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17th MARCH 2017

SUBMISSION TO STANDING COMMITTEE ON FINANCE - MAFR

SIMON MANTELL – BUSINESSMAN

Good morning

My name is Simon Mantell and I registered as a chartered accountant in 1987 after completing articles with a big four audit firm.

In 1988 I started a food manufacturing business and I am independent of all the stakeholders in the MAFR debate.

MAFR comes at a time when audit independence, audit quality, audit reporting standards and transformation represent key touch points for the audit profession.

The independence of the auditor is the bedrock of the profession's reputation – it is a non-negotiable if the Report of the Auditor is to remain relevant to all users of Annual Financial Statements.

There appear to be two separate camps in the MAFR debate; the IRBA and smaller audit firms in favour of MAFR and the Chief Financial Officers' Forum (CFO Forum), the King Committee and the large audit firms opposing its introduction.

Key concerns raised by the Chief Financial Officers' Forum, King Committee and big audit firms with respect to any proposed implementation of MAFR are:

1. That MAFR will not necessarily enhance audit independence
2. That MAFR will result in increased audit costs
3. That MAFR will reduce the responsibilities of company audit committees

Key concerns raised by other stakeholders include:

4. The lack of transformation in the profession
5. Lack of competition and barriers to entry

I believe that the decision on whether to implement MAFR or not depends on the answers reached by this Committee with respect to two questions:

1. Will the implementation of MAFR result in improved auditor independence, audit quality and audit reporting?

2. Will the implementation of MAFR result in unintended consequences, and if so, then whether these consequences will have positive or negative outcomes for the various stakeholders?

I believe that this Committee should consider five areas as it weighs up the arguments for and against MAFR – these areas are:

1. Audit independence
2. Audit quality
3. Audit costs
4. Competitiveness
5. Transformation

1. AUDIT INDEPENDENCE

The auditor has a responsibility to <u>all</u> users of financial statements – it is an extremely wide range of users whose requirements are often very different.

Audit fee income received from the client firm constitutes the livelihood of the auditor but the audit firm is required to be independent of the client – it can only be a contradiction in terms.

Consistent revenue streams from almost "*guaranteed*" audit engagements provide significant comfort and security to any audit firm and only the most gullible of us will believe that true independence can exist under these circumstances.

The failures of Wall Street banks and our own African Bank (but for US FED and government bailouts) are at odds with the clean audit reports in the attached Report of Auditors for Bear Stearns, Goldman Sachs (both 2006) and our own African Bank (2013) these clean reports appear to confirm serious audit shortcomings flowing from what can best be described as a lack of audit independence

ANNEXURES A – A1, B – B1, D

2. AUDIT QUALITY

- In 2002, audit firm Arthur Andersen closed down as a result of litigation flowing from inadequate audit work performed at its client Enron

- In 2006, Wall Street Investment banks received clean audit opinions from the large international audit firms – but then, almost without exception, failed the following year

  How was this possible if audit quality was up to standard?

- Closer to home, African Bank received a clean audit from a big 4 international audit firm in 2013 – yet, in 2014, African Bank failed

  Was the quality of the audit satisfactory?

- It is public knowledge that gross mismanagement, material procurement irregularities and failure of internal control combined with serious breaches of statute are common place at many of our state owned enterprises (SOEs), yet the Report of the Auditor included in the annual financial statements of these SOEs invariably offers a clean audit opinion.

  Are audit committees and audit firms identifying risk areas such as procurement correctly and are audit firms planning and then performing sufficient audit work to ensure their audits are of sufficient quality so as to mitigate against the audit risk?

- The more familiar and long term the relationship with the client, the less inclined the auditor will be to exercise professional scepticism (International Standard on Auditing ISA 200) and the less inclined the auditor will be to be perform an audit with the prerequisite audit quality

- A study published in the USA CPA Journal (2008) on audit rotation records that restatements (in annual financial statements) are nearly **<u>three times more likely to occur</u>** after an auditor change following the incoming auditor <u>discovering problems which the previous auditor had missed or let slide</u>.

  SEE ATTACHED ANNEXURE E

- The King Committee raises concerns that the responsibilities of Audit Committees will be reduced and that MAFR will fall foul of the Companies Act.

