Standing Committee on Public Accounts (SCOPA) Briefing Note

PFMA 2018-2019 to 2021-2022

South African Airways (SAA) SOC Limited (SAA)

21 November 2023

AUDITOR-GENERAL SOUTH AFRICA

Contents

1. <u>Introduction</u>

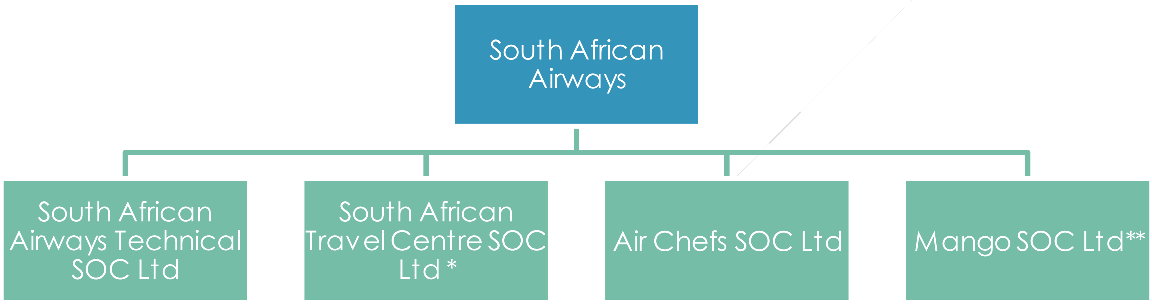
1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

1.2 Purpose of document

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to brief the Standing Committee on Public Accounts (Scopa) on the audit outcomes of South African Airways (SAA) for the financial periods ended 31 March 2019, 31 March 2020, 31 March 2021 and 31 March 2022.

1.3 Organisational structure



*South African Travel Centre SOC Ltd is dormant.

**Mango is currently under business rescue and has ceased operations.

*** - The group also consists of the SAA Share Trusts.

The accounting authority has not submitted annual financial statement for audit in the past five (5) years with regards to SAA Share Trust and SA Travel Centre SOC Ltd. Though the impact of non-submission of the financial statements for audit has been assessed in determining the consolidated outcomes of the SAA group – the individual outcomes of these two entities is therefore not included in this briefing document.

The shareholder is embarking on a process to dispose fifty-one (51) percent stake in SAA and the preferred strategic equity partner (SEP) has been identified. The sale is not yet finalised. Competition Tribunal has ruled positively on the sale. There are number regulatory approvals applied and are still outstanding.

The process of appointing a SEP on the sale of SAA was undertaken by the Department of Enterprise (DPE) as the shareholder representative. The process was therefore audited as part of the DPE audit and only a summary of the outcomes and recommendation is included in this briefing document.

1.4 Funding

SAA is a major public entity under the Department of Public Enterprises (DPE). In terms of the Public Finance Management Act, 1 of 1999 (PFMA) and as a schedule 2 listed public entity, SAA has been assigned financial and operational authority to carry on its business activity and ideally should be financed substantially from sources other than the National Revenue Fund or by way of a tax, levy or other statutory money.

Historically SAA had a centralised treasury function which supported the company in its strategic objectives by providing funding from a range of sources which included amongst others:

- International and domestic capital markets;
- Development finance institutions;
- Loan market (public and private).

The entity experienced significant financial difficulty and operational challenges in the years leading to the 2018 financial year which necessitated a number of equity injections/recapitalisations from the government. From 01 April 2018 to as at the date of this report, the government had injected R38.1 billon to SAA of which R27.6 billion was deposited post business rescue. The following table depicts references to amount injected:

Date	Purpose	Amount (Billion rands)
07-Feb-19	Working capital	5.00
30-Aug-19	Working capital	2.00
30-Sep-19	To repay lenders	3.50
30-Jul-20	Post commencement funding	3.60
01-Sep-20	Post commencement funding and legacy debt	6.50
30-Nov-20	Funding of business rescue plan	1.50
20-Jan-21	Funding business rescue plan	1.30
08-Feb-21	Guarantees of letters of credit	0.30
15-Feb-21	Funding of business rescue plan	5.00
13-Aug-21	Funding of subsidiaries	0.90
20-Aug-21	Funding of subsidiaries	0.10
31-Aug-21	Funding of first tranche of receivership payments	4.10
17-Sep-21	Funding of subsidiaries	0.90
28-Oct-21	Funding of subsidiaries	0.10
25-Nov-21	Funding of subsidiaries	0.30
31-Mar-22	Funding of subsidiaries	0.40
04-Aug-22	To repay lenders	1.60
03-Apr-23	To pay receivership liabilities	1.00
		38.10

