure-to-Pay process, AP will only be aware of the invoice related to this PO as and when the invoice is submitted for payment processing.

The GR/IR – the goods receipt/Invoice Receipt account is used to post to whenever goods that are not yet invoiced have been received or when invoices arrive before the delivery of goods. During the time between the invoice being created and delivery of goods, there can be a timing difference, in order to accommodate this timing difference; a GR/IR account is maintained temporarily to record the flow.

The GRIR account is used as an interlocking account to reconcile the accounting values between the 2 processes of receiving goods ordered from a supplier and receiving the supplier's invoice for those goods. These 2 processes can occur in either order i.e. invoice arrives first; goods arrive later, or, conversely. The total value of the goods received (unit price * unit cost) should be the same as reflected on the invoice, in which case this interlocking account will net-out to zero.

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In this case, the business unit intended to cancel the purchase order, but erred in the process and debited the cost centre instead in doing the good receipt verification (GRV) entry. Due to the high volumes of PO's generated across business, the clearing of the GRIR account is done on an annual project basis whereby the account is cleared and the discrepancies between PO and invoices are then investigated in detail and corrected. Unclaimed invoices (LIV entries) and are then written back to revenue on prescription in line with AP policy. The said clearing will be done in the on a project basis in the 2017/18 FY.
Management comment on internal control deficiencies SAA's operational procurement function, i.e. the issue of purchase orders, is mostly decentralised to the various business units' subject matter experts (SME) as the BU's are managing the contracts and the expenditure against such contracts. As stated above, the GRIR account is an interlocking account and due to high volume of debit and credit entries, and challenges with the Procure-to-Pay process and optimal usage of SAP, monthly clearing is possible considering the detailed analysis required to resolve issues such as this instant. It is firstly the responsibility of the various "buyers", i.e. staff with access to create and change purchase orders, to ensure that the correct transactions are performed. Errors such as these are addressed with the staff members and respective financial managers/controllers and depending on the merit of the case, the user's SAP SRM access is revoked until the completion of further training. In conclusion, management acknowledges the comment on internal deficiencies, but do not agree to general internal control deficiencies as this instant was due to an error by the specific user.
Management comment on recommendation: Management acknowledges the recommendation but confirm that the business process and procedures are already in place.
Remedial action: The error will be rectified by reversing the GRV entry to close the order with a zero goods receipt entry and mark the applicable 'box' / field in the system that no further invoices are expected.

What actions will be taken:	**By whom:**	**By when:**
The incident will be brought to the attention of the Financial Controller & HOD: Marketing to ensure the error is corrected and to institute appropriate corrective action against the staff member	Person: H Kleinhans Position; Manager: AP & TM	29 September 2017

Auditor's conclusion

Management agreed to correct the finding

Management response was noted and agrees with the finding, revised internal control deficiency and the recommendations.

A meeting was held with the account payable manager on 22/09/2017 and indicated that correction will be made by correcting an error on the system which is below the trivial threshold, Furthermore, we noted that this was an isolated misstatement (not a representation of the population tested). Thus no further follow up will be done and the finding will remain in the management report as an internal control deficiency. Record of work done, refer to working paper J.8.3

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No creditor's reconciliation prepared as at 31 March 2017

Audit finding

SAA account payable policy paragraph 3.1.9.1 state that, "*Supplier reconciliation's should be performed on a monthly basis by the respective financial officers and then reviewed by the respective team leaders*".

No.	Vendor no.	Supplier Name	Document currency	Amount as per SAA record (document currency)	Amount as per SAA record ZAR
1	OJNBA15	ASCECNA	USD	6 345 788.10	95 243 933.61
2	JNBC006	Club 3d consulting	ZAR	2 959 336.30	2 959 336.30
3	JNBT15	NEOTEL	ZAR	1 528 490.78	1 528 490.78
4	JNBP216	POSWA	ZAR	42 203.64	42 203.64
Total					97 116 167.97

Non-compliance with policy that requires preparation of monthly creditor's reconciliation may result into overstatement or understatement of creditors balance as at 31 March 2017.

Internal control deficiency

Financial and performance management

Financial officers did not ensure that monthly creditor's reconciliation are prepared as required by the policy. Creditors reconciliation were prepared when payment is being made not necessarily on a monthly basis.

Account payable manager and team leaders did not review and monitor financial officers to ensure that, financial officers prepare creditors reconciliation's on a monthly basis as required by the account payable policy.

Recommendation

Accounts payable manager, financial officers and account payable team leaders should:

- Prepare and review creditor's reconciliations on a monthly basis as required by the accounts payable policy (especially at year end 31 March 2017 to ensure that creditors are correctly stated).
- Request suppliers to provide statements at year end to ensure that differences between supplier statement and SAA records are investigated and resolved before creditors balance is disclosed in the annual financial statement.

Management response

Management comment on audit finding:
Management takes note of the finding in relation to the AP policy statement in general terms but does not agree with the finding. Management submits that the AP Policy should *not* be interpreted based on the textual/grammatical meaning of the words following a narrow approach, but rather a wider approach to determine the meaning of the statement. In the main, account reconciliations are prepared and reviewed on a monthly basis based on invoice submittals from the various business units which is then reconciled to a consolidated statement.

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It then stands to reason that a monthly reconciliation will be prepared as and when invoices are submitted for payment processing and subsequent payment to the respective suppliers. It is also a standard procedure to attach a copy of the previous reconciliation to the current/new reconciliation. It would serve no purpose, in fact - be unpractical and wasteful in terms of resources to reprint the previous reconciliation and prepare the same for review as there would be nothing to reconcile or reconcile to. In terms of the Procure-to-Pay process, the GRIR account would reflect the value of the applicable purchase order(s) and as such the values would be included in the Trade and Other Payable account balance and not result into overstatement or understatement of creditors balance as at 31 March 2017. Addressing the specific accounts at state in the table above: 1. **ASCECNA** is an international vendor who invoices SAA for navigation services. It should be mentioned that navigation services *per se* are not a "pure" or general trade supplier. Invoices are not submitted based on a purchase order; it reflects a list of SAA flights based on the various tail numbers of the aircraft. These invoices are then verified to actual flights / flight schedules and the applicable rates. In this case, the feeder department had issue with the rates used and queried the same with the relevant authority. AP received confirmation from the feeder department that accruals were raised whilst invoices were held back for payment processing. The values would thus be part of the Trade and Other Payables account and not result into overstatement or understatement of creditors balance as at 31 March 2017. Furthermore, it is not practise for international vendors, and more so for over flight fees, do not supply statements. 2. **Club 3d Consulting:** In terms of the Procure-to-Pay process, the GRIR account would reflect the value of the applicable purchase order(s) and as such the values would be included in the Trade and Other Payable account balance and thus not result into overstatement or understatement of creditors balance as at 31 March 2017. In this specific case, a reconciliation was prepared but the payment was stopped due to a PFMA non-compliance. AP will only schedule payment after receipt of a copy of the PFMA non-compliance form which reflects signatures up to the Compliance officer. The latter process is an agreement between the Compliance Office and AP. 3. **NEOTEL** invoices are processed through bulk upload by the business unit (IT, specifically Telephony Services department) directly debiting the applicable general ledger account for telephone costs with corresponding credits to the supplier account which in turn rolls into the Head Office Creditors control account (700050). As such the values would be included in the Trade and Other Payable account balance and thus not result into overstatement or understatement of creditors balance as at 31 March 2017. In this specific case, a reconciliation was prepared but the payment was stopped due to a PFMA non-compliance. AP will only schedule payment after receipt of a copy of the PFMA non-compliance form which reflects signatures up to the Compliance officer. The latter process is an agreement between the Compliance Office and AP. 4. **POSWA:** In terms of the Procure-to-Pay process, the GRIR account would reflect the value of the applicable purchase order(s) and as such the values would be included in the Trade and Other Payable account balance and thus not result into overstatement or understatement of creditors balance as at 31 March 2017. In this specific case, the previous reconciliation was prepared in Nov 2016. Poswa provides legal services to SAA and in terms of the Legal department's business procedure, invoice(s) are only submitted for payment processing once the SAA legal advisor approves the invoice for payment on the basis that the services rendered were in accordance with the brief and satisfactory. As stated in the above, it would serve no purpose, in fact be unpractical and wasteful in terms of resources to reprint the previous reconciliation and prepare the same for review as there would be nothing to reconcile or reconcile to.
Management comment on internal control deficiencies:
Management does not agree that the finding reflect control deficiencies based on the commentary above. Control procedures in fact, enhance PFMA Act Compliance in terms of irregular expenditure.

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<table>
<tr><td colspan="3">Management comment on recommendation:
As stated in the above commentary, accounts are managed in terms of AP Policy. It should also be duly noted that specific suppliers and/or commodities relate to various business procedures linked to SAP controls and/or compensating mitigating manual procedures and controls.</td></tr>
<tr><td colspan="3">Remedial action:
None</td></tr>
<tr><td>What actions will be taken:</td><td>By whom
Person:
Position</td><td>By when:</td></tr>
</table>

Auditor's conclusion

Finding has been resolved

It was noted that only one supplier invoice is received from supplier on as month basis for navigation and this was also corroborated by inspection of the March payment request which had one invoice attached and there were no other invoices identified that should have been taken into account. Inspected last reconciliation's prepared, inspected SAP and no differences were noted.

Record of work done, refer to J.8.7

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96. Long outstanding invoices as at 31 March 2017 not being cleared within SAA standard payment terms of 30 days

Audit finding

SAA account payable policy paragraph 3.1.6.6 state that, *"payment cycles are informed by the vendor type and contractual payment terms. SAA's standard payment terms are 30 days from date of consolidated statement".*

SAA account payable policy paragraph 3.1.9.2 state that," *an account payable ageing schedule must be prepared at the end of each month and all balances in excess of 30 days must be resolved for payment by the next payment schedule".*

We noted that there were invoices that were in excess of 30 days (not settled at year end as required by SAA account payable policy) and all aged accounts are resolved and kept current.

No.	Vendor no.	Vendor name	Invoice number/	Amount as per ageing schedule			
				31-60	61-90	91-120	120+
1	JNBI152A	Independent Newspaper	873741				R23 008.67
2	JNBI152A	Independent Newspaper	8737412				R17 514.46
3	JNBI152A	Independent Newspaper	8758542				R45 064.66
4	JNBI152A	Independent Newspaper	8772082				R10 171.31
5	JNBI152A	Independent Newspaper	8825586			R59 615.48	
6	AFOS003	Engen SA	3013288279		R39 069.73		
7	AFOS003	Engen SA	3013336417	R12 541.47			
8	AFOS003	Engen SA	3013350568	R28 074.97			
9	AFOS003	Engen SA	3013363596	R30 218.70			
10	AFOB006	Total international	9272509720	R7 262.48			
11	AFOB006	Total international	9272509721	R2 526.13			
12	AFOB006	Total international	9272509744	R10 879.80			
13	AFOB006	Total international	9276606433	R1 383.32			
14	BPSAX	BPSAX	ANP01184341	R18 880.00			
15	AFOB007	World Fuel	3207378	R262 173.30			
16	JNBA099	Air chefs	1800028813		R120 270.00		
17	JNBA099	Air chefs	1800028698	R3 477.82			
18	JNBL132	LKMN cc	8005794			R10 216.00	
19	JNBL132	LKMN cc	8005814			R41 313.60	
20	JNBL132	LKMN cc	8005832			R20 520.00	
Total				**R377 417.99**	**R159 339.73**	**R131 665.08**	**R95 759.10**

Non-compliance with account payable policy and creditors contractual payment terms with may result into fruitless and wasteful expenditure if interest/penalties are charged on late payments.

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Internal control deficiency

Financial and performance management

Account payable manager, financial officers and Account payable team leaders did not:

- Monitor and review invoices that are due for payment to ensure they are paid timeously.
- Investigate timeously invoices that were not paid on time to ensure that these invoices are resolved for payment in the next payment schedule.

Recommendation

Account payable manager, financial officers and account payable team leaders should:

- Ensure that outstanding invoices are investigated timeously
- Monitor and review invoices that are due for payment and ensure it paid before or on due date of the invoice.

Management response

Management comment on audit finding: Management takes note of the finding in relation to the AP policy statement in general but does not agree with the finding *per sé.* Management submits that the AP Policy should *not* be interpreted based on the textual/grammatical meaning of the words following a narrow approach, but rather a wider approach to determine the meaning of the statement. In this instant, only partial reference is made to the policy statement, which in this case, give rise to incomplete and/or misinterpretation of the policy. Paragraph 3.1.6.6 in full states "*The Manager Accounts payable is responsible to manage and control the SAA Payment cycles and prevent unscheduled cash outflows. Payment cycles are informed by vendor type and contractual payment terms.* SAA's standard payment terms are 30 days from date of a consolidated statement and should encompass payment to the majority of vendor accounts". It should be noted however, that the standard payment terms of *30 days from a consolidated statement* could in effect actually be 45 days, depending on the date of the statement. Other accounts could have payment terms ranging from 7 to 15 days; 21 days, and so forth; depending on the agreed and negotiated payment terms based on the contract or, the shorter/earlier payment cycles for SMME suppliers based on their BBBEE scoring. The payment terms are unique to a specific supplier account and is based on the payment terms of the said vendor master data detail. The 30 day cycle thus do not apply to all accounts all the time. Although all conceivable is done to prevent ageing beyond 30 days, it is not always possible to resolve all issues as AP is dependent on the feeder department to resolve issues with their supplier(s) as the they are managing the contract and ultimately approve the invoices for payments. AP in essence, **cannot** process payments on unauthorised/unapproved PO's as invoices linked to a PO is still within the "procurement" space of the Procure-to-Pay process; the payment detail will only interface to "finance" once the GRV entries are completed. Segregation of duties further does not allow AP staff to process GRV's, hence overriding system controls. **AP Management thus do not agree with the finding of control deficiencies in view of the above.** Having said that and in reference to the findings contained in the table above: **Finding 1-5** (Independent Newspapers) – The balances result from invoices not received from the feeder department (Marketing). AP staff has followed up to nausea and escalated to the Head of

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Department. Some of the invoices related to pricing differences to the purchase order, others relate to incomplete on non GRV's (goods receipt verification) entries or outstanding credit notes. **Finding 6-15** (Fuel suppliers) – Fuel accounts have payment various terms such as (Engen = 21 days, BP = 12 days, Total = 21 days and World Fuel = 21 days from date of invoice. Different queries such as VAT errors, awaiting invoice receipts, missing and/or incomplete information such as TL6 slips and so forth, could result in account ageing beyond payment terms. It should also be noted that fuel suppliers are paid on receipt of invoices and is not subject to reconciliation to consolidated statements as applied to trade suppliers. **Finding 16-17** (Air Chefs) – Invoice 1800028698 was not submitted for processing the payment on time and has subsequent been resolved. Invoice 1800028813 has been held back due to discrepancies and non compliances. A meeting was held with Facilities department on 21 August 2017 and it was resolved that the said purchase was indeed an emergency purchase and that the procedure related to emergency purchases was not followed as prescribed by the GSM Policy. Payment on the said invoice will only be processed on receipt of a PFMA non-compliance form based on the agreement between Finance and Compliance departments. **Finding 19-20:** LKMN provides printed matter to SAA. Receipts are done by Stores personnel and all queries and discrepancies are dealt with at that level. Invoices are only submitted to AP once issues are resolved. This particular supplier is renowned for over or under deliveries which requires special attention by the Stores personnel, hence the ageing.
Management comment on internal control deficiencies: AP does not agree to internal control deficiencies from an AP perspective as all-conceivable and more is done to follow up with the various business units and feeder departments. Escalations are made to the relevant financial controller/manager to address breaks in the value chain and process inefficiencies. The very same issues are raised for discussion at the PFMA forum as well to communicate the impact of process inadequacies and non-compliances to GSM policy and procedures for escalation to GM's and Exco via the appropriate protocols.
Management comment on recommendation: Processes and procedures are in place and is consistently applied to follow up on outstanding invoices as stated in detail above. It is also not AP/SAA policy to pay invoices **before** the due date unless a detailed motivation is received on why a pre-payment or early payment is required as it would require the payment terms on SAP to be changed.
Remedial action : None from an AP control perspective, however, AP proposes and fully supports that consequence management should be applied to instances where staff does not adhere to the GSM policy and procedures and the PFMA Act and Treasury Regulation prescribes as SAA's the brand is brought into disrepute.

What actions will be taken:	By whom	By when:
None other than to continue to escalate process inefficiencies to the appropriate BU's, management and other forums and to champion the desired change in staff behaviour that would ultimately enable AP to settle accounts within applicable payment terms.	Person: Hester Kleinhans Position: Manager: AP & TM	Consistently with the view on continuous improvement

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Auditor's conclusion

Management's response is noted and further engagements have been made with account payable manager to ensure that this issue is clarified with management but we still have a disagreement.

Meeting was held with account payable manager on 22 September 2017 and management agreed to provide supporting evidence that invoices were not settled on time due to errors or non-compliance with PFMA. Management subsequently provided supporting evidence (creditor's reconciliation which includes proof that invoices were being following up and investigated as reconciliation were being done and suppliers statement indicating that subsequently credit notes were provided by supplier).

The listed items have been resolved since supporting evidence has been provided and we have obtained proof that the long outstanding invoices were being followed up by management and thus payment cannot be processed until the enquiries with suppliers are resolved except for item no. 18 where evidence was not provided. A non-compliance with the Accounts payable policy will be reported.

Refer to working paper J.8.7

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97. No assessment was performed regarding discounting of account payables for the year 2016/17

Audit finding

The PFMA section 55 (2)(a) ,"*states that the annual report and financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned.*"

IAS 1 para 15 states that, "*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework*".

We noted that no assessment was performed by SAA to ascertain whether discounting trade and other payables would have material or immaterial impact on the financial statement.

This may result in a non-compliance with IAS 1.

Internal control deficiency

Financial and performance management

Account payable manager did not ensure that assessment to discount trade and other payable as at year end was performed to assess whether there is /no material impact caused by not discounting.

Recommendation

Accounts payable manager should ensure that an assessment regarding discounting of trade and other payables is performed at year end in order to substantiate whether discounting has material or immaterial impact.

Management's response

Management comment on audit finding: The fair values of financial liabilities such as trade and other payables and the bank overdraft have not been disclosed, as their carrying values will be a reasonable approximation of their fair values, due to the short-term nature of these instruments.
Management comment on internal control deficiencies:
Management comment on audit finding: The fair values of financial liabilities such as trade and other payables and the bank overdraft have not been disclosed, as their carrying values will be a reasonable approximation of their fair values, due to the short-term nature of these instruments.

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Remedial action : None		
What actions will be taken:	What actions will be taken:	What actions will be taken:

Auditor's conclusion

Management comments have been noted and additional engagement will be arranged to ensure that this issue is clarified with management. The response from management is insufficient to form a conclusion and must be revised.

Meeting was held with account payable manager on 22 September 2017 it was noted that no assessment was performed as management believed that discounting account payable will not result into a material impact and management agreed to provide revised management comments. Management subsequently provided revised comments on the audit finding.

Since no discounting assessment was performed by management, we therefore performed our discounting on account payables and confirmed that interest portion amounted to R4 492 072.11, which it below our performance materiality of R197 325 000.00 and trivial threshold of R5 262 000.00. Therefore, the effect of discounting account payable is not material. The finding remains in the management report as a non-compliance with IAS 1.

Record of work done, refer to working paper J.8.9

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98. Incorrect classification of general ledger accounts into account payable

Audit finding

The PFMA section 55 (2)(a) states that *"the annual report and financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned."*

The International Accounting Standard (IAS) 1, paragraph 15 states that *"financial statements present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation:"*

Paragraph 32 further states that, *"an entity shall not offset assets and liabilities or income and expenses unless required or permitted by an IFRS."*

During the audit of account payable, we noted that general ledger account relating to Bank was incorrectly classified under account payables for 2016/17 and 2015/16 financial period instead of being classified to cash and cash equivalent

No.	GL account number	Classification as per current and prior year AFS	Item description	Amount (R) for current year.	Amount (R) for prior year.
1	640008	Account payable	640008 Bank : SAA Step-up Sales (Domestic)	(R16 432 333.79)	(R8 257 291.47)
2	640018	Account payable	640018 Bank : Cape Town Credit Card Clearing (S/Bank)	(R5 328.01)	-
3	640048	Account payable	640048 Bank : Durban Credit Card Clearing (S/Bank)	R71 099.62	R252 384.07
4	640068	Account payable	640068 Bank : East London Credit Card Clearing (S/Bank)	R46 516.55	R58 388.19
5	640108	Account payable	640108 Bank : Illovo Credit Card Clearing (S/Bank)	R1 832 252.32	R674 356.12
6	640118	Account payable	640118 Bank : Industry Travel Credit Card Clearing (S/Bank)	(R141 965.65)	(R98 178.99)
7	640138	Account payable	640138 Bank : J I A Credit Card Clearing (S/Bank)	(R82 431.05)	(199 207.78)
8	640148	Account payable	640148 Bank : SA Express H/O Credit Card Clearing (S/Bank)	(R5 155.30)	(R30 965.59)
9	640158	Account payable	640158 Bank : Port Elizabeth Credit Card Clearing (S/Bank)	-	0
10	640168	Account payable	640168 Bank : Airlink Credit Card Clearing (S/Bank)	(R153 818.54)	R35 727.58
11	640188	Account payable	640188 Bank : Tele Tkt Sales Credit Card Clearing (S/Bank)	R39 055 913.90	R15 903 280.46
12	640198	Account payable	640198 Bank : Tour Product Sale Credit Card Clearing (S/Bank)	R30 650.75	R25 435.52
13	640205	Account payable	640205 Bank : SAA.Com Master Pass Clearing (S/Bank)	(R1 106 525.16)	(R340 901.74)
14	640208	Account payable	640208 Bank : SAA.Com Credit Card Clearing (S/Bank)	R50 852 793.00	R4 178 572.32

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No.	GL account number	Classification as per current and prior year AFS	Item description	Amount (R) for current year.	Amount (R) for prior year.
15	640228	Account payable	640228 Bank : Voyager Credit Card Clearing (S/Bank)	R466 333.34	(R131 172.02)
16	640258	Account payable	640258 Bank : Cape Town Dir. Sales Credit Card Clng (S/Bank)	(R30 951.69)	R126 367.96
17	643638	Account payable	643638 Bank : J I A Credit Card Clearing	-	
18	650011	Account payable	650011 Bank : Accra Cheque Clearing (USD)	(R38 560.90)	(R2 924 988.30)
19	650021	Account payable	650021 Bank : Accra Cheque Clearing (GHC)	(R90 658.80)	(R10 098 255.55)
20	650031	Account payable	650031 Bank : Amsterdam Cheque Clearing (EUR)	-	0
21	650081	Account payable	650081 Bank : Blantyre Cheque Clearing (MWK)	(R738 359.90)	(R1 174 082.98)
22	650091	Account payable	650091 Bank : Bombay Cheque Clearing	(R150 131.71)	(R298 320.09)
23	650098	Account payable	650098 Bank : Bombay Credit Card Clearing	R24 827.42	R18 852.95
24	650151	Account payable	650151 Bank : Buenos Aires Citibank Cheque Account (ARS)	(R65 693.19)	(R255 403.49)
25	650191	Account payable	650191 Bank : Dakar Cheque Clearing Account - XOF	(R28 532.62)	(R33 733.52)
26	650198	Account payable	650198 Bank : Dakar SGBS Credit Card Clearing - XOF	R122 988.09	R79 393.80
27	650251	Account payable	650251 Bank : FT Lauderdale Cheque Clearing Citibank	(R4 436 038.54)	(R4 676 531.47)
28	650301	Account payable	650301 Bank : Harare Stanbic Cheque Clearing (USD)	-	(R70 332.39)
29	650331	Account payable	650331 Bank : Hong Kong Cheque Clearing	(R6 362.59)	(R18 169.11)
30	650341	Account payable	650341 Bank : Kinshasa Cheque Clearing	R24 328 724.52	0
31	650351	Account payable	650351 Bank : Lagos Citi Bank Cheque Clearing (NGN)	(R788 258.24)	R14 309 166.46
32	650361	Account payable	650361 Bank : Lagos Citi Bank Cheque Clearing (USD)	(R31 534.41)	(R72 119.21)
33	650381	Account payable	650381 Bank : London Citibank Cheque Clearing	(R50 265.02)	(R19 573.65)
34	650421	Account payable	650421 Bank : Lusaka Citibank Cheque Clearing (USD)	R1 698 426.17	(R851 432.64)
35	650451	Account payable	650451 Bank : Maputo Currency Clearing Acc. (ZAR)	-	
36	650471	Account payable	650471 Bank : Miami Cheque Clearing	(R2 537.46)	(R30 156.44)
37	650581	Account payable	650581 Bank : Sao Paulo Cheque Clearing Citibank	(R51 131.06)	(R64 996.49)
38	650611	Account payable	650611 Bank : Sydney Citibank Cheque Clearing	(R12 230.61)	(R4 939.56)
39	650671	Account payable	650671 Bank : Toronto Citibank Cheque Clearing	(R208 466.93)	(R124 830.86)
40	650691	Account payable	650691 Bank : Uganda Cheque Clearing - UGX	(R15 121.22)	-
41	650701	Account payable	650701 Bank : Uganda Cheque Clearing - USD	(R42 284.25)	-
42	650731	Account payable	650731 Bank : Windhoek Cheque Clearing - NAD	R246 185.91	R704 406.72
43	650741	Account payable	650741 Bank : Zurich Cheque Clearing	-	(R5 528.13)

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No.	GL account number	Classification as per current and prior year AFS	Item description	Amount (R) for current year.	Amount (R) for prior year.
44	650801	Account payable	650801 Bank : Abidjan Cheque Clearing Account - XOF	(R72 708.01)	R195 086.05
45	650841	Account payable	650841 Bank : Angola Standard Bank Cheque Clearing Account (AOA)	R87 132 564.29	R111 817 777.46
46	650971	Account payable	650971 Bank : China (Beijing) Cheque Clearing	(R7 773.89)	
47	651371	Account payable	651371 Bank : Gabon (Liberville) Citybank Cheque Clearing	-	-
48	651778	Account payable	651778 Bank : Kinshasa Credit Card Clearing	R172 145.03	R214 088.06
49	652031	Account payable	652031 Bank : Maputo Cheque Clearing (MZN)	(R28 705.80)	(R39 155.55)
50	652191	Account payable	652191 Bank : Bank : Mauritius Standard Chartered Cheque Clearing	R1 523 404.57	R1 481 790.82
51	652801	Account payable	652801 Bank : Lusaka Citibank Cheque Clearing (ZMW)	(R1 091 221.64)	(R809 962.53)
52	653201	Account payable	653201 Bank : Angola Standard Bank Cheque Clearing Account (USD)	R18 779.11	R20 674.92
53	653221	Account payable	653221 Bank : Angola (Luanda) Currency Clearing	-	0
54	665231	Account payable	665231 Bank : Cheque Clearing Account (S/Bank)	-	(R32 607.32)
55	665248	Account payable	665248 Bank : H/O Refunds Credit Card Clearing (S/Bank)	(R79 168.48)	-
56	665281	Account payable	665281 Bank : SAP Quantum Clearing Account (ZAR)	R1.92	R1.92
57	665282	Account payable	665282 Bank : SAP Quantum Clearing Account (USD)	(R1 108 764.98)	R415 113.23
			Total	**R180 520 587. 07**	**R119 848 027.74**

As a result, accounts payable disclosed in the AFS for the period ended, 31 March 2017 was understated by R180 520 587.07 and account Payable disclosed in the AFS for the prior period ended 31 March 2016 was understated by R119 848 027.74

Internal control deficiency

Financial and performance management

The financial manager did not ensure that the classification and allocation of the SAP general ledger accounts supports accurate disclosure in the AFS due to a lack of understanding of the requirements of financial reporting framework.

Recommendation

The following is recommended as corrective and preventative controls:

- The financial manager should ensure that the allocations of accounts are consistent to transaction of similar nature.
- Allocation and assessment of ledger account contents should be communicated to the relevant ledger account administrators or head of departments prior to the preparation of

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the AFS to ensure that GL accounts are still relevant in the sections to which they were previously allocated.

- The abovementioned accounts should be re-allocated to reverse the potential misstatements noted.
- Where such accounts were similarly incorrectly classified in previous financial reporting periods, a retrospective error correction should be disclosed in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding:
Finding is noted, these accounts were mapped under trade and other payables per the request of the previous auditors. It is a legacy issue that goes back over 15 years, similar mapping was followed at that point as to how mapping was done in the Transnet TB.

We will move these accounts to cash and cash equivalents and ensure that prior periods are restated and that the appropriate disclosure in terms of IAS 8 is disclosed.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
As stated above this was a legacy issue as the auditors at that time believed that these accounts should be mapped in the TB and AFS as such. Therefore we followed the same approach historically.

Finding is noted and these accounts will be moved to cash and cash equivalents and prior years will be restated and disclosure in terms of IAS 8 will be included in the final financial statements that will be submitted to the AG.</td></tr>
<tr><td colspan="3">Management comment on recommendation:
Recommendation will be implemented.

Finding is noted and these accounts will be moved to cash and cash equivalents and prior years will be restated and disclosure in terms of IAS 8 will be included in the final financial statements that will be submitted to the AG.</td></tr>
<tr><td colspan="3">Remedial action : As above</td></tr>
<tr><td>What actions will be taken: As above</td><td>By whom
Person: Michael Ascencao
Position</td><td>By when: Prior to submission of final AFS to the AG.</td></tr>
</table>

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

Final financial statements and the related notes submitted on the 31/10/2017 were inspected and we verified that affected accounts have been appropriately mapped/classified and disclosed in terms of IAS 8.

The finding will remain as an internal control deficiency in the management report and a follow up will be done in the 2017/18 audit for the implementation of the action plans.

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99. Reclassification of prior year trade and other payables to provisions (current liabilities) without a prior period error note (IAS) 8

Audit finding

International Accounting Standard (ISA) 8 paragraph 42, *"an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:*

(a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented".

International Accounting Standard (ISA) 8 paragraph 49, "In applying paragraph 42, an entity shall disclose the following:

(a) The nature of the prior period error;

(b) For each prior period presented, to the extent practicable, the amount of the correction:

(i) For each financial statement line item affected; and

(ii) If IAS 33 applies to the entity, for basic and diluted earnings per share;

(c) The amount of the correction at the beginning of the earliest prior period presented; and

(d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

We noted that trade and other payables figure for prior year was restated in current year comparative annual financial statement and no prior period error note has been disclosed in the current annual financial statements to explain the nature of prior period error, the amount of the correction and each financial statement line item affected.

It was further noted that the difference of R709 000 000 related to GL number 726390: Provision revenue accounting and in the prior year it was included under trade and other payable. During current year this account was reclassified from trade and other payables to provisions (current liabilities).

Financial statement line item affected	Comparative amount in the current year AFS.	Amount as per prior year AFS	Difference
Trade and other payables	R6 077 000 000	R6 786 000 000	R709 000 000
Provisions (current liabilities).	R1 186 000 000	R477 000 000	R709 000 000

Non-compliance with IAS 8, which requires disclosure for prior period error explaining the nature of error, amount of correction and each financial statement line item affected. The misstatement is material and may affect the audit report if uncorrected.

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Internal control deficiency

Financial and performance management

Group financial accountant did not ensure that a disclosure note for prior period error affecting trade and other payables and provisions is included in current the annual financial statements to explain the nature of error, amount of correction and each financial statement line item affected due to a lack of understanding of the requirements of financial reporting framework.

Recommendation

Group financial accountant should ensure that where an account has been incorrectly classified in the previous financial reporting period, a retrospective error correction should be disclosed in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors.

Management's response

Management comment on audit finding: Account # 726390 was moved from trade and other payables to provisions at the request of the auditors. Finding is noted and disclosure in terms of IAS 8 will be included in the final financial statements submitted to the AG.		
Management comment on Internal control deficiency: Will ensure that any prior period error will be disclosed in terms of IAS 8 in the financial statements going forward.		
Management comment on recommendation: Noted and recommendation will be implemented.		
Remedial action: Disclosure to be included in the financial statements in terms of IAS 8.		
What actions will be taken: As Above	**By whom: Michael Ascencao**	**By when: Prior to submission of final AFS to the AG.**
If yes, please indicate the accounting entry – No accounting entry required, merely an update to the disclosure in the AFS.		

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. Final financial statements submitted on the 31/10/2017 were inspected and verified that affected disclosure note has been appropriately disclosed in terms of ISA 8. As the finding was material, it will be moved to non-material matters to highlight the significant internal control deficiency identified. A follow up will be done in the 2017/18 financial year to verify that the internal control deficiency has been addressed.

Refer to working paper J.8.6

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100. Fruitless and wasteful expenditure due to double payment on invoices

Audit finding

Section 51 (1) (b) (ii) of the Public Finance Management Act states that *"an accounting authority for a public entity must take effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity".*

During the audit it was noted that the following invoices were paid twice for the year ended 31 March 2017.

No.	Supplier name	Invoice number	Amount
1	BP Southern Africa	ANP01183077	R 27 047.69
2	BP Southern Africa	ANP01185578	R 34 378.27
3	BP Southern Africa	ANP01178632	R 27 510.41
4	BP Southern Africa	ANPO1178633	R 30 396.95
5	BP Southern Africa	ANPO1178709	R 25 581.15
6	BP Southern Africa	ANPO1178711	R 28 460.33
7	BP Southern Africa	ANPO1178724	R 26 972.88
8	BP Southern Africa	ANPO1178727	R 31 825.49
9	BP Southern Africa	ANP01178818	R 24 800.60
10	BP Southern Africa	ANP01179023	R 34 249.07
11	BP Southern Africa	ANP01185088	R 49 719.47
12	BP Southern Africa	ANP01186997	R 25 240.96
Total			**R 366 183.27**

The overpayment results in fruitless and wasteful expenditure as this could have been avoided had the invoices been correctly reviewed or reconciled before payment is made. Furthermore it should be noted that our testing was done on a sample basis. Management will need to revisit the entire population of expenditure to ensure that all fruitless and wasteful expenditure relating to similar transactions have been identified for disclosure purposes. Failure to do so will result is us being limited to conclude on completeness of note disclosure to the financial statements.

Internal control deficiency

Financial and performance management

Financial Manager: Fuel Management did not ensure that invoices were correctly reconciled before payment is made due to reconciliations being done after the payment was effected on the system for fuel.

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Recommendation

Financial Manager - Fuel Management should:

- Ensure that supplier's accounts are reconciled correctly before payment is made.
- Ensure that the over payment on invoices is disclosed as fruitless and wasteful expenditure in the financial statements
- Ensure that an investigation on this matter is conducted
- Claim the amounts relating to the overpayment from the supplier

Management's response

Management comment on audit finding:

- The finding was picked up by the Auditors from the reconciliation's done by the Fuel Management Creditors

Management comment on Internal control deficiency:

- Agree that reconciliation should be done on manual payments before payment is made, and in addition to this, payments should be done within the Fuel Management System (FuelPlus) where all the checks and balances are done automatically before payments are released, to ensure that duplicate payments are not made

Management comment on recommendation:

Ensure that supplier's accounts are reconciled correctly before payment is made

- Agree on this for manual payments, and in addition to this, payments should be done within the Fuel Management System (FuelPlus) where all the checks and balances are done automatically before payments are released to ensure that duplicate payments are not made

Ensure that the over payment on invoices is disclosed as fruitless and wasteful expenditure in the financial statements

- Agree, but duplicate payments were identified by Fuel Management and the process was put in place to obtain credit invoices from the supplier
- Credit invoices were issued in June 2017
- Duplicate Payments amounted to R366 183 but at any given time SAA owes BP R45 million, thus SAA was never "out of pocket"

Ensure that an investigation on this matter is conducted

The root cause of the duplicate payment to BP was due to a number of factors

- Emergency supply from BP of fuel in Durban due to contracted supplier (Shell) not being able to supply the contracted volumes as a result of emergency shutdown of their refinery and in addition a shortage of volume in Johannesburg resulting in tankering from Durban into Johannesburg
- Manual payment outside of Fuel Management system (FuelPlus) due to emergency supply and no contract being loaded in the system for BP at Durban, however permission was granted by BAC for the emergency supply
- Additional workload on Creditor responsible for BP fuel payments as a result of a member of the Fuel Creditor Team passing away and work was distributed between the rest of the team
- Pressure from Fuel Management team to ensure that cleared payments are made on time in order to maintain credit terms in light of SAA's distressed financial position

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• Pressure from suppliers for on time payment due to their exposure to SAA and the risk they run due to SAA's distressed financial position Claim the amounts related to the overpayment from the suppliers • Credit invoices were issued on 25.05.2017 and 05.06.2017 prior to the audit taking place		
Remedial action: • Credit invoices were issued on 25.05.2017 and 05.06.2017 prior to the audit taking place • All emergency fuel supply will be paid though the Fuel Management System (Fuel Plus) to ensure that no duplicate payments are not made to suppliers • To enable payment within FuelPlus the emergency supply authorisations from BAC will be loaded as a contract for the duration of the emergency supply		
What actions will be taken: • As per second two bullet points above	**By whom:** Mark Vaughan	**By when:** 15 August 2017
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**
If yes, please indicate the accounting entryA entry will be made in the financial statement for R366 183 (Fruitless and Wasteful Expenditure)		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management's response was noted and agrees with the finding, internal control deficiency and the recommendations.

Subsequent to agreeing to the finding, management conceded to the finding on the 20/10/2017 and did not adjust or revise the population for fruitless and wasteful expenditure. The finding remains in the management report and the impact, being a qualification of fruitless and wasteful expenditure due to non-compliance with *section 51 (1) (b) (ii) of the PFMA*, will be reported in the 2016/17 audit report.

Furthermore, on trade and other payables, the misstatement was due to factors which are considered exceptional and rare, hence concluded to be anomalous.

Refer to the reasons below:

• The event was due to an emergency supply of fuel due to a contracted supplier not being able to supply the contracted volumes as a result of emergency shutdown of their refinery and in addition a shortage of volume

• Manual payment outside of Fuel Management system (FuelPlus) due to emergency supply and no contract being loaded in the system after obtaining approval from BAC for the emergency supply

Therefore the misstatement of R366 183.00 is considered anomalous and no further work will be done

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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Provisions

101. Provision for aircraft return conditions not in accordance with applicable financial reporting framework

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that "An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control."

IAS 8 Paragraph 42 states that "Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented."

IAS 37 Paragraph 10 defines a provision as "a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits."

The accounting policy of South African airways SOC Ltd (SAA) elected for lease aircrafts states that "For aircraft held under operating lease agreements, SAA is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfil such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts are accrued and charged to profit or loss over the lease term for this contractual obligation."

As part of its core mandate of engaging in passenger airline and cargo transport services, air charter services and other related services, South African Airways SOC Ltd (SAA) leases some of its aircrafts as operating leases in terms of international accounting standard (IAS) 17. When these operating lease aircrafts are delivered, SAA performs certain modifications that are accounted for as lease hold improvements in the asset register of SAA. However, these lease hold improvements are also part of the return conditions because according to the lease agreements, SAA is obliged to redeliver the aircraft to the lessor in the condition prescribed as per lease agreement. Therefore SAA is required to remove at its own cost the leasehold improvements in the aircraft.

The items that are normally modified to be part of leasehold improvements and result in return conditions include, among others, flight deck, C-Check, paint, cabin interior, Cargo hold, wheel and brakes, delivery flight, remove HUD mod, time controlled and life limited components, Airworthiness Directive modifications, Service Bulletin modifications, and Engineering Orders modifications.

The accounting policy that SAA has adopted for these return conditions is not in compliance with the International Financial Reporting Standards (IFRS) as the accounting treatment is based on passage of time of the lease term rather than at the inception of the lease i.e. the provision for return condition is assessed at each year end based on utilization of the aircraft even though the present obligation for these return conditions is when SAA modifies the aircraft.

The following is how the audit team comes to a conclusion that these return conditions are not accounted for correctly in the financial statements by applying the requirements of IAS 37 paragraph 10 as mentioned above:

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A. Present obligation as a result of past event

According to the lease agreement, SAA needs to return the aircraft with specified redelivery conditions. At inception of the lease, SAA have modified or altered the aircraft by installing, among others their prescribed flight deck, cabin interior, HUD mod, cargo hold and other modifications which SAA is expected to remove at the end of the lease at its own cost. Furthermore, as part of the requirements of the redelivery conditions as per lease agreement, it is noted that the aircraft should be repainted and go for C- Check inspection before it is returned to the lessor. Therefore the present obligation is that SAA is required to remove the leasehold improvements at the end of the lease term and the past event is signing the lease agreement and modifying the aircraft at inception of the lease. These return conditions requires that SAA redeliver the aircrafts in the condition the aircraft was provided to SAA i.e. painted the way it was, the configuration of the interior and any other modifications which SAA has effected on the aircraft.

B. The settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits

Complying with the return condition as stipulated in the lease agreements will require SAA to incur costs which will be paid out of SAA reserves/funds.

C. Probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation

SAA will return the aircrafts at the end of the lease term as per lease agreement and therefore it is probable that there will be outflow of economic benefits as SAA will have to return the aircraft at the specified return conditions as per the lease agreement.

D. The amount at which the settlement will take place can be measured reliably

SAA should be able to make a reliable estimate based on past experience in collaboration with SAA Technical (SAAT) and other industry publications. This amount can be measured reliably as the return conditions and modifications made by SAA are known and therefore SAA and SAAT can estimate the return costs.

Based on arguments documented above, we concluded that SAA should recognise a provision for return condition at the inception of the lease as this is the date which the present obligation regarding the provision for the return conditions has been triggered by modifying the aircraft to SAA requirements.

The accounting policy elected by SAA does not adequately cover the requirements of IAS 37 specifically for these return conditions.

An amount of US$33 438 276 (R448 529 330.87) has been recognized as a provision for return conditions in the 2016/17 financial year, however the basis that this amount has been determined is not in accordance with the requirements of IAS 37 as articulated above. This amount might not be a reliable estimate if the basis of its calculation is not in terms of IAS 37. Therefore the value of this provision may be under/overstated. There is also an impact in the retained earnings, opening

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balances and profit and loss regarding this transaction. The misstatement identified also affect prior years as a similar accounting practice was applied in the prior periods. The amount of the material misstatement cannot be determined by the auditors and management needs to perform an assessment to get the amounts impacted.

Internal control deficiency

Financial and performance management

The accounting policy adopted for provision for return conditions does not outline the treatment of return costs that the obligations arise at the inception of the lease.

The Divisional Financial controller: fleet and HOD: Financial Accounting did not ensure that the adopted accounting policy relating to provision for return conditions includes the requirements to provide for return conditions at the inception of the lease.

Recommendation

The Divisional Financial controller: fleet HOD: Financial Accounting should adopt an accounting policy particularly governing the provision for return conditions.

An assessment should be made by management in all lease contracts and corrections should be made to comply with the requirements of IAS 37.

The Divisional Financial controller should quantify the misstatement as a result of accounting for provision for return condition using passage of time approach.

The population for the current and prior year should be revisited to correct the misstatements so that not only the misstatements identified through the audit process are corrected, thereafter additional procedures will be performed to verify the corrections to the population of the provision for return conditions.

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Management's response

Management comment on audit finding: Management agree with the finding. We have reviewed the requirements of IAS 37 and IAS 16 and agree that a provision should be raised at the inception of the lease as well as an asset for the restoration of the aircraft. Workings have been provided to AG to calculate the entries required to correct the prior period error. The accounting policy will be updated to comply with the requirements of IFRS.		
Management comment on internal control deficiencies: Management agree with the control deficiency.		
Management comment on recommendation: Management agree with the recommendation		
Remedial action:		
What actions will be taken: Management will prepare a calculation based on the recommendation for consideration by SAA Management will prepare an analysis and present to top management for consideration. If approved it will be presented to AGSA	By whom: Person: Pierre de Villiers Position;	By when: 13 Oct 2017

Auditor's conclusion

Managements agreed to the finding raised and submitted workings to address the audit finding on 20 October 2017. We audited the information submitted and no findings were noted in the information provided.

The finding has been resolved, however is will be reported as part of significant internal control deficiencies which will be elevated in the management report and audit report as the accounting treatment was not followed by SAA and was subsequently corrected as a result of the audit process.

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102. Engines covered by Power By the Hour agreement incorrectly stated as not covered by Power By the Hour on the Provision for lease liability calculation

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that "An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control".

The Assumptions for treatment of Power by The Hour (PBTH) adopted by South African Airways SOC Ltd (SAA) states that "If there is an engine power by the hour agreement in place the provision for this engine event is not required. This amount is calculated by adding all the provision for engine events where the Power by The Hour agreements are in place."

As part of its core mandate of engaging in passenger airline and cargo transport services, air charter services and other related services, SAA leases some of its aircrafts as operating leases in terms of international accounting standard (IAS) 17. According to the aircraft lease agreements, SAA is required to maintain the aircrafts components in accordance with the prescribed maintenance programme by the manufacturer. SAA entered into PBTH agreements (also known as Total Care Agreements or Flight Hour Agreements) with various service providers to maintain the aircraft engines. SAA in return pays a fixed rate per flying hour to the service providers.

During the audit of Provision for lease liabilities calculations, we noted that the engines which are covered by PBTH agreement starting from September 2016 were reflected as not covered by engine PBTH:

No	Aircraft registration	MSN	Engine #1	Engine #2
1	ZS-SFG	2326	PPV11793	PPV11797
2	ZS-SFH	2355	PPV11823	PPV11825
3	ZS-SFI	2375	PPV11820	PPV11822
4	ZS-SFJ	2379	PPV11841	PPV11824
5	ZS-SFK	2418	PPV11876	PPV11878
6	ZS-SFL	2438	PPV11897	PPV11891
7	ZS-SFM	2469	PPV11951	PPV11953
8	ZS-SFN	2501	PPV11961	PPV11969

This will result in an overstatement of Provision for lease liabilities and overstatement of maintenance expense by R 273 019 124.95 ($20 353 828.00). This misstatement should be investigated by management whether similar misstatement did not occur in the prior year and update both the prior year calculation and the current year calculation in line with the requirements of IAS 8.

The misstatement is material and if not corrected will result in a modification of the audit report on the provision for lease liabilities and maintenance expenses.

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Internal control deficiency

Financial and performance management

HOD: Fleet management did not update Divisional Financial Controller: Fleet about the new development regarding PBTH agreements.

The Divisional Financial Controller: Fleet did take adequate steps to ensure that he is updated on information pertaining to leases and maintenance of the aircrafts.

HOD: Financial Accounting and Chief Financial Officer (CFO) did not adequately review the Provision for lease liability calculation to ensure that the information included in the calculation is up to date.

The information relating to leases of aircrafts are kept on manual excel documents which requires significant human intervention to update the information when changes are made.

Recommendation

HOD: Fleet management should update the Divisional Financial Controller: Fleet about the new developments regarding PBTH agreements on regular basis.

The Divisional Financial Controller: Fleet should take adequate steps to ensure that he is updated on information pertaining to leases and maintenance of the aircraft components by ensuring that he receives confirmation that the data he is using in his calculation is up to date.

HOD: Financial Accounting and CFO should adequately review the Provision for lease liability calculation to ensure that the information included in the calculation is up to date.

Divisional Financial Controller: Fleet, HOD: Financial Accounting and CFO should ensure that there is proper system in place to keep lease information to avoid errors that are caused by high dependency on the manual intervention on the status of the lease agreements.

Management's response

Management comment on audit finding: Management agree with the Audit Finding. We have reviewed the agreement signed on 30 September 2016 and noted that there are payments over and above the normal payments for the Power By The Hour. These payments are a known liability and are considered to be effectively the "Catch Up" payments or "Induction" payments to cover for the period for which the engines were not covered by Power by The Hour. We have therefore raised a liability in accordance with our accounting policy for financial liabilities.		
Management comment on internal control deficiencies: Management agrees with the internal control deficiencies.		
Management comment on recommendation: Management agrees with the recommendation.		
Remedial action: Will follow up with a discussion to determine a way forward		
What actions will be taken: Meeting to be arranged to discuss this issue and ensure	By whom: Person:	By when: 30 Sep 2017

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agreement is reached on the method of accounting for this transaction	Position;	

Auditor's conclusion

Managements agreed to the finding raised and submitted workings to address the audit finding on 20 October 2017. We audited the information submitted and no findings were noted in the information provided.

The finding has been resolved, however is will be reported as part of significant internal control deficiencies which will be elevated in the management report and audit report as the accounting treatment was not followed by SAA and was subsequently corrected as a result of the audit process.

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103. Contingent liabilities incorrectly classified as provisions

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that *"An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control"*.

The conceptual framework for financial reporting paragraph 4.4(b) of the International Financial Reporting Standards (IFRS) defines a liability *as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.*

IAS 37, paragraph 10 states that "*A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits*"

IAS 37 paragraph 10 further defines a contingent liability as *a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because:*

i. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
ii. the amount of the obligation cannot be measured with sufficient reliability.

During the audit of provisions for litigations and claims, confirmation letters were obtained from the legal representatives of South African Airways SOCLtd (SAA). Through inspection of the said confirmation letters, it was noted that the following were included in the provision for litigations and claims balance without satisfying the requirements to be classified as such as required by IAS 37:

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DD20-PS-1363

Legal Representatives	Parties	Amount Provided (R)	Matter identified	Management comment on the matter	Audit finding
ENS	SAA VS KHAYA NGQULA	4 000 000.00	As per Legal confirmation, SAA's contingent liability for the payment of Mr Ngqula's legal costs, should he be successful in his action or successfully defend SAA's actions is approximately R3 million to R4 Million. Is this a provision or a contingent liability?	As Per the attached confirmation from external attorneys the amount of R4M was a provision. The attorneys proposed the provision based on their judgment and expertise on SAA's likely exposure in the matter, i.e. the amount SAA may have to pay, should judgment be against SAA.	There is no present obligation to settle the fees of Mr Ngqula. SAA will only have an obligation only upon losing the case. The legal costs of Mr Ngqula are a possible obligation depending on the judgement. The amount should therefore be disclosed as a contingent liability.
Roy Ramdaw	REGGY MASHEGO / SAA	756 639.00	The prospects of SAA being successful in this case are good as per the External confirmation and therefore a contingent should be disclosed and no provision liability shall be recognised regarding the matter.	As Per the attached Confirmation form external attorneys the amount of R756, 639.00 was suggested as the provision. The attorneys proposed the provision based on their judgment and expertise on SAA's likely exposure in the matter, i.e. the amount SAA may have to pay, should judgment be against SAA.	The provision amount includes legal costs to be incurred by SAA and legal costs to be incurred by Reggy Mashego in opposing the review should he be successful and subsequently claim from SAA. The amount SAA is paying to Roy Ramdaw attorneys is a legal expense and should be recognised as legal costs in the statement of comprehensive income in the period they are incurred. There is no present obligation to pay Reggy Mashego legal costs for opposing the review at 31/03/2017. The payment of the opposition's legal costs is dependent on the outcome of the case, and no claim has been filed against SAA for those costs. SAA will have an obligation to pay those legal costs upon losing the case and when Reggy Mashego files a claim for legal fees. The legal fees are a possible obligation.

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DD20-PS-1364

Legal Representatives	Parties	Amount Provided (R)	Matter identified	Management comment on the matter	Audit finding
B M Kolisi	THABANI NKWANYANA/ SAA (1)	2 500 000.00	BM Kolisi legal remarks are that "SAA has reasonable prospects of successfully defending the claims"should this not be disclosed as contingent liabilities?	As Per the attached Confirmation from external attorneys the amount of R2,5M was suggested as the provision. The attorneys proposed the provision based on their judgment and expertise on SAA's likely exposure in the matter, i.e. the amount SAA may have to pay, should judgment be against SAA. Although the attorneys felt that our prospects of defending the case successfully Fikile and Themba felt that we "err on the caution" and provide for same as the trial date was very much later in the year to come to court.	BMK Attorneys do not believe that Thabani Nkwanyana has reasonable prospects of success in either of his claims. The amount provisioned by SAA is not reliable as BMK attorneys indicated that there are good prospects of success. In terms of the International financial reporting standards, a provision should be reviewed at the end of each reporting period to reflect the current best estimate. Therefore SAA should recognise the provision based on the current best estimate which is good prospects of success in defending the claim. A provision would be raised in the following year should prospects of success change. A contingent liability should be disclosed.
Cliff Dekker	Lerato Mabitsela/SAA	510 755.49	The court case between Lerato Mabitsela and SAA is recorded in the provision report of SAA while CDH attorneys could not confirm the existence of the case to the auditors.	Agree should not have been provided for as the employee was paid said amount.	No provision should be raised as there is no longer a present obligation.
Campos	Labour Lawsuit Plaintiff: Ana Alexandrino de Oliveira/SAA	645 000.00	The case was deemed with grounds by the lower court. The judge recognised the secondary liability of SAA to pay the labour debts in case PROAIR does not have enough assets to cover for debt. The payment will	Should be moved to contingent liability.	The claim is contingent on the inability of PROAIR not having enough assets to settle the debt. It is therefore a contingent liability and no provision should be raised.

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Legal Representatives	Parties	Amount Provided (R)	Matter identified	Management comment on the matter	Audit finding
			depend on PROAIR not having enough assets to settle the debt. No present obligation exist until PROAIR is declared as such, therefore a contingent liability should be disclosed.		
Roy Ramdaw & Associates	NTM obo Jan Moete & 33 Others / SAA	75 000.00	According to the confirmation, SAA has reasonable prospects of successfully defending the claims, should these not be disclosed as contingent liabilities?	As Per the attached Confirmation from external attorneys the amount of R0.15M was suggested as the provision for both matters. The attorneys proposed the provision based on their judgment and expertise on SAA's likely exposure in the matter, i.e. the amount SAA may have to pay, should judgment be against SAA.	The amount provisioned for relates to the legal expenses that may be claimed against SAA should SAA be unsuccessful in the case. There is no present obligation to pay those amounts, they are possible obligations therefore should not be provisioned for.
Roy Ramdaw & Associates	NTM obo Lettie Malane/SAA	75 000.00			
Total		**8 562 394 .49**			

This will result in an overstatement of provision for litigations and claims and legal settlements expense by R 8 562 394 .49 and non-compliance with IAS 37 regarding disclosure of contingent liabilities.

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Amounts settled and paid incorrectly included as provisions

It was noted that the settlement amounts for the following cases were included in the provisions balance even though the amounts were confirmed to have been settled by the legal representative:

Adverse Party	Legal representative	Status of the case	Provision [R]	Date settled
Ronaldo Franklin de Miranda and Other	Montgomery & Associados	SAA paid 6,000.00 in order to close the case.	25 778.94	Payment made by SAA on May 31st, 2016.
Luciana Rodrigues Teixeira and Others		SAA paid 10,164.43 in order to close the case.	43 671.37	Payment made by SAA on January 24th, 2017.
Shiger Kazuo Kinjo Tukamoto		SAA paid 21,253.23 in order to close the case.	91 314.29	Payment made by SAA on March 03rd, 2017.
Adriana Soave Teixeira and Other		Case closed after judge ruled against SAA and they paid the claim.	26 409.92	Payment made by SAA on November 21st, 2016.
Rebecca de Souza Azambuja Neves and Other		SAA paid 10631.32 in order to close the case.	34 371.92	Payment made by SAA on March 03rd, 2017.
Ana Carolina de Souza Martins		The parties settled at the hearing. SAA agreed to pay 5,000.00 in order to close the case.	21 482.45	Payment made by SAA on August 08th, 2016.
Thiago Lindolpho Chaves and Others		SAA paid 13,484.90 in order to close the case.	57 937.74	Payment made by SAA on February 07th, 2017.
Stella Alves da Fonseca		SAA paid 2.194,71 in order to close the case.	9 429.55	Payment made by SAA on October 21st, 2017.
Lucas Nishiwaki		SAA paid 14,883.68 in order to close the case.	63 947.58	Payment made by SAA on December 12th, 2016.
Alvaro Americano de Oliveira e Souza		SAA paid 9,667.63 in order to close the case.	41 536.88	Payment made by SAA on January 24th, 2017.
Selma Cristina Rubim		SAA paid 7,465.74 in order to close the case.	32 076.48	Payment made by SAA on March 21st, 2017.
Lucas Takeshi Rodrigues Palma		SAA paid 5,366.67 in order to close the case.	23 057.84	Payment made by SAA on January 24th, 2017.
Artur Valente Bataglion		SAA paid 6,872.88 in order to close the case.	29 529.26	Payment made by SAA on March 24th, 2017.
Aline Rigon		SAA paid 6,872.88 in order to close the case.	29 529.26	Payment made by SAA on March 24th, 2017.
Guilber Dumans de Souza		The parties settled at the hearing. SAA agreed to pay 1,000.00 in order to close the case.	4 296.49	Payment made by SAA on February 07th 2017.
Mariana Zanatta Silva		SAA paid 4,981.82 in order to close the case.	21 404.34	Payment made by SAA on March 03rd, 2017.
Suelen Bonomo		SAA paid 1,465.30 in order to	6 295.65	Payment made by

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Adverse Party	Legal representative	Status of the case	Provision [R]	Date settled
Negris		close the case.		SAA on March 16th, 2017.
Daniela Dias Ribeiro and Other		SAA paid 5,768.45 in order to close the case.	24 784.09	Payment made by SAA on March 16th, 2017.
Flavia Aline Rocha de Mello Talarico		SAA agreed to pay 3,000.00 in order to close the case.	12 889.47	Payment made by SAA on February 21st, 2017.
Marcio Antonio de Sousa Moraes Junior and Other		SAA paid 4,453.87 in order to close the case.	19 136.01	Payment made by SAA on March 30rd, 2017.
Agbada Ogbeide		SAA paid 8,260.37 in order to close the case.	35 490.60	Payment made by SAA on March 21st, 2017.
André Cristian Kuntze and Other		SAA paid 2,055.33 in order to close the case.	8 830.70	Payment made by SAA on March 21st, 2017.
Total			**663 200.83**	

This will result in an overstatement of provision for litigations and claims and legal settlements expense by R 663 200.83.

Amounts confirmed by legal representatives not included in the provisions balance

The following cases were confirmed by the legal representatives however there is no provision or contingent liability disclosed in the financial statements:

Adverse Party/ Lawsuit number	Legal representativ e	Status of the case	Reasonable Amount in foreign currency	Exchange rates	Reasonable Amount R
LSG sky chef SA	Manong Pilane mokotedi inc	Action proceedings (summons).	2 651 231.20	1.00	2 651 231.20
Mulemfo mukando bonso		Action proceedings (summons), damages claim due to loss of luggage.	100 000.00	1.00	100 000.00
Brandhouse Pty Ltd		Taxation of party and party costs.	128 000.00	1.00	128 000.00
Sandra Lucia Correia Lima fortes and Daniel aguilera fortes campos	D' Andrea Attorneys	The judge has sent the case to the calculation expert	12 777.89	4.30	54 900.08
Lawsuit number 1785404-95.2013.8.13.0024		SAA paid the convicted amount but still waiting for the outcome of the appeal	16 606.99	4.30	71 351.77
Africa travel agency and Tourism john edvar gomes dos santos		Awaiting action from the court office. The case has been suspended because of the death of one of the plaintiff's	66 560.01	4.30	285 974.42
Lawsuit no. 0000729-19.2014.8.19.0038		Awaiting courts action or rule.	21 858.72	4.30	93 915.77
Lawssuit no. 0001295-62.2015.8.16.0184		Awaiting courts action or rule.	1 707.04	4.30	7 334.28
Metin Navarro querolin and		Awaiting decision on motion	24 425.42	4.30	104 943.57

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Adverse Party/ Lawsuit number	Legal representative	Status of the case	Reasonable Amount in foreign currency	Exchange rates	Reasonable Amount R
rubens klopfleisch junior					
Author and Mr. Ricardo pereira perez		Nothing happened since last update. SAA has filed a request to end this case, because there is another similar case running.	15 688.35	4.30	67 404.84
Herculano de Albuquerque iglesians and leida peretti iglesians		Awaiting judgement	86 580.00	4.30	371 990.10
Larissa Barroso de souza		Awaiting judgement	41 267.77	4.30	177 306.56
lawsuit no. 0004641-58.2012.8.10.0001		Awaiting judgement	50 707.07	4.30	217 862.42
lawsuit no. 0312049-63.2015.8.24.0023		Awaiting judgement	38 688.00	4.30	166 222.61
Lucas Van de sande silveira		Awaiting judgement	38 976.87	4.30	167 463.73
lawsuit no. 0127622-65.2015.8.13.0433		Awaiting judgement	40 648.19	4.30	174 644.54
lawsuit no. 0050212-84.2015.8.13.0188		Awaiting judgement	15 658.97	4.30	67 278.61
jeanne clotilde fischetti ayoub, fernanda fischetti ayoub, ayoub fischetti rafael and carlos alexandre ayoub		Awaiting judgement	49 920.00	4.30	214 480.78
lawsuit no. 0016034-46.2015.8.08.0545		Awaiting judgement	32 240.00	4.30	138 518.84
lawsuit no. 1011833-07.2014.8.26.0002		Awaiting judgement	49 504.00	4.30	212 693.44
lawsuit no. 0000522-36.2011.8.02.0058		Awaiting judgement	530.40	4.30	2 278.86
lawsuit no. 480816-16.2007.8.09.006		Parties did not reach an agreement, just must schedule a trial or render his decision	66 012.79	4.30	283 623.29
lawsuit no. 1008454-55.2014.8.26.0100		Awaiting outcome of appeal	67 009.80	4.30	287 906.94
lawsuit no. 0170890-80.2011.8.26.0100		Awaiting outcome of appeal	65 058.66	4.30	279 523.88
lawsuit no. 0003329-39.2010.8.20.0001		Awaiting outcome of appeal	23 920.00	4.30	102 772.04
lawsuit no. 0015950-73.2007.808.0012		Awaiting outcome of appeal	116 641.33	4.30	501 148.31
lawsuit no. 1044277-56.2015.8.26.0100		Awaiting outcome of appeal	1 457.25	4.30	6 261.06
lawsuit no. 0038978-69.2014.8.21.0010		Awaiting outcome of appeal	10 020.37	4.30	43 052.42
lawsuit no. 4000439-42.2013.8.26.0048		Awaiting outcome of appeal	34 223.96	4.30	147 042.90
lawsuit no. 0024277-88.2015.8.08.0347		Awaiting outcome of appeal	14 560.00	4.30	62 556.89
lawsuit no. 1095970-50.2013.8.26.0100		Awaiting outcome of appeal	48 556.94	4.30	208 624.41

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Adverse Party/ Lawsuit number	Legal representative	Status of the case	Reasonable Amount in foreign currency	Exchange rates	Reasonable Amount R
lawsuit no. 0001294-77.2015.8.16.0184		Awaiting outcome of appeal	1 874.92	4.30	8 055.58
lawsuit no. 0003731-26.2011.8.24.0082		Awaiting outcome of appeal	11 171.16	4.30	47 996.78
lawsuit no. 0801554-68.2013.8.24.0023		Awaiting outcome of appeal	10 193.36	4.30	43 795.67
lawsuit no. 1046751-68.2013.8.26.0100		Awaiting outcome of appeal	6 370.00	4.30	27 368.64
lawsuit no. 6006657-19.2015.8.13.0024		Awaiting outcome of appeal	29 016.00	4.30	124 666.95
lawsuit no. 0102400-29.2009.5.02.0315		Awaiting trial	160 524.00	4.30	689 689.76
lawsuit no. 0057021-51.2010.8.19.0042		Case reopened	90 948.70	4.30	390 760.18
[illegible]suit no. 0604132-[illegible].2015.8.04.0001		SAA has been served to file an answer to the appeal filed by the plaintiff.	98 654.40	4.30	423 867.64
lawsuit no. 0071052-85.2014.4.01.3400		The plaintiff has been served to inform the other defendants addresses	32 856.02	4.30	141 165.56
lawsuit no. 0341489-28.2013.8.21.0001		SAA has been served to answer the plaintiff's motion	5 660.88	4.30	24 321.91
lawsuit no. 0027410-06.2015.8.19.0001		SAA must withdraw an amount of 3143.06. They filled a motion requesting the withdrawal slip	4 636.16	4.30	19 919.22
lawsuit no. 0001809-35.2011.8.21.0016		The defendants were served to pay the remaining convicted amount. The amount frozen in SAA bank account was supposed to be paid by the other defendant.	34 463.50	4.30	148 072.08
lawsuit no. 0001807-65.2011.8.21.0016		The motion was filled requesting the judge to close the case for SAA and keep the case running for the other defendant, was rejected.	9 867.50	4.30	42 395.62
[illegible]suit no. 1002492-22.2013.5.02.0321		Awaiting payment by the first defendant. SAA is the 5th defendant	28 860.00	4.30	123 996.70
Linding	Freidenburg	Adhiere a pago voluntario	76 217.50	0.87	66 440.32
Santos Joseph F		Adhiere a pago voluntario	53 188.20	0.87	46 365.22
Badaru Rahim		Adhiere a pago voluntario	51 824.40	0.87	45 176.37
Jardine Ian william		Administrative appeal-Reconsideracion	137 191.50	0.87	119 592.57
Ray chaves maximilian Gaie		Administrative appeal-Alzada	153 427.20	0.87	133 745.56
Adebisi wemimo olanike, fenyi Richard ato, Gariba muslapha		Administrative appeal-Reconsideracion	255 712.50	0.87	222 909.70
Bolf james william		Administrative appeal-Alzada	155 473.20	0.87	135 529.10
Robison Gloyd alian y Olma melanie shawn		Administrative appeal-Reconsideracion	61 975.80	0.87	54 025.54
Qaugraine, aitken y krasnoff		Administrative appeal-Reconsideracion	92 963.70	0.87	81 038.32

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Adverse Party/ Lawsuit number	Legal representative	Status of the case	Reasonable Amount in foreign currency	Exchange rates	Reasonable Amount R
Bissoonauthsing pooja		Administrative appeal-Reconsideracion	31 886.10	0.87	27 795.75
Maletzky manuella		Adhiere a pago voluntario	30 987.90	0.87	27 012.77
Public burden request		Discharge pleading	267 691.10	0.87	233 351.69
Total			**5 824 673.69**		**R 10 847 363.75**

This will result in an understatement of provision of legal claims and Legal Settlements (expense) by R 10 847 363.75.

Internal control deficiency

Financial and performance management

The head of legal did not properly scrutinise the confirmation letters from the legal representatives for prospects of success of the cases to determine if a case is a contingent liability or a provision in accordance with IAS 37.

There are no standard operating procedures which clearly state the roles and responsibilities regarding the reporting of provisions for litigations and claims.

There is lack of communication between the legal department, finance department and the outstations regarding the status of the cases or legal matters at the outstations.

There was no reconciliation performed between the legal tracker and the provisions listing to ensure completeness of the cases included in the provisions for litigations and claims balance.

Recommendation

The head of legal should properly scrutinise the confirmation letters from the legal representatives for prospects of success of the cases to determine if a case is a contingent liability or a provision before communicating what needs to be disclosed to the finance department.

The General Manager: legal should put policies and procedures in place which clearly state the roles and responsibilities regarding the reporting of provisions for litigations and claims in the Annual Financial Statements.

The General Manager: Legal should initiate periodic enquiries with the country managers of the outstations regarding the status of litigations at the outstations to confirm that all litigations are appropriately considered in provisions for litigations and claims balance in the Annual Financial Statements.

The head of legal should prepare reconciliation between the legal tracker and the provisions listing to ensure completeness of the cases included in the provisions for litigations and claims balance, this reconciliation should be reviewed by the General Manager legal.

The population should be revisited to correct the misstatements so than not only the misstatements identified through the audit process are corrected, thereafter additional procedures will be performed to verify the corrections to the population of the litigations and claims provisions.

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Management's response

Management comment on audit finding: However, it should be noted that the provisions are raised by finance. The process followed annually is that Legal would write to external lawyers are requesting them to provide an assessment of current litigation matters and amount that SAA must provision in respect thereof. Refer to attached sample of letter. Upon receipt the letters / reports are reviewed in conjunction with finance. Finance raises a provision based on the external lawyers' letters / reports. Therefore, legal does not decide on which amount must be provisioned this is done by finance based on the external lawyers' letters using the company's provision policy. Legal does not make a determination of whether an amount is a contingent or provision this is a responsibility of finance having consider the confirmation letters. Legal is not allowed to change or influence the amount as finance has always maintained that the figures provided by external lawyers should stand. Further with regard to the matters listed under section 2 of auditors letters, refer to the Column G of the litigation summary extracted from the confirmation report dated 7 April 2017, which was used as a bases for the provision. It must be noted that although SAA had paid at the time of the confirmation the matters were not finalized hence the external lawyers still recommended the amounts, in Column E to be provisioned. Therefore, we disagree with the finding that these amounts were incorrectly included and that HOD: Legal did not scrutinize the confirmation letters.
Management comment on internal control deficiencies: The internal control deficiency is accepted.
Management comment on recommendation: The recommendation is accepted.
Remedial action:

What actions will be taken: - We have validated the litigation matters with the external lawyers - Adjustment made as per the AG's recommendation on the provisions (journal entry done - The Litigation Management Framework Policy will be updated to include detailed procedure, roles and responsibilities in respect of the provisions. - We will ensure that the tracking system and reports are updated and checked	By whom: Person: Fikile Thabethe/Faizal Peer Position; HOD: Legal/Financial Controller	- By when: Done already

Auditor's conclusion

Management made adjustments and the final set of AFS were submitted on 31 October 2017.

We have received a journal passed and revised litigation summary. All the cases were tested initially. Management made adjustments, additional audit procedures were performed on the revised population and there was a misstatement with an amount of R4 312 690.06.

This amount is below the initial trivial threshold and the error will be accepted as clearly trivial.

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104. Assumptions and key judgements made by management on maintenance reserves and provision for lease liabilities not adequately documented and approved

Audit finding

Section 51(1)(a)(i) of the Public finance management Act 1 of 1999, states the "*general responsibilities of accounting authorities. An accounting authority for a public entity Must ensure that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

IAS 1.par 125 states that "*An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:*

(a) their nature, and

(b) their carrying amount as at the end of the reporting period."

The maintenance reserves and provision for lease liability calculation of South African Airways SOC LTD (SAA) is calculated based on certain key assumptions and judgments that management has made in arriving at the total balance of the maintenance reserves and provision for lease liabilities. There are no documented policies and procedures in place in SAA which have been approved at an appropriate level which details how the calculation for the maintenance reserves and provision for lease liabilities should be calculated.

The matter was first discussed in the audit steering committee meeting held on 23 March 2017 and 30 March 2017 with the HOD financial accounting and a follow up meeting was held with the senior management team on the audit with the HOD financial accounting and the divisional financial controller on 05 April 2017 after which the agreed actions were not met on the agreed time lines with the Divisional financial controller. The delays were escalated to the CFO by senior management via email communications. A further meeting was held on 31 May 2017 with the Divisional financial controller to present the assumptions and the final calculation which was submitted for audit on 25 May 2017. The matter around the adequate documentation of assumptions was escalated to the CFO in a meeting held on 02 June 2017.In this meeting a resolution was taken that a meeting with engineers will be held and was scheduled for 20 June and the meeting was subsequently cancelled. The meeting has not taken place to date.

The assumptions made on this calculation were provided after extensive engagements between the auditor's and management as indicated above, however the following deficiencies have been identified between the actual calculation spreadsheet and the assumptions which were subsequently provided.

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A. Utilisation and event cost assumptions and spreadsheet (calculation)

- It is not indicated how the usage hours of the engines, APUs and thrust reversers that have been populated in the calculation have been determined. The source data of the hours used is not documented and the process followed together with the key judgement made to achieve simplicity as indicated in the assumptions at SAA is not documented.

- The assistance of engineers in determining the estimates is not clear from the assumptions submitted. How the percentage of the (life limited parts)LLPs that has been used in the calculation was determined is not documented.

- The climatic conditions, previous performance and frequencies of the usage of engines are not documented, how the database of this information is kept and what assumptions are incorporated in this information is not clear from the assumptions provided.

- It is not documented how the event costs are estimated for the aircrafts where there is no history of past major events costs. The cost of comparable known events were used in these instances, however no considerations were documented or adjustments were made to take into account the fact that new aircrafts are very different to the old ones.

- The reasons which lead to thrust reversers to be expensed are not documented in the assumptions provided.

- Based on the discussions we had with the Divisional Financial Controller, and HOD Financial Accounting the figures used are taken from the budget, the budget includes the estimates of how the fleet is going to be used, the budget on its own is based on assumptions however these assumptions were not documented as part of the assumptions requested. In addition these assumptions would not have been updated with the events that took place after the budget compilation to ensure the figures reflects management's best estimates. The budget was finalised early 2016.

- The assessment made with regards to the hours and the trigger events is not evident in the calculation and the lease information provided in the calculation i:e whether the maintenance event will happen before the lease term expires.

B. Operational Information

- The operational information is provided by SAAT and engineers, it is not evident what work has been done to assess the controls that produce the information at SAAT and the estimates made by engineers on the operational data spreadsheet.

C. Return costs

- Based on the discussions with the Divisional Financial controller, the return cost for airframes include the cost of all items that are required to be overhauled to return the aircrafts. These costs are also estimated by engineers and assumptions made to estimate these costs are not documented.

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- On the assumptions provided it is not evident how the time value of money is taken into account as required by IAS 37. The primary source of the data used in the calculation is not clear based on the information provided.

D. General controls

- The calculation and the assumptions are not prepared with field for actual sign off of the compiler, reviewer and final approver. This does not enable the audit team to verify the review and quality control processes that the calculations and the assumptions have undergone.
- There is no evidence that the data used in the calculations which has been collected from various sources has been verified for reliability before being incorporated in the calculation.

The matters raised above will result in a limitation of scope in the audit process and the assumptions and key judgements made by management will not be verifiable. The calculation is done by the divisional financial controller and since there are no documented policies and procedures around the calculation and assumptions, this pose a risk of loss of institutional memory should the Divisional Financial controller leave SAA.

Internal control deficiency

Financial and performance management

The divisional financial controller did not prepare the calculation based on the documented policies and procedures which have been approved at an appropriate level.

The assumptions for the maintenance reserves and provision for lease liabilities are not documented upfront before the calculation has been performed. The assumptions were provided to respond to the concerns raised as a result of the audit process.

There is no evidence of the quality control procedures to validate the reliability of the data used in calculating the provision for lease liabilities and maintenance reserves.

Recommendation

The Divisional financial controller should adequately document the process followed in the calculation together with the key judgements and assumption which are being made in the calculation addressing the concerns that have been noted in the audit finding.

The assumptions that are have been made by engineers in the calculation should also be documented by the engineers in collaboration with the Divisional Financial controller.

The process should be submitted for approval at EXCO and board level.

Management's response

Management comment on audit finding: Agree with finding

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Management comment on internal control deficiencies: Agree with this finding. Management feel that it is critical to implement an integrated lease and asset management system to ensure accuracy and quality control deficiencies.		
Management comment on recommendation: Agree with this recommendation. However the implementation of a lease and asset management system will address many of the concerns		
Remedial action: *noted above*		
What actions will be taken: Controller has supplied some of the documentation. Will continue updating the documentation.	By whom: Person: Pierre de Villiers Position; Controller	By when: On going process

Auditor's conclusion

The management response is noted, management has agreed with the audit finding, the internal control deficiencies and the recommendations.

Assumptions used to calculate the provision for lease liabilities and maintenance reserves consumed life were documented by management and submitted for audit. The key judgements and assumptions documented were considered to be reasonable. However, it was noted that documented assumptions submitted for audit was not approved at appropriate management level and we are still waiting for approvals to date.

The finding will remain in the management report as significant internal control deficiency as the assumptions were documented as result of the audit process there are no formal documented and approved assumptions relating to the accounting for the maintenance reserves and provision for lease liabilities.

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Post-employment benefits

105. Differences identified on the Defined Benefit Plan disclosure – German fund

Audit finding

The International Accounting Standard (IAS) 1, paragraph 15 requires that the financial statements present fairly the financial position, financial performance and cash flows of an entity. "...Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation:" Paragraph 32 further states that, "an entity shall not offset assets and liabilities or income and expenses unless required or permitted by an IFRS."

The following discrepancies where identified between the calculations performed by the actuaries on the Defined Benefit Plan and the amount recorded in the financial statements. Kindly refer to below table

No	Financial Item Description	Amount as per the AFS (R)	Amount as per the actuaries calculation (R)	Difference (R)
1	Return on plan assets	14 000 000	6 000 000	-8 000 0000
2	Exchange differences on foreign plans	-57 000 000	-49 000 000	-8 000 0000

As a result, the return on plan assets will be overstated by R 8 000 000.00 and Exchange Differences on the foreign plans will be overstated by R 8 000 000.00.

Internal control deficiency

Financial and performance management

The HOD accounting did not ensure that the post retirement fund was correctly disclosed on the financial statements, due to lack of detailed review of disclosure.

Recommendation

The HOD accounting should ensure the financial manager completeness the disclosure and the HOD performs the detail review of the disclosure made.

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Management response

Management comment on audit finding: Finding is noted and AFS disclosure will be updated accordingly.		
Management comment on internal control deficiencies: Finding is noted and AFS disclosure will be updated accordingly.		
Management comment on recommendation: Finding is noted and AFS disclosure will be updated accordingly.		
Remedial action: AFS disclosure to be updated before signing off of final AFS		
What actions will be taken:	By whom: Person: Michael Ascencao Position;	By when: 24 November 2017

Auditor's conclusion

Management comment is noted and they are in agreement with the finding. Will await the updated AFS to confirm adjustment has been made. Until adjustment is made amount will be included in the summary of unadjusted differences.

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106. Discrepancies noted on the data validation performed on employees at SAA Frankfurt office

Audit finding

The International Accounting Standard (IAS) 1, paragraph 15 requires that the financial statements present fairly the financial position, financial performance and cash flows of an entity. *"...Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation:"*

When performing a data validation on the employees at the SAA Frankfurt office, the following findings were identified:

1. One active member's date of birth was included in the valuation as 14 June 1967, whereas his correct date of birth was 14 September 1967.
2. The surname of one female employee has changed and the records used for valuation purposes have not been updated with the change of surname of the female employee.

The liability in respect of the individual identified in point 1 has been slightly overstated in the valuation report. A high level estimation and estimated that the overall liability of €26 485 483 should not be overstated by more than 0.02%. This translates into approximately €5 500.

In the number two above, the finding relates to a capturing of the surname on the records of the auditee and therefore it does not have any impact on the liability. Even though the impact is not material currently it could result in bigger errors in future is sufficient data validation is not performed by staff before sending the information to the actuaries to be valued.

Internal control deficiency

Leadership

The HOD: Finance did not exercise oversight responsibility in ensuring that alternative measurers are put in place in order for the auditors to obtain reasonable audit evidence on the existence of the employees.

Recommendation

- Management should ensure that the data requested is made available to the auditors.
- Alternatively funds must be made available in order for the audit team to travel to Germany to confirm the existence of the employees and inspect the supporting documents.

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Management response

Management comment on audit finding: The finding is accepted on the wrong birthday. The finding is not accepted on the wrong family name. The audit finding about the wrong family name of the other employee is not a real finding because the name change was in July 2017 and therefore not known at 31st March 2017. In the next actuarial report for 31st March 2018 the employee will be shown with his new name.		
Management comment on internal control deficiencies: The internal control deficiency is accepted about the birthday of the one employee. The internal control deficiency is not accepted about the wrong family name.		
Management comment on recommendation: The internal control deficiency is accepted about the birthday of the one employee. The internal control deficiency is not accepted about the wrong family name.		
Remedial action:		
What actions will be taken: - The wrong birthda will be corrected in the next actuarial report. - Necessary controls will be introduced for the next actuarial report and it will be ensured that this error does not happen again in the next actuarial reports.	By whom Person: Anneliese Stichweh Position Manager Finance/Personnel	By when: immediately

Auditor's conclusion

Management response is noted and they are in agreement with the finding. Even though the misstatement is immaterial and trivial, a significant internal control deficiency exist and thus the matter is still reported.

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Revenue

107. Incorrect classification of general ledger accounts in revenue and receivables

Audit finding

The PFMA section 55 (2)(a) states that the annual report and financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned.

The International Accounting Standard (IAS) 1, paragraph 15 requires that the financial statements present fairly the financial position, financial performance and cash flows of an entity. *"...Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation:"* Paragraph 32 further states that, *"an entity shall not offset assets and liabilities or income and expenses unless required or permitted by an IFRS."*

A. Cash and cash equivalents incorrectly classified as prepayments in other debtors

During the audit of prepayments, a subsection within trade and other receivables, we identified an inconsistency in the allocation of general ledger (GL) accounts relating to cash equivalents. The following bank accounts were included as prepayments whereas bank accounts that fulfill a similar function were included as part of cash equivalents. Upon enquiry to management, it was indicated that these accounts would be awaiting clearing to bank statements once cash or another form of payment were received at related stations:

GL account number	Current AFS classification	Item description	Amount (R)
640002	Prepayments	640002 Bank : SAA retail Sales Deposit Clearing (S/Bank)	20 581 895.78
640012	Prepayments	640012 Bank : Cape Town Pass. Deposit Clearing (S/Bank)	75 946.75
640042	Prepayments	640042 Bank : Durban Pass. Deposit Clearing (S/Bank)	30 778.17
640062	Prepayments	640062 Bank : East London Pass. Deposit Clearing (S/Bank)	(3 832.82)
640102	Prepayments	640102 Bank : Illovo Deposit Clearing (S/Bank)	7 400 868.26
640112	Prepayments	640112 Bank : Industry Travel Deposit Clearing (S/Bank)	4 741.55
640132	Prepayments	640132 Bank : J I A Pass. Deposit Clearing (S/Bank)	448 922.45
640152	Prepayments	640152 Bank : Pot Elizabeth Pass. Deep Clearing (S/Bank)	6 540.30
640182	Prepayments	640182 Bank : Tele Tkt Sales Deep Clng (S/Bank)	(7 928 048.54)
640192	Prepayments	640192 Bank : Tour Product Sale Deposit Clearing (S/Bank)	(946 877.84)
640222	Prepayments	640222 Bank : Voyage Deposit Clearing (S/Bank)	5 710.66
640232	Prepayments	640232 Bank : Bloemfontein - Cargo Deposit Clearing (S/Bank)	(39 247.13)
640242	Prepayments	640242 Bank : Cape Town - Cargo Deposit Clearing (S/Bank)	14 443.68
640252	Prepayments	640252 Bank : Cape Town Direct Sales Deep Clearing(S/Bank)	10 968.80
640282	Prepayments	640282 Bank : JIA - Cargo Deposit Clearing (S/Bank)	1 051 419.54
650012	Prepayments	650012 Bank : Accra Deposit Clearing (USD)	199 610.13
650022	Prepayments	650022 Bank : Accra Deposit Clearing (GHS)	34 753.34
650082	Prepayments	650082 Bank : Blantyre Deposit Clearing (MWK)	555 125.99
650084	Prepayments	650084 Bank : Blantyre Call Deposit Clearing	327 796.43
650190	Prepayments	650190 Bank : Dakar (Senegal) Citibank - XOF	9 215 259.51
650192	Prepayments	650192 Bank : Dakar Deposit Clearing Account - XOF	4 799.69
650231	Prepayments	650231 Bank : Frankfurt Deposit Clearing Commerzbank AG (	27 477.39
650252	Prepayments	650252 Bank : FT Lauderdale Deposit Clearing Citibank	2 280.31

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GL account number	Current AFS classification	Item description	Amount (R)
650302	Prepayments	650302 Bank : Harare Stanbic Deposit Clearing (USD)	(265 337.94)
650332	Prepayments	650332 Bank : Hong Kong Deposit Clearing	(445 502.05)
650342	Prepayments	650342 Bank : Kinshasa Deposit Clearing	(35 909 146.04)
650352	Prepayments	650352 Bank : Lagos Citibank Deposit Clearing (NGN)	(2 640 273.48)
650362	Prepayments	650362 Bank : Lagos Citibank Deposit Clearing (USD)	86 320.47
650372	Prepayments	650372 Bank : London Deposit Clearing	6 228.62
650422	Prepayments	650422 Bank : Lusaka Citibank Deposit Clearing Acc (USD)	72 668.56
650463	Prepayments	650463 Bank : Mauritius Currency Clearing Acc (ZA)	6 739 307.16
650511	Prepayments	650511 Bank : New York Dep.Cl Citibank(Cargo/JFK/Sales)	117 189.84
650582	Prepayments	650582 Bank : Sao Paulo Deposit Clearing Citibank	1 076 283.09
650590	Prepayments	650590 Bank : Sao Paulo Visa Deposit real Bank	2 299 990.54
650591	Prepayments	650591 Bank : Sao Paulo Bsp Deposit Boston Bank	35 424.69
650612	Prepayments	650612 Bank : Sydney Citibank Deposit Account	476 310.65
650702	Prepayments	650702 Bank : Uganda Deposit Clearing - USD	69 425.15
650732	Prepayments	650732 Bank : Windhoek Deposit Clearing - NAD	1 875 923.70
650842	Prepayments	650842 Bank : Angola Standard Bank Deposit Clearing (AOA)	(84 576 891.42)
650902	Prepayments	650902 Bank : Bank of Windhoek Deposit Clearing account	150 707.67
651912	Prepayments	651912 Bank : Livingstone Barclays Bank Deposit Clear(ZA)	(55 042.71)
651922	Prepayments	651922 Bank : Livingstone Barclays Bank Deposit Clear(USD)	58 696.25
652032	Prepayments	652032 Bank : Maputo Deposit Clearing (MZN)	170 607.59
652802	Prepayments	652802 Bank : Lusaka Citibank Deposit Clearing (ZMW)	329 550.26
653202	Prepayments	653202 Bank : Angola Standard Bank Deposit Clearing (AOA)	11 780.01
Total Amount			(79 234 446.99)

As a result, receivables disclosed in the AFS for the period ended, 31 March 2017 was understated by R79 234 446.99 and bank, cash and cash equivalents are overstated by the same amount.

B. Marketing incentive payments incorrectly classified to offset revenue

While auditing passenger revenue, it was noted that a marketing incentive account was set off against passenger revenue. The marketing incentive payments account includes i.e. expenditure incurred by SAA for digital billboard advertisements and retail incentive payments to travel agents for achieving certain pre-established targets set in the supplementary commission's agreements for flown revenue. The detail of this account is as follows:

GL account number	Current AFS classification	Item description	Amount (R)
914100	Airline Revenue	Marketing Incentive Payments	357 816 792.42

The impact of the above will be a R357 816 792.42 understatement of passenger revenue and commission and network charges in the financial statements.

C. Revenue recognition control accounts incorrectly classified to offset other income instead the related airline revenue accounts

During our audit of other income, we identified certain general ledger accounts which are set up as control accounts for passenger revenue. These control accounts would contain correctional entries made in instances where there was an over- or under allocation to related passenger revenue accounts. These accounts are therefore designed to offset the originally posted journal entries to prevent the potential overstatement or understatement of that form of revenue. The way however

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that these accounts are currently allocated in the AFS, causes offset against unrelated other income accounts. Please refer to the table below for details:

GL account number	Current AFS classification	Item description	Amount (R)
810152	Other income	EMD Service Related Revenue	-766 985.82
810154	Other income	EMD Refund Gain & Loss	-8 959.60
810158	Other income	EMD Over & Under Utilization	291 637.81
810515	Other income	Sundry Income : ADM/ACM Gain & Loss - RAPID	693 182.42
810573	Other income	Sundry Income : Rapid Commission Based Adjustments	15 193 362.32
810575	Other income	Sundry Income: RAPID Interline Losses/Gains	304 329 821.54
810578	Other income	Sundry Income: RAPID Sales Based Adj.	9 205 801.91
810584	Other income	Sundry Income : Residual value on ticket closure	193 195 979.26
			522 133 839.84

As a result, the other income is understated by R522 133 839.68 and passenger revenue overstated by the same amount.

Internal control deficiency

Financial and performance management

The Group Financial Accountant did not ensure that the classification and allocation of the SAP general ledger accounts supports accurate disclosure in the AFS. This is due to process deficiencies in the charter of general ledger accounts not being specifically allocated to AFS disclosure items.

Recommendation

The following is recommended as corrective and preventative controls:

- The Group Financial Accountant should ensure that the allocations of accounts are consistent to transaction of similar nature.
- Allocation and assessment of ledger account contents should be communicated to the relevant ledger account administrators or head of departments prior to the preparation of the AFS to ensure that GL accounts are still relevant in the sections to which they were previously allocated.
- The abovementioned accounts should be re-allocated to reverse the potential misstatements noted.
- Where such accounts were similarly incorrectly classified in previous financial reporting periods, a retrospective error correction should be disclosed in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors.

Management response

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Management comment on audit finding:

PART A

As per Ernest and Frank, these accounts should be allocated to bank and cash, will move accounts to bank and cash. Prior years will be restated as necessary in terms of IAS 8.

PART B

As per Vivek, this account should be part of commissions and network charges. Will move account to commissions and network charges and restate prior years accordingly in terms of IAS 8.

__Part C:__ *Revenue recognition control accounts incorrectly classified to offset other income instead the related airline revenue accounts*

The accounts listed in the audit finding have been set up in 2006 when SAA implemented the RAPID system and the purpose was to identify the adjustments in respect of fare, commission and taxes during the processing of ticket transactions. Main aim was to eliminate these adjustments through proactive interventions to prevent errors and system generated variances. No budget was created for these adjustments. Following table indication that RAPID system was stabilized 3.5 years after implementation

Pax/Corp 1010 Trial Balance extract	**4/06-3/07**	**4/17-3/08**	**4/18-3/09**	**4/09-4/10**
	R'm	**R'm**	**R'm**	**R'm**
Passenger revenue-interface	(9 150)	(15 682)	(16 427)	(13 815)
Rev accrual-added to interface	(5 494)	(399)	(231)	(49)
Rev adjustment	192	14	(168)	73
Total pax rev excl fuel levy	**(14 452)**	**(16 067)**	**(16 825)**	**(13 791)**
Accrual/Estimations	38.0%	2.5%	1.4%	0.4%
Adjustment of estimations	-1.3%	-0.1%	1.0%	-0.5%
__**RAPID Processing Adjustments**__	__**(45)**__	__**805**__	__**150**__	__**(38)**__
Sales (pax/mco&pta) adjustments	(33)	281	(27)	(3)
High residuals (APRA calc issue)	n/a	n/a	n/a	n/a
Interline	0	496	174	5

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Refunds	(12)	27	3	(40)
Total RAPID related adjustments	**147**	**819**	**(17)**	**35**
Ttl RAPID Adj as *% of ttl pax rev*	-1.0%	**-5.1%**	0.1%	-0.3%
High residual/ttl pax rev				
Interline adj/ttl pax rev		*-3.1%*	*-1.0%*	*0.0%*
Backlogs cleared and RAPID redesign project finalised after 3,5 years				
Mercator contractor costs incurred to eliminate backlogs & stabilise system	10	14	6	1
Additional cost incurred				**31**

These adjustments were always reflected as other income as it related to more than just passenger revenue but also impacted interline commission and ticket taxes.

The Amadeus Passenger Revenue Accounting (APRA) system implementation started 1May2015 and is still in progress. Phase 1 of implementation expected to be finalized end September 2017. SAA has send a legal letter to Amadeus to resolve the outstanding reconciliation defects and reduce the system errors to an acceptable level before end September2017.

In addition the SAA APRA Project Board has been requested to allocate a specialist project manager to this project to assist with the monitoring of the Amadeus deliverables and ensure the system is stabilized by end September 2017. Same process followed with RAPID stabilization.

SAA is continuing to use the accounts listed in the audit finding and has added an APRA unique adjustment for 'Residuals resulting from the Proration exercise'.

Purpose still to identify the adjustments in respect of fare, commission and taxes during the processing of ticket transactions. Main aim still to eliminate these adjustments through proactive interventions to prevent errors and system generated variances. No budget was created for these adjustments.

Following table indication of RAPID final status with very low adjustments required and impact of APRA implementation

Pax / Corp 1010 Trial Balance extract	**4/14-3/15**	**4/15-3/16**	**4/16-3/17**	**4/17-6/17**
	R'm	**R'm**	**R'm**	**R'm**
Passenger revenue-interface	(17 270)	(17 023)	(17 578)	(3 861)
Rev accrual-added to interface	(11)	(136)	76	

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				(0)
Rev adjustment	(17)	13	(1)	1
Total pax rev excl fuel levy	**(17 298)**	**(17 146)**	**(17 504)**	**(3 860)**
Accrual/Estimations	0.1%	0.8%	-0.4%	0.0%
Adjustment of estimations	0.1%	-0.1%	0.0%	0.0%
RAPID/APRA Processing Adjustments	**(63)**	**291**	**504**	**86**
Sales (pax/mco&pta) adjustments	(32)	11	25	(6)
High residuals (APRA calc issue)	-	108	193	60
Interline	24	189	304	32
Refunds	(55)	(17)	(18)	0
Total RAPID/APRA related adj	**(79)**	**303**	**504**	**87**
Ttl Adjustments as *% of ttl pax rev*	0.5%	-1.8%	-2.9%	-2.3%
High residual/ttl pax rev		***-0.6%***	***-1.1%***	***-1.6%***
Interline adj/ttl pax rev	*-0.1%*	***-1.1%***	***-1.7%***	***-0.8%***
		APRA started 1May15		

Increased year on year but reducing in first 3 months of new financial year, except for 'Residual' adjustments which are increasing and we are investigating to find an acceptable resolution.

The investigation is slower than expected and the specialist project manager once allocated to this project will be requested to prioritise this review process which require assistance from SAA IT to provide the required reports to fast track the investigation and re-allocation of adjustments to passenger flown revenue at a route level.

We are not in agreement with the finding that '*The way however that these accounts are currently allocated in the AFS, causes offset against unrelated other income accounts'.*

Note 6 OTHER INCOME in the SAA financial statements (page 114 AFS ye 3/16) in respect of 'Other recoveries' where these accounts are allocated has an additional note **Other recoveries comprise income associated with ticket cancellations, inter airline processing offsets and other miscellaneous income'*

These adjustments in most instances are the result of interline processing outcomes and as noted is

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not only related to passenger revenues. It is not possible to re-allocate these adjustments to specific SAA route revenue accounts. The new Residual adjustments has a direct impact on passenger revenue but at present without the required reports cannot be re-allocated to the flight sectors that are over stated.

It is evident from the APRA Task Manager reports that the interline adjustments impact not only passenger revenues. Refer to extract from June 2017 Interline Claim processing task manager report below that indicate accounts impacted:

Interline Task Subtype codes	Acc's affected	Count of tasks
1C - ISC Reclaim	Commission	4 581
1A - Valuation Error	Fare	4 220
1B - Fare Reclaim	Fare	3 484
1G - Tax Reclaim	Taxes	3 213
2A - Unmatched Sale	Payment	1 237
Start Correspondence	Fare,isc &/or tax	951
1E - UATP Reclaim	Payment	264
Inward	Fare,isc &/or tax	132
5Z - Others	Fare,isc &/or tax	101
2C - Endorsement Required	Fare,isc &/or tax	44
2D - Billing Outside Time Limits	Fare,isc &/or tax	26
5B - FIM Rejection	Fare,isc &/or tax	15
2B - Duplicate Billing	Fare,isc &/or tax	9
2F - Void Coupon Billing	Payment	3
OUTWARD	Fare,isc &/or tax	2
Validation	Fare	1
2H - Missing Supporting Documents	Fare,isc &/or tax	1
Interline tasks outstanding 18 July17		**18 284**

Management comment on internal control deficiencies:

Part A & B: Refer commentary above

Part C: *Revenue recognition control accounts incorrectly classified to offset other income instead the related airline revenue accounts*

Not possible to allocate to specific accounts affected by APRA processing adjustments without required reports that will be developed once APRA Phase 1 is closed and a dedicated project

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manager is allocated to Phase 2 of the project Nature of adjustments noted in SA AFS		
Management comment on recommendation: **Part A & B:** Noted – will review in light of above. **<u>Part C:</u>** *Revenue recognition control accounts incorrectly classified to offset other income instead the related airline revenue accounts* Not possible to allocate to specific accounts affected by APRA processing adjustments without required reports that will be developed once APRA Phase 1 is closed and a dedicated project manager is allocated to Phase 2 of the project. A reallocation of the total amount of R522.1m in the general ledger and AFS from miscellaneous revenue to passenger revenue will result in a misalignment of SAA Route Revenue Reports as this amount cannot be allocated to specific routes. Miscellaneous revenue is allocated to routes every month taking into account number of passengers uplifted and ASK's of every route. Consistent allocation method for decision making		
Remedial action : **Part A & B:** Changes will be made to AFS and TB in light of the above. **<u>Part C:</u>** *Revenue recognition control accounts incorrectly classified to offset other income instead the related airline revenue accounts* Not possible to allocate to specific accounts affected by APRA processing adjustments without required reports that will be developed once APRA Phase 1 is closed and a dedicated project manager is allocated to Phase 2 of the project The most significant adjustment (Residuals) resulting from the proration exercise that impact on passenger revenue will be prioritized to be resolved. **Re-allocation journal to give effect to this audit finding will be submitted to SAA Financial Accounting Department for final assessment and if processed notes in AFS will be amended to give effect to this change**		
What actions will be taken: Refer commentary above	By whom Person: M Ascencao and G Mellett Position HOD RevAcc	By when: Part A & B – Prior to submission of AFS Part C - Mid Sept 2017

Auditor's conclusion

Part A and B:

Engagements were held with management and differences were clarified. Rectified disclosures were verified in the AFS submitted on 31 October 2017 and this is considered resolved.

Part C:

Management's response is noted and additional engagement were held with management to identify similar accounts that contain entries rectified by journals posted to the mentioned accounts. We've agreed with management that the accounts relating to revenue items were reclassified in the AFS to resolve remaining differences. The finding is therefore adequately addressed.

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108. Prescribed and unutilised taxes aren't recognised with other prescribed tickets

Audit finding

The International Accounting Standard (IAS) 1, paragraph 15 requires that the financial statements present fairly the financial position, financial performance and cash flows of an entity. "*...Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation:*" Paragraph 32 further states that, "*an entity shall not offset assets and liabilities or income and expenses unless required or permitted by an IFRS.*"

During our audit of other income, it was noted that the revenue accounting recoveries account which contains the prescription of unutilised ticket taxes. This account also includes recoveries relating to the fuel levy that are charged to other airlines that have no YR agreement with SAA. Concepts applied to the prescription of these taxes are similar in nature than those applied to prescribed airline tickets although the rules and period may differ. The balance of this account is made up of the following:

Account	Text	Amount
810052	Unutilised Tax release for other airline sectors that has no fuel levy tax agreement with SAA	149 787 295.15
810052	Unutilised tax liability release & realignment according to the FSA as at March 2017	314 254 292.33
Total		**464 041 587.48**

As a result, the other income is overstated by R464 041 587 and airline revenue from prescribed tickets understated by the same amount.

Internal control deficiency

Financial and performance management

The group financial accountant and head of revenue accounting did not ensure that the classification and allocation of the SAP general ledger accounts supports accurate disclosure in the AFS. This is due to process deficiencies in the charter of general ledger accounts not being specifically allocated to AFS disclosure items.

Recommendation

- The group financial accountant should ensure that the allocations of accounts are consistent to transaction of similar nature.
- Allocation and assessment of ledger account contents should be communicated to the relevant ledger account administrators or head of departments prior to the preparation of the AFS to ensure that GL accounts are still relevant in the sections to which they were previously allocated.
- The abovementioned accounts should be re-allocated to reverse the potential misstatements noted.

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- Where such accounts were similarly incorrectly classified in previous financial reporting periods, a retrospective error correction should be disclosed in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors.

Management response

Management comment on audit finding: SAA Management does not agree with finding that ticket taxes received in advance not utilised reflected as 'other income' should be added to '***Release from prescribed tickets'*** reflected as 'airline revenue' based on statement in finding that '*Concepts applied to the prescription of these taxes are similar in nature than those applied to prescribed airline tickets although the rules and period may differ*' From a SAA perspective the concepts are derived from rules being applied based on SAA Conditions of Carriage (contract between SAA and the Customer who bought the ticket). In respect of '***prescribed airline tickets'*** the tickets prorated fare values are linked to specific SAA or foreign operator flight numbers and when no service is rendered and tickets are not re-issued with new flight dates or not refunded this airline revenue is taken to the income statement as airline revenue In respect of '***ticket taxes received in advance not utilised'*** SAA could never link the ticket tax values to specific SAA or foreign operator flight numbers and could not determine when services are not rendered or tickets are not re-issued with new flight dates or not refunded. The potential excess ticket taxes were estimated on a conservative basis and taken to the income statement as other income. As from April 2017 with the current status of APRA implementation it is now possible to link taxes to flight numbers. Rules and period of tax release differ from fare release. Allocation can be revisited going forward		
Management comment on internal control deficiencies: SAA Management does not agree with finding that the group financial accountant and head of revenue accounting did not ensure that the classification and allocation of the SAP general ledger accounts supports accurate disclosure in the AFS. As highlighted above from a SAA perspective the concepts that support the classification and allocation of the SAP general ledger accounts are derived from rules being applied based on SAA Conditions of Carriage (contract between SAA and the Customer who bought the ticket).		
Management comment on recommendation: Allocation can be revisited going forward as tax releases can be determined with accuracy on same basis as fare releases		
Remedial action : No remedial action required. Will however before the financial statements are finalized review the specific allocation and discloser notes.		
What actions will be taken:	By whom Person: Position	By when:

Auditor's conclusion

Management's response is noted the corrected allocation were verified in the AFS submitted on 31 October 2017. This finding is therefore considered resolved.

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109. Deficiencies in the internal controls for loading of special proration agreements on APRA

Audit finding

Section 57 (a) of the PFMA states that an entity 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.

South African Airways (SAA) has various Special Proration Agreements (SPAs) for both inward and outward service extension partnerships with other airlines. These agreements govern the amount recoverable or payable from\to other airlines if a passenger's ticket contain destinations to which SAA does not fly directly to but SAA has issued the ticket or other airline does not fly directly to and they have issued the ticket. The proration calculations are guided by the content and tables contained in SPA agreements. These agreements have different rules and conditions that would apply in settling accounts through the IATA settlement processes.

One of the key features in the Amadeus Passenger Revenue Accounting system (APRA), is to validate the proration of sectors (the process of dividing the ticket fare to the different sectors) as done by the global distribution systems (GDS) upon issuing of the ticket. If the proration is not in alignment with the conditions loaded in to APRA, a task would be raised and manual intervention would be required. The aim of this is to prevent SAA from overpaying for sectors uplifted by other airlines on a SAA issued ticket ("083" ticket), or under recovering revenue from other airlines for passengers uplifted on another airlines ticket stock (non "083" tickets).

During the audit, we selected a number of SPAs and traced some of their conditions to APRA to ensure that it was accurately loaded into the system to allow for the validation rules to effectively apply. Below is a listing of exceptions noted between the loaded rules and the SPA agreements:

No.	SPA Airline (Agreement number)	Start Date	End Date	Exceptions noted
1	CA-999 (AGREEMENT NO SA-CA/008)	01-Aug-15	31-Jul-16	• For the JNB to RCB route & vice versa for booking cases "L" with an amount of USD 60 as per the agreement was inputted in the APRA system at a value of USD 59 , this was rectified on the 23rd of June 2016.
2	TM-068 (SA/TM AGREEMENT NO SA-TM/004)	01-Feb-16	31-Jan-18	• The SPA agreement stipulates that it will not apply to SA code share flight series 2000-2999 and 7000-7949 except 7154-7162 which will apply under paragraph 11.7. On APRA it has been noted that flight range 2000-2999 were not excluded in the system
3	AR-044 (Agreement NO SA - AR/002)	01-Sep-16	31-Aug-17	• Amount on APRA The following exceptions were noted • For Route BUE –ROS with a minimum amount of $109 per the signed contract however per APRA there were two amounts of $99 and $109 for class W with the same business rules resulting in the concern that how will the system distinguish between the two amounts. • For Route BUE –SFN with a minimum amount of $129 per contract however on APRA system the amount of $135 for class W which is more by $6

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No.	SPA Airline (Agreement number)	Start Date	End Date	Exceptions noted
				• For Route BUE –SFM with a minimum amount of $119 per contract however per APRA there is an amount of $125 for class S which is more by $6. • Flight range The SPA agreement stipulates that it will apply to SA code share flight series 2000-2999 and 7000- 79999 which will apply under paragraph 14.7. It was noted that 2000-2999 & Flight range 7000-7999 was excluded in the system.
4	UA-016 (SAUA184314)	01-Jun-16	31-May-17	• The agreement stipulates on that market geography; journey between PTC1 and PTC 2/3 which include participation by UA or SA as marketing or operating carriers. SA or UA may be the trans- Atlantic operating marketing carrier with the SA carrier operating sector. In APRA confirmed with Sandra Sengo who confirmed that this could not be codded in the system an exception has been noted. • Involuntary rerouting cannot be loaded into APRA an exception noted.
5	MK-239 (AGREEMENT NO SA-MK/016)	01-Jul-16	30-Jun-17	• The agreement states that involuntary rerouting the billing will be as per table 1 or 2 as appropriate lowest RBD for both economy and business class. This could not be coded in the system and would not validate these entries.
6	QF-081 (AGREEMENT SAQF SAB18)	01-Feb-16	31-Jan-17	• The agreement permits the involuntary reissue of tickets in accordance with IATA resolution 735d. On APRA it was noted that the system was enabled for involuntary tickets to be reissued for the JNB -SYD route and JNB-PER routes only.
7	LH-220 (Agreement no lb-lx-so-son)	01-Oct-15	31-Dec-49	• FIMS are settled as per the value per mile as per the agreement confirmed with Sandra Sengo who stated that these were being done manually and cannot be coded in the system.
8	JJ-957 PZ-692 (AGREEMENT NO SA/JJPZ-002)	01-Mar-16	28-Feb-17	• Inspected the agreement which states unpublished fares from table 1(domestic within Brazil); table 2 (within South America), table three (other International sectors) were stipulated to be nett one way, however an interline service charge of 9% was included making all amounts incorrect in the three tables. • Further noted that the SPA for Domestic within Brazil to the booking class O for an amount of 143 in the agreement was incorrectly coded as 149 on APRA system. • Exception noted on the route JNB-ELS booking class S with an amount of 82 USD per agreement was coded as 88 USD in the Apra system. • FIMS are settled as per the value per mile as per the agreement confirmed with Sandra Sengo who stated that these were done manually and not coded in the system.
9	HX-851 (AGREEMENT NO SA-HX/004)	01-Dec-16	30-Sep-17	• On APRA system that SA code share flight series 2000-2999 were excluded as the flight range is not in the agreement. This exclusion is not stipulated in the agreement.