  It must be noted that the responsibilities of audit committees include, but are not limited to:

  1. Reviewing and approving the external audit plan, the audit scope

  2. Reviewing the external audit reports

- What were the Audit Committees of the Wall Street investment banks and that of African Bank doing in the years before these banks hit the skids?

SEE ANNEXURE B 2 – B 3 ***- Report of the Audit Committee for African Bank (2013)***

- The SAA Audit Committee Report 2016 also creates the impression of a healthy state of affairs when all available evidence in the public domain suggests otherwise

ANNEXURE C – C 2 ***- SAA Audit Committee Report 2016***

3. AUDIT COSTS

The concern is that MAFR will result in:

a. increased audit costs:

b. loss of audit memory when incumbent audit firm departs

a. Audit costs

A study published in the American CPA Journal (2008) is informative with respect to voluntary audit rotation at the approximately **12 600** public companies registered with the US Securities and Exchange (SEC).

Between **2003** and **2006**, **6 543** auditor changes took place meaning that over **50%** of companies registered with the SEC changed auditors in a four year period.

A further **2 304** companies changed auditors following auditing firm Arthur Andersen's closure in **2002**.

SEE ATTACHED ANNEXURE E 1

Would more than **50 %** of US companies have chosen voluntary audit rotation over this period if these decisions meant significant additional audit costs?

To my knowledge, no companies migrating after the closure of Arthur Andersen in 2002 to other audit firms complained about increased audit fees

b. Loss of audit memory when incumbent firm departs

- Audit firms have high staff turnovers as articled clerks and audit managers move to the corporate world after qualifying and gaining some experience

  These clerks and managers perform the audit work and to suggest that the continued engagement of an audit firm ensures *"institutional knowledge and audit memory"* is most optimistic

- The failures of Enron and the Wall Street banks and the absence of any warnings by the auditors suggest that the incumbent audit firms had little, if any understanding of their clients' businesses and that this failure resulted in the audit firms being unable to identify their own audit risk so as to plan and perform the necessary audit work to mitigate against audit risk

  The claimed "familiarity" which an incumbent audit firm has with respect to a client's business is probably in most cases overrated.

4. COMPETITIVENESS

Advancement in every field of human endeavour is as a result of healthy competition and business is no different.

Are these almost evergreen audit relationships with listed companies not anti-competitive?

Standard business practice requires proposals and quotes from different suppliers and service providers to ensure the best product or service is delivered at the best possible price

Competition creates efficiency and transparency – why should auditing be different?

5. TRANSFORMATION

The minutes of the earlier SCOF meeting record that 90% of companies listed on the JSE are audited by the big four.

In 2006, approximately 50% of the more than 12 600 companies registered with the US Securities and Exchange Commission were audited by firms **outside** the big four – why should our JSE be any different?

MAFR will open the door for these second tier firms, especially those which are black owned to rightfully take their seat at the table

IN CONCLUSION

Independence

MAFR will enhance independence as audit firms know that an appointment is for a limited period of time and that the "fee income" isn't guaranteed.

For this reason they will more easily "stand their ground" and not buckle in the face of client pressure – they can be independent.

There will be fewer opportunities for "evergreen relationships"

Quality

Quality of audit planning and audit work conducted will improve as an incumbent firm will be well aware that the incoming firm will effectively perform a peer review when it takes over the appointment and reviews the former audit firm's audit working papers.

Audit Committees will need to apply their minds as they assess different audit proposals and the standard of performance of these audit committees will improve

Costs and competition

Competition invariably drives costs down and results in improved service.

Audit firms will become more efficient in their training, efficiency on the job and the management of their own overheads so as to pitch competitive bids to audit committees.

Transformation

Audit Committees will be compelled to request bids from competing audit firms – this process will provide the opportunity for second tier firms, many of whom are black owned, to pitch for business and open doors which are currently locked.

The status quo with respect to independence and audit quality doesn't work nearly as well as everyone is lead to believe and the dramatic and rapid demise of the banks (but for bailouts) following clean audit reports and which are included in this submission is evidence of this.

If more than 50 % of companies registered with the US Securities and Exchange Commission are audited by firms <u>other</u> than the big four, then there is absolutely no reason that second tier firms, especially those which are black owned, should not discharge audits effectively and efficiently in South Africa.