Due to the significant financial difficulties and operational challenges that SAA was facing, the entity was placed under business rescue on 5 December 2019 in terms of section 129(1) of the Companies Act, 2008 (Act No. 71 of 2008) (Companies Act). The business rescue plan was adopted on July 14, 2020, by affected persons as required by section 152(2) of the Companies Act. The substantial implementation of the plan was concluded on 30 April 2021, by joint business rescue practitioners in terms of section 152(8) of the Companies Act.

Therefore with effect from May 1, 2021, the public entity was handed over to the interim board to facilitate the restart plan. The public entity emerged as solvent and liquid after the business rescue proceeding. The public entity is however still operating under material uncertainties on the going concern assumption as the business rescue plan is not yet fully implemented.

Since the business rescue process was concluded the entity has not raised funding in the capital markets through the sources of funding that have been historically available as outlined above.

The financial viability risks and dependencies for the entity are discussed in detail in section 4 of this briefing document.

2. Background and status of outstanding financial statements

In 2019, SAA experienced significant financial difficulties which impacted the going concern assumption on the preparation of the financial statements. This resulted in the then board requesting that the audit of SAA be suspended as the board wanted to focus on finding solutions to address the liquidity and solvency challenges of the company. At the time of withdrawing the audit team, the audit for 2017-18 was had not yet been completed as the AGSA was waiting final board approved financial statements.

As indicated in preceding paragraph above, the entity was under business rescue from 05 December 2019 to 30 April 2021. Due to the solvency and liquidity challenges that preceded the business rescue process and the lengthy duration of the business rescue process, the accounting authority only prepared and submitted financial statements for auditing more than three years after the legislated deadline.

Subsequent to the business rescue process, the outstanding audit for the year ended 31 March 2018 was finalised on 2 February 2022. SCOPA has been briefed on the audit outcomes for the financial year ended 2018 on 04 May 2022.

The audits for the financial years 2018-19, 2019-20, 2020-21 and 2021-22 have been completed and the audit outcomes are summarized in this briefing document. Although an annual general meeting (AGM) has been held, the executive authority has not yet tabled annual report following the AGM held on 10 November 2023.

Financial statements for the financial year 2022-23 were submitted for auditing in October 2023 and the audit is in progress.

3. Overview of audit outcomes

The audit outcome of the public entity has regressed from a qualified audit opinion to a disclaimer of audit opinion for the four years under review. The audit outcome remained consistent from the period 31 March 2019 to 31 March 2022 (4 financial years).

The outcome is mainly attributable to material misstatements in the financial statements submitted for audit, material findings on compliance with applicable legislation as well material findings on the audit of predetermined objectives. The outcomes of SAA are outlined in the table below:

Outcome area	Movement since 2017-18	2021-22	2020-21	2019-20	2018-19	2017-18
Financial statements						
Annual performance report						
• Objective 1: Achieve and maintain financial sustainability		Annual performance report not prepared and submitted for auditing				
• Objective 3: Achieve consistent, efficient and effective operations						
Compliance with legislation						
• Asset management						
• AFS and Annual report						
• Consequence management						
• Expenditure management						
• Liability management						
• Procurement and contract management						
• Revenue management						
• Strategic planning and performance management						
• SOE governance and oversight						

The audit outcome for the SAA subsidiaries are similar to those of the holding company and they present a regression from a qualified audit opinion to a disclaimed audit opinion with exception of Mango which was disclaimed in 2018-19. The outcome is also mainly attributable to material misstatements in the financial statements submitted for audit, material findings on compliance with applicable legislation as well material findings on the audit of predetermined objectives. The outcomes of the SAA's subsidiaries are outlined in the table below:

Outcome area	Movement	2021-22	2020-21	2019-20	2018-19	2017-18
South African Airways Technical SOC Ltd (SAAT)						
Financial statements						
Annual performance report		Annual performance report not prepared.				
Compliance with legislation						
Air Chefs SOC Limited (Air Chefs)						
Financial statements						
Annual performance report		Annual performance report not prepared.				
Compliance with legislation						
Mango SOC Ltd (Mango)						
Financial statements						
Annual performance report		Annual performance report not prepared.				
Compliance with legislation						
SA Travel Centre SoC Ltd (Outstanding – Annual Financial Statements not submitted)						
SAA Share Trust (Outstanding – Annual Financial Statements not submitted)						

The root causes to these outcomes is mainly attributable to inadequate monitoring and oversight due to lack of effective governance structures, instability in leadership, impact of business rescue process, weaknesses in the control environment, inadequate policies and procedures, lack of proper record keeping, as well as the lack of audit actions plans to address prior audit findings and implementation of the recommendation.

	Improvement		Regression		Unchanged

	Unqualified / No material findings		Qualified		Adverse		Disclaimed		Material findings

Quality of submitted financial statements

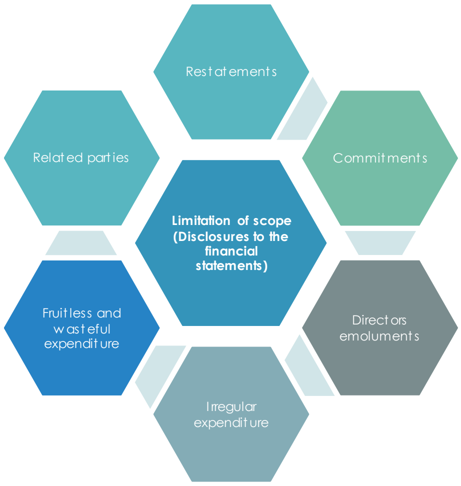
Overall management failed to provide supporting information for audit purposes due to poor record keeping and the fact that SAA lost majority of its finance staff during the business rescue process. This contributed significantly to the material limitations of scope. Due to the pervasiveness of the limitations experienced in obtaining sufficient and appropriate audit evidence to support the numbers recorded in the financial statements; we could not express an opinion on the financial statement submitted for audit resulting in a disclaimer opinion over the four year period audited.

A disclaimed audit opinion paints SAA as an environment that is failing to implement robust financial management systems and credible financial reporting as required by the International Financial Reporting Standards (IFRS) and the Public Finance Management Act (PFMA). It is an environment that is failing to account for the financial affairs of the company. The graphics below outlines the pervasiveness of the material limitations of scope on the financial statements submitted for audit.

Material limitations of scope on the statement of financial position

Material limitation of scope on the statement of financial performance

Material limitation on disclosures to the financial statements



Credible AFS are crucial for enabling accountability and transparency. A disclaimer of opinion on the financial statements renders the financial statements not reliable for purposes of decision making and compromises the effectiveness of oversight.

The SAA group does not have an adequate record keeping systems that ensures, retrieval of accurate and complete information in a timely manner. This was also worsened by the impact of the business rescue process that resulted in the downsizing of the staff and loss of critical skills especially in the finance function without adequate business continuity measures that would ensure the preservation of critical skills and capacity as well as proper hand over process by the employees that exited the company. Furthermore, the entity did not designate a member of staff to take responsibility for record management and did not ensure that staff were trained to apply proper record management procedures to facilitate sound record management.

The lack of adequate measures taken to preserve critical skills and capacity in the finance function during the business processes significantly affected the credibility of the financial statements prepared as the experienced personnel with knowledge of the entity' financial records left the company during the business rescue process. Currently, there is a lack of adequate skills and capacity to prepare credible financial statements and to support the audit process due to loss of critical skills and poor record keeping.

Inadequate reviews conducted on the annual financial statement (AFS) submitted for audit and underlying records supporting the transactions recorded by management in the AFS which were not properly maintained also had a significant impact on the unfavourable audit outcomes for the group.

The majority of the audit findings are recurring (repeat findings) as no action plan to resolve prior year qualification areas was developed and implemented in a timely manner to ensure prior year audit matters as well as internal audit findings are addressed. The inability of the accounting authority to ensure that the action plan is developed and implemented has a detrimental impact on the ability of the public entity to improve its control environment

The internal audit unit did not adequately review financial and performance reports, due to capacity and time constraints, to confirm the reliability of the reports before their submission to the external auditors.

Overall, the internal control environment to support credible financial and performance reporting regressed when compared with the last audited financial year as management was not able to implement adequate preventative and detective controls to prevent material misstatements noted in the financial statements submitted for audit.