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No.	SPA Airline (Agreement number)	Start Date	End Date	Exceptions noted
10	ET-071 (AGREEMENT NO SA-HX/004)	01-Mar-16	14-Oct-16	• For the code share it was noted that through fare tickets for passengers travelling via ADD were applicable. On the APRA system the route ADD-BKO class V of has an amount of $310 however there an amount of $190 was applied. This is only applicable to through fares.
11	BA-125 IB-075 (EMAIL NEW LEVELS FOR JNBMQP/JNBUTN)	15-Nov-16	31-Mar-17	• Appendix A of the agreement states that: - This agreement will not apply to (c). IB flight series 0050 - 0100, 0150 - 0324, 1250 - 1305, 1307 - 1309, 1312 - 1314, 1317 - 1320, 1322 - 1325, 1327 - 1330, 2310 - 2381, 2382 - 2399, 4936 - 4945, 4946 -4949 ,4958 - 4999, 4000 - 4599, 5000 - 5999, 7000 - 7439, 7481 - 7489, 7633 - 7669, 7686 - 7809, & 7830 - 7999. - IB flight series 5000 - 5999 were not excluded from the application of this agreement on APRA system.
12	G3-127 (AGREEMENT NO SA-G3/003)	01-May-16	31-Dec-49	• Par 9.2 of the agreement stipulates that, for the fare products as described in item 1.2.2 interline service charge of 3% shall apply. - It was noted that the interline service charge of 3% on the APRA system was not coded as per the agreement.
13	SW-186 (AGREEMENT NO SA-SW/008)	01-Jun-16	31-May-17	• Par 11.7 of the agreement states that: - The agreement will not apply to SA code share flight series 2000 - 2999 and 7000 - 7950. On APRA system it was noted that flights range exemptions are as follows: - SA flight series 2000 - 2999 and 7000 - 7950 has not been excluded
14	QR – 157 (Agreement no SA - QR/005)	15-Feb-13	30-Apr-17	• From the work performed it was noted that: - Prorate amount for the JNB-HRE, booking class V does not agree with the amount on the APRA system, thus JNB-HRE, Booking class V is $110 , amount on APRA system is $100, amount does not agree to the amount on APRA system. • SA flight series 2000 - 2999 has been exempted on APRA system; this is not as per the agreement. • QR flight series 3500 - 3999, and 6000 - 6999 has been exempted on APRA, this is not as per the agreement.

The above results in the incorrect billing between the airlines and also SAA might under collect revenue from other airline which is due to SAA due to incorrect capturing of agreements. SAA can also over pay the airline due to errors made during the capturing of the agreements on APRA system.

IATA has implemented a penalty amount based on the rate of rejections on the settlement process between airlines. With SAA having incorrect coding in APRA this will increase the possibility of SAA paying penalty fines as other airlines would be rejecting the amount billed or claimed by SAA.

To consider the additional risk that might arise from these control deviations identified, we obtained a listing of all interline routes and utilisation that contributes more than 5% in volume of passengers uplifted through interline agreements. This was done on an overall interline partner basis and per

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booking class. We then inspected the system for the correct capturing of these specific routes and classes on the additionally selected SPAs. No exceptions were noted on these high frequency selections.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions to ensure that SPA contracts detects incorrect proration. This is due to the shortage of resources within the revenue department to effectively test and review captured SPA agreements.

Recommendation

- A contract management monitoring system should be implemented for all changes or amendments, extensions, cancellations and terminations by the SAA commercial department. This monitoring system should notify and allow the revenue department access to agreements on a timeously basis.
- It is recommended to management to have a subsequent review of all the rules before a SPA is activated for use in the APRA system. An audit trail of capturer and reviewer should be kept and monitored. Ideally, the captured SPA should be available to both revenue and commercial department in a simulation mode to test the overall outcome of contractual arrangements based on a historic set of tickets.
- A detailed review by revenue management should be implemented to verify that any tasks requested from the service provider have been executed accordingly per the service level agreement for example the uploading of Prorate Factor Miles.
- For the routes that were captured incorrectly on APRA, it is recommended that management subsequently updates them for the contracts that are still valid so that unnecessary creation of tasks and potential overpayments to other airlines are avoided.

Management response

Management comment on audit finding: SAA is in agreement with '*listing of exceptions noted between the loaded rules and the SPA agreements'* Interline department commented on each finding and addressed errors that were detected and also indicated transaction volumes affected by the specific interline agreement. In respect of involuntary re-routings and Flight Interrupt Manifests (FIM) noted in 5 of the 14 audit findings the abnormal nature of these transactions must be take into account as FIM's are phased out (target date was 2016 not have any FIM transactions in the airline industry). These transactions are caused by an airline not being able to operate the flight and transfer passengers normally under time pressure to other airlines to assist to get passengers to their final destinations. IATA has not yet implemented a penalty amount based on the rate of rejections on the settlement process between airlines. It is a new IATA initiative to reduce errors that impact on airlines cash flows and will be implemented within the next 5 years. Airlines receive quarterly feedback from IATA showing trends against other airlines in order to monitor progress to reduce errors. Report available on request. SAA error rate reduced from March 2016 but is still too high Outward billings (Other airline reject SAA claims) Mrch16 16.21% Mrch17 15.79% (global 6.24%) Inward billings (SAA reject other airline claims) Mrch16 10.35% Mrch17 8.32% (global 6.24%)
Management comment on internal control deficiencies: Management has some controls in place to code and review SPA but can currently not cover all

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reference tables code changed. Most significant control at present is to verify all outward billings that reflect lower than expected billing values to prevent under billings that will cause revenue loss. Erroneous higher values not detected and cause rejections by other airlines as reflected in IATA statistics. Interline audit functionality forms part of the APRA Phase 2 implementation that has started with testing of the required functionality. All outward billings will be verified to detect under and overbillings before invoices are send to the IATA Clearing House to be settled. Errors in APRA reference tables code will therefore also be detected for correction.
Management comment on recommendation: SAA agrees with recommendations. Interline department already monitor interline agreements termination dates and notify Commercial Department to action extensions or ensure new agreements are finalized with enough time to code the changes. 1 of 3 Quality Assurers (QA's) in Interline department resigned impacting on ability to verify all new or changed interline agreements coding. Remaining 2 QA's monitor interline adjustments that result from interline billing errors and do spot checks on code where possible. It must be noted that SAA has more than 100 interline agreements and some of the agreements has more than 1000 rules to be coded making it almost impossible to verify each rule being coded. Top 20 airlines generating 80% of interline transactions are interrogated and verified as best possible.
Remedial action : Interline audit functionality being implemented will improve verification process An interline audit by interline specialist (external service provider) of SAA acceptance of other claims and rejections will also be reinstated as part of APRA phase 2 implementation. This was done by Aviation Service Ireland (ASI) whose contract expired and was not renewed when new system was implemented. Lower than global rejection rate by SAA of other airline claims as at end June 2017 (5.71% vs global 6.04%) to be verified.

What actions will be taken:	By whom SAA Interline Department, Revenue Accounting Person: Felicity Sekoto Position: Manager Interline & Reference Tables	By when: APRA Phase 2 project to be in place in September 2017 and deadline for finalisation to be set for March 2018

Name: George Mellet
Position: HOD Revenue Accounting
Date: 8 August 2018

Auditor's conclusion

Management's response was noted and agrees with the finding, internal control deficiency and the recommendations. This finding will be followed up during the 2017/18 financial period audit.

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110. Internal control deficiencies identified in the approval and loading of airline fare prices

Audit finding

The PFMA section 51(1)(a)(i) states that an accounting authority for a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control and section 55(1)(a) further requires that full and proper records of the financial affairs of the public entity is kept.

During the planning stages of the audit of revenue for SAA, we've assessed the process on which airline fare prices are determined and captured on the APTCO system for uploading to the Global Distributions Systems (GDS).

It was noted that prior to effecting fare changes on ATPCO, there is no evidence that the pricing department of SAA keep verifiable audit trail as evidence that senior management reviewed and approved fare changes before captured fares are published through APTCO. The only form of approval that we understood is taking place is based on email correspondence between senior management and pricing specialists but the inconsistency and unavailability of this information did not assist in confirming adequate design and implementation of internal controls.

The above internal control deficiency is due to lack of documented pricing policy and descriptive process which defines roles and responsibilities within the commercial department and pricing unit. Policies and procedures would ensure that a network of preventative and detective internal controls are set to provide management assurance on the protection of revenue streams through adequate airfare pricing. This might result in significant loss of revenue and potential onerous tickets being sold where the cost of flying passengers might exceed the receipts for tickets sold. The shortfall in a verifiable review process further limits the accountability of individuals involved in the air fare pricing process for accurately capturing air fares and to ensure that SAA remains a relevant market competitor.

Internal control deficiency

Leadership

The head of commercial did not establish and communicate policies and procedures around pricing to enable and support the execution of internal control objectives, processes and responsibilities. This is due to the instability in leadership in the position as head of the commercial department.

Recommendation

Policies and procedures should be developed and approved and internal controls that address the following matters should be implemented:

- Establishing a delegation of authority for approving high level ranges of fare prices as well as for changes made within the high level fare ranges. Implement proper electronic or manual recordkeeping of this process.

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- Assigning responsibility of senior management within pricing to approve all fare pricing changes loaded to ATPCO whereby an audit trail for approval is either digitized or manually filed.
- Define roles and responsibilities for independent individuals to review the loading of fares on APTCO prior to publishing and also keeping record and monitoring these reviews.

Management response

Management comment on audit finding: In the environment we are in it is impossible that the Senior Management approve all fares and rule changes. These responsibilities are distributed to the respective markets Pricing Specialists. These specialists' responsibilities are to ensure that SAA is and remains competitive. This is their job and reason why they are appointed. Response times back to the market are critical in the Pricing environment and long delays in getting approvals will be costly to SAA. The fact that we are dealing with different time zones further put pressure on approval process as suggested. ATPCO tracks changes by username / sign on code so it easy to identify who made any changes in be that legally or illegally.
Management comment on internal control deficiencies: Within Pricing, Proration and Interline Agreements, we have 24 process maps which were shown to the audit Team but copies could not have been provided as it was jointly created between SAA and https://protect-za.mimecast.com/s/DLemBOTqJM1h7SekelaXabiso. As far as I am aware, this request did not take place by AG. We have copied one of the key process maps for your ease of reference (page 6) to indicate to you that these matters are not taken lightly. Therefore, the evidence we have is that of e-mail correspondence between the respective markets / areas and key Pricing specialists. For your ease of reference we have attached the ongoing and draft Domestic Pricing Policy / Guidelines document. International and Regional is based on similar guidelines but is still being updated with market intel and competitor behaviors.
Management comment on recommendation: **Point 1.** The reality of the master data, using one example area, Europe – Africa has 46 950 published fare records. The private fares are around 16 000, let alone fare by rule which is a discount off published fares or add-on constructed fares. As mentioned before, the pricing specialists give the instructions of what the pricing analysts must file; and this is checked by the Specialists again thus ensuring that segregation of duties occurs and errors are prevented however, they can't print all the activities but usually check the "trunk" JNB route, inbound or outbound….or both depending on the action taken. If this was true as an amount for all the other areas, you can multiply the activity expected of us by 5. **Point 2.** Due to point 1 above, point 2 will remain a challenge. However, if and when the Specialist is unsure of the level to file as it may be deemed below required levels, the Specialist will contact the respective M3 Managers and if they are unsure or uncomfortable with the decision it will be escalated to the HOD which ensures an additional level of checking. It is important to note that depending on the market action required, key SAA managers or RGM's are consulted in the process. **Point 3.**

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Roles and Responsibilities are described in the respective JD's. This however will be updated according to the new restructuring and further consultation with the HOD RM & Pricing.
Kindly note the remedial action below.

Remedial action :

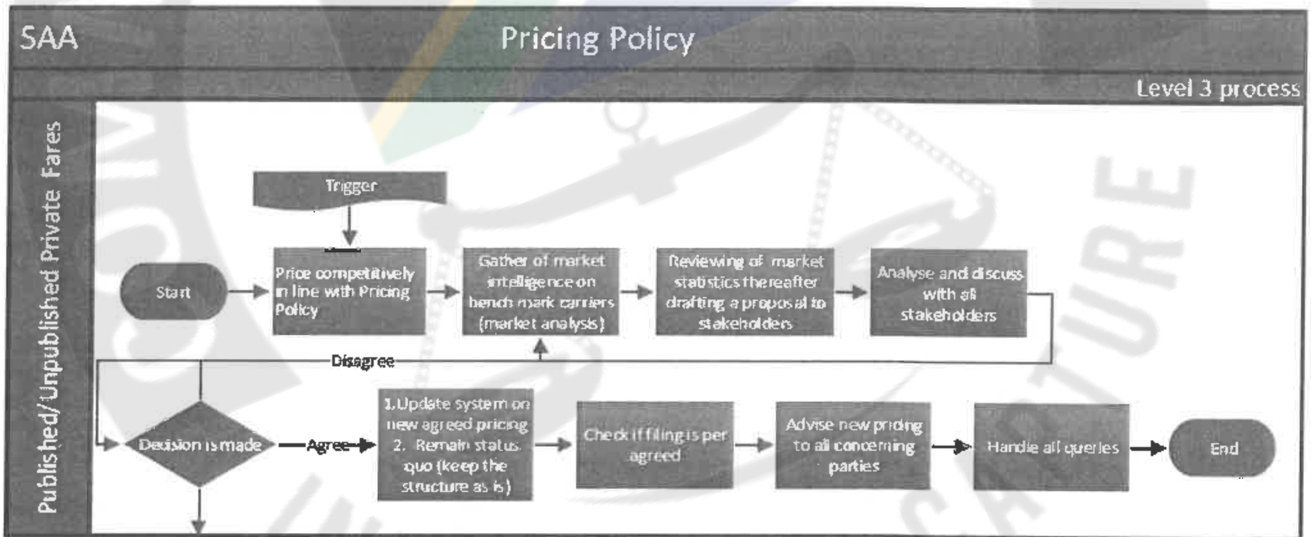
The Pricing Team is under staffed and during the restructuring process it was identified that Pricing can't file fare and rules and evaluate, set and file prices worldwide. The organogram contains a separate "Distribution" department head up by an M3 which will solely be responsible for all SAA distribution of fares, rules, baggage, YR, Ancillary, Voyager and regulated Taxes.

This will mean that the filing instructions will come from Pricing to Distribution and they will action the instruction. Distribution will file, test, report back to Pricing that it is filed and that it auto price as intended. This may provide more comfort that the Pricing department will not need to file any fares or rules and that only distribution can action it. The Distribution department is in the process of filling the vacancies and setting up the necessary roles and responsibilities between Pricing and Distribution (do's and don'ts).

Attached is an ATPCO health check report done on SAA which indicates the skill we have in ATPCO (self-taught) and how high we are rated by ATPCO.

What actions will be taken:	By whom: RM & Pricing Support Manager	By when: End of 2017
Rules & Responsibilities for new Team to be defined by Pricing / RM & Pricing Support Manager	Person: Celiwe (Sithole) Mhlungu Position: RM & Pricing Support Manager	

Name: MG van Niekerk
Position: Manager Pricing & RM Domestic
Date: 10 May 2017



ATPCO SA Data Assessment and Recc

Auditor's conclusion

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Management's comment is noted, and the change in structure is understood to ensure segregation of duties exists and independent reviews are performed. It is of utmost importance that the pricing department keeps record, whether electronically logged or in manual form, of reviews performed to allow for an audit trail of process controls.

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Cargo revenue

111. Material misstatements relating to completeness, accuracy and occurrence of the reported cargo revenue figure

Audit finding

Section 51 (1) (a) of the Public Finance Management Act states that "an accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control ".

The PFMA section 55 (2)(a) also states "that the annual report and financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned."

The International Accounting Standard (IAS) 1, paragraph 15 requires that the financial statements present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.

The Cargo division records all revenue on the I-Cargo system. The reports on I-Cargo are then loaded to SAP, with the recorded transactions on SAP used for financial reporting.

When performing tests confirming whether the data sitting on both systems (I-Cargo and SAP) agree, the team identified material differences relating to the following:

- Not all transactions and events that should have been recorded to SAP have been recorded. The difference on the transactions sitting on I-Cargo that did not interface with SAP was quantified to R 49 220 546.28. (*Refer to Annexure A for detail*)

- Not all transactions and events that have been recorded have occurred and/ pertain to the SAA. The difference on the transactions recorded on SAP that could not be traced back to I-Cargo was quantified to R 130 167 515.94. (*Refer to Annexure B for detail*)

- Not all amounts and other data relating to recorded transactions and events have been recorded appropriately. The difference on the recorded invoice amounts siting on I-Cargo and SAP was quantified to R 10 320 732.33. (*Refer to Annexure C for detail*)

This will have an impact on the completeness, accuracy and occurrence on the reported cargo revenue figure.

Internal control deficiency

Financial and performance management

The Chief Financial Officer: Cargo did not:

- Implement controls over daily and monthly processing and reconciling of transactions on the Cargo system and SAP

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- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

The Chief Financial Officer: Cargo should:

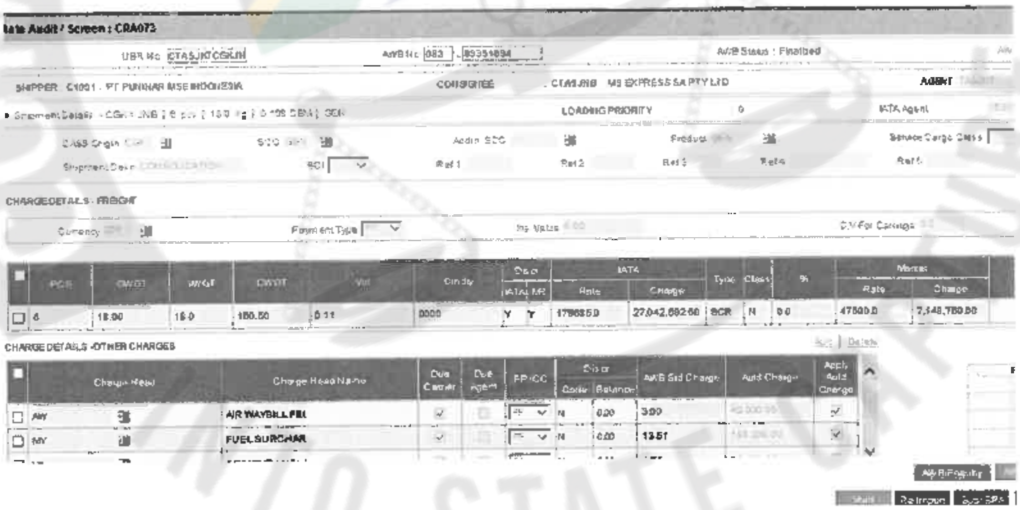
- Implement controls over the daily and monthly processing of transactions at operations level and periodic reconciliations with SAP.
- Management should ensure that regular reconciliations are performed between the I-Cargo system and SAP at a transaction level. This will ensure that all transactions sitting on I-Cargo have been posted to SAP, the transactions are posted at correct values and the transactions posted on SAP have occurred and relate to the current flown Cargo.

Management's response

Management comment on audit finding:

Management comment are provided below each of the following material differences identified by the auditor:

- Not all transactions and events that should have been recorded to SAP have been recorded. The difference on the transactions sitting on I-Cargo that did not interface with SAP was quantified to R 49 220 546.28.
    - The amount identified as R 49 220 546.28 is not a ZAR amount, but a total of all AWB amount in its base currency. As an example, the R 49 220 546.28 identified includes AWB 083-89351894 with a total of 27 042 592.50. This AWB was executed in Indonesian Rupiah (IDR) which had an exchange rate of IDR/ZAR of 1024.03. The ZAR value of this AWB is therefore not 27 042 592.50 as identified, but only ZAR 6 981.02.
    - The below two screenshots are from iCargo and shows screen "CRA073" with the AWB detail in its base currency as well as "CRA055" which shows the ZAR accounting value:



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- Applying this to the breakdown provided, the total of all AWB's not interfaced to SAP equals ZAR 10 369 712.79 instead of the ZAR 49 220 546.28 identified in the finding.

- The 860 AWB's identified out of the population of 432 631 AWB's (0.2%) that did not interface into SAP (with a ZAR value of R 10 369 712) are due to the following: (refer "Annexure A – On iCargo, not SAP"

  - Finalized April - June 2017 (662 items totaling R 9 868 996 (95.2% of total sample))
    - These items will always reflect on a report with these parameters. These AWB's are only pushed to SAP once finalized in iCargo. The iCargo data extract should have excluded AWB's with execution date on or pre 31 March 2017 but with a finalization post 31 March 2017. These AWB have subsequently interfaced into SAP in the correct period.

  - Cash Drawer for March closed in April 2017 (89 items totaling R 94 831 (0.91% of total value))
    - The "closing of the cash drawer" in iCargo generates the accounting entries that should interface into SAP. If this is done after cut-off it will interface in the subsequent period. These items were therefore accounted for in April 2017.

  - Service Cargo Class Issue (49 items totaling R 26 928 (0.26% of total value))
    - There is a field in iCargo which can be selected by operations staff (the class of the cargo is changed – an example of when this will be required is when an AWB is executed to transport mail to destination countries where it is a requirement for mail to be transported on an AWB as opposed to a CN document. The charge will be on a CN and there should not be a charge on a AWB) which leads to accounting of such AWB not being affected. This entry should therefore not reflect in SAP.

  - Station Cashiering/Cash Drawer not closed (34 items totaling R 90 026 (0.87% of total value))
    - The "closing of the cash drawer" in iCargo generates the accounting entries that should interface into SAP. There are exception reports generated through Cognos "Cash drawer not closed" which highlights the different cash drawers which have not been closed.

  - Agent Master issue (15 items totaling R 217 668 (2.1% of total value))
    - Origin FRA – (1 item, R 23 661) – Agent master to be updated
    - Origin NRT/ SWK (14 items, R 194 006) – Revenue accounted in 944010

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- Not Accounted (5 items totaling R 5 839 (0.06% of total value))
  - These are service class AWB's and should have been rate-audited at zero rate and not interface into SAP
- FOC - UPU Mail (3 items totaling R 34 872 (0.34% of total value))
  - For countries where it is a requirement for mail to be transported on AWB and CN38, we zero rate the AWB as charge is collected through MRA.
- FOC - SAA Staff (1 item totaling R 8 214 (0.12% of total value))
  - FOC - SAA Staff (1 item): Human remains for SAA staff member – correct not to interface to SAP.
- Accounting Rule set up (1 item totaling R 9 635 (0.09% of total value))
  - It went a different I/S account – 944010 as opposed to 714000. This will be updated in the accounting rules
- AWB Reset and finalised service cargo class Mail (1 item totaling R 12 697 (0.08% of total value))
  - These are service class AWB's and should have been rate-audited at zero rate and not interface into SAP

- Not all transactions and events that have been recorded have occurred and/ pertain to the SAA. The difference on the transactions recorded on SAP that could not be traced back to I-Cargo was quantified to R 130 167 515.94.
  - The amount identified as R 130 167 515.94 is unclear. This amount does not appear to be a ZAR total, but a total of all AWB amount in its base currency. There are also some documents in the sample that appear to be neither a ZAR amount nor a base currency amount.
  - The following document was provided in the sample:

Assignment_Number	Document_Date	posting_Date	Accounting_Doc_Number	DocAmount
08391103552	2016/04/30	2016/04/30	2602786820	538 375.00

  - When looking in SAP, the amount does however not appear in either the GL amount or the LC amount:

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Document Overview - Display

Choose Save Tax data

Doc.Type : SN (iCargo Interface) Normal document
Doc. Number 2602786820 Company Code 1030 Fiscal Year 2016
Doc. Date 30.04.2016 Posting Date 30.04.2016 Period 01
Calculate Tax
Ref.Doc. ABJ/0416
Doc. Currency XOF
Doc. Hdr Text iCargo Global F/Sales

Itm	PK	Account	G/L acct short text	Assignment	Tx	Cost Ctr	D/C	Amount	Crcy	Amount in LC	LCurr
1	50	714010	Cargo Forward Sales	08391103552			H	2,847,000.00-	XOF	74,733.75-	ZAR
2	50	714010	Cargo Forward Sales	08391218035			H	173,935.00-	XOF	4,565.79-	ZAR
3	40	714000	Cargo Forward Sales	08391103950	A0		S	56,750.00	XOF	1,489.69	ZAR
4	50	714010	Cargo Forward Sales	08391103950			H	56,750.00-	XOF	1,489.69-	ZAR
5	50	714010	Cargo Forward Sales	08391103541			H	1,302,600.00-	XOF	34,193.25-	ZAR
6	40	714000	Cargo Forward Sales	08391103541	A0		S	1,302,600.00	XOF	34,193.25	ZAR
7	50	714010	Cargo Forward Sales	08391104005			H	52,330.00-	XOF	1,373.66-	ZAR
8	40	714000	Cargo Forward Sales	08391104005	A0		S	52,330.00	XOF	1,373.66	ZAR
9	50	714010	Cargo Forward Sales	08391103316			H	28,720,500.00-	XOF	753,913.13-	ZAR
10	40	714000	Cargo Forward Sales	08391103316	A0		S	28,720,500.00	XOF	753,913.13	ZAR
11	40	714000	Cargo Forward Sales	08391218035	A0		S	173,935.00	XOF	4,565.79	ZAR
12	40	714000	Cargo Forward Sales	08391103552	A0		S	2,847,000.00	XOF	74,733.75	ZAR
13	50	714010	Cargo Forward Sales	08391218024			H	200,290.00-	XOF	5,257.61-	ZAR
14	40	714000	Cargo Forward Sales	08391218024	A0		S	200,290.00	XOF	5,257.61	ZAR
*								0.00	XOF		

- We recreated the extract and the total foreign currency amount is 120 660 352.19 and the ZAR value is ZAR 12 008 168.92.

- The 2816 SAP entries identified that were not traced back to iCargo (with a ZAR value of R 12 0083168.92) are due to the following: (refer "Annexure B – On SAP, not iCargo"

  - CCA/DCM (595 items totaling R 2 526 687 (21% of total sample))
    - CCA/ DCM refer to changes/ corrections made to an AWB after the execution and finalization date. The following are a few examples of what might lead to a CCA or DCM being processed:
      - Weight discrepancies
      - Rate discrepancies
      - Surcharges applied
    - When these changes are made subsequent to the period in which the original AWB was finalized, the impact of these changes will be accounted for in a subsequent period.
    - All entries therefore reflected in SAP which cannot be agreed to iCargo relate to CCA/DCM's on AWB which were finalized prior to the period to which the SAP data relates to.

  - Agent Cash not accounted in the respective financial year (1358 items totaling R 6 907 709 (57% of total sample))
    - During FY17 an analysis was performed to identify any AWB's issued with agent code starting with "CAS" where AWB origin was not RSA which did not form part of sales report accounting process applicable to GSA's. This was therefore a corrfection of prior period iCargo AWB's.
    - A Cognos report will be utilized going forward to identify these items

  - Pre 2016/17 finalized in 2016/17 (627 items totaling R 1 310 988 (10.9% of total sample))
    - These items will always reflect on a report with these parameters. These AWB's are only pushed to SAP once finalized in iCargo. The iCargo data extract should have included AWB's with execution date on or pre 31 March 2016 but with a finalization post 31 March 2016.

  - AWB not flown (75 items totaling R 1 331 460 (11.1% of total sample))

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- Voided, not-executed, status new, re-opened, etc. AWB's. These items will be cleared out of the forward sales account.

- CAS execution date pre 2016/17 (6 items totaling (R 19 621 (-0.2% of total sample))
  - The "closing of the cash drawer" in iCargo generates the accounting entries that should interface into SAP. If this is done after cut-off it will interface in the subsequent period. These items were therefore captured in iCargo prior to March 2016.

- JV Exceeds 910 items
  - All items that do not have a valid AWB number in the assignment field should not have been part of the population field. The journals which SAP creates are limited to 910 line items. Once it reaches 910 line items it will create another journal. The assignment fields are therefore a debit and a credit that set each other off.

- Reversal of DUB 2012 Duplicate posting (1 items totaling (R 59 728) (-0.5% of total sample))
  - Reversal of a prior year duplicate posting

- Not all amounts and other data relating to recorded transactions and events have been recorded appropriately. The difference on the recorded invoice amounts siting on I-Cargo and SAP was quantified to R 10 320 732.33.

  - Again, the amount identified R 10 320 732.33 is not a ZAR amount, but a base currency amount. The actual total dirrence is ZAR 778 136.

  - The 879 AWB's identified where there are differences to SAP are because of the following: (See Annexure C – "SAP vs iCargo differences")

    - Cash Agent (86 items totaling R 1 369 383)
      - This can happen when spot rate discounts are given to certain clients. The accounting entry will reflect the market/ client rate but the payment advice will reflect the discounted amount. The difference will remain in the forward sales account.

    - Charges Collect (9 items totaling R 2 250
      - The accounting entries on these items are incomplete. IBS need to investigate and correct

    - CRA/Station Cashiering diff (530 items totaling R 603 761)
      - This can happen when spot rate discounts are given to certain clients. The accounting entry will reflect the market/ client rate but the payment advice will reflect the discounted amount. The difference will remain in the forward sales account.

    - CRA/Station Cashiering diff Adjusted (9 items totaling -R 19 767)
      - This has been adjusted in SAP and is correct

    - DCM Approval 2017 (232 items totaling -R 7 1 189 863)
      - The DCM value was not included in the SAP data. The DCM was processed after March 2017 and it subsequently updated SAP.

    - Diff in CCA/DCM 2016 - USVD (1 item totaling R 1 845)
      - IBS need to investigate and correct

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<table>
<tr><td colspan="3">

- Duplicate accounting –USVD (1 item totaling -R 98)
  - IBS need to investigate and correct
- Missing GFC fixed in April 2017 (1 item totaling R 3 773)
  - Processed in April 2017
- No Diff (1 item totaling R 0)
  - N/A
- Reset April 2017 (8 items totaling R 6 886)
  - Processed in April 2017/ 1 item still to be corrected
- USVD Acctng & CRA 073 should not differ (1 items totaling -R 35)
  - IBS need to investigate and correct

</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:

See above detailed comments relating to the deficiencies</td></tr>
<tr><td colspan="3">Management comment on recommendation:

See above detailed comments on the recommendation</td></tr>
<tr><td colspan="3">Remedial action:

See above detailed comments on remedial action if applicable</td></tr>
<tr><td>What actions will be taken:

See above detailed comments</td><td>By whom:

Person: Ray Molefi

Position; Manager: Revenue Accounting</td><td>By when:

Immediate</td></tr>
</table>

Auditor's conclusion

The audit team has confirmed that as part of this finding was that the currency amount of the CAATs that were, was not ZAR. The team requested the client to draw rand amounts.

The largest amount to this finding was an odd R27 Million that was in either on SAP or not I-Cargo. The amount was in Indonesian currency, and when converted in ZAR, it was R7000. This was confirmed to supporting documents.

The other issues that came out in the testing related to Cut-off. More directly previous yeas amounts being posted this year vice versa. This constituted about 80% of the differences. This related to entries being posted to SAP after rates audit instead of the landing day.

This Jannie explained is covered as part of the year end Journal to recognise revenue that has not been released from forward sales as the rate audit hasn't been completed.

These were the two major issues on this finding. The remaining misstatement has been assessed to be clearly trivial. The team will keep the finding to note the internal control deficiency.

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112. Completeness of mail revenue could not be confirmed: Delivery bills (CN38) could not be traced to the statement of weights data (CN66)

Audit finding

Section 51 (1) (a) of the Public Finance Management Act states that "an accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control ".

Section 51 (1) (b) (i) of the Public Finance Management Act states that "an accounting authority for a public entity must take effective and appropriate steps to collect all revenue due to the public entity concerned".

Article RL 246, contained in section O of the Parcel Post Manual prescribed by the Universal Postal Union states that each creditor designated operator shall prepare a CN 66 statement, monthly or quarterly as preferred, on the basis of the airmail particulars entered on the CN 38 delivery bills. Mails carried over the same air sector shall be entered on the CN 66 statement by office of origin, then by country and office of destination, and in chronological order of the mails for each office of destination.

The following reports were drawn from iCargo:

- CN38 (delivery bill) for the 2016/17 financial year
- CN66 (summary of weights) for the 2016/17 financial year

Below are examples of some of the items identified on the CN38 but not the CN66:

No.	Consignment Document Number	DSN Date	Weight
1	ACM000319496X	2016/11/01	0.5
2	ACM000319497X	2016/11/01	1.1
3	ACM000319498X	2016/11/01	7
4	ACM000319499X	2016/11/01	9.7
5	ACM000319500X	2016/11/01	17.1

*The total list of items identified are contained on Annexure D.

This will result in all mail items carried by SAA not being billed to the relevant Postal Authorities as the CN 66 forms the basis of the invoice.

The effect will be on completeness and accuracy of the reported mail revenue figure.

Internal control deficiency

Financial and performance management

The Chief Financial Officer: Cargo did not:

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- Implement controls over daily and monthly processing and reconciling of transactions on the Cargo system to ensure that all revenue will be accounted for.

Recommendation

The Chief Financial Officer: Cargo should:

- Engage the service provider of iCargo systems to implement exceptions reports that will ensure that all CN38s that have been through the operational process successfully have been pushed through to the Mail Revenue module
- Design and implement controls over the daily processing of transactions to detect CN38s that have been through the operational process and have not pushed to the Mail Revenue module.
- Investigate the CN38s identified by the auditors can still be billed and do so in order to collect the revenue as soon as possible.

Management's response

Management comment on audit finding:

The CN38 Delivery Bill reflected in the iCargo operating system is generated by the origin Postal Authority. The current process in iCargo is that after a CN38 is captured in Operations, this information will then be imported (triggered) into MRA after arrival of the flight. During the import to MRA process, the system automatically generates the consignment document number if the transaction passes various validations built into iCargo which are done to ensure the accuracy and completeness of data. Two things can happen during this process

- The transaction fails and a report is created for items which fail due to route or rate issues
- The transaction succeeds and is loaded into MRA.

If the record fails the validation process for either route or rate issues this needs to be corrected before the transaction can be processed. (based on the exception report referred to above)

If the records are successfully loaded into MRA the rating process is triggered and once this is completed a CN66/ CN51 is created.

After receiving this finding we engaged extensively with our iCargo provider (IBS) to understand the reasons behind all CN38 not being pushed to MRA. It is clear that this issue has been prevalent since the implementation of iCargo and that over and above the routing and ratings issue identified above, there can be a number of other reasons that causes mail bags not to be imported into MRA and each issue needs to be analysed accordingly so that a suitable solution can be found.

According to the analyses done by IBS, the approximate value is +-R2 million.

The following information will explain the root causes identified by IBS:

- **Consignment Document Number - (13098 Mail bags , ZAR 1 145 755.05)**
  - During FY17 an issue was identified where some mail bags were not being imported to MRA which was not a result of either route or rate issues - this was caused by the logic applied in iCargo to generate the consignment document. This issue was corrected.
  - IBS now indicated that there can be a number of other reasons that causes mail bags not to be imported into MRA and each issue needs to be analysed

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accordingly so that a suitable solution can be found.

- **Flight not in active status - (81 Mail Bags)**
  - The mail bags which are assigned to flights which are not in active status will not be imported to MRA. There are certain cases where flight status will be changed due to incoming messages. If necessary actions are not taken to reassign the mails bags for these flights the revenue will not be recognized. The ZAR Value will only be available once the Mail bags are imported and prorated in MRA. IBS needs to indicate why business is not alerted to this by way of exception report.

- **Proration exception lists - (18 Mail Bags)**
  - An additional identifiable exception on top of no rate and no routing is when there is no proration. This needs to be included in the exception report.

- **Invalid City /Airport codes - (1 Mail bag, ZAR 5642.91)**
  - The MRA Master needs to be updated and maintained. IBS needs to indicate why business is not alerted to this by way of exception report.

- **Mail bags imported into MRA In Billable Status - (359 Mail Bags, ZAR 889 899.96)**
  - These are mail bags which are already imported to MRA and which are in billable status. They are not part of any GPA billing invoices. IBS still needs to advise the reason that these items have not been billed.

- **Updated Gross Weights Zero – (206 Mail Bags)**
  - These are mail bags where there is mismatch in the mail track information and expected DSN route. This difference in the mail bag information at operations and MRA which will result incorrect DSN routing and revenue will not be recognized. When the Mail Bags import to MRA the ZAR amount will be determined. IBS needs to indicate why business is not alerted to this by way of exception report.

- **TBA (To Be Analysed)- (11 Mail Bags)**
  - Other airline flights (OAL) – As per the current behaviour, the system is not creating routes for OAL flights. As these are OAL flights it does not require the mails to be prorated. No Handling and no manifesting – No ZAR value applicable. These items can be ignored as there will be no billing for them.

Management comment on Internal control deficiencies:

The control deficiencies highlight elements that have been prevalent since iCargo implementation. This raises concerns over the iCargo system, the service provider as well as control over the system by business (IT support and Cargo).The processing, reconciliation and performance reporting has been specked in 2010 with the introduction of iCargo. With consultation and collaboration between IBS, iCargo support and business, controls will have to be designed and implemented to ensure the reliability of the system.

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Management comment on recommendation:		
This is not a training/ operational issue, but a system logic issue in iCargo.		
Remedial action: The action plan for each root cause can only be determined once full analysis is provided by IBS. Contributing significantly to this audit finding and its continuous risk is the fact that the logic in MRA is only being used for South African Airways as opposed to other airlines making use of the iCargo product.		
What actions will be taken: TBD	By whom: Person: IBS, Cargo, IT Position;	By when: TBD

Auditor's conclusion

Management response is noted. The misstatement identified has been assessed to be below clear trivial. Finding will be kept to identify the internal control deficiency.

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113. Revenue freight and mail - overstatement of unreported sales

Audit finding

The PFMA section 55 (2)(a) ,"states that the financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned."

The journal below was passed in order to recognize unreported sales, ensuring that an accrual is raised for revenue:

- AWBs not pushed to the revenue module yet at month end. The revenue occurred, cargo was manifested, uplifted and arrival procedures performed but the revenue had not pushed to the revenue module before closing of the system due to month end.
- Rate audit accrual where the AWBs were rate audited but not yet released as revenue due to a timing difference before the system was closed for month end.
- To be Rate Audited, the AWBs were pushed into the Revenue accounting module but were not Rate audited and finalized prior to the system closing at month end.

Differences in the recalculation were noted, below is a summary of these differences:

No.	Journal no.	Account		Amount as per journal	Recalculated amount	Amount
1	RM03/17	810050	Misc Rev	1 499 470	1 003 581	-495 889
2		800023	Domestic	434 197	852	-433 345
3		800223	Regional	4 185 128	3 552 457	-632 670
4		800123	International	11 138 857	10 942 484	-196 374
5		62070	Unreported sales	17 257 653	15 499 374	-1 758 278
TOTAL:						-3 516 557

**Detailed recalculations of amounts are available*

The above will result in an overstatement of unreported sales with the said amount and an understatement of miscellaneous, domestic, regional and international revenue with the said amounts. The misstatement is factual as it is based on the total amount of the unreported sales.

Internal control deficiency

Financial and performance management

The manager of Revenue Accounting did not ensure that the template used to calculate unreported sales is free from mathematical errors.

Recommendation

Manager of Revenue Accounting should ensure that an additional review on the unreported sales calculation is performed.

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The template used to calculate the Revenue should be reconsidered as that is the reason for the calculation errors identified.

Management response

Management comment on audit finding: Agree		
Management comment on internal control deficiencies: Noted		
Management comment on recommendation: Agree		
Remedial action : Additional review on unreported sales journal to be performed		
What actions will be taken: Additional review on unreported sales journal to be performed	By whom Person: Ray Molefi Position Manager: Revenue Accounting	By when: From August 2017

Auditor's conclusion

Managements comment is noted and the controls implemented will be evaluated during the audit for 2017/18 financial year. Management has processed the entry to correct the misstatement.

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Other income

114. Under collection of operating lease income due rental rates not escalated according to contractual terms

Audit finding

Section 51(1) (b) of Public Finance Management Act 1 of 1999 states, "*General responsibilities of accounting authorities.— (1) an accounting authority for a public entity— (b) Must take effective and appropriate steps to— (i) Collect all revenue due to the public entity concerned*".

In accordance with par. 50 of International Accounting Standard (IAS) 17 – "*Leases, lease income from operating leases are required to be recognised as income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.*"

During our audit of operating leases income, we selected a sample of transactions recorded in the general ledger as lease income and recalculated the expected lease amount based on the lease agreement. It was noted that in some instances, the lease charged by SAA were incorrectly calculated and charged due to escalations rates not being taken into consideration. Please refer to the transaction below as example:

Rental contract details					Auditor's Recalculation
Lease description	**Contract period**	**Invoice Date**	**Initial monthly amount**	**Annual escalation rate**	**Amount**
Rental - Aviation Union of SA (post contract month-to-month)	2013/06/01 – 2016/05/31	2016/11/01	13 841.09	12.00%	19 445.73*
Renal - SA Express	2014/08/01– 2026/07/31	2016/05/26	275 025.00	Inflation based	329 368.11
Tourvest Inflight Retail Services	2009/01/01 – 2018/11/30	2017/01/01	31 134.40	10.00%	47 333.90*
GYM	2011/07/01 – 2014/06/30	2017/03/01	12 814.38	10.00%#	20 637.67
Fruit and Biltong	2011/09/01- 2014/08/31	2017/03/01	2334.34	10.00%#	3 759.48

*Lease smoothing was applied in the auditors recalculation of expected lease receipts.

#Annual escalation based on the rental database table provided by management as original rental agreements were not provided

Due to SAA not applying the correct annual escalation rates according to the rental contracts, operating lease income would be understated for the current year and prior periods dating back to the lease inception dates. As a result, the projected understated of lease income is R5 319 326.34. This calculation is however based on a representative sample and management should investigate the population of operating lease agreements to correct this misstatement. The accounting treatment will need to take into consideration to requirement of lease smoothing throughout the period of the lease.

KTD

Internal control deficiency

Financial and performance management

The manager for real estate and facilities did not implement adequate controls over daily and monthly processing and reconciling of transactions to ensure that operating leases income collected is accurately calculated based on the contract value and escalation. This is due to ineffective performance management within the facilities department.

Recommendation

The following preventative and corrective controls should be put in place:

- The manager for accounts receivables should ensure that invoice is raised for the uncollected amounts.
- The manager for real estate and facilities should review the monthly billing schedules and its supporting calculations to ensure that operating leases income is billed according to the contractual arrangements.
- Lease smoothing schedules complying with the requirements of IAS17 should be prepared at the beginning of the operating lease period to guide the accounting for each lease contract over the lease term.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding:
The above finding has been noted.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:</td></tr>
<tr><td colspan="3">Management comment on recommendation:
Adequate controls are now in place to ensure the following:
1. Invoicing outstanding rental amounts where applicable by manager accounts receivable.
2. Monthly review of billing schedules against Lease Agreements.
3. Lease smoothing schedules will be prepared by financial controller-shared services.</td></tr>
<tr><td colspan="3">Remedial action : A full analysis is being conducted to ensure recoveries (where applicable) are completed timeously and in accordance with the finding.</td></tr>
<tr><td>What actions will be taken:</td><td>By whom: T Allie/ F Peer/ Jay Robert
Person: Debtors, Financial Cotroller – Shared Services, Manager: Real Estate
Position</td><td>By when:
Immediate</td></tr>
</table>

Auditor's conclusion

Management's response was noted and agrees with the finding, internal control deficiency and the recommendations. It was indicated that this would be corrected prospectively starting from the 2017/18 financial period. The difference would therefore be reporting in the summary of uncorrected misstatements.

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KTD

115. Deficiencies in lease contract administration and keeping of a rental database

Audit finding

Section 55(1) (b) of Public Finance Management Act 1 of 1999 states, "*Annual report and financial statements.—(1) The accounting authority for a public entity— (a) must keep full and proper records of the financial affairs of the public entity;*"

During our audit of other income and inspection of lease agreements, it was noted that a number of rental agreements had expired resulting in these leases being extended on a month-to-month basis. The table below is just an example of some of the lease identified:

No	Tenants Name	Start Date	End Date	Escalation Rate
1	Aviation Union of SA	2013/06/01	2016/05/31	12%
2	Standard Bank of SA	2014/11/01	2017/10/31	8%
3	SAA Gym	2011/07/01	2014/06/30	10%
4	Biltong and Dried Fruit Shop	2011/09/01	2014/08/31	10%

In our request to management to provide us with a database of SAA tenants and rental agreements, management confirmed that the database is not updated and was incomplete at that stage. A completed version has however not been completed and provided to us yet. The database is a key source of recording lease income contractual rights, budgeting for rental income and effectively managing income from available and marketable facilities. It is also not evident that the manager facilities did negotiated for renewal of lease agreements when they expired to ensure that SAA's rentable assets are optimised for returns.

Internal control deficiency

Financial and performance management

Manager facilities did not implement proper record keeping in a timely manner to ensure that database of tenants is complete, relevant and accurate information is accessible and available to support financial and performance at the yearend and that contracts are renegotiated before expiry. This is due to ineffective performance management within the facilities department.

Recommendation

As corrective measure, the manager for facilities should update the database of tenants to ensure that complete, relevant and accurate information is kept of all tenants. All expired contracts should be benchmarked, renegotiated and approved by the relevant authorities.

As preventative measure to avoid the current scenario, the manager of facilities should review the database of tenants on a bi-monthly basis to ensure that expiring lease agreements are identified and renewed or renegotiated prior to expiry. The group finance manager should review the schedule of lease agreements at least bi-annually and ensure to ensure that the return on assets is in line with the company's forecasting.

KTD

Management response

Management comment on audit finding: The above finding has been noted.		
Management comment on internal control deficiencies: The above has been noted.		
Management comment on recommendation: Controls are in place to ensure revenue/tenant register is up-dated, and especially expired leases to be renewed urgently		
Remedial action : Revenue/tenant register is being updated and all expired leases are being renewed urgently (where applicable).		
What actions will be taken:	By whom Person: Jay Robert Position: Manager: Real Estate	By when: Immediate

Auditor's conclusion

Management's response was noted and agrees with the finding, internal control deficiency and the recommendations. A follow-up of the lease register will be performed in the 2017/18 audit.

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KTD

116. Incomplete operating lease income disclosure for aircraft leases

Audit finding

Paragraph 56 of International Accounting Standard (IAS) 17: *Leases* states, "*Lessors shall, in addition to meeting the requirements of IFRS 7, disclose the following for operating leases:*

(a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:
(i) not later than one year;
(ii) later than one year and not later than five years;
(iii) later than five years.
(b) total contingent rents recognised as income in the period.
(c) a general description of the lessor's leasing arrangements.

During the period under audit it we inspected disclosures made for operating income leases in the financial statements. It was noted that not all the aircrafts that are subleased to Mango were included in the calculation supporting the disclosure note for operating lease income. Please refer to the table below for details of the aircraft leases found not to be included in the disclosure:

Aircraft Registration	Lease End Date	Monthly Rental - USD - Per Agreement	Exchange Rate - 31 March 2017	Amount due within 1 year	Amount Due In second to fifth year inclusive
ZS - SJA	22/09/2017	199076	R 13.41	R16 022 014.72	R 0.00
ZS - SJC	20/04/2018	199076	R 13.41	R32 044 029.45	R 2 670 335.79
ZS - SJD	08/10/2017	199076	R 13.41	R16 022 014.72	R 0.00
ZS - SJE	15/03/2018	199076	R 13.41	R32 044 029.45	R 0.00
		$796 304		R96 132 088.35	R 2 670 335.79

The impact of the omission above is incomplete disclosure of operating lease income in terms of IAS 17.

Internal control deficiency

Financial and performance management

The finance manager did not ensure that accurate, complete and IFRS compliant financial statements are prepared and supported by reliable information. This is due to process deficiencies in the preparation and review of financial statement.

Recommendation

- Management should ensure that there is consistent review and monitoring of compliance with the PFMA relating to financial statement disclosure.
- Management should disclose all the operating lease income that is expected to be received within the different time periods as required by IAS 17.

Management response

Management comment on audit finding:
The above finding has been noted.

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Management comment on internal control deficiencies: The above has been noted.		
Management comment on recommendation: Controls will be put in place to ensure disclosure is up-dated,		
Remedial action :		
What actions will be taken:	By whom Person:	By when: Immediate

Auditor's conclusion

Management's response was noted and agrees with the finding, internal control deficiency and the recommendations. The additional disclosure of aircraft leases were included in the updated financial statements, note 17, received on 31 October 2017.

KTD

Human resources

117. Reasons for suspensions not documented on the suspension report

Audit finding

In terms of section 54(1) of the PFMA (Act 1 of 1999), "*an accounting authority for a public entity must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require.*"

Furthermore in terms of Disciplinary procedure policy in terms of paragraph 5 it states that "*The Company shall keep records for each employee specifying the nature of any disciplinary transgression, the action taken by the Company and the reason for such actions*".

During the audit of suspensions sufficient audit evidence could not be obtained. With reference to request for information, request no 45 of 2016/17 dated 07 April 2017 the following documents submitted did not indicate the reason as to why the employees were on suspension.

Pers.no.	Pension Number	Personnel Area	Position	Management comments added on missing information
16543	SBG485X	In-Flight Services	Cabin Crew Member	Dishonestly and breach of exam rules
17212	SBH282F	In-Flight Services	Senior Purser	Possession of firearm
20342	876982E	Global Operations Control Cent	Departure Controller	Gross negligence
44877	SBL660Z	Cargo	Airways Customer Services Agent (Cargo)	Assault
46209	SBL923F	Flight Operations	Scheduling Officer	Gross misconduct
49589	SBM659F	Airport Operations	Airways Customer Services Agent	Baggage facilitation
50892	SBM955L	Finance	Head: Treasury	Unauthorised disclosure of confidential information
58250	SBR647C	In-Flight Services	Cabin Crew Member	Unauthorised possession of drugs/prescription medicine, Illegal facilitation of medical capsules, tablets and injections, Violation of Chapter 4.2 of the Cabin Crew Member manual, Violation of the Civil Aviation Act, Bringing the Company into disrepute

There is a lack of proper record keeping due to the following reasons:

- Information requested was not readily available.
- There is no proper filing system in place to ensure that information is easily accessible.

The impact of the above finding will result in the auditor not being able to identify why certain suspensions have been on-going for such an excessive period of time.

RS
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This will further result in a limitation of scope for the audit of Human resources suspensions.

Internal control deficiency

Financial and performance management

The Human resource business partner (HRBP) did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Recommendation

The Human Resource business (HRBP) should ensure that all suspensions information relating to individuals is kept in a file and updated at every stage of the case.

The HRBP should ensure that all the suspension documents are stored in such a manner that can be retrieved when required for audit and sufficient reasons are documented in the report.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding: We agree with the finding and accept that the current record keeping system can be improved upon. In terms of the company's suspension procedure for misconduct the notice for suspension only states that an employee is suspended pending an investigation in terms of policy. The alleged misconduct is usually not specified on the notice for suspension. The above table however has been updated with the alleged misconducts that resulted in these suspensions.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: The current ER system is inadequate as such HRBP'S rely on a paper based recording and filing system which is inherently inefficient.

Better controls will be put in place to ensure proper case management with the use of technology to enhance oversight on the completeness, relevance and accuracy of disciplinary cases, grievances and suspensions and the reasons for suspension.</td></tr>
<tr><td colspan="3">Management comment on recommendation: It is not anticipated that the current template for notice for suspension will be updated to reflect reasons for suspension these reasons however will be captured on the ER system as this could result in unintended implications of constraining the company at the point of formalising the charges.</td></tr>
<tr><td colspan="3">Remedial action: Refer below.</td></tr>
<tr><td>What actions will be taken:
Create a disciplinary file for each case with various sections for suspensions, charges, dates for the hearing, and hearing outcome once the new electronic ER system goes live.</td><td>By whom: HRBP's and ER
Person: ER, HRP's and HRBP's
Position: HR</td><td>By when: with effect from 1 September 2017</td></tr>
</table>

Auditor's conclusion

Management's response is noted. Management comments will be agreed that the supporting documentation must be made available for audit. Note that there is still an significant internal control deficiency that has been noted and there for the finding will remain in the management report.

RS
KTD

118. Suspension- Excessive duration for suspensions

Audit finding

In terms of section 51(1) of the PFMA (Act 1 of 1999), an accounting authority for a public entity *"must ensure that that public entity has and maintain effective, efficient and transparent systems of financial and risk management and internal control; must take effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity;"*

According to the Disciplinary Procedure and Sanction Guide: Cabin Crew and Ground Staff, paragraph 6*"The Company shall have the right to suspend an employee with pay prior to the determination of disciplinary action where, in the opinion of management, an offence by an employee is regarded as serious and/or that the continued presence off the employee at the Company's premises may prejudice the interests of the Company, the employee, other employees or hamper an investigation. The suspension period should not exceed a maximum of 45 days."*

During the audit of suspensions, an analysis of the duration of suspensions per individual contained in the sample was conducted and found that the suspension period exceeded 45 days. This is in contrary to the above quoted disciplinary procedure. The suspension period for the individuals below exceeded 45 days: individuals below exceeded 45 days:

Information as per the suspension list provided by management			Recalculation		
Pers.no.	**Pension Number**	**Position**	**Date of suspension**	**End date**	**Management comment on finding: Status update of the case and supporting documents**
16543	SBG485X	Cabin Crew Member	24-Aug-16	21-Nov-16	The Inflight Services turnaround times are mostly delayed due to availability of both parties, postponement requests, and in some instances rehabilitation of Crew Members.
16670	SBG643X	Cabin Crew Member	12-Oct-16	31-Mar-17	The Inflight Services turnaround times are mostly delayed due to availability of both parties, postponement requests, and in some instances rehabilitation of Crew Members.
20342	876982E	Departure Controller	17-Jan-17	31-Mar-17	Management wanted to consider other options as there had challenges with some of the witnesses. Charges were issued and the hearing was scheduled for the 29 and 30 June but had to be postponed for a later date.
44877	SBL660Z	Airways Customer Services Agent (Cargo)	13-Oct-16	31-Mar-17	Transgression on 12/10/2016 Suspension on 13/10/2016 Charged on 2/11/2016 Hearings from 23/11/2016, 13/03/2017 and finalised on 07/04/2017 Closing arguments on 18/04/2017 PO then went on leave till 15/05/2017 Mitigation and aggravating 25/05/2017

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Information as per the suspension list provided by management			Recalculation		
Pers.no.	Pension Number	Position	Date of suspension	End date	Management comment on finding: Status update of the case and supporting documents
					Sanction 07/06/2017 Employee notified on 14/06/2017
45043	SBL724T	Cabin Crew Member	02-Feb-16	16-Apr-16	The Inflight Services turnaround times are mostly delayed due to availability of both parties, postponement requests, and in some instances rehabilitation of Crew Members.
50892	SBM955L	Head: Treasury	05-Jun-16	31-Mar-17	Employee suspended 5 July, and referred a dispute to the Labour Court. Parties agreed on Pre-dismissal arbitration. Misconduct case was scheduled to be heard by the CCMA. The Company and Cynthia were discussing a settlement.
55841	SBP304Q	Airways Customer Services Agent	06-Jan-16	23-Apr-16	Delayed due to availability of both parties, availability of the PO, postponement requests,
56404	SBP454D	General Manager: Human Resources	05-May-16	31-Mar-17	Suspended 5 May 2016, and the finalisation of investigation and confirmation of the alleged charges of misconduct took long.
56472	SBR153F	Cabin Crew Member	24-Aug-16	30-Nov-16	Suspension Uplifted on 30 November 2016
57484	SBP509K	Executive HRBP & Change Management	14-Oct-16	31-Mar-17	Suspended 14 Oct 16 pending finalisation of investigation into alleged misconduct. The employee's lawyers requested that the matter be dealt with under the auspices of the CCMA, the matter was tentatively scheduled for the second week of May, however since parties had not finalised discussing preliminary issues, the matter did not sit. A new date was still to be set when the employee tendered her resignation in June 2017.
58250	SBR647C	Cabin Crew Member	22-Nov-16	31-Mar-17	Cabin Crew Manager reported that the hearing has been halted after about three sitting where evidence of the Company was heard. The case first sat on 16/02/2017, continued on 08/03/2017 and again on 12/04/2017 where the Presiding officer recused herself. Another Presiding Officer has now been found and the hearing started on 31/05/2017.
58967	SBR704Z	Cabin Crew Member	22-Jun-16	17-Sep-16	The Inflight Services turnaround times are mostly delayed due to availability of both parties, postponement requests, and in some instances rehabilitation of Crew Members.

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KTD

Furthermore found that the employees who were suspended were suspended with a full pay and during the term of their suspension the entity appointed someone in their position in an acting capacity. The employees are as follows note that this is not an exhaustive list:

Sap Nr	Suspension Date	45 Days After Suspension	End Date	Duration Of Fruitless And Wasteful (In Access Of 45 Days)	Monthly Earnings	Standard Earnings From 45 Days After Suspension
				A	B	C=(B/30)*A
16543	24-Aug-16	08-Oct-16	21-Nov-16	44.00	17 755.39	26 041.24
16670	12-Oct-16	26-Nov-16	31-Mar-17	125.00	17 755.39	73 980.79
17212	07-Feb-17	24-Mar-17	31-Mar-17	7.00	26 585.23	6 203.22
20342	17-Jan-17	03-Mar-17	31-Mar-17	28.00	26 407.34	24 646.85
44877	13-Oct-16	27-Nov-16	31-Mar-17	124.00	17 264.39	71 359.48
45043	02-Feb-16	18-Mar-16	16-Apr-16	16.00	17 755.39	9 469.54
46209	03-Jun-16	18-Jul-16	05-Aug-16	18.00	26 859.64	16 115.78
50892	05-Jun-16	20-Jul-16	31-Mar-17	254.00	139 758.20	1 183 286.09
55841	06-Jan-16	20-Feb-16	23-Apr-16	63.00	15 976.25	33 550.13
56404	05-May-16	19-Jun-16	31-Mar-17	285.00	207 956.50	1 975 586.75
56472	24-Aug-16	08-Oct-16	30-Nov-16	53.00	28 994.88	51 224.29
57484	14-Oct-16	28-Nov-16	31-Mar-17	123.00	111 961.30	459 041.33
58250	22-Nov-16	06-Jan-17	31-Mar-17	84.00	15 469.88	43 315.66
58967	22-Jun-16	06-Aug-16	17-Sep-16	42.00	15 469.88	21 657.83
					Total for the sample selected	**3 995 478.99**

These amounts incurred could have been minimized or completely avoided had management ensured that suspensions were resolved within timeframe in accordance with the requirements of the Disciplinary procedure guide.

Completion of the disciplinary process involved with suspended individuals is not prioritized due to the following reasons:

- HRBP's do not adhere to the 45 day limit as required.
- The *Disciplinary Policy* does not specify a time period in which suspensions should be concluded.

The impact of the above finding will result in the company incurring fruitless and wasteful expenditure. Management need to assess and quantify the salary amount that can be considered as fruitless and wasteful expenditure that needs to be disclosed in the AFS.

Internal control deficiency

Financial and performance management

The Human Resource Business Partners (HRBP's) and the Employee Relations (ER) department did not ensure that timeous completion of the suspension process for suspended employees is in place.

KTD

Employee Relations department did not exercise oversight responsibility in ensuring that the suspension process is kept under the 45 day limit.

ER department in conjuction with the HR department did no ensure that there is a tracking system in place to manual or automated to track the status of each case, which will prompt follow up if there is insufficient progress made on for a case.

Recommendations

The Employee Relations (ER) department and Human Resource Business Partners should ensure that the duration of suspensions is maintained under the prescribed days as per the disciplinary guide. This may be implemented by using a register of all suspensions and keeping track of the duration of the suspension.

ER and the HRBP's together should follow up on these suspensions accordingly to ensure that the cases are finalized timeously.

The suspension listing needs to revisited to quantify the amount of fruitless and wasteful expenditure to be incurred:

- Provide reasons and supporting documents why they suspension is still open
- Provide reasons and evidence why there are no fruitless and wasteful expenditure for case being open beyond the guide of 45 days
- Calculate the amount per suspension case that needs to be disclosed in the AFS where applicable.

Management response

Management comment on audit finding: We concede that HRBP's did not track suspensions that extended, however it's for the period beyond the 120 days (as per the GM: HR signed write-up) and did not require and keep a record of the reasons for such suspensions going beyond the 120 day period. Once an employee is suspended the role of the HRBP is to ensure that charges are formulated and finalised, the charges are issued, a Presiding Officer is identified and a date for a hearing is set. What happened thereafter by a way of postponements, the time it takes to conclude the case etc. is completely out of the control of the HRBP. As such suspension cannot be lifted until the matter is concluded. The above table has been updated with some of the reasons for the delays in closing cases sooner and as a result the company not in a position to lift suspensions within 120 days. Company policy is clear that employees cannot be suspended for longer than 120 days but the reality is that it is not always feasible to enforce this policy as there are various and legitimate reasons for the 120 days' time limit to be exceeded.		
Management comment on internal control deficiencies: Even with a proper system of recording, controlling and tracking the duration for suspensions the challenge remains the difficulty to enforce the 120 days' time limit rather than a lack of oversight on the part of HRBP and ER.		
Management comment on recommendation: The recommendation cannot be implemented in view of the above stated challenges.		
Remedial action: ER and HRBP might have to look at the possibility of enhancing the 120 days policy to the effect that a suspended employee must be charged and the first sitting of the disciplinary hearing must have set in the 120 days of an employee's suspension.		
What actions will be taken: The company will introduce a deviation system where the Presiding Officer should	**By whom:** ER **Person:** Lourens Erasmus **Position:** HOD: ER	**By when:** with effect from 1 September 2017

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KTD

document reasons for the case not to be concluded within the 45 day suspension period.		

Auditor's conclusion

Management's response is noted. Note that a revised calculation has been obtained from management and they are in agreement that there is fruitless and wasteful expenditure that needs to be disclosed. The amount of R8.2 mil fruitless and wasteful expenditure has not been included in the AFS. The difference will be added to the summary of unadjusted differences.

RS
KTD

119. Acting/ responsibility allowances: employees acting for more than 6 months in management positions

Audit finding

During the audit of allowances SAA submitted an approved Group reward policy, this policy was used to audit the acting allowance and inconsistencies between the rate used to calculate the acting allowance amount as recorded in the financial statement was different from the rates as required by the policy.

A. Inconsistent application of policy relating acting allowance

The Group reward policy indicates that the rate that needs to be used for the allowance is 10% - 15% for all staff members, however management has used different rates to calculate the acting allowance. Below are the details of the difference identified:

Personnel number	Pension number	Designation	Payroll Area	Level	Percentage of responsibility allowance as per contract	Percentage of responsibility allowance as per the approved policy	Difference	Management comment added to finding
61645	SBR408X	Executive assistance to the Legal Counsel and Executive Assistant in the office of the CEO	S8	Non - management	7.5%	15%	-8%	This individual is not a member of management and falls within non-managements terms & conditions. . In terms of policy the additional responsibility allowance for non-managers is 7.5%.
17252	SBH339B	Captain and performing the duties of Operations Auditor: Flight Operations, Dispatch & OCC	S6	Non-management	8.3%	15%	-7%	Pilots receive 10 to 15% of their management allowance and not their TCE. Business case submission is attached. This is not regulated by the company's remuneration policy but rather by the pilot management submission.

This is caused by senior management not communicating timeously to the staff regarding the policies that are in place and that needs to be implemented when calculating the acting allowances.

RS
KTD

The impact of the above will result in non-compliance with the policy.

B. Staff acting for long periods

It was furthermore noted that majority of the key management positions are filled by personnel who are in acting positions for long periods of time rather than permanent staff being appointed in those posts. These key management positions have been vacant for a period that is more than 6 months.

Below is an example of the key management positions that are filled by acting personnel for a period that is more than 6 months:

SAP No	Designation	Appointment date	Period employee has been acting for
-	Interim CFO	25-Nov-15	16 moths
57159	Acting CEO	17-Nov-15	16 months
41758	HOD: Project management office and Acting chief strategic officer	17-Aug-16	8 months
62511	Contract Manager and Acting Chief Procurement Officer	04-Dec-15	16 months

Although the Group reward policy does not specify how long the person should be appointed within an acting position, it is good practice to have a set period for acting in a position and require an extension to be approved if needed.

C. Acting commenced before agreement is signed

We noted that Acting Chief Procurement Officer (CPO) has been acting from 04 December 2015 without prior formal agreement being approved in writing. Through inspection of letter dated 14 January 2016 from Acting GM: Human Resources, we noted that the letter does not state the acting period

This also has an impact on the sustainability of the company due to the fact that key management positions have been vacant for a very long time and it makes it difficult for management to commit and be held accountable for the strategy of SAA as well as to cascade the strategy down to ground employees in order for the company to achieve the indicators on the Corporate Plan.

Internal control deficiency

Leadership

General Manager human resources did not ensure that the Group reward policy should be consistently implemented.

KTD

Recommendation

- The General Manager: Human Resource should then ensure that the policy is implemented and communicated to all employees to ensure that the staff complies with the policy.
- For executive employees a register should be kept whereby the department keeps track of the positions which are filled by employees in acting positions to ensure that employees do not act in the same position for more than 6 months to ensure that the entity complies with the companies act requirements.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding: (a) The two employees receiving additional responsibility allowance are non-managers and the allowance applicable to them is that of non–managers in terms of the remuneration philosophy is 7.5%. The second allowance of a captain is not based on 8% of his cost to company but rather on the management allowance for pilot managers.

(b) A number of the acting role at executive level arose as a result of executive members who were suspended pending disciplinary proceedings instituted against them. The duration of the acting is as a result influenced by the duration of the suspension as it would be premature to initiate recruitment proceedings until the disciplinary proceeding are concluded.

(c) There are instances where immediate replacement is required in an acting capacity while the approval is underway and sometimes the approval process took longer than it was envisaged. This leading to situations where the acting resource commencing the functions prior to the actual approval for the role being granted.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: GM:HR will ensure strict adherence to the remuneration philosophy and will communicate this to the rest of the company.</td></tr>
<tr><td colspan="3">Management comment on recommendation: GM:HR will keep a register of employees in acting roles and monitor the duration of their acting.</td></tr>
<tr><td colspan="3">Remedial action:</td></tr>
<tr><td>What actions will be taken:
Review all acting appointments in excess of six months</td><td>By whom: Acting GM: HR
Person: Martin Kemp
Position: HR</td><td>By when: with effect from 1 September 2017</td></tr>
</table>

Auditor's conclusion

Part A: Management comment is noted however there policy does not cater for the Pilots this the policy needs to be updated and approved at the correct level as per the DOA, to ensure that a consistent and fair process is followed. The rate that was charged interims of the executive secretary is not in line with the policy, as the group remuneration policy is applicable to non-executives. Thus the finding still remains.

Part B: Management comment is noted however the position of the CEO and CFO was vacant for the whole duration of the acting period and there was no member on suspension in this role. The finding is still valid as the staff members have been acting for periods in excess of 6 months.

Part C: Management comment is noted however could create a situation where by the acting person could be approving contracts which they are not legally delegated to do so. This practise should be stopped immediately and when senior management acts in a position there should be acting letting in place.

The finding is still valid and will remain in the management report.

PS
KTD

120. Leave accrual discrepancies in leave closing balances

Audit finding

In terms of section 51(1)(a)(i) of the Public Finance Management Act states that *"an accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control".*

In terms of the Regulating Agreement 2014, between South Africa Airways (SOC) Ltd and The South African Airways Pilots' Association paragraph 6.2.9 states the following *"payment for accumulated leave will be based on salary as for the last month of the leave cycle. Such salary shall consist of full remuneration. Short range salary scales will be used to calculate the accumulated leave payment for all pilots."*

In terms of IAS 19:16 states that *"an entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period."*

During the audit of leave, a recalculation of the leave balance used in the leave provision reconciliation prepared by finance payroll was conducted and the following discrepancies were noted:

A. During the inspection of the Regulating agreement 2014 between SAA and its pilots requires it was determined that the leave encashment for pilots should be calculated based on the short range scales however the as per the inspection of the leave reports it was determined that the leave calculation was not based on the short range salary scales.

SAP Nr	Total Value	Daily Rate	Recalculation of daily rate in accordance with the regulating agreement		
			Total Short Range Cash (lower than the total package)	Recalculated Daily Rate (=W/365)	Difference
10577	3 084 465.23	8 450.59	3 004 797.51	8 232.32	218.27
10893	2 998 556.25	8 215.22	2 920 598.49	8 001.64	213.58
19620	2 255 699.48	6 180.00	2 233 510.42	6 119.21	60.79
19899	3 288 312.90	9 009.08	3 204 526.45	8 779.52	229.56
61573	1 181 038.58	3 235.72	1 153 578.28	3 160.49	75.23
62995	1 055 952.08	2 893.02	1 030 986.56	2 824.62	68.40
63077	1 055 952.08	2 893.02	1 030 986.56	2 824.62	68.40
			Total amount		**934.23**

- The above is as a result of the daily rate used in the leave provision being calculated from using the salary range on which the pilot is being remunerated (i.e. either long or short); whereas the regulating agreement states that the leave encashment should be based on the short range salary scales.
- The system is not set-up in such a way that the short range salary scales could be populated on the system and the leave provision could be calculated automatically.
- The HR and Finance unit agreed on a percentage of long and short range Total cost to Company (TCE) to calculate the leave provision this was 90.25%. There was however not documented approval for the percentage used to calculate the provision.

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- When a leave payout is done the short range total cash per the salary range is used to settle the leave balance which has been indicated above.
- The misstatement has been evaluated in full with the misstatement of differences in days refer below for the finding raised.

B. The leave accrual balance used was recalculated and the following discrepancies were noted:
  - Note: for the misstatement detailed below, the error was focused on the difference in leave days as the daily rate used is the one which has been calculated by management rather than the recalculated rate as detailed above.

No	SAP No	Payroll area	Opening balance - as per leave provision (Data as per finance department)	Leave taken during the year (As per SAP)	Leave accrual during the year (As per policy)	Auditors Recalculated closing balance	Daily rate - recalculated	Total leave amount recalculated	Closing balance - as per leave provision per Management report (Data as per finance department)	Daily rate - As determined by management	Total leave amount - As determined by management	Total difference in amount
			A	B	C	D = (A-B+C)	E	F=E*D	G	H	I=G*H	J=F-I
1	13838	S3	87.33	16	28	99.33	530.45	52 689.60	95.33	530.45	50 567.80	2 121.80
2	13988	S3	75.33	20	28	83.33	530.45	44 202.40	79.33	530.45	42 080.60	2 121.80
3	14195	S3	42.33	33	28	37.33	530.45	19 801.70	31.33	530.45	16 619.00	3 182.70
4	41687	S8	27.96	5	28	50.96	767.23	39 098.04	43.96	767.23	33 727.43	5 370.61
5	62509	S7	28.58	14	28	42.58	377.36	16 067.99	38.83	377.36	14 652.89	1 415.10
6	62841	S8	19.58	7	28	40.58	582.79	23 649.62	36.08	582.79	21 027.06	2 622.56
7	12068	MA	33.96	6	28	55.96	2 260.34	126 488.63	37.92	2 260.34	85 712.09	40 776.53
8	19754	MA	37.04	19	28	46.04	2 481.03	114 226.62	48	2 481.03	119 089.44	-4 862.82
9	44777	MP	38.96	22	28	44.96	1 838.28	82 649.07	38.92	1 838.28	71 545.86	11 103.21
10	48991	MA	20.96	44	28	4.96	6 056.09	30 038.21	23.92	6 056.09	144 861.67	-114 823.47
11	59588	MA	42.96	31	25	36.96	6 751.38	249 531.00	43.92	6 751.38	296 520.61	-46 989.60
[illegible]	61129	MP	16.72	40	25	1.72	3 056.32	5 256.87	11.68	3 056.32	35 697.82	-30 440.95
[illegible]	61323	MP	24.9	11	25	38.9	3 272.30	127 292.47	38.86	3 272.30	127 161.58	130.89
14	10577	S6	103.33	22	40	121.33	8 232.32	998 827.62	124.33	8 450.59	1 050 661.85	-51 834.23
15	10893	S6	53.58	44	40	49.58	8 001.64	396 721.30	113.33	8 215.22	931 030.88	-534 309.59
16	19620	S6	291.83	0	40	331.83	6 119.21	2 030 536.34	313.83	6 180.00	1 939 469.40	91 066.94
17	19899	S6	88.33	41	40	87.33	8 779.52	766 715.88	129.33	9 009.08	1 165 144.32	-398 428.44

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No	SAP No	Payroll area	Opening balance - as per leave provision (Data as per finance department)	Leave taken during the year (As per SAP)	Leave accrual during the year (As per policy)	Auditors Recalculated closing balance	Daily rate - recalculated	Total leave amount recalculated	Closing balance - as per leave provision per Management report (Data as per finance department)	Daily rate - As determined by management	Total leave amount - As determined by management	Total difference in amount
			A	B	C	D = (A-B+C)	E	F=E*D	G	H	I=G*H	J=F-I
18	61573	S6	63.17	46	35	52.17	3 160.49	164 882.68	39.92	3 235.72	129 169.94	35 712.74
19	62995	S6	3.17	23	35	15.17	2 824.62	42 849.50	41.17	2 893.00	119 104.81	-76 255.31
20	63077	S6	29.17	2	35	62.17	2 824.62	175 606.67	55.42	2 893.02	160 331.17	15 275.50
								5 507 132.19			*6 554 176.22*	*-1 047 044.03*

- The above is as result of the leave taken by the pilots in March 2017 was only captured onto the system in April 2017, this result in leave taken in March 2017 not being subtracted in the balance for March 2017. Also leave applied for in the system is approved late by the line manager.
- Furthermore the leave provision reconciliation is prepared around the 22nd and 23rd of each month meaning that any leave for March taken after that date will not be considered in the provision calculation.
- The misstatement has resulted in an overstatement of leave accrual amount of R82 679 987.52 in the financial statements. Management needs to revised the population and recalculated the correct balance at year end to be disclosed in the annual financial statements as leave liability

Internal control deficiency

Financial and performance management

The managers did not establish and communicate policies and procedures to enable proper and correct calculation of leave balance at year end due to:

- The *Leave policy for Management* not stating a deadline for the approval of leave on the system.
- The payroll department did not exercise oversight responsibility in ensuring that leave on the system was approved timeously.

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- The payroll finance department does not ensure that an adjustment is made to the leave provision to ensure that the leave approved after the year end is reflected in the leave provision.

Recommendation

- Management should revise the population and adjust the financial statements to reflect the correct leave balance at year end.
- The preparer of the leave accrual provision needs to ensure that the provision is prepared as at 31 March 2017, thus it is important that the an adjustment is made to the report made prepared on 22nd/23rd March to ensure that it is considers the leave approved afterwards.
- Management should implement a timeframe limit whereby leave on the system should be approved within a certain number of days deemed reasonable by management.
- The preparer of the leave accrual provision needs to ensure that the accurate short range scales are used to determine the pilots' daily rates.

Management response

Management comment on audit finding: The payroll department did not exercise oversight responsibility in ensuring that leave on the system was approved timeously. We are investigating the possibility of configuring the ERP Portal to reject the leave application after a certain time period		
Management comment on internal control deficiencies: We are investigating the possibility of configuring the ERP Portal to reject the leave application after a certain time period		
Management comment on recommendation: Management should implement a timeframe limit whereby leave on the system should be approved within a certain number of days deemed reasonable by management. We are investigating the possibility of configuring the ERP Portal to reject the leave application after a certain time period		
Remedial action: We are investigating the possibility of configuring the ERP Portal to reject the leave application after a certain time period		
What actions will be taken: Configuration of ERP Portal leave workflow	By whom: Person: Nollie Steyn Position; HOD R&B	By when: 1 December 2017

Auditor's conclusion

Management comment is noted and they are in agreement with the finding and internal control deficiency. It is noted that management is seeking a long term solution by updated the system to correct the short comings. However if the population is not revisited the difference will be included in

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the summary of unadjusted differences and evaluated with other matters whether they are material in aggregate.

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121. Leave accrual discrepancies in opening and closing leave balance

Audit finding

In terms of section 51(1)(a)(i) of the Public Finance Management Act states that *"an accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

In terms of IAS 37 par 10 states that "*A provision is a liability of uncertain timing or amount.*"

In terms of IAS 37 par 36 states that "*The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.*"

In terms of IAS 19 par 16 states that "*an entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.*"

During the audit of leave the following discrepancies were noted:

A. The opening balance used in the leave provision reconciliation (which was the leave provision determined at the end of March 2016) was compared to the opening balance of the employees as per their leave balances on SAP for end of March 2016 and the following discrepancies were noted:

		Opening balance as per leave provision reconciliation	Opening balance as per wage type 8050, 8051, 8052, 8056, 8057 and 8058	Differences in opening balance	Leave rate - As determined by management	Recalculated difference in amount
SAP NR	**Payroll area**	A	B	**C=A-B**	D	**E=C*D**
10577	S6	103.33	100	3.33	7785.51	25 925.75
10893	S6	53.58	130	-76.42	7585.15	-579 657.16
19620	S6	291.83	288.5	3.33	4871.65	16 222.59
19899	S6	88.33	127	-38.67	8427.37	-325 886.40
61573	S6	63.17	30	33.17	2952.81	97 944.71
62995	S6	3.17	26.25	-23.08	2565.82	-59 219.13
63077	S6	29.17	17.5	11.67	2565.82	29 943.12
13838	S3	87.33	85	2.33	492.14	1 146.69
13988	S3	75.33	73	2.33	492.14	1 146.69
14195	S3	42.33	40	2.33	492.14	1 146.69
41687	S8	27.96	25.63	2.33	656.41	1 529.44
62509	S7	28.58	26.25	2.33	331.13	771.53
62841	S8	19.58	17.25	2.33	540.93	1 260.37
					Total amount	**-787 725.12**

- The differences on the opening balances as indicated above are as a result of lack of communication between payroll HR and Finance, as the leave balances drawn from the SAP HR system by the preparer of the leave accrual after 31 March 2016 didn't correspond to the leave balances used in the leave accrual calculation for 31 March 2016.

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- The leave accrual was not adequately reviewed by the payroll HR manager as the error in the opening balances was not identified after the review.

The misstatement has resulted in an understatement of leave accrual opening balance amount of R 86 650 829.88 in the financial statements

B. During the audit of leave accrual, an analysis was performed on the leave report pulled from the system indicating when leave was taken, for which dates and when it was approved by the appropriate line mangers and it was determined that there was leave taken during the prior year and only approved in the current year which has resulted in the prior year closing balance being incomplete. The following employees applied for leave within the 2015/16 financial period but their leave was only approved in the 2016/17 financial period.
Furthermore it was determined that there was leave taken during the current year and only approved in the following year of assessment

B.1 Below is the detail of the leave taken during the prior year and approved in the current:

#	Personnel Number	Document ID	Leave Start	Leave End	Approve Date	Number of day taken - during prior year	Daily rate	Recalculated amount
1	11826	A2336D44FF531ED5BAE9F682A0FF4FE9	2016/03/22	2016/03/24	2016/04/28	3	2 281,38	6 844.14
2	12077	A2336D44FF531ED5BCB383FA06D4CC84	2016/03/18	2016/03/18	2016/04/04	1	1 942.30	1 942.30
3	14696	A2336D44FF531ED5BB81A2956C0537E6	2016/03/16	2016/03/16	2016/04/04	1	1 785.17	1 785.17
4	15520	A2336D44FF531ED5BCB72B76A3B34D92	2016/03/29	2016/04/01	2016/04/04	3	707.28	2 121.84
5	16296	A2336D44FF531EE5BDCEBD40DCACB893	2016/03/23	2016/03/23	2016/04/04	1	729.30	729.30
6	16768	A2336D44FF531EE5BDD0E0CF4110D93B	2016/03/31	2016/04/01	2016/04/12	1	2 386.55	2 386.55
7	17498	A2336D44FF531ED5BAE8D0D7C282EF99	2016/03/25	2016/04/01	2016/04/04	5	707.28	3 536.40
8	41876	A2336D44FF531ED5BB84C79C703758A8	2016/03/22	2016/03/24	2016/04/06	3	1 791.84	5 375.52
9	42044	A2336D44FF531EE5B8A4CD64FD605112	2016/03/04	2016/03/04	2016/07/07	1	1 702.07	1 702.07
10	47207	A2336D44FF531EE5BDB6470F38815092	2016/03/30	2016/03/30	2016/04/19	1	2 367.70	2 367.70
11	47701	A2336D44FF531ED5BAE8DB07C8404F9D	2016/03/29	2016/04/01	2016/08/12	3	1 951.49	5 854.47
12	54610	A2336D44FF531EE5B7EFC6D555C9C31A	2016/03/22	2016/03/24	2016/04/11	3	845.91	2 537.73
13	54773	A2336D44FF531ED5BAE8B8D41AA56F94	2016/03/24	2016/04/01	2016/05/11	6	2 283.22	13 699.32
14	58401	A2336D44FF531ED5BCB53C6E67B4ACF5	2016/03/29	2016/03/31	2016/04/04	3	729.30	2 187.90
15	59896	A2336D44FF531EE5BDC831E9BE5CB6BE	2016/03/30	2016/03/30	2016/04/11	1	845.91	845.91
16	60090	A2336D44FF531ED5BB87DD3DDB5AD94C	2016/03/10	2016/03/10	2016/04/14	1	2 496.55	2 496.55
17	60150	A2336D44FF531ED5BAD4D3C08AF44992	2016/03/22	2016/03/24	2016/04/04	3	1 950.69	5 852.07
18	60853	A2336D44FF531EE5BDAF7AA	2016/03/18	2016/03/18	2016/04/05	1	2	2 000.34

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#	Personnel Number	Document ID	Leave Start	Leave End	Approve Date	Number of day taken - during prior year	Daily rate	Recalculated amount
		15B210F92					000.34	
19	61917	A2336D44FF531ED5BDE92DE 3AA448132	2016/03/29	2016/03/29	2016/05/03	1	2 135.75	2 135.75
20	62059	A2336D44FF531EE5BDC8981C C89C56DA	2016/03/22	2016/03/24	2016/04/06	3	2 699.20	8 097.60
21	62059	A2336D44FF531EE5BDC89E1 C169CD6DB	2016/03/29	2016/03/29	2016/04/06	1	2 699.20	2 699.20
							Total amount	84 597.15

B.2 Below is the detail of the leave taken during the current year and approved in the following year:

#	Personnel number	Document ID	Leave start date	Leave end date	Approve Date	Number of days taken before year end	Daily rate as determined by management	Recalculated amount
1	10871	62FF981296321ED6BD855748 4199060F	2017/02/17	2017/02/17	2017/04/05	1	1953.22	1 953.22
2	11105	62FF981296321EE784D647F69 78E54A9	2017/03/31	2017/03/31	2017/04/05	1	2256.21	2 256.21
3	11828	62FF981296321ED785BEC49C 4E615CEC	2017/03/30	2017/03/30	2017/04/03	1	729.59	729.59
4	13188	62FF981296321ED782DC92AE A78C9295	2017/03/20	2017/03/20	2017/04/06	1	2140.92	2 140.92
5	15868	62FF981296321ED78490A8E54 712568C	2017/03/27	2017/03/31	2017/04/04	5	729.30	3 646.50
6	16121	62FF981296321ED784F8FCBE BAEA218E	2017/03/30	2017/04/07	2017/04/05	2	2817.24	5 634.48
7	16188	62FF981296321ED785C1DBA9 B12B1DD9	2017/03/23	2017/03/23	2017/04/03	1	4142.41	4 142.41
	16188	62FF981296321ED785C1EDA8 45587DE0	2017/03/22	2017/03/22	2017/04/03	1	4142.41	4 142.41
9	16189	62FF981296321ED782DAD218 58885239	2017/03/16	2017/03/16	2017/04/04	1	1784.37	1 784.37
10	16296	62FF981296321ED785C2E956 B8221E2C	2017/03/29	2017/03/29	2017/04/04	1	729.30	729.30
11	16377	62FF981296321EE784F182D66 2F19F25	2017/03/30	2017/03/31	2017/04/12	2	729.30	1 458.60
12	16399	62FF981296321ED785BED4C8 71EADCF3	2017/03/28	2017/03/29	2017/04/03	2	547.55	1 095.10
13	16409	62FF981296321ED6BFE940CA 94B26C3A	2017/03/01	2017/03/01	2017/04/04	1	1807.93	1 807.93
14	16409	62FF981296321ED782C79AC1 955A0AFA	2017/03/20	2017/03/20	2017/04/04	1	1807.93	1 807.93
15	17089	62FF981296321ED7858DE435 701609BE	2017/03/06	2017/03/20	2017/04/03	1	2705.17	2 705.17
16	19050	62FF981296321EE784D83638A DD85519	2017/03/29	2017/03/30	2017/04/03	2	1838.05	3 676.10
17	19124	62FF981296321ED783F591D68 B478D08	2017/03/27	2017/03/27	2017/04/05	1	4593.68	4 593.68

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#	Personnel number	Document ID	Leave start date	Leave end date	Approve Date	Number of days taken before year end	Daily rate as determined by management	Recalculated amount
18	20419	62FF981296321ED785BBD70A D7B97C27	2017/03/29	2017/03/29	2017/04/03	1	2224.02	2 224.02
19	40110	62FF981296321ED784F7E2260 2C56117	2017/03/31	2017/03/31	2017/05/05	1	3025.17	3 025.17
20	41658	62FF981296321ED785C374AE BDFD5E58	2017/03/20	2017/03/20	2017/04/03	1	3633.33	3 633.33
21	41658	62FF981296321ED785C38532 E2CA9E5E	2017/03/24	2017/03/24	2017/04/03	1	3633.33	3 633.33
22	42828	62FF981296321ED784F4F6C7 886E4026	2017/03/29	2017/03/31	2017/04/03	3	2006.44	6 019.32
23	43015	62FF981296321ED785A985F17 55D940F	2017/03/23	2017/03/24	2017/04/03	2	729.30	1 458.60
24	44742	3EB3436CC3851EE6AFAA3E8 F1A4718A3	2017/01/09	2017/01/09	2017/07/04	1	1775.75	1 775.75
25	47185	62FF981296321EE784D5C29F BB60147F	2017/03/27	2017/03/27	2017/04/10	1	3723.45	3 723.45
26	47207	62FF981296321EE780E4E5E3 04DF38FD	2017/03/09	2017/03/10	2017/04/19	2	2367.70	4 735.40
27	47815	62FF981296321ED782C8C35C 6AAD4B59	2017/03/20	2017/03/20	2017/04/19	1	2540.11	2 540.11
28	47815	62FF981296321ED785A6945C 2EA5F33F	2017/03/31	2017/03/31	2017/04/19	1	2540.11	2 540.11
29	54896	62FF981296321EE785C8471D 7A354047	2017/03/29	2017/03/29	2017/04/03	1	1861.36	1 861.36
30	55259	16C695D6AE1E1ED6A589E651 BA34AA34	2016/10/21	2016/10/21	2017/07/04	1	1783.79	1 783.79
31	55895	3EB3436CC3851EE6B286DB79 6F56CC06	2017/01/06	2017/01/10	2017/07/05	3	2730.11	8 190.33
32	57519	62FF981296321ED785BEC1DE 67039CEC	2017/03/30	2017/03/30	2017/04/03	1	616.96	616.96
33	57754	62FF981296321ED782C8F626 FA448B63	2017/03/20	2017/03/20	2017/04/04	1	890.17	890.17
34	58572	62FF981296321ED783F414FE D14C4C88	2017/03/23	2017/03/23	2017/04/12	1	1730.69	1 730.69
35	58574	62FF981296321ED6BFFED3F1 71AC9429	2017/03/20	2017/03/20	2017/04/04	1	6308.62	6 308.62
36	58574	62FF981296321ED782E2C23E 47F493C5	2017/02/13	2017/02/13	2017/04/04	1	6308.62	6 308.62
37	58606	62FF981296321EE780E7BE62 56D339E7	2017/03/02	2017/03/06	2017/04/10	3	3590.57	10 771.71
38	59527	62FF981296321ED785C0F2A3 5A2ADD8A	2017/03/20	2017/03/20	2017/04/03	1	729.30	729.30
39	59527	62FF981296321ED785C16E17 C71A1DB9	2017/03/22	2017/03/22	2017/04/03	1	729.30	729.30
40	59602	62FF981296321ED7848DB47C A34535E7	2017/03/31	2017/03/31	2017/04/10	1	2238.51	2 238.51
41	59845	62FF981296321ED782E415F0 CFCC13F9	2017/02/27	2017/02/28	2017/06/28	2	1355.39	2 710.77
42	59854	62FF981296321ED78591B1F26 B0B4AF3	2017/03/17	2017/03/17	2017/05/03	1	867.86	867.86
43	59889	62FF981296321ED785C2F6FB 57A33E2F	2017/03/29	2017/03/29	2017/04/10	1	1807.93	1 807.93
44	59895	62FF981296321ED78589A3DE 2D1BC8B6	2017/03/31	2017/03/31	2017/04/03	1	1677.70	1 677.70
45	59958	62FF981296321EE784F029F9E	2017/03/28	2017/03/29	2017/04/05	2	5064.48	10 128.96

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#	Personnel number	Document ID	Leave start date	Leave end date	Approve Date	Number of days taken before year end	Daily rate as determined by management	Recalculated amount
		AED9EBD						
46	60874	62FF981296321ED6BBC0804EB9BFC4C2	2017/02/06	2017/02/06	2017/06/21	1	1807.93	1 807.93
47	60874	62FF981296321ED6BBC08BB0312C44C7	2017/02/10	2017/02/10	2017/06/21	1	1807.93	1 807.93
48	60874	62FF981296321ED6BBC092413FDEC4CB	2017/02/13	2017/02/14	2017/06/21	2	1807.93	3 615.86
49	60886	62FF981296321ED6BAAB91B1A7B56622	2016/12/28	2017/01/06	2017/06/15	7	1807.93	12 655.51
50	60886	62FF981296321ED6BAABA0118B49C626	2017/02/03	2017/02/06	2017/06/15	2	1807.93	3 615.86
51	60886	62FF981296321ED6BFE6540671EDEB6F	2017/03/03	2017/03/03	2017/06/15	1	1807.93	1 807.93
52	60971	62FF981296321ED782B0131CF3A042EF	2017/03/17	2017/03/17	2017/05/05	1	1911.38	1 911.38
53	61524	62FF981296321ED783FB100D129C8EAB	2017/03/22	2017/03/22	2017/04/10	1	2304.48	2 304.48
54	62059	62FF981296321ED7858CC97A871EA96C	2017/03/23	2017/03/23	2017/04/13	1	2699.20	2 699.20
55	62390	62FF981296321EE784D7FC1F7C89F50B	2017/03/23	2017/03/23	2017/04/06	1	6089.20	6 089.20
56	62567	62FF981296321EE781F9C8F1ED027325	2017/03/20	2017/03/20	2017/04/04	1	1853.45	1 853.45
57	62698	62FF981296321ED785A7BE0378D71392	2017/03/20	2017/03/20	2017/04/06	1	2466.44	2 466.44
58	62698	62FF981296321ED785A7C3A705C89393	2017/03/22	2017/03/22	2017/04/06	1	2466.44	2 466.44
59	63725	62FF981296321ED7858831CD75C74867	2017/03/16	2017/03/27	2017/04/04	7	2082.18	14 575.29
60	63809	62FF981296321ED783F503838C080CD3	2017/03/24	2017/03/24	2017/04/10	1	2758.62	2 758.62
61	63915	62FF981296321EE78298982E45233C3F	2017/03/15	2017/03/15	2017/04/06	1	790.91	790.91
62	64174	62FF981296321ED7858C3DE218708938	2017/03/30	2017/04/03	2017/04/03	2	3588.28	7 176.56
[illegible]	64648	62FF981296321ED6BEB02F85ED79AA61	2017/01/23	2017/01/27	2017/05/10	5	2268.28	11 341.40
64	64648	62FF981296321EE783BDBC1D29CF9586	2017/03/15	2017/03/17	2017/04/25	3	2268.28	6 804.84
65	64648	62FF981296321EE783BDCD36193ED588	2017/03/20	2017/03/20	2017/04/25	1	2268.28	2 268.28
66	64657	62FF981296321EE784DDF681A452D6F1	2017/03/28	2017/03/28	2017/04/03	1	1807.93	1 807.93
							Total Misstatement	**231 590.53**

- The above is as result of leave not approved on the system prior to the employee taking the leave.
- Also leave is not approved timeously.

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The total misstatement has resulted in an overstatement of leave accrual balance amount of R84 597.15 for leave taken during the prior year and approved in the current year and understatement of R231 590.53 for leave taken during the current year and approved after year end in the financial statements.

C. The closing balance used in the leave provision reconciliation (which was the leave provision determined at the end of March 2017) was compared to the closing balance of the employees as per their leave balances on SAP HR for end of March 2017 and the following discrepancies were noted based on the sample selected:

		Closing balance as per leave provision reconciliation (Finance data)	Closing balance as per wage type 8050, 8051, 8052, 8056, 8057 and 8058 (SAP HR)	Differences in opening balance	Leave rate - As determined by management	Recalculated difference in amount
SAP NR	Payroll area	A	B	C=A-B	D	E=C*D
10577	S6	124.33	121	3.33	8 450.59	28 168.63
10893	S6	113.33	110	3.33	8 215.22	27 384.07
19620	S6	313.83	310.5	3.33	6 180.00	20 600.00
19899	S6	129.33	126	3.33	9 009.08	30 030.27
61573	S6	39.92	37	2.92	3 235.72	9 437.52
62995	S6	41.17	38.25	2.92	2 893.02	8 437.98
63077	S6	55.42	52.5	2.92	2 893.02	8 437.98
13838	S3	95.33	93	2.33	530.45	1 237.72
13988	S3	79.33	77	2.33	530.45	1 237.72
14195	S3	31.33	29	2.33	530.45	1 237.72
41687	S8	43.96	41.63	2.33	767.23	1 790.20
62509	S7	38.83	36.5	2.33	377.36	880.51
62841	S8	36.08	33.75	2.33	582.79	1 359.84
					Total amount	**140 240.14**

- The differences on the closing balances as indicated above are as a result of lack of communication between payroll HR and Finance, as the leave balances drawn from the SAP HR system by the preparer of the leave accrual after 31 March 2017 didn't correspond to the leave balances used in the leave accrual calculation for 31 March 2017.
- The leave accrual was not adequately reviewed by the payroll HR manager as the error in the opening balances was not identified after the review.

The projected misstatement has resulted in an overstatement of leave accrual closing balance amount of R11 074 851.35 in the financial statements.

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Internal control deficiency

Financial and performance management

The managers did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities as evidenced by the following:

- The leave accrual is not adequately reviewed.
- The Leave policy for Management does not state a deadline for the approval of leave on the system.
- The payroll department did not exercise oversight responsibility in ensuring that leave on the system was approved timeously.

Recommendation

- The preparer of the leave accrual should ensure that he obtains the correct leave balances from the SAP HR system.
- The leave accrual should be thoroughly reviewed by the payroll HR manager to ensure that the correct leave balances are used from the SAP HR system.
- The line manager responsible for approving the employees leave should ensure that the leave is approved within the financial period for which the leave relates to.
- Management should implement a timeframe limit whereby leave on the system should be approved within a certain number of days deemed reasonable by management.
- Management should update the leave provision calculation and correct the annual financial statements with the correct adjustment after revisiting the population.

Management response

Management comment on audit finding: The payroll department did not exercise oversight responsibility in ensuring that leave on the system was approved timeously. We are investigating the possibility of configuring the ERP Portal to reject the leave application after a certain time period		
Management comment on internal control deficiencies: We are investigating the possibility of configuring the ERP Portal to reject the leave application after a certain time period		
Management comment on recommendation: Management should implement a timeframe limit whereby leave on the system should be approved within a certain number of days deemed reasonable by management. We are investigating the possibility of configuring the ERP Portal to reject the leave application after a certain time period		
Remedial action: We are investigating the possibility of configuring the ERP Portal to reject the leave application after a certain time period		
What actions will be taken: Configuration of ERP Portal leave workflow	By whom: Person: Nollie Steyn Position; HOD R&B	By when: 1 December 2017

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Auditor's conclusion

Management comment is noted and they are in agreement with the finding and internal control deficiency. It is noted that management is seeking a long term solution by updated the system to correct the short comings. However if the population is not revisited the difference will be included in the summary of unadjusted differences and evaluated with other matters whether they are material in aggregate.

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122. Organisational Structure: Discrepancies between approved hard copy organisational structures and what is captured on SAP Organisational Management

Audit finding

In terms of section 51(1)(a)(i) of the Public Finance Management Act states that "*an accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*".

In terms of Talent Acquisition Policy Section B -Recruitment and selection, the following process must be followed in recruiting and selecting potential candidates:

"*15.1 Permanent Positions*

Before the creation of a post for any newly defined position or filling of a vacancy the following procedures must be performed

- *Completion and approval of staff requisition/structure*
- *All new positions must first be evaluated and approved prior to any recruitment or advertising procedures.*
- *All management positions not budgeted for must be approved by the GM:HR and CEO*
- *If a moratorium is resolved by ExCo, all positions must be approved by GM:HR and CEO*

The staff requisition form is accompanied with the approved organogram signed by the CEO and General Manager of division."

During the audit of the organisational structure, the hard copy approved organisational structures were compared to the *Direct Supervisor from SAP OM* to confirm that the two agree and the dates of approval were inspected. However, the following were noted:

A. It was noted that some organisational structures relating to the International and Regional stations had last been updated and approved by the CEO and GM of the division during 2012/13 financial period.

Organisational Structure (Approved Hard Copy)			
Organisational Structure Received.	**Total Number of Positions**	**Vacant Positions**	**Date approved**
DRC	5	1	19/03/2013
India	4	0	19/03/2013
Malawi	25	2	19/03/2013
Ghana	17	1	19/03/2013
Hong Kong	20	1	19/03/2013
Australia	16	0	19/03/2013
Benin	5	1	19/03/2013
China	5	0	19/03/2013

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Organisational Structure (Approved Hard Copy)			
Organisational Structure Received.	**Total Number of Positions**	**Vacant Positions**	**Date approved**
Canada	3	0	19/03/2013
Continental Europe	75	0	19/03/2013

B. It was noted that an approved organisational structure does not exist as follows:

Organisational Structure (Hard Copy)			
Organisational Structure Received.	**Total Number of Positions**	**Vacant Positions**	**Date approved**
Malaysia	N/A	N/A	Not received

It was further established that the following employee has however been employed at Malaysia since 01/09/2015: Pension Number- F02894T. Thus, indicating that there should be an approved organizational structure for Malaysia.

Due to the fact that the signed and approved organisational structure had to be attached to the staff requisition form when applying to fill a vacancy or to create a new position, if the organisational structure is outdated it will result in the GM: HR and the CEO signing off on requisitions without having the accurate structure.

The outdated organizational structures may further mislead those responsible for budgeting. Furthermore the above error may also lead to the vacancy rate being inaccurate.

Internal control deficiency

Financial and performance management

The Human resource business partner (HRBP) did not ensure that an approved structure is in place for the outstation location before the appointment of the employee was made.

The HRBP did not exercise oversight responsibility in ensuring that the organizational structures are updated regularly, as the main focus on reporting in HR department focuses mainly on SAA employees.

Recommendation

The HRBP should ensure that the organizational structures are updated and approved when there is a change to the structure is required. An overall reconciliation should be done to ensure that the data used to determine the number positions filled is correct and that number of positions approved is correct.

Management response

Management comment on audit finding:. Organisational structures will be reviewed and updated as

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positions are filled to accurately represent the current state in line with the SAP system. A) Organisational structures for all international and regional stations will be reviewed, updated and approved. B) The organisational structure for Malaysia will be reviewed and approved.		
Management comment on internal control deficiencies: HRBP will provide oversight over the updating of organisational structure.		
Management comment on recommendation: Reconciliation of positions will be done annually at the beginning of each financial year.		
Remedial action: Refer below.		
What actions will be taken: Review all structures and reconcile all vacancies and ensure re-approval of all structures annually	**By whom:** HRBP and Business GM/HOD **Person:** **Position;** HR and Line	**By when:** By 31 March each year

Auditor's conclusion

Management comment is noted and is in agreement with the finding. This matter does not an impact on the financial statements.

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Aircraft lease costs

123. Aircraft lease cost translated at an incorrect exchange rate

Audit finding

IAS 21 Paragraph 21 of the International Financial Reporting Standards states that "*A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction*"

During the audit of aircraft lease cost it was noted that incorrect exchange rates were used to recognise the aircraft lease cost expenses. The incorrect rates were used when manual journals were passed on SAP for aircraft lease cost .Below is the table of differences between the exchange rate used and the rate which should have been used.

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DD20-PS-1445

Accounting Document Number	Item Text	Amount in Local Currency R	Amount in Document Currency $	Exchange rate used	Invoice number.	Supplier Name	Exchange rate date	Exchange rate as per Standard Bank site	Difference between amount calculated and amount on General Ledger R
1105902332	B737-800ZS-SJL 1504-14052016	2 942 426.39	191 428.00	15.37	102963-427	Celestial Aviation Trading 47 Limited	15-Apr-16	14.743	120 203.39
1105902332	B737-800 XD-DJM/N 0504-20042016	2224 884.32	144 746.24	15.37	16RD0000591	Macquarie Aircraft Leasing Services(Ireland)Limited	05-Apr-16	15.071	43 413.74
1105902332	B737-800 ZS-SJF 0503-04042016	3 338 903.85	217 221.98	15.37	16RD0000696	Macquarie Aircraft Leasing Services(Ireland)Limited	05-Apr-16	15.071	65 151.39
1900646291	B737-800 ZS-SJH 2508-27062016	3 010 340.32	191 242.00	15.74	32354/1605/05	Aergen Aircraft five Limited	30-May16	15.854	-21 510.35
1105950008	pre-payment zs-szg	5 252 520.38	341 717.80	15.37	6200-160429-R	Pembroke Aircraft Leasing 6 Limited	01-May16	14.313	361 513.51
1105995441	Lease 5/6-4/7/16 30569 ZSSJN	4 274 483.87	271 997.65	15.72	16RD001285	Macquarie Aircraft Leasing Services(Ireland)Limited	06-Jun-16	14.975	201 319.06
1106267059	LEASE RNT S319 ZSSFH 30.12.2016	2 668 804.00	193 000.00	14.16	32353/1612/17	Aregen Aviation Four Limited	01-Dec16	14.12	-56 356.00
1106267080	RENTAL PMT A320-200 ZS-SZZ 12/12-11/01'16	4 569 580.29	322 705.00	14.16	IMSA0410025	Shenton Aircraft Leasing 2(Ireland) Limited	12-Dec16	13.681	154 753.19
Total Difference									**868 387.92**

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The above will result in an overstatement of the aircraft lease cost. The projected misstatement is R19 043 031.74

Internal control deficiency

Financial and performance management

The divisional financial controller did not properly review the manual journals that were processed directly into SAP for certain aircraft lease costs to ensure that the correct spot rate was used.