MAFR will lead to greater independence and quality and other consequences will be better pricing, improved competitiveness with the added benefit of transformation.

MAFR represents sound audit as well as business thinking and its implementation is of vital and urgent relevance to the audit profession in our country.

ANNEXURE A

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Bear Stearns Companies Inc.

Deloitte.

To the Board of Directors and Stockholders of The Bear Stearns Companies Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that The Bear Stearns Companies Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of November 30, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of November 30, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of November 30, 2006 and the related consolidated statements of income, cash flows and changes in stockholders' equity for the year ended November 30, 2006 of the Company and our report dated February 12, 2007 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

New York, New York
February 12, 2007

ANNEXURE A 1

Deloitte.

To the Board of Directors and Stockholders of The Bear Stearns Companies Inc.

We have audited the accompanying consolidated statements of financial condition of The Bear Stearns Companies Inc. and subsidiaries (the "Company") as of November 30, 2006 and 2005, and the related consolidated statements of income, cash flows and changes in stockholders' equity for each of the three years in the period ended November 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Bear Stearns Companies Inc. and subsidiaries as of November 30, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of November 30, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

New York, New York
February 12, 2007

ANNEXURE B

Deloitte

Private Bag X6
Gallo Manor 2052
South Africa

Deloitte & Touche
Registered Auditors
Financial Services Team - FIST
Building 8
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead Sandton
Docex 10 Johannesburg

Tel: +27 (0)11 806 5200
Fax: +27 (0)11 806 5222
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF AFRICAN BANK LIMITED

We have audited the annual financial statements of African Bank Limited, set out on pages 10 to 77, which comprise the statement of financial position as at 30 September 2013, income statement, statement of other comprehensive income, statement of changes in equity, and cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Bank Limited as at 30 September 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

ANNEXURE B 1

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 30 September 2013, we have read the directors' report, the certificate from the company secretary and the audit committee's report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per Mgcinisihlalo Jordan
Partner
10 December 2013

ANNEXURE B 2

AFRICAN BANK LIMITED
Registration number: 1975/002526/06

Annual financial statements
for the year ended 30 September 2013

AUDIT COMMITTEE REPORT

The audit committee presents its report for the financial year ended 30 September 2013 as required by section 94(7)(f) of the Companies Act. The audit committee has been constituted in accordance with applicable legislation and regulations.

Purpose of the audit committee

The main purpose of the audit committee is to assist the board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and the preparation of accurate financial reporting and statements in compliance with all legal requirements and accounting standards.

Membership and attendance

The audit committee consists of three members who are all independent non-executive directors. The committee meets at least four times per financial and calendar year. The names of the members and attendance at meetings are reflected below:

Number of meetings held	4
Independent non-executive directors	**Attendance**
Nicholas (Nic) Adams	4
Morris Mthombeni [4]	1
Samuel (Sam) Sithole [1,3]	3
Robert John (Johnny) Symmonds [1,3]	4
Executive directors	
Antonio (Toni) Fourie [2]	4
Leonidas (Leon) Kirkinis [2]	4
Nithiananthan (Nithia) Nalliah [2]	4
Thamsanqa Mthunzi (Tami) Sokutu [2]	3

1) Denotes chairman / chairperson.
2) Denotes standing attendee.
3) Sam Sithole resigned with effect from 16 September 2013 and Johnny Symmonds was appointed chairman.
4) Morris Mthombeni was appointed on 16 September 2013.

Functions of the audit committee

The audit committee has approved the audit committee charter and has discharged the functions in terms of the charter which included:

- reviewing and approving the company external audit plan including the proposed audit scope, approach to company risk activities and the audit fee;
- confirming the independence of the auditors, Deloitte & Touche;
- reviewing external audit reports;
- assessing the nature and extent of non-audit services;
- evaluating the role, independence and effectiveness of the internal audit function;
- approving the appointment or dismissal, if applicable, of the head of internal audit;
- approving the internal audit charter and internal audit plan;
- reviewing the accounting policies adopted by the company and all proposed changes in accounting policies and practices;
- reviewing the interim and annual financial statements to confirm the financial statements are prepared in accordance with International Financial Reporting Standards and the Companies Act;
- reviewing the company compliance plan and assessing the procedures for identifying regulatory risks;
- reviewing the legal matters that could have a significant impact on the company's financial statements; and
- assess the qualifications, expertise and experience of the chief financial officer.