Therefore there is an urgent need for management and the accounting authority to develop and implement action plans that is root cause focused and is assessed for effectiveness in addressing the findings. These action plans should include amongst other the findings, rating of the findings root causes, allocated responsibilities and indicate completion timelines. The implementation of the action plans must be reviewed by internal audit and reported to the audit committee on a regular basis.

Management and the interim board should ensure adequate capacitation with enough suitably skilled individuals in all key units, especially finance, supply chain, performance planning and monitoring.

The internal audit function should also be sufficiently capacitated to support the audit committee in their oversight function by independently reviewing the financial statements before submission for audit as well as reviewing the implementation of the audit action plans.

Strategic equity partner

In the context of the ongoing SEP transaction, the disclaimer audit outcome may create challenges in determining appropriate values for the company and its assets – resulting in the terms of the sale and the selling price not being in the best interests of the state.

While noting the ongoing SEP transaction that aims to transfer a controlling stake to a private partner, the company is currently 100% state-owned – the current board and management have a fiduciary duty to act in the best interests of the company and its shareholders (government) – this fiduciary duty includes ensuring the company is well equipped to achieve its objectives.

As part of the DPE audit, we assessed the processed followed by the department in appointing the SEP and the table below outlines key insights and recommendations that were shared with the Department:

Insight and recommendations	An update on the actions taken
There is an urgent need to develop clear regulatory framework for SEP transactions as government has plans to engage in more of these transactions.	DPE is still in a process of drafting SEP regulatory framework
An independent valuation should be conducted by the Department as representing the shareholder on the pending sale as part of oversight responsibilities.	The department has started the process of conducting an independent valuation of the SAA Group.
The valuation of the company should demonstrate independence to the SEP or independent corroboration must be performed over the valuation proposed by the purchaser.	The response department is appointing another provider to provide a valuation of SAA, which will assist in addressing weaknesses identified, including the time leg of the transaction.
The due diligence assessments of potential partners should be enhanced and must be comprehensive, with the inclusion of six pillars, namely, technical due diligence, Risk assessment, Governance and Social adherence, Legal due diligence, Valuation of the company and Debt serviceability assessment for debts.	The department acknowledged these for future improvements.
The sourcing process should be improved to ensure that it follows a process that is aligned with the requirements of section 217 of the constitution. This will ensure that users are assured that the process is transparent, fair, and most advantageous to the state.	The department did not agree with the recommendation and there was no appropriate commitment noted. However, the department is in the process of drafting the framework as a guide for dealing with similar transactions. This

	weakness may be addressed in this process.
The process of sourcing or selling shares in the SOCs should be outlined in the policy document or framework to be developed.	The department acknowledges the recommendation and is in the process of developing a working framework in consultation with all relevant stakeholders.
The assumption on the valuation should be fully documented and that valuation should include all intangible and tangible assets which may not have been recorded on AFS but required as per the industry requirements.	The department has taken note of the recommendations and is committed to sharing them with the newly appointed valuator.

Governance and stability

The instability at board and executive management level over the period subject to audit had a negative impact on governance in within the entity.

The company exited business rescue on 30 April 2021, however, the entity operated post the business rescue process without a fully capacitated board and as a result sub-committee of the board were not established. The committees not established included the Audit and Risk Committee (ARC), the Social, Ethics, and Governance Committee, and the Remuneration, Human Resources, and Nomination Committee.

The committees were not functional during the business rescue process. Subsequent to the business rescue, the committees were not reconstituted and as such, SAA operated without the committees for the 2019-20 to 2021-22 financial years. Due to this, the roles and responsibilities of these committees were not exercised, resulting in a decline in the control environment. This contributed to the entity's inability to develop implement audit action plans to address control deficiencies, resulting in the entity not improving the audit outcomes. This also had a significant impact on the ability of the entity to prepare and report on credible financial and performance reporting and ensure compliance with applicable legislation.

The internal audit function is critical assurance provider, however the function was not effective during the four financial year-ends subject to audit. The activities of the internal audit were halted due to the business rescue process, and this negatively affected the effectiveness of the internal audit as an assurance provider. The internal audit plan was not approved by the audit committee because the committee had not been established post business rescue. Furthermore, subsequent to the business rescue process, the internal audit unit was not adequately capacitated with staff, which resulted in the unit not performing some of the planned audits.