The Divisional financial controller did not ensure that the accounting policy selected by the entity has been properly applied to the transactions denominated in foreign currency.

Recommendation

- For the aircraft lease cost which SAP and Quantum do not interphase the Divisional Financial Controller should process the manual journal on SAP on the date which payment is due as per the invoice which is sent a month prior its due date.
- The Divisional Financial Controller should ensure that the journals processed on SAP are based on the amount paid and the invoice to ensure the accuracy of the aircraft lease cost.
- Adjustment journals should be processed to correct the differences resulting in different exchange rates being used after investigating all transactions which are affected by the exchange rate differences.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:
Agree with finding.</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
Manual journals are processed in US$.
Controller was unaware that an incorrect exchange rate was manually input by cash and banking department.</td></tr>
<tr><td colspan="3">Management comment on recommendation:</td></tr>
<tr><td colspan="3">Remedial action :</td></tr>
<tr><td>What actions will be taken:
The Financial Accounting Department implemented corrective measures to adhere to the accounting policy
Controller is investigating all lease payments made during the year to determine what</td><td>By whom
Person: Lindsay Olitzki
Pierre de Villiers

Position:HOD Financial Accounting
Controller</td><td>By when: Aiming for 20 September 2017</td></tr>
</table>

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Auditor's conclusion

It is noted that management has agreed with the finding and that the process in the cash and banking department has been changed to ensure that the correct exchange rates are used. It is not clear on whether management has corrected misstatements identified and therefore the finding remains valid.

It is also not evident from the management comments that the accounting policy adopted by SAA to use the IATA five day average exchange rates was the corrective action that was implemented since the aircraft lease costs are recorded using the standard bank exchange rate.

It is a concern that the remedial action is not properly documented on the management response; this should clearly detail all the steps that are going to be taken to resolve the findings and the correct exchange rates which will be used.

The planned implementation date is not a committed date as it indicates that management is aiming for 20 September 2017, this is a serious concern given that the finding was raised on 03 July 2017 and should have ideally been resolved within 5 days.

Mechanisms should be in place to ensure that the timeline aimed at is met.

The finding will be aggregated with other individually immaterial findings and will be evaluated together and this may have an impact in the audit opinion of SAA.

On 20 October 2017 we have not received a revised population, the finding is not resolved.

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124. Aircraft lease costs expenses incorrectly recorded in the financial year ending 2016/17

Audit finding

Section 51(1)(a)(i) of the Public Finance Management Act states that *"An accounting authority for a public entity must ensure that that public entity has and maintains an effective, efficient and transparent systems of financial and risk management and internal control".*

IAS 1 Paragraph 27 states that *"An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting".*

Paragraph OB17 of IFRS Conceptual framework states that *"Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. This is important because information about a reporting entity's economic resources and claims and changes in its economic resources and claims during a period provides a better basis for assessing the entity's past and future performance than information solely about cash receipts and payments during that period".*

South African Airways SOC Ltd (SAA) pays for the use of aircrafts in advance to certain lessors based on the lease agreements. These payments are recorded as aircraft lease costs in SAP accounting system when the payment is made by SAA to the lessors.

During the audit, it was noted that no assessment is done when the invoices are received from the lessors to determine which portion of the aircraft lease costs relates to a prepayment and which portion relates to the actual expenditure incurred during a particular financial period. The following expenses for aircraft lease costs relating to 2017/18 financial year were incorrectly recorded in the 2016/17 financial year:

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Invoice number	Invoice date	Supplier Name(Lessor)	Invoice details	Invoice amount USD $	Portion relating to 2016/17 USD $	Portion relating to 2017/18 USD $	April 2017 IATA rate	Portion relating to 2017/18 R
17RD000299	06-Feb-17	Macquarie Aircraft Leasing Services(Ireland) Limited	Boeing 737 Serial no. 28829 Reg ZS-SJD. Floating leasing Rental covering 05 Mar 2017 to 4 Apr 2017	223 592.25	194 741.64	28 850.61	12.59638	363 413.28
17RD000301	06-Feb-17	Macquarie Aircraft Leasing Services(Ireland) Limited	Boeing 737 Serial No 30006 Reg ZS-SJF Floating lease rental covering 5 March 2017 to 4 April 2017	223 592.25	187 528.98	28 850.61		363 413.28
IMSA0410031	20-Feb-17	Shenton Aircraft Leasing 2 (Ireland) Limited	Due date 13 March 2017 Airbus 320-200 Aircraft MSN 4990 Basic rent from 12 March 2017 to 11 April 2017	333 305.00	215 035.48	118 269.52		1 489 767.77
ACIELTD_PSI 008439	10-Feb-17	SMBC Aviation Capital	Due 10 March 2017 for the rental period 10 March 2017 to 9 April 2017	140 000.00	99 354.84	40 645.16		511 981.90
Airbus A330-300 Aircraft MSN1754	06-Mar-17	Oriental Leasing 11 Company Limited	Rent from 6 March 2017 to 5 April 2017	881 112.00	738 997.16	142 114.84		1 790 132.51
32353/1704/25	21-Feb-17	Ae*/rgen Aircraft Five Limited	Due date 31 March 2017 Basic rent for the period 1 April 2017-30 April 2017	193 000.00		193 000.00		2 431 101.34
116883-64	06-Feb-17	Celestial Aviation Trading 68 Limited	Due for payment 6 March 2017. Rental 6 March 17 to 5 April 2017	341 248.68	286 208.57	55 040.11		693 306.14
116882-63	20-Feb-17	Celestial Aviation Trading 68 Limited	Due for payment 22 March 2017 Rental 22 March 17 to 21 April 2017	339 645.82	109 563.17	230 082.65		2 898 208.52
5637-170322-R	06-Mar-17	Pembroke Aircraft Leasing 4 Limited	Due for payment 22 March 2017 Rental 22 March 17 to 21 April 2017	339 645.82	109 563.17	230 082.65		2 898 208.52
Total				**3 015 141.82**	**1 940 993.01**	**1 066 936.16**		**13 439 533.26**

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This will result in a projected overstatement misstatement of aircraft lease costs and projected understatement misstatement of prepayments by R 49 136 106.23.

Expenses relating to current accounting period incorrectly recorded in the 2017/18 accounting period

The following expenses for aircraft lease costs relating to 2016/17 financial year were incorrectly recorded in the 2017/18 financial year:

Invoice number	Invoice date	Supplier Name (Lessor)	Invoice details	Invoice amount $	Relating to 2015/16 financial year$	Relating to 201718 Financial year $	March 2017 IATA rate	Portion relating to 2016/17 R
04/2017 MSN544	08-Mar-17	ZS-SXA/B/C Limited	Rent period 08-03-2017 to 10-04-2017 Rent amount due on 10 April 2017	250 000.00	169 354.84	80 645.16	13.04166	2 208 668.23

This will result in a projected understatement misstatement of aircraft lease costs by R 7 966 085.26.

Internal control deficiency

Financial and performance management

The Divisional Financial Controller: Fleet did not ensure that policies and procedures to record all expenses relating to the particular financial year are properly implemented.

There is no assessment done when the invoices are received from the lessors to determine which portion of the aircraft lease costs relates to a prepayment and which portion relates to the actual expenditure incurred during a particular financial period.

The Divisional Financial Controller did not ensure that aircraft lease costs in SAP are recorded when the expenditure is incurred to make sure that expenses are recorded on accrual basis of accounting rather than on a cash basis.

Recommendation

The Divisional Financial Controller: Fleet should put policies and procedures in place to ensure that the expenses are recorded when they occur in SAP accounting system rather than when payments are made.

The Divisional Financial Controller: Fleet should ensure that invoices from the lessors for aircraft lease costs are carefully scrutinised for the periods which they relate to and apportion actual expenditure from payments made in advance.

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DD20-PS-1451

The Divisional Financial Controller: Fleet should review the invoices received and paid close to year end to ensure that the expenses are recorded in correct accounting period.

The population should be revisited to correct the misstatements so than not only the misstatements identified through the audit process are corrected, thereafter additional procedures will be performed to verify the corrections to the population of the maintenance expenses.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding:
Agree with finding</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
Agree with finding</td></tr>
<tr><td colspan="3">Management comment on recommendation:
Agree with finding</td></tr>
<tr><td colspan="3">Remedial action:</td></tr>
<tr><td>What actions will be taken:
Past two financial years are being reviewed to determine adjustments necessary</td><td>By whom:
Person: Pierre d e Villiers
Position; Controller</td><td>By when: 20 Sep 2017</td></tr>
</table>

Auditor's conclusion

It is noted that management agrees with the finding, internal control deficiencies and recommendations. We have received a journal passed and the revised population on 20 October 2017 and the necessary disclosures were made in terms of IAS 8. The additional audit procedures were performed on the revised population and there were cut-off misstatements identified on the revised population.

The finding is not resolved and will be aggregated with other non-material findings and evaluated together which may have an impact on the audit opinion of SAA.

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Commission and distribution costs

125. Over accrual of marketing incentives payments at yearend

Audit finding

The PFMA section 55 (2)(a) ,"*states that the annual report and financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned.*"

Marketing incentive commission is calculated based on the contribution of flown revenue, for SAA, from agents belonging to the consortium and have performance agreements with SAA. Annual and quarterly targets for flown revenue for SAA are defined in these agreements. The cut off periods of contributing revenue aligns to SAA's financial year (FY) resulting in revenue recorded up until 31 March forming part of the calculation of qualifying bonuses. Payments would only occur after the financial yearend and are accrued for in the financial statements of the specific year to which it relates.

During the last FY, SAA used budgeted figures to accrue for incentive bonuses as at 31 March 2016. A similar exercise was done at the current financial yearend resulting in a large over accrual for expenditure. The table below summarizes the accrual raised for marketing incentive payments for the last three financial years:

Description	2014/15	2015/16	2016/17
Accrual raised for market incentive commission	155 338 355.96	276 000 000.00	296 800 084.80
Actual expenses relating to marketing incentives based on actual TFR or expensed payments	(167 883 190.83)	(144 895 836.67)	(103 200 753.95)
Amount over/(under) accrued for at yearend	(12 530 554.51)	131 104 163.33	193 599 330.85

This also resulted in a significant increase in the amount of accruals within the current liability account (GL account no 726000 - *Accruals: Sales*). Indicated in the table below, is the total of the account as at the different reporting dates:

Description	2014/15	2015/16	2016/17
Balance as at yearend 726000 - Accruals: Sales	207 305 159	366 255 518	560 062 662
Annual increase	NA	77%	53%

The above will result in an overstatement of both marketing incentive commissions and accruals for expenditure. Although this item might not be individually material, it will be considered in aggregate with similar items upon concluding in the audit report.

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Internal control deficiency

Financial and performance management

Management within the commercial department did not implement controls over daily and monthly processing and reconciling of transactions to ensure that accurate accruals are recorded at yearend and reversed within the period where marketing incentive commission payments are made. This is due to process deficiencies in the preparation and review of financial statement.

Recommendation

Commercial management should:

- Ensure that they keep a cut-off schedule that is completed towards year end to ensure that all accruals are recorded and duly reversed. This schedule should be reviewed by the commercial management at the end of the financial year and at the end of the first month of the following period to ensure that journals entries were adequately processed.
- Ensure that at year end the amount to be accrued for as marketing incentives payments is recorded based on the actual amount that has been determined in the contractual TFR with the different consortiums of travel agents.
- Rectify the abovementioned transactions by basing the calculation on the actual TFR as at yearend. Over accrued for expenses should be preferably corrected within the period which they were originally journalised. Adequate disclosure for correction of PY errors should be made if opening balances are adjusted.
- Ensure that the accruals are reasonably journalised if the actual TFR of the marketing incentives payment to be made is not available at year end.

Management's response

Management comment on audit finding: The 2015/16 incentive commission pay-outs have not yet been finalised due to certain disputes with some of the consortia. We have estimated these disputes to be around R31m at this point in time. We therefore can release R100m from the 2015/16 accrual. The 2016/17 incentive commission has also not been finalised and a reversal will be effected as soon as all pay-outs have been finalised which is due to occur in the next few months. At this point in time, we have estimated the remaining pay-outs to be R71m which means that a further R122m can be released from the 2016/17 accrual.
Management comment on internal control deficiencies: Controls are in place and reversals are done as and when we incur the actuals. Going forward, the accruals will be more conservative and will not be based on a maximum achievement of revenue as has been done in the past.
Management comment on recommendation: Recommendation has been noted and future accruals will be more conservative.
Remedial action: Journal will be prepared to release R100m (2015/16 year) and R122m (2016/17) worth of accruals.

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What actions will be taken:	By whom: RFM Market RSA Person: Ernest Mudau Position;	By when: 0 – 1 month

Auditor's conclusion

Management's response was noted and agrees with the finding, internal control deficiency and the recommendations. The corrections have been re-audited and affirmed that this matter has been corrected.

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Goods and services

126. Inconsistencies identified in the recalculation of the accommodation and refreshments amounts

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act 1 of 1999, states that "*An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.*"

In terms of Paragraph 4.49 of Chapter 4 of the IFRS Conceptual Framework states, "*For recognition of expenses - Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.*"

A. Incorrect basis of accounting applied

During the audit of accommodation and refreshments it was noted that expenditure relating to cabin crew allowance at Perth is recognised when advance payment for the allowance is made and not when the crew members becomes entitled to their meal allowances.

Below is the detail of the expense transaction that was recognised on the incorrect basis:.

Posting Date	*GL Description*	*GL Account number*	*Document Number*	*Document Currency*	*GL Amount in Document Currency*	*Amount Paid to crew members in (AUD) currency*	*Difference from the previous weeks (AUD) Currency*	*Difference (AUD) currency*
					A	B	C	D=A-B-C
01-Sep-16	Rendezvous Htl: Cabin Crew Meal Allow W/E 11Sep16	910 310	1106078363	AUD	34 710.00	37 152.00	-1 410.00	-1 032.00

Further testing was performed with regard to the difference and it was noted that:

- Due to the fact that the advance payments is made at a different time than that off the cabin crew being entitled to their meal allowance there are differences being carried over from one week to the next and in some instances the difference from the previous week when combined with the difference of the current week clears out, however for the item indicated above the difference does not clear.
- Refer below for the detail testing performed which details out that final difference:

a). Australia-September for the week ended 04 September 2016

No. of Crew members	Date	Days stayed	USD allowance per day	IATA rate	AUD	AUD rounded up	Total (AUD)
A		B	C	D	E=C*D	F	G=A*B*F
10	42611	3	131	1.33547	174.9466	175	5250
10	42612	3	131	1.33547	174.9466	175	5250
12	42613	3	131	1.33547	174.9466	175	6300
10	42614	3	131	1.31169	171.8314	172	5160
10	42615	3	131	1.31169	171.8314	172	5160
10	42616	3	131	1.31169	171.8314	172	5160
10	42617	3	131	1.31169	171.8314	172	5160
Total that should have been recognised in the GL							37 440

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Total amount paid and recorded in the GL for the week	39 200
Difference	**-1 760**
Amount relating to payment of sick crew member	350
Final difference	**-1 410.00**

b). Australia-September for the week ended 11 September 2016

No. of Crew members	Date	Days stayed	USD allowance per day	IATA rate	AUD	AUD rounded up	Total (AUD)
A		B	C	D	E=C*D	F	G=A*B*F
10	42618	3	131	1.31169	171.8314	172	5160
10	42619	3	131	1.31169	171.8314	172	5160
10	42620	3	131	1.31169	171.8314	172	5160
10	42621	3	131	1.31169	171.8314	172	5160
10	42622	3	131	1.31169	171.8314	172	5160
10	42623	3	131	1.31169	171.8314	172	5160
12	42624	3	131	1.31169	171.8314	172	6192
Total that should have been recognised in the GL							37 152
Total amount paid and recorded in the GL for the week							34 710
Difference							**2 442**
Difference from Prior week							-1410
Cumulative difference							**1 032.00**

B. Incorrect IATA rates used

During the audit of accommodation and refreshments it was noted that management uses the Standard bank corporate card statement to allocated costs relating to duty travel costs to different cost centres instead of using the actual foreign invoice amount received from the supplier.

This has resulted in differences noted in relation to the exchange rates used due to management using the standard bank rates (as amounts has already been converted to South African rand in the corporate card statement) instead of documenting the invoice amount in foreign currency into the system so that the amounts could be converted using the IATA rates.

Below are the differences identified:

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#	Accounting Document no	GL Account	Description	Amount posted in GL (ZAR)	Recalculated amount: Invoice amount	Currency	IATA rate - To convert amounts to USD	Invoice amount converted to USD	IATA USD rate to convert amounts to rand	Recalculated amount	Difference
				A	B		C	D=B/C	E	F=D*E	G=A-F
1	2100026594	910280	Hotels Abroad- Talent Conference	21 770.90	2 118.60	SGD	1.42725	1 484.39	14.16055	21 019.82	751.08
2	2100006303	910280	Hotels Abroad Accommodation In London	24 399.60	1 382.40	GBP	0.80464	1 718.04	14.16055	24 328.33	71.27
										Total misstatement	822.35

C. VAT amount incorrectly recognised as an expense

During the audit of accommodation and refreshments it was noted that some of the expenditures were recognised inclusive of VAT in the general ledger for transactions that are taxable supplies for VAT purposes. Furthermore it was noted that the VAT was claimed by management which resulted in the expenditure amount being overstated relating to items 1, 3 below. For Item 2 VAT was claim on an exempt supply.

Based on further it was not that for errors noted in table 1 the error was factual and for table 2 the error was anomalous.

Table 1: Below is the list of the expense transactions that were incorrectly recognised inclusive of VAT.

#	Accounting Document no	GL Account	Description	Amount posted in GL (ZAR)	Amount as per the invoice excluding VAT	Currency	Conversion rate as per IATA	Amount as per the invoice after conversion	Misstatement (ZAR)
				A	B		C	D=B*C	E=A-D
1	1900658372	910270	Hotac Crew Muc 01-10Sep	473 492.77	28 800.00	EUR	15.36516	442 516.61	30 976.16
2	1900668853	910285	Accommodation	5 289.47	5 574.39	ZAR	1	5 574.39	-284.92
								Total misstatement	30 691.24

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Table 2: Below is the list of the expense transactions that were incorrectly recognised inclusive of VAT and the error was considered to be anomalous

#	Accounting Document no	GL Account	Description	Amount posted in GL (ZAR)	Amount as per the invoice excluding VAT	Currency	Conversion rate as per IATA	Amount as per the invoice after conversion	Misstatement (ZAR)
				A	B		C	D=B*C	E=A-D
3	1900659870	910370	October 2016 - Lounge - Fra	1 282 605.44	80 826.96	EUR	13.92114	1 125 203.43	157 402.01

A. Incorrect basis of accounting applied

The above misstatement is caused by the fact that the expense for crew allowance is accounted for when provisional payments has been made to the hotels instead of when the amount is invoiced/ incurred. This has resulted in a control deficiency with regards to the accounting of accommodation and refreshments.

B. Incorrect IATA rates used

The misstatement was as a result of management using the Standard bank corporate card statement to allocated costs relating to duty travel costs to different cost centres instead of using the actual foreign invoice amount received from the supplier.

C. VAT amount incorrectly recognised as an expense

The misstatement is caused by personnel posting the transactions without excluding the VAT amount from the expense recognised.

The above misstatements will result in an overall projected overstatement including the anomalous misstatement of R 7 094 352.25 for Accommodation and refreshment expense.

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Internal control deficiency

Financial and performance management

Management has not implement controls over daily and monthly processing and reconciling of transactions to ensure that the transactions to ensure that the transactions recorded for accommodation and refreshments are:

- Recorded in terms of the accrual method instead of a cash basis in relation to the Cabin crew meal allowance. The process is followed in this way to for ease of managing the allowances.
- Excluding VAT for taxable supplies, due to ineffective reviews taking place by review of journal entry.
- All transactions are recorded in their foreign currency to ensure that the foreign exchange rate are correctly converted using the correct IATA rate, was done due to misunderstanding by the preparer that exchange differences needs to be recognised on credit card transactions.

Recommendation

A. Incorrect basis of accounting

Management need to ensure that all the transactions have been recorded on an accrual basis rather than on cash basis.

B. Incorrect IATA rates used

All transactions should be posted onto the SAP system as per the document/ invoice currency to ensure that the system converts the foreign amounts correctly to South African currency using the IATA rates loaded onto the system.

C. Vat amounts incorrectly recognised as an expense

Management should ensure that all taxable supplies transactions are recorded exclusive of VAT.

Management should revisit and correct the entire population in order to clear the misstatement.

Management response

Management comment on audit finding: ***A. Incorrect basis of accounting applied*** Management comment on audit finding: We have explained to the auditor, this is for crew allowance, the hotel won't pay SAA crew in advance until receive the cash from SAA, hence there is an exchange rate difference. However, in fact, there is no over or under payment indeed. Any currency exchange difference will be adjusted / settled in next payment. The pre-payment in cash of Cabin Crew meal allowances is a union rule which is strongly enforced; we have no other option available. The crew pattern is advised to us on the Tuesday of the preceding week, and we compile the blank crew allowance sheets for the following week based on this information. The total week's funds amount is passed on to Sydney finance for transfer to hotel account by the Thursday so that they can order the cash and make up individual allowance packages ready for the following

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Monday – Sunday.
The actual names are passed on to the hotel the morning of the flight arrival and they endorse them onto the blank sheets. The crew arrive at hotel and sign for the individual allowances at reception.
The completed allowance sheets with signatures accompany the hotel room invoice and serve as reconciliation for funds dispersed and verification of rooms occupied. These are sent attached to Sydney finance as supporting documentation for payment of room invoices and filing of records.

B. Incorrect IATA rates used

1. Hotels Abroad – Talent Conference
2. Hotels Abroad Accommodation in London

The entire population will need to be examined to determine the net effect of all the forex gains and losses. Net income statement impact is zero

C. VAT issues

1. Hotel crew MUC 01-10 Sep

This was an error due to an incorrect VAT code used at Munich station. This was an isolated error at this station and the audit approach should therefore be accordingly.

2. Accommodation

This is an error. It will be rectified.

3. October 2016 – Lounge - FRA

Lounge costs posted in JNB are posted gross. VAT is recovered later when the Frankfurt office receives sighting of the actual invoice. As a result, the correct rate of VAT is recovered based on the actual amount charged. Previously there was a delay between posting the invoice and the VAT recovery as the station did not have direct access to the invoice. However in the last couple of months an adjustment has been made on the SAP sign-on for the team such that they can now access the invoice directly via the SAP system, JNB having attached the invoice to the posting document. As a result VAT recovery is now made in the same month that the invoice is posted. The use of forex rates is beyond the stations control as these are booked automatically by the system and allocated based, on the day of entry.

Management comment on internal control deficiencies:

A. Incorrect basis of accounting applied

We can't resolve it locally, it follows the contract signed between SAA Procurement & crew hotel, unless Procurement change the contract & SAA pay a cash guarantee to the crew hotel, so the crew hotel is able to bill SAA @ the actual rate, same as the process as Hong Kong.

C. VAT issues

This was an isolated incident and payments will be rechecked.

Management comment on recommendation:

A. Incorrect basis of accounting applied

A departure from the existing method is not practical given the union award requirement for crew allowances to be pre-paid in CASH and in ADVANCE is MANDATORY. Any change to the current regime will need to be approved by Inflight Services, on whose behalf we undertake this process.

B. Incorrect IATA rates used

Incorrect IATA rates used:

The net income statement impact is zero. The entire population will need to be checked to determine the net effect of all forex gains and losses.

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C. VAT issues		
VAT misstatement: All other payments were checked and were correct. This was an isolated incident and should be treated as such.		
Remedial action: Not applicable. No remedial action necessary.		
What actions will be taken:	By whom: Person: Position:	By when:

Auditor's conclusion

Part A

There is still a misstatement at year end due to the processed followed by management in recognising the transactions thus the error still remains valid.

Part B

Management agrees with findings.

Part C

Management comment is noted however the error as a result of inputting the incorrect code may occur somewhere else thus cannot be seen as an isolated incident. The VAT as per the lounge cost in Germany is considered to limited to Germany due to the process followed the VAT is claimed subsequently.

The extrapolated difference will be added to the summary of the unadjusted difference for further evaluation.

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Operating expenses

127. Transactions relating to expenses recorded in the incorrect accounting period

Audit finding

Section 55 (b) of the Public Finance Management Act(PFMA) 1 of 1999 states that , *"The accounting authority for a public entity must prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity".*

International Accounting Standard 1 (IAS 1) para 27 states that, *"an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting".*

IAS 1 para 28 states that, *"when the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework".*

We noted that the following transactions were recorded in the incorrect accounting period and therefore resulting in misstatements in the financial statements:

A. Electricity

No.	General ledger details			Invoice details		
	Posting date	Document no.	Description	Invoice date	Invoice no.	Amount
1	04/25/2016	1900010453	Electricity	18-Mar-16	JHI (GENSEC)	R2 751.75
2	04/21/2016	1900010445	Electricity -March 2016	31-Mar-16	577965	R2 348.31
Total						**R5 100.06**

As a result of this, there is an overstatement of electricity expense in the company statement of profit or loss for the year ended 31 March 2017 due to expenses being recorded in the incorrect accounting period. The misstatement is factual and below trivial threshold.

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B. Other personnel costs

a. Transactions relating to expenses recorded in the incorrect accounting period

During the audit of other personnel cost we noted that the following transactions were recorded in the incorrect accounting period and therefore resulting in misstatements in the financial statements

No.	General ledger details			Expense description	Invoice details		
	Posting date	Document no.	Item		Invoice no.	Invoice date	Amount (Excl. Vat)
1	01 April 2016	1100015148	Cost of training	Cost of training	1800008921	31-Mar-16	R2 881 786,33
2	22 April 2016	5000018114	Training	Training	207202	08-Mar-16	R433 345.00
3	25 April 2016	1900643327	Management fees for canteen March 2016	Management fees for canteen March 2016	1800027050	01-Mar-16	R107 000,00
4	12 August 2016	1900111259	WTS Travel concession March 2016	WTS Travel concession March 2016	1800009281	31-Mar-16	R39 021.00
Total							R3 461 152,33

As a result of this, there is an overstatement of other personnel costs in the company statement of profit or loss for the year ended 31 March 2017 due to prior year other personnel costs being recorded in the current financial period

b. Amount incorrectly recognised in general ledger when compared to the amount as per the invoice

During the audit of other personnel cost it was noted that the amount as recognised in the general ledger does not agree to the invoice amount.

Below is the detail of the other personnel transactions as per the general ledger that do not agree to the invoice amount:

#	Posting Date	Assignment	Document Number	Amount in local currency	Description	Suppliers name	Invoice date	Amount excl VAT	VAT amount	Amount incl VAT	Difference
1	2017/02/03	INV002734	5000020140	120 000	Pilot Workshop	ATTE- The training edge (pty) ltd	27-Jan-17	41 894	5 865	47 760	78 106
2	2016/09/28	207465	5000019223	1 189 870	Training	Blue Pencil Consulting (Pty) Ltd	30-Jun-16	211 980	29 677	241 657	977 890
Total difference											R 1 055 996

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The transactions for expenditure audited above, were selected on a sample basis, as a result management must ensure that the entire population for expenditure is corrected as the misstatements identified may be are material in aggregate and if not corrected may affect the audit report. This will also have an impact on the opening balances.

The overall projected misstatement amount of the above misstatements is R37 459 166.81 overstatement of other personnel cost.

c. Invoices not paid within the agreed payment terms

- SAA account payable policy par.3.1.6.6 state that, "payment cycles are informed by the vendor type and contractual terms. SAA standard payment terms are 30 days from date of a consolidated statement and should encompass payment to the majority of vendor accounts".
- We noted that the following expenses were not paid within the agreed payments terms or within SAA standard payment terms
- *Below is the list transactions not paid within 30 days*

Document no.	Invoice date	Invoice no.	Amount excl. VAT	Expected payment date	Payment date	Days overdue
01 June 2016	09-May-16	WBS170501	249 480.00	09 June 2016	30-Jun-16	52
30 June 2016	30-Jun-16	1800009749	29 636.00	30 July 2016	31-Oct-16	31
21 February 2017	21-Dec-16	68030949	44 622.64	21 January 2017	21-Feb-17	62
31 March 2016	31-Mar-16	INV 1800008921	2 881 786.33	30 April 2016	03-May-16	33
22 April 2016	08-Mar-16	207202	433 345.00	08 April 2016	06-May-16	36
28 September 2016	30-Jun-16	207465	211 979.97	30 July 2016	18-Oct-16	36
17 May 2016	01-May-16	004/2016	120 978.00	01 June 2016	30-Jun-16	60
22 April 2016	29-Feb-16	207186	373 453.00	29 March 2016	06-May-16	36
01 January 2017	01-Jan-17	1800028544	107 000.00	01 February 2017	01-Feb-17	31
31 March 2016	31-Mar-16	1800009281	39 021.00	30 April 2016	31-Oct-16	31
31 July 2016	31-Jul-16	1800009822	30 413.00	31 August 2016	31-Oct-16	31

There is non-compliance with accounts payable policy and supplier payment terms which may result to SAA incurring interest/penalties due to late payments to suppliers, which constitutes fruitless and wasteful expenditure.

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C. Accommodation and Refreshment

During the audit of accommodation and refreshment the following transaction was recorded in the incorrect accounting period and therefore resulting in misstatements in the financial statements:

No	General Ledger details			Expense description	Invoice details		
	Posting date	Document no.	Details		Invoice no.	Invoice date	Amount excl. VAT
1	03 April 2017	123311706	*Trip from 31.03.17 To 31.03.17 to DLEG-1CPT177	Meal Allowances : Crew Domestic	DLEG-1CPT177	31-Mar-17	250.00

As a result of this, the current years an accommodation and refreshment amount is overstated by R1 921611.1.

Internal control deficiency

Financial and performance management

Management did not develop and implement sufficient monitoring controls to ensure that expenditure transactions are recognised (posted) in the annual financial statements on the correct accounting period.

Posting of transactions was delayed due to internal processes such as bulk transactions that have to be posted by one individual due to capacity.

Recommendation

Management should establish sufficient internal controls to ensure that the expenditure transactions are recorded in the correct accounting period as follows:

- The posting of expenditure transactions on the SAP system should be done in time, with the earlier of the receipt of services/ goods OR the receipt of invoice/statement.
- There should be a register in place to register the expenditure statements/invoices and should be monitored regularly in order to facilitate the process of identifying invoices which have not been posted on SAP system.
- Corrections should be made through posting journals to post the above transactions in the correct accounting period.
- Throughout the year, more individuals should be involved in monitoring the posting of invoices to SAP system.

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Management's response

Management comment on audit finding:

Finding number 1.1 item 3,4,5,6 and 7 Electricity (Ernest)

Accruals were raised for March and subsequently reversed in April when invoices were received and expensed

Finding number 1.2 Item 6,7,8,9,10,11,12 and 13 IT EDC (Aradhna)
IT is in agreement with the HP invoices, findings no (6, 7, 8, 9, 10), this has resulted due to timing differences in receiving the invoices from the vendor.

We agree with finding no 11 that is cost needs to being accounted for as a provision and not an accrual therefore going forward we will ensure the distinction between provision an accruals

We do agree with findings no 12 as this was accrued for and accounted for correctly and evidence was provided by Katlego Boshomane.

We agree with finding No 13 as it is a capex invoice. We did not accrue for capital expenditure, as we carry over the balance of capex funds available per project from one year to the next and payments are processed from the capex budget.

We have noted and acknowledged the gap and going forward all capex invoices for Projects received as 31 March 2017 will be accrued for.

Finding number 1.2 EDC Item 1, 2 and 4 (Adam Seedat)

In respect of ACARS, ACARS is being paid by the IATA clearing house and SAA do not receive Invoices in time for accounting purposes, therefore SAA is always one or two months behind with the process.
At the end of March 2016 SAA was 2 months in arrears with the ACARS account, therefore an accrual was raised for February and March 2016. The amounts in the audit finding were part of the total ACARS account for February and March'16.
The accrual amount was $380 580, 00 SAP RefDocNo # 1105866247 / FY15. This amount was based on the average of the last three months, rounded off (multiplied by two for the two months outstanding) The accrual of $380 580, 00 was reversed in April'16 SAP RefDocNo #1105897516 / FY16.
The actual payment for February and March'16 for ACARS was $366 962.94
$13 617.06 / R 213 573.21 – 4% overstatement in 2015 Financial Year

Finding number 1.4 Accommodation and refreshment(Adam Seedat)

In respect of Accommodation and Refreshments SAA do not receive Invoices in time for payment in a specific month, therefore an accrual was raised for March 2017 invoices amounting to R27 000.00 The posting number for the accrual in SAP is RefDocNo # 1106407783 / FY16. The accrual of R27 000.00 was reversed in April'17 SAP RefDocNo #1106407799 / FY17.
The actual payment for March'16 was R 27 134.28
Understatement of R134.28 in 2016 Financial Year, please refer to the SAP info below.
Other operating expenditure
1. SAX Cadet pilot training: This relates to conversion cost training at SAX to enable the cadets to operate a different aircraft type. These costs were contended by Training & Development department thus causing a delay in payment processing. This item was not "procured" as a standard training item, but relates to the cadet pilot secondment SAX to ensure ROI on cadet pilot programme. The invoice was raised by SAX and subsequently treated as an offset from the SAX revenue payable to SAX. This expense was also cited as a PFMA non-compliance matter and will be reported accordingly.

2. 4800001523 - Blue Pencil Consulting (Pty) Ltd - Expense related to the Blue Pencil contract for SAP system related training. Invoices were disputed by business and delayed for processing without notification the financial manager to accrue by cut-off time at FYE despite notifications.

3. Management fees canteen – Airchefs. Invoices are raised in retrospect based on agreement between

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Facilities & Airchefs and calculated on headcount number with a reductions proviso to reduce management fee. Not accrued for due to multi coce allocations.

4. Invoices relates to the TPO's (travel concessions on trains for SAA staff post the unbundling from Transnet). These invoices are directed to HR for verification of pension numbers before submittal. HR & Finance had a meeting with Metro Rail on the late invoice submission who in turn advised SAA of system related challenges post an upgrade. Costs are immaterial and allocated to multi cost centres when finally verified. Accrual are not practical due to the variable use by staff.

Management comment on internal control deficiencies:

IT EDC (Aradhna)
IT do not agree with the comments on internal control deficiencies as we have internal controls in place to monitor and ensure that we have accurate and complete accounting.

EDC (Adam Seedat)
No deficiency

Electricity (Ernest)
Accrual concept is upheld at all times. The Capacity issue has been noted and will be discussed with affected department line manager
Other operating expenditure
The classification of these expenses are as "other personnel costs" is purely so because of the general ledger account grouping as HR related costs but allocated to various business areas, especially findings 3 .

Notification is sent to the various business units to advise on unprocessed invoices in preparation for FYE and accrual purposes where practical (par 2). The financial controller in this instance has implement controls to prevent expenses from prior year to be included in a subsequent FY. Late submittals were addressed with the respective business departments.
Findings 2 is accepted and was accordingly addressed with the business unit.

In terms of finding 1: Management takes note of this finding. Accrual in this instance was not possible due to the disputes between SAA & SAX that arose post facto of the business case and letter of understanding between the airlines. This was a once-off secondment project and due to the offset method of payment, prior notification was not received to raise an accrual nor was it practical in this instance.

Paras 3 & 4: Due to the multiple cost centre allocations and variable of incurring expenses, accruals are not practical due to the materiality.

Management comment on recommendation:

IT EDC (Aradhna)
IT agrees with the recommendations, as we currently do have those controls in place and follow them on a weekly and monthly basis.

EDC (Adam Seedat)
None required

Electricity (Ernest)
Recommendations have been noted and will be discussed. Note that reconciliation is done at all times when payments are made, supplier statements and SAPFI vendor information are reconciled and signed by the Finance manager. Note that no payment can be made without it been processed on SAPFI system. Segregation of duties between employees processing Invoices and the one's paying help strengthen our internal controls

Remedial action:

IT EDC (Aradhna)
Review and provide feedback to the related parties on these gaps and ensure more frequent reviews and communication to the related parties to avoid a recurrence.

EDC (Adam Seedat)
Not applicable
Other operating expenditure

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Management takes note of the recommendations. The classification of these expenses are as "other personnel costs" is purely so because of the general ledger account grouping as HR related costs but allocated to various business areas, especially findings 3 & 5. Despite control in place to ensure (timely) accruals, instances are non-accruals are noted and controls will be improved to address inefficiencies.		
What actions will be taken:	**By whom:** Enerst Mudau **Person:** Regional Finance Manager: Commercial - Domestic South Africa **By whom:** HR Financial Manager **Person:** H Kleinhans Position: Manager: AP/TM & Financial Controller HR	**By when: 31 March 2018**

Auditor's conclusion

Management comments have been noted and the findings initially raised were validated to supporting evidence, being the invoice and accrual journals that were raised by management. The findings which related to Electronic data costs, accommodation and refreshments, and part of electricity were resolved and removed from the management report. Refer to working paper K.6.4, K.7.3 and K.9.3

The remaining findings, relating to electricity and other personnel costs were not resolved and therefore remain in the management report. On other personnel costs, the projected misstatement will be included in the schedule of audit differences and the misstatement relating to electricity is factual and below trivial threshold, thus no further work to be done.

The finding remains in the management report as other important matters.

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128. Invoices not paid within the agreed payment terms

Audit finding

SAA account payable policy par.3.1.6.6 state that, *"payment cycles are informed by the vendor type and contractual terms. SAA standard payment terms are 30 days from date of a consolidated statement and should encompass payment to the majority of vendor accounts".*

We noted that the following expenses were not paid within the agreed payments terms or within SAA standard payment terms.

A. Navigation, landing and parking

No.	Document no.	Invoice date	Invoice no.	Amount excl. VAT	Expected payment date	Payment date	Number of Days due
1	1106161139	31/08/2016	NMB0024177	R908 553.88	30/09/2016	07/10/2016	37
2	1900648418	15/05/2016	RUO/104426/16 04/01	R272 853.84	30/06/2016	08/07/2016	38
3	1900662324	03/06/2016	2016C00002911	R15 101 328.61	03/07/2016	25/01/2017	178
4	1900662334	09/05/2016	2016C00002488	R15 564 380.28	08/06/2016	Not paid yet	Not paid as at 31 March 2017.
5	1900662315	04/07/2016	2016C00003706	R14 877 728.43	03/08/2016	04/04/2017	243
6	1106024307	11/07/2016	11901	R1 053 435.79	12/08/2016	16/08/2016	34
7	1900645777	18/04/2017	580815	R35 169.71	18/05/2016	31/05/2016	39
8	1900655340	31/05/2016	588394	R6 188.70	30/06/2016	30/07/2016	60
9	5100502404	31/10/2016	616124	R35 129 745.20	30/11/2016	19/12/2016	49
Total				**R82 949 384.44**			

There is non-compliance with accounts payable policy and supplier payment terms which may result to SAA incurring interest/penalties due to late payments to suppliers, which constitutes fruitless and wasteful expenditure.

A. Electronic data costs

No.	Document no.	Vendor name	currency	Amount in document currency	Conversion to ZAR	Invoice date	Payment date	Number of days due
1	1900010370	Hewlett Packard South Africa (Pty) Ltd	ZAR	8 883 843	R 9 124 648.68	01-Apr-16	03-May-16	32
2	5000961831	PROS	USD	550 000	R7 860 319.5	20-May-16	12-Aug-16	82
3	1900643010	ACARS- XA-A45 AERONAUTICAL RADIO, INC.	USD	62 972	R 967 935.90	29-Mar-16	04-May-16	35
4	1900640711	ACARS- XA-A45 AERONAUTICAL RADIO, INC.	USD	61 747	R 950 504.44	25-Feb-16	04-Apr-16	39
5	1900010715	1S-A01 SABRE INC.	USD	60 000	R 923 606.40	29-Feb-16	27-Jun-16	117

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6	1900643010	ACARS- XA-A45 AERONAUTICAL RADIO, INC.	USD	58 757	R 903 143.28	29-Mar-16	04-May-16	35
7	1900650251	SITA/ XA-A45 AERONAUTICAL RADIO, INC.	USD	59 947	R 884 280.61	23-Jun-16	15-Aug-16	52
8	1900011715	Telkom SA SOC Limited	ZAR	170 553.38	R 170 553.38	31-Dec-16	17-Feb-17	47
9	1900011634	Hewlett Packard South Africa (Pty) Ltd	ZAR	938 195.37	R 938 195.37	03-Jan-17	03-Mar-17	60
Total					R22 723 187.56			

B. Accommodation and refreshments

No	Document no.	Invoice date	Invoice no.	Amount excl. VAT	Expected payment date	Payment date	Days overdue
1	1900669309	21-Feb-17	477566	14 862.00	21 March 2017	30-Mar-17	37.00
2	1106049125	09-Jul-16	INV 120243/29678	104 094.94	09 August 2016	09-Aug-16	31.00
Total				118 956.94			

Non-compliance with accounts payable policy and supplier payment terms which may result to SAA incurring interest/penalties due to late payments to suppliers, which constitutes fruitless and wasteful expenditure.

Internal control deficiency

Financial and performance management

Creditor's section officials did not monitor invoices received to ensure that suppliers are paid within the agreed credit terms.

Recommendation

Management should:

- Make payments within the agreed payment terms and for renegotiated payment terms a valid document should be signed by both parties to reflect this.
- Initiate a process of tracking invoices received until payment by maintaining a register of invoices updating it continuously to ensure all invoices are paid within the agreed time frames.

Management's response

Management comment on audit finding: **IT EDC(Aradhna)** IT agree with findings (1, 8, 9) Finding no 1 , this invoice was submitted on time by IT Finance but was paid late due to the public holiday on the 1st of May and scheduling of this payment by SAA – Creditors department (

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Manager : Hester Kleinhans)

Finding no 8, this invoice was paid and processed late as the vendor failed to supply a month end statement on time, which is a requirement to process and reconcile payments. Sebastian Smith will provide supporting evidence.

Finding no 9, this relates to a debit and credit in the same accounting month, however the transaction was processed late by the creditor's department .Supporting evidence will be provided by Katlego Boshomane.

Finding 3.1 Navigation, parking and landing

Finding 1-Unavailable funds at HO, Namibia outstation requested to make payment, therefore payment made late.
Finding 2- Invoice overlooked due to personnel change from Reunion email address. Isolated incident.
Finding 3- Initial invoice sent was billed incorrectly. Only received the corrected invoice on the 27 Sep'16. Unfortunately no funds were available to make payment until date appearing attached.
Finding 4- Same reason as above. Invoice paid 30/04/2017
Finding 5- Same as above.
Finding 6- Airports De Mozambique used to send us two invoices at same time, first period and second as per letter with ref 002433/ADM/298/DCOM/SVF/16 which is dated 9 July 2016 and received on our office on 13 July 2016 at Airport office, payment done at 26 July 2016.
Finding 7- This invoice was created for flights that were originally rejected from invoice 555678 as it was suspected that the flights were duplicated. After ACSA sent us their proof that the flights were not in fact duplicated, they prepared another invoice, i.e. 580815, which was then paid.
Finding 8- lennifer Cronje from George Airport would send the landing invoices to Cargo instead of me and Sebastian at Finance. The delay was as a result of us continually getting the invoices months later due to miscommunication.
Finding 9- Payment not Finance Operations
Regional manager finance (Frank Kgaswane)
Finding 3.1 1 and 6
Finding 3.2 (2)
All reasonable steps are taken at the stations to process payments within the agreed time frames. However, in most instances suppliers delay the submission of invoices which result in late payments. We will continue to follow up with the suppliers to ensure that we receive the invoices on time in order not to delay payments.
In both instances SAA did not incur any late payment penalties.

Finding 3.2 Item 3,4,6 and 7 (Adam Seedat)
There are delays in receiving the documentation from IATA and it is practically impossible to shorten the process as all airlines must abide by IATA Terms and Conditions. No penalties and interest is incurred as all IATA payments are promptly processed. There is therefore no fruitless and wasteful expenditure.

Management comment on internal control deficiencies:

IT EDC (Aradhna)
We disagree with the comments on internal control deficiencies as these internal controls are in place and late payments instructions on vendors come from SAA Management or are due to the delays from the Vendor in providing the required documentation.

Navigation, parking and landing
None, beyond our control

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Regional manager finance(Frank) We will monitor the submission of invoices and ensure that suppliers are paid on time. **Adam Seedat** No internal control deficiency
Management comment on recommendation: **IT EDC(Aradhna)** We agree with the recommendations, and confirm that we do have these controls in place, however need to ensure a more intensive review and follow- up on these outstanding issues. **Navigation, parking and landing** Not applicable **Regional manager finance: (Frank)** Recommendations are accepted and will be discussed with the affected stations for implementation and monitoring. **Adam Seedat** None
Remedial action: **IT EDC (Aradhna)** Review and provide feedback to the related parties on these gaps and ensure more frequent reviews and communication to the related parties to avoid a recurrence. **Navigation, parking and landing** Not applicable **Adam Seedat** Not applicable

What actions will be taken:	**By whom:** IT Finance Manager **Person:** Aradhna Seebran **Position**; Finance Manager	**By when:** With immediate effect. 21 August 2017

Auditor's conclusion

Management agree to the finding. Management response was noted and agrees with the finding, revised internal control deficiency and the recommendations. Management must ensure that invoices are paid according to the payment terms in order to avoid the risk of interest payments to suppliers. The implementation of the action plan will be audited in the 2017/18 financial year

Therefore the above findings will be reported on management report as non-compliance with Accounts Payable Policy and supplier payment terms.

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129. Supporting documentation relating to other operating expenditure not submitted for audit purposes

Audit finding

Section 54 (1) of the Public Finance Management Act 1 of 1999, states that the accounting authority for a public entity must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require."

With reference to request for information, request numbers 107 and 144 of 2016/17 dated 29 June 2017 the invoices/ payment batches relating to the following expenditure that was incurred during the 2016/17 financial year were not provided for audit purposes:

No.	Supplier	Document no.	Amount
1	Dimension data	1106221105	8 342 650
2	Maintenance	2100026751	12 019.00
3	Voyager accrual*	1106037512	611 027.00
4	Voyager accrual*	1106038840	369 430.00
5	Voyager accrual*	1106221063	168 424.00
6	Jacques Germanier (Pty) Ltd	Single payment	114 280.00
7	Unknown	1106399096	485 150.00
8	Voyager accrual	5000027512	170 395.00
9	Voyager accrual	5000027541	182 895.00
10	Voyager accrual	5000027542	170 395.00
11	Voyager accrual	5000027566	877 918.00
12	Voyager accrual	1100007606	37 024.00
13	Voyager accrual	1106408733	1 688 631.00
14	Voyager accrual	1106408733	784 813.00
15	Voyager accrual	1106408733	2 355 054.00
16	Voyager accrual	1106408733	1 581 583.00
17	Voyager accrual	1106408733	3 033 099.00
18	Voyager accrual	1106408733	1 171 940.00
19	Unknown	5000025596	34 214.00
20	Unknown	5000025597	329 475.00
21	Unknown	5000025597	66 542.00

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No.	Supplier	Document no.	Amount
22	Bid air services	5000025657	25 000.00
23	Bid air services	5000025657	40 000.00
24	Bid air services	5000025657	20 000.00
TOTAL:			14 329 308.00

only journals with no supporting documents were provided for these transactions

The projected amount based on the population for operating expenditure for this misstatement is R714,4 million. This will result in a material limitation of scope.

Internal control deficiency

Financial and performance management

The relevant Financial Managers/ Financial Controllers did not ensure that the documentation is provided for audit purposes on a timely basis

Recommendation

The divisional financial controller should co-ordinate the submission of information requested by the auditors in support of expenditure incurred.

The submission of information to the auditors should be coordinated by the financial controller and submitted to the auditors within the specific timeframes as agreed in the engagement letter.

Management response

Management comment on audit finding:

Items 3-5 and 12-18

The journal entry supporting these items was supplied and an email sent on the 21st July requesting if anything further was required. No response to the mail or further request relating to these items was received. These entries relate to the allocation of the other airline accrual expense against the individual routes for RCT purposes. The amount allocated on a monthly basis consists of the net of all invoices cleared for the month from trade creditors plus the monthly accrual for invoices and billing files not received less the reversal of the prior month's accrual. Therefore there will not be invoices tying back to the total amount of the invoice.

Item 8

Voyager Finance has never received a request for supporting documentation relating to this item. This expense relates to Health Spa's invoice number 58685 which will be available from accounts payable.

Item 9

Voyager Finance has never received a request for supporting documentation relating to this item. This expense relates to Health Spa's invoice number 58700 which will be available from accounts payable.

Item 10

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Voyager Finance has never received a request for supporting documentation relating to this item. This expense relates to Health Spa's invoice number 58686 which will be available from accounts payable.

Item 11

Voyager Finance has never received a request for supporting documentation relating to this item. This expense relates to Miles for Style invoice number SAAV0025 which will be available from accounts payable.

Item 19

Voyager Finance has never received a request for supporting documentation relating to this item. This expense relates to Avis Chauffer Drive. The document number in the table relates to invoice number E330279401T for the amount of R484 and not to the amount of R34 214 displayed in the table.

Item 20

Voyager Finance has never received a request for supporting documentation relating to this item. This expense relates to Avis Chauffer Drive. The document number in the table relates to invoice number E183375544T for the amount of R484 and not to the amount of R329 475 displayed in the table.

Item 21

Voyager Finance has never received a request for supporting documentation relating to this item. This expense relates to Avis Chauffer Drive. The document number in the table relates to invoice number E183375544T for the amount of R484 and not to the amount of R66 542 displayed in the table.

All items not listed in the management comment above do not relate to Voyager.

Management comment on internal control deficiencies:

The documentation was not requested from Voyager Finance

Management comment on recommendation:

Documentation that is requested from Voyager Finance it will be supplied within the specific time frames or the auditors will be redirected to the department who can supply the documentation.

Remedial action :

What actions will be taken:	By whom	By when:
See individual comments for each item under Management comment on audit finding	Person: R Birch Position: Voyager Financial Manager	

Auditor's conclusion

Management's comments are noted. All the outstanding documents were subsequently provided to the team. The limitation of scope should therefore be considered as being resolved.

The matter will be removed from material matters affecting the auditor's report and included in other non-material maters to highlight the internal control deficiency of documents not being readily available to the team.

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Foreign Exchange Transactions

130. Internal control deficiency: inconsistent application of exchange rates for financial reporting

Audit finding

IAS8.13 states that an entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. If an IFRS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

SAA has elected an accounting policy which states that in preparing the annual financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the ruling rates of exchange, which are taken as being the International Air Transport Association (IATA) five day average rate applicable to the transaction month.

The auditors tested that this policy is applied consistently throughout the financial year, meaning if the month is June, the auditors expect the transactions to be recorded using the same rate, for example if the USD for the month is 15.72, the auditors will expect all the expenses and income that are USD dominated to be recorded using this rate.

The team identified that this was not the case on SAA records.

We extracted the report from the general ledger for all the foreign transactions that took place between 1 April 2016 and 31 March 2017, here is what the auditors discovered.

The rates that SAA used in the translation of the expenses were not consistent for the month of June 2016 and March 2017, the extract can be provided on request, for example the cross rate that should be used for all the foreign transactions in June was USD 0.6 based on the IATA exchange rate of USD 15.52, however there instances where the same USD rate was ranging between cross rate of 0.1 to 0.9.

This is due to the lack of control monitoring by management, to ensure that when the transactions are posted correct rates are applied.

The audit team will quantify under different sections the impact thereof of the inconsistencies and report accordingly, where differences are material.

Internal control deficiency

Financial and performance management

The Manager: Finance did not ensure that conversion rates applied for financial reporting are consistently in line with the accounting policy of SAA.

Recommendation

SAA should ensure that the correct rate for the month is used by doing reconciliations of the foreign exchange rates that are recorded in SAP.

Based on the decision with management these reconciliations and controls are only performed for Bloomberg rates, which is the month closing rate, but no controls around the IATA rates.

These controls should be applied also to the IATA, by making sure they are correct by comparing the rate on the system to the FDR report that is downloaded from IATA, this will ensure that the rate is consistent.

Management response

Management comment on audit finding: **Finding is noted**		
Management comment on internal control deficiencies: **Staff will be instructed to ensure the correct rate is applied**		
Management comment on recommendation: **Management will ensure the correct rates are used consistently.**		
Remedial action: **Staff have been instructed to use the correct rate for translating foreign currency transactions during the month.**		
What actions will be taken: **Finance personnel will be advised to ensure the correct rates are applied consistently.**	By whom: L Olitzki Person: Position; HOD Financial Accounting	By when: 11 Aug 2017

Auditor's conclusion

Managements remedy on the control deficiency identified will be assessed in the audit for 2017/18.

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Income tax

131. Incorrect tax laws application relating to componentisation of fixed assets

Audit finding

During the audit of fixed assets, we have identified that owned aircrafts have been componentised (broken down into components). The depreciation for accounting purposes and the tax allowances for tax purposes have been calculated for each component of these aircrafts. The components that are purchased for leased aircraft are capitalised and included in the fixed asset register. The South African Airways SOC Ltd ("SAA") claimed tax allowances on the cost of the components of the aircraft under section 12C of the Income Tax Act No 58 of 1962 ("the Act").

This componentisation is done in order to comply with the requirements of the International Financial Reporting Standards (IAS16). Therefore, any replacement of the component represents the retirement or scrapping of the old component and the acquisition of the new component or asset for accounting purposes. However, section 12C of the Act refers to an aircraft as an asset that qualifies for a tax allowance and not the components of an aircraft. In addition, the provisions of section 11(e) do not apply to assets that qualify for tax allowances in terms of section 12C. This means that aircrafts cannot be subject to the tax allowances in terms of section 11(e).

During the 2017 year of assessment, SAA incurred the costs listed below which represent the replacement of some components. These costs have been capitalised and classified as additions in the accounting fixed asset register.

The extract of expenses included in the table below relates to the maintenance of the engine and the auxiliary power unit which have been capitalised in the accounting fixed asset register.

Asset	Description	Inventory number	Acquis.val.	Accum.dep.	Book val.
3601000473	PAYMENT FOR REPAIR CFM56-5C4 S/N 741977	ZS-SXG	56 332 945	(7 511 059)	48 821 886
3601000477	REPAIR OF APU 331-600 @ HONEYWELL	SPARE OWNED APU	11 386 639	(1 328 441)	10 058 198
3601000495	REPLACEMENT LLP ON TENT 556 SN 71153	71153	15 550 671	(259,178)	15 291 493
		Total	**83 270 255**	**(9 098 678)**	**74 171 577**

The extract of expenses included in the table below relates to the maintenance of the airframe of the aircraft which has been capitalised in the accounting fixed asset register.

Asset	Description	Inventory number	Acquis.val.	Accum.dep.	Book val.
3601000122	ZS-SXD CKC 008	ZS-SXD	3 511 752	(351 175)	3 160 577
3601000474	ZS-SXF CKC 008	ZS-SXF	10 114 898	(1 517 235)	8 597 663
3601000476	ZS-SXE CKC 008	ZS-SXE	13 604 886	(2 040 733)	11 564 153
3601000481	ZS-SXH CKC 014	ZS-SXH	5 143 202	(1 028 640)	4 114 562
3601000496	ZS-SXE CKC 008	ZS-SXE	7 729 983	(128 833)	7 601 150

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Asset	Description	Inventory number	Acquis.val.	Accum.dep.	Book val.
3601000040	ZS-SNC CKC 008	ZS-SNC	16 901 276	(1 877 920)	15 023 356
3601000057	ZS-SNG CKC 008	ZS-SNG	18 254 910	(3 147 398)	15 107 512
3601000478	ZS-SNG CKC 008	ZS-SNG	24 169 167	(3 222 556)	20 946 611
3601000479	ZS-SNF CKC 008	ZS-SNF	17 127 125	(3 139 973)	13 987 152
		Total	**116 557 199**	**(16 454 463)**	**100 102 736**

Note that the above tables above are not an exhaustive list.

In terms of section 12C(1)(f) of the Act, SAA qualifies for a tax allowance of 20% of the cost in respect of any aircraft it owns or which it acquired as the purchaser in terms of an agreement contemplated in paragraph (a) of the definition of "instalment credit agreement" in section 1 of the Value-Added Tax Act and which was or is brought into use for the first time by the taxpayer for the purposes of his or her trade (other than an aircraft in respect of which an allowance has been granted to the taxpayer under section 12B). Therefore, section 12C(1)(f) allows SAA to claim tax allowances in respect of its owned aircraft over a period of 5 years. Any aircraft older than 5 years should not qualify for any tax allowances. The replacement of each component should merely constitute a repair or maintenance of an aircraft in terms of section 11(*d*) of the Act or an improvement of an asset depending on work performed and the impact of such work on the aircraft.

In terms of the accounting policy for depreciation the aircraft and its components have useful lives ranging from 5-20 years, with a residual value of 20 percent on structures and engines.

Section 12C(1)(*f*) does not provide a deduction for the different components of the aircraft, but allows a deduction for the aircraft in its entirety which encompasses the components. Therefore, this incorrect tax treatment of owned aircrafts has the following impacts:

- The deduction of tax allowances on components acquired is a contravention of the Act as section 12C does not allow the aircraft to be considered as its individual parts. The tax allowances claimed for the owned aircrafts is overstated by the amounts claimed in respect of the different components of such aircrafts.
- As section 12C is incorrectly claimed, the deferred tax asset on the remaining portion of the tax base of the replaced aircraft is overstated.
- Although SAA may have qualified for section 11(*d*) deduction (as repairs and maintenance) in respect of the replacement costs of components incurred in previous years, it may not be able to make adjustment in the 2017 year of assessment to claim such repairs and maintenance costs. This is because section 11(*d*) requires these costs to be claimed during the year of assessment in which they have been incurred.
- SAA may have to re-open the previous assessments to correct the errors arising from the incorrect treatment of its replacement of the aircraft components. However, such corrections are limited to those returns that have not prescribed in terms of the Tax Administration Act, 2011.
- Where components are scrapped, the scrapping allowances have been incorrectly claimed and where proceeds have been received, such proceeds should be treated as recoupments.

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Management does not separate the accounting treatment from the tax treatment of replacement of components. In addition, there is no separate tax asset register and this makes it difficult to track replacements from the original costs of the aircrafts.

Internal control deficiency

Financial and Performance Management

Tax department does not assess the impact of using the accounting conventions against the application of the tax provisions such as section 11(*d*) and section 12C when determining the deduction that is allowed on aircraft.

A tax asset register is not kept which reflects the correct tax treatment for the aircraft in order to support the tax allowances that are claimed when determining the taxable income. This arose due to lack of understanding of tax prescripts.

Recommendation

- The head of tax should ensure that the tax allowance for the aircraft is calculated on the actual cost of the aircraft and not the different components of the aircraft.
- Management should prepare a tax fixed asset register which reflects the accurate tax values for the aircraft.
- Tax returns should be resubmitted to reverse the amounts incorrectly claimed as tax allowances and to claim section 11(*d*) provided the tax returns have not prescribed.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding: The audit finding regarding the tax treatment of aircraft components is acknowledged and agreed to</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: A separate tax asset register will be kept on SAP to determine the correct and accurate tax treatments of fixed assets</td></tr>
<tr><td colspan="3">Management comment on recommendation: The tax allowances on aircraft have been re-calculated for the past 5 years to correct the incorrectly claimed allowances and the relevant tax returns will be re-submitted as soon as the re-workings given to the auditors have been confirmed as correct</td></tr>
<tr><td colspan="3">Remedial action: (i) It will be ensured that tax allowances for aircraft is calculated on actual cost, excluding any replacements or maintenance of components.
(ii) A separate tax fixed asset register will be kept on SAP to reflect accurate tax values
(iii) Recalculations to remedy the past incorrect tax allowances have been done and given to the auditors in May 2017. Relevant tax returns will be resubmitted to SARS correcting the allowances claimed.</td></tr>
<tr><td>What actions will be taken:
a. A proper asset register will be kept on SAP to ensure correct treatment of assets for tax purposes</td><td>By whom: Lebo Mdlalose
Person: Position; HOD Tax</td><td>By when: a. 31 March 2018
b. 30 September 2017</td></tr>
</table>

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b. Resubmission of prior years' tax returns to SARS, correcting the incorrect tax allowances		

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. In order to clear this report item, management should refile the tax returns that have not prescribed in terms of the voluntary disclosure programme. In addition, management will have to establish a proper tax asset register that is independent of the accounting fixed asset register. During the audit, the updated calculation had been received and audit procedures have been performed. The updated calculation on the balance providing an adjustment, has been appropriately made.

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132. Renovations to immovable property

Audit finding

We have identified that the cost of renovations to buildings have been included as part of the cost of the buildings. Prior to including the renovation costs, no assessment was performed to determine whether these renovations constitute an improvement or a repair and maintenance to the buildings as envisaged in section 11(*d*) of the Income Tax Act No. 58 of 1962 ("the Act").

For tax purposes, the tax treatment for repair and maintenance is different to the tax treatment of improvements. Therefore, there is a need to assess whether the renovations constitute repairs and maintenance or improvements. Repairs and maintenance should not be included in the cost of an asset. These costs are allowable as a deduction during the year of assessment in which they are incurred under section 11(*d*) of the Act. There is a risk that items classified as improvements and capitalized in the asset register are not improvements but repairs for tax purposes. This treatment may not be in compliance with the provisions of the Act.

The calculated temporary differences could be incorrect and the ultimate deferred tax calculated could also be incorrect.

Management did not perform an assessment of costs incurred in respect of the renovations to determine whether these costs constitute repairs and maintenance of the buildings or an improvement of buildings.

Internal control deficiency

Financial and performance management

Head of tax does not assess the impact of capitalising the renovations in the asset register and claiming allowances on the capitalised amount. This arose due to lack of understanding of tax prescripts.

Recommendation

For tax purposes, management should assess whether the renovations performed on the buildings constitute a repairs and maintenance or improvements, in order to determine the correct tax treatment as required by the Act.

Management's response

Management comment on audit finding: It is acknowledged that indeed no analysis was done on the buildings "additions" per the fixed asset register and repairs and maintenance might be included in the cost of "additions".
Management comment on internal control deficiencies: It is acknowledged that no assessment was done on the additions to the buildings and no allowances have been claimed on the buildings
Management comment on recommendation: Agreed

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Remedial action: An analysis will be done for the past 5 years and proper tax treatment applied		
What actions will be taken: The additions in the asset register will be analysed and proper tax treatment applied	By whom: Lebo Mdlalose Person: Position; HOD Tax	By when: 31 August 2017

Auditor's conclusion

Management's response was noted and agrees with the finding, internal control deficiency and the recommendations. In order to clear this report item, management should refile the tax returns that have not prescribed in terms of the voluntary disclosure programme. In addition, management will have to establish a proper tax asset register that is independent of the accounting fixed asset register. The calculation has been received for audit and testing is in progress. The annual financial statements still needs to be updated relating to the effects of the finding.

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133. Adjustment of accumulated loss for non-deductible legal fees

Audit finding

During the audit of corporate tax, we have identified that in the corporate tax computation used in determining the amount of tax disclosed in the annual financial statements ("AFS"), an analysis of the amounts included in the legal fees account numbers 913250 and 913255 has not been performed. The purpose of the analysis is to determine whether the amounts included in the accounts above are deductible in terms of section 11(c) of the Income Tax Act No. 58 of 1962 ("the Act"). The required analysis of legal expenses is only performed on the tax calculation used for annual tax return of South African Airways SOC Limited ("SAA") before such return is submitted to the South African Revenue Service ("SARS") for each year of assessment.

During the 2014 financial year, total legal expenses amounting to R114 million were included in the legal expenses general ledger accounts by SAA. R14.6 million of the total legal fees incurred in the 2014 financial year are not deductible in terms of the 2014 annual tax return that was submitted by SAA. The 2014 tax computation that was used to determine the tax amount disclosed in the AFS was not adjusted for the R14 million that was not deductible under section 11(c). The 2015 year-end tax calculation was also not adjusted for the 2014. During the 2015 financial year, the total legal expenses, including a provisions of R950 million, of R954 million were incurred by SAA and R19.7 million of these expenses incurred are not deductible in terms of 2015 annual tax return submitted to SARS. Both the 2014 and 2015 tax returns have been assessed by SARS and have been classified as non-deductible in the assessments.

The non-deductible legal expenses relating to the 2016 financial year have not been determined. This will be determined when the annual tax return is submitted to SARS.

The non-deductible legal expenses constitute permanent differences in the calculation of the tax loss or taxable income. As part of the disclosure in the AFS, reconciliation between the tax on the accounting loss and the tax loss must be performed and the tax effect thereof must be included in the AFS. As the non-deductible legal expenses are not taken into consideration when the AFS are prepared, the tax rate reconciliation is therefore incorrect.

The amount disclosed in the AFS as the estimated tax losses available to be utilized against future taxable income is overstated as it is not adjusted for legal expenses that are not deductible.

The AFS are submitted with the tax return to SARS as part of the supporting documents to the annual tax return. The submission of AFS that possible contain errors might result in SARS questioning the integrity of the AFS.

Management does not compare the submitted tax computations per tax return and the tax calculations used in the AFS to adjust the amounts disclosed in the AFS permanent differences.

Internal control deficiency

Financial and performance management

The head of tax does not ensure that there reconciliation of the tax loss or taxable income per tax returns to the tax loss or taxable income per AFS prepared.

Head of accounting and the head of tax should ensure that an analysis of the non-deductible expenses such as consulting and legal expenses is performed as part of the preparation of the AFS in order to ensure that the tax rate reconciliation and the accumulated tax losses are correct

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and accurate. The tax department is unable to perform the assessment due to capacity constraints in analysing the detailed accounts before AFS is signed.

Recommendation

Management should reconcile the tax loss or taxable income per tax returns to the tax loss or taxable income per AFS and adjust the accumulated tax losses for any differences between the tax loss or taxable income per tax returns and the tax loss or taxable income per AFS. This will ensure that there are no material differences between the tax return and the AFS and that all the tax related disclosure is correct in the AFS.

Management's response

Management comment on audit finding: The legal fees analysis is done at the time of tax return submission because of the time constraints during the year-end review. Management does compare the submitted tax computations per tax return and the tax calculations used in the AFS to adjust the amounts disclosed in the AFS. This is adjusted on the assessed loss brought forward in the AFS.		
Management comment on internal control deficiencies: The head of tax does ensure that the reconciliation of the tax loss per tax returns to the tax loss per AFS is prepared. The adjustment is done on the assessed loss brought forward in the AFS. An analysis of non-deductible expenses, except for legal and consultancy fees, is done as part of the AFS preparation. The legal and consultancy fees analysis is done at tax return because of lack of capacity due to time constraints at year-end.		
Management comment on recommendation: Management does reconcile the tax loss per tax returns to the tax loss per AFS. The adjustment is disclosed on the assessed loss brought forward on the AFS tax computation. The 2014 adjustment was taken into account on the 2016 AFS preparation tax computation. The reason it was not taken into account in 2015 was that the 2014 was not yet assessed by SARS during the 2015 AFS preparation. The 2016 adjustment will also be taken into account during the 2018 AFS preparation as it has not been assessed during the 2017 AFS preparation.		
Remedial action: A percentage based on the prior years' average, will be added back as non-deductible for both legal and consultancy fees at the AFS preparation. The reconciliation between the tax return assessed loss/ taxable income and year-end accrual review's assessed loss/taxable income will continue to be prepared at AFS preparation and the adjustment reflected on the assessed loss brought forward		
What actions will be taken: a) an add-back of a % will be done at AFS preparation for both legal and consultancy fees. Proper and full analysis will be done at tax return preparation. b) the reconciliation will continue to be done at AFS preparation for the differences between tax return and prior year's AFS	By whom: Lebo Mdlalose Person: Position; HOD Tax	By when: An amount of R32m has been added back at 2017 AFS preparation based on an average percentage of prior years' add-backs and is included in the tax pack already given to the auditors for review in June 2017. This will be done at every year-end going forward

Auditor's conclusion

Management's response is noted that they are in agreement with the factual finding. Management provided us with the updated legal fees calculation, which have been assessed to be reasonable and it has been updated in tax computation.

KTD

134. Taxation opening balances differences

Audit finding

Sec 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

During the audit, we have noted that the closing balances on the taxation and deferred tax note in the signed 2016 Annual Financial Statements ("AFS") do not agree to the balances on the Corpsmart schedules for the 2016 year of assessment. We have been informed by management that the tax numbers in the AFS were based on the period 13 version of the Trial Balance ("TB"), while accounting numbers in these AFS were based on the period 16 version of TB. The Corpsmart tax calculations were based on the period 15 version of TB. This means that not all the changes arising from the changes in the TB were incorporated into the signed 2016 AFS. The table below contains the difference between the tax computation and the AFS. Also, included in the table below are the responses received from management explaining the differences between the 2016 AFS and the Corpsmart schedule.

Taxation Note 15

Description	Tax Computation as per Corpsmart	AFS	Difference	Management Comment
Accounting loss	1 680 111 053	1 335 000 000	345 111 053	AFS exclude a provision for legal expenses of R350m. The R5m difference is unknown.
Tax at the applicable rate of 28%	470 431 095	374 000 000	96 431 095	
Tax effect on non-deductible expenses	-37 888 892	-40 000 000	2 111 108	AFS based on an earlier version of the TB as per attached
CY temporary differences for which no deferred income tax asset was recognized	-562 902 576	-471 000 000	-91 902 576	28% of net of total timing differences of add backs and deductions. This line item in the AFS was used as the balancing item hence the difference.
Tax losses for which no deferred income tax asset was recognized	197 355 488	106 000 000	91 355 488	28% of current year's calculated taxable income before assessed loss brought forward. The R106 per the AFS is based on the earlier version of the TB as per attached

KTD

Deferred Tax Note 20

Description	Tax Computation as per Corpsmart	AFS	Difference	Management Comment
Temporary difference in respect of property, aircraft and equipment	-545 570 672	-766 000 000	220 429 328	AFS based on an earlier version of the TB as per attached
Air traffic liability and other deferred income	1 133 065 437	1 123 000 000	10 065 437	AFS based on an earlier version of the TB as per attached
Provisions	1 247 427 846	1 280 000 000	-32 572 154	AFS based on an earlier version of the TB as per attached
Prepayments	-45 176 482	-68 000 000	22 823 518	AFS based on an earlier version of the TB as per attached
Differences due to change in fair value of financial instruments	-23 160 013	-25 000 000	1 839 987	AFS based on an earlier version of the TB as per attached
Computed tax loss	4 179 231 049	4 172 000 000	7 231 049	AFS based on an earlier version of the TB as per attached

The amounts reflected in the 2016 AFS and supporting tax computations are utilized as opening balances in calculating the 2017 taxable income and temporary differences. Therefore, the tax related amounts disclosed in the 2016 AFS are not supported by the 2016 tax calculations provided. It is possible that the effective tax and temporary differences calculated and disclosed in the 2016 AFS are not correct. In circumstances like the above (where the figures in the tax computation do not agree to the figures in the AFS), it almost impossible to know which figures should be used as opening balances for 2017 tax calculations.

There is also a risk that South African Airways SOC Limited ("SAA") will not be in a position to produce tax calculations supporting the amounts disclose in the AFS when such calculations are requested by the South African Revenue Service ("SARS"). This could be used by SARS to discredit and subsequently disallow the allowances and deductions claimed by SAA in the tax return.

The table below shows the difference between the signed 2016 AFS and the corrected tax disclosure as per the tax computation that should reflected in the new AFS.

Reconciliation for notes 15 and 20.xlsx

There is an apparent lack of supervision as management did not seem to have ensured that the tax related figures reflected on the signed AFS are the updated figures and agree to the TB.

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Internal control deficiency

Financial and performance management

- The Head of accounting did not perform a rigorous review of the tax numbers reflected in the AFS, the signed AFS were not accurately prepared based on the final updated TB.
- There was a lack of communication between Head of Accounting and Head of Tax and supervision regarding the review of the AFS in order to ensure that what is in the TB is reflected on the AFS.

Recommendation

- A reconciliation between the final tax computation based on the final TB and the final version of the AFS should be prepared. The amounts in the final tax calculation must be reconciled to the amounts disclosed under notes in respect of the deferred tax and tax rate reconciliation or effective tax calculation in the AFS.

- The opening balance for the 2017 AFS will have to be restated to reflect the correct opening balance in respect of deferred tax disclosed. International Accounting Standard 1 paragraph 40A should also be considered. This standard requires that a third statement of financial position must be presented if there are adjustments which have a material effect on the information in the statement of financial position at the beginning of the comparative period.

Management response

<table>
<tr><td colspan="3">Management comment on audit finding: It is acknowledged that indeed the Tax AFS Note was based on an earlier version of the TB and thus the difference between the final TB used for accounting amounts versus the tax disclosure</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies: In future the HOD Tax will be asked to review and sign off on the final tax notes in the AFS to ensure all updates have been captured.</td></tr>
<tr><td colspan="3">Management comment on recommendation: In future the HOD Tax will be asked to review and sign off on the final tax notes in the AFS to ensure all updates have been captured.</td></tr>
<tr><td colspan="3">Remedial action: The notes will be corrected in the AFS.</td></tr>
<tr><td>What actions will be taken:
Recalculate the opening balances based on the final TB

Correct the notes in the AFS</td><td>By whom: Lebo Mdlalose
Person:
Position; HOD Tax
By whom: Michael Ascencao
Person:
Position; Manager Finance</td><td>By when: Prior to submission of the approved AFS to the auditors</td></tr>
</table>

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. The updated calculation was received and audited and adjustments were passed in the updated set of financial statements received.

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135. Withholding tax on royalties

Audit finding

We have noted that South African Airways SOC Limited ("SAA") utilises software that is supplied by foreign person (Amadeus IT Group, S.A., a company incorporated in Spain). SAA pays a license fee in respect of this software (Amadeus) but no withholding tax is paid to the South African Revenue Service ("SARS") when the fees are paid to the supplier.

In terms of sections 49A – 49H of the Income Tax Act, 1962 ("the Act"), a person who pays a royalty to a foreign person has an obligation to withhold and pay withholding tax on royalty to the South African Revenue Service ("SARS"). The definition of royalty in section 49A and the double taxation agreements is broad and it includes use of or the right to use any copyright of literary, artistic or scientific work including cinematograph films or films, tapes, and other means of image or sound reproduction, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience. The withholding tax on royalties should be equal to 15% of the amount payable to such foreign person unless a lower rate is prescribed by the double taxation agreements (tax treaties) between South Africa and country of resident of such foreign person. We understand that the supplier of Amadeus is resident in Spain. The double tax agreements between South Africa and Spain imposes a withholding tax at a rate of 5%. We understand that the supplier of Amadeus has no permanent establishment in South Africa, Therefore, the exclusion referred to in Article 12 of the double taxation agreement between South and Spain does not apply.

There is also a risk that the supply agreement may include a gross up provision to the effect that SAA should compensate the supplier for any additional tax the supplier may have to pay in South Africa. Should this be the case, the withholding tax to be paid on the use of software will be indirectly borne by SAA.

The impact of the above non-compliance is that SAA may have applied for a voluntary disclosure with SARS in order to avoid the imposition of a penalty. Otherwise, SAA will be liable to pay penalty and interest in addition to the withholding tax on royalties that SAA should have withheld. Any grossing up could also result in SAA being fully liable for the withholding tax on royalties instead of reducing the amount they pay to the supplier.

There are no controls put in place to ensure that there is compliance with all the provisions of the tax legislation including the double taxation agreements.

Internal control deficiency

Financial and performance management

There are no controls put in place to compliance with all the provisions of the Income Tax Act, 1962.

As part of the risk management activities, no ongoing tax risk assessment was performed, on the significant contracts in order to mitigate the financial impact as a result of tax changes.

Recommendation

We recommend that SAA should engage with the supplier and agree on the amount to be withheld in respect of the withholding tax on royalty. SAA should also apply for a voluntary disclosure with the SARS and agree on payment terms.

PS

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Management response

Management comment on audit finding: According to the Amadeus Agreement, SAA does not pay any license fees to Amadeus, it has a right of use of services rendered by Amadeus and pays for these services, as detailed in clause 10 of the Agreement, copy attached. Clause 5 of the Agreement details the services rendered by Amadeus to the company. Clause 15 stipulates the payment of charges for the services provided by Amadeus to SAA and no license fees are mentioned. Since SAA does not have the use or right of use of Amadeus IP and thus pays no license fees, it is submitted that the provisions of sections 49A – 49H do not apply. SAA has the right of use of the services provided by Amadeus and pays for the right of use of these services per the attached Agreement and not for the right of use of IP		
Management comment on internal control deficiencies: As submitted above, the Agreement between SAA and Amadeus is a service agreement and no royalty tax is applicable and thus the internal control measures in place regarding the payment of the service charges are adequate		
Management comment on recommendation: The recommendation will not be applicable as no withholding tax is applicable on the service contract in place		
Remedial action: None		
What actions will be taken: Since the Agreeemnt in place with Amadeus is a service agreement, it does not fall under the ambit of sections 49A – 49H. Sections 49A – 49H imposes withholding tax on "passive" income and the income earned by Amadeus on the contract in place is not "passive" but depends on the services rendered to SAA. If no services are rendered, no payment will be made. Therefore no tax will be withheld on the payments ito sections 49A – 49H	By whom: Lebo Mdlalose Person: Position; HOD Tax	By when: 12 July 2017

Auditor's conclusion:

Management comment is noted. A tax opinion was obtained from Nortan Rose who assessed the Amadeus contract and the billing schedule which concluded that the no withholding tax is payable for Amadeus Even though the conclusion from Nortan Rose indicates that no withholding tax is payable the opinion recommended that management needs to update the contract with Amadues to clarify that there is no payment for intellectual property.

KTD

136. Apportionment on wear and tear on additions incorrectly done

Audit finding

During the audit, we have noted that the wear and tear allowance claimed on fixed assets, under section 11(e) of the Income Tax Act No.58 of 1962 ("the Act"), which have been acquired and brought into use during the year of assessment has not been apportioned from the date the asset has been brought into use. Management performs an estimate of the amount of wear and tear that must be apportioned for the asset. This estimate is the same for all the different classes of assets brought into use during the year of assessment and does not take into consideration the date when each asset was first brought into use in the production of income.

In terms of paragraph 4.3.8 of the South African Revenue Services ("SARS") Interpretation note no. 47 (Issue 3), the wear and tear allowance must be apportioned for an asset that has not been used for the purposes of trade throughout the year of assessment. This could occur, for example, if the asset is; acquired and brought into use during a year of assessment; disposed of during the year of assessment; or used by a natural person in carrying on a trade in his or her own name and that person becomes insolvent or dies during the year of assessment.

There is a risk that an incorrect amount of wear and tear is claimed as no apportionment is done. The deferred tax that is disclosed in the annual financial statements is likely to be incorrect. SARS may disallow the allowance claimed.

The link below includes a table of the differences noted as part of the testing amount to R573 242:

SAA W&T
differences on asset

The total extrapolated error is R2 335 600.

Management must investigate the population and correct the total misstatement that arose as a result of the wear and tear not being apportioned for the period that the assets were brought into use as required under section 11(e) of the Act.

Management does not keep a tax asset register and; therefore, the wear and tear rate is not apportioned when the asset is brought into use.

Internal control deficiency

Financial and performance management

There are no controls put in place to ensure that the wear and tear allowance claimed is calculated correctly. This is mainly due to tax department not keeping a separate tax asset register.

Recommendation

We recommend that a tax fixed asset register is kept separate from the accounting fixed asset register. The tax asset register must be maintained on an on-going basis and updated with the additions. The wear and tear allowances must be accurately determined based on the tax asset register.

KTD

Management response

Management comment on audit finding: Due to the quantum of the assets additions and time constraints, it is assumed at year-end audit that the assets acquired were brought into use at mid-year and hence apportionment is done for six months. At the tax return submission, proper apportionment is done per asset and thus the correct W&T claimed from SARS. This was explained to the auditors already during the review.		
Management comment on internal control deficiencies: As already indicated above, due to lack of capacity at year-end, the proper apportionment per asset is done at tax return submission.		
Management comment on recommendation: A tax fixed asset register will be kept and maintained		
Remedial action: A tax fixed asset register will be kept and maintained		
What actions will be taken: A tax fixed asset register will be kept and maintained	By whom: Lebo Mdlalose Person: HOD - Tax Position;	By when: 31 March 2018

Auditor's conclusion

Management comment is noted and they are in agreement with the internal control deficiency. The tax computation has been updated to take the above into account and sufficient comfort has been obtained that the correction is reasonable.

KTD

Indirect taxes - VAT

137. Incorrect accounting of passenger service charges for income tax and VAT

Auditing finding

During the audit of tax balances, we noted that the breakdown of payments reflected in tickets issued by South African Airways SOC Limited ("SAA") to its passengers include a passenger service charges in respect of services to be rendered by Airports Company South Africa SOC Limited ("ACSA"). Based on the decision of the Supreme Court of Appeal in a value-added tax (VAT) matter between the *Commissioner of South African Revenue Service and British Airways*, it seems the revenue in respect of such passenger services belongs to ACSA. This means that the airline company merely collects these fees from the passengers as agents of ACSA as the performance of the service will be discharged by ACSA.

On this basis, there is an argument that the amounts paid in advance by passengers as passenger service charges should be subject to income tax in the hands of ACSA as and when such amounts are paid by passengers. This is because these amounts could be viewed as gross income in the hands of ACSA on the basis that they have been received by ACSA. Similarly, the amounts received in advance from the passengers should also be subject to VAT in the hands of ACSA on the earlier of receipt or invoicing as required by section 9 of the Value-Added Tax Act, 1991 ("the VAT Act"). It should be noted that based on case law, the word "received" as used in the gross income definition relates to the amount that has been received by the taxpayer on its behalf and for its benefit. The airline companies receive passenger service charges on behalf of ACSA and for the benefit of ACSA. Therefore, these fees are legally received by ACSA.

Having said this, the government *gazette* suggests that ACSA is entitled to receive passenger service charges only in respect of passengers who have flown. This leaves the question then as to how can ACSA be expected to pay income tax and VAT on amounts paid by passengers before it can be confirmed whether those passengers will fly? Perhaps one should consider that under normal circumstances, taxpayers pay tax on receipt if such receipt is prior to performance and invoicing for such performance. If the taxpayer subsequently fails to perform the service or to deliver goods, then the customer or the client qualifies to receive a refund. Such refund should trigger a deduction in respect of income tax and input tax in respect of VAT. Therefore, an argument could be made that a similar approach should be adopted in the case of ACSA and airlines. Based on this approach the passenger service charges should not be subject to income tax or VAT in the hands of the airline companies as this service is not performed by these entities. If a passenger qualifies for a refund, the ACSA should be able to claim a deduction and input tax, when such passenger is refunded. However, if the passenger is not refunded, then ACSA will not qualify for claim a deduction and input tax.

The manner in which income tax and output tax are accounted for by SAA in respect of passenger service charges does not appear to comply with the provisions of the Income Tax Act and the VAT Act. Therefore, the tax loss or taxable income of SAA and the VAT could be misstated.

The relationship between ACSA and SAA does not seem to have been examined to determine its tax implications, both from income tax and VAT point of view.

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Internal control deficiency

Financial and performance management

Proper controls to review and monitor compliance with the tax legislation is not adequately implemented. . This arose due to lack of understanding of tax prescripts.

Recommendation

SAA should analyse the nature of the relationship with ACSA from a legal perspective and tax perspective to ensure that the income tax and VAT are administered and accounted for correctly. The examination of this relationship should also be guided by the decision of the Supreme Court as outlined above.

Management's response

Management comment on audit finding: Section 1 of the Airports Company Act No. 44 of 1993 (ACSA Act) defines "airport charge" as meaning an amount levied by the company, i.e. ACSA:
(a)on an operator of an aircraft in connection with the landing, parking or takeoff of such aircraft at a company airport, *including an amount determined to any extent by reference to the number of passengers on board an aircraft*; or
(b)on aircraft passengers in connection with their arrival at or departure from a company airport by means of an aircraft;

The definition of what is loosely referred to as a "passenger service charge" can be either levied on (a) the operator of the airline or (b) the passenger. ACSA levies this passenger service charge on SAA as the operator of an aircraft and thus under (a) of the definition rather than (b). This charge then effectively becomes the cost to the airline, which it directly recovers from the passengers as the cost is calculated per the number of passengers and can thus easily be apportioned to each passenger, unlike the landing and parking charges, which are also recovered from the passenger, albeit indirectly. It is submitted that on recovery of such cost, be it directly or indirectly calculated, SAA receives such recovery on its own account. The levy of the cost by ACSA is a separate supply, which SAA then pays for when the actual service of uplifting the passengers occurs at the airport. SAA is merely charging the passenger to recover its cost rather than to supply the airport services. Therefore, the amounts received on sale of tickets are SAA's income and SAA is liable for both income tax and VAT on it.
Section 8 of the Publication of Airport Charges, Notice 1164 of 2014 (Notice) interprets "airport charge" as meaning a landing charge, a parking charge and a passenger service charge;
Section 1 of the Notice provides that the liability to pay airport charges shall be upon the operator of an aircraft and is payable at the airport where a flight commences. The liability according to section 2 (2) is payable immediately before an aircraft is to take off from a company airport. The operator of that aircraft shall give notice to the airport manager, in the form provided by the latter for the purpose, of the expected time of departure of that aircraft, supply such other information as such operator is required by the airport manager to furnish when completing the notice in the said form and pay all airport charges payable to the airport manager, unless such operator has previously entered into an agreement with the Company for payment.

The NN squarely puts the liability for the airport charge on the airline. It is thus submitted that SAA pays this liability on its behalf as the liable party and thus the recovery (income received) from the passengers was made on its own behalf and not on ACSA's behalf. When the passenger flies, ACSA renders the embarkation services at that point and is entitled to its income then, both from the income tax and VAT point of view. SAA's fare is composed of a number of elements, including baggage handling, catering, etc. The cost components of these various elements are recovered from the passengers and are received by SAA on its own behalf, although having to pay for these services to the various service providers when such service providers render the service when the passengers fly. It is submitted that the recovery of the passenger service cost is no different from the recovery of these other costs and thus is income to the airline. The payment to the various service providers is

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then the income and supply of those vendors at that time of their rendering the service to SAA and not at the sale of ticket by SAA. The judgement of the Supreme Court of Appeal on the British Airways case, clause 14, states that the passenger service charge levied on the airline is no more than a cost that the airline has to bear *in order to operate its carrier service*, similar to those costs that it pays to land and park its aircraft, which it recovers from its passengers directly rather than indirectly. Clause 15 states that the services that passengers enjoyed are supplied by ACSA and the tax accrues ito s7 (and is payable by the vendor of the service) when that supply occurs. It further states that moneys that are recovered by British Airways are not consideration for the supply by it of airport services simply because it does not supply them at all. As submitted above, SAA recovers this cost from its passengers in order to defray its own liability to ACSA and not on behalf of anyone. It is agreed that indeed the:- (a) services that passengers enjoy are supplied by ACSA and the VAT accrues when that supply occur, i.e. on embarkation at the airport by the passengers; and (b) moneys that are recovered by SAA are not consideration for the supply by it of airport services simply because it does not supply them at all, but are a consideration for the supply of flying the passenger to its destination, i.e. *in order to operate its carrier service*. The subsequent payment to ACSA by SAA then triggers the consideration for the supply of airport services by ACSA.		
Management comment on internal control deficiencies: As submitted above, the income is received on SAA's behalf and thus the internal control measures in place regarding the recovery of the passenger service charge are adequate		
Management comment on recommendation: SAA will execute the recommendation as outlined in order to get a written opinion on the relationship of the two entities, to enable compliance with both tax Acts		
Remedial action: Management is not in agreement with the findings as it is of the view that the moneys recovered from the passengers are to defray the company's costs, arising from the liability imposed by the ACSA Act, as implemented by the NN.		
What actions will be taken: An independent tax opinion will be sought regarding the implementation of the various Acts, read together with the Supreme Court Judgement	By whom: Lebo Mdlalose Person Position: HOD Tax	By when: 31 July 2017

Auditor's conclusion

Management's response is noted. A tax opinion has been obtained by management from CDH which indicates that SAA is not receiving the money as an agent of ACSA. According to this opinion SAA should pay VAT on the PSC received and claim a deduction on the amounts paid to ACSA. In addition, ACSA should pay output tax and claim input tax. This means that SAA should request a proper VAT invoice from ACSA in order to claim input tax. The conclusion reached by CDH has fundamental implications for SAA both in the current and previous years. Consequently, SAA has engaged other airlines in order to discuss the views expressed in the opinion with tax authorities. There is contingent tax liability, that depends on whether or not SARS will uphold the views expressed in the CDH opinion.

For accounting purposes, the status quo will remain in how SAA is accounting for the matter. SAA management have agreed to benchmark against over airlines on how the matter is treated. The outcome of this matter will be dependent on the SARS ruling of the above matter. Thus status quo for tax will remain until SARS determines otherwise.

No disclosure has been made in the AFS relating to this matter, which critical information to the read of the AFS. The non-disclosure will be assessed in the summary of adjustment differences.

KTD

138. No Value-Added Tax reconciliation to the revenue per the trial balance done

Audit finding

We have not been able to perform a reconciliation between the amount disclosed in the submitted VAT201 forms as revenue that is subject to value-added tax ("VAT") and the amount of revenue (and other disposals) disclosed in the financial statements. The South African Airways SOC Limited ("SAA") does not on an annual basis reconcile between the amount of output VAT disclosed in the submitted VAT201 forms for a year of assessment and the expected output tax based on the amounts disclosed in the annual financial statements. based on our discussions with the indirect tax manager (Tarique Ghole), we believe that the systems used for financial reporting do not have the capacity to provide the details required to perform the reconciliation.

There is a risk that the output tax disclosed in the submitted VAT201 forms is understated. The reconciliation is a control that gives assurance to management that the output tax amount declared is correctly calculated. The understatement of an amount of output tax constitutes an outstanding amount of tax payable. Where the output tax is understated, SAA could be subject to a penalty equal to 10 per cent of the amount of tax not paid, in terms of section 39 of the Value-Added Tax Act No. 89 of 1991.

In addition, SAA may not be in position to reconcile the output tax to the expected output tax based on revenue and disposals reflected in the annual financial statements.

Although the indirect tax manager believes that there is no information with adequate detail of financial information from the financial reporting systems, we believe that the reconciliation can still be performed based on the information disclosed in the annual financial statements. The root cause for this weakness is that there is procedure to assess the correctness of the amounts submitted to the South African Revenue Service *vis a vis* the amounts reflected in the annual financial statements.

Internal control deficiency

Financial and performance management:

The lack of keeping details accounting records to ensure that adequate reporting can be performed on not just placing reliance on what the reporting system produces without adequate interrogation of the numbers reported to tax authorities.

Leadership

Head of tax did not exercising their oversight (by implementing monitoring controls) on the amount of output tax declared and ensuring that it is supported by the related accounting information.

Executive committee did not ensure that policies are developed and regularly reviewed to take into account changes within the entity as well as changes in the tax legislation that affects the entity.

Recommendation

Head of tax should ensure that all amounts received and disclosed in the financial statements must support the amount declared as output tax in the VAT201 forms. The indirect tax team should reconcile the output tax to revenue and other disposals reflected in the annual financial statements.

In addition policies should be put in place, that are regularly updated with the change in Tax legislation.

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Management response

Management comment on audit finding: Management acknowledges the audit findings. However, we disagree with the comment in the audit finding that the reconciliation can still be performed based on the information disclosed in the annual financial statements. This is because SAA's revenue reported in the financial statements is the "total revenue". Therefore, risk of understatement of output VAT cannot be ascertained from the annual financial statements. As discussed with the auditors extensively during the audit that to perform VAT reconciliation to address the risk of understatement of output VAT, requires sales reports to confirm the declaration with VAT201 in SAA business environment. In the prior years, we have taken numerous initiatives with SAA Group ITS on the VAT reports. But due to the complexity of the business, we are unable to get these reports. We have discussed, together with SAA Group ITS with the service providers (Amadeus) to assist us to provide passenger sales reports to address the output tax and zero rated sales revenue of SAA.		
Management comment on internal control deficiencies: SAA management does keep detailed accounting records of the revenue in the systems. Due to the fact that revenue is accounted as flown and unflown (liability), integration into these accounts require adequate IT tools as well as VAT sales reports. As alluded above, management has re-engaged with Group IT and with Amadeus to address these issues. Management has embarked on preparing monthly VAT reconciliation without IT tools and VAT reports reflecting the difference in the reconciliation.		
Management comment on recommendation: While management acknowledges the recommendation, as alluded in the management comment audit findings above, VAT reports / IT tools are necessary to perform a proper reconciliation to address the risk of understatement of Output VAT. Without such tools in place, it is impossible to ensure that amounts received and disclosed in the financial statements support the amount declared as output tax in the VAT201 forms. Management has already embarked on VAT reconciliation without IT tools and the difference will be reflected in the reconciliation accordingly.		
Remedial action: SAA management will continue to engage Group ITS and Amadeus to provide the necessary Sales reports/IT tools to perform the reconciliation. Management will continue preparing and enhancing VAT reconciliation whilst awaiting the outcome of the engagement with ITS and Amadeus.		
What actions will be taken: Monthly VAT Reconciliation will be prepared, albeit with differences until such time as the engagement with ITS has yielded the required results.	By whom: Tarique Ghole Person: Position; Indirect Tax Manager	By when: 31 March 2018

Auditor's conclusion

Management's comments is noted. It should be noted that the South African Revenue Service does request this reconciliation when IT14SD query is raised by SARS. The amounts reflected in the AFS are not always expected to agree with the VAT201 forms, but the reconciliation allows for these differences to be explained. Management provided us with an VAT reasonability calculation and was assessed for be reasonable. However, such reasonableness cannot be viewed as a substitute for the reconciliation, in particular the light of VAT liability identified in respect of the amounts paid to SAE and Airlink. A follow up on the implementation of the control will be made during the 2016/17 audit.

KTD

139. No Value-Added Tax output accounted for on long outstanding creditors

Audit finding

As part of the audit work completed thus far, we have not been able to determine if South African Airways SOC Limited ("SAA") accounts for the output Value Added Tax ("VAT") as required by the provisions of section 22(3) of the Value-Added Tax Act No. 89 of 1991 ("the Act"). In terms of section 22(3), where a vendor who is required to account for tax payable on an invoice basis in terms of section 15 -

(a) has made a deduction of input tax in terms of section 16(3) in respect of a taxable supply of goods or services made to him; and

(b) has, within a period of 12 months after the expiry of the tax period within which such deduction was made, not paid the full consideration in respect of such supply, an amount equal to the tax fraction, as applicable at the time of such deduction, of that portion of the consideration which has not been paid shall be deemed to be the tax charged in respect of a taxable supply made in the tax period following the expiry of the period of 12 months.

On inspection of the creditors age analysis, we observed that there are creditors that have not been paid for a period exceeding 361 days from the day of the transaction. Upon discussion with the indirect tax manager and on inspection of the VAT201 returns submitted during the 2017 year of assessment, we noted that output tax as required by section 22(3) is not accounted for on the consideration that has not been paid to the supplier of the goods or services after 12 months from the tax period when the debt was initially incurred.

The consideration outstanding for a period exceeding 361 days per the creditors age analysis was R3 017 893.84. There is a risk that SAA is liable for output tax of R370 619 (R3 017 893.84*14/114). A penalty of R37 061 (R370 619*10%) will be charged on the amount not paid to SARS. Interest of R10 701 calculated for the period 1 April 2017 to 30 June 2017 will be charged on the tax payable assuming these items have only been outstanding for 365 days. The total estimated liability is R418 383. Management should investigate whether these amounts have been outstanding for periods before 31 March 2016 and quantify the interest relating to these items as well.

This amount of tax should have been paid to the South African Revenue Service ("SARS"), in terms of section 28 of the Act, within the period ending on the twenty-fifth day of the first month commencing after the end of the tax period relating to such vendor. As the amount of tax has not been paid within the required period, a penalty of 10 per cent of the amount of tax outstanding will be charged in terms of section 39(1) of the Act. Interest will also be charged at the prescribed rate in terms of section 39(3) of the Act for the period that the amount remains outstanding.

Internal control deficiency

Financial and performance management

There is a lack of oversight to ensure that the applicable VAT provisions are complied with is an indication of a weakness in the internal controls by the head of tax.

Leadership

Head of Tax did not exercise their oversight on the amount of output VAT that SAA is potentially liable for which then results in SAA incurring penalties and interest on the amount of tax that remains outstanding.

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Recommendation

SAA must determine the amount of output tax that is outstanding as a result of the long outstanding creditors. Management must analyse which of the amounts not yet paid to creditors previously qualified for the input tax claim. SAA should then apply for a Voluntary Disclosure Program and pay the amount of output tax to SARS.

Management response

Management comment on audit finding: Management agrees with the audit finding.		
Management comment on internal control deficiencies: Management will introduce the necessary controls within the creditors department to ensure that correct action is taken to declare output VAT on the balances older than 12 months accordingly.		
Management comment on recommendation: Management agrees with the recommendation and necessary action will be taken accordingly.		
Remedial action: Refer to actions to be taken below.		
What actions will be taken: a) Creditors' dept have already analysed the ageing of the creditors to the amount of R3m and given this to AG. b) Output VAT will be declared to SARS accordingly. c) The necessary VDP will be applied for d) The output VAT accounting will be incorporated into the AP Policy that is in place.	By whom: Person: a)Hester Kleinhans b),c) & d) Tarique Ghole Position; Manager Accounts Payable and Indirect Tax Specialist	By when: 30 September 2017

Auditor's conclusion

Management's comment is noted and they are in agreement with the internal control deficiency. The item misstatement value will be assessed in the summary of unadjusted misstatements

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KTD

Indirect Taxes - PAYE

140. No policies and procedures to identify personal service providers

Audit finding

As part of the audit work that has been completed thus far, we have not been able to identify any policies and procedures in place for management to identify whether contractors that have entered into agreements with South African Airways SOC Limited ("SAA") are not personal service providers ("PSPs").

A PSP is defined as any company or trust, where any services rendered on behalf of such company or trust to a client of such company or trust is rendered personally by any person who is a connected person in relation to such company or trust, and –

(a) such person would be regarded as an employee of such client if such service was rendered by such person directly to such client, other than on behalf of such company or trust; or
(b) where those duties must be performed mainly at the premises of the client, such person or such company or trust is subject to the control or supervision of such client as to the manner in which the duties are performed or are to be performed in rendering such services; or
(c) where more than 80 per cent of the income of such company or trust during the year of assessment, from services rendered, consists of or is likely to consist of amounts received directly or indirectly from any one client of such company or trust, or any associated institution as defined in the Seventh Schedule to the Act, in relation to such client, except where such company or trust throughout the year of assessment employs three or more full-time employees who are on a full-time basis engaged in the business of such company or trust of rendering any such service, other than any employee who is a holder of a share in the company or settlor or beneficiary of the trust or is a connected person in relation to such person.

The provisions of paragraph 2(1) of the Fourth Schedule to the Income Tax Act No. 58 of 1962 ("the Act") requires employers to deduct employees' tax from the remuneration paid to their employees. This paragraph states that every employer who is a resident who pays or becomes liable to pay any amount by way of remuneration to any employee shall, ..., deduct or withhold from that amount, ..., by way of employees' tax an amount which shall be determined as provided in paragraph 9, 10 or 11 or section 95 of the Tax Administration Act ...

The requirement to deduct employees' tax arises where there is an employee (as defined) who is paid remuneration (as defined) by an employer (as defined). The definition of an employee includes a PSP. The term "remuneration is broadly defined in the Fourth Schedule to the Act. It means any amount of income which is paid or is payable to any person by way of any salary, leave pay, wage, overtime pay, bonus, gratuity, commission, fee, emolument, pension, superannuation allowance, retiring allowance or stipend, whether in cash or otherwise and whether or not in respect of services rendered.

The definition of an employer is also important as it is the employer who is required to deduct or withhold employees' tax. An employer is defined as any person who pays or is liable to pay to any person any amount by way of remuneration. Once SAA pays or becomes liable to pay remuneration, SAA will be an employer as defined in the Fourth Schedule to the Act. SAA will be liable to pay an amount that will fall within the ambit of remuneration. Therefore, SAA will qualify as an employer. However, before SAA can be liable to deduct or withhold employees' tax, it should be determined whether each service provider is an employee for the purposes of the Fourth Schedule to the Act. Where a service provider qualifies to be classified as an employee, then SAA will have to deduct or withhold employees' tax according to the Fourth Schedule to the Act.

KTD

There is a risk that SAA does not withhold and pay employees' tax is not deducted on amounts paid to PSPs as required by the Fourth Schedule to the Act. The employees' tax should be withheld at a rate of 28 per cent on remuneration paid to PSP's. SAA will be liable for penalties on the employees' tax not deducted.

There is also the risk that management cannot hold responsible employees accountable for non-compliance with the Act, as there are currently no policies or procedures that employees can follow to ensure compliance with the Act. Management does not have any legal basis to challenge the actions or behaviour of the employees.

Lack of policies and procedures to be approved, implemented and continuously monitored for changes and whether the intended operation of the policies is achieved.

Internal control deficiency

Leadership

SAA did not ensure that policies are developed and regularly reviewed to take into account changes within the entity as well as changes in the tax legislation that affects the entity.

Recommendation

SAA should ensure that there are policies and procedures to identify entities that qualify as PSPs. Once these entities have identified, employees' tax should be withheld from the amounts paid to these PSPs and paid over to the South African Revenue Service.

Management response

Management comment on audit finding: It is acknowledged that no policies and procedures are in place regarding personal service providers. The tax department is however engaged in assessing service providers for the purposes of the provisions of the 4th Schedule of the Act		
Management comment on internal control deficiencies: An up-to-date tax policy will be formulated		
Management comment on recommendation: The recommendations will be fully employed		
Remedial action: An analysis of the service providers will be done to identify the PSPs and pay over the relevant employees' Tax to SARS, if any		
What actions will be taken: A tax policy will be formulated as well as a procedure document to identify the PSPs	By whom: Lebo Mdlalose Person: Position; HOD Tax	By when: 31 March 2018

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. However, the implementation date leaves SAA exposed to tax penalties if SARS performs an audit. Management needs to provide evidence that exposure is minimal. Management has provided their assessment, however, this assessment does not cover the risk of understatement of the employees' tax liability.

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141. No fringe benefit assessment done on the use of cell phones

Audit finding

The employees who are required to have cell phones due to the nature of their employment, are given cell phones by South African Airways SOC Limited ("SAA"). The use of these cellphones is not monitored in order to ensure that they are used mainly for business purposes. There is no policy in place stipulating that where the cell phone is not used mainly for business purposes the costs from such private use will be recovered from the employee.

In terms of paragraph 2(*b*) of the Seventh Schedule to the Income Tax Act No. 58 of 1962 ("the Act"), when an employee has been granted the right to use any asset for his or her private or domestic purposes either free of charge or for a consideration payable by an employee which is less than the value of such use, then the benefit advanced to the employee is a taxable benefit granted to the employee and the employee is liable for employee's tax on the fringe benefit which must be withheld from the amount paid to such employee.

There is a risk that the cell phones may be used for private purposes which is a taxable benefit. As SAA does not quantify the value of the taxable benefit, the employees' tax on the taxable benefit is not withheld and paid over to the South African Revenue Service ("SARS") on a monthly basis. The taxable benefit constitutes gross income in terms of paragraph (*i*) of the definition of gross income. SAA as an employer can potentially be liable for a 10 per cent penalty on the tax amount outstanding, in terms of paragraph 6 of the Fourth Schedule.

There are no controls in place to monitor the use of cellphones. In addition, due to the lack of controls to monitor the use of cellphones, it is also not possible to quantify the amount of the fringe benefit on which employees' tax should be withheld.

Internal control deficiency

Financial and performance management

There are no controls put in place to monitor the use of cell phones to ensure that the cell phones are mainly used for business purposes. Furthermore there is also no policy in place relating to the use of cell phones.

Recommendation

We recommend that a policy should be formulated instructing employees to mainly use cell phones for business purposes. The use of cell phones should be monitored and where employees do not use the cell phones mainly for business purposes, the cost of private use should be recovered from the employee.

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Management's response

Management comment on audit finding: Any private usage of the cellphones is considered to be incidental. The SAA Corporate Cellphone Scheme (the Scheme) operates along the arrangement that SAA will settle the full account and deduct the amounts exceeding the agreed upon monthly cap from the responsible employee's salary. It is only in exceptional maximum cap allowed claim back cases that an itemized billing, indicating private and business will be analysed		
Management comment on internal control deficiencies: A tax policy will be put in place regarding the use of cell phones to align to the Scheme		
Management comment on recommendation: The recommendations will be put in place		
Remedial action: A tax policy will be formulated in alignment to the Scheme in place and HR will be mandated to monitor employees usage in line with the policy in place		
What actions will be taken: A tax policy will be formulated and employees usage monitored	By whom: Lebo Mdlalose Person: Position; HOD Tax	By when: 31 March 2018

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. However, the implementation date leaves SAA exposed to penalties if SARS performs an audit. Management's quantification of the exposure has been assessed to be reasonable and PAYE liability calculation has been assessed to reasonable on the bases that the amount will be recovered from the affected employees.