ANNEXURE B 3

AFRICAN BANK LIMITED
Registration number: 1975/002526/06

Annual financial statements
for the year ended 30 September 2013

AUDIT COMMITTEE REPORT *(continued)*

Attendance by auditors and executive directors

The internal and external auditors attended and reported at all meetings of the audit committee. The executive directors were also invited to all meetings.

Independence of external auditors

The audit committee has satisfied itself that the auditors are independent of the company.

Internal financial controls, accounting practices and company annual financial statements

Based on the work of the company's assurance providers, nothing has come to the attention of the committee which indicates that the company's system of internal financial controls and accounting practices, in all material respects, does not provide a basis for reliable annual financial statements.

The committee is satisfied that the company annual financial statements are in compliance, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards, and recommended the financial statements for approval by the board.

Johnny Symmonds
Chairman: ABL audit committee

Midrand
10 December 2013

ANNEXURE C

Report of the Audit and Risk Committee

The Audit and Risk Committee (the Committee) is pleased to present its report in respect of the financial year ended 31 March 2016 in terms of its obligations according to Paragraph 3.1.13 of the Treasury Regulations issued in terms of section 51(1)(a)(ii) of the Public Finance Management Act, Act No 1 of 1999, as amended by Act No 29 of 1999 (PFMA).

The Committee is independent and was appointed by the shareholder at the annual general meeting (AGM) held on 30 January 2015 in line with the legislative requirements.

The Committee constitutes both a statutory committee in terms of the section 77 of the PFMA, Companies Act and a committee of the South African Airways SOC Limited (SAA) Board in respect of duties assigned to it by the Board.

The Committee discharges both its statutory and Board delegated responsibilities as outlined in the report below.

Committee members and attendance at meetings.

The composition of the Committee complies with the requirements of section 77 of the PFMA. The Committee consists of three independent, non-executive directors and meets quarterly as per its Terms of Reference. The Group's Chief Executive Officer, Chief Financial Officer and Legal Counsel attend committee meetings by invitation. Furthermore, Internal Audit, external auditor and other assurance providers of the Group are invited to every meeting. Details on the number of meetings held for the year and members' attendances are set out on page 90. Biographical details of members are provided on pages 16 to 17.

Role and responsibilities

The Committee's roles and responsibilities include its statutory duties as per the relevant provisions of the PFMA, Companies Act, and the responsibilities assigned to it by the Board. The Committee has adopted formal Terms of Reference approved by the Board, which are reviewed annually by the committee and the Board.

The Committee has conducted its affairs in compliance with these Terms of Reference for the year ended 31 March 2016 and has discharged its responsibilities contained therein. The Terms of Reference are available on request from the Group Company Secretary whose contact details are provided on page 74 of this integrated report.

The Committee is satisfied that it has complied with its legal, regulatory, and other responsibilities.

Statutory duties

The Committee has performed the following statutory duties:

External auditor

The Committee has satisfied itself that the external auditor, PricewaterhouseCoopers Inc. and jointly appointed Nkonki Inc., was independent of the Group as set out in PFMA, section 90(2)(c) of the Companies Act, 2008 as amended, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board of Auditors. Requisite assurance was sought and provided by the external auditor that internal governance processes within PricewaterhouseCoopers Inc. and Nkonki Inc, support and demonstrate their claim to independence.

The Committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2015/2016 financial year. The Committee approved a written policy for the provision of non-audit services by the external auditor. The Committee is not aware of any significant non-audit service that the external auditor provided during 2015/2016 financial year.

The Committee will consider the re-appointment of the current external auditors at the AGM in line with the legislative requirements. If the current external auditors are not re-appointed at the AGM, a formal procurement process for the external audit function will be embarked upon immediately thereafter.

