



AUDITOR - GENERAL
SOUTH AFRICA

Ms Mbete
Speaker of Parliament
PO Box 15
Cape Town
8000

2 March 2018

Reference: SAA 2016/17 – Tabling of report

Dear Honourable Speaker Mbete

Publishing of the audit report of the South African Airways (SAA) for the financial year ending 31 March 2017

1. In terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004)(PAA), the Auditor-General of South Africa (AGSA) must submit an audit report in accordance with any legislation applicable to the auditee which is the subject of the audit.
2. SAA is listed in schedule 2 of the Public Finance Management Act, 1999 (Act No. 1 of 1999)(PFMA) as a public entity and the AGSA must comply with the provisions of the PFMA in submitting the audit report.
3. In terms of section 55(1)(c) and (d) of the PFMA, the accounting authority for a public entity must submit within two months after the end of the financial year to the auditors of public entity, their financial statements for auditing and must submit within five months of the end of the financial year to the relevant treasury and executive authority responsible for the public entity, an annual report, audited financial statements and audit report.
4. In contravention of section 55(1)(c) of the PFMA, SAA only submitted their financial statements for the year ending 2016-17 for auditing on 31 October 2017. This caused a delay in the audit process and submission of the audit report. In compliance with the PFMA, the AGSA completed the audit within two months after the financial statements were submitted for auditing and issued our report to the accounting authority of SAA on 8 December 2017.

5. In terms of section 55(3) of the PFMA, the accounting authority must submit the annual report, audited financial statements and audit report to the executive authority (through the accounting officer of the department designated by the executive authority), for tabling in Parliament. The responsible executive authority must in terms of section 65(1)(a) of the PFMA table in the National Assembly the annual report, audited financial statements and audit report, within one month after the accounting authority for the public entity received the audit report.
6. In contravention of section 55(3) of the PFMA, the responsible executive authority has failed to table the annual report, audited financial statements and audit report of SAA within one month after receiving it.
7. In terms of section 21(3) of the PAA, audit reports must be tabled in the relevant legislature in accordance with any applicable legislation or otherwise within a reasonable time. If an audit report is not tabled in a legislature within one month after its first sitting after the report has been submitted by the AGSA, the AGSA must promptly publish the report.
8. The AGSA hereby publish the audit report for SAA for the year ended 31 March 2017, in line with our statutory responsibility in terms of section 21(3) of the PAA.

Yours sincerely



Kimi Makwetu
Auditor-General

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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 ... to ... , 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: R3,113 billion; 2015-16: R3,145 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: R3,113 billion; 2015-16: R3,145 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.

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 18 to the consolidated and separate financial statements, was necessary.

Context for the auditor's opinion

9. Context for the auditor's opinion 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 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.

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.

Unaudited supplementary schedules

19. 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.

Responsibilities of the board of directors for the consolidated and separate financial statements

20. 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.

21. 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.

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

22. 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.
23. 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

24. 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.
25. 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.
26. 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	Pages in the annual performance report
Objective 1 – Support national development agenda	X – X
Objective 2 – Achieve and maintain financial sustainability	X – X
Objective 3 – Provide excellent customer service	X – X
Objective 4 – Achieve consistent, efficient and effective operations	X – X
Objective 5 – Foster performance excellence	X – X

27. 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.

28. 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

29. 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

30. 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

31. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of Net profit (R5,439m). 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 (R5,439).

Indicator: Refinement of the LTTS

32. 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.
33. 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

34. 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

35. 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)

36. 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.
37. 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 %

38. 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

39. 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

40. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Achievement of planned targets

41. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year and explanations provided for the over- or underachievement of a significant number of targets. This information should be considered in the context of the material findings reported in paragraphs 29 to 39 of this report.

Introduction and scope

42. 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.

43. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements, performance and annual reports

44. 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*.

45. 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

46. 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.

47. 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

48. 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*.

49. 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

50. 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

51. 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.
52. 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*.
53. 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.
54. 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*.
55. 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.
56. 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.
57. 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

58. 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*.
59. 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

60. 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.
61. 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.
62. 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.
63. 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

64. 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

65. 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.
66. 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.
67. 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.
68. The leadership did not adequately establish policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

69. 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.

Financial and performance management

70. 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.
71. 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.
72. 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.
73. 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.
74. 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.
75. 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.
76. 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.

77. 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

78. 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.

79. 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

80. 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

81. Independent consultants investigated allegations of irregular procurement and contract management practices and other misconduct. The reports were finalised after year 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

Auditing to build public confidence

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.