The provision for the PAYE, interest and penalties liability has not been raised in the AFS amounting to R11.5 mil will be added to the summary of unadjusted differences and assed whether the misstatement are material in aggregate.

No disclosure has been made in relation to the fruitless and wasteful expenditure for the interest and penalties to be disclosed amounting to R4.4 mil of the total liability.

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DD20-PS-1506

142. Perks tax not levied on free flights confirmed

Audit finding

In terms of paragraph 10(1)(a) of the Seventh Schedule to the Income Tax Act, in the case of any travel facility granted by any employer who is engaged in the business of conveying passengers for reward by sea or by air to enable any employee or any relative of such employee to travel to any destination outside the Republic for his or her private or domestic purposes, an amount equal to the lowest fare payable by a passenger utilizing such facility will be treated as a taxable fringe benefit.

The employees that book for vacation travel on international flights, using the perks tax option, are charged tax on the value of the taxable benefit received by the employee. However, during the audit we noted that the value of the taxable benefit used by South Africa Airways SOC Ltd ("SAA") to determine the tax amount payable on the fringe benefit does not equal the lowest payable fare that will be paid by a normal passenger on that flight.

In addition, the value of the taxable benefit on which the employee tax is calculated on does not include the fuel levy. The employee does not pay for the fuel levy and the fuel levy is borne by SAA. The fuel levy amount borne by the employer should, therefore, be included in the amount on which the perks tax is calculated.

Below is an extract of the differences noted from the testing.

DETAILS AS PER VACATION TRAVEL REPORT					Lowest fare payable by external third parties per Amadeus						
EMPLOYEE NO.	DEPARTURE DATE	FLIGHT NO.	TICKET NO.	TAXABLE FARE/ LOWEST FARE USED TO DETERMINE PERKS TAX	TICKET NO.	DEPATURE DATE		BASE FARE	CARRIER IMPOSED FEE (FUEL LEVY)	TOTAL	DIFFERENCE
STFSBN564A	2016-11-10	SA 0264	832126118531	4 880	8321261185 31	2016-11-10	Adult	39 090	5 340	44 430	(39 550)
STFSBN564A	2016-11-10	SA 0264	832126118533	3 270	8321261185 33	2016-11-10	Child	22 010	5 340	27 350	(24 080)
STFSBN564A	2016-11-10	SA 0264	832126118532	490	8321261185 32	2016-11-10	Adult	39 090	5 340	44 430	(43 940)
STFSBN741B	2016-11-19	SA 0192	832126029329	2 880	8321260293 29	2016-11-19	Adult	8 180	2 256	10 436	(7 556)
STF753203A	2017-02-10	SA 0203	0832126618078	6 920	0832126618 078	2017-02-10	Adult	55 750	6 668	62 418	(55 498)
STF753203A	2017-02-10	SA 0203	0832126618079	6 920	0832126618 079	2017-02-10	Adult	55 750	6 668	62 418	(55 498)

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DD20-PS-1507

DETAILS AS PER VACATION TRAVEL REPORT					Lowest fare payable by external third parties per Amadeus						
EMPLOYEE NO.	DEPATURE DATE	FLIGHT NO.	TICKET NO.	TAXABLE FARE/ LOWEST FARE USED TO DETERMINE PERKS TAX	TICKET NO.	DEPATURE DATE		BASE FARE	CARRIER IMPOSED FEE (FUEL LEVY)	TOTAL	DIFFERENCE
STFSBL 126R	2017-02-16	SA 0264	08321264 36108	3 270	08321 26436 108	2017-02-16	Child	22 010	5 436	27 446	(24 176)
STFSBL 126R	2017-02-16	SA 0264	08321264 36109	3 270	08321 26436 109	2017-02-16	Child	22 010	5 436	27 446	(24 176)
TF8467 /7D	2017-04-01	SA 0260	08321267 07689	4 880	08321 26707 689	2017-04-01	Adult	29 610	5 236	34 846	(29 966)
STF8467 77D	2017-04-01	SA 0260	08321267 07690	4 880	08321 26707 690	2017-04-01	Adult	29 610	5 236	34 846	(29 966)
STFCCC 393T	2017-04-04	SA 0264	08321260 30832	4 880	08321 26030 832	2017-04-04	Adult	29 340	5 290	34 630	(29 750)
STFCCC 393T	2017-04-04	SA 0264	08321260 30833	4 880	08321 26030 833	2017-04-04	Adult	29 340	5 290	34 630	(29 750)
STFCCC 393T	2017-04-04	SA 0264	08321260 30834	3 270	08321 26030 834	2017-04-04	Child	22 010	5 290	27 300	(24 030)
STF5588 23A	2016-11-11	SA 0203	83212561 0677	6 920	83212 56106 77	2016-11-11	Adult	55 730	5 682	61 412	(54 492)
STF5588 23A	2016-11-11	SA 0203	83212561 0678	6 920	83212 56106 78	2016-11-11	Adult	55 730	5 682	61 412	(54 492)
STF6060 42E	2016-11-21	SA 0280	83212598 6627	5 500	83212 59866 27	2016-11-21	Adult	40 300	4 800	45 100	(39 600)
STF6424 05K	2016-11-22	SA 0234	83212611 8528	4 880	83212 61185 28	2016-11-22	Adult	37 350	5 340	42 690	(37 810)
STF7458 21W	2016-11-04	SA 0280	83212591 7050	5 500	83212 59170 50	2016-11-04	Adult	35 680	4 828	40 508	(35 008)
STF5549 48D	2017-02-06	SA 0264	08321266 18561	4 880	08321 26618 561	2017-02-06	Adult	39 890	5 846	45 736	(40 856)
STF5549	2017-	SA	08321266	4 880	08321 26618	2017-02-06	Ad	39	5 846	45 736	(40 856)

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DD20-PS-1508

DETAILS AS PER VACATION TRAVEL REPORT					Lowest fare payable by external third parties per Amadeus						
EMPLOYEE NO.	DEPATURE DATE	FLIGHT NO.	TICKET NO.	TAXABLE FARE/ LOWEST FARE USED TO DETERMINE PERKS TAX	TICKET NO.	DEPATURE DATE		BASE FARE	CARRIER IMPOSED FEE (FUEL LEVY)	TOTAL	DIFFERENCE
48D	02-06	0264	18562		562		ult	890			
STF649667H	2017-02-22	SA 0264	0832126707540	4 880	0832126707540	2017-02-22	Adult	29 340	5 204	34 544	(29 664)
STF649667H	2017-02-22	SA 0264	0832126707541	4 880	0832126707541	2017-02-22	Adult	29 340	5 204	34 544	(29 664)
STF813133E	2017-02-02	SA 0286	0832126707759	4 390	0832126707759	2017-02-02	Adult	32 870	-	32 870	(28 480)
STF813133E	2017-02-02	SA 0286	0832126707761	4 390	0832126707761	2017-02-02	Adult	32 870	-	32 870	(28 480)
STF450784N	2017-04-01	SA 0076	0832127063027	820	0832127063027	2017-04-01	Adult	7 440	2 475	9 915	(9 095)
STF450784N	2017-04-26	SA 0260	0832127063028	4 880	0832127063028	2017-04-26	Adult	30 610	5 153	35 763	(30 883)
STF580109A	2017-04-11	SA 0280	0832126031023	5 500	0832126031023	2017-04-11	Adult	45 500	3 838	49 338	(43 838)
STF580109A	2017-04-11	SA 0280	0832126031024	5 500	0832126031024	2017-04-11	Adult	45 500	3 838	49 338	(43 838)
STF846989H	2017-04-17	SA 0234	0832126965118	4 880	0832126965118	2017-04-17	Adult	37 350	5 014	42 364	(37 484)
TOTAL				139 170				1 002 130	138 132	1 140 262	(1 002 476)

The projected total difference from the testing performed is R43 037 446. Employees tax on the difference noted above should have been withheld on the value of the taxable benefit and paid over to SARS. As the amount of employees tax was not paid on time, SAA will be liable for a penalty of 10 per cent on the amount of tax outstanding. SAA will also be liable for interest on the amount of tax outstanding.

No controls are in place to ensure that the taxable benefit agrees to the lowest fare that a normal passenger would pay for the flight.

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DD20-PS-1509

Internal control deficiency

Financial and performance management

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

The spreadsheet with the lowest payable fare used by the client as the taxable benefit does not seem to be updated on a regular basis as it does not agree to the lowest fare payable for that ticket by a normal passenger.

Recommendation

We recommend that the lowest fare used to calculate the taxable benefit must be compared to the lowest ticket price on a regular basis, in order to ensure that the tax is withheld on the correct amount. The policy of not including the fuel levy in the cost of the taxable benefit should be changed as the cost of the fuel levy is a benefit that accrues to the employees when they do not pay the cost of the fuel levy.

Management must determine the value of the taxable benefit on which employees did not pay taxes during the current and the preceding four years of assessment.

Management response

Management comment on audit finding: Management agrees with the finding that the lowest fare must be used to calculate the taxable benefit, as well as the cost of fuel levy to be included in this taxable benefit.		
Management comment on internal control deficiencies: Management agrees that the information used to calculate the taxable benefit must be kept up to date.		
Management comment on recommendation: This recommendation will require an amendment of the current Regulating Agreement with the Pilots. The Regulating Agreement is a collective agreement as defined in the Labour Relations Act, 66 of 1995. The practice of taxing the benefit for Pilots as it was historically done is an established practice and as such management will have to formally engage SAAPA who represent the Pilots and advise them of this finding. SAAPA may resist any attempts to change the current practice, which may include declaring a dispute. Management will engage SAAPA accordingly.		
Remedial action:		
What actions will be taken: a) Formal engagement will be entered into with SAAPA. b) Taxation, Industry Travel, Commercial and IT will jointly configure the processes and systems of rebate travel and change the methodology of the taxable benefit to be based on the lowest fare payable including the fuel levy charge	By whom: a) Lebo Mdlalose : b) Lourens Erasmus : c) Genevieve Mateyo : d) Phinda Ncala : e) Adam Seedat Person: Position; a) HOD – Taxation b) HOD – ER c) Manager – Industry Travel d) CIO e) Operations	By when: 31 March 2018

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Auditor's conclusion

Management's comment is noted and they are in agreement with the finding. The concern is that the tax risk will not be mitigated at least another 6 months. Management response was noted and agrees with the finding, internal control deficiency and the recommendations. However, the implementation date leaves SAA exposed to penalties if SARS performs an audit. Management's quantification of the exposure has been assessed to be reasonable and PAYE liability calculation has been assessed to reasonable on the bases that the amount will be recovered from the affected employees.

The provision for the PAYE, interest and penalties liability has not been raised in the AFS amounting to R23mil will be added to the summary of unadjusted differences and assed whether the misstatement are material in aggregate.

No disclosure has been made in relation to the fruitless and wasteful expenditure for the interest and penalties to be disclosed.

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143. No tax withheld on bursaries awarded to employees

Audit finding

During the audit, we have noted that employees who were awarded bursaries by South African Airways SOC Limited ("SAA"), and did not pass the modules they were registered for, did not re-register and have not paid back the bursary amount to SAA as per the requirements of the agreement entered into between SAA and the employee. In addition, SAA did not withhold any Pay As You Earn (PAYE) on the amount that was awarded as a bursary.

In terms of paragraph 2(h) of the Seventh Schedule to the Income Tax Act No.58 of 1962, "the employer has directly or indirectly, paid any debt owing by the employee to any third person (other than an amount in respect of which item (i) or (j) applies), without requiring the employee to reimburse the employer for the amount paid or the employer has released the employee from an obligation to pay any debt owing by the employee to the employer…"

SAA has paid the relevant institutions on behalf of its employees. These employees did not meet the academic requirements that allow them to progress to the next of studies and they have not reimbursed SAA for the cost of the fees paid. The amount of money paid by SAA to the institution is, therefore, a taxable fringe benefit in terms of the section quoted above.

There is a risk that SAA will be liable for penalties in terms of paragraph 6(1) of the Fourth Schedule to the Income Tax Act No.58 of 1962 and interest in terms of section 187 of the Tax Administration Act No.28 of 2011, for failing to withhold the PAYE. Management needs to quantify the amount bursaries as there is insufficient information available to quantify the amount not taxed. The amount is expected to be immaterial however SAA will still be subjected to a penalty of 10 per cent and interest will be payable on the amount outstanding owed to SARS.

There are no controls put in place to ensure that where the employee did not perform academically and did not register, the PAYE is withheld on the bursary which the employee had received.

Internal control deficiency

Financial and Performance Management

Management does not ensure that there are controls put in place which will assist in monitoring whether SAA is complying with the tax legislation. Limited involvement by the tax department in other areas of the business.

Recommendation

We recommend that controls are put in place which will ensure that employees who have failed to perform academically and who also failed to re-register, reimburse SAA the amount of fees that were settled with the institutions on their behalf. Where the amount has not been repaid to SAA, the value of the taxable benefit must be included in the remuneration of the employee and PAYE on the taxable benefit must be withheld and paid to the Commissioner of the South African Revenue Service

Management must investigate the total amount that has not been repaid by employees who have not re-registered for the modules they were not successful with. This will allow management to quantify the total actual tax payable and interest as a result of the failure to withhold the PAYE.

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Management response

Management comment on audit finding: Paragraph 1 The period under review was accepted to be the FY 2016/17 or alternatively the 2016 Academic year. To clarify; the information relates to approvals done at the end of the 2015 Academic year, 2016 Academic year Registrations and approvals of the applicable sample in the 2017 Academic year. In terms of the discussions with the representatives of the AG, the associated Procedures & Practices that give effect to the Bursary Policy were clarified. The requirement for re-registration is applicable to the 2017 Academic year and repayment period – provided the employee failed again at his/her own cost – only comes into effect in the 2018 Academic year. In my considered opinion the Audit finding for the information supplied, is therefore deemed not to be applicable. The finding relating to SAA having to withhold PAYE relates to paragraph 2, of which comment will be made under such heading. Paragraph 2 The content is identified as an extract from Tax Law and is duly noted. Paragraph 3 Those employees referred to hereunder are only required to – having been afforded the opportunity to redo a course/s at their own expense and provided they fail again, reimburse SAA in the third year of study which would be 2018. On the basis of the relevant extract provided in Paragraph 2 the taxable fringe benefit will come into effect in 2018 under the said circumstance above. Paragraph 4 The information is noted and its applicability will be put into effect in 2018 as the Rand value quantum for Bursars that have failed, can only be determined at the time in line with the Procedures & Practices explained. Paragraph 5 There are controls in place that monitors Bursars' performance, this being cyclical at the point/time of re-application for the follow-on year of studies. On the matter relating to PAYE controls your finding is noted.
Management comment on internal control deficiencies: Management will ensure that controls are put in place with the required stakeholder to ensure SAA is complying with relevant Tax Legislations
Management comment on recommendation: Management will improve on the existing controls, to recover fees from employees that have failed to perform academically and those who have failed to re-register. Where the amount the Bursar is liable for has not been recovered, management will ensure the inclusion of the value of the Taxable benefit in the remuneration of the employee by engaging the relevant stakeholders/departments timeously, for the appropriate period

Remedial action:

What actions will be taken:	By whom:	By when:
Tighten appropriate Controls Review Bursary Policy & Procedures Engagement with Finance (Taxation) and Rem & Benefits	Person: Ashley Mashaba Ryno van Rooyen Lebo Mdlalose Position: Manager: Compliance & Stakeholder management; Specialist: SD & Bursary Management Senior Tax Specialist	End FY 2017/18

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Auditor's conclusion

Management's comment is noted. As there have been no controls in place to consider the PAYE effect on the members that have previously not paid back the bursary received. This finding is considered to be applicable and valid. As for the last 3 years there has been no assessment on PAYE effect the employees. The quantification from management amounts to R2.6mil, however the quantification assumes that there is no increases over the 3 years, which indicates that amount may be understated. The potential understatement has been assessed and the total understatement is considered to be immaterial. The exposure may not be material, however, if the amount relating to penalties and interest is included and considered in the overs and under schedule in conjunction with other errors.

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OTHER DISCLOSURE MATTERS

144. Findings from analysis of the disclosures in the consolidated annual financial statements for compliance with IFRS

Audit finding

Paragraph 15 of IAS 1 requires that the financial statements should present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

We have done an overall review of the financial statements against the requirements of IFRS to identify any disclosure deficiencies not already reported in the management report in the individual sections. Set out below is the summary of our findings:

A. Disclosure findings from a high-level review of the AFS to the applicable IFRS standards

No	IFRS standard	Summary of findings
1	**IAS 1 *Presentation of Financial Statements*** **In particular IAS 1.117 relating to the disclosure of a summary of significant accounting policies**	The financial statements do not disclose the accounting policy applicable to other income which is considered a significant line item as it contributes 5% to total income. No accounting policy note is included for fruitless, wasteful and irregular expenditure. The reconciliation of equity carrying amounts in the statement of changes in equity does separately disclose profit and loss and other comprehensive income included in those items.
	IAS 1.106 Statement of changes in equity	In the statement of changes in equity a description of the nature and purpose of the other reserve contents is not included.
2	**IAS 2 *Inventories***	Although the inventory accounting policies states that inventory is carried at lower of cost and net realisable value, the accounting policy does not state whether the determination of the net realisable value of the inventory takes into account events that occurred after year end (where applicable) or the purpose for which the inventory is held.
3	**IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors***	There are various reclassifications disclosed in the annual consolidated financial statements. It is unclear whether any of these changes are errors. If these are errors, these would require disclosure in terms of IAS 8.

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B. Differences between amounts presented in the prior year statement of financial position and comparative amounts per statement of financial position for the financial year ended 31 March 2017

Non-current assets

As per inspection of the Annual Financial Statements, the prior year amount disclosed for amounts receivable from subsidiaries does not agree to the prior year annual financial statements.

Details	Corresponding figure per current year financial statements	Prior year closing balance per prior year financial statements	Difference	Prior year error
Amounts receivable from subsidiaries	178 000 000.00	1 476 000 000.00	-1 298 000 000.00	0

Current assets

As per inspection of the Annual Financial Statements, the prior year amount presented for amounts receivable from subsidiaries does not agree to the prior year annual financial statements.

Details	Corresponding figure per current year financial statements	Prior year closing balance per prior year financial statements	Difference	Prior year error
Amounts receivable from subsidiaries	1 298 000 000.00	0.00	1 298 000 000.00	0

Current liabilities

As per inspection of the Annual Financial Statements, the prior year amount presented does not agree to the prior year annual financial statements. There is no prior period error and there is no explanation on the annual financial statements to provide the user with more information regarding the differences.

Details	Corresponding figure per current year financial statements	Prior year closing balance per prior year financial statements	Difference	Prior year error
Trade and other payables	6 077 000 000.00	6 786 000 000.00	- 709 000 000.00	0
Provisions	1 186 000 000.00	477 000 000.00	709 000 000.00	0

Notes: Property Plant and Equipment

As per inspection of the notes to Annual Financial Statements, the prior year land and buildings were restated to reflect the correct split between land and buildings. There is no prior period error in the annual financial statements to provide the user with more information regarding the differences.

C. Differences between amounts presented in the prior year statement of cash flows and comparative amounts per statement of cash flows for the financial year ended 31 March 2017

Cash flows from operating activities

As per inspection of the Annual Financial Statements, the prior year amount presented does not agree to the prior year annual financial statements. There is no prior period error and there is no explanation on the annual financial statements to provide the user with more information regarding the differences.

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Details	Corresponding figure per current year financial statements	Prior year closing balance per prior year financial statements	Difference	Prior year error
Tax paid	-16 000 000.00	0.00	16 000 000.00	0

D. General

Throughout the financial statements a number of other items were identified which reduces the overall quality of the financial statements. These include Companies Act requirements that the name of the preparer of the consolidated annual financial statements and his/her qualifications be disclosed.

As we were unable to verify this to the financial statements provided for auditing, we will consider this as non-compliance with the requirements of the Companies Act.

E. Related party disclosure note

During the testing of the related party disclosure note, it was noted that there are differences in the amounts disclosed in the related party disclosure note for SAA when compared to the related party disclosure note for the Subsidiaries.

The differences identified are listed below:

Description	Amounts per the Subsidiaries related party disclosure note	Amounts per the SAA related party disclosure note	Differences
Air Chefs			
Amounts included in trade receivable regarding related parties	21 240 678.00	13 773 533.97	7 467 144.03
Amounts included in trade payables regarding related parties	3 503 368.00	5 599 579.09	(2 096 211.09)
Sales to related parties	422 048 400.00	361 551 779.00	60 496 621.00
Expenses paid to related parties	19 511 052.00	7 162 708.94	12 348 343.06
			78 215 897.00
Mango			
Purchases from related parties	399 351 616.00	359 964 566.04	39 387 049.96
Administration fees paid to related parties	784 436.00	894 257.04	(109 821.04)
Fuel paid to related parties	585 732 773.00	664 164 596.18	(78 431 823.18)
Aircraft leases paid to related parties	337 540 845.00	313 148 711.51	24 392 133.49
Total amount			**(14 762 460.77)**

There was a lack of proper and clear communication between SAA and its Subsidiaries in the confirmations that SAA send on a monthly basis to its subsidiaries. Further SAA relied on the figures provided by its subsidiaries instead of performing a due diligence to ensure that the figures provided are correct.

The impact of the above will result in an incomplete disclosure of the transactions between SAA and its subsidiaries as there were differences noted.

Internal control deficiency

Financial and performance management

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The entity did not review and monitor compliance with applicable laws and regulations. The CFO did not adequately review the annual financial statements and accompanying disclosures to ensure the accuracy and completeness thereof prior to submission for audit purposes. This is due to process deficiencies in the preparation and review of financial statement.

Recommendation

- Management should implement controls (an IFRS compliance checklist) to ensure that all disclosures required in terms of IFRS are appropriately made in the annual financial statements submitted for audit.
- The following is the recommended accounting policy for irregular expenditure:
  When confirmed, irregular expenditure must be recorded in the notes to the financial statements. The amount to be recorded in the notes must be equal to the value of the irregular expenditure incurred unless it is impracticable to determine the value thereof. Where such impracticality exists, the reasons therefore must be provided in the notes. Irregular expenditure must be removed from the notes when it is either (a) condoned by the National Treasury or the relevant authority; (b) it is transferred to receivables for recovery; or (c) it is not condoned and is irrecoverable.

  A receivable related to irregular expenditure is measured at the amount that is expected to be recovered and must be de-recognised when the receivable is settled or subsequently written off as irrecoverable.

- All staff that makes inputs to the financial statements, especially with reference to disclosures therein should be trained and equipped with skills on IFRS and informed of any changes/updates on a regular basis.

Management response

Management comment on audit finding: The audit finding is noted and amendments to the AFS will be made as recommended		
Management comment on internal control deficiencies: Comment is noted.		
Management comment on recommendation: A checklist will be implemented going forward.		
Remedial action : Amendments to the AFS notes etc will be made		
What actions will be taken: Amendments made	By whom Person: M Ascencao Position	By when: Ahead of submission of AFS to AG for audit

Auditor's conclusion

Management's comment is noted and amendments to the AFS received on 31 October 2017 were evaluated and disclosure shortcomings evaluated in the summary of uncorrected misstatements.

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145. Impairment for the SAAT loan account of R1.2 Billion not provided for and remaining Investment not impaired

Audit finding

IFRS 9 Par 5.5.1 states that "An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d)"

Paragraph 5.5.3 further states "Subject to paragraphs 5.5.13–5.5.16, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition"

The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking as noted in paragraph 5.5.4.

South African Airways has a loan account to which South African Technical Services (SAAT) owes SAA an amount of R1.2 Billion as at end of the year.

The team received management's assessment for the loan impairment and noted the following deficiencies that were indicators for impairment.

SAAT has projected losses in year 3,4 and 5

That in effect substantiate that the loan account (revolving transaction account) will likely increase in the next financial years

The Net Present Value for SAAT as at R567 Million as at 31 March 2017

The Net Asset Value for SAAT as at 31 March is R790 Million as at 31 March 2017

Group WACC was used for SAAT cash flow projections

The payment plan for the loan has not been finalised between the entities and any projected figure for interest and loan repayment cannot be reliably validate by the team.

The above in combination are indicators that SAA may not be able to recover the full amount of the R1.2 Billion and an impairment for part of the loan amount should have been provided.

Furthermore the investment should be considered to be impaired, the entity will first use the available cash to repay the loan before distributing the dividents

The Manager Financial Accounting did not perform adequate checks to ensure that the the impairment assessment for the SAAT loan account adequately covered all the risks associated with the entity.

The loan receivable amount is overstated and investment is overstated.

Internal control deficiency

Financial and performance management

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The Manager Financial Accounting did not perform adequate checks to ensure that the the impairment assessment for the SAAT loan account adequately covered all the risks associated with the entity.

Recommendation

Management needs to impair the investment to zero and needs to consider impairment assessment for the loan account and take into account the factors stated by the audit team on whether the loan account requires to be partially impaired.

Management response

Management comment on audit finding: The audit finding is noted. The investment has been impaired to zero and an update impairment calculation has been provided to the auditors.		
Management comment on internal control deficiencies: Comment is noted.		
Management comment on recommendation:		
Remedial action: Amendments to the AFS notes etc will be made		
What actions will be taken: Amendments made	By whom Person: Position	By when: Ahead of submission of AFS to AG for audit

Auditor's conclusion

Management's comment is noted and amendments to the AFS received on 29 November 2017 where the investment has been impaired to zero. The updated impairment calculation supporting the loan valuation has been received and been audit and comfort has been obtained over the calculation.

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Commitments

146. Contractual capital commitments not disclosed in the current and prior periods in the annual financial statements

Audit finding

IAS 16 paragraph 74(c) of the IFRS states that *"the financial statements shall also disclose the amount of contractual commitments for the acquisition of property, plant and equipment."*

IAS 38 paragraph 122(e) states that *"an entity shall also disclose the amount of contractual commitments for the acquisition of intangible assets."*

IAS 8 paragraph 5 of the IFRS defines prior period errors as *"omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:*

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts and fraud."

IAS 1.paragraph 17(c) of IFRS states that *"in virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance".*

During the review of the draft Annual Financial Statements (AFS) of the South African Airways SOC LTD submitted for audit on 26 June 2017 it was identified that has disclosed only lease commitments as required by IAS 17 (note 16) to the AFS. Not all contractual commitments have been disclosed for both current and the comparative period as required by IAS 16 Property, plant and equipment (PPE) and IAS 38 Intangible assets (IA).

Through inspection of the approved procurement plan for the 2016/17 financial year dated 20 June 2016, it was noted that SAA has numerous contracts which have been awarded to acquire items of property, plant and equipment and intangible assets. Furthermore SAA has an approved capital expenditure budget that is used to acquire items of PPE and IA. Below is an example of contract included in the procurement plan to acquire items of PPE and IA respectively.

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Table 1: examples of items of property, plant and equipment

No	Programme	Project Description	Method of procurement	Bid award	Contract commence	Contract expiry	Contract value
1	Fleet	Baggage Delivery	Open Tender	25-Jul-16	13-Aug-16	12-Aug-19	5 000 000.00
2	Fleet	Aircraft Scales	Confined Tender Process considering the low market	01-Jul-16	Aug-16	Maintenance contract - 2019	20 000 000.00
3	Fleet	Batteries for 1.6 ton forklifts	Open Tender	2016/07/29	2016/08/01	Once-off purchase	650 000.00
4	Fleet	Sprinter Service for Cargo	Open Tender	2016/08/09	2016	2019	6 000 000.00
5	Fleet	Cargo nets and straps	Open Tender	2016/12/09	2016	2019	2 900 000.00
6	Fleet	ULD's for Cargo - Outright Purchase	Confinement	2017/12/11	2017	Once-off purchase	13 000 000.00
7	Fleet	Purchase of 3 Premium sedans for VIP airside transportation @ 3 airports.	Open Tender / Transversal Contract	2016/09/30	2016	Once-off purchase	1 300 000.00
8	Fleet	Sourcing of specialised bins to carry Valuable goods.	Open Tender	2016/12/09	2016	Once-off purchase	Awaiting BU Input
9	Fleet	Horse stals ULD's	Confinement	2016/12/09	2016	Once-off purchase	1 500 000.00
10	Facilities	Supply of Generator	Open Tender	01-Jun-16	15-Jul-16	15-Sep-16	1 100 000.00
11	Facilities	Furniture Tender (Group)	Open Tender	23-Sep-16	01-Oct-16	30-Sep-19	10 000 000.00
12	Facilities SAAC	Perimeter fence (ULD side)	Open Tender	11-Nov-16	01-Dec-16	28-Feb-17	1 000 000.00
13	Security	X-Ray Machine	Open	2016/08/25	2016/09/01	2019/08/31	37 000 000.00
14	Security Accra	Aviation Security	Confined	2017/02/15	2017/03/01	2020/02/29	3 800 000.00
15	Security (Washington)	Aviation Security	Confined	2016/08/19	2017/09/01	2020/01/29	2 000 000.00
16	Security (New York)	Aviation Security	Confined	2016/08/09	2017/09/01	2020/01/29	2 600 000.00
Total							107 850 000.00

Table 2: examples of intangible asset

No	Programme	Project Description	Method of procurement	Bid award	Contract commence	Contract expiry	Contract value
1	IT	Aircraft Lease, Maintenance and Asset Management system	Open Tender Process	01-Aug-16	31.08.2016	30-07-2019	6 000 000.00
2	IT	Integrated Governance, Risk and Compliance Tool (GRC)	Open Tender Process	02-Aug-16	01.08.2016	01-Sep-16	5 000 000.00

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3	IT	CHESS Occupational Health System	Open Tender Process	30-Aug-16	01.08.2016	01-Sep-16	2 000 000.00
4	IT	CRM & Customer Segmentation Implementation	Open Tender Process	28-Oct-16	07.11.2016	08-Nov-19	6 000 000.00
5	IT	OAG contract	Open Tender Process				4 000 000.00
6	IT	SAP Performance Management Module Implementation	Open Tender Process	30-Sep-16	30-Oct-16	30-Nov-16	9 600 000.00
Total							**32 600 000.00**

Table 3: Approved capital budget

12 months to 31 March	FY16B R 'million	FY17P R 'million	FY18P R 'million
Cargo	13.71	18.98	21.36
Commercial	5.47	7.57	8.52
Corporate	1.80	2.49	2.80
Facilities	58.86	81.48	91.72
Finance	0.17	0.24	0.26
Fleet	153.34	212.27	238.95
In Flight Services	0.27	0.37	0.42
IT	67.58	93.55	105.31
Operations	62.28	86.22	97.05

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Voyager			
Total Capital Expenditure	**363.48**	**503.18**	**566.40**

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The above matters result in material understatement of the commitments and prior period error disclosure notes in the AFS of SAA of an undeterminable amount and a material departure from the requirements of the accounting standards.

Prior period errors

The information regarding the contracts to acquire PPE and IA which SAA has entered into in the past was available when the AFS were authorised for issued and was reasonably expected to have been obtained and taken into account in the preparation and presentation of the prior year AFS. The omission of the information in the preparation of the annual financial statements has resulted in the prior period error.

The above will result in the modification of the audit opinion in the audit report of SAA.

Internal control deficiency

Financial and performance management

The HOD Financial accounting did not ensure that the financial statements are prepared in accordance with all the applicable IFRS requirements by ensuring that there are mechanisms in place to ensure that AFS are in compliance will IFRS in all material respects.

The Acting Chief Procurement officer did not ensure that the contract register is kept in a manner that enables financial reporting, the contract register does not keep track of the amount spent to date and the remaining amount which will be contractual commitments.

The Divisional financial controller did not ensure that commitments relating to Property, aircraft and equipment are included in the AFS.

Recommendation

The HOD Financial accounting should develop an IFRS checklist which will be completed before submitting AFS for audit that will be mapped to all specific requirements of the accounting standards. Where an accounting standard is not applicable to SAA reasons should be documented on the IFRS checklist.

The Acting Chief Procurement officer should ensure that the contract register is kept in a manner that allows seamless financial reporting on contractual commitments; this should include fields for contract values and amount spent to date.

There should be communication between the HOD financial accounting, the Acting Chief Procurement officer and the Divisional Financial controller with regards to the disclosure of the contractual commitments to enable accurate and complete disclosures in the AFS.

The HOD Financial accounting, the Acting Chief Procurement officer and the Divisional Financial controller should work together in determining the amount that should be disclosed in the AFS for the prior period and the current period so that the amount can be audited.

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Management's response

Management comment on audit finding: Management comment on audit finding: While management agrees that not all commitments may have been reflected in the note, management disagrees with the listing of items reflected in the finding as many of these items from the procurement plan are not capex but opex. In addition, an approved budget is not the reflection of a commitment. Application has to be made to utilize capex budget and only if there is a business case that supports the expenditure and there is cash available will it be approved. <u>Procurement</u>: A Procurement plan for each Commodity is a requirement from National Treasury for planning purposes. The dates quoted on the procurement plans are project plan dates and should not be read as the actual implementation dates. Actual implementation dates are as per the contract register after conclusion of a tender process. The values stipulated in the above tables are the planned spend and not the actual spend Attached is an example of the 2016/2017 June 2016 procurement plan document, an updated planned procurement document dated February 2017 and an actual contract register for Fleet Management. The disclosed amount should be from the Contract register and not the Procurement planned document. The contract register record amongst others the actual bid award date, the actual contract value and the duration including start and end dates.
Management comment on internal control deficiencies: The comment is noted.
Management comment on recommendation: The note re capital commitments will be updated once the correct information is obtained from the capex department
Remedial action : Capex department will be requested to provide details of capex approvals where there is a commitment that should be disclosed.

What actions will be taken:	By whom	By when: 28 September 2017
Request info from capex department and update note	Person: L Olitzki Position HOD financial accounting	

Auditor's conclusion

Management comments are noted, on 20 October 2017 there was no revised population. When the AFS were submitted on 31 October 2017 we did not receive the revised population still. The information regarding the contractual capital commitments will no longer be considered in the finalisation of the audit. The impact of the finding will be aggregated with other individually immaterial audit findings and will have an impact in the audit opinion of SAA.

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OTHER NON-COMPLIANCE

147. Amounts payable to Mango by South African Airways

Audit finding

In terms of section 51(1)(a)(i) of the Public Finance Management Act states that *"an accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*.

Clause 3 of the Mango Cash Management Agreement states that *"the investor shall deposit its surplus capital sums into the bank account of the treasurer from time to time. Both the investor and the treasurer shall keep a strict record of accounting indicating the capital sums deposited into the treasurer's account and shall separately indicate the interest accrued. The capital sums shall bear interest at prime less 2.7%"*.

Clause 1.1.5 of the Mango Cash Management Agreement states that *"surplus capital sums mean surplus funds in excess of Mango's normal working capital requirements"*.

Clause 1.1.10 states that "cash in excess of R336 million should be available in a 24 hour period to Mango".

Clause 6.1 General Covenants of the Mango Cash Management Agreement states that *"the treasurer shall ensure that the capital sums shall remain unencumbered and free from any claim or attachment by any third party. The treasurer shall undertake all such steps and sign all such documentation necessary to maintain the investors benefit's in and to capital sums"*.

Paragraph 42 of IAS 32 states that *"a financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when and only when, an entity:*

(a) Currently has a legally enforceable right to set off the recognised amounts; and

(b) Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously".

During the audit of amounts payable to Mango it was noted that the funds received by South African Airways (SAA) from Mango are being transferred from the SAA Nedbank account (Account in the agreement) to the Standard Bank account which is an account that is used as an operational bank account. Furthermore it has been determined that South African Airways is using these funds in its bank account for SAA own operations and not to earn interest for the benefit of Mango.

It was further noted that SAA use the capital sums received from Mango to off-set against amounts owed to SAA by Mango. Mango has been offsetting amounts due to SAA on fuel with these amounts advanced whilst SAA has been offsetting the amounts due to Mango for codeshare with these amounts advanced. Thus amounts payable to mango have been disclosed on a net basis.

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In terms of IAS 32, SAA may only offset these amounts if it has a legally enforceable right to set off the recognized amounts. In the contract with Mango, SAA is required to keep a separate record of the capital sums and there is no documented proof that SAA should use the capital sums to offset against the money owed by Mango.

The above is as a result of SAA having cash management problems as the company is currently operating at a loss. Therefore the funds that are received from Mango are being used to cover their operational costs.

The impact of the above has resulted in a breach to the general covenants of the loan agreement. Furthermore this is a breach of contract by SAA, as they will not be able to make the funds available to the investor if and when the investor requests the funds to be paid.

Internal control deficiency

Leadership

The CFO did not exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls in ensuring that South African Airways does not use the funds from Mango for South African Airways operational purposes.

Recommendation

- South African Airways must comply with the loan agreement with Mango by ensuring that the funds in the Nedbank account are not transferred to the Standard bank account for SAA operations or SAA and Mango must enter into another agreement to allow for the offsetting.
- The capital sums deposited by Mango should be kept in a separate bank account.

Management response

Management comment on audit finding: Management agrees that the offsetting has been taking place and was mutually agreed to. The purpose of the group cash management activities is to ensure that the group pays less interest or earns more interest as a collective. Mango has been able to enjoy a better interest rate by participating in this arrangement than if the funds were separately invested. Mango has always been able to access its funds as needed.		
Management comment on internal control deficiencies: The purpose of managing group cash benefits both the "investor" – Mango as well as the group. However, going forward Mango has "wound down" this deposit with SAA and will no longer be placing funds with the group.		
Management comment on recommendation: The agreement would have been updated to include the right of offset as recommended, however Mango have decided not to place funds with SAA in future but to pay SAA as and when there is an expense to be paid on their behalf		
Remedial action:		
What actions will be taken: n/a as Mango loan account down to R22m at end August and will be zero in Sept.	By whom: L Olitzki Person: Position; HOD Financial Accounting	By when: By end of September 2017

Auditor's conclusion

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Management comment is noted and are in agreement with the finding. Even though the funds are being removed from SAA going forward , there is a significant control deficiency as SAA is not complying with the agreement. The finding will not have an impact on the financial statements.

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Audit of Performance Information

148. Prescribed time frames for submission of quarterly reports to National Treasury not achieved

Audit finding

Paragraph 3.8 of the National Treasury Guidelines on the preparation of Quarterly Reports for Public Entities and Constitutional Institutions states that "all quarterly information must be signed off by the Accounting Officer or Accounting Authority of the institution and submitted in the format required, to the Executive Authority and to National Treasury within 30 days after the end of each quarter. In the event that the submission date falls on a non-working day, the quarterly report should be submitted on the first working day following the submission date"

Treasury Regulations 29.3.1 states that the board/accounting authority established procedures for:

a) Preparation of quarterly reports
b) Submission of quarterly reports to the executive authority and
c) Facilitation of effective performance monitoring, evaluation and corrective action.

The audit team noted the submission dates to be adhered to by the client as follows:

Quarter	Due Date for submission
Q1: Quarter ending 30 June	31 July
Q2: Quarter ending 30 September	30 October
Q3: Quarter ending 31 December	31 January
Q4: Quarter ending 31 March	30 April

The entity submitted the report for quarter three on 08 February 2017 as opposed to 31 January as noted in the table above.

This has resulted in non-compliance with the National Treasury Guidelines on the preparation of Quarterly Reports for Public Entities and Constitutional Institutions due to the company being eight days late.

The team also identified that there are no formal documented procedures for the preparation of quarterly reports, responsibility for preparation and submission ect.

Internal control deficiency

Leadership

The Office of the Chief Financial Officer did not ensure that the quarterly reports are submitted with the prescribed timeframes.

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There are no internal documented procedures that guide management on internal deadlines to ensure that submissions to National Treasury are made before or on the due date for submission.

Recommendation

The Office of the Chief Financial Officer should ensure that the entity adheres to the time frames for the submission and approval of the quarterly reports, as outlined in the National Treasury Guidelines on the preparation of Quarterly Reports for Public Entities and Constitutional Institutions.

The Acting Chief Strategic Officer in consultation with all the role players within SAA, who are involved in the process of the company's performance information reporting, should ensure that formal procedures are in place in guiding the process for performance management, including that of quarterly reporting. Noting responsibilities of the relevant stakeholders within SAA in the process.

Management response

Management comment on audit finding: Agree to the audit finding.		
Management comment on internal control deficiencies: Agree to the identified internal control deficiencies.		
Management comment on recommendation: The recommendations as proposed would be implemented. Furthermore, the accounting authority will be requested to either approve the quarterly reports by round-robin or delegate the approval for the submission to the accounting officer.		
Remedial action: The Office of the CEO will have to respond on how they will ensure the Quarterly reports are submitted on time.		
What actions will be taken:	By whom Person: Joseph Makoro Position: Acting Manager in the Office of the CEO	By when: November 2017

Name: Musa Zwane
Position: Acting Chief Executive Officer
Date: 24 August 2017

Auditors' conclusion

Auditors note management's response. We note the proposed remedy to the identified internal control deficiency and will re-assess during the 2017/18 financial years audit to confirm whether management's intervention has been effective in addressing the deficiency identified.

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149. Inadequate risk assessment procedures to identify risks regarding performance information reporting

Audit finding

The National Treasury Framework for Managing Programme Performance Information (FMPPI) chapter 3, paragraph 3.1 and chapter 4, step 2 and step 6 stipulates that the entity need to develop risk assessment procedures regarding performance information reporting including data quality risks.

Chapter 3, paragraph 3.1 - Step 2: Specify the outputs, activities and inputs, read in more detail explain that:

- An entity need to ask what does the institution require to produce these outputs? These will be the activities the institution needs to undertake.
- What is needed to perform these activities? These will be the inputs the institution requires.

This approach to planning is called the "logic model", and is a useful way to plan and order information. In determining the logic model, risk and assumptions must be identified for each of the levels of the planning process.

The process of defining appropriate outputs needs to take into consideration what is practical and the relative costs of different courses of action.

Chapter 4, Step 6: Establish processes and mechanisms to facilitate corrective action; read in more detail explains that:

Regular monitoring and reporting of performance against plans and targets enables managers to manage by giving them the information they need to take decisions to keep service delivery on track. The information should help managers establish:

- What has happened so far?
- What is likely to happen if the current trends persist, say, for the rest of the financial year?
- What actions, if any, need to be taken to achieve the agreed performance targets?

The following are the examples of internal control deficiencies identified by the audit team when documenting an understanding of the business processes and relevant controls that are as a result of the inadequate controls in identifying risk associated with performance reporting:

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Objective	Indicator	Target	Audit finding
Objective 2- Achieve and maintain financial sustainability	EBITDA (Earnings before interest, tax, depreciation and amortisation)	(R249m)	Inspected the achievement of the reported information in prior year APR and could not agree it to the information on TM1. The EBITDA reported in the APR was R – 837 million, compared to the R - 522 million calculated on TM1.
	CASK	120c	Inspected the achievement reported in the prior year APR and it did not agree to the recalculation of the CASK. The CASK reported in the APR amounted to $ 1.03, while the recalculation amounted to $ 1.01.
	Refinement of the LTTS	90%	Inspected the letter drafted by J. du Plessis to National Treasury to remove the indicator from the Shareholder's compact as it was no longer relevant. The impact will be assessed during usefulness.
Managements comments Indicators: EBITDA, CASK Noted. The variance is as a result of a last minute journal that was posted to correctly reflect the legal fee provision and the KPI's in the director's report was not updated to reflect such. Going forward control measures have been put in place to ensure that all KPI's are updated following subsequent audit adjustments passed.			
Objective 3- Provide excellent customer service	Net promoter score (referral rate)	60%	The Net Promoter Score cannot be presented as a percentage, but the target that is included in the Shareholders Compact is expressed as a percentage.
Managements comments Refer to comments on the finding relation to measurability of this target.			
Objective 4- Achieve consistent, efficient and effective operations	Safety records	95%	The target was erroneously set at 95% as the achievement may only be 100% if the certificate is obtained or 0% if the certificate is not obtained.
	On time performance	87%	There is no evidence that SAA included the data from their subsidiaries as per the plan as documented in the shareholders compact, section 18.1.3, for the calculation of on time performance.
	Audit findings (no repeat, material findings)	95%	The corporate plan includes target on audit findings as a percentage target of 95%, however when performing the walkthrough the team established that management is not able to present the target as a percentage. Thus management is not able to calculate the percentage achievement as presented in the shareholders compact.
Managements comments On-time performance- Calculation provided. Please give clarity on the number 18.1.3. The reference is not relevant			

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Audit findings - After discussion with Chief Audit Executive of SAA we agree with the finding. This have been fixed in the 2017/18 Shareholder Compact. (please refer to the current draft of the 17/18 Compact). In addition a detail definition will be signed off indicating that it is referring to Internal Audit findings.

Objective 5- Foster performance excellence	Compliance to performance management	98%	There is an overstament of the number of employees of 13 employees used in the forster performace as the Group score card contains 5 234 employees while the SAA employee list contains 5 247.

Managements comments

SAP is a live system, there would be a difference depending on when the reports were run.

The January monthly reports were run on the 24th of January. We need to find out what date the other report was run.
If it was run before the payroll ran in January, exits and engagements may have been captured in between.

I hope this makes sense.

Regards,

Warda Jappie | Specialist HR Structures and Reporting | Remuneration & Benefits

Endorsement letter submitted to NT not signed by the Accounting Authority	None	Paragraph 4.3 of the MTEF technical guidelines for the preparation of expenditure estimates for the 2017 medium term expenditure framework (MTEF)	The endorsement letter submitted by SAA was not signed by the Accounting Authority. Furthermore, upon inspection of the delegation of authority, this was not delegated to the Chief Financial Officer. The endorsement letter submitted did not meet the above stated guidelines No explanatory narrative was submitted

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Also upon inspection of the Corporate Plan, it was noted that the entity did not disclose risks regarding performance information reporting including data quality risks as required by the FMPPI.

This result in non-compliance with FMPPI due to risk assessment procedures regarding performance information reporting including data quality risks not having been developed and implemented.

Internal control deficiency

Financial and performance management

The Acting Chief Strategy official was not trained in Public Sector requirements on managing performance information, more specifically on the requirements of the National Treasury Framework for Managing Programme Performance Information, in order to perform his duties effectively.

The roles and responsibilities for collecting, coordinating and compiling performance information were not clear, not documented and not communicated to all relevant staff.

The roles and responsibilities for ensuring data integrity and quality assurance are non- existence and/ not clear, not documented and not communicated to all relevant staff.

Recommendation

Management should develop specific and appropriate performance information management policies and procedures to enable the entity to monitor the progress made towards achieving goals, targets and core objectives as indicated in the shareholders compact, as well as to manage risks related to performance information reporting.

Management response

Management comment on audit finding: The audit findings in the table above has been addressed individually in separate audit findings and needs to be updated according to the final audit findings as my understanding was that multiple of the issues identified as problems was resolved.		
Management comment on internal control deficiencies: Management take note that additional validation steps needs to be implemented to check the accuracy of the shareholder compact items.		
Management comment on recommendation: Management will create definition document to address this.		
Remedial action : Management is creating a specification document to define all shareholder compact KPI's and the validation thereof for the 2017/18 financial year		
What actions will be taken:	By whom Person: Duke Maphunye Position: Strategic Projects Manager	By when: 2018/01/31

Auditor's conclusion

The identified internal control deficiencies and managements proposed interventions are noted and will be assessed in the next financials year's audit.

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Procurement and contract management

150. Suppliers in which partners or associates of employees of SAA have an interest

Audit finding

Section 54(1) of the PFMA (Act 1 of 1999)states that "*an accounting authority for a public entity must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require*"

Section 15(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) states that "*when performing an audit referred to in section 11, the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to (a) any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee*"

The following awards in table A below were made to suppliers in which partners or associates of employees of SAA have an interest, however the following was noted:

- There is no proof that the employees did get the approval to do other remunerative work,
- There is no evidence that employee of SAA submitted a declaration of interest to declare the interest of the business partner or associate
- Suppliers under item 1 to 2 submitted a declaration of interest but did not declare the interest of the business partner or associate that is employed by SAA,
- There is no evidence that suppliers under item 3 to 6 did submitted a declaration of interest as required in the request for proposal (RFP) to declare the interest of the business partner or associate that is employed by SAA.

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Table A

Item No	Supplier name	Description of award	Period of awarding	Total rand-value of award	Expenditure (Payments) - current year	Supplier submitted declaration of interest?	Official Discl· inte·
1	Total South Africa (Pty) Ltd.	Jet fuel supply	1 Jan 2017 to 30 June 2017	R 533 322 714.33	R 533 322 714.33	Yes	No
2	Banalo Trading Enterprise (Pty	Supply of aircraft galley equipment locking mechanism and stoffel seals	01 Mar 2016 to 28 Feb 2019	R 12 028 824.00	R 4 098 870.00	Yes	No
3	Usizo Technical Services cc	Installation and upgrade of HVAC for SAA	1 July 2016 to 1 July 2018	R 30 608 331.50	R 14 156 910.16	No	No
4	Masakheni Isizwe Mining and Constru	Supply of liquid hand soap and soap containers for the use on -board SAA flights	01 March 2016 to 28 Feb 2019	R 3 504 714.35	R 494 494.61	No	No
5	Peermont Global Ltd	Flight deck crew accommodation in JHB	01 Oct 2015 to 30 Sept 2018	R 4 291 938.00	R 433 320.00	No	No
6	43 Air School Pty Ltd	Cadet Pilot and Instructor Training	1 May 2014 to 30 April 2017	R 62 280 000.00	R 1 074 590.75	No	No
7	Gijima Holdings(Pty)Ltd	I-PAD Repairs	Approval schedule for request for quotation approved on 21 Jul 2016	R 338 769.24	R 1 487 848.20	N/A	No
8	K2013146009 (South) Africa (Pty) Lt	USB(Hardware)	Approval schedule for request for quotation approved on 10 January 2017	R 285 399.00	R 285 399.00	N/A	No
			Total	R 646 660 690.42	R 555 354 147.05		

In addition, the following requested information in relation to all awards made to the suppliers in table B listed below in the current and previous year was not submitted.

Table B

Item No.	Supplier name	RFI no	Information requested
1	Something Media Cc	105	1) A declaration of interest submitted by the supplier 2) Contract between SAA and supplier/BAC decision record or board minutes for approval 3) Approval schedule to award quotation (if quotation and not tender) 4) Appointment memo (BSC, BEC and BAC) for members involved in the awarding of contract and their declaration of interest
2	Lanseria International Airport (Pty	105	
3	Nosa (Pty) Limited	167	
4	Africa Business News	105	
5	Tourvest Holdings Pty Ltd	105	
6	Quest Staffing Solutions(Pty) Ltd	167	
7	SizweNtsalubaGobodo Advisory	167	

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The matters reported in this finding constitute non-compliance with PFMA and SAA's SCM policy. This is also an indicator of possible fraud and management is required to investigate further on this to determine whether there is no fraud in the above transactions.

There is also a limitation of scope in supply chain management (SCM) and as a result we are unable to conclude on the completeness and fair presentation of the irregular expenditure note. This, if not addressed may lead to a qualification in the audit report. In addition we are also unable to conclude on the compliance by SAA with the laws and regulations governing SCM.

Internal control deficiency

Financial and performance management

The supply chain management unit did not implement proper record keeping ensuring that all documents relating to tender awards are filed on a timely manner and information in the store room is accessible to support financial and performance reporting.

Recommendation

- There should be consequences for all employees that are found to have interest in the suppliers that are doing business with SAA and did not declare their interest,
- The Chief Procurement Officer should oversee the implementation of appropriate processes/systems to ensure proper record keeping in a timely manner. This will enable complete, relevant and accurate tender information being accessible and available upon request by the auditors.
- Supporting evidence should be filed on a regular basis and properly referenced and make reference to the responsible staff member so that documents could be obtained on a timeous manner when requested.
- An SCM checklist must be done in order to ensure that information in the file is complete.

Management's response

Management comment on audit finding: Nthabiseng to comment on conflict of interest. We do not accept the limitation of scope finding pertaining to some of the listed contracts above and on the consolidated limitation of scope document attached hereto, we have indicated the available documents. However, we accept the limitation of scope finding pertaining to the information recorded as untraceable on the document attached and management actions recorded below will be implemented.		
Management comment on Internal control deficiency: We accept the noted deficiency pertaining to the limitation of scope.		
Management comment on recommendation: We accept the recommendations for the limitation of scope.		
Remedial action: Refer below:		
What actions will be taken: Regarding the limitation of scope, the Information Management Committee (IMC) has been established to oversee adequate management and control of GSM information (including introducing information	**By whom:** Commodity Management team, IMC, CPO (for limitation of	**By when:** December 2017 (for limitation of scope)

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management technologies such cloud). Also, the revamp of the GSM storages and ensuring files are labeled and properly stored has commenced.	scope) and CRO (for conflict if interest).	
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management's response is noted and further engagement has been held with GSM management on the 12 September 2017 to ensure that this issue is clarified with management and issue was not resolved as GSM management did not provide us with supporting evidence as indicated in their response.

Subsequent to the meeting held, management still did not provide information regarding the suppliers where there is interest. This is concerning as it is an indicator of fraud. Management is required to investigate all transactions reported in the finding raised and disclose any irregular expenditure identified (if any)

A follow up will be done in the 2017/18 financial year to ensure that the internal control deficiency of record keeping is addressed and that an investigation has been conducted.

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151. No bid specification and evaluation compiled by the committee prescribed by the SCM policy

Audit finding

SCM policy paragraph 7.3.5.3 states that "*With the exception of the BAC, other Bid/Tender Committees such as the BSC and BEC are constituted by the SAA Group's CPO (in cooperation with the BU's line management)*".

SCM policy paragraph 7.3.5.4 further states that "*Bid/Tender Committees shall whenever it is reasonable and practicable be deemed to be fully constituted, when they consists of at least one personnel representing the BU requesting Procurement, legal, risk, audit, finance, transformation and operations*".

We noted that there was no bid evaluation and bid specification committee for the following confinement award which was confined to more than one supplier and no specifications were used to evaluated the suppliers

Table A

Item	Supplier	Description	Award value	Number of suppliers confined to
1	Maria Lena Thereza	Leasing of the YKK building premises	R 3 374 905.13	4
2	CIPS Lounge	Lounge contract at Maputo	R 8 221 500.00	2
3	Sul America Companhia De Seguro Saude	Medical Insurance for SAA Employees based in Brazil	R 3 228 526.53	5
4	United airlines	Arrival passenger services at Washington	R 6 306 300.00	3
Total			**R 21 131 231.66**	

Table B

Item	Supplier	Description	Award value	Number of suppliers confined to
1	Company Arquitetura	Refurbishment of the new office space	R 2 045 506.46	4

There is non-compliance with SCM policy paragraph 7.3.5.4 which resulted to suppliers not evaluated as there were no Bid Specification Committees and Bid Evaluation Committees appointed

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Internal control deficiency

Financial and performance management

The Acting Chief Procurement Officer did not exercise oversight responsibility to ensure that committee members as required by SCM policy are appointed due to a lack of sufficient understanding of the requirements of the SCM policy

Recommendation

The Acting Chief Procurement Officer must ensure that tender committee members are appointed as per SCM policy.

Management's response

Management comment on audit finding: **Table A** We disagree with the finding and submit the following: Maria Lena Theresa (Sao Paolo Lease) – This was done in accordance with 2011 SCM Policy that excluded leases from a procurement process. Thus, the 2016 SCM Policy finds no application to the lease concerned. Medical Insurance for SAA Employees based in Brazil – Sul America Companhia De Seguro Saude: Medical Insurance companies are not appointed through a standard competitive tender process as the considerations are multi-dimensional i.e. not only price. The PPPFA cannot be applied in the appointment of medical aid service providers. This is coupled with the fact that medical aid is an employee benefit where employees contribute part of the monthly subscriptions. No specification is crafted for medical aid as employees goes with the packages offered by the service providers. Neither can there be a bid evaluation committee as there cannot be bids for packages whose specifications are not the same. The finding is therefore not applicable to Medical Insurance which is known as medical aid in South Africa. CIPS Lounge– this was confinement to one supplier, as explained in the BAC Submission these were confinements and awards to the specified Supplier, due to valid reasons and risk. The CIPS Lounge at Maputo was confined due to the only other Lounge being LAM's Lounge who operate in direct competition with SAA on the JNB/MPM route, as well as the CIPS Lounge being done in SAA' branding was a huge market advantage to award the Lounge at Maputo to the CIPS Lounge. United Airlines - this was confinement to one supplier, the supplier is a STAR Alliance Carrier who is the only supplier at Washington that has a central arrivals hall and who is able to assist SAA with onward carriage for SAA passengers from one central point. **Table B** We accept the finding.
Management comment on Internal control deficiency: **Table A** Not applicable **Table B** We accept the deficiency and the Commodity Teams will ensure proper process is followed by international stations.

KTD

Management comment on recommendation: **Table A** Not applicable **Table B** We accept the recommendation.		
Remedial action: Table A Not applicable **Table B**		
What actions will be taken: Training of outstation personnel on SCM Policy has commenced and Commodity Teams will ensure that this does not reoccur.	**By whom** Commodity Teams (T Sogwazile) and Station Managers	**By when:** Immediately.

Auditor's conclusion

Table A

Management disagree with the finding

Management's response is noted and further engagement was held with GSM management on 12 September 2017 to ensure that this issue is clarified with management, but we still have a disagreement.

United Airlines tender was confined to multiple suppliers, being United Airlines, WFS and Swissport for ground handling and thus a specification was required and not done resulting in non-compliance with the SCM policy

Audit finding will remain and it will be reported in the management report as non-compliance with SCM policy.

On the Maria Lena Theresa (Sao Paolo Lease), Medical Insurance for SAA Employees based in Brazil and CIPS Lounge, we accept the evidence and explanation from management as this was verified through supporting evidence (2011 policy and BAC submission), thus the finding has been resolved

Table B

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. The finding remains in the management report and will be reported as a non-compliance with SCM policy.

A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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152. Supplier who did not meet minimum threshold of 70% for functionality was evaluated further

Audit finding

Section 51(1)(a)(iii) of the Public Finance Management Act (PFMA) states that *"an accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective"* .

Paragraph 4 (4) of preferential procurement regulation (PPR) states *that "no tender must be regarded as an acceptable tender if it fails to achieve the minimum qualifying score for functionality as indicated in the tender invitation".*

Contract number GSM089/16 awarded to SJF Transport Services for procurement of adhoc transport for the cabin crew for an amount of R220 000, 00 was audited and the following matters were noted:

- According to the request for quotation, the minimum threshold of 70% for functionality was required in order for the supplier to be evaluated further in terms of preference points,
- Based on the evaluation performed by management for functionality supplier Mudziwa Travel (Pty) Ltd scored 50% for functionality and were evaluated further in terms of the preference points

The supplier was supposed to be disqualified and not evaluated further as the minimum score of 70% for functionality was not met. Therefore the further evaluation of Mudziwa Travel (Pty) Ltd was non-compliance with paragraph 4(4) of preferential procurement regulation.

Internal control deficiency

Financial and performance management

Commodity manager did not exercise oversight responsibility to review scores awarded for functionality to ensure that suppliers who did not meet minimum threshold of functionality was not evaluated further in terms of paragraph 4 (4) of preferential procurement regulation due to a lack of sufficient resources and skills in the procurement division to review evaluation sheets.

Recommendation

Commodity Manager should ensure that scores awarded to suppliers for functionality by purchasing researchers are reviewed and recalculations done to determine whether, minimum threshold for functionality has been met before they are regarded as acceptable and evaluated further in terms of preference point as required by paragraph 4 (4) of preferential procurement regulation.

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Management's response

Management comment on audit finding: We accept this finding and submit that after the supplier was erroneously evaluated further, there was no prejudice (e.g. the supplier did not benefit from the mistake and no party in the process was prejudiced).		
Management comment on internal control deficiency: It is correct for this audit sample, that the Commodity Manager did not exercise oversight responsibility, as it may be expected. However, we submit that the exercise of such oversight responsibility is an activity that requires optimal resource deployment at GSM.		
Management comment on recommendation: The recommendation is noted.		
Remedial action: Refer below:		
What actions will be taken: The Commodity Manager will ensure the review of all tender scores before the award is made and ensure that the non-compliance is prevented from recurring.	**By whom** Commodity Management: T Sogwazile	**By when:** Immediately.
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**YES**	**NO**
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

The finding remains in the management report as a non-compliance with preferential procurement regulation. A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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153. Incorrect calculations for preference points

Audit Finding

Paragraph 5(1) of preferential procurement regulation (PPR), *the following formula must be used to calculate the points for price in respect for tenders(including price quotations) with a rand value equal to or above R30 000 and up to rand value or R1 000 000(all applicable taxes included)*

$$Ps = 80\left[1 - \frac{Pt - Pmin}{Pmin}\right]$$

Where:

Ps = Points scored for comparative price of tender or offer under consideration
Pt = Rand value of offer or tender consideration
Pmin = Rand value of lowest acceptable tender or offer."

Paragraph 6(1) of preferential procurement regulation (PPR), *the following formula must be used to calculate the points for price in respect of tenders with a Rand value above R1 000 000 (all applicable taxes included)*

$$Ps = 90\left[1 - \frac{Pt - Pmin}{Pmin}\right]$$

Where

Ps = Points scored for comparative price of tender or offer under consideration

Pt = Rand value of offer or tender consideration

Pmin = Rand value of lowest acceptable tender or offer."

We recalculated preference points and noted that the following suppliers points for price were incorrectly calculated which affected total scores awarded. There was no impact on the winner as the correct supplier was awarded the quote but based on incorrect calculations

Table A

			SAA calculations				Auditors recalculation			
Quotation No	**Supplier**	**Amount quoted**	**Lowest quoted amount**	**Price point**	**B-BBEE points**	**Total points(A)**	**Price point**	**B-BBEE points**	**Total points (B)**	**Difference (B-A)**
RFQ121/2016	Revival Technology	R426 360.00	R193 800.00	36.36	20.00	56.36	(16.00)	20.00	4.00	**-52.36**
RFQ121/2016	Zammane	R418 608.00	R193 800.00	37.82	20.00	57.82	(12.80)	20.00	7.20	**-50.62**

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GSM078/16	SFU Engineering	R604 980.92	R437 695.96	57.00	20.00	77.00	49.42	20.00	69.42	-7.58
GSM078/16	Kwee n Tee Pty Ltd	R689 224.68	R437 695.96	43.00	20.00	63.00	34.03	20.00	54.03	-8.97
RFQ016/2016	BMI Engineering Solutions	R427 837.40	R381889.93	50.00	20.00	71.42	71.42	20.00	91.42	20.00
RFQ016/2016	Abaphicothi Security Solutions	R583 199.83	R381889.93	40.97	20.00	40.97	40.97	20.00	60.97	20.00

Table B

			SAA calculations				Auditors recalculation			
Tender No	**Supplier**	**Amount awarded**	**Lowest amount awarded**	**Price point**	**B-BBEE points**	**Total points (A)**	**Price point**	**B-BBEE points**	**Total points (B)**	**Difference (B-A)**
GSM060/15	Ntsako Industries(Pty)Ltd	R16 819 731.00	R12 028 824.00	64.36	10.00	74.36	54.15	10.00	64.15	-10.21
GSM060/15	Lemang Aviation support (Pty)Ltd	R21 660 912.00	R12 028 824.00	49.98	10.00	59.98	17.93	10.00	18.93	-32.05

There is a risk of non-compliance with paragraph 5(1) of preferential procurement regulation

Internal control deficiency

Financial and performance management

Acting Chief Procurement Officer and commodity manager did not exercise oversight responsibility of reviewing calculations done to evaluate suppliers and ensuring that calculations for preference points are correct as per the formula in paragraph 5 (1) of preferential procurement regulation due to a lack of sufficient resources and skills in the procurement division to review evaluation sheets.

Recommendation

Acting Chief procurement Officer and Commodity manager should review calculations of preference points to ensure points allocated are accurate as required by paragraph 5 (1) of preferential procurement regulation.

Management's response

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Management comment on audit finding: **Table A** Agree. However, it is the function of line management (Commodity Management) to verify the accuracy of the said calculations and provide assurance on all compliance before the CPO approval. **Table B** We cannot find any details/information with regard to Ntsako Industries(Pty) Ltd. Finance could not trace any payments related to this supplier and vendor management could also not trace this supplier on the system. We do not agree with regard to the audit finding for Lemang, considering this was a confinement and award based on the exclusive and sole agreement Zodiac has with Lemang (an agreement which was concluded between the mentioned parties in May 2010) hence SAA has a contract with Lemang for repair and maintenance services of its aircraft galley equipment – which were purchased from the Original Equipment Manufacturer, Zodiac. Note: the preference point system was not used for this particular contract (due to it being a confinement and award – as there was/is only one accredited service provider in South Africa i.e. Lemang).
Management comment on Internal control deficiency: **Table A** The deficiency is noted and corrective action will be put in place. **Table B** None.
Management comment on recommendation. **Table A** Recommendation accepted, however GSM human resource constraints need to be addressed to ensure implementation of this recommendation. **Table B** Not applicable
Remedial action: Refer below.

What actions will be taken: Commodity Management team will verify and certify the accuracy of the calculations to avoid recurrence of the aforesaid error.	**By whom** Commodity Management: T Sogwazile	**By when:** Immediately

If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an Indication of whether a correcting journal entry shall be processed	**YES**	**NO**
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

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Auditor's conclusion

Table A

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. The agreed deadlines will apply for management to resolve this matter.

The finding remains in the management report as a non-compliance with preferential procurement regulation.

Table B

Management's response is noted and additional engagements were held with management on the 12/09/2017 and the file with evidence was given to management since they mentioned that they did not have records thereof.

Subsequent to the meeting held, management noted the evidence and the error in the calculation and thus the finding will remain in the management report as a non-compliance with the SCM policy.

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154. Quotations obtained from suppliers who are not registered on SAA's approved prospective supplier database

Audit finding

SCM policy paragraph 15.2.1 states that, "*SAA Group shall establish and maintain in accordance with the law an adequate prospective supplier database (PSD) that is linked and/or aligned to the central supplier database (CSD)".*

SCM policy paragraph 15.2.2 states that, *"notwithstanding provisions of paragraph 15.2.1 above, SAA Group's prospective suppliers are also required to register and ensure that correct information is loaded on both the PSD and CSD".*

It was noted that quotations for the following procurement of goods and services with transaction value between R1500 and R500 000 were obtained from suppliers who are not listed on the SAA's prospective supplier database:

Table A

No	Description of procurement	Value of award	Successful vendor name
1	IPAD MINI repair	R338 769.24	Gijima Holdings
2	RFQ wine consultant	R139 600.00	Bennie Howard & Associates
3	FDC Caps	R258 780.00	Stepahead Military Headwear Distributors CC
4	Staff transport Harare	R467 798.25	CFX Travel & Tours
5	Entebbe staff transport	R341 743.10	Sundiata Safari Limited
6	Adhoc Transport Cabin Crew	R220 000.00	SJF Transport Services
7	Request for quotation for MS Office Training	R485 640.00	Broadband college of technology
8	Request for quotation for Hydro Boils L&D	R42 273.36	Jamaric pump & value Engineering
9	SAA Property Portfolio Valuations	R48 222.00	DDP Valuation and Advisory services
10	Request for quotation for Baggage delivery service	R193 738.90	Paatu Courier Services
11	AAFSA training	R376 200.00	AAFSA(Aviation academy for Southern Africa)
12	Request for Quotation for EE Committees	R433 600.00	EES-Siyakha
13	Carbon Footprints	R127 680.00	Global carbon exchange(GCX) SA (pty) Ltd
14	Data Migration for Sentinal into IQSMS	R401 280.00	Zimele Technologies
15	Request for quotation for Supporting of day-to-day operations, skilled technicians that can assist in trouble shooting email, internet and applications-2.	R418 608.00	Zamane projects
16	BAC Training	R38 239.98	Black Economic Employment Support Services(BEESS)
17	The Move of Furniture and Personal Effects from Banana Island Nigeria to Maputo Mozambique (Miss T. Duma 2016)	R193 799.00	AGS Frasers
18	Bulkflier for SAA	R136 787.40	Hollis system Zwane CC
19	Cargo Calendars	R186 000.00	Eyam projects CC
20	Waste Removal	R67 176.00	Clean Dot waste
21	Executive Coaching	R450 000.00	Summat Training Institute Pty Ltd
22	RFQ For Occupational Health and Safety Training for All Station	R438 475.50	Inkezo HR Solution
23	Uganda SAA Medical Contribution	R292 348.68	Liberty Health Holdings
24	Medical Plan Renewal for Thailand /H.O. 1014086399	R65 167.09	Bupa Health Insurance

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No	Description of procurement	Value of award	Successful vendor name
25	Platinum Stationary	R377 580.00	LKMN Media Connexion cc
26	Advanced Business Analysis Programme /NVBA for Gavin Murugan (18-21 Oct 16)8 months part-time Friday - Full Day	R38 999.00	Faculty Training Institute(Pty) Ltd

Table B

No	Description of procurement	Value of award	Successful vendor name
1	Global supply management structure, processes and remuneration	R 419 937.00	Archblue - Afrika Pty(Ltd)
2	Provision for event set up	R74 100.00	Pink Dot Creations (Pty) Ltd
Total		**R 494 037.00**	

There is a risk of non-compliance with SAA SCM policy.

Internal control deficiency

Financial and performance management

The Acting Chief Procurement Officer did not review and monitor compliance with regulations to ensure that SAA prospective supplier database which is currently maintained on an excel spreadsheet is regularly updated and approved.

Recommendation

The Acting chief procurement officer must ensure that SAA prospective supplier database which is currently maintained on an excel spreadsheet is regularly updated and approved in order to comply with SCM policy.

Management's response

Management comment on audit finding: We disagree with this finding, as we are not legally or policy obliged to only satisfy our requirements from the prospective supplier database. Furthermore, it is also no longer a legal requirement to maintain a database of prospective supplier (see: National Treasury Practice Note 4A of 2016/2017). The SCM Policy states (para. 15.2.4) that we can procure from suppliers registered in the PSD or CSD. These suppliers are registered on CSD.		
Management comment on internal control deficiencies: We disagree with the deficiency noted as there are no regulatory requirements that impose such obligation. Also the deficiency does not talk to the finding that we did not procure from PSD. Organs of state are bound to procure from suppliers registered on National Treasury' Central Supplier Database per Treasury Practice Note 4A of 2016/2017.		
Management comment on recommendation: Not applicable, as it is not a legal requirement to maintain a supplier database. As part of SCM Policy revisions, the PSD will be removed as a requirement.		
Remedial action:		
What actions will be taken: The PSD maintenance will be removed from SCM Policy in order to align it with the prevailing regulatory framework.	By whom: Person: Lester L Peter Position: CPO	By when: October 2017

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Auditor's conclusion

Management's response is noted and additional engagements were held with management on 12 September 2017 where management is required to provide evidence that the suppliers listed on the table above, are included in the Central Supplier Database (CSD) by 13 September 2017.

Subsequent to the meeting held with management on the 12/09/2017, management provided evidence of 11 suppliers that they are included in the CSD and the evidence was accepted and is sufficient. The finding relating to the 11 suppliers has been resolved

On the remaining suppliers, being Black Economic Employment Support Services (BEESS), DDP Valuation and Advisory services, Archblue - Afrika Pty(Ltd) and Pink Dot Creations (Pty) Ltd), proof was not submitted from management, as a result the finding remains in the management report and will be reported as a non-compliance with the SCM policy

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155. B-BBEE points awarded during evaluation using an invalid certificate B-BBEE certificate

Audit finding

Preferential Procurement Policy Framework Act (PPPF), 2000 paragraph 10 states that*"(1) Tenderers with annual total revenue of R5 million or less qualify as Exempted Micro Enterprises (EMEs) in terms of the Broad-Based Black Economic Empowerment Act, and must submit a certificate issued by a registered auditor, accounting officer (as contemplated in section 60(4) of the Close Corporation Act, 1984 (Act No. 69 of 1984)) or an accredited verification agency.*

(2) Tenderers other than Exempted Micro-Enterprises (EMEs) must submit their original and valid B-BBEE status level verification certificate or a certified copy thereof, substantiating their B-BBEE rating"

We noted that during the evaluation of tenders, the B-BBEE certificates submitted by the suppliers listed below when bidding were no longer valid and B-BBEE points were awarded. The tenders were however awarded to the correct supplier as the points were correctly calculated for the winning supplier who had a valid certificate.

Tender no	Supplier	Advert closing date	B-BBEE information			Evaluation information	
			Level	Date issued	Expiry date	Evaluation date	B-BBEE Points allocated
Tender:GSM0 21/16	Basis Points Capital(Pty)Ltd	18/03/2016	1	23/03/2015	22/03/2016	12/04/2016	10
Tender:GSM0 34/15	Mailtronic Direct Marketing cc	17/11/2015	2	25/04/2015	24/04/2016	20/05/2016	9

There is non-compliance with PPPF as the Bid Evaluation Committee awarded B-BBEE points during evaluation using suppliers expired B-BBEE certificate.

Internal control deficiency

Financial and performance management

Bid Evaluation Committee did not review B-BBEE certificates before evaluating tenders to ensure that they are valid thus complying with PPPF

Recommendation

Bid Evaluation Committee must ensure that before evaluating a tender, supplier B-BBEE certificate is inspected to verify its validity and where it is no longer valid; B-BBEE points must not be awarded to supplier.

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Management's response

Management comment on audit finding: The finding is accepted and Commodity Managers will from now verify the validity of all returnable documents before signing the final recommendation submission for approval.		
Management comment on Internal control deficiency: We noted the deficiency but record that that the aforesaid documents expired after the tender closing date.		
Management comment on recommendation: The recommendation is acknowledged and will be implemented immediately.		
Remedial action: GSM official will communicate and remind all BEC members to guard against this.		
What actions will be taken: Regularly emphasize the need to expeditiously conduct tender evaluations and the need to request for valid documents in cases where documents expire before award.	**By whom:** Commodity Management team: S Matsaudza	**By when**: Immediately
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No X**
If yes, please indicate the accounting entry : N/A		
If no, please provide the reason why such a conclusion has been reached. The omission did not have any financial implications.		

Auditor's conclusion

Management's response is noted and agrees with the finding, internal control deficiency and the recommendations.

The finding remains in the management report as a non-compliance with Preferential Procurement Policy Framework Act (PPPF). A follow up will be done in the 2017/18 audit to verify the implementation of the recommendations.

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156. Bid committees not constituted by representatives prescribed by the SCM policy

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA), general responsibilities of accounting authorities, states that "*an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*".

SCM policy paragraph 7.3.5.3 states that "*With the exception of the BAC, other Bid/Tender Committees such as the BSC and BEC are constituted by the SAA Group's CPO (in cooperation with the BU's line management)*".

SCM policy paragraph 7.3.5.4 further states that "*Bid/Tender Committees shall whenever it is reasonable and practicable be deemed to be fully constituted, when they consists of at least one personnel representing the BU requesting Procurement, legal, risk, audit, finance, transformation and operations*".

It was noted that for the tenders listed below, the bid specifications were drafted and evaluated by the committees not deemed fully constituted (Refer to table A, B and C below) in terms of the SCM policy.

In addition the Bid Specification Committee (BSC) and Bid Evaluation Committee (BEC), for items under10 & 11 below, were not constituted by the SAA group's CPO (in cooperation with the BU's line management)

Table A

Item no	Supplier	Description	Contract value	Representative not present
1	LKMN cc	Supply of preprinted stationery to SAA Group	R 57 325 061.20	Audit Finance
2	BnP Capital (Pty) Ltd	Transaction Advisor	R2 689 830.00	Risk Audit Transformation Operations
3	Park inn by Radisson	Crew accommodation & transport services in Libreville	R 7 928 320.00	Risk Audit Finance Transformation Operations
4	Aeroserve(MSP)	Laundry services of on-board cabin & catering items in London	R 6 090 815.88	Risk Audit Finance Transformation Operations
5	Radisson Blu M'bamou Palace	Hotel Accommodation & Transport at Brazzaville	R 21 071 461.00	Risk Audit Legal Transformation Operations

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Item no	Supplier	Description	Contract value	Representative not present
6	Radisson Blu hotel and residence	Crew Accommodation & Transport Services in Maputo	R 6 410 325.39	Legal Risk Audit Finance Transformation Operations
7	EIH Flight Services Limited	Caterer in Mauritius	R 21669 658.37	Risk Audit Finance Transformation Operations
8	Catercraft pvt ltd	Provision for onboard catering and lounge catering in Harare	R 8 844 814.16	Risk Audit Finance Transformation Operations
9	Experts Associes Surete and EAS	Aviation Security at Brazzaville, Cotonou & Pointe Noire	R 8 010 614.00	Risk Audit Transformation Operations BU
10	Seabury corporate advisors LLC	Restructuring strategic advisor	R 60 988 950.00	Legal Audit
11	Vusibheki Management Services CC	Maintenance and installation of CCTV & access control	R 13 641 773.20	Finance Risk Audit Transformation and audit

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Table B

Item no	Supplier	Description	Contract value	Representative not present
1	Yoks Investments Ltd	Voyager Chauffeur Drive Services in Accra	R5 582 526.69	Risk Audit
2	Accolade wines south Africa pty ltd Allee bleue wines pty ltd Alvi drift wine international pty ltd Bayede marketing pty ltd Boland wingerde int bpk Bon wines pty ltd Cape classics inc. Cederberg cellars Champagne duval-leroy Clos Malverne wine estate pty ltd CWP wines pty ltd t/a lourensford De wetshof estate Deetlefs wine estate Delheim wines Driehoek wines Emerald glen vineyards T/A stellekaya Glenelly cellars pty ltd Hyde park wine and spirit Merchants pty ltd Kaapzicht estate KWV south Africa pty ltd La Motte wine estate pty ltd MWT investments pty ltd Oak valley estate pty ltd Origin wine, Overhex private cellar pty ltd Rietvallei wine estate Simonsig estate pty ltd Spine wines a division of spier farm management pty ltd Stellenboch vineyards pty ltd The goose wines The woodlands trust T/A edgebaston Tropical paradise pty ltd Weltevrede wine estate pty ltd Zandvliet estate pty ltd Zorgvliet wines pty ltd	Supply & Delivery of Sparkling Wine to SAA	R 33 138 133.00	Risk

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In addition:

- For item 1 to 4, there was no evidence in the file that Bid Specification Committee (BSC) and Bid Evaluation Committee (BEC) were constituted by the SAA group's CPO (in cooperation with the BU's line management)

- For item 5 to 6, there was no evidence in the file that the CFST was constituted by the Head of GSM in consultation with line functions, that comprise individuals, preferably at management level and above, who are specialists from different functional areas brought together to achieve procurement related tasks

Table C

Item no	Supplier	Description	Contract value	Representative not present
1	Leitam	Appointment of Panel of Stationery Suppliers for SAA Group.	R 27360000,00	Risk Audit Transformation and Operations
2	Masakheni Isizwe mining & Construction CC	Supply of disposable headrest covers.	R 487692,00	Legal Risk Audit Finance Transformation and operations
3	Usizo technologies services cc	HVAC refurbishment and replacement at Airways park and inflight services building	R 30608331,50	Risk Audit Transformation and Operations
4	Protea hotel Select in Ikeja in Lagos	Provision for crew accommodation	R 28806105,00	Risk Audit Finance Transformation and operations
5	43 Air School (Pty)Ltd	Cadet pilot & flight instructor training program	R 62 280000,00	Enterprise Risk Management
6	Banalo Trading Enterprise	Provision of aircraft galley equipment locking mechanism and stoffel seals	R 12 028824,00	Enterprise Risk Management
Total			**R 161 570 952,50**	

There is non-compliance with SCM policy paragraph 7.3.5.4

Internal control deficiency

Financial and performance management

The acting Chief Procurement officer did not exercise oversight responsibility to ensure that committee members as required by SCM policy are appointed.

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Recommendation

The acting Chief Procurement officer must ensure that tender committee members are appointed as per SCM policy and this must be monitored by Chief Executive Officer Oversight and Chief Financial Officer Oversight.

Management's response

<table>
<tr><td colspan="3">Management comment on audit finding
Table A & B

We disagree with this finding, as it is always not reasonable and practicable to have all those people mentioned on the SCM policy paragraph 7.3.5.4 present. BU's are requested to provide the names of persons to serve on these committees and we ensure that the subject-matter experts are present on these committees.

Table C

We do not agree with this finding, as it only a requirement of the SCM Policy to ensure this when it is reasonable and practical. Also, the 2011 SCM Policy did not specify the composition of CSFTs similarly to 2016 SCM Policy.</td></tr>
<tr><td colspan="3">Management comment on Internal control deficiency:

Table A & B

The SCM Policy does state that whenever it is reasonable and practicable, the two committees must consist of the representatives described therein. For the instances listed on the findings, it may have been impracticable to have all of the BU representatives described therein and management comments above provide justification for the departure to this policy rule.

Table C

We agree that whenever it is practicable and reasonable, we will ensure that that the relevant members are appointed to committees.</td></tr>
<tr><td colspan="3">Management comment on recommendation: Where it is reasonable and practicable, this will be ensured.</td></tr>
<tr><td colspan="3">Remedial action: As per management' comments on recommendation and internal deficiency.</td></tr>
<tr><td rowspan="2">What actions will be taken: Whenever it is reasonable and practicable, we will ensure those people mentioned in the SCM Policy are part of BSC and BEC.</td><td>By whom: Commodity Team</td><td>By when: Immediately</td></tr>
<tr><td></td><td></td></tr>
</table>

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations and on the items that management disagrees, additional engagement was held with management on the 12/09/2017

From the meeting held with management on the 12/09/2017 it was concluded that GSM will submit proof that it was impractical to have all the representatives in the meeting by 13/09/2017.

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There was no evidence received from management by 20/10/2017. The finding remains in the management report as a non-compliance and implementation of the internal control deficiency will be followed up in the 2017/18 audit.

157. Bid specifications not approved in terms BAC terms of reference

Audit finding

SAA BAC terms of reference 5.2(c)(ii) states that *" The BAC's primary function is to approve in respect of procurement above R1 million up to R50 million and a term longer than 5 years, criteria and weighting to apply to a tender before publication of a tender".*

It was noted that the evaluation criteria and weightings for the following procurement was not approved by the BAC prior to publishing of the tender and that the Acting Chief Procurement Officer (ACPO) only requested approval from BAC at the final recommendation stage of the tender process.

Supplier	Description of procurement	Contract details		Advert details		Date ACPO requested approval from BAC
		Value	Term	Published	Closing date	
Vusibheki Management Services CC	Maintenance and installation of CCTV & access control	R 13 641 773.20	3 years	04/10/2015	20/10/2015	17/12/2015

There is non-compliance with SAA BAC terms of reference 5.2(c) (ii). This non-compliance does not constitute irregular expenditure in terms of *PFMA 51(1) (b) (iii)*

Internal control deficiency

Financial and performance management

The ACPO erroneously did not request BAC approval for evaluation criteria and weightings prior to publishing the tender.

Recommendation

The ACPO must ensure that the criteria and weightings to apply to a tender in respect of procurement above R1 million up to R50 million and a term longer than 5 years are approved by the BAC before publication of a tender by referring to the delegation of authority and the requirements thereof.

Management's response

Management comment on audit finding: The finding is accepted that specifications were not approved by the relevant authority prior to tender advertisement, but it is not the function of CPO to obtain such approvals.

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<table>
<tr><td colspan="3">Management comment on internal control deficiency: ACPO does not recommend to BAC, thus the error was not committed by ACPO. It is the responsibility of Commodity Management teams to ensure approval of specifications as suggested by the finding. The SCM policy is clear on the process to be followed before going out on a tender.</td></tr>
<tr><td colspan="3">Management comment on recommendation: Noted.</td></tr>
<tr><td colspan="3">Remedial action:</td></tr>
<tr><td>What actions will be taken:
A disciplinary process was instituted against the employee involved and Commodity Managers will provide assurance on compliance with the process.</td><td>By whom:
Commodity Manager:
T Sogwazile</td><td>By when: Completed.</td></tr>
</table>

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

The finding remains in the management report as a non-compliance with SAA BAC terms of reference 5.2(c) (ii) and implementation of the internal control deficiency will be followed up in the 2017/18 audit.

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158. Contracts not signed by both the successful bidder and a delegated official

Audit finding

Public Finance Management Act (PFMA) section 51(1) (a)(iii) states that "*An accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective*".

Supply chain management policy paragraph 7.3.8.1 states that "The LR&C is responsible amongst other for SAA Group risk and governance, including providing the relevant in-house legal services required during and after the procurement process, cooperating with the Commodity and Contracts Management teams, preferring and vetting of the general and special terms and conditions of contracts (including the development of standard contract templates) within and/or as may be provided for in the Contracts Management Framework and other relevant SAA Group approved policies".

Paragraph 19.1.2 further states that "where an open bidding process was followed, a fully termed contract must first be entered into or executed with the Supplier for goods or services in excess of the quotation threshold".

Paragraph 31.1.3.3.5 further states that "all contracts in value of R1 000 000 or more should have a valid contract and no payment will be effected if no contract is in place".

Delegation of Authority Paragraph 7.14 states that" signing commitments contracts-SAA corporate for contract up to R25 million and/or 3 years must be signed by Chief Financial Officer ,General Manager, Legal and Chief Procurement Officer".

1.1 We noted that there is no evidence that there were signed contracts by both the successful bidder and a delegated official. Furthermore, the letter of award (LOA) is incorrectly used as a contract Refer to table below for award details:

#	Supplier	Description	Award value	Start date	End date	Amount spent as at 31 March 2017	Auditors comments
1	Kintetsu World Express SA (Pty) Ltd	Provision of integrated supply chain management services	R 53 372 044.36	01/08/2014	31/07/2019	R 141 537 997.00	No letter of award in the file submitted for audit
2	King Fahd Palace Hotel	Supply of amenity kits	R 2 626 560.00	01/07/2016	30/09/2016	R 3 303 607.30	Letter of award dated 30 May 2016 was issued to supplier
3	Callington Haven(Pty) Ltd	Supplier of Disinfectant Spray	R 11 370 651.48	01/01/2015	31/12/2017	R 7 714 675.01	Letter of award dated 30 December 2014 was issued to supplier
Total amount						**R 152 556 279.30**	

1.2. SAA procured fuel from Vivo Energy and used the letter of award for the period 1/01/2017 until 31/12/2017 as a contract

There is a non-compliance with SCM policy and PFMA.

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Internal control deficiency

Financial and performance management

Legal department and global supply management (GSM) did not ensure that contracts were entered into with suppliers for all awards above R1 000 000, 00 due to lack of capacity. SAA may have issues in resolving disputes or dealing with non-deliverance by the supplier.

Recommendation

- Legal department and GSM with assistance from Human Resource department must ensure that more qualified personnel are appointed in legal team and GSM so that contracts are signed with
- Request For Proposal (RFP) must be issued with a draft contract
- A checklist must be developed relating to the procurement process to ensure that all the relevant documents, including signed contracts are kept in the file

Management's response

Management comment on audit finding: We accept the finding.		
Management comment on internal control deficiency: We agree with the noted deficiency.		
Management comment on recommendation: We accept the recommendations and confirm that the checklist was developed.		
Remedial action:		
What actions will be taken: Contracts Management revised structure and recruitment, to be implemented as soon as the embargo is uplifted. Will work with Legal to ensure draft contract is sent with RFP.	**By whom:** CPO, CFO and GM HR	**By when:** Immediately will engage with Legal and recruitment will be done when the embargo is uplifted.

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations.

The finding remains in the management report as a non-compliance with SCM policy and PFMA and implementation of the internal control deficiency will be followed up in the 2017/18 audit.

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159. Significant deficiencies of internal controls in contract management

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA) states that *"an accounting authority for a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control"*

SAA SCM policy, section 7.3.7, *states that "Global Supply Management is the lead SAA Group's procurement, sole custodian of the procurement process and is responsible, amongst other, for Contract Management. Contracts Management function also comprises of,*

a) SAP Administration Unit, that is primary responsible for the management and maintenance of adequate SAA supplier database, contracts registers (through SAP CLM and/or other manual system) and vendor management"

The following significant deficiencies of internal controls in contract management were identified and sample has been selected to highlight the deficiencies identified:

a) A payment analysis was performed by the auditors where we compared the amount paid to suppliers on SAP and the contract register, we noticed that for the suppliers listed below payments were made in excess of R500 000, however these suppliers are not listed on the contract register:

Supplier name	Contract value
Shannon Engine Support Limited	R23 601 703,00
Cliffe Dekker Hofmeyr inc	R23 478 430,00
DO & CO Frankfurt GMBH	R23 413 852,00

Due to insufficient controls relating to the contract register, there is a risk that monitoring of the contracts will not take place resulting in errors and non-compliance with the SCM policy.

b.) The following contracts are listed on the contract register but do not have contract start and end date:

Supplier name	Description	Start date	End date	Contract value
43 Air School (Pty) Ltd	Training of Cadet Pilots	No start date	No end date	R20 000 000,00
Sita CUPPS	SITA Cute Mumbai	No start date	On-going	R5 151 000,00
Sizwe Ntsaluba Gobodo	The Integrated Governance, Risk and Compliance Tool (GRC).	No start date	No end date	R8 268 769,66
Magnum	Aviation Security	No start date	Evergreen	R2 400 000,00
GCG	Aviation Security	No start date	Evergreen	R2 500 000,00

There is a risk that payments will be made for contracts that have expired resulting in irregular expenditure

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b.) The following contracts as per contract register do not have contract values:

Supplier	Description	Start date	End date
JVR Consulting Psychologist	Panel of Assessment Service Providers	01/12/2014	30/04/2017
Bid Air	Bussing	01/08/2012	31/07/2017
Bakers Transport (Pty) Ltd	Cargo National Trucking	01/05/2014	30/04/2017
Vizzini Motors (Pty) Ltd	Fleet Maintenance & Repairs	01/02/2016	31/01/2019
ASI Financial Services	Healthcare Administrators	01/12/2016	30/11/2019

There is a risk that the contract register will not track payments in excess of the contract value resulting in irregular expenditure

c.) The following sample of contracts has expired however is included as part of the contract register:

Supplier	Description	Start date	End date	Contract value
Gabfol Lounge Limited	Lounge Caterer in Lagos	01/12/2013	31/05/2015	R45 000 000,00
Zodiac Air Catering Equipment	Supplier of Major Galley Equipment	01/08/2012	31/07/2015	R16 712 376,00
Sky supply GmbH	Supplier of Amenity Kits and Onboard Cosmetics	01/01/2014	31/12/2016	R99 395 600,00
BP Southern Africa Pty, Ltd	Jet Fuel Supply	01/03/2014	28/02/2015	R1 568 846 583,00
BP Southern Africa Pty, Ltd	Jet Fuel Supply	01/04/2014	31/03/2015	R60 036 372,00

There is a risk that payments will be made for expired contracts which may lead to irregular expenditure

d.) The following contracts are included on the contract register and have details that are inconsistent when compared to other suppliers on the contract register as contract values are not included:

Supplier	Description	Contract value
Panel of suppliers for loss baggage services	Disposal of loss Baggage	Ad hoc requirement
Sasol Oil (Pty) Ltd	Poly-fuel	estimated R6 /annum
Bytes Technology Group South Africa (Pty) Ltd	Document Services Output Agreement-Bulk Printing Facility	Depends on the usage

There is a risk of exceeding the budget due to a lack monitoring of contracts with no contract values

b.) The following contracts as per contract register do not indicate the award date, whether it was a new contract or an extension.

Supplier	Description	Contract value	Start date	End date

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EIH Flight Services Limited	Caterer in Mauritius	R21 669 658,37	01/09/2016	31/08/2019
Lemang Aviation	Galley Equipment Maintenance	R15 822 811,08	01/10/2016	30/09/2019
The Standard Bank of South Africa (Pty) Ltd	Banking Services	R 350 000 000	13/10/2010	30/11/2017
Pen IT (Pty) Ltd	Supply of Printing Paper	R 10 919 215	01/04/2016	31/03/2019
LKMN cc	Supply of Preprinted stationery to SAA Group	R 57 325 061	01/10/2016	30/09/2019

c.) Through inspection of BAC minutes, we noted that the following contracts were not included in the contract register submitted.

BAC date	Supplier	Description	Contract value	Period	Type of Contract
29/07/2016	Accelya	Sales and refund audit services	R1 312 685,46	3 months	Extension
09/12/2016	Comair	Freighter pilot proficiency checks	R4 954 145,00	3 years	New award
23/09/2016	House of monatic	Supply and delivery of FDC suiting	R1 853 147,23	12 months	Extension
11/08/2016	Khuluma frieght pty ltd	Delivery of mishandled baggage to SAA	R1 300 000.00	3 months	Extension

There is a risk that contracts will not be monitored due to the incomplete contract register resulting in errors relating to contract management

Internal control deficiency

Leadership

There is a lack of sufficient resources and skills in the procurement division to review and regularly monitor the information included in the contract register ensuring that it is complete, accurate and up to date.

Recommendation

Acting Chief Procurement Officer should:

- Ensure that the procurement division is sufficiently capacitated in order to ensure that there are regular reviews and monitoring of the contract register to ensure that information is updated, complete and accurate
- Ensure that contract management procedures are implemented and the Contract Lifecycle Management (CLM) system is utilised optimally for effective contract management

Management response

Management comment on audit finding:
In the chronological order of each of the Finding we respond as follows-

1. Shannon Engine Support Limited is not part of our contract register and it is SAAT contract in our view. We have subsequent to the meeting held with AGSA and ICFO, since updated and certified our contract register to include Cliffe Dekker Hofmeyer Inc. and DO & CO Frankfurt GMBH. We emphasize that the two were old appointments and formed part of 2015/16 contract register.

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2. 43 Air School is a quantity based agreement and cannot have a start and end date. Sita CUPP was cancelled last year and forms part of terminated contract register-but it has been corrected on the updated Contract Register. Magnum and GCG are outstation contracts (which they settled without GSM involvement) and GSM has no full particulars thereof to incorporate on its Contract Register (despite request to outstation). Sizwe Ntsaluba Gobodo is not registered on our contract register for the services described on the Finding, thus not part of it. 3. ASI Financial Services contract for Healthcare Administrators has no value because we do not pay for the service (employees pay directly). Vizzini Motors (Pty) Ltd contract for Fleet Maintenance & Repairs does not have a value, because it is a contract for ad hoc services ("as-and-when-required"). JVR Consulting Psychologist contract is similar to Vizzini (ad hoc services). Bakers Transport (Pty) Ltd contract for Cargo National Trucking has an estimated contract value on the register. 4. We have since updated the contract register and these contracts have been removed. But BP Southern Africa Pty, Ltd contract for Jet Fuel Supply will remain (with new contract dates) as they are still suppliers of jet fuel. 5. The alleged inconsistencies have not been specified clearly. But for what we have stated, we note that for ad hoc (as and when required) services we cannot stipulate contract value. 6. It is unclear in terms of what (viz. rule or policy and/or law) are we expected to indicate the award date and whether it's a new or extended contract, more or so after we indicated the commencement date on the contract register. If this is best practice, it is noted as a recommendation than a finding or a deficiency. 7. We have updated the contract register and all the contracts specified under 7 of the first finding, do appear in the updated document.
Management comment on internal control deficiencies: We concur and emphasize that these findings on the contract register are as the result of submitting a register that was not properly updated and certified as correct. This is due to lack of sufficient controls within contracts management function, rooted on the lack of contracts management human resources. We submit that if there were sufficient or adequate contracts management resources, the incorrect/incomplete contract register would not have been submitted and finding could have been avoided.
Management comment on recommendation: We agree and support the recommendation.
Remedial action: Capacitation of GSM human resources, particularly the recruitment of adequate, qualified and skilled contracts management human resources is required urgently.

What actions will be taken:	**By whom:**	**By when:**
We have already motivated and recommended approval of a new structure that were aimed at addressing these inadequacies in GSM but we were informally rejected by Seabury. Currently, we are submitting another motivation and	Chief Procurement Officer (supported by CFO and GM:HR) **Person:** **Position;**	December 2017

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recommendation to fill the vacancies in the current approved structure (which we argued that its inadequate). The contents of the Contract Register has now been updated and certified to be correct. Copy of the revised register will be made available.		

Auditor's conclusion

(a). Regarding Shannon Engine Support limited, it is not clear why SAA has paid for a supplier of SAAT and did not provide evidence that this contract is for SAAT and not SAA. This evidence should be provided to the auditors regarding this. Management should ensure that the contract register is updated by not only the suppliers identified by the auditors but should go back to the whole population to ensure that the contract register is valid, accurate and complete.

(b). It is not clear why 43 Air School cannot have a start and end date and management did not provide proof of legislation that allows quantity based contracts not to have a start and end dates. Regarding the outstations contracts, it is not clear why the outstations concluded contracts (Magnum and GCG) without the involvement of GSM and whether this is allowed in terms of the SCM policy. More clarity is required from management on this matter.

(c). It is concerning that management is not aware that the contract register should have adequate fields to ensure that it is clear when the contract was awarded, what is the contract date and the date of expiry. This will assist to ensure adequate contract monitoring.

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160. SCM policy deficiencies identified

Audit finding

Section 51 (1) (a) (i) of the Public Finance Management Act (PFMA) states that "*an accounting authority for a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*"

In terms of the SA Constitution, section 217 (1), it states that *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 or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective*

Furthermore, section 217(2) states that *subsection (1) does not prevent the organs of state or institutions referred to in that subsection from implementing a procurement policy providing for—*

- *categories of preference in the allocation of contracts; and*
- *the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.*

The following significant internal control deficiencies were identified in the SAA Group SCM policy:

	Criteria for SCM policy	Criteria included in policy? Select: Yes/ No/ N/A	Audit comment
1	The procurement processes provides for specific conditions/ processes for procurement of fuel and accommodation for pilots	No	-The process for procurement of fuel for outstations is not provided for in the SCM policy even though SAA would in certain circumstances procure through participating in airline associations like AFRAA and Star alliance. -The process for the procurement of accommodation for pilots is not included in the policy
2	The SCM policy has reference to the SAA Deviation Policy in place	No	Reference has been made in the procurement policy to SAA Deviation Policy however when requested, management stated that the deviation policy is not in place
3	The SCM policy states that no award may be made in terms of this Policy to a person whose tax matters have not been declared by the South African Revenue Service to be in order.	No	Part 21.7.2 only makes provision for SARS to disclose the winning bidder's tax compliance status during the contract term.
4	The SCM policy prescribe requirement for declaration of interests by officials and suppliers.	No	This is not addressed in the policy
5	The SCM policies and procedures and/ or the fraud prevention plan provide for the following measures to prevent abuse of the SCM system AND the processes and controls have been implemented. a) investigation of any allegations against an official or other role player of corruption, improper conduct or failure to comply with the supply chain management system.	No	This is not addressed in the policy

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Criteria for SCM policy		Criteria included in policy? Select: Yes/ No/ N/A	Audit comment
	Note: *Such allegations include complaints received from suppliers directly or via the treasuries or any tips/ complaints from fraud hotlines or other whistle blowing mechanisms.*		
(b)	steps to be taken when investigations show the allegation is justified - including reporting any conduct that may constitute and offence to the South African Police Service	No	This is not addressed in the policy
(c)	Cancellation of a contract awarded if the supplier committed any corrupt or fraudulent act during the bidding process or the execution of that contract or if any official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of that contract that benefited that supplier.	No	This is not addressed in the policy
(d)	Disregard of the bid of any bidder if that bidder, or any of its directors have committed fraud or any other improper conduct in relation to such system	No	This is not addressed in the policy
(e)	Disregard of the bid of any bidder if that bidder, or any of its directors have failed to perform on any previous contract	No	This is not addressed in the policy
(f)	Disclosure by SCM officials and other role players of any conflict of interest that may arise including if the SCM officials and other role players, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded. AND withdrawal from participating in any manner whatsoever in the process relating to that contract	No	This is not addressed in the policy
(g)	Non-acceptance of gifts or hospitality or any other act which could compromise the credibility or integrity of the SCM system	No	This is not addressed in the policy

Internal control deficiency

Leadership

The Board, EXCO and Acting Chief Procurement Officer did not ensure that the procurement division has adequately skilled resources to identify and amend shortcomings in the SCM policy.

Recommendation

Acting Chief Procurement Officer and EXCO should:

- Ensure that the procurement division is capacitated with skilled resources to ensure that SCM Policy is in line with best practices in the public sector and the National Treasury requirements.
- Ensure that the SCM policy is re-reviewed at EXCO, ARC and board level
- Ensure that any shortcomings identified are adequately addressed by updating the policy

Management response

Management comment on audit finding:
Our general view is that this should not be a finding but a recommendation to include certain issues on the SCM policy. We are further of the view that:

1. There is no law or policy that specifies that these are to be included in the supply chain management policy.
2. In actual fact, unlike in the MFMA a model SCM Policy is not provided for in the PFMA.

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The only model introduced by National Treasury (NT) is for infrastructure procurement. It is only more recent that NT has also embarked on SCM Policy Standardisation, as part of its SCM uniformity project. We are participating on this initiative and all SOC have submitted to NT their SCM Policies for this purpose. 3. Most of what is recommended to be included in the policy is already provided for in law
Management comment on internal control deficiencies: The SCM was settled after engagements and inputs from other team. In fact, almost every segment of SAA business (excl. Mango which has its own SCM Policy) participated in the settlement of the policy.
Management comment on recommendation: We support the recruitment of adequate resources for GSM.
Remedial action: N/A

What actions will be taken:	By whom:	By when:
In light of our comments on findings, the Standard Operating Manual for Procurement can be developed to include some of these recommendations.	Acting Chief Procurement Officer Person: Position;	December 2017

Auditor's conclusion

The finding emanated from our review of the SAA SCM policy based on the requirements of section 217 of the Constitution of the Republic of South Africa which requires an organ of state, which contracts for goods or services, to do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective. This requirement is further emphasized in section 51(1)(a)(iii) of the PFMA and the Preferential Procurement Policy Framework Act in the case of SAA as it is a schedule 2 public entity. The system that public entities use to ensure that they comply with this legislative requirement is to ensure that its SCM Policy is fair, equitable, transparent, competitive and cost-effective. The SAA SCM Policy should be updated to ensure that the matters reported in this finding are addressed adequately

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161. Limitation of scope on the information requested relating to SCM 2

Audit finding

Section 54(1) of the PFMA (Act 1 of 1999)states that *"an accounting authority for a public entity must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require".*

Section 15(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) states that *"when performing an audit referred to in section 11, the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to (a) any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee".*

The following requested information in relation to tenders were not submitted to auditors and is listed under Table A-C:

Table A

Item no.	Supplier	Description	Contract value	RFI	Information not submitted
1	Maria Lena Thereza Reizzani	Leasing of office space at Sao Paulo/ Guarulhos City Town Office	R 3 374 905.13	66	1.Signed contract
4	Amadeus	Award of the Altéa Roaming Agent	R 7 586 878.00	66	1. Business case 2.Approved budget 3.Request to advertise 4.Approved specification 5.Tender document 6.Appointment memo for BEC and BSC 7.Declration of interest by supplier 8.Declaration by BSC and BEC members 9.Bid evaluation report 10.Letter of award
-6	Civil Aviation Authority of Zimbabwe	Zimbabwe Airport Leases	R 2 566 578.61	66	1.Signed contract
8	Experts Associes Surete and EAS	Aviation Security at Brazzaville. Cotonou & Pointe Noire	R 8 010 614.00	66	1. Declaration of interest by supplier 2.Signed contract 3.Tender document
13	House of Monatic (Pty) Ltd	Supply & Delivery Of Fdc Suiting	R1 500 000.00	66	1. Latest signed contract 2. Tender document
16	Global Eagle Entertainment(IFE service limited) & Inflight Dublin	Video & Audio Content Used On Board SAA Flights	R 30 179 662.99	66	1. Latest signed contract
17	SITA (Societe internationale de telecommunications aeronatiques)	Domestic Desktop And Network Services Agreement	R 463 494 184.00	76	1. Latest signed contract 2. Tender document

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Item no.	Supplier	Description	Contract value	RFI	Information not submitted
20	Accelya (Zero Octa UK Limited)	Sales & Refund Audit Services	R 42 854 999.00	66	1. Latest signed contract 2. Tender document
23	Jaff & Company Limited	Supply of ground & cabin crew uniform	R 57 896 139.78	35	1. Latest signed contract
24	Standard bank	Extension On Banking Services To SAA	R 128 321 264.00	66	1. Signed contract 2. Tender document
Total contacts value			R745 785 225.51		

Table B

The following requested information in relation to suppliers in which partners or associates of employees and members of the AA has an interest was not submitted to auditors.