Post the business rescue process, management and those charged with governance have not established an appropriate organizational structure and internal capacity to facilitate an effective control environment for reliable financial reporting and to ensure that financial statements and compliance activities are supported by appropriate records. Implementation of the business expansion plan will require a stable organization with functional governance structures supported by adequate internal skills and capacity.

The instability at executive management level is mainly attributable to key leadership position occupied by incumbents in an acting/ interim capacity e.g. chief financial officer and chief executive officer.

The executive authority's oversight occurs at a strategic level, and the ability to influence change at an operational level is dependent on the processes that are cascaded successively through the other levels of authority and responsibility. The executive authority did not ensure that a shareholder's compact is concluded with the entity as required by Treasury Regulation 29.

The executive authority has in April 2023, appointed an interim board and this will go a long way in enhancing transparency, accountability and oversight on the affairs of the SAA group.

Although an interim board has been established together with the related sub-committees, the resolution of the organisational structure and internal capacity to facilitate an effective internal control environment is highly dependent on finalisation of the pending strategic equity partner transaction.

Compliance with applicable legislation

The SAA group continues to struggle with compliance with applicable legislation. The most prevalent areas of non-compliance are procurement and contract management, expenditure management, consequence management, revenue management, material errors in the financial statements submitted for audit and compliance with governance and performance planning and monitoring prescripts.

This is mainly due to weaknesses in the control environment where preventative as well as detection controls over procurement and contract management, expenditure management, consequence management and revenue management remain inadequate when compared to last audited financial year. Compliance with legislation was not adequately monitored, while progress with investigations and follow-through on consequence management proceedings was slow. The developed policies and procedures were not always adhered to, no action plan developed to address prior year audit findings and this was evident in the number of repeat findings raised and poor record keeping contributed to material scope limitations.

Limitation of scope within the audit of procurement and contract management is a matter of serious concern. The material limitation of scope findings reported in the audit report under compliance indicates the SAA is not able to account for its procurement activities. The PFMA places a fiduciary duty on the board to, "exercise the duty of utmost care to ensure reasonable protection of the records of the public entity" (section 50(a)).

The public entity was unable to provide supporting evidence that processes were in place to ensure that revenue is collected from all outstanding debtors. To date, management has not established a plan of action to ensure the monitoring of compliance with the law in order to protect the entity's viability. The aforementioned non-compliance has a ripple effect, as management is in violation of Section 51(1)(b)(iii) of the PFMA, which requires the accounting authority to effectively manage working capital, if it is unable to collect debt. This indicates management is not maximising cash flow by maximising the use of the entity's financial resources.

Expenditure management

Irregular expenditure increased from R22,0 billion to R44,5 billion, whilst fruitless and wasteful expenditure increased from R24.8 million to R207.3 million over the four year period subject to audit. Non-compliance with procurement prescripts remains the largest contributors to irregular expenditure. This is mainly as result of failure to implement preventative controls and monitor compliance with legislation especially relating to supply chain management (SCM). An assessment was done of irregular expenditure where non-compliance with section 217 of the constitution was identified. The risk exist that the non-compliance can result in Material Irregularities and the accounting officer/authorities therefore needs to deal with these matters properly with a zero tolerance approach.

We were not able to confirm the completeness of irregular, fruitless and wasteful expenditure including losses through criminal conduct disclosed in the annual financial statement due to material limitations of scope experienced during the audit. The figures presented above are as disclosed by management in the financial statements and we do not express any assurance on these numbers due to the limitation of scope as result of poor record keeping.

Consequence management

Adequate action is not taken against officials who contravened the supply chain management prescripts, resulting in continued non-compliance and irregular expenditure. Limited to no progress was made in certain instances in the process of investigating and following through on consequence management proceedings.

Management did not apply consequence management to hold staff members accountable for non-compliance with legislation as well as implemented policies in all instances. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure.

There is currently a number of investigations that are currently ongoing through various organs of state following the Zondo commission report and other cases of improper conduct identified through other mechanism.

Failure to implement consequence management encourages a culture where the disregard for legislation, policies and procedures thrives. The accounting authority must ensure that action plans are developed to address the repeat findings on non-compliance with legislation. The action plans must be monitored by internal audit and the audit committee should play an oversight role in ensuring effective implementation and monitoring thereof. We further urge the accounting authority to implement the necessary interventions to ensure that there are consequences for staff who continue to contravene legislation and cause irregular expenditure.