Internal financial controls

An assessment of the effectiveness of the Group's system of internal controls, which includes internal financial controls, was conducted by Internal Audit during the 2015/2016 financial year. The Committee has observed that the overall control environment, including financial controls, has continued to improve during the year under review, in line with the trend observed in the previous reporting period. Based on the results of Internal Audit assessment, the information and the explanations provided by management and discussions held with external audit on the results of external audit, the committee concluded and advised the Board that nothing has come to its attention that would suggest that the Group's system of internal financial controls is not effective to form a basis for the preparation of reliable financial statements.

However, there are still some concerns with the level of internal controls within the operations where evidence of lapses of effective monitoring and enforcement by management were observed. Where internal controls did not operate effectively throughout the year, compensating controls and/or corrective action were implemented to eliminate or reduce the risks. This ensured that the Group's assets were safeguarded and proper accounting records maintained.

The effectiveness of the implemented measures to improve the control environment continues to be in constant state of improvement. Where irregular expenditure and fruitless and wasteful expenditure have occurred, this has been mainly a consequence of legacy tender processes and administrative delays. Since none of the reported breaches resulted in expenditure greater than the materiality threshold agreed with the shareholder, of R165m, the Committee is confident that legacy areas of non-compliance are progressively eliminated towards full compliance. The Committee has resolved to ensure that the comprehensive implementation of and the adherence to the internal control environment reforms be expedited.

The 2015/2016 audits of SAA's Information Technology (IT) environment has highlighted significant improvements compared to the previous reporting period. There is, however, room for improvement. The Committee is satisfied that the Internal Audit Plan provides for sufficient IT audit coverage in the next three years.

The internal audits of SAA international outstations have also highlighted some improvements compared to the previous reporting periods. The other specific focus area was the control environment in the baggage handling area. The internal audits and management reports regarding controls to curb baggage pilferage have highlighted significant improvements compared to previous periods. However, there were reported areas that still need further improvement to ensure baggage pilferage is eradicated completely.

ANNEXURE C 1

The audit of predetermined objectives is a specific focus area for the Auditor General and the Committee. The internal audits in this area indicated that there are effective internal controls. The Committee is satisfied that the Internal Audit Plan provides for sufficient audit coverage of this area in the next three years.

Financial statements and accounting practices

The Committee reviewed the annual consolidated financial statements of the Group and the annual financial statements of the Company as well as the accounting policies and practices of the Group and is satisfied that they comply with the relevant provisions of the PFMA and the International Financial Reporting Standards. The Committee recommended the consolidated annual financial statements of the Group and annual financial statements of the Company to the Board for approval.

Going concern

The Committee reviewed a documented assessment by management of the going concern premise of the Group and the Company before recommending to the Board that the Group and the Company could be considered a going concern for the foreseeable future.

Expertise and experience of the Financial Director and finance function

The Committee has satisfied itself that the Group Financial Director has appropriate expertise and experience to fulfil her role. The Committee is further satisfied with the appropriateness of the expertise and the adequacy of resources of the Group's finance function and the experience of senior members of the finance function.

Duties assigned by the Board

The Committee has performed the following duties assigned to it by the Board:

Internal Audit

South African Airways SOC Ltd has an in-house internal audit function. The Committee has an oversight responsibility for the Internal Audit function. As delegated by the Board, the Committee reviews and approves the Internal Audit Charter annually. The Chief Audit Executive is appointed by the Committee and has direct access to the Committee, primarily through its Chairperson. The Internal Audit function has the responsibility of reviewing and providing assurance on the adequacy of internal controls across the Group's operations. It therefore plays an integral role in the governance of risk.

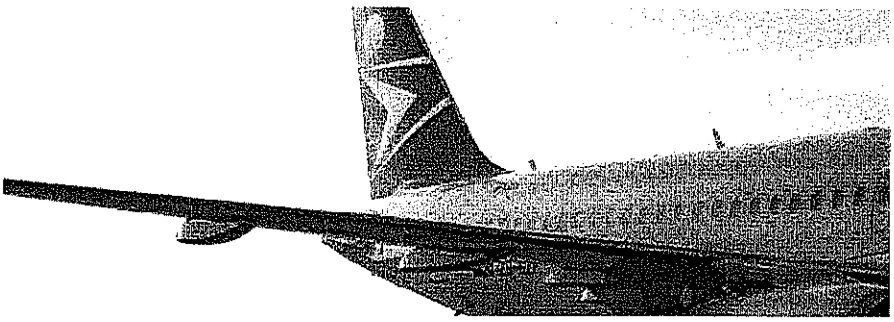
The 2015/2016 financial year was the fourth year of the SAA in-house Internal Audit function after many years of outsourced internal audit function. The Committee is satisfied with the progress made in building an effective in-house internal audit function. The Committee appointed an independent service provider to conduct the external assessment of the Internal Audit function. The external assessment report will be used to identify and address areas of improvement. The Committee will continue working closely with the Chief Audit Executive to ensure that the momentum is not lost.