Item no	Supplier name	RFI no.	Total supplier amount	Information not submitted
1	Something Media Cc	RFI 105	R 18 740.00	1. A declaration of interest submitted by the supplier 2.Contract between SAA and supplier/BAC decision 3. Approval schedule to award quotation (if quotation process was followed and not tender process) 4. Appointment memo (BSC, BEC and BAC) for members involved in the awarding of contract and their declaration of interest.
2	Lanseria International Airport (Pty)	RFI 105	R 323 720.4	
3	Nosa (Pty) Limited	RFI 167	R 206 580.01	
4	Africa Business News	RFI 105	R 748 125.00	
5	Tourvest Holdings Pty Ltd	RFI 105	R 34 279 453.33	
6	Quest Staffing Solutions(Pty) Ltd	RFI 167	R 47 757.45	
Total			R 35 624 376,19	

Table C

No	Supplier	Description	Contract value	RFI	Information not submitted
1	Bid air	Interior Cleaning, Toilet & Water	R 236 703 105.00	191	1.Approved Deviation/Confinement Memo (if applicable) 2.Needs Assessment Report 3.Requisitionfor Advert 4. Budget approval 5.Approved Bid Specifications 6.Evaluation and Adjudication criteria 7.Bid invitation(advert) 8.BEC,BSC and BAC minutes of meeting 9.Tax Clearance Certificate (If applicable 10.Declarations of interest by suppliers 11.Bids proposals submitted by suppliers 12.Quotations submitted (if applicable) 13. Scoring/Evaluation Sheet/ Evaluation Report 14. Letter of Award (LOA) 15. Variation of order (if applicable) 16.Appointment letter/memo for BSC and BEC/(CFST) members 17.Declarations of interest by BAC, BSC & BEC/(CFST) members 18. Register of bidders that submitted the tender documents

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					19. Tender documents for winning bidder
Total contacts value			R 263 703 105.00		

This has resulted in a limitation of scope in supply chain management (SCM) due to improper record keeping. In addition we are also unable to conclude on the compliance by SAA with the laws and regulations governing SCM.

Table D

1.1 The payment made in the table below was not supported by a contract despite it being above R1 million. The items were traced to the contract register and could not be found

No.	Supplier name	Document no.	Date	Amount (R)
1.	Platts	99305267	01/03/2017	1 296 653
TOTAL:				

1.2 The payments below were successfully traced to the contracts register, however no contracts were provided for audit purposes

No.	Supplier name	Document no.	Date	Amount (R)
1.	Reshebile Aviation and Protection	1105911984	01/09/2016	10 614
2.	Reshebile Aviation and Protection	1106094366	01/07/2016	9 828
TOTAL:				

1.3 The payments made in the table below were not supported by three quotations. Alternatively, a contract was not provided. The items were traced to the RFQ register and could not be found:

Supplier name	Document no.	Date	Amount (R)
Independent Newspaper	5000960152	13/07/2016	30 608,00
Independent Newspaper	5000969212	18/07/2016	67 682,00
Clean Dot Waste	1900646767	31/05/2016	1 611,00
Clean Dot Waste	1900649074	30/06/2016	2 101,00
Clean Dot Waste	1900651235	31/07/2016	1 611,00
Clean Dot Waste	1900644570	30/04/2016	1 525,00
Clean Dot Waste	1900646773	06/06/2016	1 842,00
Sitra. Com	1106095101	15/06/2016	11 760,00

Internal control deficiency

Financial and performance management

The supply chain management unit did not implement proper record keeping ensuring that all documents relating to tender awards are filed on a timely manner and information in the store room is accessible to support financial and performance reporting due to a lack of proper handover processes when staff resign and a lack of accountability in terms of record keeping in the global supply chain management unit.

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Recommendation

- The Chief Procurement Officer should oversee the implementation of appropriate processes/systems to ensure proper record keeping in a timely manner. This will enable complete, relevant and accurate tender information being accessible and available upon request by the auditors.
- Chief Procurement Officer must ensure that a proper hand over process is designed, documented and implemented at all times when staff resigns and that disciplinary actions are taken against staff that do not comply with the process.
- Supporting evidence should be filed on a regular basis and properly referenced and make reference to the responsible staff member so that documents could be obtained on a timeous manner when requested.

An SCM checklist must be done in order to ensure that information in the file is complete.

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Management's response

Management comment on audit finding: We do not accept the limitation of scope finding pertaining to some of the listed contracts above and on the consolidated limitation of scope document attached hereto, we have indicated the available documents. However, we accept the limitation of scope finding pertaining to the information recorded as untraceable on the document attached and management actions recorded below will be implemented.		
Management comment on Internal control deficiency: We accept the noted deficiency pertaining to the untraceable information noted on the attached document.		
Management comment on recommendation: Noted and reference is also made hereto, to the comment on internal control deficiency.		
Remedial action: Evergreen contracts will be regularised by going out on tender		
What actions will be taken: Information Management Committee (IMC) has been established to oversee adequate management and control of GSM information (including introducing information management technologies such cloud). Also, the revamp of the GSM storages and ensuring files are labeled and properly stored has commenced.	**By whom:** Commodity Teams, IMC and CPO	**By when:** December 2017
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management's response is noted and additional engagements were held with management on the 12/09/2017 where management will revise the responses provided and the documents subsequently located will be submitted by 13/09/2017 for audit.

Management subsequently submitted some of the information which was raised as a limitation and the finding was resolved in those instances. Where information could not be obtained, the finding remains in the management report and the impact will be reported as a significant internal control deficiency. A follow up will be done in the 2017/18 financial year to ensure that the internal control deficiency of record keeping is addressed

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Irregular, fruitless and wasteful expenditure

162. Inadequate measures/controls in place to prevent irregular and fruitless and wasteful expenditure

Audit finding

PFMA sec 51(1) (a) (i) states that *"An accounting authority for a public entity must ensure that the entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control "*

A. We noted that there is no mechanism (process) of ensuring that irregular and fruitless and wasteful expenditure is investigated/actions taken. The disciplinary process and/or actions at SAA are applied inconsistently across the organisation and this may impact negatively on irregular and fruitless and wasteful expenditure. Please refer to the below:

- According to the code, written warning for "less serious offenses" does not require involvement of employee relations and a formal disciplinary hearing. Line management can for example decide that the misconduct is serious, but less serious
- SAA does not have a prescriptive Disciplinary policy and procedures with a prescriptive set of actions that can enforce, with some degree of certainty, the fairness and consistency of disciplinary process and actions across the organisation
- The current code encourages an environment where line management is excessively empowered to conduct and make decisions on disciplinary actions without the consultation or involvement of ER
- Consistency of disciplinary process and actions conducted in terms of the current disciplinary code cannot be guaranteed across the organisation

B. According to best practice, Irregular and fruitless and wasteful expenditure investigations were properly/ effectively conducted a proper investigation must at least meet the following criteria:

- The investigation was commissioned/ approved at the appropriate level.
- Terms of reference of the investigations were approved.
- The scope of the investigation addresses the allegation.
- The recommendations/ findings were relevant to the allegation.
- Investigations comply with auditee's policies with regard to independence and qualification/ position.

It was noted that, although some investigations are done on expenditure incurred, the investigation does not follow the best practices as stated above and this in a significant deficiency in the internal controls of SAA as cases might not be investigated properly and without sufficient supporting evidence from initiation to the end of the case

There is non-compliance with PFMA as the internal controls in place are not sufficient to prevent or reduce the irregular and fruitless and wasteful expenditure

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Internal control deficiency

Leadership

The board/accounting authority did not exercise oversight responsibility regarding financial reporting, compliance and related internal controls to ensure that compliance requirements are met in order to prevent irregular and fruitless and wasteful expenditure as they did not formulate a compliance driven internal control environment

Recommendation

The board/accounting authority should:

- Review on a quarterly basis the compliance with PFMA reports and hold those responsible accountable for such contravention/non-compliance
- Promote a compliance driven internal control environment at SAA
- Ensure that investigations for responsible persons are formalised and follow up with management on the implementation
- Adopt the best practices to strengthen the internal controls at SAA with regards consequence management on allegations, irregular, fruitless and wasteful expenditure
- Revise the disciplinary policy and ensure that its applied consistently throughout the organisation

Management's response

Management comment on audit finding: The audit finding is noted. The SAA Disciplinary Code, will need to be reviewed and benchmarked in terms of best practices and taking into account the comments made in terms of deficiencies. The custodian of the code is Employee Relation in Human Resources Department.
Management comment on Internal control deficiency: The internal control deficiency is not accurate, because: • All the management actions provided in the report were provided by individual line management. Also as indicated the application of disciplinary code is done inconsistently, therefore creating a challenge in ensuring that all transgressors are reprimanded and/or given a warning on the PFMA transgressions. • There is a PFMA policy that provides guidelines and there is also a SAA Disciplinary code in place.

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Management comment on recommendation: 1) On quarterly basis, the review of the declarations and follows up are done with business. 2) To assist the organisation to strengthen the compliance with PFMA, Compliance office will ensure that all actions taken by line managers are in writing to support the management action provided in the declaration. This will strengthen accountability and responsibility of the line manager. 3) During the performance contracting, the KPI on PFMA should be measured in a manner that will provide adequate and/or appropriate actions taken by business units.
Remedial action: Employee Relation Department is to review the current disciplinary code and do a benchmark with best practices. During the review of the code, the deficiencies identified should be considered.

What actions will be taken:	**By whom**	**By when:**
Compliance Office to engage Employee Relation and map out the process of the review.	Chief Risk and Compliance Officer HOD: Employee Relation	31 March 2018
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management agreed to the finding

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. The review and revision of the Disciplinary policy will verified for implementation in the 2017/18 financial year

Audit finding will be report in the management report as other important matters.

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163. Disclosure note for irregular and fruitless and wasteful expenditure does not separate between expenditure relating to the company and group

Audit finding

The PFMA section 55 (2)(a) states that *"the annual report and financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned".*

The International Accounting Standard (IAS) 1, paragraph 15 requires that the financial statements present fairly the financial position, financial performance and cash flows of an entity. *"Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework".*

We noted that note 41 for irregular, fruitless and wasteful expenditure does not separate between irregular and fruitless and wasteful expenditure relating to SAA (company) and the group.

A. Fruitless and wasteful expenditure

Details	2017	2016
Opening balance	R16 600 000	R17 600 000
Add: fruitless and wasteful expenditure- current year	R40 400 000	R7 300 000
Less: Transfer to receivables for recovery	(R10 800 000)	(R8 300 000)
Fruitless and wasteful expenditure closing balance	R46 200 000	R16 600 000

B. Irregular expenditure

Details	2017	2016
Opening balance	R73 800 000	R68 400 000
Add: irregular expenditure- current year	R125 900 000	R5 400 000
Less: Condoned or written off by relevant authority	(R86 100 000)	(R0)
Irregular expenditure closing balance	R113 600 000	R73 800 000

There is non-compliance with PFMA and IAS 1 which affects fair presentation of the effects of transactions.

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Internal control deficiency

Financial and performance management

Risk and compliance management and Finance unit did not ensure that irregular and fruitless and wasteful expenditure incurred by SAA is presented separately at company level and also presented at the group level due to a lack of understanding of the requirements relating to the reporting framework.

Recommendation

Risk and compliance management unit should ensure that SAA's irregular and fruitless and wasteful expenditure is disclosed separately at company level and then disclosed at the group level (which includes SAA and subsidiaries).

Finance unit must obtain training relating to the reporting framework to ensure that understanding is obtained relating to the disclosure requirements.

Management's response

Management comment on audit finding: The disclosure of the Fruitless and Wasteful expenditure, irregular expenditure has been in the past years been reported as a group. This includes SAA and all the subsidiaries. In previous years this has been sign off by external auditors as correct. Going forward as advised by the Auditor General, the disclosure will be separately reported for SAA and the Subsidiaries. It should be noted that all the supporting documents regarding the fruitless and wasteful and irregular expenditure, provided to external auditors provides a lines for subsidiaries.
Management comment on Internal control deficiency: *Response from risk and compliance* Risk and Compliance reports on the Group. The supporting documents provide details on business units and subsidiaries level. Therefore I do not agree that this is an internal control deficiency *Response from finance* The numbers reported were reflected at Group level as SAA was unaware of the requirement to separately disclose company and group data. This will be communicated to the relevant parties to ensure this is corrected.
Management comment on recommendation: Going forward, the PFMA non-compliance figures will be disclosed separately (i.e. SAA and Subsidiaries) for purpose of AFS disclosure.

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KTD

Remedial action: There is no further action required for remedial, but at year end the disclosure will be reported as recommended by Auditor General as per the Treasury Regulations.		
What actions will be taken: During the year end reporting the figures will be disclosed separately.	**By who** N Ntshalintshali (Chief Risk and Compliance Officer Lindsay Olitzki (HOD: Financial Accounting)	**By when:** 31 March 2018
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management response was noted and agrees with the finding, disagreed with internal control deficiency and agreed with the recommendations. It is of a concern that the implementation date is 31 March 2018 as management would have submitted the final set financial statements for 2016/2017. Although supporting documents provide details on business units and subsidiaries level, SAA did not disclose SAA's irregular and fruitless and wasteful expenditure separately at company level and but only at the group level.

A meeting was held with finance management on the 06/10/2017 where they indicated that they were unaware of the disclosure requirement and agreed with the internal control deficiency.

Subsequent to the meeting held, we inspected the final submission of the financial statements and the related disclosure notes on the 31/10/2017 and verified that irregular and fruitless and wasteful expenditure for SAA Company and SAA group has been disclosed properly. The finding has been resolved and will remain in the management report to report a significant weakness in the internal controls.

A follow up will be done in the 2017/18 on the implementation of the recommendations.

KTD

164. Inaccurate disclosure of fruitless and wasteful expenditure for recoveries

Audit finding

The PFMA section 55 (2)(a) ,"*states that the annual report and financial statements referred to in subsection (1) (d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned.*"

IAS 1 para 15 states that, "*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework*".

a) It was noted that fruitless and wasteful expenditure recoveries for SAA Company disclosed in the annual financial statements were overstated as difference was noted when compared to listing of fruitless and wasteful expenditure recoveries.

Amount as per fruitless and wasteful listing (Recovery)	Amount disclosed as per note fruitless and wasteful (recovery)	Difference
R1 044 872.98	R1 087 337.10	R 42 464.12

This result to an overstatement of fruitless and wasteful expenditure recoveries and affects fair presentation of transactions disclosed in the annual financial statements.

b) It was further noted that fruitless and wasteful expenditure recoveries included subsidiaries recoveries (Mango and SATC) and there was no separate disclosure between company and group

No.	Date	Department	Supplier name	Non compliance	Recoveries Amount
1	July 2016 to Sept 2016	Mango	Mango Subsidiary	Part recoveries of incorrect payment of salaries	R19 200.00
2	May 2015 to Sept 2015	Mango - Guest Services OR Tambo International	Guest Services OR Tambo International	Recoveries of payment of salaries to personnel prior t start date of employment	R35 008.00
3	August 2015 to Sept 2015	Mango	Employee Relations	Part recovery of the payment of salaries to personnel for a period post resignation	R19 200.00
4	Nov-16	Mango	Human Resources - Cabin Crew	Part recoveries of the payment of salaries to personnel for a period post resignation.	R25 000.00
6	July 2016 to Sept 2016	SATC	Recovery	Zambia - Travel Agent payment	R9 589 520.09
Total					**R9 687 928.09**

This results in an overstatement of fruitless and wasteful expenditure recoveries for SAA.

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Internal control deficiency

Financial and performance management

Chief risk and compliance officer did not review listing of fruitless and wasteful expenditure recovery to ensure that amount included in the listing is correctly calculation and agree to amount disclosed in the note.

Furthermore, the Chief risk and compliance and Finance unit did not separate transactions that related to SAA Company and group when preparing the disclosure of fruitless and wasteful expenditure recovery due to a lack of understanding of the requirements relating to the reporting framework.

Recommendation

Chief risk and compliance officer should:

- Ensure that listing is correctly calculated and amount disclosed in the annual financial statement agrees to listing.
- Ensure that fruitless and wasteful expenditure recoveries for SAA Company and group are disclosed separately.

Finance unit must obtain training relating to the reporting framework to ensure that understanding is obtained relating to the disclosure requirements.

Management response

Management comment on audit finding: This finding is the repetition of communication 109 (4). The PFMA non-compliance is based on the identification of Irregular, fruitless and wasteful and criminal conduct and the recoveries done after the management has followed up and /or disciplinary actions have been done. Agree with the finding. The inclusion of the Subsidiary PFMA non-compliance into the reporting is because: • Compliance is shared service for the group and responsible for the collation and reporting of the information. • Previously the information has been submitted as such, even during the disclosure of information in the AFS and signed off by previous external auditors as acceptable. The detail information is clearly broken down into SAA divisions and subsidiary that clearly provide information for SAA and Subsidiary. Therefore, the information if requested as such could be provided for individual companies.
Management comment on internal control deficiencies: *Response from risk and compliance* The Compliance have ensured that the oversight responsibility is done. The challenge is when the information was requested by the external auditors. Please note during the process documentation, the information was provided as is there was no request to provide information separated or for individual companies. *Response from finance*

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The numbers reported were reflected at Group level as SAA was unaware of the requirement to separately disclose company and group data. This will be communicated to the relevant parties to ensure this is corrected		
Management comment on recommendation: The controls are in place. The information is clearly separated for SAA and subsidiaries. Improvement going forward, we will ensure that the request from auditors is clear on which information required at a point in time so that we can provide the correct information at the time of request.		
Remedial action : In terms of separation of information, there is no remedial action required. Going forward, requests should be made clear on which level information is required.		
What actions will be taken: N/A	**By whom:** N Ntshalintshali Chief Risk and Compliance Officer	**By when:** 31 March 2018

Auditor's conclusion

Management response was noted and agrees with the finding, internal control deficiency and the recommendations. It is of a concern that the implementation date is 31 March 2018 as management would have submitted the final set financial statements for 2016/2017.

A meeting was held with finance management on the 06/10/2017 where they indicated that they were unaware of the disclosure requirement and agreed with the internal control deficiency.

Subsequent to the meeting held, we inspected the final submission of the financial statements and the related disclosure notes on the 31/10/2017 and verified that irregular and fruitless and wasteful expenditure for SAA Company and SAA group has been disclosed properly. The finding has been resolved and will remain in the management report to report a significant weakness in the internal controls.

A follow up will be done in the 2017/18 on the implementation of the recommendations.

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Inadequate risk management procedures

165. Internal audit function the owner of the fraud prevention plan

Audit Finding

King III states paragraph 4 states that "The board should delegate to management the responsibility to design, implement and monitor the risk management plan"

The following paragraphs are also relevant for risk management practices in an entity:

Paragraph 4.4.1 - The board's risk strategy should be executed by management by means of risk management systems and processes.

Paragraph 4.4.2 - Management is accountable for integrating risk in the day-to-day activities of the company.

Paragraph 4.4.3 -The CRO should be a suitably experienced person who should have access and interact regularly on strategic matters with the board and/or appropriate board committee and executive management.

Paragraph 7.1.2.2 further states "Internal audit should perform an objective assessment of the effectiveness of risk management and the internal control framework"

Section 51(1)(a)(i) of the PFMA and *Co Act 66(1)* stipulate that Board/accounting authority has put in place the documented and approved processes for :

(a) effective, efficient and transparent systems of financial and risk management and internal control.

During the audit, the audit team found that the internal audit function is the owner, author and custodian of the Fraud Prevention Plan. This the team found not to not to be inline with the guidelines and requirements of the King III, PFMA and Co Act.

Internal control deficiency

Governance: Risk management activities and risk strategy

The Audit and Risk Committee failed to provide direction in ensuring that the risk strategy (*more directly the Fraud Prevention Plan*) is executed by management by means of risk management systems and processes.

Recommendation

The owner, author and custodian of the fraud prevention plan should sit within the risk assessment division of SAA and the internal audit should perform independent assessments of the effective implementation of the plan.

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Management response

Management comment on audit finding: I agree with the finding		
Management comment on internal control deficiencies: This was a management decision rather than that of the audit committee. SAA understanding was that Internal Audit was paying a facilitation role. Even though Internal Audit facilitated the development of the fraud prevention plan and authored it, line management was the owner and was responsible for the implementation.		
Management comment on recommendation: I agree with the recommendation. This will be discussed with the risk function with the view of moving the custodianship to risk.		
Remedial action: The custodianship of the fraud prevention plan will be moved to Risk.		
What actions will be taken:	By whom: Person: Siyakhula Vilakazi Position: Chief Audit Executive	By when: 31 December 2017

Auditors' conclusion

Managements comment is noted. This will be highlighted in the management report in deficiencies identified under risk management. The audit team will follow up during the next financial years audit on whether management has addressed the deficiency identified.

PS
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Information technology systems

166. Inadequate configuration of cost centre budget validation controls

Audit finding

A key control to ensure that payments are approved in line with planned and approved budgets is to configure the SAP system to confirm availability of funds prior committing to pay (approval of the PO).

Our review of the Materials Management (MM) configuration on SAP highlighted that the system is configured to give a warning message to the financial approver of the purchase order (PO) if the respective cost centre does not have sufficient funds to process the PO. However the financial approver can override the warning message and continue to approve a PO for a cost centre that does not have sufficient budget.

Processing of PO's for cost centres that do not have sufficient budget may result in the misappropriation of cost centre spending and inaccurate cost centre budgeting.

Internal control deficiency

Financial and performance management: Information Technology Systems

Inappropriate configuration of the validations within the SAP MM system to ensure that cost centre purchase orders are approved for cost centres that have sufficient budget.

Recommendation

Business should configure SAP MM such that the system will produce an error message when a PO is approved for a cost centre that does not have sufficient budget.

Management's response

Management comment on audit finding: SAP gives an option to review the budget at each level of approval linked to the workflow of the respective cost centre for the approval of a framework order (48000… & 46000…) number ranges. Purchase order (2000….number ranges) approvals are linked to the workflow but SAP does not give an option to review the budget on approval. The decision not to have a system error message is a business decision based on the activity nature of airports operations.		
Management comment on Internal control deficiency: Off-system / manual procedures and controls are in place as approvers are duty bound to confirm budget availability when approving orders.		
Management comment on recommendation: The decision not to have a system error message is a business decision based on the activity nature of airports operations, which can change suddenly without prior warning.		
Remedial action: None		
What actions will be taken:	**By whom**	**By when:**

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Auditor's conclusion

The response from management is acknowledged that it was a business decision not to implement the automated control and as such accept the risk relating to that if the mitigating control fails. It is recommended that management formally accepts this risk by populating the risk on the IT risk register and noting the mitigating controls as a response to the risk.

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DD20-PS-1588

Vendors record attributes created in production are not unique

Audit finding

A key control in mitigating the risk of duplicate vendor payments and fraudulent vendor creation is to ensure that validation controls are configured on the system to ensure that key vendor specific information is not duplicated across different vendors. Our review of the vendor creation process, the following was noted:

- The SAP MM system is not adequately configured to produce an error message should a vendor with the same VAT number or address be created on the system for the same company code.
- Different vendors (description) with differing vendor account numbers sharing the same bank account and/or Vat number.
- The same vendor(s) have been created more than once with differing vendor descriptions and vendor account numbers. Please see the example below:

VNDR_01_DUP_VAT_
NUMBER and paymen

Duplicate vendor record attributes may result in overpayment and/or inaccurate vendor payments.

Internal control deficiency

Financial and performance management: Information Technology Systems

Inadequate configuration of vendor validation controls on the SAP MM system to ensure that vendor record attributes are not duplicated.

Recommendation

Business should configure SAP MM system such that the system will produce an error message when duplicate vendor details are captured on the system. Furthermore management must perform a clean-up exercise of the existing vendor master to ensure that vendor master data is accurately captured on the system.

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Management's response

Management comment on audit finding: SAA uses external vendor account numbering which is identifiable by the station (JNB/CPT, etc) or by business unit – CRG for Cargo, IFS for inflight Services and so forth. Vendor accounts are also extended to various company codes. GL control accounts are further used to group vendor accounts per type, i.e. Trade Creditors HO, Trade Creditors Inflight Services, etc. etc. Multiple supplier accounts were opened on business request based on merit to manage expenditure types, i.e. hotel accounts for cockpit crew and cabin crew allocations based on the pairings from the Pegasys system; or per area/region for suppliers holding different accounts for the applicable region(s), or Voyager miles allocation (Europecar), incentive payments, etc. etc. Linking of the various vendor accounts in a distributions table was cited as part of the SAP Optimisation Project and implementation of the SAP Master Data Module (MDM). A Vendor master clean-up process is part of the optimization project. Reconciliations are prepared to reconcile the supplier's consolidated statement to the respective ledger account (vendor account) and system controls are in place to prevent payment of duplicated invoices. The Procure-to-Pay process is further based on a 3-way march between PO, GRV & invoice.		
Management comment on internal control deficiency: SAA uses external vendor account numbering which is identifiable by the station location (JNB/CPT DUR, LON, etc) or by business unit – CRG for Cargo, IFS for inflight Services, etc. Management accepts that duplication of vendor accounts between company codes and stations can occur, but duplication of records are closely monitored to minimize occurrence.		
Management comment on recommendation: Records are monitored for duplications and a clean-up exercise is part of the SAP optimization process. Due to external numbering, typing errors such as 2 x spaces between words, the use of capital letters for a vendor name as opposed to title case can lead to duplicate records as SAP will read the supplier name as a new record.		
Remedial action: Monitoring of vendor accounts will continue		
What actions will be taken: Vendor master clean-up activities in preparation of the MDM module implementation	**By whom** Procurement and Finance	**By when:** Ongoing review process

Auditor's conclusion

Management comments are noted and will be followed up during the next audit.

PS
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167. Segregation of duties in the SCM process

Audit finding

A key control for mitigating the risk of unauthorized transactional processing due to conflicting access rights is ensure that access is allocated on a need to have basis and is segregated.

Our review of the segregation of duty conflicts within the Supply Chain Management process highlighted a number of conflicting access rights allocated to users. The table below summarises the top 10 conflicts based on risk:

Ref.	Risk	User count
1	PUR08 (User is able to process vendor invoices & initiate payment for it)	122
2	FIN34 (User is able create the payment proposal and execute/edit the payment run)	84
3	PUR09 (User is able to maintain vendor masters & process vendor invoices)	37
4	PUR07 (User is able to maintain vendor masters & direct disbursements to it)	27
5	PUR13 (User is able to hide differences between Bank payments & Posted AP records)	23
6	MAT15 (User is able to capture stock counts and post stock adjustments)	22
7	FIN14 (User is able to open closed periods & post Journal entries)	21
8	PUR28 (User is able to purchase unauthorized items & initiate payment by invoicing)	18
9	PUR37 (User is able to create vendor invoices & initiate manual cheques for it)	14
10	FIN33 (User can execute payment run and change payee detail on manual cheque)	13

Please see the attachment for the detail pertaining to the table above.

SOD conflicts.xlsx

Conflicting access rights allocated to users may result in unauthorised and/or fraudulent transactions being processed on SAP resulting in the misstatement of financial statements.

Internal control deficiency

Financial and performance management: Information Technology Systems

The lack of an access landscape review that will evaluate the appropriateness of access for the respective users assigned across the system and the appropriate configuration of the GRC application in identifying conflicting access when users are authorized on the system.

Recommendation

It is recommended that management review the current role design to ensure that existing users are not allocated conflicting access rights. Furthermore, management should ensure that the GRC application within SAP is adequately configured to prevent the allocation of conflicting access rights for all new users added onto the SAP system.

Management's response

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Management comment on audit finding: The various user roles were redesigned and re-mapped as part of a project managed by IT with the assistance of PWC. Various workshops were held to redesign the various roles where after access was assigned to the various users across all departments and business units. Certain GRC roles however conflicted with itself, which was accepted by business and an applicable mitigations control was created and assigned to address the conflicts.		
Management comment on Internal control deficiency: The user roles itself could contain conflicting transactions, but the said is managed through segregation of duties within the departments and approval flows and is based on the specific tasks to be performed. There is also business procedures and processes in place as controls e.g. the posting of journal entries.		
Management comment on recommendation: The GRC Manager advises and assists business users when requesting access and mitigations controls are assigned (or created) for segregation of duties conflicts.		
Remedial action: Review of high-risk system access linked to user names and roles to be reviewed on a quarterly basis between the GRC manager and GRC business owner.		
What actions will be taken: Review of high-risk system access linked to user names and roles to be reviewed on a quarterly basis between the GRC manager and GRC business owner.	**By whom** GRC Manager & GRC business owner	**By when:** Quarterly
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	**Yes**	**No**
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management comments are noted and will be followed up during the next audit.

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DD20-PS-1592

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DD20-PS-1593

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AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Minutes of meeting

SAA meeting with AG – Discussion of the 1st draft MR

26 October 2017

Venue: Dining Room - 6th Floor , SAA

Attendees:

Name	Position	Initials	email address
SAA			
Phumeza Nhantsi	CFO	PN	PhumezaNhantsi@flysaa.com
Josua du Plessis	Acting Head of Strategy	JD	Josuaduplessis@flysaa.com
Khomotso Chadi	Compliance and Corporate Governance Specialist	KC	KhomotsoChadi@flysaa.com
Pierre De Villiers	Divisional Financial Controller	PD	PierreDeVilliers@flysaa.com
Amit Bhagwan	Internal Audit	AB	AmitBhagwan@flysaa.com
Nokuthula Mahlangu	Internal Audit	NM	NokuthulaMahlangu@flysaa.com
SAA Consultants			
Jerome Andrews	External consultant	JA	andrewsj@asasouthafrica.co.za
Tavaziva Machigidi	External consultant	TM	tmachigidi@africaras.co.za
AGSA			
Polani Sokombela	Senior manager	PS	PolaniS@agsa.co.za
Wikus Jansen Van Rensburg,	Senior manager	WJ	WikusJ@agsa.co.za
Patrick Kubai	Manager	PK	PatrickK@agsa.co.za
Nathan Lawnet	Manager	NCL	NathanL@agsa.co.za
Daniel Van Wyk	Manager	DVW	DanielVW@agsa.co.za
Mdumiseni Dazela	Manager	MD	MdumiseniD@agsa.co.za
Jermina Demana	Manager	JD	LindiweN@agsa.co.za

Points of discussion

1. Welcome, apologies and attendance

PN welcomed all in attendance and noted that this is an AG meeting and as such she will hand over to PS to ran the meeting for the discussion of the MR.

PS thanked PN and noted that this is a very first draft document. New information my come to the teams attention as SAA submits new information as a result of the limitations or revised population.

PS noted that leading up to the conclusion of the audit and reporting, the audit team and management should have engaged extensively on the contents of the report to enable

PS then handed over to NL who was going to take the team through the detail of the MR.

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Minutes of meeting

NL indicated that he will take the report as read and will highlight key massages, the dash board and key internal control deficiencies identified.

2. Matters discussed

The matters to be noted below are the conclusions or action points that came out of the discussion:

- *Page 5 – Dashboard of the report*

LN – The first part of the discussion NL explained the dashboard that's part to the report, noting that the ratings as per the dashboard, legends used in the dashboard, graphs, assurance levels and internal controls and noting that these are supported by detailed findings reported in the detailed annexures to the MR.

CFO noted the assurance levels assigned to senior management of providing limited/no assurance.

PS noted that the actual rating was that senior management provide some assurance and that the limited part will be removed as it may provide interpreted incorrectly.

PS noted that the assurance level was determined after consideration of the material findings that were identified during the audit.

CFO also asked the reasoning on internal control status for risk management – PS noted that with Risk Management the team some of the following deficiencies:

- Internal Audit Function is the owner, author and custodian of the Fraud Prevention Plan

  This PS noted was not in line with prudent risk management practices as the internal audit should be an assurance provider on the implementation of the above policy.
- SAA has experiences issues of capacity within both the risk management division and internal audit; these compounded would undermine the maturity level of SAA risk management processes.
- PS noted however that the reason for these discussion is that management, as they know the business better than the auditors, should provide inputs or views on the view of the audit team.
- JA also noted that the audit was performed following a fully substantive approach. And this PS responded that if SAA had an effective control environment and the Internal Audit is capacitated to provide assurance across the different business units. Its only then that external auditors can assess the control environment and settle for a test of control audit approach.

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SOUTH AFRICA

Minutes of meeting

CFO noted PS points agreeing that management requires an MR they will be owners of, and that it would not help to paint on top of cracks. The underlying issues have to be identified and agreed with management for corrective action to address the root courses. Making an example of the decision making matrix as one of the documents that require to be re-considered in the context of the airline and the environment it is operating under.

The CFO noted the wording used in the Key Massages Part of the report where the team has identified management to lack key competencies.

PS noted that the massage is not that management is incompetent. A competency in AG's vocabulary includes training of staff, knowledge of the relevant public sector regulation etc.

CFO asked that the wording should then speak directly to these issues, as wording used may be subject to different interpretations by the relevant stakeholders. And these will end up undermining discussions of the MR as management may start being defensive instead of engaging on the issues.

Other matters that were discussed in detail was the underlining considerations for the assessment of the internal control drivers unred leadership, with the team noting the few breaches reported in the detailed findings:

- 30% Set aside decision that was made after NT had indicated the decision to be against the fair principles of procurement
- Section 45 non-compliance on loans advance to subsidiaries
- With SAA operating under financial distress in the 2016/17 financial year.

- *Discussion of the AOPO section of the MR*

PS noted that with AOPO, the current guide for reporting is that we include opinion in the detailed MR.

However in the auditor's report the team will include conclusions of the findings.

MD presented this part of the MR as per Section 2.3 of the MR, noting the underlying findings that support the conclusion in detail.

The only matter that was noted for further discussion by JD was on objective 2. For the indicator *Refinement of the LTTS*, SAA received minister's approval to drop the indicator in the 2016/17 financial year.

MD noted and acknowledged receipt of the correspondences with NT. MD noted that he will assess the decision in line with the prescripts /guides for performance information management and revert back to Josua on whether the change in the shareholders compact and the approval is accepted by the

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team or not.

CFO noted that earlier in the audit that the AG had indicated they would be available to orientate management on the full cycle and regulations relating to performance information management.

JD noted that management is already at an advance stage in responding to the AG's findings – more directly on the part of having definitions to each of the indicator's and targets and how/what information is included in the calculations of targets.

JD also noted that his department will also be performing its audit on the quarterly submitted information as part of quality control.

3. Closure

PS noted that the audit team expects management's inputs while working towards the final document from both business and CFO.

PS thanked everyone for attending the meeting and the meeting was adjourned

Chairperson	Date
Secretary	Date

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PS 30

AUDITOR-GENERAL
SOUTH AFRICA

The Audit and Risk Committee
South African Airways SOC Ltd
Private Bag X 13
O R Tambo International Airport
Kempton Park
1627

24 August 2017

Reference: 61684REG16/17

Dear Mr Moosa

Progress update and significant matters identified in the audit of South African Airways SOC LTD (SAA) for the year ended 31 March 2017.

This purpose of this correspondence is to give you a status update on the audit of South African Airways SOC Ltd (SAA) and its subsidiaries.

We have communicated and issued almost all significant findings at this stage. The team is done with the audit except for going concern and changes required in asset values (property, aircraft and equipment) as per SAA long term turnaround strategy. The audit team has pulled out of SAA to allow management space to correct or address all significant findings that we have identified through the audit process. Review processes to ensure quality control of the audit file are on-going.

Last week Monday 14 August 2017, we met with the management team including the CFO to workshop the action plan template that we have created on behalf of SAA that will be used as a tool to monitor and correct the material misstatements. There is an action plan for material findings and for non-material findings. We agreed with management that they need to prioritise to correct all material findings and then the non-material ones. I have attached both action plans for your ease of reference; however management is still working on completing them adequately. We have issued management with draft management report on 14 August 2017 and one of the significant concerns we have is that most of the audit findings do not have management comments or those with management comments need to be relooked at. It was agreed that the following matters should be addressed in the management responses:

- Responses should confirm that management is in agreement with the finding or not,
- Internal control deficiency (root cause) is correct and if not the real internal control deficiency should be indicated,
- Where there are disagreements further engagement needs to be held to clear them up before the report is finalised,
- Responses should form the view of SAA as a whole and not just from one individual indicating they are not responsible for the matter and blaming other divisions within SAA,
- Management responses should cover all the matters raised in the finding, and
- Where there is a disagreement detailed explanation and supporting evidence needs to be provided to allow appropriate auditors evaluation.

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The action plans should be updated with all the findings, splitting between material and non-material findings by management. Material findings are those findings that affect the audit report on their own and have been included under Annexure A of the draft management report (MR). Annexure B of the MR includes other findings that may be material in aggregate. Thus the priority should be on Annexure A findings first and then on Annexure B as they may be material in aggregate. In the action plan only include findings that that require adjustments in the financial statements and no necessary policy findings or internal control deficiencies. SAA can identify the impact of the finding by referring to the findings.

We agreed that management that all management comments in the draft management report will be finalised and submitted to the auditors on 25 August 2017. By this date, management comments on all material audit findings will be provided and this will be accompanied by the fully populated action plan that will be cross referenced to the draft management report.

We still have significant limitation of scope in SCM (about R1, 8 billion) and these findings will be part of the action plan as well and management need to look for these documents so that the tenders can be audited. Once we received the action plan from management, we will evaluate our audit fees to determine if this additional work will not result in an overrun, and if that is the case we will prepare projections to discuss with management and audit committee for approval before we start with the additional work.

The audit findings that we have issued so far are very serious, however we believe that if management can execute and monitor the implementation of the action plan, these findings can be corrected. The audit and risk committee should monitor to ensure that management has put proper mechanisms in place to correct and address these audit findings.

We can discuss some of the matters that you need clarity in the special audit committee this afternoon.

Yours sincerely

Polani Sokombela
Senior Manager: National E

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Musa Zwane (Acting CEO)
Ruth Kibhuka (Co.Sec)
Phumeza Nhantsi (CFO)
Siyakhula Vilakazi (CAE)

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AUDITOR-GENERAL
SOUTH AFRICA

The Audit and Risk Committee
South African Airways SOC Ltd
Private Bag X 13
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1627

07 September 2017

Reference: 61684REG16/17

Dear Mr Moosa

Progress update on the management action plan to address significant findings identified in the audit of South African Airways SOC LTD Group (SAA) for the year ended 31 March 2017.

Introduction and purpose

The purpose of this report is to provide the audit and risk committee (ARC) with an update on the progress to date relating the audit of SAA. This report will also provide a high level overview of the status of all material audit findings identified that may, if not addressed, have a material impact in the audit report.

Progress update

The audit of draft financial statements submitted for audit on 26 June 2017 has been finalised with the exception of going concern, consolidation and the impact of the outcome of the long term turnaround strategy (LTTS). We have pulled out the audit team to allow management space to correct all the material findings that we have identified so that an updated set of financial statements can be submitted for audit. Some of the findings issued need management to revisit the population and we will also need to perform additional procedures.

The draft management report was issued to management on 14 August 2017; however most of the audit findings were lacking management comments. As a result, the Auditor-General of South Africa (AGSA) has co-created an action plan with management to assist them in addressing the material findings identified. This action plan was discussed in detail and agreed with management on 14 August 2017.

To assist management in focusing their efforts in addressing these findings the action plan was split into two annexures i.e. annexure A: individually material findings and annexure B: non-material findings that may be material in aggregate. We agreed with management that this action plan will be populated with information and completed by 25 August 2017. This date was also a deadline to provide all outstanding management comments in the draft management report.

<u>Overall status of action plan</u>

(a). Annexure A audit findings – individually material findings

There has been slow response from management in populating the action plan adequately to allow for effective monitoring. The number of material audit findings that are in annexure A is 85 and each and every findings need to be corrected to avoid a modified audit opinion. If these findings are not corrected before the final financial statements are issued for audit, they will also constitute non-compliance with section 55(1) of the Public Finance Management Act (PFMA).

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Figure 1 below indicates the number of responses received versus the number of outstanding responses as at 05 September 2017.

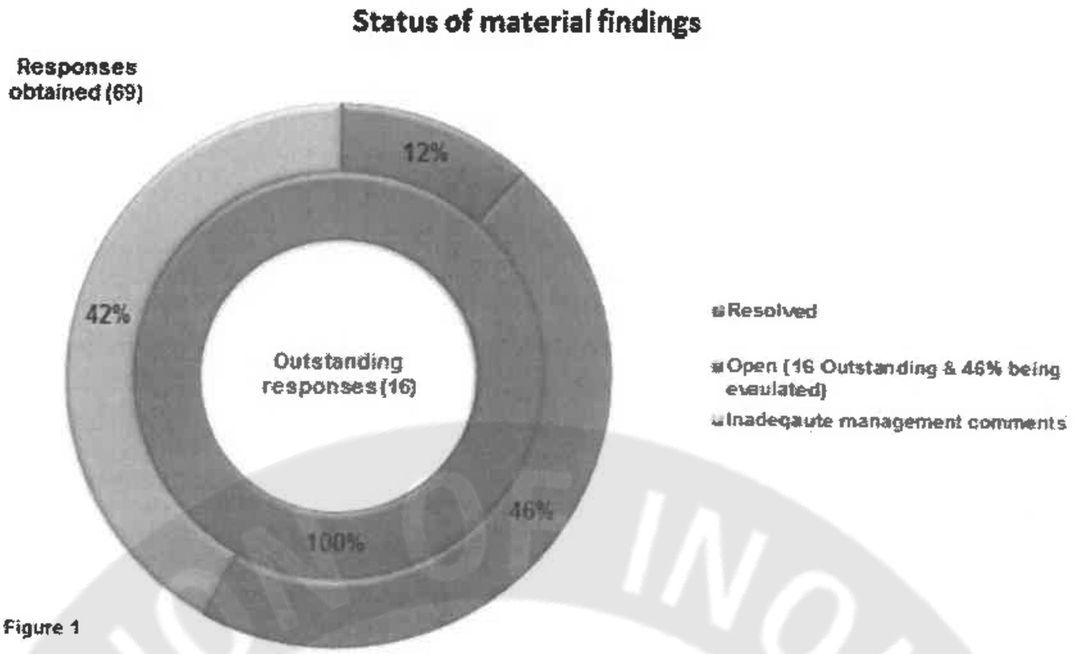

Figure 1

Figure 2 below indicate the number of findings that management has not provided an action date by which these material findings will be addressed.

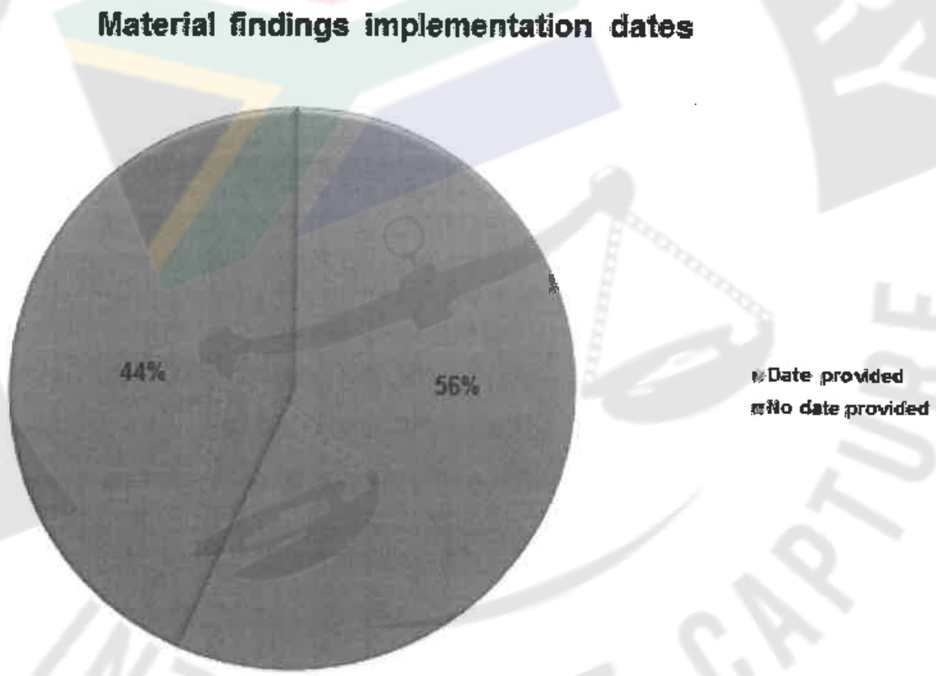

Figure 2

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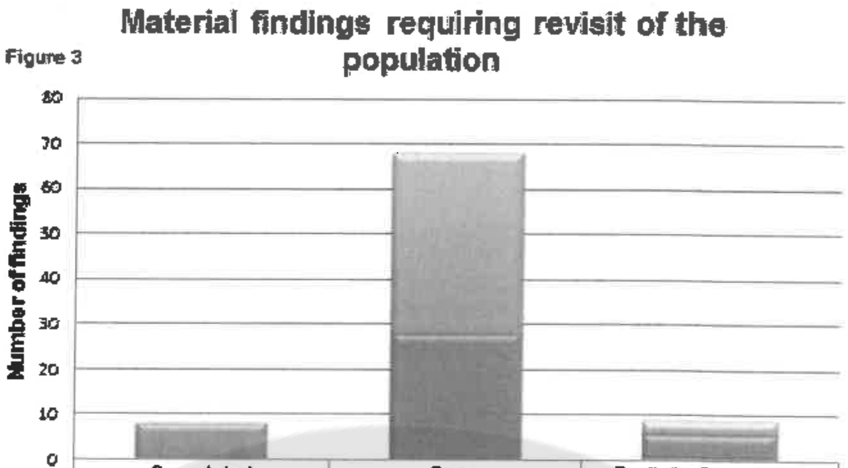
Figure 3 below indicates the number of material findings that still require management to revisit the population so that the auditors can perform additional procedures.

Figure 3



	Completed	Open	Partially Completed
Yes		40	3
No		28	5
N/A	8		1

(b). Annexure B audit findings – non-material audit findings

There has been slow response from management in populating the action plan adequately to allow for effective monitoring. The number of non-material audit findings that are in annexure B is 109 and these findings are material in aggregate. Management should endeavour to correct these findings to avoid a modified audit opinion. If these findings are not corrected before the final financial statements are issued for audit, and they are material in aggregate, they will also constitute non-compliance with section 55(1) of the Public Finance Management Act (PFMA).

Figure 4 below indicates the number of responses received versus the number of outstanding responses to date.

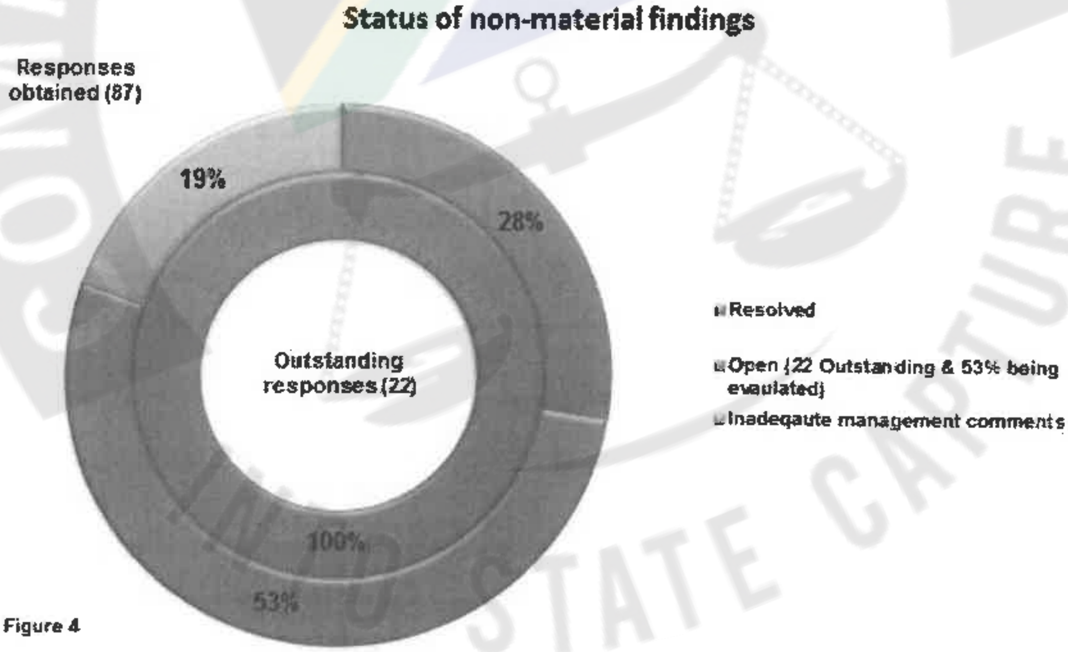


Figure 4

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Figure 5 below indicate the number of findings that do not have action dates by which these material matters will be addressed.

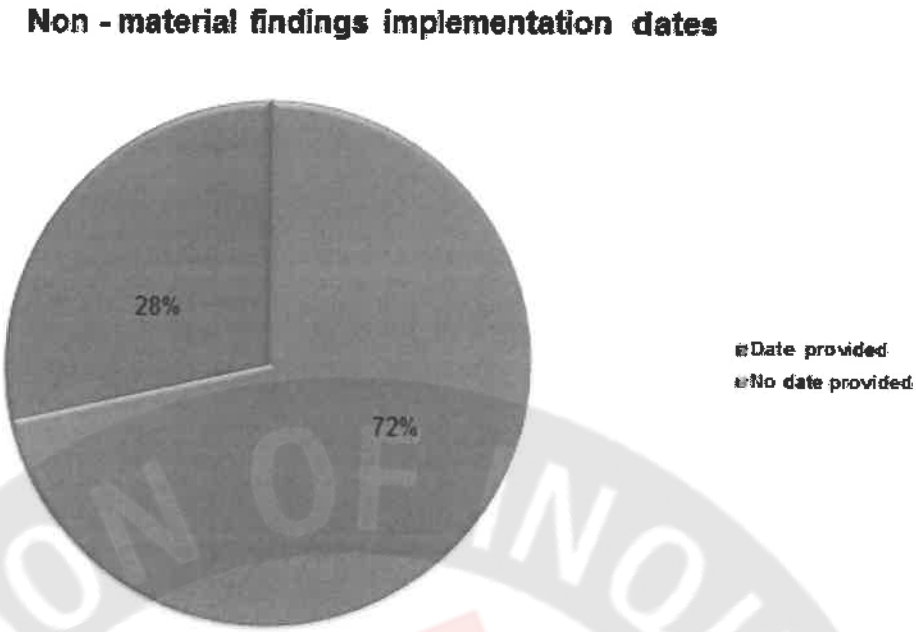
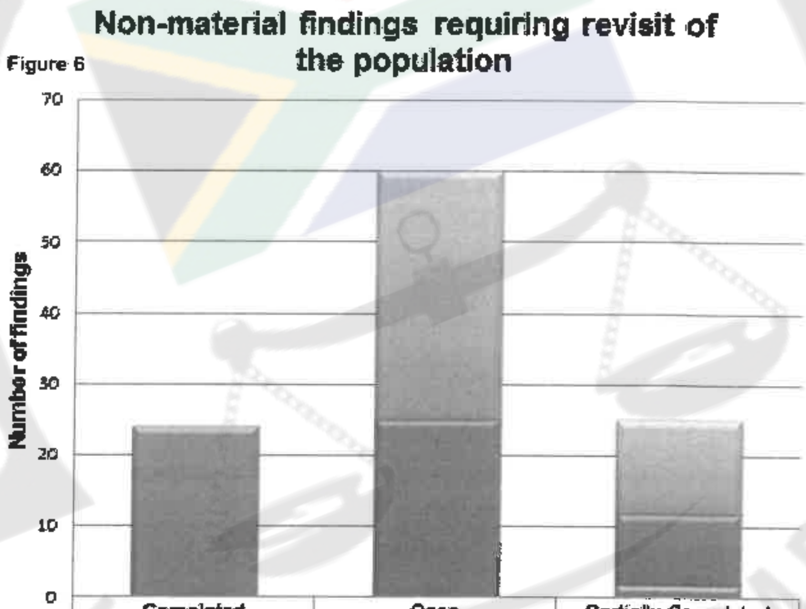


Figure 5

Figure 6 below indicates the number of material findings that still require revisiting of the population.

Figure 6



	Completed	Open	Partially Completed
Yes		35	13
No		25	10
N/A	24		2

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Conclusion

There is slow response from management on resolving the audit findings identified and the concern is that some of the findings identified are serious and may take time to be resolved. This will result in a lot of pressure from management and the auditors when the going concern uncertainty is resolved. This might also have a negative impact on the set date of the annual general meeting if these findings are not resolved. Mechanisms should be put in place by management to address all the material findings issued to ensure that the audit report of SAA is not modified.

It should further be noted that the AGSA needs to also resolve our internal quality review processes when the audit is finalised before we are able to provide an audit report to the audit committee. This process can take up to 2 weeks given the magnitude of this group audit.

The Auditor-General of South Africa remains committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in SAA's ability to account for public resources in a transparent manner.

Yours sincerely

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Musa Zwane (Acting CEO)
Ruth Kibhuka (Co.Sec)
Phumeza Nhantsi (CFO)
Siyakhula Vilakazi (CAE)

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AUDITOR-GENERAL
SOUTH AFRICA

The Audit and Risk Committee
South African Airways SOC Ltd
Private Bag X 13
O R Tambo International Airport
Kempton Park
1627

26 September 2017

Reference: 61684REG16/17

Dear Mr Moosa

Progress update on the management action plan to address significant matters identified in the audit of South African Airways SOC LTD (SAA) for the year ended 31 March 2017

Introduction and purpose

The purpose of this letter is to provide the audit and risk committee (ARC) chair with an update on the progress of the audit as at 22 September 2017 and implementation of action plan to address audit findings in the financial statements (AFS) of SAA.

Background

The Auditor General of South Africa (AGSA) and SAA developed an action plan to assist SAA to address the material and non-material findings identified during the audit process. The action plan was discussed in detail and agreed with management on the 14 August 2017. The action plan was split into two annexures, Annexure A individually material items and Annexure B non-material items that may be material in aggregate respectively. Management had until the 25 August to complete the action plan with the information indicating when the items will addressed and with the accompanying management comments. This agreed date was not adhered to as the action plan was not adequately completed and not all findings had adequate management comments at this date. A detailed analysis on this was provided in the last progress report that was shared with the ARC on 07 September 2017.

Progress update on the implementation of the action plan and resolving audit findings

The draft management report issued to management on 14 August 2017 and the current status on the effective implementation of the plan is noted below:

Status of the finding	Clarification of the status
Resolved and concluded	Management has responded to the finding and the matter has been resolved.
Comments received and being evaluated	Management has responded to the finding and provided information. The audit team is still in process of evaluating the information received for its adequacy.
Comments received and awaiting evidence/new population	This includes revised schedules for selection of samples required for revisiting the population or inspecting the revised Annual Financial Statements that is still outstanding. Management has however indicated that

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Status of the finding	Clarification of the status
	these matters would be addressed.
Inadequate management comments	Findings where management has provided comments but does not respond to the issues raised. These comments have been sent back to management and discussions are being held with the affected managers to ensure a common understanding is reached.
Management responses outstanding	This is mostly where management disagrees with the finding, more directly in relation to supply chain management (SCM), maintenance reserves, assets and provision for lease liabilities, which are individually material. The audit team is currently engaging with management where there are differences of opinion or interpretation. It should be noted that management, in most instances is unable to properly substantiate their disagreement based on sufficient and appropriate evidence such as the requirements of applicable legislation, accounting standards and supporting information to back the disagreements.

1. **Summary of significant matters that may have a material impact in the audit report**

Figure 1 below indicates the percentage of material findings resolved, material findings where management comments were not adequate and have been sent back for revision, findings which are still being evaluated and percentage of outstanding management comments on these findings in comparison of the total number of the material findings as at 22 September 2017.

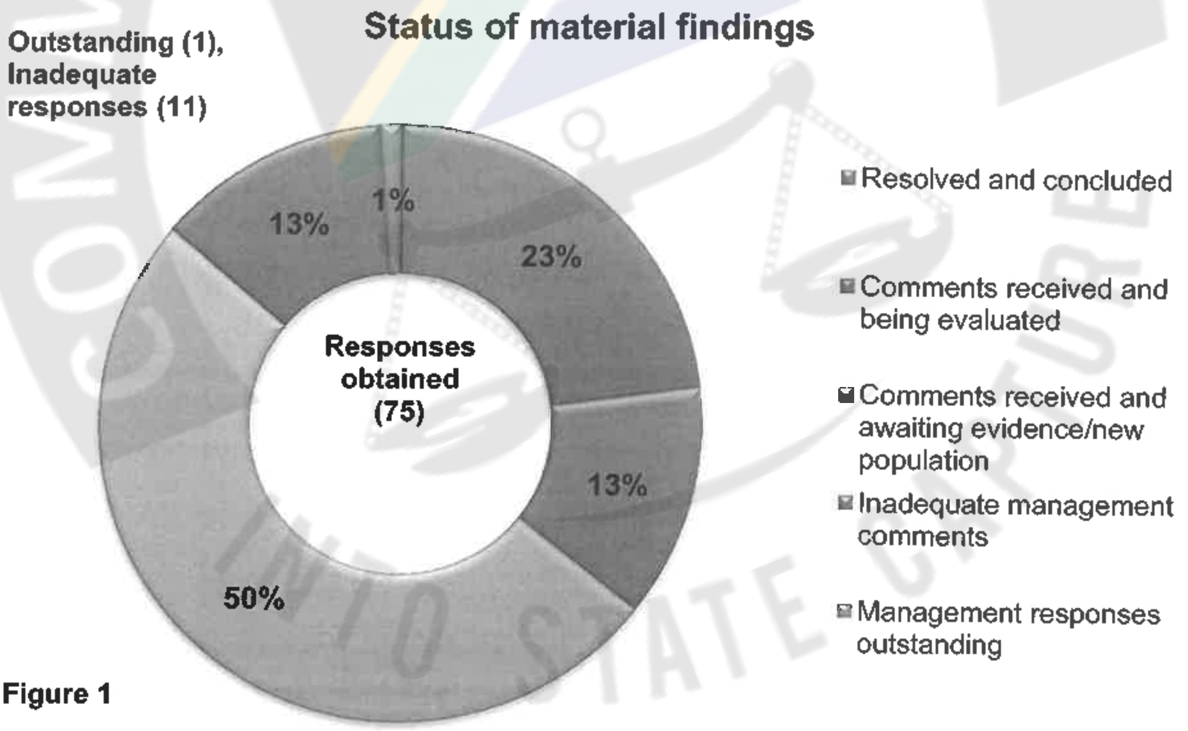

Figure 1

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2. Summary of non- significant matters that may have a material impact in the audit report

Figure 2 below indicates the percentage of non-material findings resolved, non-material findings where management comments were not adequate and have been sent back for revision, findings which are still being evaluated and percentage of outstanding management comments on these findings in comparison of the total number of non-material findings as at 22 September 2017. (In aggregate these findings are material).

Status of non-material findings

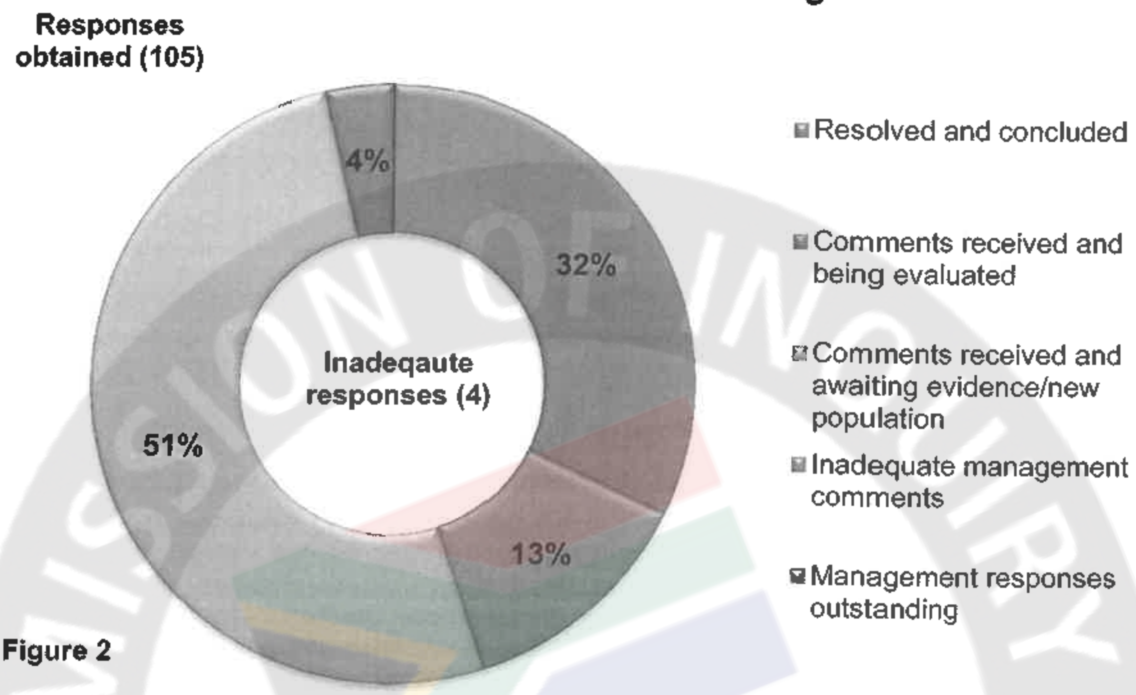

Figure 2

3. Summary of timelines provided for implementation dates

The following table provides detailed descriptions around the implementation dates statuses:

Criteria	Description
Timelines met	Although initial timelines for management responses were not met in a large number of instances, we have considered management's responses up to date and agreed to the receipt of information for evaluation at this stage. Note that the status of some of these findings might still indicate that the information submitted is being evaluated.
Timelines not met	Where dates were provided and passed but management did not provide the required information or indicated in their responses.
Timelines not set	Management omitted or failed to set timelines in their detailed responses as requested.

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Criteria	Description
Timelines set after submission of proposed AFS date	This is where timelines were set for a date after the indicated submission of the AFS. This raises a concern according to our audit timelines as it might lead to a situation that impose a limitation on us to test and conclude within the provided timelines.
Dependent on submission of AFS	This is where the information was only indicated to be available once the revised and finalised AFS is submitted for auditing.

The implementation dates have been in some instances a moving target as they are constantly being revised by management. The correlation could be noted in figure 1 where 50% of the findings to which management agree to but the audit team hasn't been able to re-audit as the information/revised population is not yet available.

Figure 3 below indicate the status of the implementation dates that management has provided for material findings to be addressed:

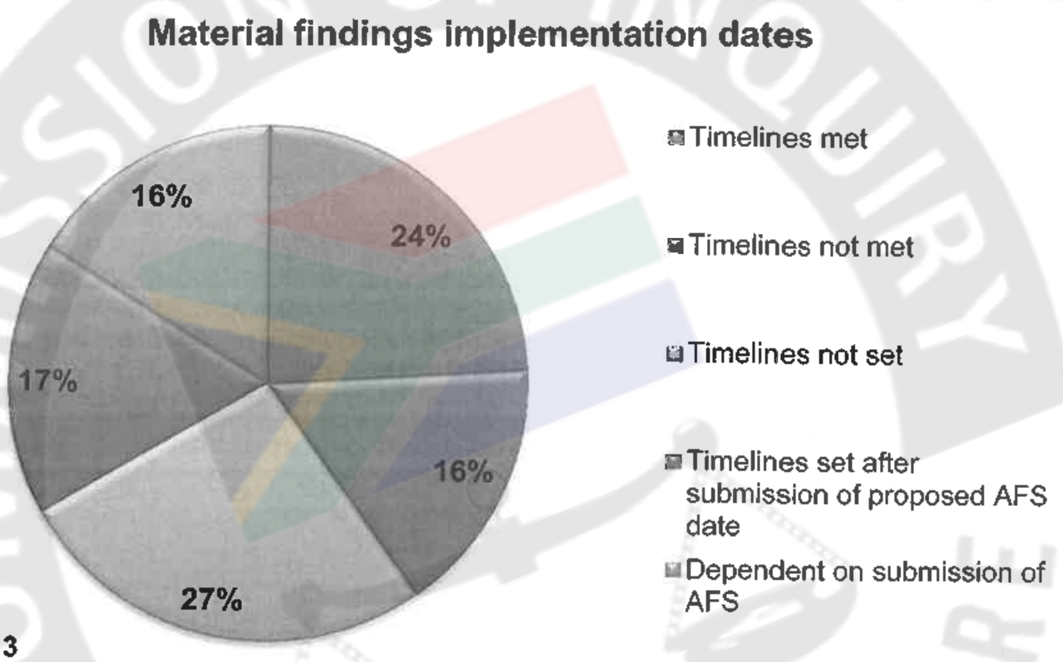

Figure 3

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Figure 4 below similarly indicates the status of timelines for correction and implementation of corrective measures by management as at 22 September for non- material findings. Note that these findings might become material in aggregate if not adequately addressed.

Non-material findings implementation dates

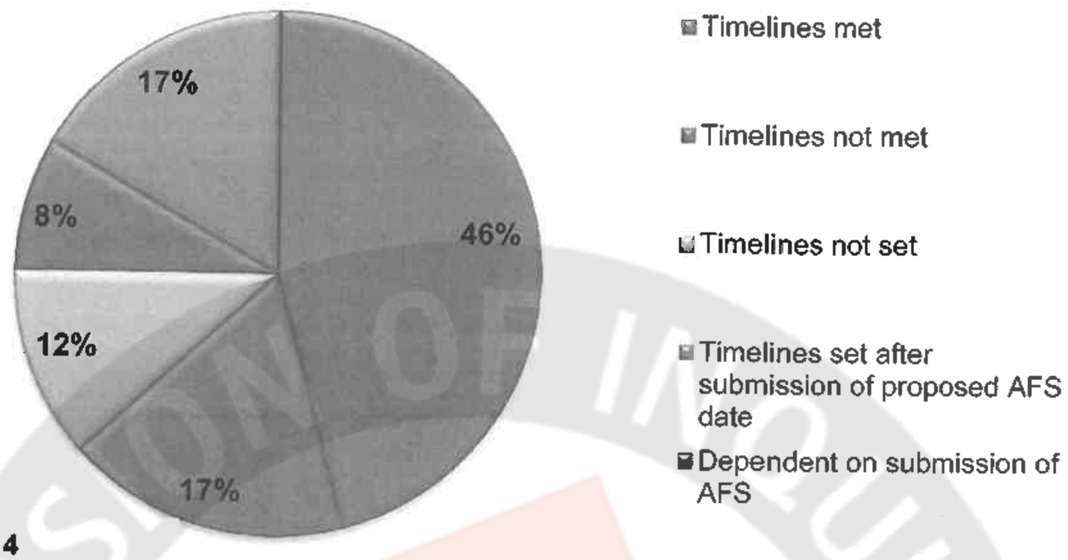


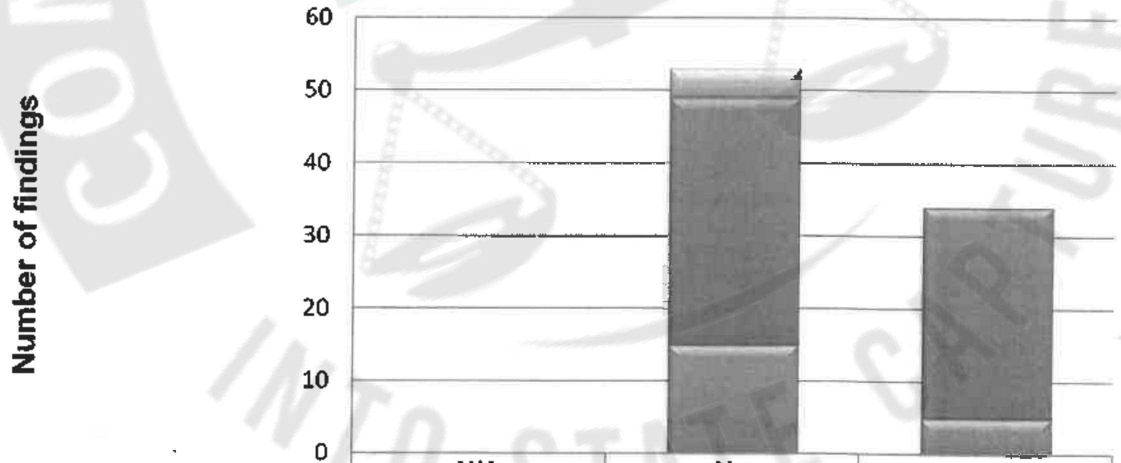
Figure 4

4. Requirement for the revisit of the population in response to resolving the finding

Figure 5 below indicates the number of material findings that still require management to revisit the population so that the auditors can perform additional procedures. As can be noted below 29 material findings requires management to revisit the population before the submission of the final set of AFS

Figure 5

Material findings requiring revisit of the population



	N/A	No	Yes
Partially Completed	0	4	0
Open	0	34	29
Resolved and concluded	0	15	5

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Figure 6 below indicates the number of non-material findings that still require management to revisit the population so that the auditors can perform additional procedures. As can be noted below 18 non-material findings require management to revisit the population before the submission of the final set of Annual Financial Statements. (In aggregate these findings are material).

Figure 6

Non-material findings requiring revisit of the population

	N/A	No	Yes
Partially Completed	3	9	3
Open	0	43	15
Resolved and concluded	18	17	1

Conclusion

This progress report is for noting by the audit and risk committee of SAA.

We are having regular engagements with management and the CFO is involved to ensure that the findings are resolved. There is some progress compared to the previous progress report, however due to the magnitude and number of the findings raised, it is taking management long to address the findings. This should have done earlier in the process to ensure that most of the audit findings are corrected in time. There are some findings where the quality of management comments is still poor; however management is also attending to it even though this is now taking a lot of time.

There are also findings that require management to revisit the population and management has been slow in this. Most of the audit findings that require management to revisit the population are in areas of supply chain management, assets, among others. There were disagreements with management on these findings and it took them time to agree to them and now the challenge is to revisit the population especially on irregular expenditure. It also appears that management has not started with this exercise.

Management has also expressed concerns that they do not have adequate resources to revisit the population especially on supply chain management findings. This matter need to be attended urgently so that SAA can avoid a modified audit report if these findings are not addressed.

As discussed in the previous ARC meeting, SAA need to confirm if the AFS will be submitted for audit by 30 September 2017 and whether the going concern problem has been addressed.

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We remain committed to assist in identifying and communicating good practices to improve governance and accountability and to build public confidence in SAA's ability to account for public resources in a transparent manner.

Yours sincerely

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Musa Zwane (Acting CEO)
Ruth Kibhuka (Co.Sec)
Phumeza Nhantsi (CFO)
Siyakhula Vilakazi (CAE)

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AUDITOR-GENERAL
SOUTH AFRICA

The Audit and Risk Committee
South African Airways SOC Ltd
Private Bag X 13
O R Tambo International Airport
Kempton Park
1627

09 October 2017

Reference: 61684REG16/17

Dear Mr Moosa

Progress update on the management action plan to address significant matters identified in the audit of South African Airways SOC LTD (SAA) for the year ended 31 March 2017

Introduction and purpose

The purpose of this letter is to provide the audit and risk committee (ARC) of SAA with an update on the progress of the audit as at 06 October 2017 and implementation of action plan to address audit findings in the Annual Financial Statements (AFS) of SAA Group.

Background

The Auditor General of South Africa (AGSA) and SAA co-created an action plan to assist SAA to address the material and non-material audit findings identified during the audit process. The action plan was discussed in detail and agreed with management on 14 August 2017. The action plan was split into two Annexures, namely Annexure A for individually material findings and Annexure B non-material findings that may be material in aggregate.

Progress update on the implementation of the action plan and resolving audit findings

The draft management report issued to management on 14 August 2017 and the current status on the effectiveness of implementation of the plan is noted below:

Status of the finding	Description of the status
Resolved and concluded	Management has responded to the finding and the matter has been resolved. Material non-compliance matters to which management has agreed with the finding and has been concluded will be included in the audit report.
Comments received and being evaluated	Management has responded to the finding and provided information. The audit team is still in process of evaluating the information received for its adequacy in resolving the audit finding.
Comments received and awaiting evidence/new population	This includes revised schedules for selection of samples required for revisiting the population or inspecting the revised AFS. Management has however indicated that these matters would be addressed.
Inadequate management comments	Findings where management has provided comments but in our view, does not address the issues raised. These comments have been sent back to management and discussions are being held with the affected managers to ensure a common understanding is reached.

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1. Summary of significant findings that may have a material impact in the audit report

Figure 1 below indicates the percentage of material findings resolved, material findings where management comments were not adequate and have been sent back for revision, findings which are still being evaluated and percentage of outstanding management comments on these findings in comparison of the total number of the material findings as at 06 October 2017.

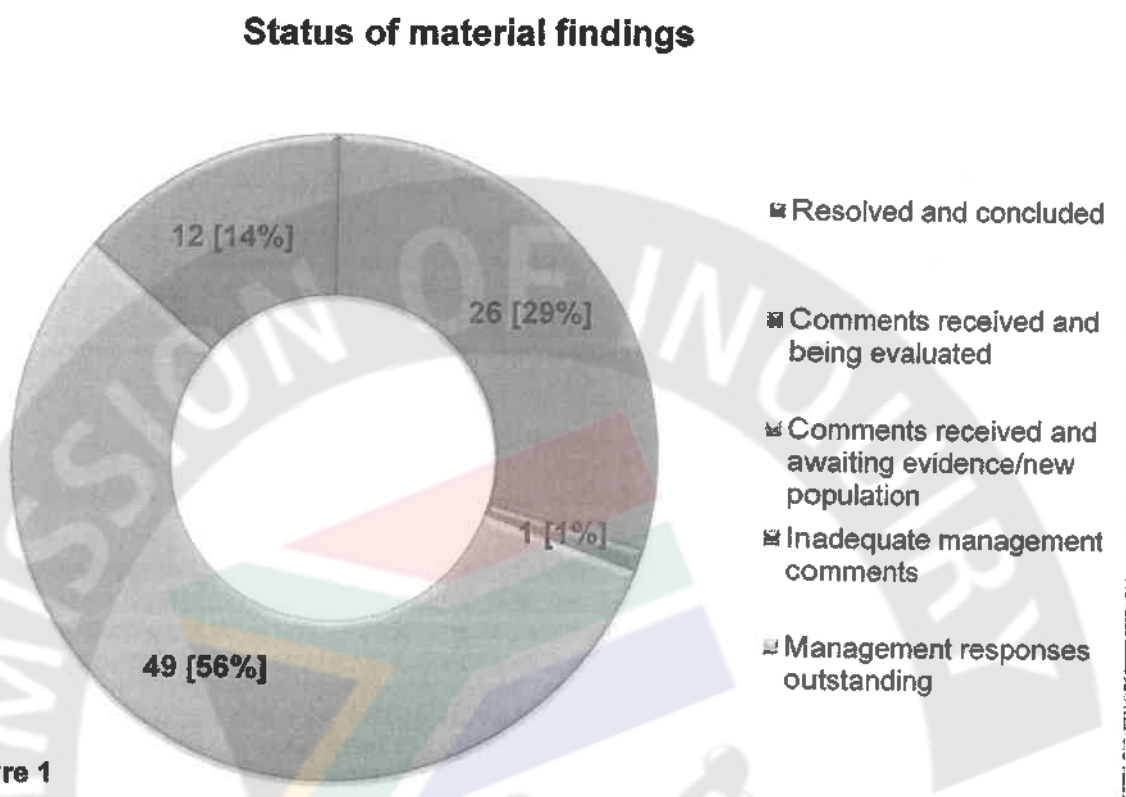

Figure 1

2. Summary of non- significant matters that may in aggregate have a material impact in the audit report

Figure 2 below indicates the percentage of non-material findings resolved, non-material findings where management comments were not adequate and have been sent back for revision, findings which are still being evaluated and percentage of outstanding management comments on these findings in comparison of the total number of non-material findings as at 06 October 2017.

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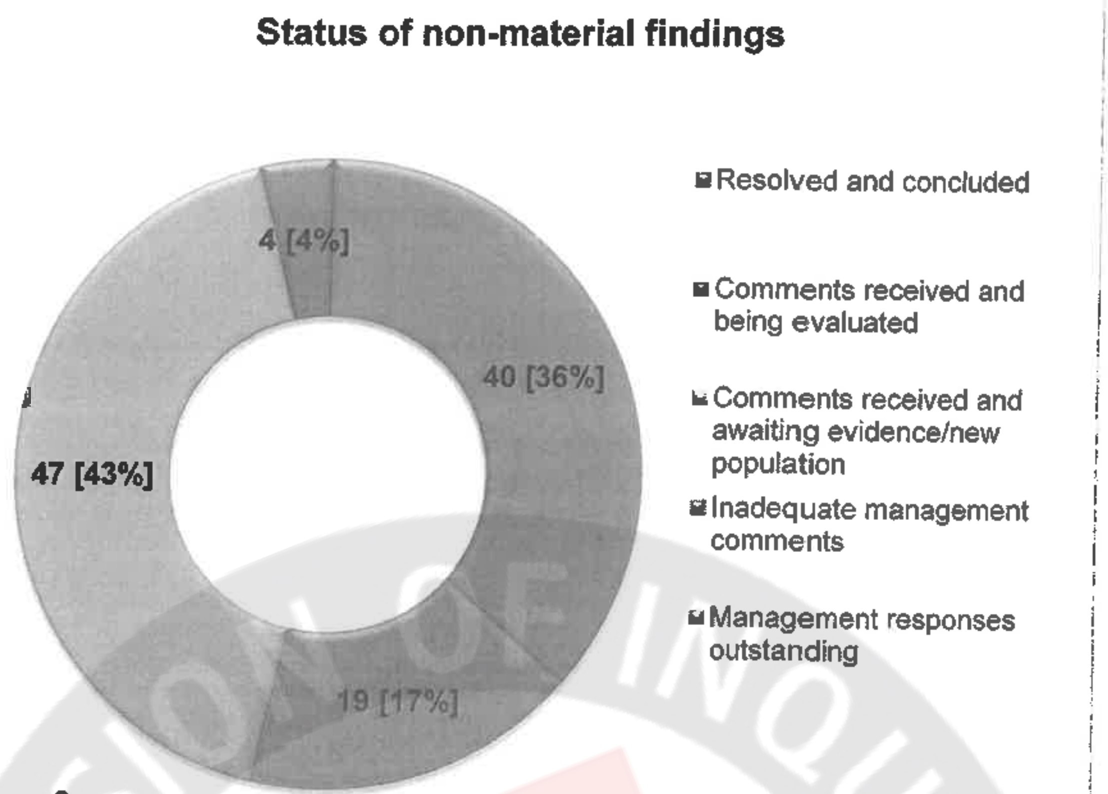

Figure 2

3. Summary of timelines provided for implementation dates

The following table provides detailed descriptions around the implementation dates status:

Criteria	Description of the criteria
Timelines met	Although initial timelines for management responses were not met in most instances, we have considered management's responses up to date and agreed to the receipt of information for evaluation at this stage. Note that the status of some of these findings might still indicate that the information submitted is being evaluated.
Timelines not met	Where dates were provided and passed but management did not provide the required information or indicated in their responses.
Timelines not set	Management omitted to set timelines in the action plan and/or failed to set timelines in their detailed responses as requested in the audit finding response template.
Timelines set after submission of proposed AFS date	This is where timelines were set for a date after the indicated submission of the AFS. This raises a concern according to our audit timelines as it might lead to a situation that impose a limitation of scope on us to test and conclude within the provided timelines.
Dependent on submission of AFS	This is where the information was only indicated to be available once the revised and finalised set of AFS is submitted for auditing.

The implementation dates have been in some instances a moving target as they are constantly being revised by management.

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Figure 3 below indicate the status of the implementation dates that management has provided for material findings to be addressed:

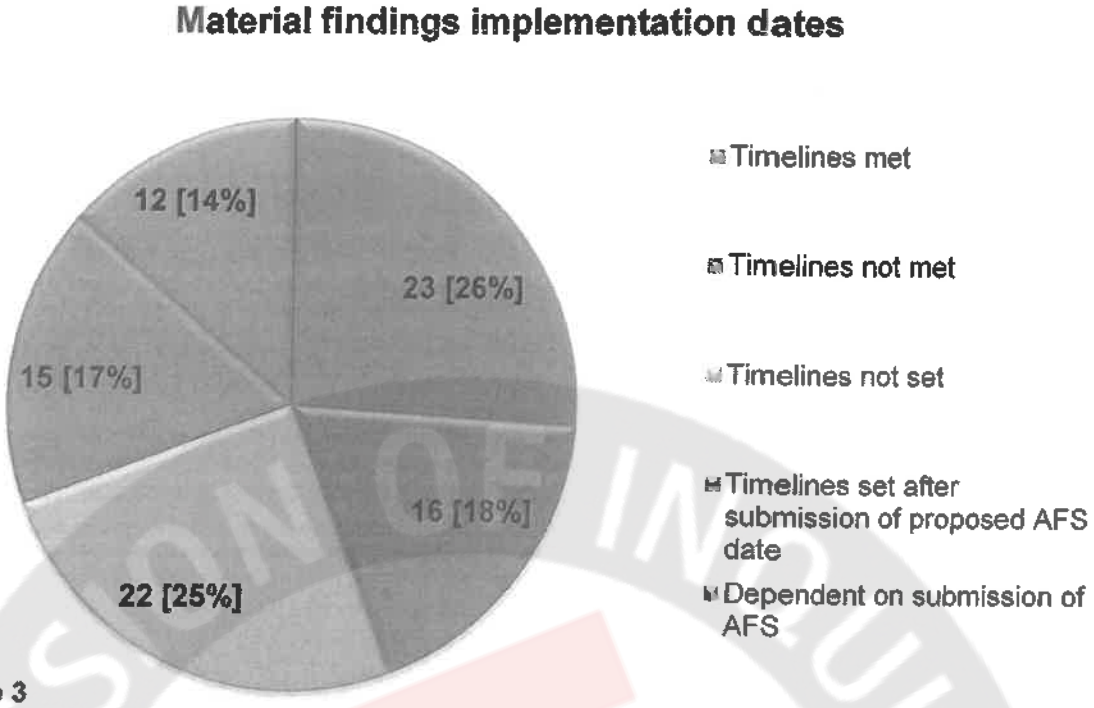

Figure 3

The table below illustrates the number of findings per account balance which the timelines have not been set and/or timelines not met:

Material items	Number of findings where the timelines have not been met or not set
Property, Aircraft and Equipment	10
Maintenance Reserves	3
Equity	1
Provision for lease liabilities	3
Trade and other Payables	1
Supply chain management (SCM)	19
Trade Receivables: Pre-delivery payments	1
Total	**38**

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Figure 4 below similarly indicates the status of timelines for correction and implementation of corrective measures by management as at 06 October for non- material findings. Note that these findings might become material in aggregate if not adequately addressed.

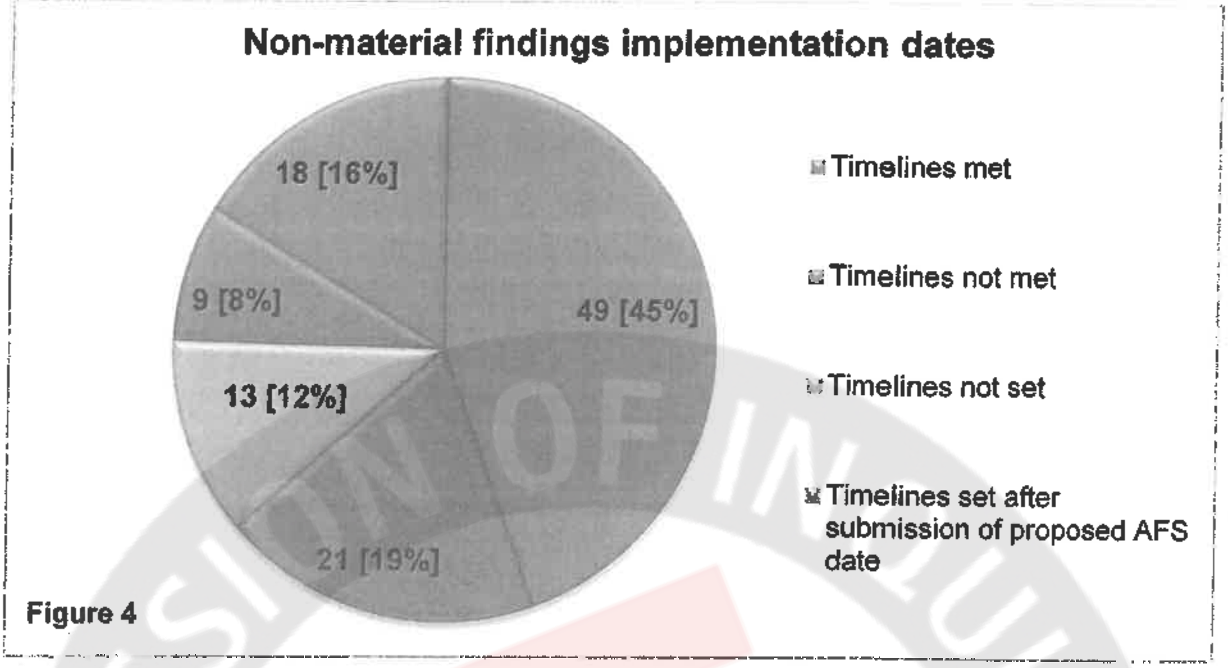

Figure 4

The table below illustrates the number of findings per account balance or class of transactions which the timelines have not been set and/or timelines not met:

Non–material Items	Number of findings where the timelines have not been met or not set
Property, plant and equipment	5
Intangible assets	1
Maintenance reserves	1
Trade Payables	6
Provisions for lease liabilities	2
Irregular, Fruitless & Wasteful Expenditure	2
Maintenance Costs	1
Operating Expenses	4
Income Tax	3
Supply Chain Management (SCM)	8
Trade Receivables: Pre-delivery payments	1
Total	**34**

4. Requirement for the revisit of the population in response to resolving the finding

Figure 5 below indicates the number of material findings that still require management to revisit the population so that the auditors can perform additional procedures. As can be noted below, 42 material findings requires management to revisit the population before the submission of the final set of AFS

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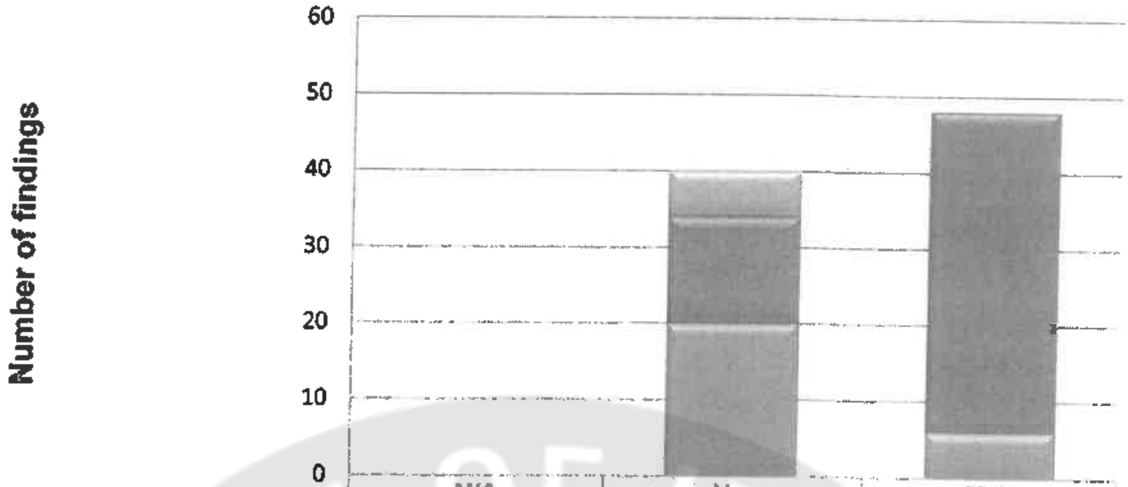
Figure 5 **Material findings requiring revisit of the population**



	N/A	No	Yes
Partially Completed	0	6	0
Open	0	14	42
Resolved and concluded	0	20	6

Note that the table below illustrates financial statement line items that require the populations to be revisited to allow the auditors to perform additional procedures:

Material items	Number of findings requiring population to be revisited and not yet received for audit
Property, aircraft and equipment	4
Maintenance reserves	3
Provision for lease liabilities	1
Trade and other payables	1
Supply Chain Management	27
Irregular, fruitless and wasteful expenditure	6
Total	**42**

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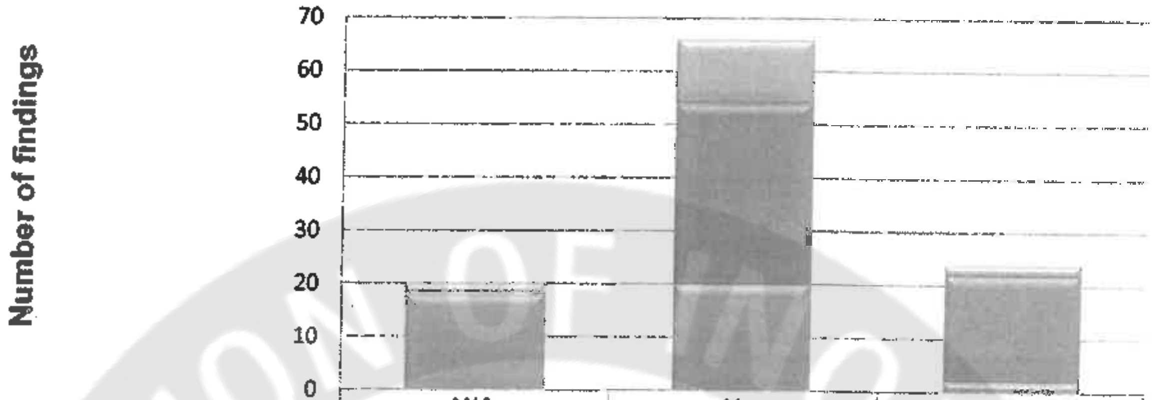
Figure 6 below indicates the number of non-material findings that still require management to revisit the population so that the auditors can perform additional procedures. As can be noted below 20 non-material findings require management to revisit the population before the submission of the final set of Annual Financial Statements. (In aggregate these findings are material).

Figure 6 **Non-material findings requiring revisit of the population**



	N/A	No	Yes
Partially Completed	2	12	2
Open	0	34	20
Resolved and concluded	18	20	2

Note that the table below illustrates financial statement line items that require the populations to be revisited to allow the auditors to perform additional procedures:

Non-material items	Number of findings requiring population to be revisited and not yet received for audit
Property, plant and equipment	2
Intangible assets	1
Trade and other receivables	3
Trade payables	1
Irregular, fruitless and wasteful expenditure	2
Leave liability	2
Aircraft Lease costs	2
Maintenance costs	3
Operating expenses	2
Income tax disclosure	4
Total	22

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Proposed revised timelines and milestones for audit report issuance

The following are the proposed revised timelines for the remainder of this audit until the audit report for the group is signed and submitted to all relevant stakeholders:

No.	Event	Responsibility	Timelines
1	Final date to accept outstanding information for audit (this only relates to all the limitation of scope in SCM and supporting documentation on revised population based on audit findings including adjusting journal entries)	SAA to AGSA	20-Oct-2017
2	Audit and Risk Committee to approve and recommend AFS for audit	SAA to AGSA	TBC
3	Submission of final AFS for audit	SAA to AGSA	31-Oct-2017
4	Submission of supporting documentation that support submitted financial statements (as communicated in the audit strategy)	SAA to AGSA	31-Oct-2017
5	Submission of draft annual report that include, among others chairperson's report, CEO's report, CFO's report, report of subsidiaries, Statement by the Company Secretary, Report of the Audit and Risk Committee, Corporate Governance Report, Directors Report and annual performance report.	SAA to AGSA	31-Oct-2017
6	Issue draft final management letter	AGSA to SAA	31-Oct-2017
7	Submission of the final management comments approved by Accounting Authority.	SAA to AGSA	10-Nov-2017
8	Submission of approved final financial statements after all audit adjustments have been processed	SAA to AGSA	20-Nov-2017
9	Issue final management report	AGSA to SAA	27-Nov-2017
10	Issue draft audit report for the company	AGSA to SAA	27-Nov-2017
11	Finalise audit reports of subsidiaries	AGSA to SAA	27-Nov-2017
12	Prepare and issue consolidated draft auditor's report	AGSA to SAA	08-Dec-2017
13	Audit and Risk Committee to discuss and note the audit reports of SAA and its subsidiaries	SAA to AGSA	TBC
14	Issue final audit report of the Group	AGSA to SAA	13-Dec-2017
15	Receive printer's proof of annual report for review	SAA to AGSA	13-Dec-2017
16	Sign off printer's proof of annual report	AGSA to SAA	15-Dec-2017

Audit of the subsidiaries

The teams are done with the audit except for the going concern assumption testing.

We have issued the draft management reports for all the subs and received updated comments after numerous engagements with the subsidiaries CFO's and CEO's to obtain agreement relating to SCM. For South African Airways Technical (SAAT) the scope limitation identified for SCM, AOPO and the annual financial statements was addressed with the CEO on 11 September 2017 and management have indicated that the information is now available for re-audit. In addition the inventory and assets findings on SAAT may result in material misstatement and management are in the process of assessing this with the audit team.

The completeness of irregular expenditure is however a theme across all subsidiaries in the group. Same goes for AoPO findings and compliance matters. For the subsidiaries meetings

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have been held to establish how far management is in the process of correcting the irregular expenditure population. Mango has indicated they will provide the revisited population of irregular expenditure by 09 October 2017 (*the team has to date been receiving this information in piecemeal*) and Air Chefs by 16 October for re-audit. SAAT is however still in the process and have not yet committed to a deadline as they have indicated that it is an extensive process.

Regarding the tax matters under discussion at Mango this has resulted in penalties and interest that can lead to fruitless and wasteful expenditure, which management is in the process of quantifying.

Conclusion

This progress report is for noting by the audit and risk committee of SAA.

We are having regular engagements with management and the CFO is involved to ensure that the findings are resolved. There is some progress compared to the previous progress report, however due to the magnitude and number of the findings raised, it is taking management long to address the findings. There are some findings where the quality of management comments is still poor; however management is also attending to it even though this is now taking a lot more time than anticipated.

There are also findings that require management to revisit the population and management has been slow in this. Most of the audit findings that require management to revisit the population are in areas of supply chain management, assets, among others. As indicated in the timelines above, we have a deadline that is now set and we will not be accepting any information subsequent to that date as we still need to do the final evaluations and quality control of the audit file.

Management have started the process of revising the population, however this process is taking longer than anticipated and we are unable to commence with our additional audit procedures until this process is finalised. We will require management to commit to a date (deadline) by when all the revised population will be received as final response to those audit findings raised. We will then be required to conclude on matters in the absence of management's response or revised populations by the set deadline in the timelines above. This is to prevent the continuous extending of this audit, seeing that a lot of the previously agreed timelines have not been met.

The proposed timelines have been included above, it is critical that these timelines are adhered to in order for us to work towards finalising the audit of SAA in a well-structured and coordinated manner.

We remain committed to assist in identifying and communicating good practices to improve governance and accountability and to build public confidence in SAA's ability to account for public resources in a transparent manner.

Yours sincerely

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Nazmera Moola (ARC Member)
Musa Zwane (Acting CEO)
Ruth Kibhuka (Co.Sec)
Phumeza Nhantsi (CFO)
Siyakhula Vilakazi (CAE)

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Annexure 1- Material Extract from figure 3 [timelines not met and not set]

COAF no	Title of audit finding per communications issued	Does the finding require population to be revised?	Status of material finding	Date - detailed comment	Account Balance affected
23	Existence of Property, aircraft and equipment could not be confirmed	No	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
41	Differences between the values capitalised on the Fixed Asset Register (FAR) and the documentation provided to support the values	No	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
14	Discrepancies identified between SAP and MEMIS system relating to A class rotables	No	Inadequate management comments	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
44	Opening Balance as per the 2016/17 draft AFS does not agree to the closing balance as per 2015/16 audited financial statements	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
55	Operating expenditure incorrectly capitalised in Capital Work in Progress (CWIP) account	No	Inadequate management comments	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
88	Useful lives and residual values of property, aircraft and equipment not appropriately assessed in terms of IAS 16	Yes	Inadequate management comments	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
87	Maintenance expenses incorrectly capitalised as assets in the Fixed Asset Register (FAR)	No	Inadequate management comments	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
90	Differences between the values recognised in the Fixed Asset Register (FAR) and the documentation provided to support the values	Yes	Inadequate management comments	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
91	Assets selected from the floor could not be traced to the fixed asset register	No	Inadequate management comments	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
30	Amount per trial balance does not agree to the amount disclosed on Note 36 on the Annual Financial Statements	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
92	No documentary evidence to support estimated event costs for maintenance reserve payments	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Maintenance Reserves
92	Maintenance Reserves balance for certain components not separated in maintenance reserve calculation spreadsheet	Yes	Inadequate management comments	Timelines not met (20 September 2017)	Maintenance Reserves
34	Incorrect classification of the R1, 3 billion subordinated loan with Nedbank as equity	No	Inadequate management comments	Timelines not met (20 September 2017)	Equity
99	Provision for aircraft return conditions not in accordance with applicable financial reporting framework	No	Inadequate management comments	Timelines not met (20 September 2017)	Provision for lease liabilities
69	Overstatement of trade and other payable due to	Yes	Comments received and being	Timelines not met (20 September	Trade and other Payables

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COAF no	Title of audit finding per communications issued	Does the finding require population to be revised?	Status of material finding	Date - detailed comment	Account Balance affected
	blocked invoices not being subsequently reversed		evaluated	2017)	
123	Engines covered by Power By the Hour agreement incorrectly stated as not covered by Power By the Hour on the Provision for lease liability calculation	No	Inadequate management comments	Timelines not met (20 September 2017)	Provision for lease liabilities
128	Provision for aircraft lease liability recalculation	Yes	Inadequate management comments	Timelines not met (20 September 2017)	Provision for lease liabilities
125	Claims in progress	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Maintenance reserves
125	Pre-delivery Payment amount incorrectly calculated due to impairments loss and reversal that were not supported by valid evidence	No	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Trade Receivables: Pre-delivery payments
57, 15, 21, 98, 101	SCM (19 findings)	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Supply chain management (SCM)

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Annexure 2- Non Material Extract from figure 4 [timelines not met and not set]

COAF no	Title of audit finding per communications issued	Does the finding require population to be revised?	Status of material finding	Date - detailed comment	Account Balance affected
18	Aircraft additions not componentised and depreciated as required by IAS 16 and the Fixed Asset Policy of the Entity	No	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Property, plant and equipment
46	Differences between the values in Capital Work in Progress (CWIP) and the documentation provided to support the values	No	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Property, plant and equipment
12	Existence of A class Rotables could not be verified	No	Inadequate management comments	Timelines not met (30 September 2017)	Property, plant and equipment
81	Differences between the values capitalised on the Fixed Asset Register(FAR) and the documentation provided to support the values	No	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Property, plant and equipment
67	Foreign currency transactions incorrectly translated at spot rate for PAE not in line with the adopted accounting policy	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Property, plant and equipment
81	Existence of assets could not be confirmed through physical verification	No	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Intangible assets
94	Auxiliary Power Unit (APU) and Airframe hours not correctly calculated	No	Inadequate management comments	Timelines not met (20 September 2017)	Maintenance reserves
69	Overstatement of trade and other Payables (GR/IR account)	No	Comments received and awaiting evidence/new population	Timelines not set	Trade Payables
114	No creditor's reconciliation prepared as at 31 March 2017	No	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Trade Payables
114	Long outstanding invoices as at 31 March 2017 not being cleared within SAA standard payment terms of 30 days	No	Comments received and awaiting evidence/new population	Timelines not set	Trade Payables
114	Invoices that were not accrued for and over/under accrued for at year end	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Trade Payables
114	No assessment was performed regarding discounting of account payables for the year 2016/17	No	Comments received and being evaluated	Timelines not met (20 September 2017)	Trade Payables
114	Differences noted between the creditors listing and the trade payables balance disclosed in the financial statement and Trial balance	No	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Trade Payables
22	Assumptions and key judgements made by management on maintenance reserves and provision for lease liabilities not adequately	No	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Provisions for lease liabilities

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COAF no	Title of audit finding per communications issued	Does the finding require population to be revised?	Status of material finding	Date - detailed comment	Account Balance affected
	documented and approved				
48	Provision for C-check not recognised in the annual financial statements	No	Inadequate management comments	Timelines not met (20 September 2017)	Provisions for lease liabilities
27	Suspension- Excessive duration for suspensions	Yes	Comments received and awaiting evidence/new population	Timelines not met (1 September 2017)	Irregular, Fruitless & Wasteful Expenditure
27	Acting/ responsibility allowances: employees acting for more than 6 months in management positions	Yes	Comments received and awaiting evidence/new population	Timelines not met (1 September 2017)	Irregular, Fruitless & Wasteful Expenditure
48	Power- By- The- Hour (PBTH) C-check portion incorrectly recognised as an expense when paid	Yes	Inadequate management comments	Timelines not met (20 September 2017)	Maintenance Costs
66	Inconsistencies identified in the recalculation of the accommodation and refreshments amounts	No	Comments received and being evaluated	Timelines not set	Operating Expenses
116	Inconsistencies identified in the recalculation of the accommodation and refreshments amounts	No	Resolved and concluded	Timelines not set	Operating Expenses
28	Transactions relating to expenses recorded in the incorrect accounting period	Yes	Comments received and awaiting evidence/new population	Timelines not set	Operating Expenses
97	Supporting documentation relating to other operating expenditure not submitted for audit purposes	N/A	Resolved and concluded	Timelines not met (20 September 2017)	Operating Expenses
20	Withholding tax on royalties	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Income Tax disclosure
61	Perks tax not levied on free flights confirmed	No	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Income Tax disclosure
115	No tax withheld on bursaries awarded to employees	No	Comments received and being evaluated	Timelines not met (20 September 2017)	Income Tax disclosure
125	Pre delivery payment transactions (PDP) calculated using the incorrect exchange rate	Yes	Comments received and being evaluated	Timelines not met (20 September 2017)	Trade Receivables: Pre-delivery payments
98,15,21	SCM findings (Eight SCM findings)	No	Comments received and awaiting evidence/new population	Timelines not set	Supply chain management (SCM)

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Annexure 3 – Material findings that require management to revisit the population that have an open status:

COAF no	Title of audit finding per communications issued (include all matters raised in the finding)	Does the finding require population to be revised?	Status of material finding	Date - detailed comment	Account Balance affected
44	Opening Balance as per the 2016/17 draft AFS does not agree to the closing balance as per 2015/16 audited financial statements	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
88	Useful lives and residual values of property, aircraft and equipment not appropriately assessed in terms of IAS 16	Yes	Inadequate management comments	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
90	Differences between the values recognised in the Fixed Asset Register (FAR) and the documentation provided to support the values	Yes	Inadequate management comments	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
30	Amount per trial balance does not agree to the amount disclosed on Note 36 on the Annual Financial Statements	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Property, Aircraft and Equipment
92	No documentary evidence to support estimated event costs for maintenance reserve payments	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Maintenance Reserves
92	Maintenance Reserves balance for certain components not separated in maintenance reserve calculation spreadsheet	Yes	Inadequate management comments	Timelines not met (20 September 2017)	Maintenance Reserves
69	Overstatement of trade and other payable due to blocked invoices not being subsequently reversed	Yes	Comments received and being evaluated	Timelines not met (20 September 2017)	Trade and other Payables
128	Provision for aircraft lease liability recalculation	Yes	Inadequate management comments	Timelines not set	Provision for lease liabilities
125	Claims in progress	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September 2017)	Maintenance reserves
57, 15, 21, 98, 101	Relating to SCM contraventions and irregular expenditure (33 Findings)	Yes	Comments received and awaiting evidence/new population and one finding where inadequate management comments were received	Timelines not set	Supply chain management and irregular, fruitless and wasteful expenditure

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Annexure 4 – Non-material findings that require management to revisit the population that have an open status:

COAF no	Title of audit finding per communications issued (include all matters raised in the finding)	Does the finding require population to be revised?	Status of material finding	Date - detailed comment	Account Balance affected
40	Useful life of assets not in accordance with the approved fixed assets finance policy	Yes	Comments received and awaiting evidence/new population	Dependent on submission of AFS	Property, plant and equipment
67	Foreign currency transactions incorrectly translated at spot rate for PAE not in line with the adopted accounting policy	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September)	Property, plant and equipment
85	Amount per prior year trial balance does not agree to the amount disclosed on Note 36 on the Annual Financial Statements.	Yes	Comments received and awaiting evidence/new population	Dependent on submission of AFS	Intangible assets
60	Prepayment accruals are not timeously expensed	Yes	Comments received and being evaluated	Timelines met	Trade and other receivables
74	Disclosure of foreign currency denominated accounts receivables are not restated at the spot rate at year end	Yes	Comments received and awaiting evidence/new population	Dependent on submission of AFS	Trade and other receivables
114	Invoices that were not accrued for and over/under accrued for at year end	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September)	Trade Payables
27	Suspension- Excessive duration for suspensions	Yes	Comments received and awaiting evidence/new population	Timelines not met (1 September)	Irregular, Fruitless & Wasteful Expenditure
27	Acting/ responsibility allowances: employees acting for more than 6 months in management positions	Yes	Comments received and awaiting evidence/new population	Timelines not met (1 September)	Irregular, Fruitless & Wasteful Expenditure
95	Leave accrual discrepancies in leave closing balances	Yes	Comments received and awaiting evidence/new population	Timelines set after submission of proposed AFS date (1 December 2017)	Leave Liability
95	Leave accrual discrepancies in opening and closing leave balance	Yes	Comments received and awaiting evidence/new population	Timelines set after submission of proposed AFS date (1 December 2017)	Leave Liability
19	Aircraft lease cost translated at an incorrect	Yes	Comments received and awaiting evidence/new	Dependent on	Aircraft Lease Costs

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COAF no	Title of audit finding per communications issued (include all matters raised in the finding)	Does the finding require population to be revised?	Status of material finding	Date - detailed comment	Account Balance affected
	exchange rate		population	submission of AFS(20 September)	
36	Aircraft lease costs expenses incorrectly recorded in the financial year ending 2016/17	Yes	Comments received and awaiting evidence/new population	Dependent on submission of AFS (20 September)	Aircraft Lease Costs
48	Power- By- The- Hour (PBTH) C-check portion incorrectly recognised as an expense when paid	Yes	Inadequate management comments	Timelines not met (20 September)	Maintenance Costs
29	Expenses not recorded in the financial year ending 2016/17	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September)	Maintenance Costs
49	Foreign currency transactions incorrectly translated at spot rate for the maintenance costs not in line with the adopted accounting policy.	Yes	Comments received and awaiting evidence/new population	Dependent on submission of AFS	Maintenance Costs
28	Transactions relating to expenses recorded in the incorrect accounting period	Yes	Comments received and awaiting evidence/new population	Timelines not set	Operating Expenses
28	Transactions relating to expenses not recorded in the general ledger	Yes	Comments received and awaiting evidence/new population	Timelines met	Operating Expenses
20	Renovations to immovable property	Yes	Comments received and being evaluated	Timelines met	Income Tax disclosure
20	Withholding tax on royalties	Yes	Comments received and awaiting evidence/new population	Timelines not met (20 September)	Income Tax disclosure
43	Apportionment on wear and tear on additions incorrectly done	Yes	Comments received and being evaluated	Timelines met	Income Tax disclosure
20	Incorrect accounting of passenger service charges for income tax and VAT	Yes	Comments received and awaiting evidence/new population	Timelines set after submission of proposed AFS date	Income Tax disclosure
125	Pre delivery payment transactions (PDP) calculated using the incorrect exchange rate	Yes	Comments received and being evaluated	Timelines not met (30 September)	Trade Receivables: Pre-delivery payments

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AUDITOR-GENERAL
SOUTH AFRICA

The Chairperson of the Board
South African Airways SOC Ltd
Private Bag X 13
O R Tambo International Airport
Kempton Park
1627

15 September 2017

Reference: 61684REG16/17

Dear Ms Myeni

Progress update and significant matters identified in the audit of South African Airways SOC LTD (SAA) for the year ended 31 March 2017.