The following material findings on compliance were included in SAA's audit report for the financial years ended 2018-19, 2019-20, 2020-21, 2021-22 financial year-ends.

Finding	Root cause	Recommendation
Annual financial statements		
• 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. • 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. Material misstatements identified by the auditors in the submitted financial statements were not corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of opinion.	• Inadequate review of reports and schedules submitted for audit by management • Poor record management system • Lack of governance structures to oversee preparation	• Management should ensure that before information is submitted, it has gone through the review processes internally so that errors are picked up and corrected • Ensure that internal audit plays an active role in reviewing the financial statements and supporting information before submission to the auditors
Strategic planning and performance management		
• A corporate plan was not prepared for the 019-20 financial year, as required by section 52(b) of the PFMA.	• Lack of sufficient monitoring controls to ensure the proper design and implementation of performance reporting systems.	• A corporate plan that is prepared in accordance with requirements of the Framework for Managing Programme Performance Information and approved by the shareholder towards the achievement of the mandate of the entity.

Finding	Root cause	Recommendation
• An annual shareholder's compact, including the mandated key performance measures, were not concluded in consultation with the executive authority as required by treasury regulation 29.2.1. and 29.2.2	• Lack of oversight governance responsibility on performance reporting and related internal controls.	• Quarterly reports and annual performance reports that measure performance against pre-determined objectives should be prepared by management to monitor performance by the entity on a regular basis and adequate review and oversight should be exercised by the ARC and board and corrective action taken on a timely basis.
Expenditure management		
• Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. The value disclosed in note 39 of the financial statements does not reflect the full extent of the irregular expenditure incurred. • Effective and appropriate steps were not taken to prevent fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. The value disclosed in note 39 of the financial statements does not reflect the full extent of the irregular expenditure incurred.	• Inadequate processes in place to identify and report irregular expenditure	• Quotations and tenders to be reviewed for any non-compliance and reported in the irregular expenditure register
Procurement and contract management		
• Goods, works, and services were not procured through a procurement process that is fair, equitable, transparent, and competitive, as required by section 51(1)(a)(iii) of the PFMA. Similar limitations were also reported in the prior year. • I was unable to obtain sufficient appropriate audit evidence that commodities designated for local content and production, were procured from suppliers who comply with the requirements for local production and content, as required by the 2017 Preferential Procurement Regulation 8(5).	• Lack of document management system which resulted in an increase in limitation of scope findings • Lack of responsibility and accountability by the divisions to ensure that procurement processes are followed • Disregard for procurement legislation and prescripts	• Implement a reliable documentation system to ensure that information relating to tenders awarded is filed and kept safe • Officials who disregard procurement legislation and prescripts must be held accountable through the consequence management processes
Consequence management		

Finding	Root cause	Recommendation
• I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure. • I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure as required by section 51(1)(e)(iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into fruitless and wasteful expenditure. • I was unable to obtain sufficient appropriate audit evidence that investigations were conducted into all allegations of financial misconduct committed by officials, as required by treasury regulation 33.1.1.	• There is a slow response by the divisions to implement recommendations once the investigations are concluded, resulting in consequence management not being followed through • Poor record management system to demonstrate that consequence management is implemented • Delays due to business rescue process	• The group must conduct monitoring and oversight to ensure that divisions are implementing the recommendations from the investigations and consequence management is being done • The employee relations process must be strengthened, specifically around maintaining appropriate and proper records
Revenue management		
• I was unable to obtain sufficient appropriate audit evidence that effective and appropriate steps were taken to collect all revenue due, as required by section 51(1)(b)(i) of the PFMA.	• Lack of adequate processes to collect outstanding debt.	• Rigorous processes need to be adopted to collect outstanding monies owed to the entity.

4. Financial viability

Our audit included an evaluation of the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether any material uncertainties exist about the public entity's ability to continue as a going concern. The evaluation of going concern was based on the current state of the company and the assessment was rolled over three preceding financial years.