The 2015/2016 Internal Audit plan and budget were approved by the Committee before the start of the financial year. Approximately 95 percent of planned audits were executed successfully. The very few internal audits not conducted were rolled over to the 2016/2017 financial year. Over and above the 95 percent of planned audits being conducted, a number of special *ad hoc* audit requests were conducted by Internal Audit.

The Committee is satisfied with the three-year rolling Internal Audit plan in that there is a clear alignment with the major risks, adequate information systems coverage and a good balance between different categories of audits, i.e., risk-based audits, mandatory and follow up audits. This will, however, require building and maintaining the necessary capacity.

Risk Governance

The Board has assigned the oversight of the Group's risk management function to the Committee. The Committee fulfils an oversight function regarding risks in all areas of the Group including operations, finance, fraud, information technology and ethics. For more detail on risk management and regulatory compliance refer to pages 58 to 59. An assessment of the effectiveness of the Group's internal controls system was conducted by Internal Audit during the 2015/2016 financial year. Based on this assessment and the ongoing oversight of the Committee nothing came to the attention of the Committee and the Board that would suggest that the prevailing system of risk management is not in all material respects effective.



ANNEXURE C 2

Report of the Audit and Risk Committee
(continued)

Whistleblowing and ethics

The Committee evaluated the Code of Conduct and Anonymous reporting (Whistleblowing) policy, fraud prevention policy and fraud prevention plan. Internal Audit regularly reports to the Committee on progress on the fraud prevention plan and instances of alleged misconducts reported through the anonymous whistleblowing line. The Committee regularly reports back to the Board in this regard in order to consider whether instances of whistleblowing and unethical behavior are appropriately dealt with.

Integrated reporting

The Committee considered the disclosures in the integrated annual report. It performed an oversight function of the integrated reporting process and recommended it to the Board for approval.

The quality of in-year management and monthly reports/quarterly reports submitted in terms of the PFMA

The Committee has noted and is satisfied with the content and quality of quarterly financial reports prepared and issued by SAA during the year under review, in compliance with the statutory reporting framework.

Specific focus areas for 2016/2017 financial year

Whilst the significant audit focus will be directed towards maintaining an effective controls environment in the operational and financial controls environment, a specific focus will be directed towards the following areas:

- The implementation of the Long-Term Turn Around Strategy (LTTS)
- Audit of predetermined objectives, ie, areas where performance was not achieved
- Information Technology control environment
- Baggage handling processes
- Anti-corruption and fraudulent activities and feedback on investigations
- Compliance with the SAA Supply Chain Management Policy
- Automation of manual operational and financial controls
- Implementation of the combined assurance framework
- Alignment of Internal Audit and Risk management efforts
- Control environment at certain outstations
- Contracts management framework and practices

Meeting with Internal and External Audit

During the year under review, the committee met with both internal and external auditors without management being present on a number of occasions. The Committee also met with executive management without Internal Audit or external audit. The Committee also performed a performance review on itself, Internal Audit and external audit.

Discharge of responsibilities

The Committee agrees that the adoption of the going-concern premise is appropriate in preparing the 2015/2016 Group and Company annual financial statements, with the consideration of the factors highlighted on page 82 of the Directors' Report. The Committee has therefore recommended the adoption of the Group and Company annual financial statements by the Board of Directors on 22 August 2016.