The purpose of this letter is to provide the chairperson of the board with audit progress to date and a summary of material audit findings identified that may, if not addressed, have a material impact on the audit report.

The decision by the board not to submit the approved annual financial statements (AFS) for audit on 31 May 2017 was due to the going concern assumption not being resolved and other adjustments to be processed on property, aircraft and equipment as a result of the approval of the turnaround plan among others reasons. We have therefore focused our audit on the draft financial statements submitted to us on 26 June 2017 and the disclosure notes; excluding going concern and valuation of property, aircraft and equipment as communicated and agreed with management and the audit and risk committee of SAA.

The audit of the draft financials mentioned above has been finalised and the draft management report was issued to management on 14 August 2017. However, most of the audit findings, as at 08 September 2017, lacked management comments even though these findings were issued to management months ago. There are 87 material findings and 109 non-material findings identified that form part of annexure A and B of the draft management report respectively. We have co-created an action plan with management to assist them in addressing the material findings identified. The action plan was discussed in detail and agreed with management on 14 August 2017.

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The classes of transactions, account balances and disclosure notes impacted by the material findings issued, including limitations of scope, are:

- property, aircraft and equipment,
- maintenance reserves,
- intangible assets,
- trade and other receivables,
- deferred revenue on ticket sales,
- cash and cash equivalents,
- equity,
- provisions,
- post-employment benefits,
- trade and other payables,
- revenue,
- commission and distribution costs,
- other operating expenditure,
- irregular expenditure disclosure,
- fruitless and wasteful expenditure disclosure and
- various other disclosure matters.

We have not resolved the significant limitation of scope (about R1,8 billion remaining limitation) in the audit of supply chain management. There are also a number of compliance and audit of pre-determined objectives findings.

Management has been slow in correcting these audit findings. We have had regular engagement with management (including the CFO and acting CEO) to try and resolve these matters. We have also escalated this concern to the audit and risk committee and they are supportive to the audit team and SAA management.

Our concern is that the annual general meeting (AGM) of SAA has been set for 03 November 2017 and based on discussions with National Treasury, this date might be brought forward to October 2017. Meeting the date of 03 November at this point will not be possible due to the following:

- We have not yet received approved final financial statements for audit. It should be noted that the Public Finance Management Act (PFMA) sets a two month timeframe within which we need to issue our audit report after SAA has submitted their approved financial statements for audit.

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- In addition to the approved financial statements, SAA management needs to provide us with the supporting information as highlighted in the attached annexure A. It is important to reiterate that delays in providing our audit team with any of the expected supporting documentation could result in our opinion being modified due to limitation of scope.
- The magnitude of the findings issued and the time it may take SAA to correct these matters and provide us with evidence to audit any corrections to the approved final financial statements that need to be submitted to us for audit.
- The audit team needs to re-audit classes of transactions; account balances and disclosure notes affected by the findings issued and plan for the required resources to perform the re-audit.
- Due to the risk of this audit, it is subjected to multiple internal reviews and independent external quality review processes before we issue the audit report.

We are unable at this point to commit that the audit report will be issued before the date of the current scheduled AGM due to the uncertainty of the timelines around the matters described above. We therefore request that management and the board provide us with a date by when they will submit to us the final approved financial statements as well as the supporting documentation referred to above. This will enable us to give the board and the shareholder a firm date by when we can be in the position to finalise our audit report.

The AGSA remains committed to assisting in identifying and communicating good practices to improve governance and accountability; and to build public confidence in SAA's ability to account for public resources in a transparent manner.

Yours sincerely

Eugene Zungu
National Leader: Audit Services

Enquiries:	Polani Sokombela
Telephone:	(012) 426 8288
Fax:	(012) 422 9459
Email:	PolaniS@agsa.co.za

Cc: Hon Malusi Gigaba (Minister of Finance)
Tryphosa Ramano (Deputy Chair of the board)
Akhter Moosa (Audit committee chairperson)
Musa Zwane (Acting CEO)
Ruth Kibhuka (Co.Sec)
Phumeza Nhantsi (CFO)
Kimi Makwetu (Auditor-General)

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DD20-PS-1633

Annexure A

Information to be submitted with the approved Annual Financial Statements for audit

Management and where appropriate those charged with governance are responsible for providing the auditor with access to all information of which they are aware that is relevant to the preparation of the subject matter information, to provide any additional information that the auditor may request for the purpose of the engagement, and to provide the auditor with unrestricted access to persons from whom the auditor determines it necessary to obtain evidence. Management and personnel should also be available during the period of the audit. The following information should be submitted before or on the date of submission of the financial statements:

1. The annual performance report.
2. The other information to be included in the annual report should be made available on or before the date of submission of financial statements. If the other information is not provided before the date of the auditor's report, management will be requested to provide written representation that the information will be provided as soon as possible and before the annual report is published. The fact that the other information is not provided before the date of the auditor's report does not preclude the issuing of the auditor's report. The other information will be read and considered when it becomes available, if material inconsistencies or misstatements are identified this may require amendments to the auditor's report. Guidance on subsequent events should be followed in this regard.
3. The trial balance and general ledger that agree to the financial statements, together with the supporting asset register, inventory register and subsidiary ledgers for receivables and payables, must be submitted with the financial statements. In addition, the following supporting information (not limited to) should also be provided with the financial statements:
   - Commitments schedule
   - Schedule of related parties and proforma consolidation journals
   - The payroll reports such as leave, remunerations, terminations, appointments, suspensions and the final payroll reconciliation
   - List and support of all provisions
   - List and support of contingent liabilities
   - Creditors listings (ageing and reconciliation)
   - Debtors listings (ageing and reconciliation)
   - Final bank reconciliations
   - Fruitless and wasteful expenditure and Irregular expenditure registers
   - Contract registers relating to procurement
   - List and support of all estimates and assumptions made in preparation of the financial statements
   - Going concern assessment and supporting documentation that supports the assumptions made.

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4. All documentation and information in support of the consolidated and separate financial statements, the annual performance report and compliance with legislation must be available on request and be retrievable within a reasonable time, which should not exceed three working days. This documentation and information are also relevant to disclosures in the financial statements and could include information outside the general and subsidiary ledgers. If this information is not provided in the time agreed, it will result in a limitation on the audit, which could result in a modification of the audit opinion. This can also result in further audit fee overruns which will be recovered from SAA.
5. The information clearing the limitations due to the lack of audit evidence as reported in the draft management report issued to management on 14 August 2017.
6. Journals and supporting documentation for adjustments made to the draft financial statements dated 26 June 2017.

Acknowledgement of receipt of the letter of the progress update and significant matters identified in the audit of SAA for the year ended 31 March 2017

Signed

....

Date

Akhter Moosa: Chairperson of the audit and risk committee of SAA

Signed

....

Date

Dudu Myeni: Chairperson of the board of SAA

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Bhengu,Walter (SM)

From:	Akhter Moosa <akhter.moosa@mikka.co.za>
Sent:	Wednesday, 27 September 2017 22:38
To:	Dudu Myeni; Ruth Kibuuka
Cc:	Tryphosa Ramano; Bajabulile Swazi Tshabalala (swazi@barbicanadvisory.com); Nazmeera Moola (Nazmeera.moola@investecmail.com); Zwakala,Zolisa (BE); Sokombela,Polani (BE); Jansen Van Rensburg,Wikus (DBE); Kubai,Patrick (SM); Siyakhula Vilakazi; Phumeza Nhantsi; Lindsay Olitzki
Subject:	Re: AFS letter to A&RC Chairperson

Dear Ms Myeni

I met with teams from both SAA and the AG today and wish to report on the outcome of the meeting. The attendees at today's meeting are all copied on this email and if there are any matters that have been omitted or need clarification then I expect that they will respond thereto. We went through the matters that you have raised for attention and respond as follows:

1. The delay in the finalisation of the AFS arose because of uncertainty on the going concern status of the entity, the inability to renew loan extensions for more than twelve months, and lack of certainty on the expected quantum and timing of the recapitalisation of SAA. Ruth will be able to make available correspondence that the board had with the Ministers of Finance wherein it expressed its concern on the going concern status of the entity.
2. I share your concern about management's failure to respond timeously to AG findings. In fact all of the audit committee members have expressed serious concern about any potential finding from the AG about a limitation of scope and this was communicated to both management and the AG by the audit committee. The reason for the meeting that I had with the parties today was to get an update on outstanding issues and where possible to provide support and assistance to ensure that matters are addressed speedily and accurately.
3. The CFO conceded at today's meeting that the responses to the AG have been slow. However, she indicated that progress has been made in addressing and responding to findings. She said that whereas there were R1,8bn scope limitation findings initially that this is now reduced to R39m. The AG responded that they had just received the information from SAA and at this stage cannot confirm the CFO's statement that the scope limitation matters now stands at R39m.The AG also advised that as part of their Combined Assurance approach to dealing with audit findings, that the Internal Audit division is assisting the AG to determine whether the extent of outstanding information is now standing at R39m based on the current findings made by them.
4. The AG also expressed concern about the lack of capacity within the Finance function. The CFO also pointed out that the delays in responding were also caused by management in her office spending far too much time trying to find supporting documents to respond to the query. At the very least management responses should have been given in the interim period to the AG by SAA to meet the 5 day turnaround time while documents were being retrieved.
5. Alleged R2bn overpayment. The real issue is that the SAA contract register is not credible. The AG has found that some contracts are not on the register. When comparing contract values per the register for a sample of suppliers and looking at payments made to them, differences were found by the AG which indicated that the payments made exceeded the contract values per the register. The finding may or may not necessarily relate to an overpayment but the failure to update the contract register accurately and completely gives an indication of an overpayment. As an example there may have been three contracts with a supplier but only one contract appears on the register. Payments made then to the supplier will exceed the value of the contract as only a single contract appears on the contract register. The AG insists that the Contract Life Management Cycle should be correctly implemented. This system has not been optimally used . When properly applied it should be able to inform when payments exceed contract values. The CFO informed the meeting that they are now updating all contracts to the contract register. Eight Finance staff and fifteen Internal Audit staff have been delegated to assist with this function. The CAE is concerned that the role of Internal Audit must remain independent and the fact that they are now providing support must not impact their independence. The CAE will apply his mind to this matter and will write to the Audit Committee to seek its guidance. However, the outcome of this exercise is that each and every contract will have a checklist of minimum information that must appear on each file, and if for example a supplier's tax clearance certificate does not appear in the file then to record same and quantify and update the

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list of irregular expenditure. The objective then is to emerge with a tool that can reliably quantify the irregular expenditure amount at any time. The CFO agreed that SAA must be able to exactly determine the quantum of irregular expenditure failing which the AG may issue a qualified opinion. This outcome will present significant risks as it may impact on SAA's ability to raise loans and management understands the risks.

6. The CFO informed the meeting that Office Furniture and Office Equipment are now separately accounted for. The value for Office Furniture at R50m historical cost and with a book value significantly less is not considered material. This asset is also not tagged and separately identified in the asset register. As an example when furniture was acquired for the Lagos office it was captured as a single line item of say R1m without a breakdown of how this amount was made up. Given the circumstances management felt that it will have to accept the AG's finding on this asset. Insofar as Office Equipment is concerned the CFO advised the meeting that all the required documentation is now available to the AG.
7. The issue around weaknesses in contract management have already been addressed above. In fact the CAE pointed out that contract management weaknesses have been identified by his unit over the years and yet remain unresolved. The reference to an amount of R5bn may change as the AG examines SAA management responses.

In conclusion I wish to also point out that the CFO will put a note out by tomorrow to explain why the annual financial statements will not be ready for issue to the AG for the year ending March 2017.

Regards, Akhter

From: Ruth Kibuuka <RuthKibuuka@flysaa.com>
Date: Tuesday 26 September 2017 at 3:15 PM
To: Mr Akhter Moosa <akhter.moosa@mikka.co.za>
Subject: FW: AFS letter to A&RC Chairperson

Dear Akhter,

Please see trailing email from the Chairperson for your attention.

Regards

Ruth Kibuuka | Company Secretary

Mobile: +27 083 531 6004 | Phone: +2711-978-6553 | Fax: +2711 978-1055 | E-Mail: RuthKibuuka@flysaa.com
Floor 6,Block A,Airways Park,OR Tambo International- Johannesburg- SOUTH AFRICA

From: Dudu Myeni [mailto:dudum@jacobzumafoundation.org.za]
Sent: 26 September 2017 02:47 PM
To: Ruth Kibuuka <RuthKibuuka@flysaa.com>
Subject: AFS letter to A&RC Chairperson

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Dear Ruth

I refer to my meeting with AG, and the recent correspondence relating to the delayed AFS which in turn has caused a delay in the AGM - a matter that has triggered public debate, onslaught on my name and suggestions of PFMA violation.

National Treasury wrote to the Board some time ago, they expressed a concern for the delays and it appears that NT is particularly troubled by SAA's failings in this regard. NT appears to be particularly concerned that not only have management failed to respond to the AG's comments fully or at all but also has failed to provide copies of documents requested. Given the importance of this process I am a little surprised by these comments and I share their concern. I am also glad that after a request for a meeting with the Acting CEO and the CFO since June 2017, I managed to have a meeting with them during the SCOPA meeting at SAA, which was simply unplanned.

Specifically I should appreciate information concerning the following:

1. Has A&RC determined who or what has caused these failings and what is the Board or company doing about it. We have been subject to parliamentary criticism and I feel it is important to ensure that these oversight committees are also provided with full and transparent reports on this.

2. Details of the alleged R2 billion overpayment .

3. Reasons for inability to verify certain material assets and provide supporting documentation.

(. Contract management weakness that might have contributed to irregular expenditure of between R5billion and R10 billion. This comment is more concerning given that A&RC has had knowledge of the EY, ENS/ SekelaXabiso reports for over 12 months.

I will appreciate a written response on this serious matter as we shall be found wanting.

Regards
D Myeni
Chairperson

Directors: DC Myeni* (Chairperson), MMT Ramano* (Deputy Chairperson), MM Zwane (Acting Chief Executive Officer), P Nhantsi (Chief Financial Officer), SS Buthelezi*, HP Maluleka AH Moosa*, JG Sepamla*, BS Tshabalala*, MP Tshisevhe* *Non-Executive Director Company Secretary – RN Kibuuka

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1997/022444/30

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AUDITOR-GENERAL
SOUTH AFRICA

26 May 2017

Auditing to build public confidence

South African Airways SOC Ltd:
Meeting with the minister of Finance

2016-17 financial year

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Our reputation promise/mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by **enabling oversight, accountability** and **governance** in the **public sector** through **auditing**, thereby building public confidence.

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CONTENTS

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

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1 Executive summary

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Executive summary

The Auditor-General of South Africa (AGSA), in a letter from the chairperson of the board of directors dated 26 October 2016, was appointed to audit South African Airways and its subsidiaries (SAA) for the 2016-17 financial year. After careful consideration, the auditor-general, in a letter dated 27 October 2016, accepted the appointment , which was subject to the approval of the shareholder (minister of Finance).

This appointment was ratified by the shareholder at the annual general meeting held on 28 October 2016.

The audit team started with pre-engagement and planning activities in December 2016, with the audit strategy and budget being tabled at the audit risk committee meeting for approval on 16 February 2017.

The purpose of this briefing document is to share with the minister the AGSA's key focus areas in performing the SAA audit, significant risks identified, key areas of concern and an update on the audit.

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2 Key focus areas

SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER

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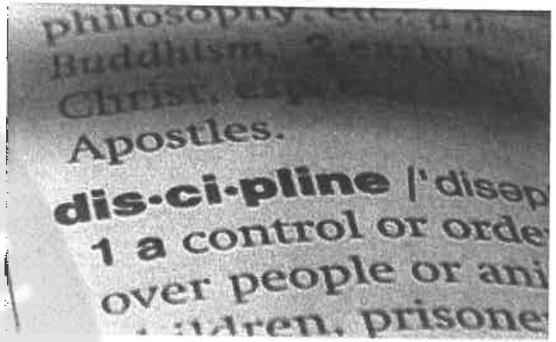
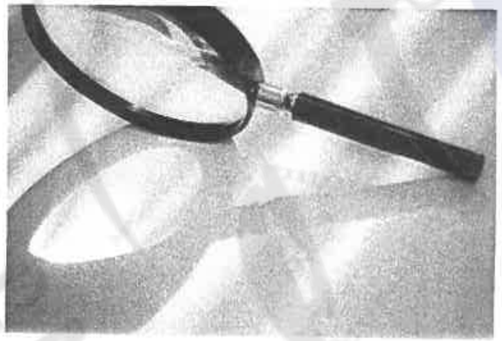
Key focus areas

Procurement and contract management

Financial indicator reporting



Consequence management



State-owned entity oversight

Information and communication technology

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3 Key audit risks

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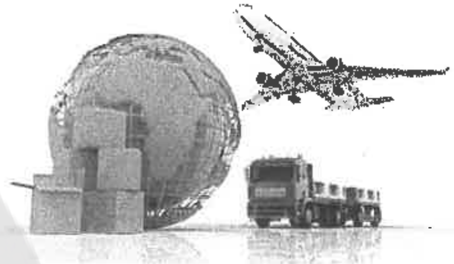
Key audit risks

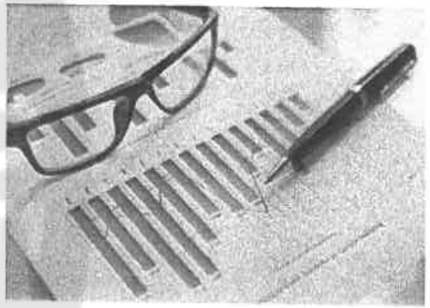

Going concern


Instability in leadership


Supply chain management irregularities


Outstation transactions


Complex IT systems and control environments


Complex accounting and significant judgements and estimates

Taxes

Governance issues at Mango

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4 Key areas of concern

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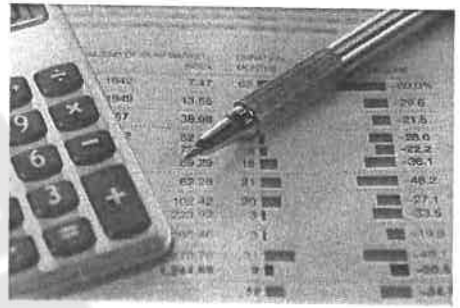
Key areas of concern

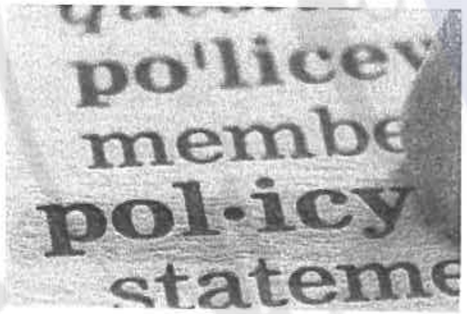
Based on the interim audit, the complete picture will be demonstrated after the final audit

Leadership

Human resources



Going concern/
cash flow



Policies and
procedures

IT environment
and infrastructure

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5 Communication plan

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Communication plan

Planned stakeholder engagements

Title	Stakeholder	Frequency/ Date
Audit steering committee meeting (chaired by the Group Financial manager)	Key management contacts involved in all audit areas	Weekly
Update meeting	Chairperson of the board	Quarterly
Update meeting	Chairperson of the audit and risk committee	Quarterly
Update meeting	CEO (including exco members)	Bi-weekly
Update meeting	National Treasury and the minister	Quarterly

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Status update of the SAA and subsidiaries

SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER

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Status update of SAA and subsidiaries

- Pre-engagement activities and the audit strategy have been completed and approved by the audit and risk committee (ARC).
- Audit planning has been completed and the audit team has finalised the interim audit. The interim audit management reports have been issued to management, except for Mango's report, which is due to be tabled at the audit committee on 29 May 2017.
- We have started the final audits, which are progressing well.
- Regular engagements are held with the executive management team and the chairperson of the ARC to provide an update on the audit.

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THANK YOU

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How to get in touch with the AGSA

www.agsa.co.za

@AuditorGen_SA

Auditor-General of South Africa

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PS34

Auditing to build public confidence

AUDITOR-GENERAL SOUTH AFRICA

Agenda

SAA Debrief meeting

5 February 2018

SAA, 6th floor

Points of discussion	Person responsible	Time	Annexure
1. Welcome and introduction	AGSA	10:00	
2. Apologies	All	10:03	
3. Adoption of the agenda	All	10:05	
4. Feedback on prior year audit and the way forward	All	10:07	
5. Communication plan with key stakeholders	All	11:00	
6. Track progress on qualification areas	All	11:10	
7. Data extractions from systems	All	11:25	
8. Process on communication with subsidiary and group	All	11:30	
9. Key points of contact at SAA	All	11:35	
10. Key 2017/18 audit dates	All	11:40	
11. Other matters	All	11:50	
12. Closure	AGSA	12:00	

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Minutes of meeting

Feedback on prior year audit and the way forward

Discussion at meeting	Resolution	Feedback on resolution	Status	Responsible person	Timeline
IT AGSA Team: - Turnaround time were poor - Confusion on who takes accountability at IT - Findings could have been resolved had attention been given when they were raised	- All ISA requests will be sent to the key contact official at SAA IT: Nonhlanhla Nkonsi and she will coordinate efforts with other lines of business. -SAA IT officials to follow up with business for management comments and required information. As well, findings related to automated controls will be communicated through the Regularity auditors to respective lines of business with SAA IT engaged by the affected line of business.			SAA IT and CFO	

Communication plan with key stakeholders

Discussion at meeting	Resolution	Feedback on resolution	Status	Responsible person	Timeline
The timelines for information and audit findings are communicated in the engagement letter - Communication of audit findings – 5 working days this includes corrections and revision of the populations. - Where there are disagreements the findings	- Management will ensure that communications of findings are responded as per the required timelines and with good quality management comments. Audit team will be available to discuss the findings for clarification purposes - There will be a central person who will be responsible for request for information at SAA who will manage the requests to avoid possible			SAA CFO, AGSA Audit team	

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should be responded to within 2 days. - Lack of quality management comments -Delays in response of audit finding Request of information turnaround time is 3 days. Day 4– we escalate to the CFO Day 5– we escalate to the CEO Duplicate information being requested by the auditors must be managed better. Quality of the requested information must improve. Auditor's conclusions to be shared with the client before finalising the management report. Disagreements will be discussed and communicated as done previously between the auditors and management.	escalation -The audit team will stream line the request for information by ensuring that work allocation is made in such a way that sections which overlap are done in a central place to avoid requesting duplicate information. - Where management cannot provide all requested information due to the size of the request, arrangements will be made to receive information in piecemeal which should be agreed upfront with the auditors. - Weekly steercom meeting will be held with the CFO's team and AGSA. The weekly day will be finalised. - Frequency of the CEO meetings with the audit team still to be confirm.				

Track progress on qualification areas

Discussion at meeting	Resolution	Feedback on resolution	Status	Responsible person	Timeline
-Tenders for consultants are in progress to resolve the	- Separate meeting to be arranged to discuss the action plan to resolve the			SAA management and AGSA	

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DD20-PS-1662

qualification areas -Management indicated teams from SAA have already started to resolve findings -SAA IT has resolved 61% of the findings and the remainder, which relates to governance, is in progress. -Document the problem statement together, and agree to the party that will need to comment or provide guidance on the finding in the event of a disagreement.	qualification areas between management and auditor. - Agreed that communication lines between AGSA and management will be open at all times and expert opinions will be obtained on contentious matters. - Separate follow up IT meeting to be held to verify progress made.				

Data extractions from systems

Discussion at meeting	Resolution	Feedback on resolution	Status	Responsible person	Timeline
-Access to data and extraction	-Early arrangements to access the systems			SAA IT Team	

Process on communication with subsidiary and group

Discussion at meeting	Resolution	Feedback on resolution	Status	Responsible person	Timeline
-Clear communication and instructions between Holding company and subsidiaries. Assistance from finance team to be provided to AGSA audit teams when obtaining confirmations of intercompany	- Finance department to assist audit teams in obtaining confirmation of intercompany balances			SAA finance team	

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transactions and balances					

Key points of contact at SAA

Discussion at meeting	Resolution	Feedback on resolution	Status	Responsible person	Timeline
-To discuss timelines and SAA to discuss the key contact persons.	-The AGSA audit team will commence with the planning week of the 5 February and team will be on site. SAA management to communicate key contacts once SAA has agreed on them.			SAA and AGSA	

Key 2017/18 audit dates

Discussion at meeting	Resolution	Feedback on resolution	Status	Responsible person	Timeline
-The audit team will commence with the audit on 06 February 2018 as the information has already been received and need to finalise top planning.	-06 February 2018 team commence at SAA Airways Park. -31 March 2018 finalise the interim testing			AGSA audit team	

Not begun   In progress   On track

Signatures:

Chairperson ____________ Date ____________

Secretary ____________ Date ____________

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South African Airways

A STAR ALLIANCE MEMBER

INTEGRATED REPORT
FOR THE YEAR ENDED 31 March 2017

05

GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

Statement by the Company Secretary

The Company Secretary, Ms Ruth Kibuuka, certifies that the company has lodged with the Companies and Intellectual Property Commission all such returns and notices as required for South African Airways SOC Ltd in terms of the Companies Act and that all such returns and notices are true, correct and up to date.

Ruth Kibuuka
Company Secretary

6 December 2017

Name:	Ms Ruth Kibuuka	**Postal address:**	Private Bag x 13
Business address:	Airways Park, Jones Road		OR Tambo International Airport
	OR Tambo International Airport		Kempton Park, 1627
	Kempton Park, 1619		

DD20-PS-1667

Directors' Report

INTRODUCTION

The directors have pleasure in presenting their report, which forms part of the annual financial statements of South African Airways SOC Limited (SAA) and its subsidiaries – 'the Group' – for the year ended 31 March 2017.

The financial statements set out in this report have been prepared by management in accordance with International Financial Reporting Standards (IFRS), and are based on appropriate accounting policies adopted in terms of IFRS, as detailed in Note 1 to the annual financial statements. Other than in respect of power-by-the-hour maintenance costs in respect of C-checks previously expensed now recognised as a prepayment as referenced in Note 5 to the annual financial statements there have been no changes made to the accounting policies in the year under review. The accounting policies are supported by reasonable and prudent judgements and estimates as detailed in Notes 3 and 4. The audited financial statements are submitted in accordance with the statutory requirements of the Public Finance Management Act No 1 of 1999 (PFMA) (as amended) and the South African Companies Act No 71 of 2008.

The directors confirm that the annual financial statements present fairly the state of affairs and the business of the Group, and explain the transactions and financial position of the business of the Group for the year ended 31 March 2017.

NATURE OF THE BUSINESS AND COMPANY SHAREHOLDING

SAA is a state-owned company, incorporated in terms of the South African Airways Act No 5 of 2007 and shareholder oversight is effected via the Minister of Finance as supported by National Treasury. The airline's principal activities include providing scheduled air services for the transportation of passengers, freight and mail to international, regional and domestic destinations. In fulfilling its mission to deliver commercially sustainable world-class air passenger and aviation services in South Africa, the African continent and our tourism and trading partners. SAA proudly operates to 33 destinations across the continent and provides a competitive, quality air transport service within South Africa and to major cities worldwide.

OVERVIEW OF OPERATING AND FINANCIAL RESULTS

Doing business at a time when the global economy is experiencing a downturn has and continues to be a challenge for the South African economy, and SAA has not remained immune to this challenge. The 2016/2017 financial year proved another challenging year for SAA with the airline recording a total comprehensive loss of R5.431 billion for the year compared to the loss of R1.497 (restated) billion in the previous year.

FINANCIAL PERFORMANCE SUMMARISED

R million	2017	2016
Total income	**30 742**	30 716
Operating costs excluding translation (losses)/profits	**(32 410)**	(31 002)
Translation (losses)/gain	**(1 092)**	808
EBITDA	**(2 760)**	522
Finance costs	**(1 630)**	(1 030)
Total comprehensive loss	**(5 431)**	(1 497)

FINANCIAL OVERVIEW

SAA's revenue increased by R26 million to R30.742 billion in 2016/2017. Compared to the previous year, growth in terms of passenger numbers has remained relatively flat. The austerity measures that were implemented yielded savings of R801 million. The Group's total operating costs, of which R1.092 billion was net foreign exchange translation losses, rose by R3.308 billion (11 percent). This resulted in a R3.3 billion decrease in EBITDA for the year, translating to a loss of R2.760 billion in 2016/2017 compared to profit of R522 million in the previous year. For*ex* losses due to the strengthening of the rand during the year, accounted for R1.9 billion of the decline in profitability. In the year under review, translation losses of R1.092 billion were recorded compared to translation profits of R808 million in the 2015/2016 year. This is a direct result of SAA holding greater foreign currency denominated assets than liabilities. In addition, our capital structure, with a debt to equity ratio of 217 percent has resulted in increased reliance on debt raised against shareholder guarantees, which in turn resulted in increased finance costs with interest charges rising by 58 percent ,to R1.630 billion in the current financial year, compared to R1.030 billion in the previous year.

LIQUIDITY CHALLENGES

Cash flow continued to be an area of concern for the airline throughout the year. Cash generated by Operations had to be used to fund both Operating costs and investing activities, in addition, the inability of the airline to repatriate funds from certain African countries because of restrictions in those countries put a further strain on SAA's cash position. The result was a build-up of blocked funds to R1.084 billion (2016: R536 million) by financial year end. This severely impacted available working capital and the company had to access further short-term funding of R2.3 billion against existing shareholder guarantees.

Debt of R9.0 billion was scheduled to mature during the second half of the year. SAA engaged with a consortium of lenders to extend the maturity date of the debt. Except for one lender, SAA was able to successfully negotiate the extension of the maturity of R6.8 billion debt to 30 September 2018, where after certain debt was retired and the balance extended to 31 March 2019.

The company's capital structure has weakened SAA's balance sheet and SAA remains undercapitalised. This is evidenced by the impact of interest on cash generated by operations, where interest payments consume what would otherwise be positive cash flows from operating activities (see details on page 138, notes to the statement of cash flows). The matter of SAA's overgearing was raised by the Board with the Shareholder, and the Minister of Finance, in his budget speech in February 2017, committed to reviewing the situation. As a post balance sheet event, SAA received a R2.2 billion capital injection on 30 June 2017, which funded the repayment of a loan. An additional R3.0 billion was received on 30 September 2017, R1.8 billion of which was allocated to settle a loan with the balance to be used for working capital. The repayment of loans has released previously utilised shareholder guarantees and the company currently has R3.8 billion in available unutilised guarantees. The Minister of Finance announced that SAA would receive a further recapitalisation of R4.8 billion before 31 March 2018, bringing the total recapitalisation received during the 2017/2018 financial year to R10 billion. This further recapitalisation will be utilised to repay some short-term debts and for investing activities.

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Directors' Report continued

GOING CONCERN CHALLENGE

SAA has posted losses for the past six years and has experienced shortfalls in revenue compared to budget, partly due to discontinued routes. Revenue for the past four years has been stagnant, ranging between R30.5 billion and R30.7 billion. Cost compression initiatives have yielded R4.2 billion over the past five years, the company has, however, experienced an average cash burn of R250 million on a monthly basis. Key financial ratios are sub-optimal and excessive reliance has had to be placed on short-term borrowings to fund working capital.

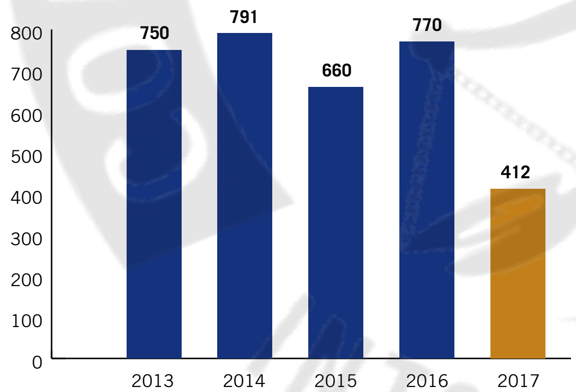
Going concern, defined as the organisation's ability to pay its debts as and when they fall due, in the 12 months from date of signature of the auditors report, has been satisfied. The post balance sheet successful conclusion of a process of engaging debt providers on the relaxation of payment terms, coupled with a capital injection of R10 billion from the shareholder, has enabled SAA to satisfy the going concern assumption and submit its annual financial statements to the auditors for auditing. More detail relating to the going concern can be found in Note 50 to the annual financial statements. The process followed to prove the going concern status has unfortunately led to a delay in both the timeous submission of the annual financial statements to the auditors and to National Treasury as prescribed by s55(1)(c) and (d) of the Public Finance Management Act, as well as the submission of signed annual financial statements within six (6) months of the year end as prescribed in the Companies Act.

The Board has previously informed the Shareholder of SAA's financially distressed situation. The Board is also aware that, in terms of SAA's Memorandum of Incorporation, it may only commence business rescue proceedings with the prior written consent of the Shareholder. The Board was informed on 2 May 2017 that the Shareholder recognises that SAA's capital structure is weak and that its solvency position must be resolved. The Shareholder reaffirmed its commitment that SAA will be recapitalised during 2017 and this will be followed through with further incremental amounts from 2018 to 2021. The Shareholder expects that the commitments made to return SAA to financial stability will hold it in good stead.

OPERATING PERFORMANCE

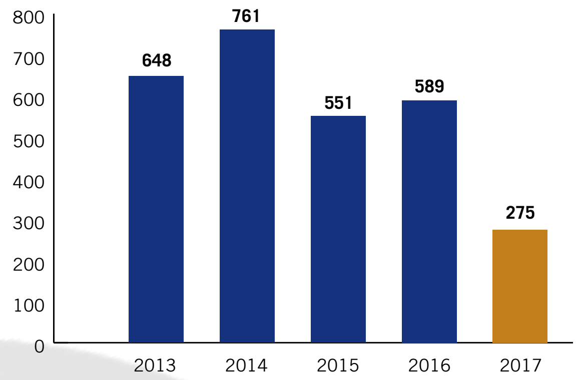
The SAA Group operations are segmented into three geographical areas and their respective contributions to the Group operating result are as follows:

Domestic contribution



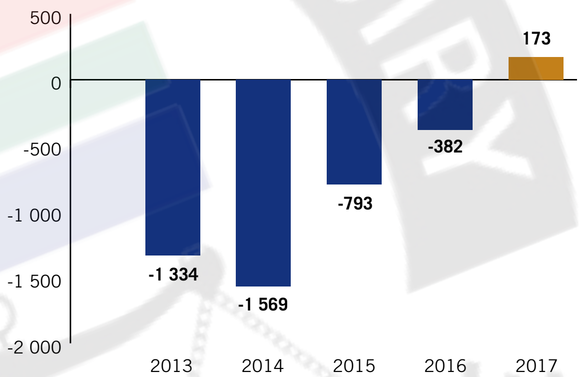
Industry-wide, demand in the domestic market remained flat with increased competition from the Low Cost Carriers (LCCs) putting pressure on fares and reducing yields. While the SAA Group is able to capitalise on the demand for LCCs via its wholly owned subsidiary, Mango, the full-service airline operation has experienced challenges in this regard. Contribution has declined by 46 percent with Mango, the Group's LCC, contributing positively to the bottom line but the full-service airline recording negative results at this level. A further factor impacting revenue is the growth of international traffic to secondary hubs such in KwaZulu Natal and the Western Cape, affecting domestic demand between these areas and the OR Tambo hub in Johannesburg.

Regional contribution



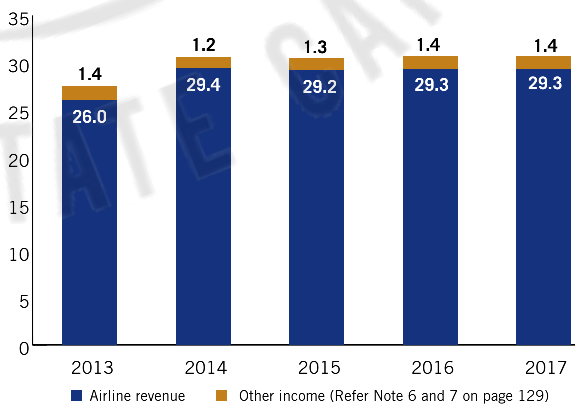
Regional markets continue to be impacted by low commodity prices, currency issues and the drop in oil prices in oil producing African economies. In addition, LCC operations on regional routes are growing, which has impacted average fares, however, the company's safety record has stood it in good stead, otherwise the impact could have been greater. The contribution from the region, while remaining positive, has dropped compared to the previous year.

International contribution



SAA's international routes showed improvement over previous years, generating a positive contribution for the first time in six years on the back of improved average fares. SAA managed to improve year-on-year operating contributions from all international routes, other than the routes to South America, which is still experiencing financial constraints, and the UK where competition is fierce. The improvement is due to a combination of improved fares and lower operating costs, slightly diluted by a weak Rand.

Revenue



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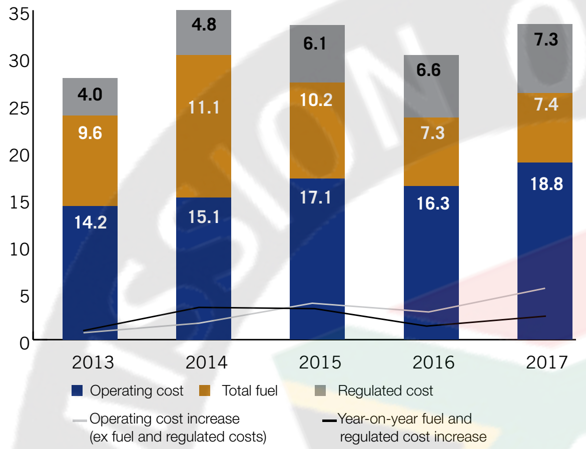
During the financial year aggressive competition, particularly from Low Cost Carriers (LCCs), continued in all regions in which SAA operates, putting pressure on airfares. Globally, air travel is becoming more and more commoditised and Africa is no exception to this trend.

Passenger revenue grew by two percent but this must be seen in the light of a strengthening currency. While a strengthening of the rand against major currencies has a positive impact on costs, the reverse is true for revenue. In addition, the massive impact of Brexit on the value of the pound significantly impacted revenue from the UK. Cargo revenues were impacted by declining yields, during the year, due to the competitive environment.

Operating costs

The graph depicts the operating cost and fuel cost trends over the past five financial years.

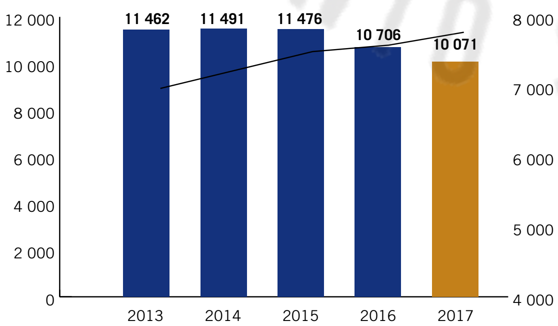


Total operating costs, inclusive of forex gains and losses, rose by R3.308 billion (11 percent) year-on-year. The ongoing focus on cost compression generated additional sustainable savings of R801 million in the year (R4.2 billion over five years).

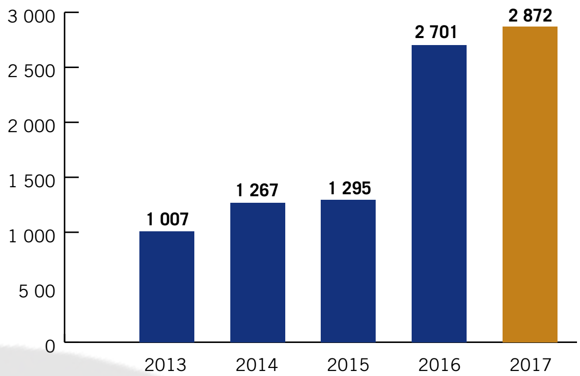
Fuel costs remained aligned with the previous year as the average Brent Crude price was two percent lower while the average value of the Rand against stronger currencies, although strengthening significantly in the latter parts of the year, was five percent weaker than the year before. SAA's fuel uplift was also one percent lower than 2015/2016.

SAA's safety record has held it in good stead over the years and the Company's commitment to maintaining high safety standards is not negotiable. Higher maintenance costs this year are activity related and include increases in the provisions for lease liabilities.

The employee cost increase of five percent is well within the wage mandate for the year. Headcount has further decreased as the moratorium on employment remains with only essential positions being filled. From the graph below the reduction in headcount of 1391 since 2014 is clearly evident.

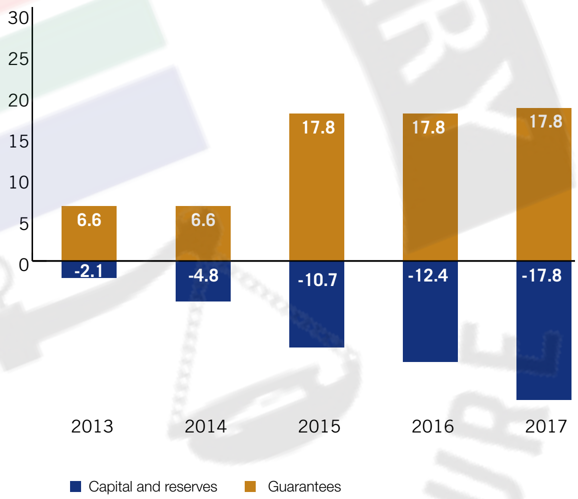


CASH AND CASH EQUIVALENTS



While SAA ended the year with cash and cash equivalents of R2.872 billion, this position is negatively impacted by the inability to repatriate a balance of R1.084 billion cash held in countries such as Angola, that are experiencing a shortage of foreign currency due to the prevailing economic conditions in those regions. The blocked funds balance increased by R548 million during the year and SAA has had to access additional funds of R2.3 billion in the current year against shareholder guarantees to fund working capital requirements.

EQUITY AND BORROWINGS



Historically SAA has had to operate with a weak balance sheet, which, together with the operating losses accumulated over the past six years, requires financial assistance from its shareholder. To date SAA has been granted R19.1 billion in shareholder guarantees to support the business. These guarantees are perpetual and have been used to support SAA's liquidity and solvency challenges. The cost associated with servicing this level of debt is prohibitive and the Board has made representation to the shareholder for a capital injection over a period of time. The Minister of Finance announced R10 billion in recapitalisation funding for SAA during the 2017/2018 financial year. This would address the immediate working capital needs and partially repay existing debt.

Directors' Report continued

CRITICAL ISSUES FACING THE AIRLINE

In addition to the primary challenges of liquidity and financial performance facing the airline, SAA continues to deal with a number of critical issues from previous years that are outlined below.

A320 Swap transaction

SAA took delivery of three Airbus A330-300 aircraft during the financial year, with a further two aircraft due for delivery in the first quarter of 2017/2018. This brings to a close the transaction whereby SAA swapped the delivery of the final 10 Airbus A320-200 aircraft for five A330-300 aircraft. SAA will be refunded all pre-delivery payments for these aircraft.

Competition matters

The Company has defended three actions brought against it by Comair (Ltd) and the liquidators of Nationwide. The claims arose from the ruling of the Competition Tribunal that SAA contravened sections of the Competition Act No 89 of 1998 in regard to the provisions of its agreements with travel agents – between October 1999 and May 2001 ('the first period') and between 1 June 2001 and 31 March 2005 ('the second period'). Comair's claims, which have since been consolidated into a single action, relate to both the first and the second period, while the Nationwide claim relates to the second period only.

On 12 August 2016 the court ruled on the Nationwide litigation and awarded compensation of R104 million in favour of Nationwide. The company and the liquidators of Nationwide agreed on a full and final settlement.

In February 2017 the court ruled on the Comair litigation and awarded R1.1 billion compensation in favour of Comair. SAA has appealed the award. This matter remains outstanding.

GROUP OPERATING DATA

The table below reflects the metrics pertinent to SAA, summarised over a five-year period.

	2017	2016	2015	2014	2013
Capacity					
Available seat kilometres (ASKs) (millions)	**31 684**	32 282	33 562	33 999	33 441
Traffic					
Revenue passenger kilometres (RPKs) (millions)	**23 740**	24 234	24 523	25 606	24 880
SAA	**20 678**	21 079	21 814	23 124	22 901
Mango	**3 062**	3 155	2 709	2 482	1 979
Revenue passengers (thousands)	**9 481**	9 700	9 181	9 332	8 846
SAA	**6 555**	6 698	6 700	7 071	7 009
Mango	**2 926**	3 002	2 481	2 261	1 837
Cargo - tonnes flown (thousands)	**111**	114	131	132	133
Utilisation					
Passenger load factor (%)	**75**	75	73	75	74
Yield (passenger revenue/RPKs) – passenger	**0,83**	0,79	0,79	0,78	0,72
Passenger revenue (R million)	**19 653**	19 241	19 365	20 047	18 030
Yield (revenue/ASKs) – airline revenue	**0,92**	0,91	0,87	0,86	0,78
Yield (total income/ASKs) – total income	**0,97**	0,95	0,91	0,90	0,82
Unit cost (cost per available seat kilometre)	**1,06**	0,94	1,00	0,91	0,83
Labour cost	**0,19**	0,18	0,17	0,15	0,14
Energy	**0,23**	0,23	0,30	0,33	0,29
Material cost	**0,15**	0,13	0,12	0,08	0,07
Other operating costs	**0,49**	0,40	0,41	0,35	0,33

OUTLOOK 2018 ONWARDS

SAA has embarked on a five-year turnaround strategy to build a financially sustainable group. The pillars of the five-year turnaround plan include:

1. Liquidity – SAA has not been generating free cash flow for many years largely due to lack of profitability. It is important to drive key initiatives that will reduce cash burn and drive business performance
2. Balance Sheet Restructuring
3. Revenue Stimulation
4. Cost Optimisation
5. Refining the Strategy for SAA

SHAREHOLDER'S COMPACT

Key Performance Indicators (KPIs) have been created to monitor SAA's performance against the pre-determined objectives as agreed upon between the airline and the Shareholder. These KPIs are reported on a monthly and quarterly basis, with regular feedback sessions held with the Shareholder. The KPIs are aligned with SAA's 2017 Corporate Plan.

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Key Performance Area	Key Performance Indicator	FY 2017 Target	FY 2017 Actual	Explanations
Support national development agenda	% Procurement spend locally	>72%	82%	KPI achieved
	B-BBEE spend as a % of local eligible spend	>91%	95%	KPI achieved
Achieve and maintain financial sustainability	Operating cash flow	R697m	(R1.399m)	KPI not achieved
	EBITDA	R283m	(R1.664m)	KPI not achieved
	Net profit	(R1.754m)	(R5.569m)	KPI not achieved
	RASK	121c	109c	KPI not achieved
	CASK	120c	115c	KPI achieved
	Route profitability (% of routes profitable)	85%	80%	KPI not achieved
Provide excellent customer service	Net promoter score (referral rate)	60	29	KPI not achieved
	Customer retention	30%	29%	KPI not achieved
Achieve consistent, efficient and effective operations	Asset utilisation (Hours per day):			
	• Wide body daily utilisation	11:48	11:26	KPI not achieved
	• Narrow body utilisation	08:55	08:33	KPI not achieved
	Safety record	95%	100%	KPI achieved
	Audit findings (No repeat, material findings)	95%	8	KPI achieved
	On time performance	87%	87.21%	KPI achieved
Foster performance excellence	Productivity increase (% of headcount growth)	<=105%	93%	KPI achieved
	Compliance to performance management	98%	92%	KPI not achieved
	Management stability % (Avoidable departures/total members)	10%	4%	KPI achieved

EVENTS SUBSEQUENT TO THE STATEMENT REPORTING DATE

BOARD OF DIRECTORS

Subsequent to the 2017 financial year-end, Dr M Mbatha resigned as a director. On 3 November 2017 the Minister of Finance appointed six new non-executive directors namely: JB Magwaza (Chairperson), N Fakude (Deputy Chairperson), G Rothschild, A Bassa, T Mhlari and M Kingston. They replaced the following directors: DC Myeni (Chairperson), MMT Ramano (Deputy Chairperson),N Moola, SS Buthelezi, JG Sepamla and M Malunga.

RECAPITALISATION

On 25 October 2017, the Minister of Finance announced a capital injection for the airline of R10 billion during the 2017/2018 financial year. The airline received R2.2 billion on 30 June 2017 which was used to settle short- term debt. A further R3 billion was received on 29 September 2017 of which R1.8 billion was allocated to repay debt and the remaining R1.2 billion utilised for working capital. Of the remaining R4.8 billion, R3.6 billion will be allocated to further reduce the company's short-term debt burden and R1.2 billion to be used for working capital. In total R7.6 billion will be used to repay debt.

APPOINTMENT OF KEY PERSONNEL

Subsequent to year end the Chief Executive Officer, Chief Financial Officer and Chief Restructuring Officer were appointed.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors confirm that the annual financial statements present fairly the financial position of the Company and the Group at 31 March 2017, and the results of their operations and cash flows for the year then ended. In preparing these annual financial statements, the directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; and
- Prepare the annual financial statements on the going-concern basis unless it is inappropriate to presume that the Group and/or the company will continue in business for the foreseeable future.

The directors are of the opinion that they have discharged their responsibility for keeping proper accounting records that disclose the financial position of the Group and the Company, with the exception of matters disclosed elsewhere in the Integrated Report with respect to PFMA compliance.

The directors have every reason to believe that the Company and the Group have adequate resources in place to continue in operation for the foreseeable future, subject to the comments noted above.

The directors have continued to adopt the going-concern concept in preparing the annual financial statements. (Refer to going concern paragraph on page 94 of the Director's report and Note 50 to the annual financial statements).

The external auditors, the Auditor-General, is responsible for independently auditing and reporting on the annual financial statements in conformity with International Standards on Auditing. Their report on the annual financial statements is in accordance with the terms of the Companies Act and the PFMA, and appears on page 98.

In preparing the Company and Group annual financial statements set out of pages 106 to 180, unless otherwise disclosed, the Company and Group have complied with International Financial Reporting Standards, the Companies Act and the reporting requirements of the PFMA, and has used the appropriate accounting policies supported by reasonable and prudent judgements and estimates. The directors confirm that these financial statements present fairly the financial position of the Company and the Group at 31 March 2017, and the results of their operations and cash flows for the year then ended.

Approved by the Board of Directors and signed on its behalf by:

JB Magwaza	**V Jarana**
Chairperson	Chief Executive Officer
6 December 2017	6 December 2017

REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON SOUTH AFRICAN AIRWAYS SOC LIMITED AND ITS SUBSIDIARIES

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Qualified opinion

1. I have audited the consolidated and separate financial statements of South African Airways SOC Limited (SAA) and its subsidiaries set out on pages 106 to 180 , which comprise the consolidated and separate statement of financial position as at 31 March 2017, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of South African Airways SOC Limited and its subsidiaries (SAA group) as at 31 March 2017, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

Basis for qualified opinion

Property, aircraft and equipment

3. The SAA group did not adequately review the useful lives and residual values of property, aircraft and equipment at each reporting date in accordance with the International Accounting Standards (IAS) 16*, Property, plant and equipment*. In addition, some of A-class rotables, equipment and furniture were not recorded in the financial statements, while some A-class rotables were recorded but their existence could not be verified. As a result, I was unable to obtain sufficient appropriate audit evidence to determine the correct net carrying amount of property, aircraft and equipment, depreciation and amortisation stated at R4,574 billion (2015/16: R4,474 billion), (Company: R3,114 billion; 2015/16: R3,146 billion) and R1,033 billion (2015/16: R732 million), (Company: R953 million; 2015/16: R656 million), respectively, as disclosed in notes 12 and 9 to the consolidated and separate financial statements. I was unable to confirm these physical assets by alternative means. Consequently, I was also unable to determine the impact that any adjustments would have on the loss for the period, the accumulated loss and the restatements Note 5 to the consolidated and separate financial statements.

4. The SAA group did not adequately assess property, aircraft and equipment for impairment at the reporting date in accordance with IAS 36, *Impairment of assets*. I was unable to obtain sufficient appropriate audit evidence regarding the impairment assessment, as internal controls had not been established for assets other than aircraft. Consequently, I was unable to determine the correct net carrying amount of property, aircraft and equipment and impairments by alternative means. These amounts are stated in Note 12 and 11 to the consolidated and separate financial statements as R4,574 billion (2015/16: R4,474 billion), (Company: R3,114 billion; 2015/16: R3,146 billion) and R26 million (2015/16: R158 million), (Company: R906 million; 2015/16: R98 million) respectively. I was also not able to determine the impact that any adjustments would have on the loss for the period and the accumulated loss in the consolidated and separate financial statements.

Inventory

5. South African Airways Technical SOC Limited (SAAT), a SAA subsidiary, measures its inventory at the lower of cost or net realisable value in accordance with the IAS 2, *Inventories*. The key assumptions that SAAT applied in calculating the net realisable value were not supported by sufficient appropriate audit evidence and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that inventory was valued correctly. In addition, the existence of some inventory could not be verified and the company did not have adequate systems to collate and maintain data for cut-off of inventory scrapping. As a result, I was unable to determine the correct net carrying amount of inventory stated as R879 million in Note 38 to the consolidated financial statements by alternative means. Consequently, I was also not able to determine the impact that any adjustments would have on the loss for the period and the accumulated loss in the consolidated financial statements. The possible effect of the matter did not impact the separate financial statements.

Maintenance costs

6. The SAA did not recognise maintenance costs in accordance with the IFRS Framework, *The conceptual framework for financial reporting*. Some maintenance costs were recognised in the incorrect accounting period, some were not recognised in profit or loss, some were recognised using incorrect exchange rate and some were recognised as an expense when paid in advance. The effect on the separate financial statements was that maintenance costs was understated by R282 million (2015/16: R273 million), trade and other payables was understated by R226 million (2015/16: R199 million), provisions was understated by R135 million (2015/16: R24 million), trade and other receivables was understated by R146 million (2015/16: R150 million) and fair value and translation movements was overstated by R67 million. There was a resultant impact on the loss for the period and on the accumulated loss.

Irregular expenditure

7. Section 55(2)(b)(i) of the PFMA requires the SAA group to include particulars of irregular expenditure in the notes to the financial statements. The SAA group did not establish adequate controls to maintain complete records of irregular expenditure. I was not able to obtain sufficient appropriate audit evidence to confirm the amount of irregular expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any adjustment to irregular expenditure, disclosed in Note 42 to the consolidated and separate financial statements, was necessary.

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Fruitless and wasteful expenditure

8. Section 55(2)(b)(i) of the PFMA requires the SAA group to include particulars of fruitless and wasteful expenditure in the notes to the financial statements. The SAA group did not establish adequate controls to maintain complete records of fruitless and wasteful expenditure. I was unable to obtain sufficient appropriate audit evidence to confirm the amount of fruitless and wasteful expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any adjustment to fruitless and wasteful expenditure, disclosed in Note 42 to the consolidated and separate financial statements, was necessary.

Context for the auditor's opinion

9. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.

10. I am independent of the SAA group in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty related to going concern

12. I draw attention to Note 50 to the separate and consolidated financial statements, which indicates that the SAA group incurred a net loss of R5,569 billion (2015/16: R1,478 billion) during the year ended 31 March 2017 and, as of that date the SAA group's liabilities exceeded its total assets by R17,801 billion (2015/16: R12,363 billion). As stated in Note 50, six consecutive years of operating losses have further eroded the capital base and this continues to impact on the entity's ability to operate in a highly demanding and competitive environment. The government has made guarantees available and, subsequent to year-end, as disclosed in Note 49, recapitalisation funds to the extent of R10 billion for utilisation by SAA. This is in line with the long-term turnaround strategy that the group has adopted to regain its solvency and self-sustainability. The history of losses, lack of capital and volatility in foreign exchange rates, along with maturing loans and working capital deficiencies, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Emphasis of matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

14. As disclosed in Note 5 to the consolidated and separate financial statements, the corresponding figures for 31 March 2016 have been restated as a result of numerous errors in the consolidated and separate financial statements of the SAA group at, and for the year ended, 31 March 2017.

Contingent liabilities

15. With reference to Note 39 to the consolidated and separate financial statements, SAA is appealing certain judgements. The ultimate outcome of the matters cannot presently be determined and the uncertain part of the litigation claim has been disclosed in the consolidated and separate financial statements.

Other matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Business rescue proceedings

17. SAA did not report the reasons for not adopting a resolution to file for business rescue while the company was in financial distress to the affected parties, as required by section 129(7) of the Companies Act.

Previous year audited by a predecessor auditor

18. The financial statements of the previous year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) on 30 September 2016. An unqualified audit opinion was expressed.

Responsibilities of the board of directors for the consolidated and separate financial statements

19. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of the PFMA and the Companies Act and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

20. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the SAA group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention to liquidate the public entity or to cease operations, or there is no realistic alternative but to do so.

REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON SOUTH AFRICAN AIRWAYS SOC LIMITED AND ITS SUBSIDIARIES (CONTINUED)

Auditor-General's responsibilities for the audit of the consolidated and separate financial statements

21. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

22. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to the auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

23. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings, but not to gather evidence to express assurance.

24. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

25. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2017:

OBJECTIVES	PAGE IN THE ANNUAL PERFORMANCE REPORT
Objective 1 – Support national development agenda	97
Objective 2 – Achieve and maintain financial sustainability	97
Objective 3 – Provide excellent customer service	97
Objective 4 – Achieve consistent, efficient and effective operations	97
Objective 5 – Foster performance excellence	97

26. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

27. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Objective 1 – Support national development agenda

Various indicators

28. When the indicators listed below were planned, it was not determined how the achievements would be measured and monitored as the source information and method of calculating of the achievements were not predetermined, as required by the Framework for managing programme performance information (FMPPI). Due to the lack of technical indicator descriptions that could clearly define the source information and method of calculation, I was unable to obtain sufficient appropriate audit evidence to verify the reliability of the reported achievements. I was unable to confirm whether these reported achievements were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

INDICATOR	STRATEGIC OBJECTIVE	REPORTED ACHIEVEMENT
% Procurement spend locally	Support national development agenda	82%
% B-BBEE spend as a % of local eligible spend	Support national development agenda	95%

Objective 2 – Achieve and maintain financial sustainability

Various indicators

29. When the indicators listed below were planned, it was not determined how the achievement would be measured and monitored as the source information, evidence and method of calculation of achievements was not predetermined, as required by the *FMPPI*.

INDICATOR	STRATEGIC OBJECTIVE
Operating cash flow	Achieve and maintain financial sustainability
CASK	Achieve and maintain financial sustainability
RASK	Achieve and maintain financial sustainability

Indicator: Net profit

30. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of Net profit (R5,569 million). Due to limitations on the scope of my work during the audit of Property, Aircraft and Equipment as I was unable to determine the correct net carrying amount of property, aircraft and equipment, depreciation and amortisation, and maintenance costs. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of Net profit (R5,569 million).

Indicator: Refinement of the LTTS

31. The indicator: Refinement of the LTTS and target of 90% was removed in the annual performance report. The indicator and target were approved and part of this financial years' shareholders compact. The change during reporting is not in line with the requirements of treasury regulation 28.2.2.

32. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of refinement of the Long Term Turnaround Strategy (LTTS) and target of 95%. This was due to a lack of proper performance management systems and processes, formal standard operating procedures, and documented system descriptions to predetermine how the achievements would be measured, monitored and reported, as required by the FMPPI. I was unable to confirm that the reported achievement of this indicator is reliable by alternative means. Consequently, I was unable to determine whether any adjustments are required to the reported achievement of 100%.

Objective 3 – Provide excellent customer service

Indicator: Net promoter score

33. The source information and method of calculating the achievement of the planned indicator were not clearly defined, as required by the *FMPPI*. In addition, the entity did not have an adequate performance management system for maintaining records to enable reliable reporting on the achievement of targets, as required by the *FMPPI*. Sufficient appropriate audit evidence could not be provided in some instances, while in other cases the evidence provided was not consistent with the recorded achievements. I was also unable to determine whether any further adjustments are required as I could not confirm the achievements by alternative means.

    The planned target was changed to 60 and reported achievement 29 without the necessary approval required by Treasury Regulation 29.1.1. The planned target was 60%.

Objective 4 – Achieve consistent, efficient and effective operations

Indicator: Safety record

34. I was unable to obtain sufficient appropriate audit evidence for the reported target achievement of 100%. This was due to a lack of technical indicator descriptions and proper performance management systems and processes to predetermine how the achievement would be measured, monitored and reported, as required by the *FMPPI*. I was unable to confirm that the reported achievement of this indicator was reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 100%.

Indicator: Audit findings (No repeat, material findings)

35. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of Audit findings and target of 95%. This was due to a lack of proper performance management systems and processes and formal standard operating procedures or documented systems descriptions that predetermined how the achievements would be measured, monitored and reported, as required by the *FMPPI*. I was unable to confirm that the reported achievement of this indicator is reliable by alternative means. Consequently, I was unable to determine whether any adjustments are required to the reported achievement of eight findings.

36. The indicator and target reported for internal audit findings was resolved – target 8, while the indicator and target was approved in the shareholders compact as external audit findings resolved - target 95%. This inconsistency is not in line with the requirements of Treasury Regulation 28.2.2.

Objective 5 – Foster performance excellence

Indicator: Management stability %

37. The source information and method of calculation for the achievement of the planned indicator was not clearly defined, as required by the *FMPPI*.

Indicator: Compliance to performance management

38. The entity did not have an adequate performance management system to maintain records that would enable reliable reporting on the achievement of targets, as required by the *FMPPI*. Sufficient appropriate audit evidence could not be provided in some instances while in other cases the evidence provided was not consistent with the recorded achievements. This resulted in a misstatement of the target achievements reported. From the evidence provided, the projected misstatement rate was 41% for compliance to performance management principles established.

Other matter

39. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Achievement of planned targets

40. Refer to the annual performance report on pages 96 to 97 for information on the achievement of planned targets for the year and explanations provided for the over- or under-achievement of a significant number of targets. This information should be considered in the context of the material findings reported in paragraphs 28 to 38 of this report.

REPORT ON AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

41. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

42. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements, performance and annual reports

43. Financial statements were not submitted for auditing within two months after the end of financial year, as required by *section 55(1)(c)(i) of the PFMA*.

44. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA and section 29(1)(a) of the Companies Act. Material misstatements of non-current assets, current assets, liabilities and disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

45. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by *section 51(1)(b) (ii) of the PFMA*. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure indicated in the basis for qualification paragraph.

46. Effective steps were not taken to prevent irregular expenditure, as required by *section 51(1)(b)(ii) of the PFMA*. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred in the basis for qualification paragraph.

Assets management

47. Proper control systems to safeguard and maintain assets were not implemented, as required by *sections 50(1)(a)* and *51(1)(c) of the PFMA*.

48. SAA provided financial assistance to its subsidiaries without the approval of the shareholders in a special resolution and without considering the solvency and liquidity of the company, in contravention of section 45 of the Companies Act.

Strategic planning and performance management

49. Procedures for quarterly reporting to the National Treasury and for facilitation of effective performance monitoring, evaluation and corrective action were not established, as required by *treasury regulation 29.3*.

Procurement and contract management

50. I was unable to obtain sufficient appropriate audit evidence that some of the contracts were awarded according to legislation, due to the limitations placed on the scope of my work.

51. Some goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by *section 51(1)(a)(iii) of the PFMA*.

52. Contracts and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by *paragraph 14 of the Preferential Procurement Regulations* and paragraph 21 of the entity's SCM policy.

53. The preferential point system was not applied in the procurement of some goods and services above R30 000, as required by *section 2(a) of the Preferential Procurement Policy Framework Act*.

54. Some contracts were awarded to, and quotations accepted from, bidders based on preferential points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

55. Some contracts were awarded to, and quotations accepted from, bidders that had not scored the highest points in the evaluation process, as required by section 2(1) (f) of the Preferential Procurement Policy Framework Act and Preferential procurement regulations.

56. Some contracts were awarded to and quotations accepted from bidders based on functionality criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of Preferential Procurement Regulation 4.

Consequences management

57. I was unable to obtain sufficient appropriate audit evidence that irregular expenditure was investigated and that disciplinary steps were taken against officials who had incurred and permitted irregular expenditure as required by *section 51 (1)(e)(iii) of the PFMA*.

58. I was unable to obtain sufficient appropriate audit evidence that fruitless and wasteful expenditure was investigated and that disciplinary steps were taken against officials who had incurred and permitted fruitless and wasteful expenditure as required by *section 51 (1)(e)(iii) of the PFMA*.

OTHER INFORMATION

59. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

60. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

61. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected strategic goals presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

62. I have not yet received the annual report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected I may have to re-issue my auditor's report amended as appropriate.

INTERNAL CONTROL DEFICIENCIES

63. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for a qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

Leadership

64. The entity experienced instability in leadership as a result of a number of suspensions and resignations in key leadership positions. Instability in leadership contributed to the overall decline in the internal control environment.

65. The lack of decisive action to mitigate emerging risks and implement timely corrective measures to address non-performance was evidenced management's failure to adequately address audit findings in a timely manner.

66. The leadership did not implement effective human resource management to ensure that resources were sufficiently skilled and that individuals were held accountable for non-performance.

67. The leadership did not adequately establish policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

68. The audit and risk committee (ARC) mandated implementing of IT governance, in line with good corporate governance (King). However, the absence of a technical IT representative within the ARC, as an oversight body of IT governance, inhibited effective ARC direction and oversight. As a result, the IT governance framework was not formally communicated or reviewed and updated with the evolved business processes by IT management. This resulted in a number of key IT governance initiatives (outputs of the IT governance framework) not being performed.

REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON SOUTH AFRICAN AIRWAYS SOC LIMITED AND ITS SUBSIDIARIES (CONTINUED)

Financial and performance management

69. The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

70. Regular reconciliations were not always adequately prepared for financial items during the year. This resulted in reliance on manual reconciliations at year-end. Due to the volume of manual reconciliation required, assurance processes were not implemented in time to ensure that information was accurate and complete. As a result, a number of errors were identified in the reconciliations by the external auditors.

71. Effective financial systems of internal controls and their management had not been implemented to ensure accurate financial statements. The preparation and review of the financial statements was not adequately planned, to ensure a comprehensive review of year-end adjustments and reconciliation, resulting in errors.

72. The quality of the annual performance report was poor as significant audit findings were identified in usefulness and reliability of performance indicators and targets. This is as a result of SAA who does not have a policy on performance information clarifying standard operating procedures on performance reporting as well as the lack of understanding by management of the National Treasury Framework for Programme Performance Information (FMPPI). This is also due to the lack of oversight and monitoring of performance reporting by senior leadership and poor record keeping at SAA. Controls have not been implemented to create a control environment that supports useful and reliable reporting of performance information.

73. Performance indicators and targets on the corporate plan, shareholders compact and annual performance report were not adequately reviewed by leadership to ensure compliance with FMPPI before approval and submission for audit. The staff within the reporting units also does not fully understanding the performance information requirements as set out in the FMPPI.

74. The asset management unit is under staffed; as a result, basic disciplines such as physical verifications and conditional assessment of the assets are not performed periodically to ensure that the assets are accounted for in accordance with the applicable financial reporting framework.

75. The accounting system used to maintain spare parts during the year under review is outdated (MEMIS). A new system (AMOS) became live on 1 April 2017 and the unreliable data from the old system was migrated to the new system. These spare parts could not be uniquely identifiable in the accounting system (SAP) used by SAA for financial reporting purposes. Reconciliation between the two accounting system resulted in differences on a quarterly basis and the reconciling items are not adequately investigated.

76. The design and implementation of formal controls over information technology systems were not adequate to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

77. Although a risk assessment framework was in place, management did not adequately monitor and report on the progress of controls implemented, or respond to new risks that may arise. Therefore, the entity's risk management processes were not considered adequate or effective.

78. The leadership did not act on a timely basis on the internal audit unit's recommendations or reports, thus negatively affecting its effectiveness as an assurance provider to the leadership of the entity.

OTHER REPORTS

79. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

80. Independent consultants investigated allegations of irregular procurement and contract management practices and other misconduct. The reports were finalised after year-end and leadership is considering the recommendations made in these reports and the outcomes could result in disciplinary proceedings against the parties concerned.

Auditor - General

Pretoria
8 December 2017

AUDITOR-GENERAL
SOUTH AFRICA

ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

FINANCIAL STATEMENTS

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor's report, I also:
   - identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control.
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
   - conclude on the appropriateness of the board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the SAA and its subsidiaries ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a public entity to cease to continue as a going concern.
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
   - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.

GROUP AND COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2017

		GROUP			COMPANY		
R MILLION	**Notes**	**2017**	**2016 Restated**	**2015 Restated**	**2017**	**2016 Restated**	**2015 Restated**
Total income		**30 742**	30 716	30 492	**28 319**	28 383	28 219
Airline revenue	5 & 6	**29 273**	29 273	29 160	**26 789**	26 755	26 775
Other income	5 & 7	**1 469**	1 443	1 332	**1 530**	1 628	1 444
Operating costs		**33 502**	30 194	33 407	**31 278**	27 889	31 015
Aircraft lease costs	5 & 8	**3 103**	3 132	2 756	**3 022**	3 078	2 711
Accommodation and refreshments		**1 413**	1 279	1 040	**1 715**	1 566	1 416
Commissions and network charges	5	**1 894**	1 829	1 848	**1 798**	1 730	1 763
Electronic data costs		**680**	657	543	**666**	636	530
Fuel and other energy costs		**7 368**	7 344	10 217	**6 738**	6 673	9 449
Employee benefit expenses	5 & 29	**6 131**	5 831	5 698	**4 013**	3 819	3 758
Maintenance costs	5	**4 895**	4 167	3 912	**6 198**	5 368	4 866
Navigation, landing and parking fees		**2 429**	2 384	2 207	**2 161**	2 108	1 980
Fair value and translation movements	5 & 40	**1 092**	(808)	36	**1 081**	(834)	22
Other operating costs	5	**4 497**	4 379	5 150	**3 886**	3 745	4 520
Operating (loss)/profit before interest, tax, depreciation and amortisation	8	**(2 760)**	522	(2 915)	**(2 959)**	494	(2 796)
Depreciation and amortisation	5 & 9	**(1 033)**	(732)	(825)	**(953)**	(656)	(754)
Impairments	5 & 11	**26**	(158)	(1 773)	**(906)**	(98)	(1 514)
Net gain/(loss) on disposal of property, aircraft and equipment	10	**7**	(6)	(9)	**18**	(2)	(3)
Operating loss		**(3 760)**	(374)	(5 522)	**(4 800)**	(262)	(5 067)
Finance costs	5 & 19	**(1 630)**	(1 030)	(634)	**(1 663)**	(1 063)	(667)
Interest income	20	**40**	26	26	**12**	11	16
Loss before taxation		**(5 350)**	(1 378)	(6 130)	**(6 451)**	(1 314)	(5 718)
Taxation	34	**(219)**	(100)	(12)	**–**	–	–
Loss for the year		**(5 569)**	(1 478)	(6 142)	**(6 451)**	(1 314)	(5 718)
Other comprehensive income/(loss):							
Remeasurements of defined benefit plans*		**(11)**	(6)	(6)	**(11)**	(6)	(6)
Gains/(impairments) on property revaluations*		**173**	(18)	48	**67**	(18)	(47)
Change in value of available-for-sale financial asset**		**6**	5	3	**6**	5	3
Taxation related to components of other comprehensive income	34	**(30)**	–	(25)	**–**	–	–
Other comprehensive income/(loss) for the year net of taxation	41	**138**	(19)	20	**62**	(19)	(50)
Total comprehensive loss		**(5 431)**	(1 497)	(6 122)	**(6 389)**	(1 333)	(5 768)
Total comprehensive loss attributable to:							
Owners of the parent		**(5 431)**	(1 497)	(6 122)	**(6 389)**	(1 333)	(5 768)
		(5 431)	(1 497)	(6 122)	**(6 389)**	(1 333)	(5 768)

** This item may not subsequently be reclassified to profit or loss*
*** This item may subsequently be reclassified to profit or loss*

GROUP AND COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

		GROUP			COMPANY		
R MILLION	**Notes**	**2017**	**2016 Restated**	**2015 Restated**	**2017**	**2016 Restated**	**2015 Restated**
Assets							
Non-current assets							
Property, aircraft and equipment	5 & 12	**4 574**	4 474	4 587	**3 114**	3 146	3 233
Intangible assets	5 & 37	**244**	210	171	**224**	188	155
Investments in subsidiaries	43	**–**	–	–	**336**	1 032	1 122
Deferred tax asset	35	**33**	281	380	**–**	–	–
Amounts receivable from subsidiaries	5 & 44	**–**	–	–	**–**	178	178
Non-current prepayments	5 & 13	**1 777**	1 880	2 184	**1 710**	1 880	2 184
Retirement benefit asset	30	**26**	38	38	**26**	38	38
		6 654	6 883	7 360	**5 410**	6 462	6 910
Current assets							
Inventories	38	**879**	727	725	**101**	101	121
Amounts receivable from subsidiaries	5 & 44	**–**	–	–	**1 212**	1 298	1 262
Derivatives	14	**34**	84	171	**34**	84	171
Trade and other receivables	5 & 21	**5 333**	6 725	4 998	**5 225**	6 640	4 832
Current tax receivable	36	**16**	16	–	**–**	–	–
Investments	46	**29**	23	18	**29**	23	18
Cash and cash equivalents	5 & 22	**2 872**	2 701	1 295	**2 484**	2 044	519
		9 163	10 276	7 207	**9 085**	10 190	6 923
Non-current assets classified as held-for-sale and assets of disposal groups	5 & 12	**99**	99	99	**99**	99	99
Total assets		**15 916**	17 258	14 666	**14 594**	16 751	13 932
Equity and liabilities							
Equity							
Equity attributable to equity holders of the parent							
Share capital	47	**12 892**	12 892	12 892	**13 126**	13 126	13 126
Reserves	5	**946**	815	953	**446**	391	529
Accumulated Loss	5	**(31 640)**	(26 071)	(24 593)	**(32 127)**	(25 676)	(24 362)
		(17 802)	(12 364)	(10 748)	**(18 555)**	(12 159)	(10 707)
Non-current liabilities							
Long-term loans	5 & 24	**7 804**	7 810	4 984	**7 800**	7 800	4 969
Retirement benefit obligation	30	**121**	128	91	**121**	128	91
Provisions	5 & 15	**2 328**	2 305	2 143	**2 314**	2 291	2 135
Deferred revenue on ticket sales	16	**668**	633	715	**668**	633	715
Other long-term liabilities	31	**316**	63	63	**253**	–	–
		11 237	10 939	7 996	**11 156**	10 852	7 910
Current liabilities							
Derivatives	14	**1**	4	346	**1**	4	346
Current tax payable	36	**–**	–	3	**–**	–	–
Trade and other payables	5 & 25	**8 285**	6 797	7 145	**7 786**	6 352	6 668
Provisions	5 & 15	**1 096**	1 399	511	**995**	1 390	511
Current portion of long-term loans	24	**8 140**	6 248	4 638	**8 133**	6 243	4 634
Deferred revenue on ticket sales	16	**4 275**	4 212	3 590	**4 058**	4 069	3 415
Bank overdraft	5 & 23	**684**	23	1 185	**663**	–	1 155
Amounts payable to subsidiaries	45	**–**	–	–	**357**	–	–
		22 481	18 683	17 418	**21 993**	18 058	16 729
Total liabilities		**33 718**	29 622	25 414	**33 149**	28 910	24 639
Total equity and liabilities		**15 916**	17 258	14 666	**14 594**	16 751	13 932

GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2017

R MILLION	Share capital	Other reserves*	Revaluation reserve	Shareholder restructuring fund	Total share capital and reserves	Accumulated loss	Total equity
GROUP							
Balance at 1 April 2015 – Restated**	12 892	(97)	857	193	13 845	(24 593)	(10 748)
Total comprehensive income for the year	–	(1)	(18)	–	(19)	(1 478)	(1 497)
Voluntary severance packages paid	–	–	–	(119)	(119)	–	(119)
Balance at 1 April 2016 – Restated**	12 892	(98)	839	74	13 707	(26 071)	(12 364)
Total comprehensive income for the year	**–**	**(5)**	**143**	**–**	**138**	**(5 569)**	**(5 431)**
Voluntary severance packages paid	**–**	**–**	**–**	**(7)**	**(7)**	**–**	**(7)**
Balance at 31 March 2017	**12 892**	**(103)**	**982**	**67**	**13 838**	**(31 640)**	**(17 802)**
COMPANY							
Balance at 1 April 2015 – Restated***	13 126	(97)	433	193	13 655	(24 362)	(10 707)
Total comprehensive income for the year	–	(1)	(18)	–	(19)	(1 314)	(1 333)
Voluntary severance packages paid	–	–	–	(119)	(119)	–	(119)
Balance at 1 April 2016 – Restated***	13 126	(98)	415	74	13 517	(25 676)	(12 159)
Total comprehensive income for the year	**–**	**(5)**	**67**	**–**	**62**	**(6 451)**	**(6 389)**
Voluntary severance packages paid	**–**	**–**	**–**	**(7)**	**(7)**	**–**	**(7)**
Balance at 31 March 2017	**13 126**	**(103)**	**482**	**67**	**13 572**	**(32 127)**	**(18 555)**
Notes	47	41	12				

* *Other reserves relate to amounts recognised in other comprehensive income, except for any changes in the revaluation surplus/deficit, which are recognised in the revaluation reserve.*

** *The opening accumulated loss at 1 April 2015 of R24 352 million was restated to R24 593 million. Similarly, the opening accumulated loss balance at 1 April 2016 of R25 935 million was restated to R26 071 million. This was due to prior year restatements as detailed in Note 5.*

*** *The opening accumulated loss balance at 1 April 2015 of R24 246 million was restated to R24 362 million. Similarly, the opening accumulated loss balance at 1 April 2016 of R25 691 million was restated to R25 676 million. This was due to prior year restatements as detailed in Note 5.*

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GROUP AND COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

		GROUP			COMPANY		
R MILLION	**Notes**	**2017**	**2016 Restated***	**2015 Restated***	**2017**	**2016 Restated***	**2015 Restated***
Cash flows from operating activities							
Cash generated from/(used in) operations	18	**219**	117	(1 593)	**425**	195	(1 731)
Interest income		**40**	26	26	**12**	11	16
Finance costs		**(1 630)**	(1 030)	(634)	**(1 663)**	(1 063)	(667)
Realised gains/(losses) from derivative financial instruments		**116**	(40)	205	**116**	(40)	205
Currency and jet fuel option premium spend		**(136)**	(158)	(173)	**(136)**	(158)	(173)
Tax paid	36	**(8)**	(36)	(40)	**(7)**	(16)	(16)
Net cash outflow from operating activities		**(1 399)**	(1 121)	(2 209)	**(1 253)**	(1 071)	(2 366)
Cash flows from investing activities							
Additions to property, aircraft and equipment	12	**(997)**	(714)	(4 341)	**(885)**	(658)	(4 250)
Proceeds on disposal of property, aircraft, equipment and intangible assets	12 & 37	**45**	44	2 781	**43**	36	2 784
Additions to intangible assets	37	**(44)**	(13)	(32)	**(39)**	(1)	(26)
Net cash outflow from investing activities		**(996)**	(683)	(1 592)	**(881)**	(623)	(1 492)
Cash flows from financing activities							
External borrowings raised		**2 257**	6 000	4 342	**2 257**	6 000	4 341
External borrowings repaid		**(371)**	(1 564)	(442)	**(367)**	(1 560)	(438)
Movement in bank overdraft		**661**	(1 162)	(120)	**663**	(1 155)	(140)
Net cash inflow from financing activities		**2 547**	3 274	3 780	**2 553**	3 285	3 763
Net increase/(decrease) in cash and cash equivalents		**152**	1 470	(21)	**419**	1 591	(95)
Cash and cash equivalents at the beginning of the year		**2 701**	1 295	1 267	**2 044**	519	564
Foreign exchange effect on cash and cash equivalents		**19**	(64)	49	**21**	(66)	50
Cash and cash equivalents at the end of the year	22	**2 872**	2 701	1 295	**2 484**	2 044	519

* *Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.*

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

for year ended 31 March 2017

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The Group and company annual financial statements of South African Airways SOC Limited (the Group and the company), have been prepared in accordance with International Financial Reporting Standards (IFRS), the Companies Act No 71 of 2008 and the Public Finance Management Act No 1 of 1999 (as amended) (PFMA). National Treasury has exempted major public entities under Schedule 2 of the PFMA from preparing financial statements according to SA GAAP (Generally Accepted Accounting Practice) in terms of Treasury Regulation 28.1.6 and section 79 of the PFMA until further notice. The Group and company annual financial statements are presented in South African rand, which is the Group's reporting currency, rounded to the nearest million. The Group and company annual financial statements have been prepared on an historical cost basis, except for measurement at fair value of certain financial instruments and the revaluation of land and buildings as described further in the accounting policy notes below.

The financial statements are prepared on the basis of the accounting policies applicable to a going concern. This basis presumes that the company will continue to receive the support of its Shareholder and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business. Full disclosure relating to the directors' going concern assessment can be found in Note 50.

These accounting policies are consistent with the previous period.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Goodwill

Goodwill represents the excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the acquisition date. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal.

Foreign currency transactions

For the purpose of the Group and company annual financial statements, the results and financial position of each entity are expressed in South African rand, which is the presentation currency for the Group and company annual financial statements.

In preparing the annual financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the ruling rates of exchange, which are taken as being the International Air Transport Association (IATA) five day average rate applicable to the transaction month. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income.

For the purpose of presenting Group and company annual financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in rand using exchange rates prevailing on the statement of financial position date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the five day average exchange rates are used. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period.

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The stage of completion of the transaction at the end of the reporting period can be measured reliably;
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably, recognised by reference to the stage of completion of the transaction at the end of the reporting date.

Revenue consists of passenger airline revenue, freight and mail revenue, revenue from technical services, Voyager income, commission received, the release of unutilised air tickets and fuel levies.

Passenger air ticket and cargo air waybill sales, net of discounts, are initially recognised as current liabilities in the Air Traffic Liability account and only recognised as revenue when the transportation service is provided. Commission costs are recognised in the same period as the revenue to which they relate.

Air tickets that remain unutilised after a 12-month period in respect of international and regional tickets or a six-month period in respect of domestic tickets are released to revenue. The estimate is based on historical statistics and data that takes into account the terms and conditions for various ticket types.

Frequent flyer programme

SAA operates a frequent flyer programme, SAA Voyager, which provides a variety of awards to programme members based on a mileage credit for flights on SAA and other airlines that participate in the programme. Members can also accrue and redeem miles with non-airline programme partners. Cargo users accumulate equivalent awards relating to freight transported.

Consideration for the provision of Voyager awards consists of annual participation fees, service fees and the sale of miles to Voyager airline and non-airline partners, as well as a portion of the ticket price of SAA flights sold to Voyager members. The participation fees and service fees are recognised as revenue immediately when they become due and payable. The deferred revenue method has been adopted for revenue recognition relating to the sale of airline miles to airline and non-airline partners. Income arising from the sale of miles to airline and non-airline partners is accounted for as deferred revenue in the statement of financial position and only recognised as revenue when SAA fulfils its obligations by supplying free or discounted goods or services on redemption of the accrued miles.

SAA accounts for award credits issued on SAA flights as a separately identifiable component of the sales transaction in which they are earned. The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability (deferred revenue) in the Group and company statement of financial position. The fair value is determined with reference to the value of the awards for which miles have been redeemed during the last 12 months and is not adjusted for future changes in fair value. Revenue is recognised on unredeemed miles when they expire.

Technical maintenance

Revenue from maintenance services rendered external to the Group on a power by the hour basis is recognised as revenue when services are rendered based on maintenance events. Revenue is deferred until the maintenance event takes place. Other maintenance services rendered on a time and material basis are recognised as revenue when services are rendered by reference to the stage of completion of the transaction.

Commission received

SAA provides a ticketing service to other airlines. Commission is earned on interline transactions but is only recognised as revenue when the passenger utilises the ticket.

Other income

Other income relates to income received from handling fees, income from leased assets and other recoveries and are recognised in profit or loss in the period in which they arise.

Interest income

Interest earned on arrear accounts and bank/other investment balances are accrued on a time proportionate basis.

MAINTENANCE COSTS

Owned aircraft

Major airframe and engine overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the expected life between major overhauls. All other replacement spares and other expenditure relating to maintenance of owned fleet assets is charged to profit or loss on consumption or as incurred.

Major overhauls are considered to be those programmes that extend the useful life of the asset or increase its value. Major maintenance events typically consist of more complex inspections and servicing of the aircraft.

Leased aircraft

Provision is made for aircraft maintenance expenditure which the Group incurs in connection with major airframe and engine overhauls on operating leased aircraft, where the terms of the lease imposes obligations on the lessee to have these overhauls carried out. Provision for expenditure to meet the contractual return conditions is also included. The actual expenditure on the overhauls is charged against the provision when incurred. Any residual balance is transferred to profit or loss. All other

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased aircraft (continued)

replacement spares and other expenditure relating to maintenance of leased fleet assets is charged to profit or loss on consumption or as incurred.

Power by the hour

Expenditure for engine overhaul costs covered by power by the hour (fixed rate charged per hour) maintenance agreements is charged to profit or loss over the life of the contract.

Sundry return costs

With regards to leased aircraft, where the Group has an obligation to return the aircraft with adherence to certain maintenance conditions, provision is made during the lease term. The provision is based on the present value of the expected future costs of meeting the maintenance return conditions. The present value of non-maintenance return conditions is provided for at the inception of the lease and an equal asset is capitalised and depreciated over the lease term.

Maintenance reserve: Group and Company as lessee

Maintenance reserves are payments made to certain lessors in terms of the aircraft lease contract. The lessors are contractually obligated to reimburse the Group and company for the qualifying maintenance expenditure incurred on aircraft if the Group and company has a maintenance reserves credit. Maintenance reserves are recognised as an asset. The recoverability of the asset is assessed annually against the entity's ability to claim against future maintenance events. Where it is deemed that the entity will be unable to claim for a future maintenance event, the maintenance reserve payments are expensed accordingly.

Reimbursement amounts are only recognised as assets in respect of maintenance costs to be reimbursed if the work has been performed and it is probable that the amounts claimed are recoverable in terms of the aircraft lease contract and based on the available balance in the maintenance reserve account.

The reimbursement amounts claimed from lessors in respect of qualifying maintenance are transferred to receivables until actually received.

Maintenance reserve: Company as lessor

Where the company leases aircraft to a subsidiary company, appropriate maintenance payments are included in the lease agreements. The maintenance amounts received by the company are recognised as revenue as and when they become due from the lessee.

The provision for maintenance claim liability, limited to the maintenance reserves credits, is raised by the company on receipt of a valid claim for reimbursement in respect of qualifying maintenance costs by the lessee.

TAXATION

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the Group and company statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Group and company financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises on the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income, in which case, the current and deferred tax are also recognised in other comprehensive income. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, AIRCRAFT AND EQUIPMENT

Owned assets

Land and buildings

Land and buildings are shown at fair value based on valuations performed by external independent valuers, less subsequent accumulated depreciation and accumulated impairment losses for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation and accumulated impairment losses at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Aircraft

Aircraft are stated at cost less accumulated depreciation and any recognised impairment losses. Cost includes buyer furnished equipment (BFE) costs and is net of manufacturer's discount/credits, with subsequent additions to or renewal of exchangeable units also stated at cost. Cost includes any fair value gains or losses resulting from hedging instruments used to hedge the acquisition of the underlying asset, which qualify for hedge accounting. Where there are deferred payment terms, the cost is the cash price equivalent.

Other property, machinery and equipment

All other property, machinery and equipment, including unit leading devices, are stated at cost less accumulated depreciation and any recognised impairment losses. Equipment includes major spare parts and standby equipment to the extent that SAA is expected to use them in more than one accounting period.

Depreciation

Depreciation is not provided on assets in the course of construction or on land. All other property and equipment are depreciated by recording a charge to profit or loss, computed on a straight-line basis so as to write off the cost of the assets less the anticipated residual value over their estimated useful lives.

When parts of an item of property, aircraft and equipment have different useful lives, those components are identified and the useful lives and residual values are estimated for each component. Where the useful lives for the identified components are similar, those are aggregated and depreciated as one component by applying the useful life relevant to that significant component. During the current financial year, two previously leased second-hand aircraft were purchased. These were not componentised as their intended useful lives were similar.

The residual value, depreciation method and the useful life of each asset or component thereof is reviewed at least at each financial year end and any difference is treated as a change in accounting estimate in accordance with IAS 8.

The following annual rates are applicable:

Asset class	Useful lives
Aircraft and simulators	5 to 20 years
Buildings and structures	10 to 50 years
Furniture	10 years
Office equipment	5 to 10 years
Computer equipment	3 to 5 years
Light motor vehicles	5 years
General purpose vehicles	10 years
Containers	5 years
Machinery	15 to 20 years
Cabin loaders	10 to 20 years
Leased assets	Shorter period of lease or useful life.
Restoration assets	Shorter period of lease or useful life.

Residual values

Residual values of all asset classes represent the most reliable estimate of the amount that will be recovered when the asset is fully depreciated. Residual values are reviewed annually and any difference is treated as a change in accounting estimate in accordance with IAS 8.

Capital work in progress

Capital work in progress are assets (tangible and intangible) being constructed over periods of time in excess of the present reporting period. These assets often require extensive development, installation work or integration of various assets, and contrast with simpler assets that are ready for use when acquired, such as motor vehicles and equipment. Capital work in progress are not depreciated as the airline is not currently deriving any economic benefits from them.

Exchangeable units

Exchangeable units are high value components that are classified as equipment and are depreciated accordingly. The cost of repairing such units is charged to profit or loss as and when incurred.

Disposal of assets

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss when the risks and rewards related to the assets are transferred to the buyer.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASEHOLD IMPROVEMENTS

Land and buildings

Improvements to leased premises are recognised as an asset and depreciated over the period of the lease term, or the useful life of the improvements, whichever is shorter.

Aircraft

In cases where the aircraft held under operating leases are fitted with BFE at the cost of the company, the BFE acquired is recognised as an asset (leasehold improvements) and depreciated over its useful life or over the period of the lease term, whichever is shorter.

Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Group and company statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Manufacturers' credits that represent a portion of manufacturers' cash incentives which have not been taken into account in determining the lease rentals payable on operating leased aircraft are initially recognised as liabilities and are amortised on a straight-line basis over the lease term to reduce the net rental expense payable.

Initial rentals represent amounts paid to the lessor in advance. These are recognised as prepaid lease payments at the commencement of the lease and are amortised on a straight-line basis over the lease term.

Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

NON-CURRENT ASSETS HELD-FOR-SALE

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held-for-sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less cost of disposal.

INTANGIBLE ASSETS

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortisation

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets assessed to have indefinite useful lives and goodwill are not amortised but are tested for impairment at each reporting period.

The intangible assets with finite useful lives are amortised from the date they are available for use applying the following rates:

Intangible asset class	Useful lives
Application software	3 to 5 years
Internet booking site	5 years

Derecognition of intangible assets

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Any subsequent expenditure on capitalised intangible assets is capitalised only when it meets the recognition criteria of an intangible asset. All other expenditure is expensed as incurred.

IMPAIRMENTS

Intangible assets

Intangible assets are tested for impairment whenever there are circumstances that indicate that the carrying value may not be recoverable. Intangible assets that have not yet been brought into use or have an indefinite useful life, including goodwill, will be reviewed for impairment at least on an annual basis.

Tangible assets

The carrying amounts of the Group's tangible assets, which mainly consist of property, aircraft and equipment, are reviewed at each statement of financial position date to determine whether there is any indication that those assets have been impaired. If there is any indication that an asset may be impaired, its recoverable amount is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Calculation of recoverable amount

The recoverable amount is the higher of the asset's fair value less cost of disposal and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Reversal of impairments

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately. An impairment loss in respect of goodwill is not reversed in subsequent periods.

PRE-DELIVERY PAYMENTS (PDPS) AND OTHER AIRCRAFT DEPOSITS

PDPs paid to the manufacturers of aircraft in terms of the contractual arrangements governing the purchase of aircraft are initially recognised as part of capital work in progress at the cost of the consideration delivered. In the event that a decision is taken that it is likely that the underlying aircraft will not be purchased at the expected delivery date, but will be leased under an operating lease, then the related PDPs will be remeasured to the present value of the consideration expected to be received from the ultimate lessor.

This consideration will, if it is denominated in a foreign currency, be translated to the measurement currency by applying the exchange rate ruling at the reporting date.

In calculating the value of the future consideration receivable, any benefit or loss that will result as a consequence of the Group having secured the aircraft at the original contractual price as against the fair value of the aircraft at the date of delivery to the lessor, which is taken into consideration if the future operating lease payments form part of the consideration receivable. Any loss arising on remeasurement is classified as an impairment.

Once the operating lease agreement related to the aircraft has been formally concluded, the receivable amount so arising is transferred from capital work in progress to refundable deposits.

Where an aircraft is delivered under short-term bridging finance, pending the finalisation of an operating lease, the related PDPs and the final instalment paid to the manufacturer are again remeasured at the present value of the expected consideration from the lessor in the same manner as outlined above. Under these circumstances the full consideration receivable is classified under refundable amounts.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as trade receivables, loans originated by the Group, fixed deposits and defeasance deposits.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate method, except for trade and other receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified as at fair value through profit or loss, loans and receivables or held-to-maturity investments.

This category includes listed and unlisted investments, except for investments in subsidiaries.

After initial recognition, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in other comprehensive income.

With disposal of financial assets, the accumulated gains and losses recognised in other comprehensive income resulting from measurement at fair value are recognised in profit or loss. If a reliable estimate of the fair value of an unquoted equity instrument cannot be made, this instrument is measured at cost less any impairment losses.

Dividends received from these investments are recognised in profit or loss when the right of payment has been established. Fair value is determined as stated in Note 28.1.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method less any impairment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading. These mainly include derivative financial assets and commodity derivatives. A financial asset is classified as held-for-trading if it has been acquired principally for the purposes of selling in the near future, is a derivative that is not designated and effective as a hedging instrument and it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

After initial recognition, these financial assets are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest on the financial asset. Fair value is determined as stated in Note 28.1.

Derivative financial instruments

The Group uses derivative financial instruments, such as foreign currency contracts, currency options, commodity derivative swaps, options and collars, to manage its risks associated with foreign currency fluctuations and underlying commodity fluctuations. The Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are classified as held-for-trading financial assets or financial liabilities.

The Group's derivatives normally have a maturity period of 12 months or less and are therefore presented as current assets or current liabilities.

Embedded derivatives in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Investments

Investments in subsidiaries are recognised on a trade date basis and are initially recognised at cost. After initial recognition, the company's investments in subsidiaries will continue to be held at cost and are reviewed annually for impairment.

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1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, short-term deposits, bank overdrafts and highly liquid investments and are initially measured at fair value and subsequently measured at amortised cost.

Hedge accounting

The Group does not hedge account as its hedging activities do not meet the criteria for hedge accounting as set out in IAS 39.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate method basis for debt instruments other than those financial assets classified as at FVTPL.

Impairment of financial assets

Financial assets, other than those at FVTPL are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For categories of financial assets, such as trade receivables, impairment is assessed on an individual basis. Any assets that are assessed not to be impaired on an individual basis are subsequently assessed for impairment on a portfolio basis. The assets are grouped in a portfolio, taking into consideration similar credit risk characteristics. The objective evidence of impairment for a portfolio of receivables normally includes the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of between 60 to 90 days, depending on the defined credit risk assessment for each type of debtor. Any dispute of amount receivable from the debtor is also considered as part of impairment indicators. For more details refer to Note 21.

For loans and deposits carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced using an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights of the asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. When available-for-sale assets and assets held-for-trading are sold, they are derecognised and a corresponding receivable is recognised at the date the Group commits the assets. Loans and receivables are derecognised on the day the risks and rewards of ownership are transferred.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (eg when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Group's equity instruments comprise company shares issued. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

If the entity reacquires its own equity instruments, these instruments are classified as treasury shares and any consideration paid is recognised as a direct reduction from equity. The gains or losses on purchase, sale, issue or cancellation of treasury shares are recognised directly in other comprehensive income.

Financial liabilities

Financial liabilities primarily include trade and other payables, bank overdrafts, interest bearing borrowings from financial institutions denominated in local and foreign currency and other liabilities such as finance lease obligations.

Other financial liabilities are subsequently measured at amortised cost, with the exception of finance lease obligations, which are measured in terms of IAS 17 Leases (refer to "Accounting policy on leases").

Financial liabilities at fair value through profit or loss are classified as held-for-trading. A financial liability is classified as held-for-trading if it is a derivative not designated and effective as a hedging instrument. Financial liabilities held-for-trading are subsequently stated at fair value, with any gains and losses recognised in profit or loss. Fair value is determined in a manner described in Note 28.1.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. The inventory held by the Group relates mainly to maintenance inventories, other consumables and work in progress.

Redundant and slow moving inventories are identified on a regular basis and written down to their realisable values. Consumables are written down with regard to their age, condition and utility.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision will be reassessed at each statement of financial position date taking into account the latest estimates of expenditure required and the probability of the outflows. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability except those that have been taken into account in the estimate of future cash flows. Where discounting is used, the increase in a provision due to the passage of time is recognised as an interest expense.

A provision is used only for the expenditures for which the provision was originally recognised.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Reimbursements

Where the Group expects a provision to be reimbursed by a third party, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Restructuring provision

A restructuring provision is recognised when the Group has a present obligation (legal or constructive) because of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The obligation to restructure arises when management has made a decision to restructure and a detailed formal plan for restructuring is put in place, an announcement to stakeholders is made and valid expectation to those affected has been raised that it will be carried out or has started to be implemented before the statement of financial position date.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provision for lease liabilities

For aircraft held under operating lease agreements, SAA is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfil such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts are accrued and charged to profit or loss over the lease term for this contractual obligation.

EMPLOYEE BENEFITS

Pension benefits

The Group operates two defined benefit funds as well as various defined contribution funds. The assets of each scheme are held separately from those of the Group and are administered by the schemes' trustees. The funds are actuarially valued by professional independent consulting actuaries.

The Group's contributions to the defined contribution fund are charged to profit or loss during the year in which they relate.

The benefit costs and obligations under the defined benefit fund are determined separately for each fund using the projected unit credit method. The benefit costs are recognised in profit or loss. Remeasurements of defined benefit plans are recognised in the period in which they occur outside of profit or loss in other comprehensive income.

Past service costs are recognised immediately in profit or loss.

When the benefits of a plan are improved, the portion of the increased benefit relating to past services by the employees is recognised as an expense immediately in profit or loss. The amount recognised in the statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets.

Post-retirement medical benefits

Post-retirement medical benefits are provided by the Group to qualifying employees and pensioners. The benefit medical costs are determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method.

Short and long-term benefits

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions, is recognised during the period in which the employee renders the related service.

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. This obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it has demonstrated its commitment either to terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits because of an offer made to encourage voluntary redundancy.

Fruitless, wasteful and irregular expenditure

When confirmed, irregular expenditure will be recorded in the notes to the annual financial statements. The amounts to be recorded in the notes must be equal to the to the value of the irregular expenditure incurred, unless it is impracticable to determine the value thereof. Where such impracticality exists, the reasons thereof will be recorded in the notes. Irregular expenditure will be removed from the notes when it is either (a) condoned by the National Treasury or the relevant authority; (b) it is transferred to receivables for recovery; or (c) it is not condoned and is irrecoverable.

A receivable related to irregular expenditure is measured at the amount that is expected to be recovered and must be derecognised when the receivable is settled or subsequently written-off as irrecoverable.

Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or jointly control the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control.

Related parties also include key management personnel who are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Comparative figures

The comparative information, with the exception of the restatements as detailed in Note 5, is consistent with the prior year.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

2. NEW STANDARDS AND INTERPRETATIONS

2.1 STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

In the current year, the entity has adopted the following new standards and interpretations that are effective for the current financial year. The new standards and interpretations effective and adopted in the current year, did not have a significant impact on the Group.

Standard/interpretation	Effective date: years beginning on or after	Summary of changes
Amendments to IAS 1 – *Presentation of financial statements, disclosure initiative*	1 January 2016	Clarifies the guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
Amendments to IAS 16 – *Property, plant* and *equipment and IAS 38 – Intangible assets, on depreciation and amortisation*	1 January 2016	In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
Amendments to IAS 27 – *Separate financial statements on equity accounting*	1 January 2016	In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
IFRS 5 – *Non-current assets held-for-sale and discontinued operations*	1 January 2016	This is an amendment to the changes in methods of disposal – Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
IFRS 7 – *Financial instruments: disclosures*	1 January 2016	Applicability of the offsetting disclosures to condensed interim financial statements. The amendment removes the phrase 'and interim periods within those annual periods' from paragraph 44R, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. However, the Board noted that IAS 34 requires an entity to disclose '[…] an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period'. Therefore, if the IFRS 7 disclosures provide a significant update to the information reported in the most recent annual report, the Board would expect the disclosures to be included in the entity's condensed interim financial report.
IAS 19 – *Employee benefits*	1 January 2016	Discount rate: regional market issue – The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

2. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

2.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The Group has chosen not to early adopt the following standards and interpretations which have been published and are only mandatory for the Group's accounting periods beginning on or after 1 April 2017. The standards and interpretations included below only include those that the directors believe may have an impact on the Group, the quantum of which cannot be reliably estimated.