The key conditions that impact SAA as going concern include amongst others:

- Slow progress in the implementation of the expansion plan and successful implementation of the plan will determine the future of the company.
- Continued dependency on shareholder funding to finalise implementation of the business rescue plan.
- There are uncertainties with regard to the finalization (or timing thereof) of the ongoing transaction by the shareholder to dispose of 51% shareholding in SAA and the expected capital investment from the SEP.
- Continued challenges relating to the repatriation of funds in foreign jurisdictions.

The key conditions that impact the going concern assumptions for SAA's subsidiaries include amongst others:

- Air Chefs and SAAT are going concern with material uncertainties. Air Chefs and SAAT success is highly dependent on SAA company as SAA is major customer. The subsidiaries are currently exploring strategies to reduce dependency on SAA.
- Mango is currently under business rescue and have ceased its operation.
- Mango's leased aircrafts were returned to the lessor and the revenue management system used for flight ticketing has been decommissioned.
- Mango business rescue plan not yet implemented.

We concluded that management's going concern assumption is appropriate, with material uncertainties as noted above. We are also comfortable that the disclosures made in the financial statements on the material uncertainties and the events and conditions identified by management are appropriate. The auditor's report draws attention of the user that there is material uncertainty on the going concern assumptions.

For Mango, we could not obtain evidence to support the going concern status of the entity - hence a limitation of scope on going concern.

5. Performance information

We were not able to review and audit the entity's performance against predetermined objectives and key performance indicators directed at its mandate as the corporate plan, annual performance report, and shareholder compact were not prepared for the last four years. The annual performance plan and report were not submitted to for audit purposes.

6. Irregular and fruitless and wasteful expenditure

1.4 Irregular expenditure

Section 55(2)(b)(i) of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) requires the public entity to include particulars of irregular expenditure incurred in the notes to the financial statements. The group did not include all irregular expenditure incurred in the notes to the financial statements due to inadequate controls to maintain complete records of irregular expenditure. We were unable to determine the value of the misstatement, as it was impracticable to do so. In addition, we were unable to obtain sufficient appropriate audit evidence to confirm irregular expenditure incurred, as well as the condoned or written off by relevant authority included in notes to the consolidated and separate statements as indicated in the table below due to the status of record keeping. Consequently, we were unable to determine whether any further adjustments were necessary to the irregular expenditure included the AFS and table below.

Auditee		Irregular expenditure (balance)					
		Movement	2017/18	2018/19	2019/20	2020/21	2021/22
1	SAA	Rm	Rm	Rm	Rm	Rm	Rm
		22 446.10	22 060.60	25 390.70	29 510.20	38 971.60	44 506.70

1.5 Fruitless and wasteful expenditure

Section 55(2)(b)(i) of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) requires the public entity to include particulars of fruitless and wasteful expenditure in the notes to the financial statements. The group did not include all fruitless and wasteful expenditure incurred in the notes to the financial statements due to inadequate controls to maintain complete records of fruitless and wasteful expenditure. We were unable to determine the value of the misstatement, as it was impracticable to do so. We were unable to confirm this by alternative means. Consequently, we were unable to determine whether any further adjustments were necessary to the fruitless and wasteful expenditure included the AFS and table below.

Auditee		**Fruitless and wasteful expenditure (balance)**					
		Movement	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
1	SAA	Rm	Rm	Rm	Rm	Rm	Rm
		182,5	24.8	177	183.9	202.4	207.3

7. Material irregularities (MI)

Since the implementation of the material irregularity process, we have not identified any material irregularities at the public entity.

The SAA group has historically been characterised by irregularities and disregard for laws and regulations. The report of the Commission of Enquiry on State Capture revealed that there was a steady decline in the quality and effectiveness of the governance of SAA from the year 2012 onwards. This poor quality and ineffectiveness developed over the period.

The enquiry found that during this period, acts of corruption and fraud took place at SAA and SAAT. Committed managers, who tried to stand up to the increasingly unreasonable and unlawful demands of these Board members, were victimized through gross manipulation of disciplinary processes and removed from their positions.

Findings of the commission are subject to ongoing investigations by the SIU and Hawks. These investigations did not form part of our audit. However, we are monitoring progress of these investigations and outcome of thereof may have audit implications and may still be assessed for possible material irregularities.

8. Internal control environment

The significant internal control deficiencies as reported in this briefing documents were mainly caused by weaknesses in the overall control environment, for which the accounting officer and senior management are responsible.