On behalf of the Audit and Risk Committee

Y Kwinana
Chairperson

South African Airways SOC Limited Audit and Risk Committee

22 August 2016

ANNEXURE D

Report of Independent Registered Public Accounting Firm

To the Board of Directors and the
Shareholders of The Goldman Sachs Group, Inc.:

We have completed integrated audits of The Goldman Sachs Group, Inc.'s consolidated financial statements and of its internal control over financial reporting as of November 24, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of earnings, changes in shareholders' equity, cash flows and comprehensive income present fairly, in all material respects, the financial position of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) at November 24, 2006 and November 25, 2005, and the results of its operations and its cash flows for each of the three fiscal years in the period ended November 24, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing on page 72, that the Company maintained effective internal control over financial reporting as of November 24, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 24, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, New York
January 31, 2007

ANNEXURE E

The CPA Journal

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January 2003

Should the Accounting Profession Take a Step Backward?

By John E. Smigla

My practical accounting experience began 27 years ago with a large, local CPA firm. I was thoroughly impressed with the quality of its audit and tax work, and that experience has proved beneficial over the years. After graduate school, I worked for one of the Big Eight, which, at the time I was hired, were aggressively seeking small business audits, developing small-business audit departments, and hiring business consultants and developing business consulting services. The pressure I encountered there on audits both small and large—to complete the audit on budget and to keep the audit fee low enough to be competitive with the smaller firms—was significant. Several times, when reviewing prior years' working papers, I had to wonder how anyone could possibly complete those audit steps in the time listed.

A Credibility Problem

Our profession has changed since then, and not for the better. I believe accounting practitioners and educators must attack the accounting credibility issue in four ways.

First, our profession must embrace the concept of rotation of auditors every few years. What one firm loses in audit work another firm gains. Audit costs will increase, but the costs to society when our assurance services fail are greater. Mandatory auditor rotation will force a fresh viewpoint that wil make financial reporting deficiencies more likely to be discovered and disclosed. As with Enron and Andersen, too often a cozy relationship develops between an auditor and client and the auditor can become more concerned with holding onto the business than with its professional responsibility.

Mandatory rotation will enhance auditor independence in two ways. The auditor will no longer experience the pressure of losing a client for disagreeing with questionable accounting practices or GAAP violations. Furthermore, under mandatory rotation an auditor will be concerned that a future auditor will uncover and disclose any accounting irregularities: Auditors auditing auditors.

Second, many experts contend that an auditor that also provides management advisory services cannot remain neutral. The profession needs to sever the dual relationship. Many CPAs excel at management advisory services, but the CPA should not be in a position of providing both assurance and advisory services to the same client.

Third, FASB must separate itself from politics and the SEC must begin backing FASB on reporting issues when constituents fear the reporting impact of proposed sound GAAP. While FASB shares some of the blame, standards-setting is very political, with legislators, industry, and the large CPA firms wielding enormous influence. If the SEC had backed FASB in the mid-1970s on its proposed standard on troubled debt restructuring, the savings-and-loan crisis would have been less severe, possibly even prevented. Creditors should have been required to recognize a loss at the date of restructuring if the present value was less than the carrying

ANNEXURE E 2

Most auditor changes occurred in the months after a company's fiscal year-end. Usually companies waited until their audits were completed. Some companies decided to announce auditor changes after their fiscal year-end but before the annual audit was completed. In these cases, the auditors stuck around long enough to complete the work, even though they already knew they would not be the company's auditor once they were finished.

Of the 156 auditor changes in January 2006, 84 were by companies with fiscal years that ended on December 31, 2005—meaning these companies' fiscal years were complete at the time of the changes, but their audits were not yet finished. In January 2005, calendar-year companies made the same number of changes. The January 2006 figures included at least 20 changes due to audit firm mergers or name changes.

In addition to the 2,304 companies that changed auditors in 2002 due to the demise of Arthur Andersen, 5,325 auditor changes occurred between 2003 and 2006. That is a total of at least 7,629 auditor changes since the collapse of Andersen made the Big Five the Big Four (Deloitte & Touche, Ernst & Young, KPMG, and Pricewater-houseCoopers). Because some companies changed auditors more than once during that timeframe, it means that 6,543 companies changed auditors at least once after Arthur Andersen's collapse. To put that in perspective, roughly 12,600 U.S. public companies were registered with the SEC during this time period. By the authors' count, that means more than half of U.S. companies changed their auditors over the past five years.