Standard/interpretation	Impact	Effective date: years beginning on or after
Amendments to IAS 7 – *Statement of cash flows, as a result of the disclosure initiative*	Additional disclosures relating to the statement of cash flows.	1 January 2017
Amendments to IAS 12 – *Recognition of deferred tax assets for unrealised losses*	The amendments clarify the existing guidance under IAS 12. The underlying principles for the recognition of deferred tax assets do not change.	1 January 2017
IFRS 9 – *Financial Instruments, finalised version incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition*	No significant impact expected.	1 January 2018
IFRS 15 – *Revenue from contracts with customers*	Reassessment of revenue and interest recognition specifically relating to long-term contracts and impacts timing of profit recognition on long-term contracts within the statement of profit or loss and other comprehensive income.	1 January 2018
IFRIC 22 – *Foreign currency transactions and advance consideration*	The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency.	1 January 2018
IFRS 16 – *Leases*	The accounting for leases which will result in the recognition of the obligation and asset for long-term leases.	1 January 2019

3. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

USEFUL LIVES, DEPRECIATION METHOD AND RESIDUAL VALUES OF PROPERTY, AIRCRAFT AND EQUIPMENT

The Group assesses the useful lives, depreciation method and residual values of property, aircraft and equipment at each reporting date. During the year it was determined that the remaining useful lives and residual values of owned aircraft be amended as detailed below. The useful lives, residual values and the depreciation method of all other classes of assets remained unchanged as they were deemed to be appropriate.

CHANGE IN ESTIMATE

Included in the loss before tax is a change in estimate relating to depreciation charge of aircraft. The useful lives and the residual values of aircraft were reassessed during the current year due to changes in the fleet plan. It was determined that there was only a maximum of four years remaining for the A340-600 fleet and six months for the A340-300 fleet as at 31 March 2017. Management also determined the residual values of the A340-300 fleet to R335 million (previously Rnil) due to the change in fleet plan. The effect of the change in estimate is an increase in the loss before tax of R2 million. The carrying value of these aircraft would have been R2.155 billion using the original estimates, the current carrying value of these aircraft using the amended estimate is now R2.153 billion at year end. The cumulative effect of the change on the future periods will be a decrease in the depreciation charge of R142 million.

MAINTENANCE RESERVES EXPENSED

Maintenance reserves prepayments unutilised at the expiry of the lease term are not refundable. The Group estimates the unutilised balance that is likely to remain at the end of the lease term based on planned events and assumed consumed life of leased aircraft and their components between year end and the lease expiry date and uses this estimate as the basis for expensing maintenance reserve payments. The recognition of the maintenance reserves assets and values thereof are subject to critical judgements followed by management. The difference between the net maintenance reserve and the claimable major maintenance is the consumed life. The critical judgements that management had to make are with regards to how much of the maintenance reserves outstanding will not be utilised by the end of the lease term and how much will be claimed from lessors. To do this management needed to estimate when the next event will happen in order to determine if the next event is likely to happen after the end of the lease term. Management generally looks at the scheduled events and the time elapsed since the last event to estimate when the next event will happen.

3. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES (CONTINUED)

PROVISION FOR LEASE LIABILITIES

For aircraft held under operating lease agreements, the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfil such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts, are accrued and charged to profit or loss over the lease term for this contractual obligation.

The contractual obligation to maintain and replenish aircraft held under operating leases exists independently of any future actions within the control of the Group. These elements of accounting policies involve the use of estimates in determining the quantum of both the initial maintenance asset and/or the amount of provisions to be recorded and the respective periods over which such amounts are charged to profit or loss. The major sources of estimation uncertainty, regarding the calculation of the provision include the price at which the life limited parts will be replaced based on current prices, the quantity of the limited life parts that will need to be replaced, the cost of the next event regarding the major maintenance and, the expected timing of the next event. The occurrence of major events is either time or activity based therefore the time that has passed or activity that has been consumed since the last event also required management's judgement. At the inception of the lease, management need to estimate the cost of returning the aircraft to the condition required by lessors including the costs of painting the aircraft and replacing certain components which affect both the restoration asset and the related provision. In making such estimates, the Group has primarily relied on its own and industry experience, industry regulations and recommendations from manufacturers, however, these estimates can be subject to revision, depending on a number of factors, such as the timing of the planned maintenance, the ultimate utilisation of the aircraft, changes to government and international regulations and increases or decreases in estimated costs. The Group evaluates its estimates and assumptions in each reporting period and, when warranted, adjusts its assumptions, which generally impact maintenance and depreciation expense in the statement of profit or loss and other comprehensive income on a prospective basis.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

FREQUENT FLYER PROGRAMME

SAA accounts for award credits as a separately identifiable component of the sales transaction in which they are granted. The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability (deferred revenue) in the Group and company statement of financial position.

Estimation techniques are used to determine the fair value of award credits. The estimation technique applied considers the fair value of a range of different redemption options by reference to their cash selling prices, such as airfares on different routes and in different classes of travel as well as flight upgrades and partner rewards. A weighted average value per mile is derived based on past experience of the mix of rewards selected by Voyager members. A 12-month historical trend forms the basis of the calculations. The number of award credits not expected to be redeemed by members is also factored into the estimation of the fair value.

Professional judgement is exercised by management due to the diversity of inputs that go into determining the fair value of the award credits and due to the possibility that the trend may change over time. A one percent variance in the weighted average fair value for all the buckets of outstanding miles equates to a movement of R11.6 million in the outstanding mileage liability in the statement of financial position.

The carrying amount of long-term frequent flyer deferred revenue at year end was R668 million (2016: R633 million) and the carrying amount of short-term frequent flyer deferred revenue was R493 million (2016: R578 million). Please refer to Note 16 for more details regarding the frequent flyer deferred revenue.

ALLOWANCE FOR SLOW MOVING, DAMAGED AND OBSOLETE INVENTORIES

An allowance to write-down inventories to the lower of cost or net realisable value. Management have made estimates of the selling price and direct costs to sell on certain inventory items. The write-down is included in Note 11.

5. RESTATEMENTS

The Group and company annual financial statements have been prepared in accordance with International Financial Reporting Standards. The basis is consistent with the prior year except for restatements reflected below.

RECLASSIFICATIONS

During the current financial year, management decided to change certain general ledger account classifications in the annual financial statements in order to achieve a more accurate presentation in the Group and company annual financial statements. As a result of these reclassifications, the prior years were restated retrospectively in terms of IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. The annual financial statement line items affected by these reclassifications were property, aircraft and equipment, amounts receivable from subsidiaries, trade and other receivables, cash and cash equivalents, subordinated loan guaranteed by government, long-term loans, trade and other payables, provisions, bank overdraft, airline revenue, other income, commissions and network charges and finance costs. The above reclassifications did not have an effect on the loss previously reported in the prior years.

5. RESTATEMENTS (CONTINUED)

AIRCRAFT AND SIMULATORS

During the current financial year, an error was noted where the Group had not raised a provision in relation to sundry return costs related to leased aircraft at the inception of the lease. A correction has been made in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. The restoration asset, provision for return costs and the related deprecation and finance costs were updated accordingly.

NON-CURRENT ASSET HELD-FOR-SALE

During the current financial year, an error was noted where land and buildings, classified as non-current assets held-for-sale, were carried at an incorrect amount. A correction has been made in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors.

PREPAYMENTS

During the current financial year, an error was noted where the Group had recognised an impairment on a prepaid amount in the 2015/2016 financial year. There were no indicators for impairment and the error was corrected retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. The prepayments and the related impairment expense were adjusted accordingly.

SUBORDINATED LOAN GUARANTEED BY GOVERNMENT

In the current year, an error was noted regarding the classification of the subordinated loan of R1,3 billion in the annual financial statements. The loan was initially categorised as equity in prior years which should have been classified as a loan in line with IAS 32 Financial Instruments: Presentation. A correction has been made in the current financial year, where this item is corrected and prior period amounts adjusted retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors.

The loan was reclassified to liabilities, recognised retrospectively at fair value at date of contract, the liability is carried at amortised cost and finance costs recognised in profit and loss in line with IAS 39 Financial Instruments: Recognition and Measurement.

PROVISIONS

In the current year, an error was noted where the Group did not raise the provision for C checks, which were to be carried out in the future where the Group has been operating the aircraft. A correction has been made in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors.

AIRCRAFT LEASE COSTS

During the 2014/2015 and 2015/2016 financial years, there was a portion of aircraft lease costs that were prepaid and incorrectly expensed in those years. A correction has been made in the current financial year, where these items have now been treated as prepayments. The prior year balances have been restated in terms of IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. Also a portion of aircraft lease costs that should have been accrued for as an expense in prior years have been adjusted and the prior year balances restated accordingly.

MAINTENANCE COSTS

During the 2014/2015 and 2015/2016 financial years, there was a portion of maintenance costs that were prepaid and incorrectly expensed in those years. A correction has been made in the current financial year, where these items have now been treated as prepayments. The prior year balances have been restated in terms of IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. Also a portion of maintenance costs that should have been accrued for as an expense in prior years have been adjusted and the prior year balances restated accordingly. Previously it was SAA's accounting policy to expense the portion of the power by the hour payment that related to C checks as and when they are incurred, however during the current financial year it was decided that it would be more appropriate to recognise this as a prepayment.

OVER ACCRUAL OF COMMISSIONS

During the 2015/2016 financial year, there was an over accrual of commissions to be paid to agents. The accrual was based on a maximum achievement calculation assuming that all agents would exceed their revenue targets. This did not materialise as the majority of agents did not reach their targets, hence resulting in the over accrual. There were also some disputes with agents in terms of calculations and documentation required, which resulted in the delay of the accrual being released. These issues have subsequently been resolved and therefore the accrual was released.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

The aggregate effect of the restatements on the Group and company annual financial statements for the year ended 31 March 2016 and 31 March 2015 is as follows:

			GROUP		COMPANY	
	R MILLION	**Notes**	**2016**	**2015**	**2016**	**2015**
5.	**RESTATEMENTS** (CONTINUED)					
	STATEMENT OF FINANCIAL POSITION					
	Land	12				
	Previously stated		437	437	48	48
	Reclassification from buildings		188	188	223	223
	Restated balance		625	625	271	271
	Buildings – cost	12				
	Previously stated		1 710	1 774	1 016	1 016
	Reclassification to land		(188)	(188)	(223)	(223)
	Restated balance		1 522	1 586	793	793
	Aircraft and simulators – cost	12				
	Previously stated		10 694	10 125	10 586	10 027
	Recognition of restoration asset		75	75	75	75
	Restated balance		10 769	10 200	10 661	10 102
	Aircraft and simulators – accumulated depreciation	12				
	Previously stated		(8 554)	(7 972)	(8 527)	(7 953)
	Depreciation of restoration asset		(33)	(26)	(33)	(26)
	Restated balance		(8 587)	(7 998)	(8 560)	(7 979)
	Capital work in progress – Property, aircraft and equipment	12				
	Previously stated		210	182	176	157
	Reclassification to intangible assets		(120)	(85)	(120)	(85)
	Restated balance		90	97	56	72
	Capital work in progress – Intangible assets	37				
	Previously stated		–	–	–	–
	Reclassification from property, aircraft and equipment		120	85	120	85
	Restated balance		120	85	120	85
	Amounts receivable from subsidiaries – Non-current	44				
	Previously stated		–	–	1 476	1 440
	Reclassification to current		–	–	(1 298)	(1 262)
	Restated balance		–	–	178	178
	Amounts receivable from subsidiaries – current	44				
	Previously stated		–	–	–	–
	Reclassification from non-current		–	–	1 298	1 262
	Restated balance		–	–	1 298	1 262
	Non-current portion of maintenance reserve receivable	13				
	Previously stated		1 790	1 967	1 790	1 967
	Reclassification to prepayments		(176)	–	(176)	–
	Restated balance		1 614	1 967	1 614	1 967

		GROUP		COMPANY	
R MILLION	**Notes**	**2016**	**2015**	**2016**	**2015**
5. RESTATEMENTS (CONTINUED)					
Prepayments	21				
Previously stated		2 898	2 110	2 811	1 990
Reclassification to foreign bank accounts		47	(35)	47	(35)
Reclassification to domestic bank accounts		(12)	(8)	(12)	(8)
Reclassification from other receivables		1 209	605	1 209	605
Adjustment to prepaid aircraft lease costs		77	78	77	78
Adjustment to prepaid maintenance costs		–	–	151	125
Adjustment to maintenance reserve		(254)	–	(254)	–
Reversal of impairment of PDPs		269	121	269	121
Reclassification from non-current prepayments		176	–	176	–
Restated balance		4 410	2 871	4 474	2 876
Other receivables	21				
Previously stated		1 217	630	1 184	608
Reclassification to prepayments		(1 209)	(605)	(1 209)	(605)
Reclassification to foreign exchange differences on trade and other receivables		(8)	(25)	25	(3)
Restated balance		–	–	–	–
Foreign exchange differences on trade and other receivables	21				
Previously stated		–	–	–	–
Reclassification from other receivables		8	25	(25)	3
Restated balance		8	25	(25)	3
Foreign bank accounts	22				
Previously stated		1 747	1 043	1 785	1 044
Reclassification from prepayments		(47)	35	(47)	35
Reclassification from trade payables		107	16	107	16
Restated balance		1 807	1 094	1 845	1 095
Domestic bank accounts	22				
Previously stated		391	(1 290)	(3)	(1 852)
Reclassification from prepayments		12	8	12	8
Reclassification from trade payables		291	177	13	(8)
Reclassification to bank overdraft		23	1 185	–	1 155
Restated balance		717	80	22	(697)
Non-current asset held-for-sale	12				
Previously stated		63	63	63	63
Revaluation of non-current asset held-for-sale		36	36	36	36
Restated balance		99	99	99	99
Accumulated loss					
Previously stated		(25 935)	(24 352)	(25 691)	(24 246)
Adjustment to previously reported loss		(5)	(503)	21	(378)
Finance cost already included in opening accumulated loss		110	98	110	98
Prior year effect of restatements		(241)	164	(116)	164
Restated balance		(26 071)	(24 593)	(25 676)	(24 362)
Reserves					
Previously stated		779	917	355	493
Revaluation of non-current asset held-for-sale		36	36	36	36
Restated balance		815	953	391	529

		GROUP		COMPANY	
R MILLION	**Notes**	**2016**	**2015**	**2016**	**2015**
5. RESTATEMENTS (CONTINUED)					
Subordinated loan guaranteed by government					
Previously stated		1 300	1 300	1 300	1 300
Reclassification to long-term loans		(1 300)	(1 300)	(1 300)	(1 300)
Restated balance		–	–	–	–
Long-term loans	24				
Previously stated		6 510	3 684	6 500	3 669
Reclassification from subordinated loan guaranteed by government		1 300	1 300	1 300	1 300
Restated balance		7 810	4 984	7 800	4 969
Provisions – non-current	15				
Previously stated		2 394	2 202	2 380	2 194
Adjustment to provision for minor maintenance		20	46	20	46
Recognition of restoration liability		75	75	75	75
Foreign exchange revaluation of restoration liability		259	189	259	189
Finance cost recognised on restoration liability		94	38	94	38
Adjustment to return costs		(537)	(407)	(537)	(407)
Restated balance		2 305	2 143	2 291	2 135
Trade payables	25				
Previously stated		947	1 378	1 250	1 574
Reclassification to foreign bank accounts		107	16	107	16
Reclassification to domestic bank accounts		291	177	13	(8)
Restated balance		1 345	1 571	1 370	1 582
Payroll accruals	25				
Previously stated		–	–	–	–
Reclassification from other payables		858	871	669	662
Restated balance		858	871	669	662
Ticket tax accruals	25				
Previously stated		–	–	–	–
Reclassification from other payables		2 729	2 635	2 632	2 555
Restated balance		2 729	2 635	2 632	2 555
Other payables	25				
Previously stated		6 006	5 205	5 536	4 717
Reclassification to payroll accruals		(858)	(871)	(669)	(662)
Reclassification to ticket tax accruals		(2 729)	(2 635)	(2 632)	(2 555)
Reclassification to provisions		(709)	(107)	(709)	(107)
Over accrual of commission		(131)	–	(131)	–
Adjustment to maintenance accruals		199	422	199	422
Adjustment to aircraft lease accruals		3	–	3	–
Adjustments relating to PAYE not withheld on fringe benefits		84	54	84	54
Restated balance		1 865	2 068	1 681	1 869
Provisions – current	15				
Previously stated		486	332	477	332
Reclassification from other payables		709	107	709	107
Adjustment to provision for minor maintenance		204	72	204	72
Restated balance		1 399	511	1 390	511
Bank overdraft	23				
Previously stated		94	1 392	294	1 899
Reclassification from domestic bank accounts		(71)	(207)	(294)	(744)
Restated balance		23	1 185	–	1 155

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R MILLION	Notes	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
5. RESTATEMENTS (CONTINUED)					
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME					
Passenger revenue	6				
Previously stated		18 910	18 978	16 882	17 119
Reclassification to commissions and network charges		331	387	330	388
Restated amount		19 241	19 365	17 212	17 507
Release from prescribed tickets	6				
Previously stated		396	372	396	372
Reclassification from other recoveries		419	301	419	301
Restated amount		815	673	815	673
Other airline revenue adjustments	6				
Previously stated		–	–	–	–
Reclassification from other recoveries		(304)	(41)	(304)	(41)
Restated amount		(304)	(41)	(304)	(41)
Other recoveries	7				
Previously stated		1 330	1 389	1 286	1 341
Reclassification to release from prescribed tickets		(419)	(301)	(419)	(301)
Reclassification to other airline revenue adjustments		304	41	304	41
Restated amount		1 215	1 129	1 171	1 081
Aircraft lease costs	8				
Previously stated		3 149	2 840	3 095	2 795
Adjustment to prepaid aircraft lease costs		1	(78)	1	(78)
Adjustment to aircraft lease accruals		3	–	3	–
Foreign exchange correction on aircraft lease costs		(21)	(6)	(21)	(6)
Restated amount		3 132	2 756	3 078	2 711
Commissions and network charges					
Previously stated		1 629	1 461	1 531	1 375
Reclassification from passenger revenue		331	387	330	388
Over accrual of commission		(131)	–	(131)	–
Restated amount		1 829	1 848	1 730	1 763
Employee benefit expenses	29				
Previously stated		5 822	5 687	3 810	3 747
Adjustments relating to PAYE not withheld on fringe benefits		9	11	9	11
Restated amount		5 831	5 698	3 819	3 758
Maintenance costs					
Previously stated		4 283	3 412	5 510	4 491
Adjustment to maintenance accruals		(223)	422	(223)	422
Adjustment to prepaid maintenance costs		–	–	(26)	(125)
Adjustment to provision for minor maintenance		106	118	106	118
Adjustment to maintenance reserve		254	–	254	–
Foreign exchange correction on maintenance costs		(123)	32	(123)	32
Adjustment to return costs		(130)	(72)	(130)	(72)
Restated amount		4 167	3 912	5 368	4 866

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

		GROUP		COMPANY	
R MILLION	**Notes**	**2016**	**2015**	**2016**	**2015**
5. RESTATEMENTS (CONTINUED)					
Foreign currency denominated net receivables	40				
Previously stated		(207)	(82)	(254)	(91)
Foreign exchange effect of reversal of impairment of PDPs		(148)	–	(148)	–
Foreign exchange correction on aircraft lease costs		21	6	21	6
Foreign exchange correction on maintenance costs		123	(32)	123	(32)
Foreign exchange revaluation of restoration liability		71	37	71	37
Restated amount		(140)	(71)	(187)	(80)
Other operating costs					
Previously stated		4 362	5 114	3 728	4 484
Adjustments relating to PAYE not withheld on fringe benefits		17	36	17	36
Restated amount		4 379	5 150	3 745	4 520
Depreciation on aircraft and simulators	9				
Previously stated		(561)	(628)	(549)	(621)
Depreciation of restoration asset		(7)	(6)	(7)	(6)
Restated amount		(568)	(634)	(556)	(627)
Impairment of PDPs	11				
Previously stated		–	(121)	–	(121)
Reversal of impairment of PDPs		–	121	–	121
Restated amount		–	–	–	–
Interest paid on borrowings	19				
Previously stated		(794)	(404)	(794)	(404)
Reclassification from preference dividends		(110)	(98)	(110)	(98)
Restated amount		(904)	(502)	(904)	(502)
Interest paid on overdraft	19				
Previously stated		(67)	(86)	(62)	(81)
Finance cost recognised on restoration liability		(56)	(38)	(56)	(38)
Adjustments relating to PAYE not withheld on fringe benefits		(3)	(8)	(3)	(8)
Restated amount		(126)	(132)	(121)	(127)
Loss for the year					
Previously stated		(1 473)	(5 639)	(1 335)	(5 340)
Net result of the above adjustments		(5)	(503)	21	(378)
Restated loss		(1 478)	(6 142)	(1 314)	(5 718)

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R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	GROUP 2015 Restated	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
6. AIRLINE REVENUE							
The analysis of airline revenue for the year is as follows:							
Passenger revenue	5	**19 653**	19 241	19 365	**17 610**	17 212	17 507
Freight and mail		**1 794**	1 776	1 744	**1 791**	1 775	1 742
Technical services		**705**	775	701	**269**	293	188
Voyager income	16	**813**	867	771	**813**	867	771
Commission received		**39**	71	86	**37**	65	74
Release from prescribed tickets	5	**559**	815	673	**559**	815	673
Release from prescribed air waybills		**–**	–	28	**–**	–	28
Fuel levies		**6 232**	6 032	5 833	**6 232**	6 032	5 833
Other airline revenue adjustments*	5	**(522)**	(304)	(41)	**(522)**	(304)	(41)
		29 273	29 273	29 160	**26 789**	26 755	26 775

** Other airline revenue adjustments comprise inter airline processing offsets and revenue accounting system adjustments.*

R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	GROUP 2015 Restated	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
7. OTHER INCOME							
Other income is made up of the following items:							
Handling fees		**191**	148	134	**69**	52	58
Income from leased assets		**94**	80	69	**362**	405	305
Other recoveries*	5	**1 184**	1 215	1 129	**1 099**	1 171	1 081
		1 469	1 443	1 332	**1 530**	1 628	1 444

** Other recoveries comprise income associated with ticket cancellations and other miscellaneous income.*

R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	GROUP 2015 Restated	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
8. OPERATING (LOSS)/PROFIT BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION							
Operating (loss)/profit before interest, tax, depreciation and amortisation is stated after taking into account among others, the following:							
OPERATING LEASE PAYMENTS							
Aircraft	5	**3 103**	3 132	2 756	**3 022**	3 078	2 711
Buildings		**128**	117	111	**104**	97	94
Equipment and vehicles		**34**	40	54	**29**	28	43
Total operating lease payments		**3 265**	3 289	2 921	**3 155**	3 203	2 848
AUDITORS' REMUNERATION							
Audit fees – current year		**16**	15	13	**13**	11	9
Other regulatory audit services		**–**	3	1	**–**	3	1
Non-audit services		**–**	1	2	**–**	1	2
Total auditors' remuneration		**16**	19	16	**13**	15	12

Directors' emoluments and executive management emoluments are disclosed in Note 48.

R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	GROUP 2015 Restated	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
9. DEPRECIATION AND AMORTISATION							
Aircraft and simulators	5	**(853)**	(568)	(634)	**(841)**	(556)	(627)
Buildings and structures		**(45)**	(46)	(64)	**(18)**	(21)	(40)
Machinery, equipment and furniture		**(76)**	(68)	(72)	**(53)**	(46)	(49)
Vehicles and cabin loaders		**(16)**	(15)	(14)	**(5)**	(4)	(4)
Total depreciation	12	**(990)**	(697)	(784)	**(917)**	(627)	(720)
Amortisation of intangible assets	37	**(43)**	(35)	(41)	**(36)**	(29)	(34)
Total depreciation and amortisation		**(1 033)**	(732)	(825)	**(953)**	(656)	(754)

R MILLION	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
10. NET GAIN/(LOSS) ON DISPOSAL OF PROPERTY, AIRCRAFT AND EQUIPMENT				
Net gain/(loss) on disposal of property, aircraft and equipment comprises the following:				
Profit on disposal of property, aircraft and equipment	**24**	1	**21**	–
Loss on disposal of property, aircraft and equipment	**(17)**	(7)	**(3)**	(2)
	7	(6)	**18**	(2)

R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	GROUP 2015 Restated	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
11. IMPAIRMENTS							
Impairments of loans and receivables held at amortised cost							
(Impairment)/reversal of impairment of accounts receivable		**(24)**	(14)	12	**(28)**	(9)	(3)
Impairment of other assets							
Impairment of investments in subsidiaries	43	**–**	–	–	**(696)**	(90)	–
(Impairment)/reversal of impairment of loans to subsidiaries	44	**–**	–	–	**(182)**	1	(3)
Impairment of aircraft	12	**–**	–	(1 508)	**–**	–	(1 508)
Reversal of impairment/(impairment) arising from write-down of inventory to net realisable value	38	**50**	(144)	(277)	**–**	–	–
		26	(158)	(1 773)	**(906)**	(98)	(1 514)

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	2017			2016 Restated*			2015 Restated*		
R MILLION	**Cost/ valuation**	**Accumulated depreciation/ impairment**	**Carrying value**	**Cost/ valuation**	**Accumulated depreciation/ impairment**	**Carrying value**	**Cost/ valuation**	**Accumulated depreciation/ impairment**	**Carrying value**
12. PROPERTY, AIRCRAFT AND EQUIPMENT									
GROUP									
Land	**687**	**–**	**687**	625	–	625	625	–	625
Buildings and structures	**1 428**	**(126)**	**1 302**	1 522	(281)	1 241	1 586	(300)	1 286
Machinery, equipment and furniture	**887**	**(543)**	**344**	757	(486)	271	894	(592)	302
Vehicles and cabin loaders	**147**	**(99)**	**48**	155	(90)	65	157	(82)	75
Aircraft and simulators	**11 299**	**(9 155)**	**2 144**	10 769	(8 587)	2 182	10 200	(7 998)	2 202
Containers	**30**	**(30)**	**–**	30	(30)	–	30	(30)	–
Capital work in progress	**49**	**–**	**49**	90	–	90	97	–	97
Total	**14 527**	**(9 953)**	**4 574**	13 948	(9 474)	4 474	13 589	(9 002)	4 587
COMPANY									
Land	**299**	**–**	**299**	271	–	271	271	–	271
Buildings and structures	**682**	**(115)**	**567**	793	(244)	549	793	(224)	569
Machinery, equipment and furniture	**382**	**(240)**	**142**	347	(198)	149	486	(309)	177
Vehicles and cabin loaders	**48**	**(28)**	**20**	47	(27)	20	46	(25)	21
Aircraft and simulators	**11 176**	**(9 116)**	**2 060**	10 661	(8 560)	2 101	10 102	(7 979)	2 123
Containers	**29**	**(29)**	**–**	29	(29)	–	29	(29)	–
Capital work in progress	**26**	**–**	**26**	56	–	56	72	–	72
Total	**12 642**	**(9 528)**	**3 114**	12 204	(9 058)	3 146	11 799	(8 566)	3 233

* *A restatement was done on the opening balances of land and buildings in order to reflect the correct split between land and buildings. The total carrying value of property, aircraft and equipment did not change in the prior years as a result of this restatement. Please refer to Note 5 for more details regarding prior year restatements.*

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R MILLION	Land	Buildings and structures	Machinery, equipment and furniture	Vehicles and cabin loaders	Aircraft and simulators	Containers	Capital work in progress	Total
12. PROPERTY, AIRCRAFT AND EQUIPMENT (CONTINUED)								
GROUP								
Reconciliation								
Opening balance – Restated	585	1 353	304	75	3 433	–	658	6 408
Additions	–	7	47	14	3 676	–	597	4 341
Disposals	–	(20)	–	–	(2 770)	–	–	(2 790)
Transfers*	–	2	23	–	5	–	(1 158)	(1 128)
Revaluations	40	8	–	–	–	–	–	48
Depreciation	–	(64)	(72)	(14)	(634)	–	–	(784)
Impairment loss	–	–	–	–	(1 508)	–	–	(1 508)
Balance at 31 March 2015 – Restated	625	1 286	302	75	2 202	–	97	4 587
Opening balance – Restated	625	1 286	302	75	2 202	–	97	4 587
Additions	–	13	22	5	233	–	441	714
Disposals	–	(2)	(4)	–	(40)	–	–	(46)
Transfers*	–	8	19	–	355	–	(448)	(66)
Revaluations	–	(18)	–	–	–	–	–	(18)
Depreciation	–	(46)	(68)	(15)	(568)	–	–	(697)
Balance at 31 March 2016 – Restated	625	1 241	271	65	2 182	–	90	4 474
Opening balance – Restated	**625**	**1 241**	**271**	**65**	**2 182**	**–**	**90**	**4 474**
Additions	**–**	**5**	**82**	**7**	**449**	**–**	**454**	**997**
Disposals	**–**	**(11)**	**(7)**	**(8)**	**(12)**	**–**	**–**	**(38)**
Transfers*	**–**	**1**	**74**	**–**	**378**	**–**	**(495)**	**(42)**
Revaluations	**62**	**111**	**–**	**–**	**–**	**–**	**–**	**173**
Depreciation	**–**	**(45)**	**(76)**	**(16)**	**(853)**	**–**	**–**	**(990)**
Balance at 31 March 2017	**687**	**1 302**	**344**	**48**	**2 144**	**–**	**49**	**4 574**

* *The amount reflected in the transfers column represents the amount transferred from Capital work in progress to Software (Intangible assets). Refer to Note 37 for more information.*

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R MILLION	Land	Buildings and structures	Machinery, equipment and furniture	Vehicles and cabin loaders	Aircraft and simulators	Containers	Capital work in progress	Total
12. PROPERTY, AIRCRAFT AND EQUIPMENT (CONTINUED)								
COMPANY								
Reconciliation								
Opening balance – Restated	278	662	173	22	3 374	–	664	5 173
Additions	–	5	30	3	3 646	–	566	4 250
Disposals	–	(20)	–	–	(2 767)	–	–	(2 787)
Transfers*	–	2	23	–	5	–	(1 158)	(1 128)
Revaluations	(7)	(40)	–	–	–	–	–	(47)
Depreciation	–	(40)	(49)	(4)	(627)	–	–	(720)
Impairment loss	–	–	–	–	(1 508)	–	–	(1 508)
Balance at 31 March 2015 – Restated	271	569	177	21	2 123	–	72	3 233
Opening balance – Restated	271	569	177	21	2 123	–	72	3 233
Additions	–	13	7	3	211	–	424	658
Disposals	–	(1)	(1)	–	(32)	–	–	(34)
Transfers*	–	7	12	–	355	–	(440)	(66)
Revaluations	–	(18)	–	–	–	–	–	(18)
Depreciation	–	(21)	(46)	(4)	(556)	–	–	(627)
Balance at 31 March 2016 – Restated	271	549	149	20	2 101	–	56	3 146
Opening balance – Restated	**271**	**549**	**149**	**20**	**2 101**	**–**	**56**	**3 146**
Additions	**–**	**4**	**4**	**5**	**435**	**–**	**437**	**885**
Disposals	**–**	**(7)**	**(6)**	**–**	**(12)**	**–**	**–**	**(25)**
Transfers*	**–**	**–**	**48**	**–**	**377**	**–**	**(467)**	**(42)**
Revaluations	**28**	**39**	**–**	**–**	**–**	**–**	**–**	**67**
Depreciation	**–**	**(18)**	**(53)**	**(5)**	**(841)**	**–**	**–**	**(917)**
Balance at 31 March 2017	**299**	**567**	**142**	**20**	**2 060**	**–**	**26**	**3 114**

* *The amount reflected in the transfers column represents the amount transferred from Capital work in progress to Software (Intangible assets). Refer to Note 37 for more information.*

A register of land and buildings is available for inspection at the registered office of the Group.

In the previous financial year, certain aircraft were encumbered as security for the financing thereof. The carrying value of capitalised aircraft encumbered in respect of financing raised by the Group amounted to R0.6 billion in the previous financial year, these loans have been fully paid up in the current financial year, with the result being that the aircraft are no longer encumbered.

Certain aircraft are held under suspensive sale agreements with title only passing to SAA once all obligations to the seller have been settled and the seller in turn has settled all its obligations under a finance lease. These events are expected to occur simultaneously.

The category of aircraft includes the refurbishment costs of both the owned and leased aircraft. This refurbishment is amortised over the shorter of the useful life of the refurbished equipment or the lease term of the leased aircraft.

The fair value of land and buildings was determined by an independent external valuation expert during the last quarter of the financial year, using the income capitalisation method of valuation. The utilisation of the property in terms of its industrial use is considered to be its highest and best use. A capitalisation rate of 10,5 percent was used in the valuation with comparative rentals in the area being applied in the model. As the valuation includes significant unobservable inputs, it is classified as level 3 in the fair value hierarchy.

Asset and disposal groups classified as held-for-sale are as follows:

NON-CURRENT ASSETS CLASSIFIED AS HELD-FOR-SALE

		GROUP		COMPANY	
R MILLION	**Notes**	**2017**	**2016 Restated**	**2017**	**2016 Restated**
Carrying value of land and buildings classified as held-for-sale	5	**99**	99	**99**	99
		99	99	**99**	99

The period to complete the sale has extended beyond one year due to events and circumstances beyond SAA's control. However, SAA remains committed to the plan to sell the asset and has therefore retained the classification of held-for-sale.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	COMPANY 2017	COMPANY 2016 Restated
13. NON-CURRENT PREPAYMENTS					
Pre-delivery payments (PDPs)		–	266	–	266
Non-current portion of maintenance reserve receivable	5	**1 777**	1 614	**1 710**	1 614
		1 777	1 880	**1 710**	1 880

In accordance with the accounting policy, in the event that it is unlikely that the underlying aircraft will be purchased at the expected delivery date, but will be leased under an operating lease, the related PDPs will be transferred to receivables. The amount above represents the long-term portion of such PDPs. Maintenance reserves receivable represent amounts that will be received in a period exceeding 12 months.

Included in non-current prepayments are amounts in respect of maintenance payments made to lessors. The total below represents the total maintenance reserve receivable, the portion of the receivable that is short-term is shown under prepayments in Note 21. Refer to the accounting policies section for details of the treatment of these claims.

R MILLION	GROUP 2017	GROUP 2016 Restated	COMPANY 2017	COMPANY 2016 Restated
Maintenance reserve balance	**4 330**	4 883	**4 230**	4 883
Current portion	**(652)**	(1 293)	**(619)**	(1 293)
Maintenance reserves expensed	**(1 901)**	(1 976)	**(1 901)**	(1 976)
Non-current portion of maintenance reserve receivable	**1 777**	1 614	**1 710**	1 614

R MILLION	Jet fuel options	Currency derivatives	Jet fuel forward exchange contracts and swaps	Total
14. DERIVATIVES				
GROUP AND COMPANY				
Assets	18	66	–	84
Liabilities	–	(2)	(2)	(4)
Fair value at 1 April 2016	18	64	(2)	80
Amounts spent on premiums	**86**	**50**	**–**	**136**
Fair value movements for the year ended 31 March 2017	**(79)**	**(106)**	**2**	**(183)**
Fair value at 31 March 2017	**25**	**8**	**–**	**33**
Assets	**25**	**9**	**–**	**34**
Liabilities	**–**	**(1)**	**–**	**(1)**
	25	**8**	**–**	**33**

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R MILLION	Provision for lease liabilities[1]	Other provisions[2]	Total
15. PROVISIONS			
GROUP			
Reconciliation			
Opening balance – Restated	1 258	403	1 661
Additions	479	968	1 447
Utilised during the year	(534)	(12)	(546)
Reversed during the year	–	(94)	(94)
Unwinding of the discount	38	–	38
Currency revaluation	148	–	148
Balance at 31 March 2015 – Restated	1 389	1 265	2 654
Current portion	404	107	511
Non-current portion	985	1 158	2 143
	1 389	1 265	2 654
Opening balance – Restated	1 389	1 265	2 654
Additions	1 080	700	1 780
Utilised during the year	(654)	(1)	(655)
Reversed during the year	(295)	(7)	(302)
Unwinding of the discount	56	–	56
Currency revaluation	171	–	171
Balance at 31 March 2016 – Restated	1 747	1 957	3 704
Current portion	530	869	1 399
Non-current portion	1 217	1 088	2 305
	1 747	1 957	3 704
Opening balance – Restated	**1 747**	**1 957**	**3 704**
Additions	**2 102**	**184**	**2 286**
Utilised during the year	**(693)**	**(108)**	**(801)**
Reversed during the year	**(1 066)**	**(554)**	**(1 620)**
Unwinding of the discount	**70**	**–**	**70**
Currency revaluation	**(216)**	**1**	**(215)**
Balance at 31 March 2017	**1 944**	**1 480**	**3 424**
Current portion	**753**	**343**	**1 096**
Non-current portion	**1 191**	**1 137**	**2 328**
	1 944	**1 480**	**3 424**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R MILLION	Provision For lease liabilities[1]	Other provisions[2]	Total
15. PROVISIONS (CONTINUED)			
COMPANY			
Reconciliation			
Opening balance – Restated	1 249	403	1 652
Additions	479	968	1 447
Utilised during the year	(533)	(12)	(545)
Reversed during the year	–	(94)	(94)
Unwinding of the discount	38	–	38
Currency revaluation	148	–	148
Balance at 31 March 2015 – Restated	1 381	1 265	2 646
Current portion	404	107	511
Non-current portion	977	1 158	2 135
	1 381	1 265	2 646
Opening balance – Restated	1 381	1 265	2 646
Additions	1 079	686	1 765
Utilised during the year	(654)	(1)	(655)
Reversed during the year	(295)	(7)	(302)
Unwinding of the discount	56	–	56
Currency revaluation	171	–	171
Balance at 31 March 2016 – Restated	1 738	1 943	3 681
Current portion	521	869	1 390
Non-current portion	1 217	1 074	2 291
	1 738	1 943	3 681
Opening balance – Restated	**1 738**	**1 943**	**3 681**
Additions	**2 014**	**184**	**2 198**
Utilised during the year	**(693)**	**(108)**	**(801)**
Reversed during the year	**(1 066)**	**(554)**	**(1 620)**
Unwinding of the discount	**70**	**–**	**70**
Currency revaluation	**(220)**	**1**	**(219)**
Balance at 31 March 2017	**1 843**	**1 466**	**3 309**
Current portion	**652**	**343**	**995**
Non-current portion	**1 191**	**1 123**	**2 314**
	1 843	**1 466**	**3 309**

(1) *For aircraft held under operating lease agreements, the Group is contractually committed either to return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfill such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts, is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts, are accrued and charged to profit or loss over the lease term for this contractual obligation.*

(2) *Other provisions include, but are not limited to, amounts set aside to settle claims against the Group/company arising in the course of its operations. Further information regarding individual claim amounts has not been provided as this may prejudice the Group/company in its ongoing litigation. Other provisions in the prior years were restated during the current financial year, please refer to Note 5 for more details of prior year restatements.*

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R MILLION	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
16. DEFERRED REVENUE ON TICKET SALES				
Frequent flyer deferred revenue – long-term	**668**	633	**668**	633
Net air traffic liability SAA – short-term	**3 401**	3 329	**3 184**	3 186
Net air traffic liability franchise partners – short-term	**381**	305	**381**	305
Frequent flyer deferred revenue – short-term	**493**	578	**493**	578
	4 275	4 212	**4 058**	4 069

AIR TRAFFIC LIABILITY

This balance represents the unrealised income resulting from tickets and air waybills sold but not yet utilised. The balance includes the value of coupons sold by SAA, which will be flown and claimed in future periods by code-share, interline and franchise partners. The liability is of a short-term nature and is reflected as a current liability.

FREQUENT FLYER DEFERRED REVENUE

Deferred revenue relates to the frequent flyer programme and represents the fair value of the outstanding credits. Revenue is recognised when SAA fulfils its obligations by supplying free or discounted goods or services on the redemption of award credits. Refer to Notes 1 and 4 for more information.

R MILLION	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
17. COMMITMENTS				
AUTHORISED CAPITAL EXPENDITURE				
Property, aircraft and equipment	**183**	41	**138**	36
Total approved capital expenditure not contracted	**183**	41	**138**	36
This committed expenditure relates to property, aircraft and equipment and will be financed by available bank facilities, retained profits, rights issue of shares, issue of debentures and other sources of funding.				
Operating leases – as lessee (expense)				
Operating lease commitments for property, aircraft, equipment and vehicles are expected to be incurred as follows:				
– within one year	**3 242**	2 760	**3 149**	2 760
– in second to fifth year inclusive	**9 669**	8 075	**9 458**	8 075
– later than five years	**7 277**	3 664	**7 277**	3 664
	20 188	14 499	**19 884**	14 499
Included in the operating lease commitments above are the following US$ based lease commitments. Currency risks associated with these commitments are not hedged. The table below sets out the foreign denominated lease commitments.				
Uncovered lease commitments (US$ million)				
– within one year	**231**	175	**224**	175
– in second to fifth year inclusive	**721**	536	**705**	536
– later than five years	**543**	248	**543**	248
	1 495	959	**1 472**	959
Operating leases – as lessor (income)				
Operating lease income on leased assets are expected to be received as follows:				
– within one year	**6**	5	**189**	326
– in second to fifth year inclusive	**22**	16	**343**	901
– later than five years	**16**	20	**16**	20
	44	41	**548**	1 247

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

	GROUP			COMPANY		
R MILLION	**2017**	**2016 Restated***	**2015 Restated***	**2017**	**2016 Restated***	**2015 Restated***
18. CASH GENERATED FROM/(USED IN) OPERATIONS						
Loss before taxation	**(5 350)**	(1 378)	(6 130)	**(6 451)**	(1 314)	(5 718)
Adjustments for:						
Depreciation and amortisation on property, aircraft and equipment	**990**	697	784	**917**	627	720
Net (gain)/loss on disposal of property, aircraft and equipment	**(7)**	6	9	**(18)**	2	3
Amortisation of intangible assets	**43**	35	41	**36**	29	34
Impairment of aircraft	**–**	–	1 508	**–**	–	1 508
Impairment/(reversal of impairment) of loans to subsidiaries	**–**	–	–	**182**	(1)	3
Derivative market movements	**67**	(57)	367	**67**	(57)	367
Impairment of investments in subsidiaries	**–**	–	–	**696**	90	–
Interest income	**(40)**	(26)	(26)	**(12)**	(11)	(16)
Finance costs	**1 630**	1 030	634	**1 663**	1 063	667
Release from air traffic liability	**(380)**	(396)	(400)	**(380)**	(396)	(400)
Movement in employee benefit obligations	**(7)**	37	18	**(7)**	37	18
Impairment/(reversal of impairment) of accounts receivable	**24**	14	(12)	**28**	9	3
Non-cash movement on retirement benefit plans	**(11)**	(6)	(6)	**(11)**	(6)	(6)
Release from passenger tax levies	**(178)**	(418)	(301)	**(178)**	(418)	(301)
Non-cash movement on shareholder restructuring fund	**(7)**	(119)	–	**(7)**	(119)	–
Unrealised foreign exchange loss on revaluation of loans	**–**	–	52	**–**	–	52
Unrealised foreign exchange (gain)/loss on cash and cash equivalents	**(19)**	64	(49)	**(21)**	66	(50)
Movement in retirement benefit asset	**12**	–	(9)	**12**	–	(9)
Tax paid in foreign jurisdictions	**7**	16	16	**7**	16	16
Changes in working capital:						
Transfer of PDPs to capital work in progress	**–**	–	826	**–**	–	826
Movement in non-current portion of maintenance reserve receivable	**(163)**	353	(587)	**(96)**	353	(587)
Movement in non-current portion of PDPs	**266**	(49)	–	**266**	(49)	–
Movement in engine power by the hour liability	**253**	–	–	**253**	–	–
Transfer from intangible assets to sundry debtors	**10**	–	–	**10**	–	–
Inventories	**(152)**	(2)	83	**–**	20	(12)
Trade and other receivables	**1 368**	(1 741)	(101)	**1 469**	(1 852)	(335)
Trade and other payables	**1 665**	71	904	**1 968**	103	709
Air traffic liability	**528**	1 049	(226)	**454**	1 081	(236)
Frequent flyer deferred revenue	**(50)**	(113)	(123)	**(50)**	(113)	(123)
Provisions	**(280)**	1 050	1 135	**(372)**	1 035	1 136
	219	117	(1 593)	**425**	195	(1 731)

* *Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.*

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R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	GROUP 2015 Restated	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
19. FINANCE COSTS							
The interest paid related to financial liabilities held at amortised cost is detailed below:							
Interest paid on borrowings	5	**(1 356)**	(904)	(502)	**(1 356)**	(904)	(502)
Interest paid on overdraft	5	**(274)**	(126)	(132)	**(265)**	(121)	(127)
Other interest paid		**–**	–	–	**(42)**	(38)	(38)
		(1 630)	(1 030)	(634)	**(1 663)**	(1 063)	(667)

R MILLION	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
20. INTEREST INCOME				
Interest received was derived from:				
Cash and bank balances	**35**	23	**7**	8
Loans and receivables	**5**	3	**5**	3
	40	26	**12**	11

R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	GROUP 2015 Restated	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
21. TRADE AND OTHER RECEIVABLES							
Gross accounts receivable		**2 423**	2 410	2 200	**2 279**	2 275	2 034
Allowance for impairment		**(85)**	(103)	(98)	**(72)**	(84)	(81)
		2 338	2 307	2 102	**2 207**	2 191	1 953
Prepayments	5	**2 955**	4 410	2 871	**3 000**	4 474	2 876
Foreign exchange differences on trade and other receivables	5	**40**	8	25	**18**	(25)	3
		5 333	6 725	4 998	**5 225**	6 640	4 832

R MILLION	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
Reconciliation of impairment of trade and other receivables				
Opening balance	**(103)**	(98)	**(84)**	(81)
Impairments	**(24)**	(14)	**(28)**	(9)
Amounts utilised for write-offs	**21**	9	**19**	6
Amounts moved to provisions	**21**	–	**21**	–
Closing balance	**(85)**	(103)	**(72)**	(84)

The trade receivables portfolio impairment loss relates to:

- debtors in dispute which are provided for when they become known;
- defaulting Billing and Settlement Plan (BSP) and General Sales Agents (GSA) that have exceeded 90 days past their due date; and
- errors due to differences identified when capturing sales.

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for the year ended 31 March 2017

The gross accounts receivable is analysed below based on the risk profile group linked to the nature of the distribution network and the nature of operations within the group. The analysis is based on period past due.

R MILLION	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount
21. TRADE AND OTHER RECEIVABLES (CONTINUED)				
GROUP – 2017				
BSP	**1 101**	**964**	**118**	**19**
Credit card	**313**	**276**	**23**	**14**
GSA	**205**	**153**	**51**	**1**
Stations	**11**	**–**	**2**	**9**
Cargo freight and mail	**259**	**231**	**24**	**4**
Airline catering	**12**	**7**	**4**	**1**
Travel services	**3**	**3**	**–**	**–**
Technical maintenance	**126**	**89**	**25**	**12**
Alliance partners	**145**	**130**	**15**	**–**
Voyager	**41**	**41**	**–**	**–**
Default debtors	**25**	**–**	**–**	**25**
Other trade debtors	**182**	**160**	**22**	**–**
	2 423	**2 054**	**284**	**85**
COMPANY – 2017				
BSP	**1 101**	**964**	**118**	**19**
Credit card	**313**	**276**	**23**	**14**
GSA	**205**	**153**	**51**	**1**
Stations	**11**	**–**	**2**	**9**
Cargo freight and mail	**259**	**231**	**24**	**4**
Alliance partners	**145**	**130**	**15**	**–**
Voyager	**41**	**41**	**–**	**–**
Default debtors	**25**	**–**	**–**	**25**
Other trade debtors	**179**	**157**	**22**	**–**
	2 279	**1 952**	**255**	**72**
GROUP – 2016				
BSP	1 020	988	17	15
Credit card	228	159	62	7
GSA	225	172	52	1
Stations	10	–	3	7
Cargo freight and mail	328	153	151	24
Airline catering	8	4	3	1
Travel services	3	2	1	–
Technical maintenance	213	150	45	18
Alliance partners	146	133	13	–
Voyager	57	32	25	–
Default debtors	29	–	–	29
Other trade debtors	143	113	29	1
	2 410	1 906	401	103
COMPANY – 2016				
BSP	1 020	988	17	15
Credit card	228	159	62	7
GSA	225	172	52	1
Stations	10	–	3	7
Cargo freight and mail	328	153	151	24
Alliance partners	146	133	13	–
Voyager	57	32	25	–
Default debtors	30	–	–	30
Other trade debtors	231	202	29	–
	2 275	1 839	352	84

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R MILLION	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
21. TRADE AND OTHER RECEIVABLES (CONTINUED)				
Past due but not impaired can be analysed further in terms of ageing as follows:				
30 to 60 days	**120**	316	**114**	299
61 to 90 days	**44**	(47)	**40**	(47)
91 to 120 days	**120**	131	**101**	100
+120 days	**–**	1	**–**	–
	284	401	**255**	352
Credit quality of trade and other receivables				
Trade receivables can be analysed based on historical collections performance as follows:				
Trade receivables				
Trade debtors with no history of default	**1 996**	1 880	**1 899**	1 839
Trade debtors where there have been isolated instances of default but no loss suffered	**58**	26	**53**	–
	2 054	1 906	**1 952**	1 839

COLLATERAL HELD

BSP debtors are credit-vetted by IATA, which holds a guarantee appropriate to the level of risk identified. Should an agent be in default with IATA, the guarantee is encashed and apportioned between the creditor airlines. SAA holds additional guarantees of R86 million (2016: R74 million) in respect of local GSA debtors and R117 million (2016: R124 million) in respect of Cargo debtors and Cargo GSAs, there were no significant changes in the quality of the collateral during the current financial year.

R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	GROUP 2015 Restated	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
22. CASH AND CASH EQUIVALENTS							
Cash and cash equivalents consist of:							
Foreign bank accounts	5	**2 417**	1 807	1 094	**2 422**	1 845	1 095
Domestic bank accounts	5	**455**	717	80	**62**	22	(697)
Short-term investments – call deposits (US$ and EURO denominated)		**–**	177	121	**–**	177	121
Total cash and cash equivalents		**2 872**	2 701	1 295	**2 484**	2 044	519

Cash and cash equivalents consist of cash on hand, balances with banks and short-term deposits which can be accessed within 3 months at most. Cash and cash equivalents included in the cash flow statement are as detailed above.

Included in cash and cash equivalents above is restricted cash to the value of R1960 million (2016: R1418 million). Of this restricted cash, R1084 million (2016: R536 million) relates to "blocked cash". According to IATA funds are deemed to be "blocked" when repatriations have not been possible for a period of two months, due to for instance, Exchange Control Regulations, shortages of foreign currency, tax laws or the obligatory submission of documentary evidence of monthly activities required by some foreign countries. Countries currently deemed blocked due to the aforementioned restrictions are Angola, Egypt, Nigeria, Zimbabwe, Senegal and the Ivory Coast. The balance of the restricted cash relates to funds held at outstations that are not readily available, however the outstations will transfer surplus funds (net of working capital requirements) at regular intervals, depending on banking infrastructure and country regulations in terms of repatriation of sales receipts.

R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	GROUP 2015 Restated	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
23. BANK OVERDRAFT							
Domestic bank overdrafts	5	**684**	23	1 185	**663**	–	1 155

All of the above overdraft facilities are reviewed annually and accrue interest at floating rates. The total available overdraft facility at year end was R830 million (2016: R930 million).

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R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	GROUP 2015 Restated	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
24. LONG-TERM LOANS							
Secured loans							
External loans		**15 944**	14 058	9 622	**15 933**	14 043	9 603
The loans are repayable as follows:							
On demand or within one year		**8 140**	6 248	4 638	**8 133**	6 243	4 634
Two to five years	5	**6 304**	6 310	1 469	**6 300**	6 300	1 454
Later than five years		**1 500**	1 500	3 515	**1 500**	1 500	3 515
		15 944	14 058	9 622	**15 933**	14 043	9 603
Less: Current portion		**(8 140)**	(6 248)	(4 638)	**(8 133)**	(6 243)	(4 634)
	5	**7 804**	7 810	4 984	**7 800**	7 800	4 969
The carrying amounts of long-term loans are denominated in the following currencies:							
Rand denominated domestic loans*	5	**15 944**	14 058	9 291	**15 933**	14 043	9 272
US$ denominated foreign loans		**–**	–	331	**–**	–	331
		15 944	14 058	9 622	**15 933**	14 043	9 603

* *Domestic secured loans amounting to R151 million in the prior year, were fully repaid in the current year. These loans used to bear interest at JIBAR plus a margin ranging from 1,48% to 2,44% and were secured over aircraft (Note 12). The balance of the loans bear interest at JIBAR plus a margin ranging from 0,6% to 5% and are secured by Shareholder guarantee.*

R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	GROUP 2015 Restated	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
25. TRADE AND OTHER PAYABLES							
Trade payables	5	**1 601**	1 345	1 571	**1 606**	1 370	1 582
Payroll accruals	5	**949**	858	871	**705**	669	662
Ticket tax accruals	5	**2 827**	2 729	2 635	**2 731**	2 632	2 555
Other payables*	5	**2 908**	1 865	2 068	**2 744**	1 681	1 869
		8 285	6 797	7 145	**7 786**	6 352	6 668

* *Other payables comprise accruals processed in the normal course of business.*

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26. FINANCIAL LIABILITIES BY CATEGORY

Set out below is an analysis of all of the Group's financial liabilities that are carried at either fair value or amortised cost in the annual financial statements depending on their classification:

R MILLION	Notes	Financial liabilities at amortised cost	Fair value through profit or loss held-for-trading*	Total
GROUP – 2017				
Long- and short-term liabilities	24	**15 944**	**–**	**15 944**
Shareholder loan to share trust	31	**63**	**–**	**63**
Trade and other payables	25	**4 325**	**–**	**4 325**
Bank overdraft	23	**684**	**–**	**684**
Currency derivatives	14	**–**	**1**	**1**
Engine power by the hour liability	31	**253**	**–**	**253**
		21 269	**1**	**21 270**
GROUP – 2016				
Restated**				
Long- and short-term liabilities	24	14 058	–	14 058
Shareholder loan to share trust	31	63	–	63
Trade and other payables	25	3 149	–	3 149
Bank overdraft	23	23	–	23
Jet fuel forward exchange contracts and swaps	14	–	2	2
Currency derivatives	14	–	2	2
		17 293	4	17 297

** Financial instruments held at fair value are level two instruments. A separate analysis has not been provided for the company, as the numbers do not differ significantly from the Group numbers.*
*** Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.*

27. FINANCIAL ASSETS BY CATEGORY

Set out below is an analysis of all of the Group's financial assets that are carried at either fair value or amortised cost in the annual financial statements depending on their classification:

R MILLION	Notes	Loans and receivables	Fair value through profit or loss held-for-trading*	Available-for-sale	Total
GROUP – 2017					
Currency derivatives	14	**–**	**9**	**–**	**9**
Jet fuel options	14	**–**	**25**	**–**	**25**
Trade and other receivables	21	**4 807**	**–**	**–**	**4 807**
Cash and cash equivalents	22	**2 872**	**–**	**–**	**2 872**
Investment in SA Airlink (Pty) Limited	46	**–**	**–**	**29**	**29**
Maintenance reserve receivable	13	**1 777**	**–**	**–**	**1 777**
		9 456	**34**	**29**	**9 519**
GROUP – 2016					
Restated**					
Currency derivatives	14	–	66	–	66
Jet fuel options	14	–	18	–	18
Trade and other receivables	21	6 616	–	–	6 616
Cash and cash equivalents	22	2 701	–	–	2 701
Investment in SA Airlink (Pty) Limited	46	–	–	23	23
Maintenance reserve receivable	13	1 614	–	–	1 614
		10 931	84	23	11 038

** Financial instruments held at fair value are level two instruments. A separate analysis has not been provided for the company, as the numbers do not differ significantly from the Group numbers.*
*** Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.*

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28. RISK MANAGEMENT

28.1 FINANCIAL INSTRUMENTS CATEGORIES

Fair value of financial instruments

The Group has estimated fair values where appropriate, by using the following methods and assumptions:

Investment in unlisted shares classified as available-for-sale financial assets

The investment in the unlisted shares is held as an ancillary investment and is not considered a material holding to the Group. The value of the shares was impaired to zero but in previous financial years the impairment was reversed by a total of R23 million. There was a further reversal of R6 million in the current financial year. The investment is classified as a level 3 financial instrument. A valuation of the investment was conducted during the year on the net asset value and based on the results of SA Airlink's latest audited financial statements. The impairment has been reversed limited to SAA's 2,95 percent shareholding in SA Airlink.

Derivative assets and liabilities

The derivative assets and liabilities are entered into to manage Group exposure to foreign currency, interest rates and jet fuel price risks. The Group derivatives include fixed contracts, vanilla European and Asian options, swaps, call spreads and collars, which are entered into mainly to manage foreign currency exchange risk and jet fuel price risk. The fair values of the derivative instruments are determined based on observable inputs into valuation models.

Foreign currency forward contracts are mainly entered into to manage foreign currency exchange risk and are measured using the quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

All other financial assets and liabilities are measured at amortised cost.

Fixed swaps are valued using a simple discounted cash flow calculation. Asian options are valued using a combination of the Black Scholes and Black 76 formulas, where the inputs into the pricing model are the expected arithmetic average and the variance of the expected arithmetic average of the underlying. The treasury system used for the foreign currency hedges is SunGard Quantum and SunGard Kiodex for the Fuel commodity derivatives.

28.2 GOVERNANCE STRUCTURE

The SAA Board is charged with the responsibility of managing the airline's financial risks. It is assisted by the Audit and Risk Committee, which reviews all the financial risks of the organisation, as well as key financial decisions. The Audit and Risk Committee is a committee of the Board and it meets at least once per quarter and is supported by the Financial Risk Subcommittee (FRSC) which meets on a monthly basis. The FRSC is chaired by the Chief Financial Officer and its membership is made up of key representatives: Chief Risk Officer, Group Treasurer, Head Cash Management, Chief Dealer, Risk Manager, Financial Risk Manager, Fuel Management, Head Financial Accounting and CFOs of all the subsidiaries.

Risk management systems

SAA has implemented a Treasury risk analytical system with advanced analytics to assist SAA's Front Office in the hedging decisions in the hedging portfolios. The key for this tool is its ability to handle jet fuel price risk exposures using commodity pricing models and the aggregation of all the other risks to enable SAA to have a view of its financial risks in the treasury environment.

The capital risk and financial risk management is described below.

28.3 CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of share capital. The non-distributable reserves include general reserves and government restructuring funds, which are ring fenced for funding of the Group's restructuring activities to ensure that the entity returns to profitability with financial performance metrics similar to those of its world class peers. The debt includes long-term interest bearing borrowings and short-term borrowings, including accounts payable and bank overdrafts.

The Group uses short-term investment instruments to ensure continued funding of operations.

Refer to the going concern details as disclosed in Note 50, which notes the concern in respect of the risk that SAA is largely undercapitalised.

Aircraft and engine financing

Recent aircraft financing has been conducted using a sale and leaseback mechanism as a financing transaction. This type of structure is able to limit on balance sheet debt whilst acquiring much needed assets.

28. RISK MANAGEMENT (CONTINUED)

28.4 FINANCIAL RISK MANAGEMENT

The fundamental objective of financial risk management at SAA is to protect and, where possible, improve on future budgeted and forecast cash flows, and the financial performance and financial position of the Group, by:

- Protecting the Group from adverse market movements that manifest as financial downside for the business and endanger stakeholders (Shareholder, employees and the community), and threaten the sustainability and competitive position and reputational risk of the SAA Group in the market;
- Reducing the volatility and resultant uncertainty of operating revenues and cash flows that result from financial market volatility;
- Providing some price stability through improving the transparency of price mechanisms.

The main financial market risks faced by the Group are liquidity risk, credit risk and market risk which consist of interest rate risk, currency risk and commodity price risk.

The Board has a financial risk management policy with clearly defined objectives. This policy presents a framework and control environment that sets the limits within which management can leverage their experience and knowledge of the business together with financial risk management skills and a degree of innovation, to manage and mitigate financial risk on a day-to-day basis.

Liquidity risk

Liquidity risk is the risk that the Group does not meet its financial obligations on a cost effective and a timeous basis, and could result in reputational damage should a default occur.

The cash management and liquidity risk management processes are aimed at ensuring that the Group is managing its cash resources optimally, has sufficient funds to meet its day-to-day financial obligations, has established prudent limits on the percentage of debt that can mature in any financial year, is investing any cash surpluses in an appropriate and authorised way and has sufficient facilities in place to provide its relevant forecast liquidity requirement.

The principles for cash and liquidity management at SAA are as follows:

- Transactional banking relationships must be reviewed every five years. SAA Treasury is responsible for the recommendation of bankers through the normal tendering process within SAA and the Board will give final approval;
- All requests for the opening and closing of bank accounts and the management of bank account signatories are to be reviewed and approved by the Chief Financial Officer and the Group Treasurer;
- Prudent cash management practices must be implemented, including the use of a centralised pooled cash management bank account structure and systems, and the maintenance of minimum cash balances at operational level.

All companies within the Group are included in the cash management structure and form part of the cash and liquidity management practices of the Group.

Committed funding facilities

SAA is dependent on funding in the form of operating leases and loans in foreign currency and local currency, mainly for the purchase of aircraft and aircraft components and for funding SAA's operations. The volatility of the financial markets, SAA's financial standing and the difficulties experienced by the airline industry in general affect the availability of funding to airlines. Funding can sometimes be constrained to a limited number of counterparties at any given time. The underlying risk manifests in three forms:

- SAA loses committed funding from a particular counterparty due to that counterparty defaulting on an existing funding arrangement;
- SAA is unable to secure new funding at a particular time;
- SAA loses assets deposited as security deposits, defeasance deposits, or cash collateral on funding structures.

Cash and liquidity management takes into account the medium- to long-term funding plans of SAA as developed by the Funding Committee.

The following are the contractual maturities of financial liabilities based on undiscounted cash flows, excluding the impact of netting agreements and the derivative financial instruments that are out of the money at year end. The derivative financial instruments that are in the money are reflected as financial assets.

28. RISK MANAGEMENT (CONTINUED)

28.4 FINANCIAL RISK MANAGEMENT (CONTINUED)

Committed funding facilities (continued)

R MILLION	Carrying principal amount*	Contractual amount*	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
GROUP – 31 MARCH 2017**								
Non-derivative financial liabilities								
ZAR denominated secured loans	**15 944**	**18 033**	**6 612**	**1 748**	**150**	**299**	**7 713**	**1 511**
Accounts payable	**8 285**	**8 285**	**–**	**8 285**	**–**	**–**	**–**	**–**
Shareholder loan to share trust	**63**	**63**	**–**	**–**	**–**	**–**	**63**	**–**
Total	**24 292**	**26 381**	**6 612**	**10 033**	**150**	**299**	**7 776**	**1 511**
Derivative financial instruments								
Fuel – Asian options	**25**	**25**	**12**	**10**	**3**	**–**	**–**	**–**
FX – currency options	**9**	**9**	**–**	**4**	**5**	**–**	**–**	**–**
Forward exchange contracts – liabilities	**(1)**	**(1)**	**(1)**	**–**	**–**	**–**	**–**	**–**
Total	**33**	**33**	**11**	**14**	**8**	**–**	**–**	**–**

* *The carrying principal amount excludes interest while the contractual amount includes interest. This is applicable to non-derivative financial liabilities.*

** *A separate liquidity analysis has not been provided for the company, as the numbers do not differ significantly from the Group numbers.*

R MILLION	Carrying principal amount*	Contractual amount*	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
GROUP – 31 MARCH 2016**								
Restated								
Non-derivative financial liabilities								
ZAR denominated secured loans	14 058	14 067	–	3 116	41	3 099	6 311	1 500
Accounts payable	6 797	6 797	–	6 797	–	–	–	–
Shareholder loan to share trust	63	63	–	–	–	63	–	–
Total	20 918	20 927	–	9 913	41	3 162	6 311	1 500
Derivative financial instruments								
Fuel – Asian options	18	18	–	1	5	12	–	–
FX – currency options	66	66	23	22	16	5	–	–
Fuel – swap liabilities	(2)	(2)	–	–	–	(2)	–	–
Forward exchange contracts – liabilities	(2)	(2)	(1)	–	–	(1)	–	–
Total	80	80	22	23	21	14	–	–

* *The carrying principal amount excludes interest while the contractual amount includes interest. This is applicable to non-derivative financial liabilities.*

** *A separate liquidity analysis has not been provided for the company, as the numbers do not differ significantly from the Group numbers. Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.*

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28. RISK MANAGEMENT (CONTINUED)

28.4 FINANCIAL RISK MANAGEMENT (CONTINUED)

Other risks

Interest rate risk

Interest rate risk is the risk of increased financing cost due to adverse movements in market interest rates. Interest rate risk impacts SAA in the following forms:

- Increased cash costs in an increasing interest rate environment due to the Group's floating aircraft funding structures;
- The opportunity cost of funding at a higher rate in a declining interest rate environment due to the Group's fixed funding structures;
- The bulk of the Group's interest rate exposure is as a result of US$ denominated aircraft financing structures.

This portfolio is made up of operating leases and loans. The portfolio is highly sensitive to the movement of US interest rates. The Group is continually monitoring and adjusting its fixed/floating ratio to adapt to the changing dynamics of its business operations and to protect its statement of profit or loss and other comprehensive income and statement of financial position.

The objectives of managing interest rate risk are to:

- Design appropriate funding structures (fixed versus floating, and local versus foreign currency) through the Treasury and Finance departments;
- Reduce the cost of capital;
- Minimise the effect of interest rate volatility on the Group's financing expenditure;
- Manage the ratio of floating rate exposures to fixed rate exposures;
- Obtain optimal investment returns on surplus cash, while ensuring that credit risk is managed;
- Ensure that appropriate levels of liquidity are maintained, while remaining within the guidelines set by this policy;
- Ensure efficiency by restructuring interest rate exposure as and when necessary.

The Group is exposed to changes in interest rates on floating rate debt and cash deposits. Interest rate risk on borrowings and leases is managed through determining the right balance of fixed and floating debt within the financing structure. To manage the interest rate exposure, the Group Treasury keeps a reasonable amount of foreign cash deposits to offset to some degree the finance charges. The current SAA Group policy limits the maximum interest rate exposure to fixed debt at 75 percent and floating debt at 50 percent. As at 31 March 2017, the current interest rate exposure to fixed debt is 58 percent and 42 percent in respect of floating debt. Market conditions are considered when determining the desired balance of fixed and floating rate debt. The sensitivities of the Group's floating interest rate debt and cash deposits are calculated using the annualised volatility over the last five years.

28.5 CREDIT RISK MANAGEMENT

Credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial market instrument where the Group is a party to the transaction or failure to service debt according to contractual terms. Credit risk encompasses both the direct risk of default and the risk of deterioration of creditworthiness and the respective concentration risk.

The objectives of managing counterparty risk are to avoid contracting with any party that is not of an acceptable credit standing, formulate evaluation criteria of potential counterparties and implement monitoring measures and control processes for counterparty risk.

The Group is exposed to a number of types of counterparty risk as part of its normal business operations as described below:

Investment risk

Cash balances and investments held in a range of local and offshore bank accounts, in a range of currencies, which form part of SAA's cash management and revenue collection infrastructure.

Marginal risk

The Group makes use of derivative instruments in the foreign exchange, interest rate and commodity markets to mitigate the risk of adverse changes in cash flow and earnings that result from fluctuations in the financial markets. Counterparty risk arises on these derivative instruments when the hedging positions with counterparties have a positive net present value to SAA and are providing SAA with protection against adverse market movements in future. In this scenario SAA would lose the protection if the counterparty defaults on its obligation and SAA will have to replace this protection with similar hedging transactions at a higher cost. It is also important to note that, in the event that a counterparty goes into liquidation and its marginal risk position (net present value) is positive (an asset to the counterparty) with SAA, the company may be called on by the creditors of the counterparty to crystallise and settle the positions in question earlier than anticipated.

Counterparties are grouped in two major groups from a credit risk perspective:

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28. RISK MANAGEMENT (CONTINUED)

28.5 CREDIT RISK MANAGEMENT (CONTINUED)

Rated counterparties

Local and international banking and financial institutions, which are rated by major ratings agencies, and whose financial information is readily available.

Unrated counterparties

SAA needs to deal with and hold bank accounts in various locations with local banking institutions that may not be rated and for which there is very little or no financial information available. This is typically the case where there is no representation of any of the rated counterparties in such location and SAA has to use an unrated counterparty to fulfil normal operational banking requirements, or where it is agreed by the Board as a prerequisite for specific operating bases. The Group has therefore a very restricted mandate when dealing with any unrated counterparties.

The Group has operating accounts in some African countries which are not rated. The exposure to these banks is kept at a minimum.

Loans and receivables credit risk

The Group is exposed to credit risk relating to the nature of the distribution network for airline operations. The Group airline distribution network includes BSPs (these are IATA accredited travel agents) and general sales agents (GSAs) who are used in countries where there are no IATA accredited travel agents. Credit card debtors arise from the customers paying their fares using credit cards and the Group has to recover the money through the credit card financial institutions' clearing houses globally.

Other debtors mainly consist of loans receivable and fuel trading debtors. These are classified as other because they do not form part of the Group's normal operating activities. The Group manages its credit risk from trade receivables on the basis of an internally developed credit management policy. This policy sets out the credit limits and requirements for any credit enhancements. The Group holds a guarantee from a GSA as a prerequisite before it can accredit it to be part of its distribution network. The Group also requires some counterparties to provide guarantees in the form of cash and letters of credit as security for exposure. This is prevalent mainly on GSAs. The amount of guarantees is agreed upon based on the risk profile of the counterparty. The guarantees relating to BSP debtors are held directly by IATA for the benefit of all airlines exposed to a particular BSP.

Maximum exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

	GROUP		COMPANY	
R MILLION	2017	2016 Restated**	2017	2016 Restated**
Financial instruments				
Cash and cash equivalents	**2 872**	2 701	**2 484**	2 044
Amounts receivable from subsidiaries*	**–**	–	**1 212**	1 476
Derivative assets held-for-trading	**34**	84	**34**	84
Trade and other receivables	**4 807**	6 616	**4 662**	6 564
Investments	**29**	23	**29**	23
Maintenance reserve receivable	**1 777**	1 614	**1 710**	1 614

* *These amounts are not past due or impaired.*

** *Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.*

			IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND*		
	Foreign currency amount '000	Carrying amount R'000	+30%* -30% US$ R'000	+17%* -17% EUR R'000	+19%* -19% GBP R'000
Financial instruments					
Accounts receivable					
31 MARCH 2017					
US$ denominated	**277 624**	**3 723 948**	**1 117 184**	**–**	**–**
EUR denominated	**34 387**	**491 329**	**–**	**83 526**	**–**
GBP denominated	**7 675**	**129 201**	**–**	**–**	**24 548**
		4 344 478	**1 117 184**	**83 526**	**24 548**

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	Foreign currency amount '000	Carrying amount R'000	IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND* +21%* -21% US$ R'000	+17%* -17% EUR R'000	+15%* -15% GBP R'000

28. RISK MANAGEMENT (CONTINUED)

28.5 CREDIT RISK MANAGEMENT (CONTINUED)

Maximum exposure to credit risk
(continued)

Financial instruments

Accounts receivable

	Foreign currency amount '000	Carrying amount R'000	+21%* -21% US$ R'000	+17%* -17% EUR R'000	+15%* -15% GBP R'000
31 MARCH 2016					
US$ denominated	221 385	3 269 376	686 569	–	–
EUR denominated	30 856	518 553	–	88 154	–
GBP denominated	6 753	143 216	–	–	21 482
		3 931 145	686 569	88 154	21 482

* *The percentages used are based on the average movement over the past four years.*

The Group does not generally charge interest on any overdue accounts, therefore the accounts receivable are mainly sensitive to movements in major foreign currencies as detailed above.

28.6 MARKET RISK MANAGEMENT

Market risk comprises currency risk, interest rate risk and price risk.

Set out below is the impact of market risk on the Group's annual financial statements:

Currency risk

Foreign exchange risk is the risk of loss as a result of adverse movements in currency exchange rates. The biggest contributors to currency risk for the Group are foreign revenues earned at operating unit level, aircraft financing transactions and the covariance risks inherent in the Group's revenue and cost streams. The Group's approach to foreign currency risk management is to protect itself against exchange rate volatility and adverse movements in the exchange rate of the rand in relation to other currencies that the Group is exposed to. The Board made a decision to manage its foreign exchange risk exposures on a net exposure basis, ie taking into account the different currencies it receives in its revenue stream, the different currencies in which its cost base is denominated, and the underlying natural hedges that exist in its business operations. Foreign exchange risk is managed through the use of cash collection and conversion strategies and approved derivative financial instruments which are marked to market on a daily basis. The Group's policy on foreign exchange risk management is to hedge up to 75 percent of its exposure on an 18-month rolling basis.

The Group's currency risk is represented by the increased financial cost and/or cash requirements due to the net exposure between foreign revenue generated, foreign expenditure commitments and domestic revenues and expenditure commitments. The main objective of the currency risk management policy is to mitigate the potential for financial loss arising through unfavourable movements in exchange rates relative to the budget.

Foreign exchange risk will be managed on a net basis, including operating and capital exposures after taking the following into consideration:

- Source currencies for revenue and costs (US$, GBP and EUR);
- Both direct and indirect foreign exposure. Indirect foreign exposure is where SAA pays in ZAR, but the exposure is determined by using a US$ price, for example jet fuel uplifted in South Africa;
- Volatility of the rand versus US$, GBP and EUR and the correlation between these currencies;
- Foreign currency exposures are determined from the 18-month rolling ZAR and foreign cash budget. Foreign currency risk will be monitored and managed under the following principles:
  - The net foreign currency position will be monitored on a monthly basis by obtaining the net foreign currency position in all currencies from the 18-month rolling cash budget, including forecast foreign cash balances;
  - The accuracy of forecast revenues and costs are of critical importance when determining net foreign currency exposure. Management should take care to establish the levels of confidence in achieving forecast revenues and costs on an ongoing basis when designing hedging strategies;
  - The foreign versus domestic currency funding decision (loans/leases) should always consider current foreign currency risk management position and practices, since these decisions are a significant source of foreign currency exposure for the Group.

The decision to manage capital foreign currency exposures (such as leases and loans) should be combined with the business strategy, route planning and funding decisions (as appropriate), to ensure that funding and foreign currency risk management strategies are complementary to the business strategy and present the most relevant overall solution to the Group.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

28. RISK MANAGEMENT (CONTINUED)

28.6 MARKET RISK MANAGEMENT (CONTINUED)

Foreign exchange risk

The Group collects revenues in approximately 30 currencies other than ZAR, EUR, GBP and US$. The foreign risk of exotic currencies cannot be practically managed at the local currency level, therefore the cash management structure rolls local currency balances up into hard currency pool accounts on a weekly basis. Currency risk exposures are managed at the hard currency level, ie in US$, GBP and EUR versus ZAR.

The Group did not have any derivatives that qualified for hedge accounting in the current or prior year.

The year end exchange rates applied in the translation of the Group's foreign monetary assets and liabilities are as follows:

	2017	2016
Exchange rates used expressed in the number of rands per unit of foreign currency:		
United States dollar (US$)	**13,41**	14,77
Euro (EUR)	**14,29**	16,81
Pounds sterling (GBP)	**16,83**	21,21

	FOREIGN AMOUNT		RAND AMOUNT	
FIGURES IN MILLIONS	**2017**	**2016**	**2017**	**2016**
Foreign currency exposure at statement of financial position date				
The following debtors and creditors amounts included in the statement of financial position have not been covered by forward exchange contracts:				
Accounts receivable				
US dollar	**278**	221	**3 724**	3 269
Euro	**34**	31	**491**	519
UK pound	**8**	7	**129**	143
Hong Kong dollar	**14**	11	**24**	20
Danish krone	**2**	3	**4**	6
Swiss franc	**3**	2	**34**	30
Australian dollar	**2**	4	**23**	48
Brazilian real	**36**	29	**157**	119
Thai baht	**5**	3	**2**	1
Malawian kwacha	**797**	637	**15**	14
Other	**–**	–	**422**	453
			5 025	4 622
Accounts payable				
US dollar	**31**	28	**414**	418
Euro	**22**	17	**316**	283
UK pound	**2**	2	**41**	45
Australian dollar	**4**	3	**39**	39
Benin CFA Franc BCEAO	**322**	5	**7**	–
Other	**–**	–	**79**	64
			(896)	(849)
Accounts receivable as above			**5 025**	4 622
Net exposure			**4 129**	3 773

The Group reviews its foreign currency exposure, including commitments on an ongoing basis. The company expects to hedge foreign exchange exposure with foreign exchange contracts and currency options.

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28. RISK MANAGEMENT (CONTINUED)

28.6 MARKET RISK MANAGEMENT (CONTINUED)

Price risk associated with commodities

Jet fuel consumption is SAA's biggest cost contributor, representing approximately 22 percent of the Group's cost base. Jet fuel prices have a high level of uncertainty caused by supply shocks, demand patterns, currency fluctuations, market sentiment and political events. Jet fuel price risk is the risk of increased cash cost of jet fuel due to an increase in the prices of the various jet fuel product prices that the Group pays for physical jet fuel purchased around the globe.

SAA currently consumes approximately 101 million litres (2016: 101 million litres) of jet fuel per month. This means that any change in price will have a significant impact on the Group's performance.

The objectives of managing jet fuel price risk are to:

- Reduce the volatility of jet fuel costs and the effect of this volatility on cash flows and earnings, ie price stability;
- Limit the impact of derivative instruments on the Group's financial position and performance;
- Occupy a competitive position in the airline industry in terms of jet fuel price risk management, negating the competitive advantage that competitors derive from their jet fuel risk management strategies;
- Utilise any backwardation in the energy forward curves to reduce future jet fuel costs;
- Provide a protection buffer during times of elevated jet fuel prices;
- Continually and dynamically transact a minimum amount of hedging in the financial markets;
- Ensure that hedging prices are averaged into the market and that large hedges are not transacted at single points in time, which may represent the peak of the market.

The Group manages its jet fuel price risk exposures using derivative financial instruments. All derivative contracts are marked to market and are cash settled. The Group's risk policy permits the organisation to manage its jet fuel price risk exposures using the underlying products such as International Crude Exchange (ICE), Brent Crude Oil, ICE Gas Oil 0,5 percent, Gas Oil, Western Texas Intermediate (WTI), FOB ARAB Gulf 0,5 percent and Jet Kerosene (North West Europe) NWE. It is SAA's policy to hedge a maximum of 60 percent of its jet fuel price risk exposures on an 18-month rolling basis with no minimum hedge percentage.

Sensitivity analysis

The Group sensitivity analysis would include the sensitivity of annual financial statements to currency risk based on US$, which carries a greater impact on the Group, the interest rate risk sensitivity to LIBOR and JIBAR, the other price risk sensitivity mainly driven by the price per barrel of oil based commodity derivatives.

The following sensitivity analysis was determined based on the 12-month horizon with reasonable possible change at year end. Management has determined the reasonable possible change using market input and historical data. The 12 months was considered appropriate as the Group only publishes its results annually and has reasonable expectations for uncertainties in the 12-month horizon. For internal reporting to the Audit and Risk Committee, a one-month horizon is utilised.

			CURRENCY*		COMMODITY PRICE DERIVATIVES*	
	Foreign currency amount ‘000	Carrying amount R'000	Profit/(loss) impact -30% US$ R'000	Profit/(loss) impact +30% US$ R'000	Loss impact -40% Brent -38% WTI -38% gas oil -33% jet fuel R'000	Profit impact +40% Brent +38% WTI +38% gas oil +33% jet fuel R'000
GROUP AND COMPANY**						
Derivative financial instruments						
31 MARCH 2017						
ICE Brent commodity derivatives						
Call spreads	1 815	24 346	(7 304)	7 304	21 461	27 016
Asian call options	18	241	(72)	72	162	368
US$ foreign exchange derivatives						
European options	–	8 688	(1 003)	1 092	–	–
Forward exchange contracts – liabilities	–	(609)	(75)	75	–	–
		32 666	(8 454)	8 543	21 623	27 384

28. RISK MANAGEMENT (CONTINUED)

28.6 MARKET RISK MANAGEMENT (CONTINUED)

Sensitivity analysis (continued)

GROUP AND COMPANY**

			CURRENCY*		COMMODITY PRICE DERIVATIVES*	
	Foreign currency amount ‘000	Carrying amount R’000	Profit/(loss) impact -21% US$ R’000	Profit/(loss) impact +21% US$ R’000	Loss impact -34% Brent -32% WTI -32% gas oil -28% jet fuel R’000	Profit impact +34% Brent +32% WTI +32% gas oil +28% jet fuel R’000
Derivative financial instruments						
31 MARCH 2016						
ICE Brent commodity derivatives						
Fixed swaps – liabilities	(127)	(1 875)	394	(394)	(3 123)	(627)
Call spreads	400	5 905	(1 240)	1 240	5 146	6 712
Asian call options	823	12 153	(2 552)	2 552	10 344	14 227
ICE gas oil commodity derivatives						
Call spreads	12	179	(38)	38	134	234
US$ foreign exchange derivatives						
European options	–	65 549	(64 545)	165 823	–	–
Forward exchange contracts – liabilities	–	(2 402)	(1 614)	–	–	–
		79 509	(69 595)	169 259	12 501	20 546

* *The percentages are based on the average movement over the past four years.*
** *A separate liquidity analysis has not been provided for the company, as the numbers do not differ significantly from the Group numbers.*

R MILLION	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
28. RISK MANAGEMENT (CONTINUED)				
28.6 MARKET RISK MANAGEMENT (CONTINUED)				
Fair value hierarchy and fair value measurements of all financial assets and liabilities held at fair value:				
GROUP AND COMPANY				
31 MARCH 2017				
Assets				
Jet fuel options	**–**	**25**	**–**	**25**
Currency derivatives	**–**	**9**	**–**	**9**
	–	**34**	**–**	**34**
Liabilities				
Currency derivatives	**–**	**1**	**–**	**1**
	–	**1**	**–**	**1**
31 MARCH 2016				
Assets				
Jet fuel options	–	18	–	18
Currency derivatives	–	66	–	66
	–	84	–	84
Liabilities				
Jet fuel forward exchange contracts and swaps	–	2	–	2
Currency derivatives	–	2	–	2
	–	4	–	4

Fair value measurements

The fair values of jet fuel options, currency derivatives and jet fuel forward exchange contracts and swaps are valued using a market approach. Inputs into the fair value measurement, include interest rates and yield curves at commodity quoted intervals, interest rates and applied volatilities. There was no change in the fair value measurement during the current financial year.

Fair value hierarchy

The table above analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identifiable assets and liabilities;
- Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (ie from prices) or indirectly (ie derived from prices);
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial statement items for which fair value is recognised or disclosed are categorised within the fair value hierarchy as described above. Please refer to Note 12 for the valuation techniques and inputs used to determine the fair value of revalued land and buildings. The fair value of long-term loans as disclosed in Note 24 can be determined by calculating the present value of future principal and interest cash flows, discounted at the market rate of interest for similar liabilities at the reporting date. The fair values of financial liabilities such as trade and other payables and the bank overdraft have not been disclosed, as their carrying values will be a reasonable approximation of their fair values, due to the short-term nature of these instruments, similarly the fair values of financial assets such as trade and other receivables and cash and cash equivalents will not be disclosed as well. Please refer to Note 28.1 for the valuation techniques and inputs used to determine the fair value of the Investment in SA Airlink, this investment is classified as a level 3 instrument, the valuation of this investment resulted in a R5 million gain being recognised in other comprehensive income in the current financial year. There were no changes in any of the fair value measurements during the current financial year.

28. RISK MANAGEMENT (CONTINUED)

28.6 MARKET RISK MANAGEMENT (CONTINUED)

			CURRENCY[1]		INTEREST RATE[1]	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -30% US$ R'000	Profit/(loss) impact +30% US$ R'000	Profit/(loss) impact -12 BPS US$ -30 BPS ZAR R'000	Profit/(loss) impact +12 BPS US$ +30 BPS ZAR R'000
GROUP AND COMPANY						
Non-derivative financial instruments						
31 MARCH 2017						
Secured borrowing – JIBAR floating debt (ZAR denominated)	–	**15 943 934**	–	–	**47 832**	**(47 832)**
Accounts payable (US$ denominated)	**30 836**	**413 625**	**124 088**	**(124 088)**	–	–
ZAR based bank overdraft	–	**683 579**	–	–	**2 051**	**(2 051)**
Total financial liabilities		**17 041 138**	**124 088**	**(124 088)**	**49 883**	**(49 883)**
Foreign cash and cash equivalents (Favourable cash – US$ equivalent)	**180 220**	**2 417 404**	**(725 221)**	**725 221**	**(2 901)**	**2 901**
ZAR based cash and cash equivalents (Favourable cash)	–	**455 341**	–	–	**(1 366)**	**1 366**
Total financial assets		**2 872 745**	**(725 221)**	**725 221**	**(4 267)**	**4 267**

			CURRENCY[1]		INTEREST RATE[1]	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -21% US$ R'000	Profit/(loss) impact +21% US$ R'000	Profit/(loss) impact -16 BPS US$ -54 BPS ZAR R'000	Profit/(loss) impact +16 BPS US$ +54 BPS ZAR R'000
GROUP AND COMPANY						
Non-derivative financial instruments						
31 MARCH 2016						
Restated*						
Secured borrowing – JIBAR floating debt (ZAR denominated)	–	14 058 308	–	–	75 915	(75 915)
Accounts payable (US$ denominated)	28 301	417 938	87 767	(87 767)	–	–
ZAR based bank overdraft	–	23 177	–	–	125	(125)
Total financial liabilities		14 499 423	87 767	(87 767)	76 040	(76 040)
Foreign cash and cash equivalents (Favourable cash – US$ equivalent)	134 376	1 984 438	(416 732)	416 732	(3 175)	3 175
ZAR based cash and cash equivalents (Favourable cash)	–	717 323	–	–	(3 874)	3 874
Total financial assets		2 701 761	(416 732)	416 732	(7 049)	7 049

* *Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.*

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28. RISK MANAGEMENT (CONTINUED)

28.6 MARKET RISK MANAGEMENT (CONTINUED)

	Foreign currency amount '000	Carrying amount R'000	Impact on other components of equity in Rand(1) +17% -17% EUR/US$ R'000	+19% -19% GBP/US$ R'000
GROUP AND COMPANY				
Non-derivative financial instruments				
31 MARCH 2017				
Denominated in EUR and GBP(2)				
Accounts payable – EUR	**22 131**	**316 219**	**53 757**	**–**
Accounts payable – GBP	**2 438**	**41 048**	**–**	**7 799**
		357 267	**53 757**	**7 799**

	Foreign currency amount '000	Carrying amount R'000	Impact on other components of equity in Rand(1) +17% -17% EUR/US$ R'000	+15% -15% GBP/US$ R'000
GROUP AND COMPANY				
Non-derivative financial instruments				
31 MARCH 2016				
Denominated in EUR and GBP(2)				
Accounts payable – EUR	16 812	282 538	48 031	–
Accounts payable – GBP	2 133	45 242	–	6 786
		327 780	48 031	6 786

(1) The percentages are based on the average movement over the past four years.
(2) The Group does not incur any interest on accounts payable.

Lease commitments

The Group lease commitments are mainly denominated in US$. Some of these commitments are fixed while some have a floating LIBOR rate linked component. SAA is therefore through its lease commitments exposed to both interest rate risk and foreign currency risk. Interest rates on these leases are linked to one, three and six months LIBOR rates. These are not specifically hedged but are considered part of the net exposure for hedging purposes on foreign exchange.

Foreign defined benefit obligations

The Group is also exposed to foreign currency risk relating to its foreign defined benefit obligations. The German Pension Fund obligation is denominated in Euro. Any movement is currency based on this fund and reasonable possible changes in the Euro would further impact the Group exposure to foreign currency risk and SAA hedges this exposure on a net portfolio hedge basis.

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R MILLION	Notes	GROUP 2017	GROUP 2016 Restated	COMPANY 2017	COMPANY 2016 Restated
29. EMPLOYEE BENEFIT EXPENSES					
29.1 SHORT-TERM EMPLOYEE BENEFIT EXPENSES					
Personnel and labour costs		**5 622**	5 311	**3 650**	3 446
Contribution to medical funds		**69**	67	**51**	47
		5 691	5 378	**3 701**	3 493
29.2 POST-EMPLOYMENT BENEFIT EXPENSES*					
Contribution to pension funds		**423**	408	**295**	281
Contribution to provident funds		**57**	64	**57**	64
Current-service cost		**18**	17	**18**	17
Interest cost		**151**	130	**151**	130
Return on plan assets		**(209)**	(166)	**(209)**	(166)
		440	453	**312**	326
Total employee benefit expenses	5	**6 131**	5 831	**4 013**	3 819

* *These costs relate to other post-employment and other long-term employee benefit plans for the Group. The post-employment benefit costs have been disclosed in Note 32.*

R MILLION	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
30. RETIREMENT BENEFITS				
Post-retirement medical benefits	**(26)**	(26)	**(26)**	(26)
Retirement benefit obligation	**(95)**	(102)	**(95)**	(102)
Retirement benefit asset	**26**	38	**26**	38
	(95)	(90)	**(95)**	(90)
Non-current assets	**26**	38	**26**	38
Non-current liabilities	**(121)**	(128)	**(121)**	(128)
	(95)	(90)	**(95)**	(90)
31. OTHER LONG-TERM LIABILITIES				
Shareholder loan to South African Airways				
Employee Share Trust	**63**	63	**–**	–
Engine power by the hour liability	**253**	–	**253**	–
	316	63	**253**	–

The Shareholder loan to the South African Airways Employee Share Trust was created when the class E shares were transferred into the South African Airways Employee Share Trust from the Shareholder. The loan is interest-free and is repayable on the winding up of the South African Airways Employee Share Trust. It is unlikely that the South African Airways Employee Share Trust will be wound up during the 2017/2018 financial year and therefore has been classified as long-term.

The engine power by the hour liability relates to catch-up payments that the Group will pay for engines previously not covered by power by the hour agreements. This relates to the non-current portion of the liability, the current portion is disclosed under "Other payables" in Note 25.

32. EMPLOYEE BENEFIT INFORMATION

32.1 SAA GROUP PENSION BENEFITS

The Group offers pension benefits through two defined benefit pension funds and various defined contribution funds. The Transport Pension Fund was previously known as the Transnet Pension Fund, the name was amended in November 2005. The Transnet Pension Fund Amendment Act restructured the Transport Pension Fund into a multi-employer pension fund. From the date this Act came into operation, all existing members, pensioners, dependant pensioners, liabilities, assets, rights and obligations of the Transport Pension Fund are attributable to a subfund, with Transnet as the principal employer.

The amended Rules of the Fund establish a subfund in the name of South African Airways SOC Limited (SAA Group) from 1 April 2006. A further subfund in the name of South African Rail Commuter Corporation Limited was established with effect from 1 May 2006. The third subfund currently in existence is the Transnet subfund.

The SAA Group also offers post-retirement medical benefits to its employees through various funds of its own.

Exposure to risks

The risks faced by the Group as a result of the post-employment benefit obligation can be summarised as follows:

- **Inflation:** The risk that future CPI inflation is higher than expected and uncontrolled;
- **Longevity:** The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected;
- **Open-ended, long-term liability:** The risk that the liability may be volatile in the future and uncertain;
- **Future changes in legislation:** The risk that changes to legislation with respect to the post-employment liability may increase the liability for the Group;
- **Future changes in the tax environment:** The risk that changes in the tax legislation governing employee benefits may increase the liability for the Group;
- **Administration:** Administration of this liability poses a burden to the Group.

32.1.1 Transnet retirement fund (TRF)

The fund was structured as a defined contribution fund from 1 November 2000. All employees of SAA are eligible members of the fund. There were 4 101 members (2016: 4 703) at 31 March 2017. Actuarial valuations are done, at intervals not exceeding three years, to determine its financial position. The last actuarial valuation was performed at 31 March 2017. The actuaries were satisfied with the status of the members' credit account then. The Group's contributions for the period to 31 March 2017 amounted to R446 million (2016: R427 million).

32.1.2 SAA subfund of the transport pension fund

The fund is a closed defined benefit pension fund. Members are current employees of the SAA Group who elected to remain as members of the fund at 1 November 2000 and pensioner members who retired subsequent to that date. There were 61 active members (2016: 70) and 298 pensioners (2016: 304) at 31 March 2017. An actuarial valuation was done as at 31 March 2017 based on the projected unit credit method.

The benefits for the members of the fund are determined based on the formula below:

A member with at least 10 years' pensionable service is entitled to the following benefits on attaining the minimum retirement age: An annual pensionable salary equal to average pensionable salary multiplied by pensionable service multiplied by accrual factor plus a gratuity equal to a third of annual pension multiplied by gratuity factor. A member with less than 10 years of pensionable service is entitled to a gratuity equal to twice the member's own contributions without interest on attaining the age limit.

The asset splits between the three subfunds were calculated, based on the proportional allocation of benefit liabilities to be transferred to each subfund, and presented to the Board of the fund. The physical split has been agreed by the principal employers and the subfunds' Boards.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 63.

The Group expects to make a contribution of R5.7 million (2017: R5.9 million) to the defined benefit plan during the next financial year.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

PERCENT	2017	2016
32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)		
32.1 SAA GROUP PENSION BENEFITS (CONTINUED)		
32.1.2 SAA subfund of the transport pension fund (continued)		
Principal actuarial assumptions used:		
Discount rate	**9,12**	9,26
Inflation	**6,53**	6,94
Salary increases		
– Inflation	**7,53**	7,94
Pension increases		
– First three years	**4,90**	5,21
– After three years	**4,90**	5,21

R MILLION	2017	2016
Benefit asset		
Present value of obligation	**(1 575)**	(1 592)
Fair value of plan assets	**2 372**	2 261
Surplus	**797**	669
Asset not recognised	**(771)**	(631)
Net asset per the statement of financial position	**26**	38
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	**(1 592)**	(1 625)
Service cost	**(10)**	(10)
Interest cost	**(142)**	(122)
Remeasurement	**30**	46
Benefits paid	**143**	123
Member contributions	**(4)**	(4)
Closing fair value of obligation	**(1 575)**	(1 592)
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	**2 261**	2 132
Return on plan assets	**203**	161
Remeasurement	**43**	82
Employer's contributions	**5**	5
Benefits paid	**(144)**	(123)
Member contributions	**4**	4
Closing fair value of plan assets	**2 372**	2 261

PERCENT	2017	2016
The major categories of plan assets as a percentage of total plan assets are:		
Equity	**33**	34
Property	**7**	8
Bonds	**22**	22
Cash	**13**	9
International	**25**	27
Total	**100**	100

R MILLION	2017	2016
Current-service cost	**10**	10
Interest on obligation	**142**	122
Return on plan assets	**(203)**	(161)
	(51)	(29)

The plan has a surplus that is not recognised on the basis that future economic benefits are not available to the Group in the form of a reduction in future contributions or a cash refund.

32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

32.1 SAA GROUP PENSION BENEFITS (CONTINUED)

32.1.2 SAA subfund of the transport pension fund (continued)

The net remeasurement loss on this defined benefit plan of R9 million (2016: gain of R2 million) per Note 41 is arrived at by reducing the net remeasurement gain of R73 million (2016: R128 million) above by R82 million (2016: R126 million), which is the net change in the surplus asset that may not be recognised per the actuarial valuation.

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately R445 million (2016: R454 million) relating to active employees, RNil (2016: RNil) relating to deferred members and R1 130 million (2016: R1 138 million) relating to members in retirement.

The plan assets are primarily invested in equities and bonds (with a majority in equities). This exposes the Fund to a slight concentration of market risk. If the plan assets are not adequate or suitable to fund the liabilities of the fund (and the nature thereof) the Group will be required to fund the balance, hence exposing the Group to risks on the investment return.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	**1%**	**Decrease by 9,0%**	**Increase by 8,3%**
Inflation rate	**1%**	**Increase by 6,2%**	**Decrease by 7,5%**
Pension increase rate increased to 5,5%	**0,60%**	**Decrease by 11,5%**	**N/A**

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

32.2 MEDICAL BENEFITS

32.2.1 SAA Group employees' post-retirement medical benefits

The Group has an arrangement with its employees whereby SAA subsidises its members for post-retirement medical benefits. The post-retirement medical benefits obligation relates to SAA Group continuation and in-service members who are members of Transnet, and who retired after 31 March 1990 or are still employees of SAA; employees who participate in the Discovery Health Medical Scheme; employees who participate in the Bonitas Medical Scheme and those who do not belong to a medical scheme.

There were 687 continuation members (2016: 719) and 4 777 in-service members (2016: 4 242) at 31 March 2017. The expected retirement age is 63 years and there is no allowance for early retirement. The average age of the continuation members was 70,6 years (2016: 70,8 years) and the average age of the in-service members was 41,0 years (2016: 41,8 years) at 31 March 2017. The Group expects to make a contribution of R1.8 million (2017: R1.9 million) to the defined benefit plan during the next financial year.

32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

32.2 MEDICAL BENEFITS (CONTINUED)

32.2.1 SAA Group employees' post-retirement medical benefits (continued)

	2017	2016
Eligible in-service members:		
Number of members		
Male	**2 375**	1 975
Female	**2 402**	2 267
	4 777	4 242
Average age and average past service		
Average age (years)	**41,0**	41,8
Average past service (years)	**14,0**	25,4
Eligible continuation members:		
Number of members		
Male	**532**	579
Female	**155**	140
	687	719
Average age		
Average age (years)	**70,6**	70,8

SAA subsidises continuation and in-service members with a fixed amount of R213 (2016: R213) per month in retirement. The amount is fixed irrespective of the number of dependants on the medical scheme. Dependants of members who die while in-service continue to receive this amount. To enable the SAA Group to fully provide for such post-retirement medical aid liabilities, since April 2000 actuarial valuations are obtained annually, as required by IAS 19 – Employee benefits. There are no assets held to fund the obligation.

Risks involved in maintaining the post-employment healthcare obligation

The risks faced by SAA as a result of the post-employment healthcare obligation can be summarised as follows:

- **Longevity:** The risk that pensioners live longer than expected and thus their healthcare benefit is payable for longer than expected;
- **Open-ended, long-term liability:** The risk that the liability may be volatile in the future and uncertain;
- **Future changes in legislation:** The risk that changes to legislation with respect to the post-employment healthcare liability may increase the liability for SAA;
- **Future changes in the tax environment:** The risk that changes in the tax legislation governing employee benefits may increase the liability for SAA;
- **Perceived inequality by non-eligible employees:** The risk of dissatisfaction of employees who are not eligible for a post-employment healthcare subsidy;
- **Administration:** Administration of this liability poses a burden to SAA;
- **Enforcement of eligibility criteria and rules:** The risk that eligibility criteria and rules are not strictly or consistently enforced.

Allocation of liability to SAA Group

The net benefit costs are allocated to subsidiaries of Transnet based on the demographic distribution of the Transnet Medical Scheme members across units.

Any deficit or liability for post-retirement medical benefits, incurred prior to 31 March 1999, is by agreement between Transnet Limited and SAA, for the account of Transnet Limited. Any liability directly attributable to the airline after 1 April 1999 will be for SAA's account.

The economic assumptions have been set in relation to the duration of the liability as at 31 March 2016 of 11,8 years. The duration of the liability as at 31 March 2017 is 8,8 years.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 63.

The projected unit credit method has been used for the purposes of determining an actuarial valuation of post-retirement medical benefits as at 31 March 2017.

32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

32.2 MEDICAL BENEFITS (CONTINUED)

32.2.1 SAA Group employees' post-retirement medical benefits (continued)

The table below summarises the components of net benefit expense recognised in both the statement of profit or loss and other comprehensive income and the statement of financial position for the SAA Group as at 31 March 2017 for SAA Group employees.

The principal actuarial assumptions used were as follows:

PERCENT	2017	2016
Discount rate	**9,00**	10,05

R MILLION	2017	2016
Net benefit liability		
Present value of unfunded benefit obligations	**26**	26
Changes in the present value of defined benefit obligations are as follows:		
Opening liability	**26**	29
Service cost	**2**	1
Interest cost	**1**	2
Remeasurement	**(1)**	(5)
Benefits paid	**(2)**	(1)
Benefit liability at year end	**26**	26
Amounts recognised in the statement of profit or loss and other comprehensive income		
Current-service cost	**2**	1
Interest on obligation	**1**	2
	3	3

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	**1%**	**Decrease by 9,4%**	**Increase by 11,4%**
Expected retirement age	**one year**	**Decrease by 5,0%**	**Increase by 5,7%**

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the medical liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

32.3 SA GERMAN PENSION FUND BENEFITS

SAA operates a retirement plan for its permanent employees based in Germany. The scheme is a defined benefit fund. The scheme consists of three groups which are entitled to different benefits as follows:

Group 1: Those in the employment of SAA before 1976. All employees who were members in this group have retired and the scheme has therefore been closed with effect from March 2004;

Group 2: Those in the employment of SAA from April 1976 to December 1988;

Group 3: All new employees who joined SAA after 1 January 1989.

The benefits payable to groups 2 and 3 are determined with reference to the rules of the scheme and are based on the percentage of the average salary for the last 12 months multiplied by the number of years of pensionable service plus a cash lump sum. The retirement age for all employees is 63 years.

The Group expects to make a contribution of R2.6 million (2017: R3.3 million) to the defined benefit plan during the next financial year.

32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

32.3 SA GERMAN PENSION FUND BENEFITS (CONTINUED)

Actuarial valuations

Actuarial valuations in terms of the rules of the scheme are done at intervals not exceeding three years to determine its financial position. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out in March 2017 using the projected unit credit method.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 63.

PERCENT	2017	2016
Principal actuarial assumptions used:		
Discount rate	**1,74**	1,94
Salary increases	**1,50**	1,00
Pension increases per three years	**3,00**	3,00

R MILLION	2017	2016
Benefit liability		
Present value of obligation	**(378)**	(427)
Fair value of plan assets	**283**	325
Net liability per the statement of financial position	**(95)**	(102)
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	**427**	338
Service cost	**6**	6
Interest cost	**8**	6
Exchange differences on foreign plans	**(65)**	98
Benefits paid	**(15)**	(13)
Remeasurement	**17**	(8)
Closing present value of obligation	**378**	427
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	**325**	276
Exchange differences on foreign plans	**(49)**	76
Return on plan assets	**6**	5
Remeasurement	**14**	(21)
Benefits paid	**(16)**	(14)
Employer's contribution	**3**	3
Closing fair value of plan assets	**283**	325

PERCENT	2017	2016
The major categories of plan assets as a percentage of total plan assets are:		
Equity	**28**	27
Cash	**51**	51
Other	**21**	22
Total	**100**	100

R MILLION	2017	2016
Current-service cost	**6**	6
Interest on obligation	**8**	6
Return on plan assets	**(6)**	(5)
	8	7

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately R116 million (2016: R130 million) relating to active employees, R24 million (2016: R26 million) relating to deferred members and R238 million (2016: R271 million) relating to members in retirement.

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32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

32.3 SA GERMAN PENSION FUND BENEFITS (CONTINUED)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0,5%	Decrease by 7,2%	Increase by 8,2%
Salary increase rate	0,5%	Increase by 1,8%	Decrease by 1,7%
Pension increase rate	0,5%	Increase by 1,9%	Decrease by 1,8%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The net liability per the statement of financial position is denominated in Euro and is translated to South African rand using the closing Rand/Euro exchange rate at year end. As per Note 28.6, the average movement in the Rand/Euro exchange rate over the past four years was 17 percent (2016: 17 percent), therefore a 17 percent change in the Rand/Euro exchange rate will lead to a change of R16.2 million (2016: R17.3 million) in the net liability recognised at year end.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

32.4 FLIGHT DECK CREW (FDC) DISABILITY BENEFIT

SAA has an agreement with FDC members who are on permanent employment to top up the disability benefits payable by the Transnet Retirement Fund and the SAA Retirement Fund. In terms of the rules of the Transnet Retirement Fund all employees are entitled to 75 percent of the members' pensionable salary payable when a member becomes disabled before the normal retirement age of 63. The agreement with FDC members is for SAA to pay a further 25 percent in addition to what the member would receive from the pension fund in the case of disability. The members or SAA make no additional contribution towards these benefits, and these benefits are therefore unfunded.

In the past, SAA has recognised the full obligation in the financial statements as there were no plan assets or insurance cover in place of these promised benefits. In 2007, SAA took an insurance policy to cover the 25 percent additional benefit to pilots, which resulted in SAA no longer having a legal or constructive obligation to fund the disability benefit.