In order to ensure clean administration and therefore obtain a clean audit outcome, the root causes highlighted above should be addressed through comprehensive action plans that unpacks the detail activities and timelines to resolve the matters indefinitely and in a sustainable manner. The assurance provided by management should be improved by taking immediate action to address the AGSA's findings and recommendations. The level of assurance provided by the accounting authority, internal audit and audit committees should be improved by ensuring that the oversight of financial and performance reporting, compliance with key applicable legislation and consequence management for transgressions is more effective. The following are our key recommendations to address the identified root causes:

- Key executive leadership vacancies must be filled with skilled and experienced individuals.
- Management must ensure that officials responsible for the financial statements and SCM are properly trained and these departments should be capacitated with qualified and experienced staff.
- Executive leadership must ensure that adequate and realistic action plans are implemented to address identified internal and external audit findings. The ARC and board must ensure that these actions plans are properly interrogated and that management is held accountable for performance against these plans.
- Key policies and procedures that drive financial and record keeping functions must be reviewed and updated (where already in place) or designed and implemented (where these are a lack of these). The audit and risk committee (ARC) and board should ensure mechanisms are put in place to monitor the implementation of these.
- The board and management must ensure that strict consequence management practises are engrained in the culture of SAA. Officials who transgress or permit non-compliance must be held accountable for their actions.

- The board must ensure that IT governance structures are correctly positioned to allow for robust oversight and effective implementation of the IT strategy as it affects the overall organisational strategy.
- Key accounting and financial disciplines must be implemented, maintained and monitored by management in areas of asset, inventory and revenue management.
- The governance structures must ensure that internal audit is sufficiently capacitated to perform audit in the problematic financial areas, on non-compliance and performance reports

9. Key recommendations to the accounting authority

- Develop and implement action plans that is root cause focused and is assessed for effectiveness in addressing the findings. These action plans should include amongst other the findings, rating of the findings root causes, allocated responsibilities and indicate completion timelines. The implementation of the action plans must be reviewed by internal audit and reported to the audit committee on a regular basis.
- Implement disciplined financial reporting structures based on solid accounting and financial management knowledge. This should include finance and SCM divisions that are fully capacitated with required skills and competencies, implementation of financial management discipline such as monthly reconciliations, segregation of duties and reviews etc.
- Monitor performance and consequence management especially around supply chain management. There should be a culture of high performance and adherence to ethical standards. Where poor performance and transgressions with SCM prescripts are identified appropriate actions should be taken in line with the internal policies and procedures.
- Accounting authority must continue to do their work through audit committees to ensure management implement and enhance processes of review of the financial statements and performance information.
- The internal audit functions and Audit and Risk Committees should enhance their independent review of the financial statements and annual performance report. Any deficiencies identified should be corrected by management before submission to the next level.
- Accounting authority should strengthen their oversight by ensuring that executive management are held accountable for poor performance and transgressions of the law.
- Working with the shareholders, the accounting authority shall prioritise approval of strategic documents that will guide strategic direction of the entity and assist SAA with improving its accountability, transparency, and institutional integrity.

10. Key recommendations to the executive authority

- The pending SEP transaction appears to have been a distraction in term of building governance structures within the entity as there are uncertainties with regard to when the SEP arrangements will take effect. In the interim while working on the finalisation of the SEP transaction, the executive authority is advised to drive stability at board level;
- The executive authority is further advised to mandate and support the board to establish appropriate governance structures, with stable executive management, to stabilise operations and to grow the entity in the best interests of the shareholder (government).
- Follow up and ensure that the business rescue plan is fully implemented and support the accounting authority in securing the balance of the recapitalisation funds from National Treasury

- Hold the department and the accounting authorities accountable for clear plans for the implementation and continuous monitoring of the Zondo Commission recommendation and audit actions plans to improve audit outcomes.
- Continue to drive accountability with the board to improve performance and achievement of planned targets in the shareholders compact

11. Key recommendations to Scopa

- Follow up on progress action plans put in place to improve:
    - Financial and operational challenges affecting performance and delivery of core mandate
    - Internal control environment for compliance with legislation especially in procurement and contract management.
- Follow up on progress on finalisation of the SEP transactions and
- Follow up on progress on stabilisation organisational structures and measures put in in place to ensure that the internal capacity is augmented and key leadership vacancies are filled
- Follow up on the conclusion and approval of the shareholders compact