The Shift to Smaller Firms

Most companies audited by Arthur Andersen switched to one of the Big Four, but the underlying trend among all companies has been to switch away from the Big Four. In the last four years, the number of companies audited by Big Four firms dipped from 6,229 as of December 31, 2002, to 5,199 as of December 31, 2006 (Exhibit 2). Over the same time, second-tier firms added 266 companies, and smaller firms realized a net gain of 588 companies. (A total of 176 companies did not disclose a successor audit firm, either because they ceased operations or had not yet found a replacement. Because these figures do not take into account companies that went public during the last four years, the Big Four firms' decline is likely slightly overstated.)

Unsurprisingly, an analysis of the size of the companies that switched auditors shows that the auditor changes during the last four years were increasingly made by smaller companies. The authors' analysis revealed that 3,309 companies with less than $75 million in market capitalization at the time of their changes made 4,207 of the changes, or 79% of the total. By comparison, 74 companies with $2.5 billion or more in market capitalization changed auditors. That is a turnover rate of 63% for companies with less than $75 million in market capitalization, compared with a turnover rate of 8% for companies with at least $2.5 billion in market capitalization, according to figures from Glass, Lewis; company filings; and Reuters (percentages are based on four-year totals).

Changes Occurred in a Variety of Industries

The analysis also examined industries that had at least 100 auditor changes during the last three years. (Industry data were available only for 2004–2006). Software and programming companies, biotechnology and drug companies, and banks accounted for the highest volume of auditor changes during 2004–2006. In terms of turnover, business-services companies had a turnover rate in excess of 50% during the last three years. Other industries with high turnover rates for 2004–2006 included communications services, and medical equipment and supplies.

Given the thousands of companies of all sizes, in all industries, that have changed auditors in the past five years, it has become apparent that the stigma previously attached to auditor changes has subsided, if not disappeared. The audit committees of these companies have, for whatever reason, found that making auditor changes is desirable. Clearly, the major audit firms have demonstrated that they have the expertise and competency to accept new audits of all kinds of companies, especially when the companies present no unnecessary risks. Accordingly, the authors applaud those audit committees that periodically rotate audit firms in an effort to ensure audit quality, not just cheap audits.

ANNEXURE E 3

value of the receivable. Financial institutions would have been recognizing losses on restructuring loans years earlier than what was required under SFAS 15.

One can see politics at work in SFAS 123 on stock options: Companies need to report the fair market value (FMV) of a stock option as expense only in pro forma data. Any of the FMV pricing models permitted can materially understate compensation expense under stock option plans over several years. The most objective model would be to recognize the difference between the FMV of the stock and the exercise price at the balance sheet date. But many companies lobbied against this approach because it would negatively impact their operating results and force them to restructure their executive compensation.

Furthermore, certain requirements that FASB had proposed on derivative accounting and off-balance sheet financing might have prevented the collapse of Enron or at least lessened the damage. But once again, FASB did not receive support from the SEC and succumbed to constituent pressure.

Finally, accounting educators must be firm in their commitment to provide accounting graduates with strong technical skills. Grade inflation has escalated to new heights over the last two decades with the decline in student enrollments and many professors issue Cs to students who would have received Ds 20 years ago. A and B students are recruited heavily by CPA firms both large and small, and CPA firms need recruits whose technical skills are above average. Recruiters may state that a myriad of other skills are more important, and that they can teach new recruits accounting after they are hired. But given the recent rash of financial reporting problems and financial restatements, I question how well this approach is working. Partners and managers are only as good as their staff auditors because these individuals are the ones expected to bring financial reporting deficiencies and questionable matters to the attention of their higher-ups.

Many small CPA firms say they need employees who have excellent technical and communication skills and can work well with others, and I agree that these skills should be first and foremost. But we cannot expect accounting programs to produce excellent salespeople. Graduates that possess skills at both ends of the spectrum are rare, and accounting firms should not expect every new recruit to possess all the qualities of a potential partner. Over the past 23 years my students with the very best technical skills would not be the best at soliciting new clients or mingling at the country club. However, they would be the best professionals to perform a thorough audit and contend with ethical and highly technical issues. As an educator and practitioner, I ask you: Shouldn't this be what accounting and auditing are all about?

John E. Smigla, CPA, is an associate professor of accounting at Robert Morris University.