	NUMBER OF SHARES	
	2017	2016
32.5 SHARE-BASED PAYMENTS		
32.5.1 FDC share scheme		
The FDC Share Scheme was created for flight deck crew members and Transnet Limited allocated 40 150 000 class E ordinary R1,00 shares of SAA to the scheme. These shares are held as follows:		
South African Airways Employee Share Trust	**3 431 418**	3 431 418
	3 431 418	3 431 418
32.5.2 Share incentive scheme		
The scheme granted two types of shares, ie joining and promotional shares to management. The promotional shares had a 12-month vesting period and the joining shares had a 24-month vesting period. Vesting was calculated from 1 April 1999 or when the employee joined the company. The employees could exercise these options at 25 percent per annum after vesting took place. These shares are held as follows:		
South African Airways Employee Share Trust	**23 005 660**	23 005 660
	23 005 660	23 005 660

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	NUMBER OF SHARES 2017	NUMBER OF SHARES 2016
32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)		
32.5 SHARE-BASED PAYMENTS (CONTINUED)		
32.5.3 EMPLOYEE SHARE OWNERSHIP PROGRAMME (ESOP)		
This scheme was implemented in March 2001, granting employees in service of SAA on or before 1 April 1999 options to purchase shares at R1,00 per share. These shares vested over a three year period and were fully vested as at 31 March 2004. These shares are held as follows:		
South African Airways Employee Share Trust	**91 141 728**	91 141 728
	91 141 728	91 141 728

32.6 EMPLOYEE WELLNESS PROGRAMME

The Group offers employees and their immediate families access to an holistic health and wellness programme, providing life skills, awareness, counselling and education programmes to promote healthy lifestyles and coping skills. The programme is aimed at providing support covering a whole range of health and medical conditions, including HIV and Aids.

32.7 TRAVEL BENEFITS

The Group offers certain air travel benefits to both current employees and retirees. A percentage of the face value of the air ticket is normally paid in respect of the benefit (with such percentage exceeding the marginal cost of supplying the service) and the ticket is only issued on a "standby" basis, with fare paying passengers always having preference. Employees and retirees may only fly if there is available space on the flight.

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R THOUSAND	2017	2016
33. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES		
Executive directors' emoluments		
Mango Airlines SOC Limited		
Mr N Bezuidenhout(1)		
Salary	1 613	2 064
Other benefits(2)	3 074	–
	4 687	2 064
Ms P Luhabe		
Salary	1 330	1 088
Variable pay	–	489
	1 330	1 577
Ms M Labuschagne		
Salary	1 668	1 348
Variable pay	–	529
	1 668	1 877
SAA Technical SOC Limited		
Mr M Zwane		
Salary	3 711	3 452
Allowance	360	360
	4 071	3 812
Mr D Erriah		
Salary	2 033	1 904
	2 033	1 904
Mr A Malola-Phiri(3)		
Salary	413	606
Retirement fund contributions	16	34
	429	640
Air Chefs SOC Limited		
Mr M Kemp		
Salary	1 396	1 289
Retirement fund contributions	139	128
Allowance	635	587
	2 170	2 004
Mr L Hudson		
Salary	1 599	1 498
	1 599	1 498
South African Airways City Center SOC Limited		
Ms GB Koyana(4)		
Salary	–	378
Other benefits(5)	–	1 846
	–	2 224

(1) *Resigned 30 September 2016.*

(2) *This payment relates to a variable payment in respect of March 2015 financial performance. Board approval received and made in June 2016. It also includes leave paid out.*

(3) *Appointed as Acting CEO from 23 November 2015 until 31 May 2016.*

(4) *Resigned 30 June 2015.*

(5) *Other benefits relate to amounts paid on termination of contract.*

R THOUSAND	2017	2016
33. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES (CONTINUED)		
Non-executive directors' emoluments		
Mango Airlines SOC Limited		
Mr R Wally[(6)]	**589**	498
Mr T Adams[(7)]	**102**	158
Ms L Barnard[(6)]	**230**	61
Dr JE Tambi[(8)]	**34**	–
	955	717
SAA Technical SOC Limited		
Ms Y Kwinana[(9)]	**250**	601
Dr JE Tambi[(10)]	**53**	128
Mr AD Dixon[(11)]	**–**	21
Mr AH Moosa[(12)]	**64**	–
Mr SS Buthelezi[(12)]	**300**	–
Ms TN Mgoduso[(12)]	**64**	–
	731	750
Air Chefs SOC Limited		
Ms DC Myeni[(13)]	**40**	89
Dr JE Tambi[(14)]	**148**	37
Ms JG Sepamla[(12)]	**222**	–
Ms BS Tshabalala[(12)]	**48**	–
Mr M Malunga[(12)]	**48**	–
	506	126
South African Airways City Center SOC Limited		
Ms Y Kwinana[(9)]	**27**	65
Mr T Lehasa	**–**	–
Dr JE Tambi[(15)]	**27**	38
	54	103

(6) Resigned 31 March 2017.
(7) Resigned 31 October 2016.
(8) Appointed 6 July 2016 and resigned 31 January 2017.
(9) Resigned 23 August 2016.
(10) Released 1 September 2016.
(11) Appointed 26 August 2015 and resigned 30 October 2015.
(12) Appointed 30 September 2016.
(13) Appointed 28 May 2015 and resigned 30 September 2016.
(14) Appointed 4 March 2016 and released 1 September 2016.
(15) Appointed 26 August 2015 and released 1 September 2016.

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R MILLION	GROUP 2017	GROUP 2016 Restated*	GROUP 2015 Restated*	COMPANY 2017	COMPANY 2016 Restated*	COMPANY 2015 Restated*
34. TAXATION						
Major components of the tax expense						
Current						
Local income tax – current year	**–**	(2)	(20)	**–**	–	–
Deferred						
Deferred tax – current year	**(219)**	(98)	8	**–**	–	–
Deferred tax recognised on components of other comprehensive income – current year	**(30)**	–	(25)	**–**	–	–
	(249)	(100)	(37)	**–**	–	–
Reconciliation of the tax expense						
Reconciliation between accounting loss and tax expense:						
Accounting loss	**5 350**	1 378	6 130	**6 451**	1 314	5 718
Tax at the applicable tax rate of 28% (2016: 28%)	**1 498**	386	1 716	**1 806**	368	1 601
Tax effect of adjustments on taxable income						
Tax effect of non-taxable income	**219**	32	–	**45**	–	–
Tax effect of non-deductible expenses	**(244)**	(60)	(390)	**(239)**	(60)	(330)
Current year temporary differences for which no deferred income tax asset was recognised	**(414)**	(385)	(567)	**(447)**	(368)	(396)
Tax losses for which no deferred income tax asset was recognised	**(1 278)**	–	(796)	**(1 165)**	–	(875)
Assessed loss utilised	**–**	(73)	–	**–**	60	–
Deferred tax recognised in other comprehensive income	**(30)**	–	–	**–**	–	–
	(249)	(100)	(37)	**–**	–	–
Estimated tax losses available to be utilised against future taxable income	**20 324**	16 540	16 707	**19 408**	15 247	15 461

* *In prior years, the maintenance on aircraft capitalised to property, aircraft and equipment was incorrectly treated for tax purposes. Previously maintenance costs were depreciated for tax purposes in terms of section 12C of the Income Tax Act, but now these costs have been correctly claimed in terms of section 11(d), thus the reconciliation for the prior years has been restated. The reconciliation of deferred tax in Note 35 has also been restated. There was no change to the actual tax charge or deferred tax asset recognised in the prior years.*

R MILLION	GROUP 2017	GROUP 2016 Restated	GROUP 2015 Restated	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
35. DEFERRED TAX ASSET						
Temporary differences in respect of property, aircraft and equipment	**(497)**	(775)	(1 115)	**(519)**	(602)	(931)
Doubtful debts	**30**	30	29	**27**	25	25
Air traffic liability and other deferred income	**1 174**	1 180	839	**1 129**	1 133	799
Provisions	**1 928**	1 735	1 137	**1 633**	1 469	1 129
Prepayments	**112**	(94)	164	**113**	(93)	165
Differences due to changes in fair value of financial instruments	**(11)**	(25)	(51)	**(11)**	(25)	(51)
Consumable stock	**7**	–	–	**7**	–	–
Leased assets	**3**	4	4	**–**	–	–
Computed tax loss	**5 691**	4 631	4 678	**5 434**	4 269	4 329
	8 437	6 686	5 685	**7 813**	6 176	5 465
Deferred tax asset not recognised	**(8 404)**	(6 405)	(5 305)	**(7 813)**	(6 176)	(5 465)
Deferred tax asset recognised	**33**	281	380	**–**	–	–

Recognition of deferred tax asset

Deferred tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable income is probable. The Group did not recognise deferred tax assets of R8.4 billion (2016: R6.4 billion) in respect of losses amounting to R20.3 billion (2016: R16.5 billion) that can be carried forward against future taxable income. It is anticipated that there will be sufficient taxable income in future periods to support the recognition of the deferred tax asset reflected above.

R MILLION	GROUP 2017	GROUP 2016 Restated*	GROUP 2015 Restated*	COMPANY 2017	COMPANY 2016 Restated*	COMPANY 2015 Restated*
36. TAX PAID						
Movement in the deferred tax balance in the current year	**248**	99	18	**–**	–	–
Movement in the current tax receivable balance in the current year	**–**	(19)	(5)	**–**	–	–
Current tax recognised for the year	**(219)**	(100)	(37)	**–**	–	–
Deferred tax recognised in other comprehensive income in the current year	**(30)**	–	–	**–**	–	–
Tax paid in foreign jurisdictions	**(7)**	(16)	(16)	**(7)**	(16)	(16)
Tax paid per statement of cash flows	**(8)**	(36)	(40)	**(7)**	(16)	(16)

* *Tax paid was restated in the current and prior years in order to include the tax paid in foreign jurisdictions. Please refer to Note 5 for more details regarding prior year restatements.*

R MILLION	2017 Cost/ valuation	2017 Accumulated amortisation/ impairment	2017 Carrying value	2016 Restated Cost/ valuation	2016 Restated Accumulated amortisation/ impairment	2016 Restated Carrying value	2015 Restated Cost/ valuation	2015 Restated Accumulated amortisation/ impairment	2015 Restated Carrying value
37. INTANGIBLE ASSETS									
GROUP									
Software development	**469**	**(358)**	**111**	599	(509)	90	557	(474)	83
Internet booking site	**–**	**–**	**–**	36	(36)	–	39	(36)	3
Goodwill*	**35**	**(35)**	**–**	35	(35)	–	35	(35)	–
Capital work in progress	**133**	**–**	**133**	120	–	120	85	–	85
Total	**637**	**(393)**	**244**	790	(580)	210	716	(545)	171
COMPANY									
Software development	**418**	**(327)**	**91**	547	(479)	68	517	(450)	67
Internet booking site	**–**	**–**	**–**	36	(36)	–	39	(36)	3
Capital work in progress	**133**	**–**	**133**	120	–	120	85	–	85
Total	**551**	**(327)**	**224**	703	(515)	188	641	(486)	155

R MILLION	Software development	Internet booking site	Goodwill*	Capital work in progress	Total
GROUP					
Reconciliation					
Opening balance – Restated	92	3	–	–	95
Additions	32	–	–	–	32
Amortisation	(41)	–	–	–	(41)
Reclassification from property, aircraft and equipment	–	–	–	85	85
Balance at 31 March 2015 – Restated	83	3	–	85	171
Opening balance – Restated	83	3	–	85	171
Additions	13	–	–	–	13
Disposals	(4)	–	–	–	(4)
Transfer from capital work in progress	33	(3)	–	–	30
Amortisation	(35)	–	–	–	(35)
Reclassification from property, aircraft and equipment	–	–	–	35	35
Balance at 31 March 2016 – Restated	90	–	–	120	210
Opening balance – Restated	**90**	**–**	**–**	**120**	**210**
Additions	**44**	**–**	**–**	**–**	**44**
Transfer from capital work in progress	**30**				**30**
Transfer to sundry debtors	**(10)**	**–**	**–**	**–**	**(10)**
Amortisation	**(43)**	**–**	**–**	**–**	**(43)**
Reclassification from property, aircraft and equipment	**–**	**–**	**–**	**13**	**13**
Balance at 31 March 2017	**111**	**–**	**–**	**133**	**244**

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R MILLION	Software development	Internet booking site	Capital work in progress	Total
37. INTANGIBLE ASSETS (CONTINUED)				
COMPANY				
Reconciliation				
Opening balance – Restated	75	3	–	78
Additions	26	–	–	26
Amortisation	(34)	–	–	(34)
Reclassification from property, aircraft and equipment	–	–	85	85
Balance at 31 March 2015 – Restated	67	3	85	155
Opening balance – Restated	67	3	85	155
Additions	1	–	–	1
Disposals	(4)	–	–	(4)
Transfer from capital work in progress	33	(3)	–	30
Amortisation	(29)	–	–	(29)
Reclassification from property, aircraft and equipment	–	–	35	35
Balance at 31 March 2016 – Restated	68	–	120	188
Opening balance – Restated	**68**	**–**	**120**	**188**
Additions	**39**	**–**	**–**	**39**
Transfer from capital work in progress	**30**		**–**	**30**
Transfer to sundry debtors	**(10)**	**–**	**–**	**(10)**
Amortisation	**(36)**	**–**	**–**	**(36)**
Reclassification from property, aircraft and equipment	**–**	**–**	**13**	**13**
Balance at 31 March 2017	**91**	**–**	**133**	**224**

The goodwill arose from the acquisition of Air Chefs SOC Limited and has been impaired in full.

	GROUP		COMPANY	
R MILLION	**2017**	**2016**	**2017**	**2016**
38. INVENTORIES				
Maintenance inventories	**1 321**	1 135	**–**	–
Work in progress	**36**	109	**–**	–
Consumables	**173**	168	**101**	101
	1 530	1 412	**101**	101
Impairment of Inventories	**(651)**	(685)	**–**	–
	879	727	**101**	101
Reconciliation of impairment of inventories				
Opening balance	**(685)**	(692)	**–**	–
Reversal of previous write-downs to net realisable value	**50**	151	**–**	–
Write-down of inventories recognised as an expense during the year	**(16)**	(144)	**–**	–
Closing balance	**(651)**	(685)	**–**	–

The write-down of inventories in the prior year related to the impairment of obsolete aircraft spares. This stock was impaired to its net realisable value. The reversal of write-down of inventories in the current and prior year relates to obsolete aircraft spares that were written down to their net realisable value and have now subsequently been sold.

39. CONTINGENT LIABILITIES AND UNQUANTIFIABLE EXPOSURE

Competition matters

The Group is currently appealing the judgement awarded by the High Court in respect of the Comair litigation which was based on two actions brought by Comair against SAA as a consequence of the findings by the Competition Tribunal that SAA contravened the Competition Act, 89 of 1998, in agreements between SAA and various travel agents between October 1999 and May 2001 ("the first period") and between SAA and various travel agents between 1 June 2001 and 31 March 2005 ("the second period"). As the appeal is still sub judice or not finalised SAA is not in a position to confirm the full extent of the financial exposure that may arise as a result of the appeal, but has made an appropriate estimate of all necessary costs based on legal advice received.

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39. CONTINGENT LIABILITIES AND UNQUANTIFIABLE EXPOSURE (CONTINUED)

Civil Litigation, Labour and Passenger Claims

SAA is not in a position to assess the full extent of the financial exposure that may attach to these claims as a consequence of an order of court but has made an appropriate estimate of all necessary costs in the current year's annual financial statements based on legal advice received.

Contingent liability – airport taxes

Passenger services costs charged to customers are currently treated by airlines (including SAA) as being held on behalf of Airport Authorities. These taxes are not recognised as revenue in the books of the airlines as they are considered to accrue to the Airport Authorities. The tariff is regarded as regulated and levied on behalf of the Airport Authorities and not the airlines. Based on the Supreme Court case between SARS and another airline, it was held that the airline acts as principal and not as an agent of the Airport Authority. This scenario requires airlines to recognise these tariffs as revenue at point of sale. SAA has received a legal opinion which agrees with the Supreme Court case that SAA is the principal and not the agent. The draft Interpretation Note from SARS purports that the airlines are agents and not principals, however, the judgement contradicts this draft Interpretation Note. The Interpretation Note remains draft to-date and has not been finalised as at 3 March 2017, nor at the date of the approval of the annual financial statements.

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated*	2015 Restated*	2017	2016 Restated*	2015 Restated*
40. FAIR VALUE AND TRANSLATION MOVEMENTS							
Foreign exchange loss/(gain) on translation of:							
Foreign cash balances		**(19)**	64	(49)	**(21)**	66	(50)
Foreign currency denominated net receivables	5	**708**	(140)	(71)	**716**	(187)	(80)
Net monetary assets and liabilities		**336**	(675)	(211)	**319**	(656)	(215)
Translation of foreign assets and liabilities		**1 025**	(751)	(331)	**1 014**	(777)	(345)
Fair value loss/(gain) on derivative instruments held-for-trading:							
Realised (gain)/loss on derivatives		**(116)**	40	(205)	**(116)**	40	(205)
Fair value loss/(gain) on derivative financial instruments		**183**	(97)	572	**183**	(97)	572
Net fair value loss/(gain) on derivative instruments held-for-trading		**67**	(57)	367	**67**	(57)	367
Total fair value and translation movements		**1 092**	(808)	36	**1 081**	(834)	22

R MILLION	Gross	Tax	Net
41. OTHER COMPREHENSIVE INCOME/(LOSS)			
Components of other comprehensive income/(loss)			
GROUP – 2017			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	(3)	–	(3)
Remeasurement of SAA subfund of Transport Pension Fund	(9)	–	(9)
Remeasurement of post-retirement medical benefits	1	–	1
Change in value of available-for-sale financial asset	6	–	6
	(5)	–	(5)
Movements in revaluation reserve			
Gain on property revaluations	173	(30)	143
Total	168	(30)	138
Components of other comprehensive income/(loss)			
GROUP – 2016			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	(13)	–	(13)
Remeasurement of SAA subfund of Transport Pension Fund	2	–	2
Remeasurement of post-retirement medical benefits	5	–	5
Change in value of available-for-sale financial asset	5	–	5
	(1)	–	(1)
Movements in revaluation reserve			
Impairment on property revaluations	(18)	–	(18)
Total	(19)	–	(19)
Components of other comprehensive income/(loss)			
COMPANY – 2017			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	(3)	–	(3)
Remeasurement of SAA subfund of Transport Pension Fund	(9)	–	(9)
Remeasurement of post-retirement medical benefits	1	–	1
Change in value of available-for-sale financial asset	6	–	6
	(5)	–	(5)
Movements in revaluation reserve			
Gain on property revaluations	67	–	67
Total	62	–	62
Components of other comprehensive income/(loss)			
COMPANY – 2016			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	(13)	–	(13)
Remeasurement of SAA subfund of Transport Pension Fund	2	–	2
Remeasurement of post-retirement medical benefits	5	–	5
Change in value of available-for-sale financial asset	5	–	5
	(1)	–	(1)
Movements in revaluation reserve			
Impairment on property revaluations	(18)	–	(18)
Total	(19)	–	(19)

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42. INFORMATION REQUIRED BY THE PUBLIC FINANCE MANAGEMENT ACT

SAA is a state owned company and listed as a Schedule 2 Major Public Entity in terms of the PFMA (Act No 1 of 1999). The SAA Board as the accounting authority, has the responsibility of ensuring that SAA has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The design and implementation of effective controls has been delegated to the SAA executive management.

The tables below indicate the PFMA non-compliance for 2016/2017 compared to the 2015/2016 financial year:

	GROUP		COMPANY	
R MILLION	**2017**	**2016**	**2017**	**2016**
Fruitless and wasteful expenditure				
Opening balance	**16,6**	17,6	**16,3**	17,6
Add: Fruitless and wasteful expenditure – current year	**40,4**	7,3	**15,7**	7,0
Less: Transfer to receivables for recovery	**(10,8)**	(8,3)	**(1,1)**	(8,3)
Fruitless and wasteful expenditure closing balance	**46,2**	16,6	**30,9**	16,3

A portion of the amount of R10.8 million transferred to receivables has already been recovered by the Group. The fruitless and wasteful expenditure in the current year includes unavoidable expenses of R16.2 million, which are costs inherent to the operation of the airline. Therefore avoidable fruitless and wasteful expenditure amounts to R24.2 million for the 2016/2017 financial year.

	GROUP		COMPANY	
R MILLION	**2017**	**2016**	**2017**	**2016**
Irregular spend without loss				
Opening balance	**73,8**	68,4	**73,8**	68,4
Add: Irregular spend – current year	**125,9**	5,4	**122,5**	5,4
Less: Condoned or written off by relevant authority	**(86,1)**	–	**(86,1)**	–
Irregular spend awaiting condonement	**113,6**	73,8	**110,2**	73,8

The majority of the irregular spend incurred to date was due to expired contracts or no contracts in place. Most of these contracts will be put in place during the 2017/2018 financial year, with the result being a reduction in irregular spend in the next financial year.

The organisation will continuously review and update interactions that will assist the organisation to reduce the PFMA non-compliance. Some of the interactions that are currently being monitored are:

- Review of the contract management department structure. The optimal structure will assist the organisation in ensuring the contract management process is appropriate to discharge the cost effective, transparent and fair objectives of the procurement process.
- Review the control measures such as disciplinary processes, to ensure consistent application within the organisation.

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R MILLION	COMPANY 2017	COMPANY 2016
43. INVESTMENTS IN SUBSIDIARIES		
Shares at cost	**2 404**	2 404
Impairment of investments in subsidiaries	**(2 068)**	(1 372)
	336	1 032

Subsidiary	Place of incorporation	Nature of business
Mango Airlines SOC Limited	South Africa	Airline business
SAA Technical SOC Limited	South Africa	Maintenance of aircraft
Air Chefs SOC Limited	South Africa	Airline catering
South African Airways City Center SOC Limited	South Africa	Travel agency

		PERCENTAGE HOLDING		R MILLION SHARES AT COST	
Name of company	**Shares**	**2017**	**2016**	**2017**	**2016**
Mango Airlines SOC Limited	1 120	**100**	100	**336**	336
SAA Technical SOC Limited	200	**100**	100	**1 960**	1 960
Air Chefs SOC Limited	100	**100**	100	**106**	106
South African Airways City Center SOC Limited	1 000	**100**	100	**2**	2
				2 404	2 404
Impairment of investments in subsidiaries				**(2 068)**	(1 372)
				336	1 032

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The net aggregate profits in subsidiaries for the year amounted to R37 million (2016: losses of R250 million).

R MILLION	Notes	COMPANY 2017	COMPANY 2016 Restated	COMPANY 2015 Restated
44. AMOUNTS RECEIVABLE FROM SUBSIDIARIES				
SUBSIDIARIES				
SAA Technical SOC Limited		**1 212**	1 298	1 262
Air Chefs SOC Limited		**178**	178	178
South African Airways City Center SOC Limited		**21**	17	18
		1 411	1 493	1 458
Impairment of loans to subsidiaries		**(199)**	(17)	(18)
		1 212	1 476	1 440
Non-current assets	5	**–**	178	178
Current assets	5	**1 212**	1 298	1 262
		1 212	1 476	1 440

The amounts receivable from the subsidiaries are interest free. These balances fluctuate in line with the financing requirements of the subsidiaries and there are no fixed terms of repayment. The loans to SAA Technical SOC Limited (SAAT) and South African Airways City Center SOC Limited (SATC) are both classified as short-term, the loan to SATC was fully impaired in the current and prior years. The loan to SAAT was classified as long-term in prior years, the decision was taken in the current year to classify the loan as short-term, due to the fact that the loan is repayable on demand. Therefore the prior year classification of this loan has been restated to short-term, please refer to Note 5 for more details regarding prior year restatements. The loan to Air Chefs SOC Limited has been classified as long-term. During the year a decision was taken by management to impair this loan in full.

As indicated in the accounting policy on financial instruments, management have assessed the loan to SAAT for impairment at year end. The operations of SAAT are a core functionality of SAA and the monthly fluctuations in the balance of the loan is reflective of the operational commitments which is effected by an actual sweeping of funds between the two entities. Management are confident based on cash flow projections, that sufficient cash resources will be generated in SAAT to repay the proposed interest and capital repayments based on a ten year loan agreement. The current net asset value of SAAT is reflected as R791 million as at 31 March 2017. Land and buildings are currently valued at R1,02 billion and undervaluation of inventory and other fixed assets are sufficient to cover the outstanding capital balance of the loan reflected at year end. It is based on these facts that management are confident that the loan to SAAT is recoverable and no impairment is necessary as at the end of the period under review.

R MILLION	COMPANY 2017	COMPANY 2016
45. AMOUNTS PAYABLE TO SUBSIDIARIES		
SUBSIDIARIES		
Mango Airlines SOC Limited	**357**	–

Certain surplus funds of Mango Airlines SOC Limited (Mango) are held by South African Airways SOC Limited and attract interest at a market related interest rate (Prime less 2,7%). There is a contractual agreement in place with Mango that these capital sums shall remain unencumbered and free from any claim or attachment by a third party. The prior year balance of R273 million was classified as cash and cash equivalents (Note 22) in the previous year's financial statements. In the current year, management has taken the decision to reclassify this balance to payables as it is unlikely that monies will be recalled within three months.

	GROUP		COMPANY	
R MILLION	2017	2016	2017	2016
46. INVESTMENTS				
Investment in unlisted shares				
SA Airlink (Pty) Limited	**35**	35	**35**	35
Impairment of unlisted investment	**(6)**	(12)	**(6)**	(12)
	29	23	**29**	23
Investment in share trust				
South African Airways Employee Share Trust	**–**	–	**157**	157
Impairment of the loan to South African Airways Employee Share Trust	**–**	–	**(157)**	(157)
	–	–	**–**	–
47. SHARE CAPITAL				
Authorised				
9 000 000 000 Class A ordinary shares of R1 each	**9 000**	9 000	**9 000**	9 000
3 000 000 000 Class B ordinary shares of R1 each	**3 000**	3 000	**3 000**	3 000
1 500 000 000 Class C ordinary shares of R1 each	**1 500**	1 500	**1 500**	1 500
750 000 000 Class D ordinary shares of R1 each	**750**	750	**750**	750
750 000 000 Class E ordinary shares of R1 each	**750**	750	**750**	750
	15 000	15 000	**15 000**	15 000
Reconciliation of number of shares issued:				
Opening balance	**12 892**	12 892	**13 126**	13 126
Issued				
8 786 771 465 Class A ordinary shares of R1 each	**8 787**	8 787	**8 787**	8 787
2 412 563 822 Class B ordinary shares of R1 each	**2 413**	2 413	**2 413**	2 413
1 206 281 911 Class C ordinary shares of R1 each	**1 206**	1 206	**1 206**	1 206
603 140 956 Class D ordinary shares of R1 each	**603**	603	**603**	603
117 578 806 Class E ordinary shares of R1 each	**117**	117	**117**	117
Less: Treasury shares	**(234)**	(234)	**–**	–
	12 892	12 892	**13 126**	13 126

All shares in the classes A to D are held by the South African Government, represented by the Department of Finance, and enjoy the same rights. The class E shares are held by the South African Airways Employee Share Trust.

48. RELATED PARTIES

The SAA Group has applied the exemption under paragraph 25 of IAS 24 to government related entities. South African Airways SOC Limited (SAA) is owned by the Department of Finance, a South African Government National Department. SAA is a Schedule 2 Public Entity in terms of the Public Finance Management Act No 1 of 1999 (as amended) (PFMA). Its related parties therefore constitute the Department of Finance, its subsidiaries, some major public entities falling under Schedule 2 of the PFMA and key management personnel.

Public entities that are classified as Schedule 2 major public entities are omitted from detailed disclosure as per paragraphs 25 and 26 of IAS 24. The exemption also applies to the Department of Finance. The following significant transaction was entered into with South African Express SOC Limited (SAX) and is disclosed as required by paragraph 26 of IAS 24. The transaction that was entered into with SAX was a cash neutrality advance of R344 million (2016: R274 million). The prepayment is done in order to compensate SAX for the loss of interest and cash flow impact caused by the delay in the settlement of flown revenues when the service is rendered by SAX.

The revenue from the sale of tickets to related parties has been quantified based on the information available from frequent flyer corporate contracts entered into with the Group. The frequent flyer participants qualify for the same benefits as all other third parties who participate in this frequent flyer programme for corporates. Other ticket sales with related parties were made on terms equivalent to those that prevail in arms' length transactions. The revenue from the sale of tickets that are not reported in terms of these contracts has not been disclosed as it is, and will continue to be, impossible to quantify these sales due to the nature of the distribution network. In addition, there is no requirement or obligation for any related party to purchase its tickets from SAA with the result that SAA's relationship with these parties has no impact on related party sales and would not negatively impact results should the relationship be terminated.

Liabilities include an amount of R279 million (2016: R331 million) relating to leases entered into with a subsidiary of SAA.

The Group and its subsidiaries, in the ordinary course of business, enter into various other sales, purchase and service agreements with other parties within the SAA Group. The transactions entered into by entities within the Group are eliminated on consolidation.

	GROUP		COMPANY	
R THOUSAND	**2017**	**2016**	**2017**	**2016**
RELATED PARTY BALANCES				
Amounts receivable from related parties*				
Subsidiaries	**–**	–	**1 211 551**	1 475 849
Public entities	**8 107**	9	**44**	9
	8 107	9	**1 211 595**	1 475 858
Amounts payable to related parties**				
Subsidiaries	**–**	–	**354 741**	337 693
Public entities	**31 107**	51 369	**31 107**	51 000
	31 107	51 369	**385 848**	388 693

* *Amounts receivable represent short- and long-term amounts receivable.*
** *Amounts payable represent short- and long-term amounts payable.*

	GROUP		COMPANY	
R THOUSAND	**2017**	**2016**	**2017**	**2016**
RELATED PARTY TRANSACTIONS				
Sales of goods/services				
Subsidiaries	**–**	–	**629 287**	704 763
Public entities	**20 387**	9	**152**	9
	20 387	9	**629 439**	704 772
Purchases of goods/services				
Subsidiaries	**–**	–	**3 310 946**	3 125 659
Public entities	**1 123 525**	787 339	**757 571**	109 592
	1 123 525	787 339	**4 068 517**	3 235 251
Other transactions				
Subsidiaries	**–**	–	**41 553**	38 347
Key management personnel*	**48 911**	50 746	**30 924**	33 146
	48 911	50 746	**72 477**	71 493

* *Long- and short-term employee benefits paid to executive members. Executive members' emoluments of subsidiaries that form part of the SAA Group Executive Committee are disclosed in Note 33. The short-term employee benefits reflected below refer to members of the SAA company who are also members of the SAA Group Executive Committee.*

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R THOUSAND	2017 Directors' fees	2016 Directors' fees
48. RELATED PARTIES (CONTINUED)		
Non-executive compensation is set out below:		
Board of Directors		
Non-executive		
DC Myeni[5]	**885**	912
Y Kwinana[1]	**212**	425
AD Dixon[2]	**–**	236
JE Tambi[3]	**295**	408
MMT Ramano[4] [5]	**208**	–
SS Buthelezi[4] [5]	**152**	–
HP Maluleka[4]	**185**	–
M Malunga[4] [5]	**196**	–
MS Mbatha[4]	**168**	–
TN Mgoduso[4]	**191**	–
N Moola[4] [5]	**225**	–
AH Moosa[4]	**216**	–
JG Sepamla[4] [5]	**204**	–
BS Tshabalala[4]	**229**	–
MP Tshisevhe[4]	**176**	–
	3 542	1 981

[1] *Resigned 23 August 2016.*
[2] *Resigned 30 October 2015.*
[3] *Released 1 September 2016.*
[4] *Appointed 1 September 2016.*
[5] *Released 2 November 2017.*

In terms of the Group's travel benefits policy as referred to in Note 32.7, key management personnel are entitled to utilise surplus capacity on flights at a nominal cost to the beneficiaries and at no loss of revenue to the Group.

R THOUSAND	Salaries	Allowances	Fund contributions	Other benefits[1]	Total
SHORT-TERM EMPLOYEE BENEFITS					
2017					
Executive directors[2]					
M Zwane	611	–	–	–	611
P Nhantsi	3 396	–	–	–	3 396
	4 007	–	–	–	4 007
Executive Committee					
ME Mpshe	2 495	–	229	–	2 724
TP Makhetha	2 956	–	–	–	2 956
Z Ramasia	2 694	–	193	–	2 887
U Fikelepi	2 275	–	–	–	2 275
P Ncala	3 163	–	–	–	3 163
S Bosc[3]	3 091	1 599	–	1 723	6 413
L Jiya	2 411	–	–	–	2 411
J du Plessis	1 149	238	108	–	1 495
A Munetsi	1 227	198	95	–	1 520
MZ Manqele[4]	1 073	–	–	–	1 073
	22 534	2 035	625	1 723	26 917

[1] *Other benefits relate to amounts paid on termination of contract.*
[2] *Executive directors of the Board are also members of the Executive Committee.*
[3] *Resigned 2 March 2017.*
[4] *Appointed to the Executive Committee effective 3 June 2016.*

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

48. RELATED PARTIES (CONTINUED)

SHORT-TERM EMPLOYEE BENEFITS

R THOUSAND	Salaries	Allowances	Fund contributions	Other benefits[1]	Total
2016					
Executive directors[2]					
M Kalawe[3]	379	–	–	2 825	3 204
WH Meyer[4]	2 577	–	–	3 104	5 681
M Zwane[5]	41	–	–	–	41
P Nhantsi[6]	240	–	–	–	240
	3 237	–	–	5 929	9 166
Executive Committee					
N Bezuidenhout[7]	1 061	–	–	–	1 061
M Zwane[5]	175	–	–	–	175
P Nhantsi[6]	939	–	–	–	939
ME Mpshe[8]	2 495	126	229	–	2 850
TP Makhetha	2 802	–	–	–	2 802
Z Ramasia	2 502	–	179	–	2 681
U Fikelepi	2 124	–	–	–	2 124
P Ncala	2 929	–	–	–	2 929
S Bosc	3 372	1 678	–	–	5 050
L Jiya	2 258	–	–	–	2 258
J du Plessis[9]	541	105	54	–	700
A Munetsi[10]	328	56	27	–	411
	21 526	1 965	489	–	23 980

(1) Other benefits relate to amounts paid on termination of contract.
(2) Executive directors of the Board are also members of the Executive Committee.
(3) Resigned 22 April 2015.
(4) Resigned 16 November 2015.
(5) Appointed as Acting CEO effective 14 November 2015 and appointed as an Executive director effective 4 March 2016.
(6) Appointed as Interim CFO effective 25 November 2015 and appointed as an Executive director effective 4 March 2016.
(7) Appointed as Acting CEO until 28 July 2015.
(8) Appointed as Acting CEO effective 29 July 2015 until 13 November 2015.
(9) Appointed to the Executive Committee effective 14 September 2015.
(10) Appointed to the Executive Committee effective 14 December 2015.

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48. RELATED PARTIES (CONTINUED)

	2017 TRAVEL BENEFITS NUMBER OF FLIGHTS			2016 TRAVEL BENEFITS NUMBER OF FLIGHTS		
	International	Domestic	Regional	International	Domestic	Regional
Executive directors						
M Kalawe[1]	–	–	–	–	3	–
WH Meyer[2]	–	–	–	8	15	5
M Zwane[3]	3	4	–	–	–	–
P Nhantsi[4]	1	15	–	–	–	–
	4	19	–	8	18	5
Executive Committee						
N Bezuidenhout[5]	–	–	–	5	1	–
M Zwane[3]	–	–	–	–	2	–
ME Mpshe[6]	1	9	2	2	24	–
TP Makhetha	4	1	–	3	3	1
Z Ramasia	9	34	1	17	38	–
U Fikelepi	–	14	1	–	14	–
P Ncala	7	1	–	14	–	–
S Bosc[7]	13	21	–	19	27	12
L Jiya	2	17	3	1	26	6
J du Plessis[8]	7	5	–	3	2	–
A Munetsi[9]	7	9	17	1	–	7
MZ Manqele[10]	2	17	–	–	–	–
	52	128	24	65	137	26

(1) *Resigned 22 April 2015.*
(2) *Resigned 16 November 2015.*
(3) *Appointed as Acting CEO effective 14 November 2015 and appointed as an Executive director effective 4 March 2016.*
(4) *Appointed as Interim CFO effective 25 November 2015 and appointed as an Executive director effective 4 March 2016.*
(5) *Appointed as Acting CEO until 28 July 2015.*
(6) *Appointed as Acting CEO effective 29 July 2015 until 13 November 2015.*
(7) *Resigned 2 March 2017.*
(8) *Appointed to the Executive Committee effective 14 September 2015.*
(9) *Appointed to the Executive Committee effective 14 December 2015.*
(10) *Appointed to the Executive Committee effective 3 June 2016.*

49. EVENTS SUBSEQUENT TO THE REPORTING DATE

BOARD OF DIRECTORS

Subsequent to the 2017 financial year end, Dr M Mbatha resigned as a director. On 3 November 2017, the Minister of Finance appointed six new non-executive directors namely:
JB Magwaza – Chairperson
N Fakude – Deputy Chairperson
G Rothschild
AI Bassa
T Mhlari
ML Kingston

They replaced the following directors:
DC Myeni – Chairperson
MMT Ramano – Deputy Chairperson
N Moola
SS Buthelezi
JG Sepamla
M Malunga

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

49. EVENTS SUBSEQUENT TO THE REPORTING DATE (CONTINUED)

RECAPITALISATION

On 25 October 2017, the Minister of Finance announced a capital injection for the airline of R10 billion during the 2017/2018 financial year. The airline received R2.2 billion on 30 June 2017 which was utilised to settle short-term debt. A further R3 billion was received on 29 September 2017 of which R1.8 billion was allocated to repay further debt and the remaining R1.2 billion utilised for working capital. Of the remaining R4.8 billion, R3.6 billion will be allocated to further reduce the company's short-term debt burden and R1.2 billion to be used for working capital. In total R7.6 billion will be used to repay debt.

APPOINTMENT OF KEY PERSONNEL

Subsequent to year end, Chief Executive Officer, Chief Financial Officer and Chief Restructuring Officer were appointed.

TURNAROUND STRATEGY

The turnaround strategy "Project Phakama" was approved by the Board in July 2017 and submitted to the Shareholder. Project Phakama's objective is to transform SAA into a financially sustainable aviation group. Its key strategic focus is Stabilise, Defend and Build ("SDB"). SDB has the following key strategic outcomes:
- Liquidity;
- Balance sheet restructuring;
- Revenue enhancement programme; and
- Cost optimisation.

50. GOING CONCERN

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future. As with the previous years, SAA has remained undercapitalised. Six consecutive years of operating losses have further eroded the capital base and this continues to impact on the ability of the business to operate in a highly demanding and competitive environment. The lack of capital has hindered the director's ability to invest and improve the efficiencies of the aircraft and left the company less able to cope with the significant volatility in foreign exchange rates.

The Group recorded a net loss of R5.6 billion (2016: R1.5 billion) for the year ended 31 March 2017 and, as at that date its total liabilities exceeded its total assets by R17.8 billion (2016: R12.4 billion).

The conditions above together with the issues listed below resulted in material uncertainties at year end that might cast significant doubt on SAA's ability to continue as a going concern:
- loans to the value of R8.9 billion were maturing during the year and the company did not have confirmation that these loans would be extended for a period sufficient to satisfy the going-concern assumption; and
- the company is experiencing working capital deficiencies.

Management and the Board initiated mitigating steps to address these matters, including requesting a capital injection from the shareholder, the establishment of a Cash Conservation Office with the objective of reducing the utilisation of working capital and engaging with the lenders to refinance the facilities that were maturing in the short term for a period longer than 18 months.

In addition, the company developed a five-year turnaround plan and identified initiatives to be implemented to reduce costs and enhance revenue in order to reduce further the cash burn. These initiatives included revenue growth through revenue management, ancillary revenue and pricing strategy, cost containment and fleet optimisation.

On 25 October 2017, the Minister of Financed announced that SAA would receive a recapitalisation of R10 billion during the 2017/2018 financial year. Amounts of R2.2 billion and R3 billion had already been distributed to SAA on 30 June 2017 and 29 September 2017 respectively. The funds were utilised to repay maturing debt of R4 billion and to provide SAA with R1.2 billion in working capital. Of the remaining R4.8 billion to be received by SAA, R3.6 billion will be earmarked to settle short-term debt and the balance of R1.2 billion for working capital.

Currently loans to the value of R5 billion, which are maturing within the next 12 months, have been successfully extended to 31 March 2019.

The Group has filled almost all the key vacancies post year end which includes Chief Executive Officer, Chief Financial Officer and the Chief Restructuring Officer. The success of the turnaround plan, "Project Phakama" depends on rebuilding the leadership team at SAA, which was not only decimated over the last few years, but with many positions remaining unfilled.

Progress is being made in this regard. The directors therefore are of the view that with the recapitalisation, appointment of key personnel, and the successful extension of the loan maturities that SAA has met the conditions set by the lending banks, unutilised guarantees and effective implementation of the turnaround plan, SAA will be in a position to continue trading operations into the immediate future.

Once the short-term debt is settled, SAA will have unutilised shareholder guarantees of R8.2 billion. The directors are of the view that the initiatives reflected above, coupled with the available shareholder guarantees, will ensure SAA meets the going-concern requirement in the foreseeable future, being 12 months from the approval of these annual financial statements.

Given already received and expected capital injections from National Treasury as well as current cash sources available, SAA is expected to have a surplus of available cash resources to be able to meet its liquidity requirements.

IN THE COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE, CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF STATE ("THE COMMISSION")

<u>AUDIT OF SOUTH AFRICAN AIRWAYS ("SAA")</u>

SWORN SUPPLEMENTARY AFFIDAVIT

I, the undersigned,

POLANI SOKOMBELA

Do hereby declare under oath as follows:

1. I am an adult male and a citizen of the Republic of South Africa. I am currently employed as a business executive at the Auditor-General South Africa ("the AGSA"). I was formerly employed as a senior manager at the AGSA and assigned the role of engagement manager for the audit of SAA for the 2016-17 financial year.

P.S KTP

2. The content of this affidavit falls within my personal knowledge, except where otherwise stated or unless the contrary appears from the context, and is true and correct.

3. I deposed to an affidavit dated 18 December 2019 (December affidavit) which I now wish to supplement through adding certain information requested by the Commission. The additional information that is requested by the Commission include the following:

   3.1 An affidavit giving a brief explanation as to what the 15 January 2018 minutes entail and what they relate to. These minutes are already in the possession of the Commission and will be included as an annexure to this supplementary affidavit; and

   3.2 That I deal extensively with my interactions with the prior auditors (PWC and Nkonki) of SAA. Detail in relation to these interactions should focus on concerns raised by the AGSA on the audit work performed by PWC and Nkonki specifically pertaining to issues of non-compliance with the PFMA and irregular, fruitless and wasteful expenditure.

4. Shortly after the AGSA had been appointed as the external auditors of SAA for the 2016/17 financial year onwards, the AGSA's interactions with the previous auditors, PWC and Nkonki Inc, started. The former National Leader: Audit Services at the AGSA, Mr Eugene Zungu (Mr Zungu), made a request to the then Acting Chief Executive Officer of SAA, Mr Musa Zwane (Mr Zwane) to authorise the AGSA to access the previous auditors' audit files. The request for access included access to audit working papers. The letter also requested SAA

P.S KTP

to authorise the previous auditors to respond fully to enquiries made by the AGSA in connection with SAA's consolidated financial statements and queries relating to its subsidiaries. This authorisation was provided by Mr Zwane. The copy of the letter of request and authorisation is attached as Annexure **"PS1"**.

5. After obtaining the authorisation from SAA, Mr Zungu wrote a letter to Mr Pule Mothibe (PwC Partner) and Ms Thuto Masasa (Nkonki Inc. partner) requesting the two firms to provide the AGSA with access to their audit files and working papers. This request was in line with our responsibilities as new auditors of SAA and in terms of International Standard on Auditing 510 (initial audit engagements - opening balances, and in accordance with International Standard on Auditing 300 (planning and audit of financial statements). A copy of the letters is attached as Annexure **"PS2"** and **"PS3"**.

6. Pursuant to Mr Zungu's letter mentioned in paragraph 5, Mr Mothibe and Ms Masasa granted the AGSA access to their audit files and audit working papers. Such access was granted on condition that the AGSA signed a hold harmless letter that stipulated certain conditions. This is common practice in the auditing profession. In my capacity as the engagement manager of SAA at the time, I signed the hold harmless letters and the letters are attached as Annexure **"PS4"** and **"PS5"**.

7. After gaining access to the audit files of the previous auditors, the AGSA engagement team started reviewing the audit work that was performed by the two firms on the closing balances of 31 March 2016. These closing balances served as opening balances in the audit of the 2016/17 financial year. The purpose of this review was for the auditors to determine whether they could rely

P.S KTP

on the work completed by the previous auditors. This is the normal procedure that is performed when the auditor is new to the audit engagement and this is done in terms of International Standard on Auditing 510 as mentioned in paragraph 5 above.

8. The AGSA engagement team noted several findings during the review of the audit file and working papers of the previous auditors. The AGSA team had various engagements with the previous auditors in an attempt to resolve the findings. These findings were as a result of limitations that were in the audit files and working papers where the AGSA auditors could not obtain sufficient appropriate audit evidence to demonstrate how the previous auditors satisfied themselves in respect of the validity, accuracy and completeness of certain closing balances and transactions. These were in areas such as property, aircraft and equipment (PAE), provision for lease liabilities, maintenance reserves, direct and indirect tax, supply chain management, irregular expenditure, and pre-delivery payments.

9. The AGSA engagement team held a meeting with the previous auditors on 5 September 2017 to discuss the findings referred to in paragraph 8 and again tried to resolve the findings. The meeting was attended by several role-players, including Mr Mothibe and Ms Masasa. In this meeting we discussed the findings identified on the review done on the audit files and working papers of the previous auditors. Regarding the supply chain management, we agreed that there was not much work that was performed in the audit file and we were unable to rely on that work. A copy of the presentation that was used in that meeting, the agenda and the outcomes of the meeting are attached as Annexure **"PS6"**, **"PS7"** and **"PS8"**.

P.S KTD

10. In the meeting mentioned above it was agreed a follow up review should be done at PwC to review the audit file again. This was done by my team under the leadership of Patrick Kubai who was the audit manager for the SAA audit. Patrick and the team met again with PwC at about 11 September 2017 to further discuss the findings noted. Based on the feedback email from Patrick to me, Mr Mothibe was also part of that meeting. Most of the findings that were discussed in the 5 September 2017 meeting remained unresolved. The copy of the feedback email from Patrick Kubai is attached as Annexure **"PS8A"**

11. As indicated in paragraph 10 above, most of the findings that were discussed in the 5 September 2017 meeting remained unresolved. The AGSA performed additional procedures in order to obtain sufficient appropriate audit evidence. The additional procedures were on supply chain management including irregular expenditure, fruitless and wasteful expenditure, property, aircraft and equipment, maintenance reserves, provision for lease liabilities, direct and indirect tax, and pre-delivery payments. Some of them were addressed with the management of SAA and some resulted in SAA receiving a qualified audit opinion. These were in areas such as property, aircraft and equipment, irregular expenditure and fruitless and wasteful expenditure.

12. The audit report of SAA was signed and issued on 8 December 2017. Before the audit report could be signed, we tried to arrange the final meeting with the previous auditors (i.e. Mr Mothibe and Ms Masasa). Unfortunately, we could not have this meeting as Mr Mothibe was out of the country at the time. It was agreed that this meeting would be held on 15 January 2018.

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13. The main purpose of the meeting was for all parties to appreciate the 2016/17 SAA audit outcomes, to formulate a common understanding of the key drivers of the deterioration of outcomes across all three areas (financial statements, performance information and compliance with legislation) on which we report compared to the 2015/16 financial year's outcomes. This was to be done in anticipation of questions that were most likely to be raised by parliamentarians and other stakeholders which would feed to the narrative that audit outcomes worsened when the AGSA took back the audit of a state-owned entity (SOE) from private firms. This meeting was subsequently held on 15 January 2018. The copy of the agenda, presentation and minutes of this meeting is attached as Annexure **"PS9"**, **"PS10"** and **"PS11"**.

DATED AND SIGNED at PRETORIA on this 09 day of July 2020.

DEPONENT

THUS SWORN and SIGNED before me at Pretoria on this 9th day of July 2020. The Deponent having declared that he is conversant with the contents of this affidavit, understands same and that the

P.S KTD

contents are true, and that he has no objection to taking the prescribed oath, and that he considers the prescribed oath as binding on his conscience.

Krumkadiong

COMMISSIONER OF OATHS

FULL NAMES: **KEM TUMBA DIONG**

ADDRESS: MacRobert Incorporated Attorneys
C/o Jan Shoba & Justice Mahomed St. Brooklyn, PTA
Commissioner Of Oaths / Kommissaris Van Ede
Ex Officio
Practising Attorney / Praktiserende Prokureur
Republic Of South Africa / Republiek Van Suid-Afrika

P.S
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DD20-PS-1762

PS1

AUDITOR-GENERAL
SOUTH AFRICA

South African Airways
Private Bag X 13
O R Thambo International Airport
Kempton Park
Bedfordview
1627

22 November 2016

Reference: SAA 2016/17

Dear Mr Zwane

CLIENT'S AUTHORISATION TO THE AUDITOR TO PROVIDE COMMUNICATION ACCESS TO PREVIOUS AUDITORS

Pricewaterhouse Coopers Inc. (PWC) and Nkonki Inc. have previously audited the annual financial statements (AFS) of South African Airways SOC Ltd (SAA) and its subsidiaries excluding Mango Airlines SOC Ltd (Mango) for the year ended 31 March 2016, and issued a report thereon dated 30 September 2016. The AFS of Mango for the year ended 31 March 2016 have been previously audited by KPMG. Furthermore Deloitte also audited the AFS of SAA for the year ended 31 March 2011.

The Auditor- General of South Africa, as successor auditors, requests authorisation to communicate with previous auditors to enable us to properly plan and execute our work in accordance with the International Standards on Auditing. We request you to authorise us to be provided access to previous auditors (i.e. PWC, Nkonki Inc., KPMG and Deloitte) audit files including working papers prepared in connection with the audit referred to above. Furthermore, we request that you authorise the previous auditors to respond fully to inquiries from us in connection with the SAA consolidated financial statements and its subsidiaries.

Please confirm your understanding and agreement with the above mentioned by signing and dating the enclosed copy of this letter and returning it to us.

Yours faithfully

Eugene Zungu

National Leader: Audit - Auditor General of South Africa

Enquiries: Thamsanqa Zikode
Telephone: +27(0)012 422 9859
Fax: +27(0)12 422 9459
Email: thamsanqaz@agsa.co.za

Enclosure
Accepted and agreed to by SAA:

By: Musa Zwane

Title: Acting CEO
Date: 24/11/2016

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PS2

AUDITOR-GENERAL
SOUTH AFRICA

PriceWaterHouseCoopers Inc.
Registered Auditors
Private Bag X 36
Sunninghill
2157

22 November 2016

Dear Mr Mothibe

PROVISION OF INFORMATION PURSUANT TO INTERNATIONAL STANDARDS IN AUDITING RELATING TO THE AUDIT OF SOUTH AFRICA AIRWAYS SOC LTD AND ITS SUBSIDIARIES

The Auditor General of South Africa (AGSA) was duly appointed statutory auditor as defined by section 90 of the Companies Act 2008 ("the Act") of South African Airways SOC Limited and its subsidiaries in its annual general meeting on 28 October 2016.

Based on our responsibilities in terms of International Standard on Auditing 510 (Initial audit engagements - Opening Balances) and in accordance with International Standard on Auditing 300 (Planning and audit of financial statements) , we request for the purposes of our audit work, access to the following information:

- The audit file and working papers regarding the audit for the financial year ending 31 March 2016 in an easily accessible format,
- We may also request explanations from you in connection with our consideration of the above information.

As the retiring auditor, kindly provide us your no objection letter for the AGSA to accept the assignment. In case you have any observation or reservation, kindly inform us accordingly. Furthermore kindly indicate to us in writing any matters that may have an impact in the audit and need our attention.

We look forward to receiving your confirmation letter in response to this request, which should be addressed for the attention of *Mr Eugene Zungu.*

Yours faithfully

Eugene Zungu

National Leader: Audit - Auditor General of South Africa

Enquiries:	Thamsanqa Zikode
Telephone:	+27(0)012 422 9859
Fax:	+27(0)12 422 9459
Email:	thamsanqaz@agsa.co.za

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PS 3

AUDITOR-GENERAL
SOUTH AFRICA

Nkonki Inc.
Registered Auditors
P O Box 1503
Saxonworld
2132

22 November 2016

Dear Ms Masasa

PROVISION OF INFORMATION PURSUANT TO INTERNATIONAL STANDARDS IN AUDITING RELATING TO THE AUDIT OF SOUTH AFRICA AIRWAYS SOC LTD AND ITS SUBSIDIARIES

The Auditor General of South Africa (AGSA) was duly appointed statutory auditor as defined by section 90 of the Companies Act 2008 ("the Act") of South African Airways SOC Limited and its subsidiaries in its annual general meeting on 28 October 2016.

Based on our responsibilities in terms of International Standard on Auditing 510 (Initial audit engagements - Opening Balances) and in accordance with International Standard on Auditing 300 (Planning and audit of financial statements) , we request for the purposes of our audit work, access to the following information:

- The audit file and working papers regarding the audit for the financial year ending 31 March 2016 in an easily accessible format,
- We may also request explanations from you in connection with our consideration of the above information.

As the retiring auditor, kindly provide us your no objection letter for the AGSA to accept the assignment. In case you have any observation or reservation, kindly inform us accordingly. Furthermore kindly indicate to us in writing any matters that may have an impact in the audit and need our attention.

We look forward to receiving your confirmation letter in response to this request, which should be addressed for the attention of *Mr Eugene Zungu.*

Yours faithfully

Eugene Zungu

National Leader: Audit - Auditor General of South Africa

Enquiries:	Thamsanqa Zikode
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Auditing to build public confidence

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DD20-PS-1765

PS 4

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The Auditor General South Africa
P O Box 446
Pretoria
0001

5 December 2016

Dear Mr Zungu,

Release letter: Audit Working Papers

1. We have previously audited, in accordance with International Standards on Auditing, the financial statements of South African Airways SOC Limited (the "Company") and its subsidiaries (together the "Group"), and each of the subsidiaries of the Company where we were appointed as auditor: Air Chefs SOC Limited and SAA Technical SOC Limited (the "Subsidiaries") for the year ended 31 March 2016. We issued a report on those financial statements dated 30 September 2016 and have not performed any audit procedures since date. In connection with your 31 March 2017 audits of the Company, Group and the Subsidiaries, you have requested access to our audit working papers prepared in connection with our 31 March 2016 audit of the Company's, Group's and Subsidiaries' financial statements (the "Audit Papers").

2. The Company has authorised our firm to provide you with access to the Audit Papers. The Company has further authorised us at our discretion to give explanations in relation to information in the Audit Papers where we consider it appropriate to do so.

3. Our audits, and the Audit Papers prepared in connection therewith, of the Company', Group's and Subsidiaries' financial statements were not planned or conducted for your purposes. Moreover, there are a number of inherent limitations in audited financial statements in that, inter alia, they reflect an historical view of the company's state of affairs and results, they must be interpreted having regard to the accounting policies applied, they may not reflect items which are considered to be immaterial, certain items may be included on the basis of the directors' estimates, post-balance sheet events will only be reflected if they relate to the accounting period concerned, and they do not give any indication of future profitability or cash flows. Therefore, items of possible interest to you may not have been specifically addressed. Our use of professional judgement and

PricewaterhouseCoopers Inc., 2 Eglin Road, Sunninghill 2157, Private Bag X36, Sunninghill 2157, South Africa
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the assessment of audit risk and materiality for the purpose of our audit means that circumstances may have existed that would have been assessed differently by you. We make no representations as to the sufficiency or appropriateness of the information in our Audit Papers for your purposes.

For the foregoing reasons, the Audit Papers cannot in any way serve as a substitute for other enquiries and procedures that you would otherwise undertake for the purpose of satisfying yourselves regarding the Company's, Group's or its subsidiaries' financial condition or for any other purpose in connection with your audit.

4. We understand that the purpose of your having access to our Audit Papers is to obtain information about the Company, Group and Subsidiaries and our 30 September 2016 audit results to assist you in planning your 31 March 2017 audit of the Company, Group and Subsidiaries. For that purpose only, we will provide you access to those of our Audit Papers that relate to that objective. You agree that the audit results documented in the Audit Papers will not be used except as contemplated by ISA 510 – Initial Engagements – opening balances.

5. Because your review of our Audit Papers is undertaken solely for the purpose described above, and will not entail inspection of all our Audit Papers, you agree that:
   (a) the information obtained will not be used by you for any other purpose,
   (b) you are unable to and will not comment orally or in writing to anyone as to whether our audit was performed in accordance with International Standards on Auditing,
   (c) you will not provide expert evidence or litigation support services or otherwise accept an engagement to comment on issues relating to the quality of our audit, and
   (d) you will not use the audit procedures or results thereof documented in our Audit Papers as evidential matter in rendering your opinions on the 31 March 2016 financial statements of the Company, Group and Subsidiaries, except as contemplated in the International Standards on Auditing.

6. We are prepared to grant you access to information in the Audit Papers through discussion with our staff, and at our discretion give explanations in relation thereto in response to requests for information from you solely on condition that you agree to the following conditions upon which access to information in the Audit Papers is granted and upon which any representation, statement or explanation in relation thereto or otherwise is made:

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(a) The Auditor General acknowledges that:

(i) No-one is authorised by PricewaterhouseCoopers Inc. whether expressly or ostensibly:

(aa) to make any representation; or

(bb) to reach an agreement in relation to the conditions upon which access to the Audit Papers is granted to the Auditor General and/or any representation, statement or explanation in relation thereto or otherwise is made;

which is inconsistent with or varies or adds to the terms and conditions set out in this letter.

(ii) PricewaterhouseCoopers Inc., its directors, employees (including employees of entities owned or controlled by PricewaterhouseCoopers Inc.) and agents (collectively referred to as "PricewaterhouseCoopers" hereinafter) neither warrant nor represent that the information in the audit working papers is sufficient or appropriate for the purposes of the Auditor General or for any other purpose.

(iii) All representations, statements and explanations made to the Auditor General by PricewaterhouseCoopers in relation to the audit working papers are no more than explanations of matters contained in the Audit Papers and to the extent that any such representation, statement or explanation may be construed as relating to the affairs of the Company ,the Group or the Subsidiaries, it will be the sole responsibility of the Auditor General to verify the statement with the Company before relying upon it for the purpose of their audit or otherwise.

(iv) No-one is authorised by PricewaterhouseCoopers to make any oral representation, statement or explanation concerning any matter other than the Audit Papers and the Auditor General shall not be entitled to rely on such representation, statement or explanation.

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(v) This letter sets out the entire understanding of the parties in relation to the conditions upon which access to the Audit Papers is granted to the Auditor General and upon which representations, statements and explanations in relation to the Audit Papers or otherwise are made and supplants all prior representations, if any, made by PricewaterhouseCoopers in relation to the said conditions.

(b) The Auditor General agrees that PricewaterhouseCoopers neither owes nor accepts any duty to them, whether in contract or in delict (including without limitation, negligence and breach of statutory duty) or howsoever otherwise arising, and shall not be liable, in respect of any loss damage or expense of whatsoever nature which is caused by the Auditor General's usage of:

(i) information in the Audit Papers or any representation, statement or explanation made in relation thereto or which is otherwise consequent upon the Auditor General's access to the Audit Papers or their receipt of such representation, statement or explanation, or

(ii) any representation, statement, explanation or other information whatsoever which PricewaterhouseCoopers may at any time make or give in connection with or relating to the information in the Audit Papers or which is otherwise consequent upon the Auditor General's receipt of such representation, statement, explanation or other information

Provided that this clause shall not exclude liability (if it would otherwise but for this clause have arisen) for loss, damage or expense caused by fraud perpetrated by PricewaterhouseCoopers. PricewaterhouseCoopers does not intend that the Auditor General or any other person should rely on any such representation, explanation, statement or information. Accordingly, if the Auditor General wishes to use information in the Audit Papers and any such representation, statement, explanation or other information supplied by PricewaterhouseCoopers, they do so entirely at their own risk.

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(c) The Auditor General shall indemnify and hold harmless PricewaterhouseCoopers against all actions, proceedings and claims brought or threatened against PricewaterhouseCoopers (whether by the Auditor General, the Company or any of its subsidiary undertakings or any other third party), and all loss, damage and expense (including legal expenses) relating thereto, in any way arising out of or in connection with the grant of access to the Audit Papers to the Auditor General (including, without limitation, all actions, proceedings, and claims brought or threatened by the Company or any of its subsidiary undertakings and all loss, damage and expense (including legal expenses) relating thereto, concerning matters disclosed as a result of the grant of access to the Audit Papers to the Auditor General and representations, statements and explanations made in relation thereto or otherwise, including all loss, damage, cost or expenses (including legal expenses) relating to the compromise or settlement of any such actions, proceedings or claims, but with the exception of actions, proceedings, and claims which are successfully brought by the Auditor General against PricewaterhouseCoopers, and the loss, damage and expense relating thereto, in relation to fraud perpetrated by PricewaterhouseCoopers or that may arise as a result of disclosures required to be made by the Auditor General in terms of the requirements of any law, regulation, accounting or auditing standard. The Auditor General will have control of the compromise or settlement for any indemnifiable claim against PricewaterhouseCoopers, provided that no compromise or settlement shall be entered into by the Auditor General that does not provide for the full release of PricewaterhouseCoopers. If there is any risk that PricewaterhouseCoopers will be negatively affected by a claim, PricewaterhouseCoopers has the right to participate in such compromise or settlement with counsel of its own choice, the costs of which will be for PricewaterhouseCoopers' own account. To enable such a representation of PricewaterhouseCoopers, the Auditor General will notify PricewaterhouseCoopers of any claim without undue delay.

(d) PricewaterhouseCoopers acts as agent for its directors and staff as well as for itself as to clauses 6(b) and 6(c) above.

(i) PricewaterhouseCoopers has an interest in the exclusion of the liability of its employees and directors and, accordingly, the Auditor General will not bring

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any claim against such employees and directors personally in respect of any matter which, by virtue of this letter, the Auditor General could not bring against PricewaterhouseCoopers; and

(ii) PricewaterhouseCoopers have an interest in the indemnification of its employees and directors and, accordingly, if the Auditor General should fail to indemnify them in accordance with paragraph 6(c), PricewaterhouseCoopers may do so, whether or not they have a legal obligation to do so, and recover from the Auditor General.

7. Our rights and obligations in this letter will be governed by South African Law.

8. Please confirm your agreement to the foregoing Conditions by signing, dating and returning to us a copy of this letter.

Yours faithfully,

PricewaterhouseCoopers Inc.
Director: Pule Mothibe
Registered Auditor

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ACKNOWLEDGEMENT

The Auditor General South African hereby acknowledges that it understands and agrees to the above.

Senior Manager Pol.Ani Sokombela 06/12/2016

Signature Position

P-S KTD

Registered Auditors | Accountants | Advisers

Experience Ingenuity.

Physical Address:
Nkonki House
1 Simba Road cnr.
Nanyuki Road
Sunninghill
Johannesburg, 2157

Postal Address:
P.O. Box 1503
Saxonwold 2132

Contact details
Tel: +2711 517 3000
Fax: +2711 807 8630
www.nkonki.com

Nkonki Incorporated, Registration Number: 2002/017422/21

Eugene Zungu
Auditor-General South Africa
300 Middel Street
Brooklyn
Pretoria

05 December 2016

Dear Sir,

SOUTH AFRICAN AIRWAYS (SOC) LTD AND RELATED SUBSIDIARIES – SAA TECHNICAL (SOC) LTD AND SOUTH AFRICAN TRAVEL CENTRE (SOC) LTD

We have audited in terms of the International Standards on Auditing, the financial statements of the entities listed above for the financial year ending 31 March 2016. We have issued a report dated 30 September 2016 and we have not performed any audit procedures since that date.

In connection with your audit of the client's financial statements, you have requested that we allow you as the successor auditor, access to relevant audit working papers in accordance with ISA 510 and ISA 300 relating to our audit of the above mentioned financial statements of the client. The client has authorised us to grant you access to relevant working papers and, at our discretion, to give you explanations in relation to matters contained therein where we consider it appropriate to do so.

Our audit and the working papers relating to the client's financial statements were not planned or conducted for your purposes. Therefore, items of possible interest to you may not have been specifically addressed. Our use of professional judgement and the assessment of audit risk and materiality for the purpose of our audit means that circumstances may have existed that would have been assessed differently by you. We make no representations as to the sufficiency or appropriateness of the information in our working papers for your purposes.

We understand that the purpose of the successor auditor having access to our relevant working papers is to obtain information about the client and our audit results to assist you in planning your audit of the client. We are prepared to grant you access to the working papers relevant for that purpose and, at our discretion, to give explanations or other information in relation thereto on condition that you acknowledge and agree to the following:

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- The successor auditors will use information gained from access to the working papers and any explanation or other information in relation thereto solely as contemplated by ISA510 (Initial Engagements- opening balances) and not for any other purpose;
- The successor auditors will not comment orally or in writing to anyone else as to whether our audit was performed in accordance with International Standards on Auditing.
- The successor auditors will not provide expert evidence or litigation support services or otherwise accept an engagements to comment on issues relating to the quality of our audit;
- The successor auditors will not use the audit procedures or results thereof documented in our working papers as evidential matter in rendering your opinion on the financial statements of the client, except as contemplated in International Standards on Auditing.
- Copies (or printouts) of relevant working papers will, at our sole discretion, be provided to successor auditors. Such copies or information will be subject to your normal policy for retention if audit working papers and protection of confidential information. In the event of a third-party request for access to successor auditors audit working papers of the client, you will request and obtain our written consent before allowing access to any such copies or information that we may have provided, and to obtain on our behalf any releases that you obtain from such third parties with respect to your own audit working papers; and
- Should the successor auditor receive a subpoena or be under any other legal obligation to grant access to audit working papers of the client that includes any copies of working papers or information that we may have provided, you will notify us promptly and provide us with a copy of the subpoena or legal document concerned.

The successor auditors agree to indemnify and hold harmless Nkonki Inc and its personnel from any claim by the client or other third party that arises directly or indirectly as a result of the successor auditors permitting access to its working papers other than in respect of claims arising as a result of disclosures required to be made by the successor auditors in terms of the requirements of any laws, regulation or accounting or auditing standard.

We hereby confirm that we have no objection to Auditor-General South Africa (AGSA) accepting this assignment. We have no reservations or observations in this regard. To the best of our knowledge there were no matters that may impact your audit.

This letter sets out the entire understanding of the conditions upon which access to the working papers is granted and upon which explanations or representations in relation thereto are made.

No-one is authorised by Nkonki Inc, whether expressly or implicitly, to make representations which are inconsistent with or that vary the terms and conditions set out in this letter. Our rights and obligations in terms of this letter will be governed by South African law.

P.S
KTD

Please confirm your agreement to the above terms and conditions by signing, dating and returning to us a copy of this letter.

Yours Faithfully

Thuto Masasa
Partner
Nkonki Incorporated

P.S KTD

Acknowledgement and Consent

We, the successor auditors of South African Airways (SOC) Ltd and its related subsidiaries SAA Technical (SOC) Ltd and South African Travel Centre (SOC) Ltd, hereby acknowledge that we understand and agree to the terms and conditions described above.

Polani Sokombela
Name

Authorised Signature

Senior Manager
Designation

06/12/2016
Date

On behalf of the Successor Auditors

P.S K.TD

AUDITOR-GENERAL
SOUTH AFRICA

05 September 2017

Auditing to build public confidence

South African Airways Group SOC Ltd:
Meeting with Predecessor auditors

2016-17 financial year

Private and confidential

Our reputation promise/mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by **enabling oversight, accountability** and **governance** in the **public sector** through **auditing**, thereby building public confidence.

P.S
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CONTENTS

South African Airways
A STAR ALLIANCE MEMBER

KTO P.S

DD20-PS-1779

1 Executive summary

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Introduction and purpose

- The AGSA is auditing the financial statements of the SAA Group for the first time in 2016/17 financial year after getting appointed by the board and shareholder,

- The purpose of this briefing document is to:
  - Communicate the outcomes of the opening balance review of South African Airways SOC Ltd,
  - Share and discuss with the previous auditors the significant matters identified in the audit of opening balances,
  - Communicate the impact of the matters identified on the audit report of SAA if management does not correct and make necessary disclosures where applicable.
- Conclude on the way forward in light of the matters which came to our attention.

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DD20-PS-1781

2 Opening balances review outcome

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

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Property, aircraft and equipment (PAE)

During the review, sufficient and appropriate audit evidence was not obtained in the prior year audit file regarding the following:

- Impairment assessment by SAA: It is not clear whether this was tested or not as there was no evidence of the audit work on the audit file,
- No evidence that stratification of the PAE balance was performed to cover the following material items:
  - A class rotables
  - Work in progress
  - Leasehold improvements (Inflight entertainment and buyer furnished equipment)
  - Componentisation of aircrafts.
  - Grouped assets shown as projects (e.g. furniture)
- It is also not evident how the valuation and existence of these significant items of PAE was verified in the audit file.
- Additional audit procedures were performed on the opening balance of PAE and the audit team has identified material audit findings on this balance.

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Provision for lease liabilities

During the review, sufficient and appropriate audit evidence was not obtained in the prior year audit file regarding the following:

- The assumptions made by management on provision for lease liabilities - as a result no audit evidence on the file to corroborate the assumptions made in the calculation,
- The split between the maintenance reserves and provision for lease liability balance not evident on the audit file,
- Work included in the audit file not re-performable by an independent auditor who was not part of the audit,
- No evidence on file indicating that the return conditions provision amount was tested.

- It was not evident on the file how the balance is free from material misstatements as a host of assumptions are made by management to arrive at the figure disclosed and the auditor did not document how they assessed the reasonability thereof.
- Additional procedures were performed on the provision for lease liabilities and the audit team has identified material audit findings on this balance.

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Maintenance reserves

During the review, sufficient and appropriate audit evidence was not obtained in the prior year audit file regarding the following:

- The assumptions made by management on maintenance reserves - as a result no audit evidence on the file to corroborate the assumptions made in the calculation.
- No evidence on the audit file that consumed life balance of <u>$116 million</u> was tested,
- Work included in the audit file not re-performable by an independent auditor who was not part of the audit,
- No evidence that data inputs (e.g. lease periods, engine hours etc) were tested.
- No evidence that assessment was performed on the recoverability of the maintenance reserve receivable disclosed in the prior year,

- It was not evident on the file how the balance is free from material misstatements as a host of assumptions are made by management to arrive at the figure disclosed and no evidence on file how the auditor documented how management have assessed the reasonability thereof.
- Additional procedures were performed on the maintenance reserves and the audit team has identified material audit findings on this balance..

DD20-PS-1784

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Direct and Indirect Tax review

- We noted the following matters relating to the audit evidence was obtained in the prior year audit regarding the following:

➢ The final tax computation on file does not agree to the final signed annual financial statements.

- Additional procedures were performed relating to opening balances relating to the tax numbers disclosed and the audit team has identified material audit findings on this balance.

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Supply chain management/ Irregular expenditure

- We could not review the opening balances for irregular expenditure and fruitless and wasteful expenditure as we have selected tenders awarded in the prior years for testing,
- The amounts disclosed in the financial statements did not meet the disclosure requirements as per National Treasury guidelines,
- The amount disclosed for irregular, fruitless and wasteful expenditure included amounts that were condoned and was not disclosed on a cumulative basis as required by National Treasury guidelines,
- We have identified a lot of irregular expenditure compared to the prior year (approximately R4 billion).

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Pre-delivery payments

- We could not verify whether sufficient and appropriate audit evidence was obtained in the prior year audit regarding ,
  - Pre-delivery payments opening balance of R266 000 000.00 as it was not evident in the audit file where the balance was tested,
- Additional procedures were performed on the Pre-delivery payments opening balances and the team did not identify material findings.

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3 Significant matters identified

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Property aircraft and equipment (PAE)

- Significant findings on PAE of SAA include, among others:
  - Aircraft assets not physically verified,
  - Incorrect classification of capital work in progress between operating expenditure and PAE.
  - A class rotables could not be traced to the fixed asset register ,and
  - Useful lives and residual values not assessed in line with the requirements of IAS 16.
  - Furniture could not be verified for completeness and existence.
  - Valuation (componentisation) of owned aircrafts could not be supported.
  - Reclassification between land and buildings not disclosed as prior period error.

P.S KTD

Intangible assets

- Significant findings on Intangible assets of SAA include, among others:
  - Amount per trial balance does not agree to the amount disclosed on Note 36 on the annual financial statements.
  - This resulted in a material journal entry that is being processed every year on Case ware without any supporting documentation.

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Maintenance reserves

- Significant findings in maintenance reserves of SAA include, among others:

  - Supporting documents could not be submitted to support the event costs which result in a material limitation for the whole balance.
  - Maintenance reserves balance for certain components(Engines, APU, Airframe, Landing gear, etc) not separated in maintenance reserve calculation spreadsheet. This affect the split between the claimable amount for different inspections, the amounts claimable in future and the calculation of the consumed life balance
  - Claims in progress not complete which results in an understatement of the maintenance reserve balance.

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Provision for lease liabilities

- Significant findings in provision for lease liabilities of SAA include, among others:

  - Engines covered by Power By the Hour agreement incorrectly stated as not covered by Power By the Hour on the Provision for lease liability calculation,
  - Provision for aircraft return conditions not in accordance with applicable financial reporting framework. This affects the accounting for the return conditions on aircrafts which SAA effected the leasehold improvements,
  - Provision for C-check not recognised in the annual financial statements,
  - Auxiliary Power Unit (APU) and Airframe hours not correctly calculated.

P.S
KTD

Direct and Indirect Tax

- Significant findings raised on the indirect and direct taxes include, among others:
  - Opening balances differences due to tax calculation difference from signed annual financial statements.
  - Withholding tax not withheld on royalties paid to a foreign person that impact current and prior years.
  - Incorrect tax laws application relating to componentisation of fixed assets impacting both current year and prior years
  - Income tax and VAT treatment of passenger revenue charged by Airports Company South Africa (ACSA) .

P.S
KTD

Supply chain management/Irregular expenditure

- Significant findings which resulted in irregular expenditure and fruitless and wasteful expenditure in supply chain management of SAA include, among others:
  - Services not procured through the process prescribed by the SAA SCM policy,
  - Official procurement process not followed for contract renewals,
  - Award made to a local/foreign supplier without a valid tax clearance from SARS certifying that tax affairs are in order,
  - Bids not invited through a public advert in media prescribed by the SCM policy,
  - Extension of the contract not done in accordance with the provision of the SCM policy,
  - Reason for confining (limited bidding) to one/specific suppliers not found to be justifiable since there are more suppliers who can offer the required services,
  - Lack of management and processing of contract detail information captured on Contract Lifecycle Management (CLM),
  - Supplier with highest preference points was not awarded the quotation,
  - Tender awarded to supplier who did not meet critical criteria evaluation,
  - Tenders not advertised for a minimum period prescribed in the SCM policy before closure,
- It must be noted that the findings raised relate to prior year tenders awarded thus affect the opening balances for irregular expenditure.

P.S
KTD

4 Audit report implications

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

P.S KTD

Audit report implications

- The audit findings that we have identified on the opening balances of SAA are material and if not corrected will result in a modified opinion,
- In compliance with ISA standards, an additional matter paragraph will be included in the audit report indicating that we were not the auditors for the previous financial year.

P.S
KTD

5 Conclusion and way forward

KTD P.S

Conclusion and way forward

- The matters highlighted in this briefing document need to be discussed in detail with the previous auditors,

P.S
KTD

THANK YOU

RS KTO

How to get in touch with the AGSA

www.agsa.co.za

@AuditorGen_SA

Auditor-General of South Africa

Private and confidential

DD20-PS-1800

P.S KTO

PS 7

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Agenda

Meeting with Predecessor Auditors

Date: 05 September 2017

Venue: Shauket Faukie(1st floor boardroom) Lefika house AGSA

Points of discussion	Person responsible	Time	Annex
1. Welcome and attendance	PS	13:00	
2. Apologies	All		
3. Adoption of the agenda	All		
4. Outcome of the opening balances review • Property, aircraft and equipment • Consolidations • Tax review • Provision for lease liabilities • Maintenance reserves • Pre-delivery payments	PK		
5. Significant matters identified on opening balances testing • Property, aircraft and equipment • Intangible assets • Maintenance reserves • Provision for lease liabilities • Direct and Indirect tax • Supply chain management • Outstations (Assets and SCM)	PK		
6. Audit report implication	PS		
7. Remarks from partners of PwC and Nkonki	PM and TM		
8. Other matters	All		
9. Closure	PS		

P.S KTD

Agenda

R.I KTD

PS 8

Sokombela,Polani (BE)

Subject: FW: Significant matters identified on SAA opening balances and SCM

Importance: High

From: Sokombela,Polani (BE)
Sent: Monday, 18 September 2017 11:24 AM
To: Thuto Masasa <thutom@nkonki.com>; pule.mothibe@za.pwc.com
Cc: Kubai,Patrick (SM) <PatrickK@agsa.co.za>; lumko.sihiya@pwc.com; Lawnet,Nathan <NathanL@agsa.co.za>; Jansen Van Rensburg,Wikus (DBE) <WikusJ@agsa.co.za>; Zwakala,Zolisa (BE) <ZolisaZ@agsa.co.za>; Van Wyk, Daniel (SM) <DanielVW@agsa.co.za>; Dazela,Mdumiseni <MdumiseniD@agsa.co.za>; Demana,Ndaedzo <NdaedzoD@agsa.co.za>; Nancy Vere <nancyv@nkonki.com>; Nobulali Tsako <lalit@nkonki.com>
Subject: RE: Significant matters identified on SAA opening balances and SCM
Importance: High

Dear Pule and Thuto,

Please receive attached a summary of the findings raised on opening balances that include the impact.

This was requested by Thuto last week. We are available this week from Wednesday to Friday. On Friday we are only available until 12:00.

Regards

Polani Sokombela CA(SA), RA

Senior Manager • National E • Auditor-General of South Africa
Tel: +27(0)12 426 8288 • Fax: +27(0)12 422 9459 • Mobile: +27(0)76 870 5628 • Email: polanis@agsa.co.za

---

From: Sokombela,Polani (SM)
Sent: 13 September 2017 03:09 PM
To: 'Thuto Masasa'; pule.mothibe@za.pwc.com
Cc: Kubai,Patrick; lumko.sihiya@pwc.com; Lawnet,Nathan; Jansen Van Rensburg,Wikus (SM); Zwakala,Zolisa (BE); Van Wyk, Daniel; Dazela,Mdumiseni; Demana,Ndaedzo; Nancy Vere
Subject: RE: Significant matters identified on SAA opening balances and SCM

Dear Thuto,

Thanks we are willing to meet with you next week. We will limit the meeting to few people on our side. Please propose the dates next week and we will confirm in our calendar.

Regards

Polani Sokombela CA(SA), RA

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PS KTO

From: Thuto Masasa [mailto:thutom@nkonki.com]
Sent: 13 September 2017 03:04 PM
To: Sokombela,Polani (SM); pule.mothibe@za.pwc.com
Cc: Kubai,Patrick; lumko.sihiya@pwc.com; Lawnet,Nathan; Jansen Van Rensburg,Wikus (SM); Zwakala,Zolisa (BE); Van Wyk, Daniel; Dazela,Mdumiseni; Demana,Ndaedzo; Nancy Vere
Subject: RE: Significant matters identified on SAA opening balances and SCM

Thanks Polani for the below email.

May we request another meeting with yourselves possibly involving our technical teams as well.

But in the meantime we are trying to retrieve some information from the archives and as you would appreciate due to methodology changes that will take time.

I do suggest we mark a date for next week sometime, it does not have to be the whole team perhaps the guys dealing with the issues appreciating that you wrapping up.

Thanks

Regards
Thuto

Thuto Masasa | Head of External Audit
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M: 079 500 2576
F: 086 527 6660
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Registered Auditors | Accountants | Advisors
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From: Sokombela,Polani (SM) [mailto:PolaniS@agsa.co.za]
Sent: Wednesday, 13 September 2017 2:54 PM
To: pule.mothibe@za.pwc.com; Thuto Masasa <thutom@nkonki.com>
Cc: Kubai,Patrick <PatrickK@agsa.co.za>; lumko.sihiya@pwc.com; Lawnet,Nathan <NathanL@agsa.co.za>; Jansen Van Rensburg,Wikus (SM) <WikusJ@agsa.co.za>; Zwakala,Zolisa (BE) <ZolisaZ@agsa.co.za>; Van Wyk, Daniel <DanielVW@agsa.co.za>; Dazela,Mdumiseni <MdumiseniD@agsa.co.za>; Demana,Ndaedzo <NdaedzoD@agsa.co.za>; Nancy Vere <nancyv@nkonki.com>
Subject: RE: Significant matters identified on SAA opening balances and SCM

Dear Pule and Thuto,

Our meeting dated 05 September 2017 refers.

We have since visited PwC and Nkonki on 11 September 2017 to relook at the audit file in an attempt to resolve significant matters that were not evident on file regarding SAA opening balances.

Below is the detailed feedback of our review:

Property, aircraft and equipment (PAE)

P-S KTD

Componentisation of the aircraft assets

We clarified the email sent before the meeting that we need to obtain evidence how PwC was satisfied when taking over the audit on the componentisation of the aircraft assets i.e. opening balances in 2011. We were made aware that it will not be possible to obtain the documentation of the time when PwC took over as the software version has evolved so much. The team from PwC indicated that they will consult their IT to find out from the archives whether the file can be retrieved. Kindly give us an update whether the file has been retrieved and when this information will be available.

PwC indicated that they will also contact Nkonki to see what supporting information they can get on the componentisation. We have flagged this as something that is still outstanding which you will still come back to us to confirm the componentisation.

A class rotables

On this class of assets, we have noted that PwC did not stratify PAE into sub populations. PwC indicated that they were concerned with the coverage and selected large items and their selection did not include any items of A class rotables. We agreed that that this due to different methodologies and you did not follow a risk based approach in the selection of the tested sample. As AGSA our audit methodology allows for stratification and rotables were stratified and we performed additional procedures on the opening balances since we could not rely on your file. Material audit findings were identified in the opening balances as communicated in our last meeting. Should management not address the findings, it will lead to a modification in the audit report regarding opening balances. We will keep you updated regarding this matter.

Furniture and equipment

We did not obtain audit evidence on file that this was audited and on further discussion, we noted that you did not consider it as it was not material and you were concerned with big ticket items. There is no evidence on file if the auditor has documented and justified why this class of assets is not material.

Impairment assessment

On the audit file there is no evidence of work regarding the impairment and we indicated that we expected to see how you have tested the value in use calculation, the fair value less cost to sell and determine whether the assets were impaired in terms of IAS 36. Your team indicated that it is not practical to obtain fair value less cost to sell, however there is no evidence on file that this is documented.

Through discussion your team referred us to the work done on prior year regarding the impairments that gave you more comfort in the following year regarding impairment. This is noted however we could not get this evidence on file and therefore could not rely on the audit work performed. Your team also referred us to the attached report regarding work done on the impairment; however there is no evidence of work performed on the file. It should be noted that this section is still outstanding and we have not performed any audit work. We will keep you updated should we identify any material misstatements.

Useful lives and residual values

Through discussions we noted that your team has raised a finding on the assets carried at nil values and according to their assessment this was just an internal control deficiency and not a material finding. The impact was indicated to be R178 million per discussions but could not be confirmed through inspection of the file and schedule of unadjusted differences.

The work we have seen was only for nil value assets, however we discussed with your team that from our side we do not only consider the nil values assets but should consider all the assets of SAA including the nil values as required by the accounting standards.

P.S KTD

In the attached report your team indicated that they were satisfied that the useful lives are appropriate on page 10 Section 5.2.3, however there is no evidence of this in the audit file.

There is a material audit finding raised on assessment of residual values and useful lives, should management not address the finding, it will lead to a modification in the audit report. We will keep you updated regarding this matter.

Provision for lease liabilities and Maintenance reserves

Your team indicated that their documentation can be improved on this and have agreed with our documentation concerns regarding these two accounts. This is consistent with what we discussed in our previous meeting. The documentation is not adequate and work performed on file is not re-performable. There is no evidence that all assumptions made by management were considered in the audit work performed by the auditor's.

We explained the detailed work we performed and the write up on assumptions which we had to obtain on this calculation together with the audit findings we have raised. Your team did not raise any of the findings we have raised on these balances on the opening balances. We also explained that we experienced limitation of scope on the information relating to prior year event costs. This supports the fact that your team agreed amounts to invoices but there is no evidence of the details of supporting documents such as invoice number and invoice dates which your team has inspected.

There are material audit findings raised on these balances, should management not address the findings it will lead to a modification in the audit report. We will keep you updated regarding this matter.

"1.3 Billion loan"

Your team indicated that they will provide a write-up on the financial instrument which will detail all the considerations for the classification that has been recorded in the SAAs books in the prior years.

Share trust

No evidence of audit work performed on the share trust.

Regarding SCM we agreed that there was not much work that was performed in your file and we will not rely on this work.

I want to take this opportunity to express our sincere gratitude to you and your teams for allowing us to review the audit file. If there is anything in this email that you are concerned about, please do not hesitate to contact me. We will now schedule a meeting with Eugene and all other stakeholder. We will be in touch to check your availability.

Kind regards
Polani Sokombela CA(SA), RA

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From: Lawnet,Nathan
Sent: 06 September 2017 10:43 AM
To: pule.mothibe@za.pwc.com
Cc: Sokombela,Polani (SM); Kubai,Patrick; lumko.sihiya@pwc.com; Lawnet,Nathan

P.S KTO

Subject: FW: Significant matters identified on SAA opening balances and SCM
Importance: High

Dear Pule,

Trust you are well.
As also indicated in the meeting I will join Patrick with the session to review opening balances to clear up the following 2 matters:

- Considerations relating to the trust
- Consolidation where the final adjustment journal entries have been considered.

Thank you.

Kind regards,
Nathan Lawnet

Manager • National E • Auditor-General of South Africa
Tel: +27(0)12 422 8000 • Mobile: +27(0)82 773 4380 • Email: nathanl@agsa.co.za

Auditing to build public confidence

From: Sokombela,Polani (SM)
Sent: 05 September 2017 10:47 PM
To: pule.mothibe@pwc.com
Cc: Kubai,Patrick; Jansen Van Rensburg,Wikus (SM); Thuto Masasa; pule.mothibe@za.pwc.com; Demana,Ndaedzo; Lawnet,Nathan; Van Wyk, Daniel; Dazela,Mdumiseni; Zweli Mabhoza; Nobulali Tsako; lumko.sihiya@pwc.com; Zwakala,Zolisa (BE)
Subject: RE: Significant matters identified on SAA opening balances and SCM
Importance: High

Dear Pule,

Our meeting today refers.

We have agreed on the following in today's meeting:

- You will arrange a meeting before end of this week where Patrick will meet with Lumko to relook at the audit file to confirm if there is sufficient appropriate audit evidence on file especially on assets,
- You will send us a spreadsheet where you have mapped where audit work has been performed on file so that we can prepare,
- After Patrick and Lumko have met and discussed the matters, I will write to you an email on the feedback highlighting findings that we resolved and those we could not resolve during the review process,
- Where necessary we can have a telephonic discussion to discuss this,
- We will arrange a final close-off meeting with Eugene and Zolisa to discuss the finale findings,

Please confirm if this is the true reflection of what we have discussed and agreed today. Where necessary, please add your inputs as well.

Thank you very much for finding time to come and meet with us.

Regards

J.S K-TO

Polani Sokombela CA(SA), RA

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Tel: +27(0)12 426 8288 • Fax: +27(0)12 422 9459 • Mobile: +27(0)76 870 5628 • Email: polanis@agsa.co.za
<< OLE Object: Picture (Device Independent Bitmap) >>

-----Original Appointment-----
From: Kubai,Patrick
Sent: 01 September 2017 09:58 AM
To: Kubai,Patrick; Sokombela,Polani (SM); Jansen Van Rensburg,Wikus (SM); Thuto Masasa; pule.mothibe@za.pwc.com; Demana,Ndaedzo; Lawnet,Nathan; Van Wyk, Daniel; Dazela,Mdumiseni; Zweli Mabhoza; Nobulali Tsako; lumko.sihiya@pwc.com
Cc: pule.mothibe@pwc.com
Subject: Significant matters identified on SAA opening balances and SCM
When: 05 September 2017 11:00 AM-01:00 PM (UTC+02:00) Harare, Pretoria.
Where: Shauket Faukie: Meeting room Lefika House AGSA Brooklyn

Dear All,

Kindly accept the invite regarding the SAA audit

We are at the tail end of the audit process and we would like to have a workshop with you so that we can discuss all the significant matters that we have identified especially on opening balances and SCM.

The agenda and the venue will be confirmed before the date of the meeting, for now we just want to make sure the date is blocked on your calendar.

Kind regards

Patrick Kubai

Audit Manager • National E • Auditor-General of South Africa
Tel: +27(0)12 422 9905 •Cell +27(0)78 134 8351 • Fax: +27(0)12 422 9691 • Email: patrickk@agsa.co.za

P.S
KTD

PS 8A

Sokombela,Polani (BE)

From:	Kubai,Patrick
Sent:	Tuesday, 12 September 2017 11:29 AM
To:	Sokombela,Polani (SM)
Cc:	Ntshebe,Zikhona; Lawnet,Nathan; Jansen Van Rensburg,Wikus (SM); Dazela,Mdumiseni
Subject:	Feedback on follow-up review of opening balances-PwC
Attachments:	160809 SAA Audit Committee August 2016.pdf

Dear Polani,

The purpose of this email is to provide feedback on the follow up meeting we held with PwC on the opening balance review.

Pule was part of the meeting at the beginning for the discussion around the componentisation of assets and the "1.3 billion loan" and for the rest of the items he left the meeting saying he needed to attend to American regulators.

Below is the detailed feedback of what transpired:

__Property, aircraft and equipment (PAE)__

__Componentisation of the aircraft assets__

We clarified the email sent before the meeting that we need to obtain evidence how PwC satisfied themselves when they took over the audit on the componentisation of the aircraft assets. Pule indicated that it will not be possible to obtain the documentation of the time when PwC took over as the software version has evolved so much. They indicated that they will consult their IT to find out from the archives whether they can obtain the file.

They indicated that they will also contact Nkonki to see what supporting information they can get on the componentisation. This was flagged as something still outstanding which they will come back to us to confirm the componentisation.

__A class rotables__

The PAE balance was not adequately stratified, PwC indicated that they were concerned with the coverage and selected large items and their selection did not include any items of A class rotables. Their view is that we have different methodologies and they did not follow a risk based approach in their selection of the tested sample.

We indicated that we have specifically stratified between different classes of assets within PAE and have identified material findings on A class rotables. Should management not address the findings it will lead to a modification in the audit report.
This will still need further engagements with PwC if management fails to resolve the findings before we issue the audit report.

__Furniture and equipment__

This was not covered also in the sample since they considered it not material and are concerned with big ticket items. No specific justification of the way of selection and testing followed in this regard.

__Impairment assessment__

On the audit file there is no work regarding the impairment, we indicated that we expected to see how they tested the value in use calculation, the fair value less cost to sell and chose the appropriate value in use calculation. They

P.S
KTD

indicated that it is not practical to obtain fair value less cost to sell, however this fact is not documented on the audit file.

Through discussion they referred us to the work done on prior year regarding the impairments that gave them more comfort in the following year regarding impairment.

Work done on the impairment is indicated in the attached report on page 10 and 11 Section 5.2.3, and not in the impairment working paper we have viewed on the file.

They wanted to know if we identified any material findings on the impairment, we indicated that we have not audited the impairment as yet, the last year calculation from management is part of the finding regarding the limitation of scope experienced on the audit.

Useful lives and residual values

Through discussions it was noted that they have raised a finding on the assets carried at nil values and according to their assessment this was just an internal control deficiency and not a material finding. The impact was indicated to be 178 million per discussions but could not be confirmed through inspection of the file and schedule of unadjusted differences.

The work we have seen was only for few assets with nil values, We explained that from our side we do not only consider the nil values assets but this finding applies to all the assets of SAA and the nil values just support our finding that they do not assess the residual values and useful lives annually as required by the accounting standards.

In the attached report they have indicated that they have satisfied that the useful lives are appropriate on page 10 Section 5.2.3.

There is a material audit finding raised on assessment of residual values and useful lives, should management not address the finding, it will lead to a modification in the audit report. This will still need further engagements with PwC if management fails to resolve the finding before we issue the audit report.

Provision for lease liabilities and Maintenance reserves

PwC indicated that their documentation can be improved on this and have agreed with our documentation concerns regarding these two accounts. The documentation is not adequate and the one on file is not re-performable. Not all assumptions made by management were considered in the audit work performed by the auditor's.

We explained the detailed work we performed and the write up on assumptions which we had to obtain on this calculation together with the audit findings we have raised. They did not raise any of the findings we have raised on these balances on the opening balances. We also explained that we experienced limitation of scope on the information relating to prior year event costs. This supports the fact that they agreed amounts to invoices but we don't know details such as invoice number and invoice dates which they inspected.

There are material audit findings raised on these balances, should management not address the findings it will lead to a modification in the audit report. This will still need further engagements with PwC if management fails to resolve the findings before we issue the audit report.

"1.3 Billion loan"

PwC indicated that they will provide a write-up on the financial instrument which will detail all the considerations for the classification that has been recorded in the SAAs books.

Share trust

No evidence of audit work performed on the share trust.

P.S

KTO

General comments on the interaction

The way I have understood PwC stand point is that they want us to contextualise our findings on their audit file and not say there is no sufficient and appropriate evidence but the findings are caused by difference in methodologies. They do not disagree with what we found on the audit file but they disagree with the way we have put our findings which suggest that they did not do their job.

I have notified Lumko that the feedback will be provided by yourself to Pule based on the outcome of this meeting when he requested that I send him a feedback of the matters which are still not resolved after this interaction.

They admit that documentation can be improved in general on their audit file.

Kind regards

Patrick Kubai

Audit Manager • National E • Auditor-General of South Africa
Tel: +27(0)12 422 9905 •Cell +27(0)78 134 8351 • Fax: +27(0)12 422 9691 • Email: patrickk@agsa.co.za

P.S
KTD

PS 9

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Agenda

Meeting with Predecessor Auditors
Date: 15 January 2018
Venue: Henri Kleuver Boardroom Lefika house AGSA

Points of discussion	Person responsible	Time	Annex
1. Welcome and attendance	PS	13:00	
2. Apologies	All		
3. Adoption of the agenda	All		
4. SAA anticipated audit outcomes	PS		
5. Predecessors auditor's remarks	PWC/Nkonki		
6. Other matters	All		
7. Closure	PS		

RS KTD

DD20-PS-1813

PS 10

AUDITOR-GENERAL
SOUTH AFRICA

15 January 2018

Auditing to build public confidence

South African Airways Group SOC Ltd (SAA): Predecessor auditors briefing

2016-17 financial year regulatory audit

Private and confidential

PS

KTD

Our reputation promise/mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by **enabling oversight, accountability** and **governance** in the **public sector** through **auditing,** thereby building public confidence.

P.S KTD

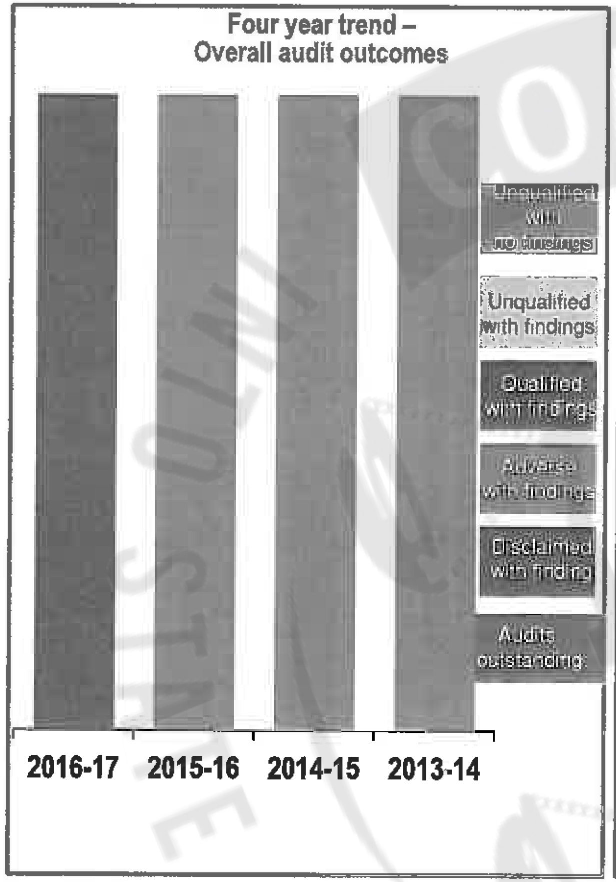
CONTENTS

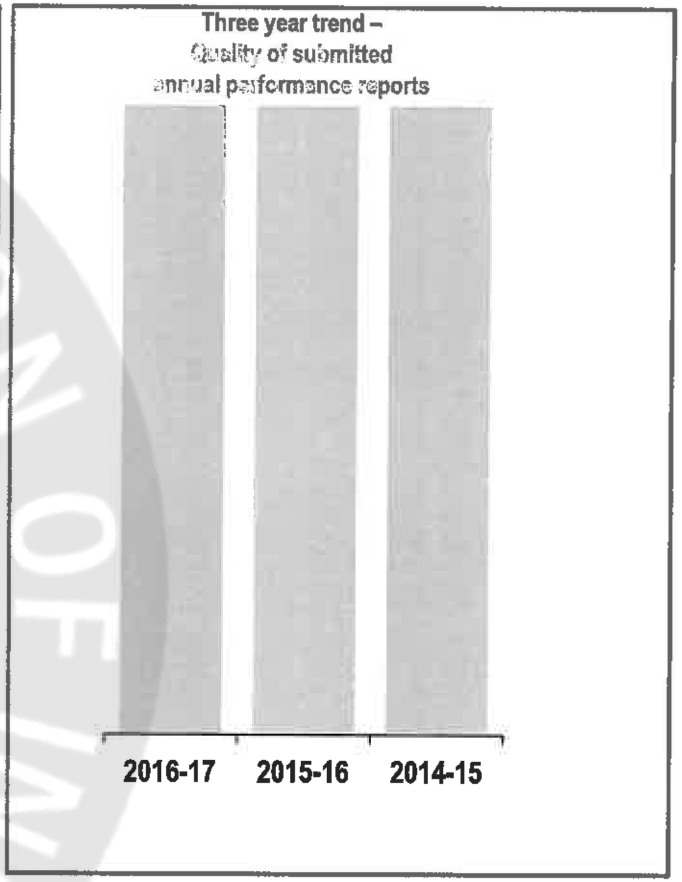
SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

p.s
KTD

DD20-PS-1816

Regression in audit outcomes





1 To improve the overall audit outcomes, financial statements processes,

2 …. compliance with key legislation and….

3 …. performance planning and reporting must be improved by….

With no material findings	With material findings	Outstanding audits	No APR/ late submitted

P.S

KTD

Regression in audit outcomes

List of audit opinion modification areas based on the latest update

- Property, aircraft and equipment (incl corresponding figures)
- Irregular, fruitless & wasteful expenditure (incl corresponding figures)
- Inventory (SAAT)
- Maintenance costs (incl corresponding figures)

P.S KTD

Performance reports: areas of concern

Strategic goal	Audit outcome	
	Usefulness	
	Current year	Prior year
Objective 1: Support national development agenda	Disclaimer	Unqualified with no findings
Objective 2: Achieve and maintain financial sustainability	Adverse	Unqualified with no findings
Objective 3: Provide excellent customer service	Qualified	Unqualified with no findings
Objective4 : Achieve consistent, efficient and effective operations	Qualified	Unqualified with no findings
Objective 5: Foster performance excellence	Qualified	Unqualified with no findings

Unqualified	Qualified	Adverse/Disclaimer

J.S

KTD

Compliance: areas of concern

Current year

- Strategic planning/AOPO
- Prevent irregular, fruitless and wasteful expenditure
- Non compliance with Companies Act (Sec 45 and 129)
- Consequence management
- Procurement & contract management (reported non compliance areas)
- Material corrections to financial statements and late submission
- Asset management

Prior year

No matters reported in the prior year – all areas regressed

P.S
KTD

DD20-PS-1820

Anticipated audit outcomes for the subsidiaries (not all opinions in the prior year were clean)

Subsidiary	Financial statements opinion	Outcome on AoPO	Compliance
Mango	Qualified opinion: Irregular expenditure and fruitless and wasteful expenditure (IFW)	Disclaimer	Various significant non-compliance matters reported including non-compliance with sec 45 of the company act.
SAA Technical	Disclaimer of opinion: going concern, PPE, Stock and IFW	Disclaimer	Non-compliance with section 22 and 129 of the company act reported under other matters.
Air Chefs	Disclaimer of opinion: going concern and Irregular expenditure	Disclaimer	
SA Travel Centre	No financial statements received – not a going concern	No performance report received	

P.S KTO

2 Material restatements

RS
KTD

Material restatements of prior year audited amounts

Additional procedures were performed on some account balances and class of transactions, material findings were identified and management made corrections in the financial statements. Below is the list of material balances which were restated:

- Pre-delivery payments
- Land and buildings
- Intangible assets
- Maintenance reserves and trade and other receivables
- Provision for lease liabilities
- Long term loans
- Commission

J.S
KTD

THANK YOU

P.S KTD

How to get in touch with the AGSA

www.agsa.co.za

@AuditorGen_SA

Auditor-General of South Africa

Private and confidential

P.S KTD

PS 11

Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

Minutes of meeting

Meeting with predecessor auditors

15 January 2018

Venue: Henri Kleuver Boardroom, Lefika house, AGSA

Attendees:

Name	Position	email address
PwC and Nkonki		
Pule Mothibe	Partner	pule.mothibe@pwc.com;
Thuto Masasa;	Partner	thutom@nkonki.com
AGSA		
Eugene Zungu	National leader	EugeneZ@agsa.co.za
Zolisa Zwakala	Business executive	ZolisaZ@agsa.co.za
Polani Sokombela	Senior Manager	PolaniS@agsa.co.za
Wikus Jansen Van Rensburg	Senior Manager	WikusJ@agsa.co.za
Nathan Lawnet	Acting Senior Manager	NathanL@agsa.co.za
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Points of discussion

1. Welcome, apologies and attendance

PS welcomed all.

2. Adoption of agenda

Agenda adopted by all.

3. SAA audit comes

The main purpose of the meeting is to discuss, among others the audit outcomes of SAA which have regressed since the AGSA took over the audit in 2016/17 financial year, the fact that there may be questions from the users of SAA AFS that might be asked why the opinion regressed and to try and formulate an answer to that question together as AGSA and previous auditors i.e. PwC and Nkonki.

Detailed outcomes were presented for SAA.

Highlighted the areas where prior year numbers were qualified and restated in the company and group financial statements of SAA.

P.S KTD

Minutes of meeting

As the AGSA and previous auditors have met a few times in the prior year to discuss the detailed technical matters on the outcome of the reviews of opening balances in accordance with auditing standards, the discussion only focuses on the responses to the audit outcomes. It was noted in the meeting that in certain instanced documentation was lacking on the 2015/16 file and as a result additional work had to be done on the opening balance. This work resulted in adverse findings in the current year audit report.

Key matters to note that may be asked by the stakeholders may include, among others:

- Irregular expenditure has significantly increased,
- Why the audit outcome has regressed from a clean audit to a qualified audit opinion,
- Why the significant matters reported by AGSA in 2016/17 audit not reported in prior years,
- State capture report made mention of one tender completed by SAA i.e. TNA Media which may attract a response on this matter as AGSA was unable to audit this due to limitation of scope. The tender was awarded in the prior years,

The previous auditors were notified that there is a huge risk on SCM and SCOPA might need answers from the previous auditors on why this matter was not reported in prior years. The previous auditors need to prepare themselves especially on SCM if they are called to do a presentation by SCOPA or parliament.

Agreed way forward for both AGSA and previous auditors:

- When AGSA are called to parliament they will brief the stakeholders on the matters relating to the 2016/17 outcomes and highlight the root causes that resulted in our material findings. We cannot prounounce on root causes for the regression because we are no position to compare matters to the previous year because the AGSA was not there. The AGSA will therefore not be in a position to comment on prior years audit outcomes and reasons for the opinion; this will be left for the previous auditors to comment on.
- If the AGSA is put in a corner and comments on any matter relating to the prior year outcomes (not the root causes); the previous auditors will be notified to ensure that they are aware of all information communicated so that they are able to prepare a response that will not contradict what has been said by the AGSA.
- If SAA management wishes to engage the previous auditors for the reasons for the regression, the previous auditors are open to meet and discuss the matter.

4. Other matters

No feedback has been received from IRBA relating to the investigation into the going concern matter that was raised.

P.S KTD

Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

Minutes of meeting

5. Closure

PS thanked everyone for attending the meeting and the meeting was adjourned

Chairperson Date

Secretary Date

PS KTD