



Portfolio Committee on Public Enterprises

Financial controls systems and issues emanating from the Annual Report

14 February 2012

INDEX

- Independent Auditors Report
- Audit Committee Report
- Directors Report
- Baggage pilferage progress

INDEPENDENT AUDITORS REPORT

The Auditors Report consisted of four main reporting areas:

- Audit opinion
- Emphasis of matter paragraphs
- Report on other legal and regulatory requirements
- Internal control

INDEPENDENT AUDITORS REPORT

Audit opinion

“In our opinion, the consolidated and separate annual financial statements presents fairly, in all material respects, the consolidated and separate financial position of South African Airways (Proprietary) Limited as at 31 March 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, in the manner required by the Companies Act of South Africa and the requirements of the Public Finance Management Act No 1, 1999, of South Africa”.

SAA obtained an unqualified audit opinion for financial year 2010/11 with certain emphasis of matters.

INDEPENDENT AUDITORS REPORT

Emphasis of matters

The three emphasis of matters were on the following items:

- *Restatement of corresponding figures*
- *Competition matters*
- *Guarantees: Air service license*

It should be noted that **EOM paragraphs are not audit findings**. The auditors were drawing attention to what is already disclosed in the financial statements and Directors' report.

INDEPENDENT AUDITORS REPORT

Emphasis of matters

Restatement of corresponding figures

*“During the previous financial year, **an improvement in internal controls and systems related to the operational management and financial accounting of deposits paid to fleet lessors in regard to maintenance deposits has provided SAA with new information which **has enabled it to more accurately measure the recoverability of maintenance deposits payments.**** This information enabled the Company to restate the recoverable amounts to such deposits in relation to current and prior periods which the Company believes more accurately reflects the results of the operations. **As a result, comparative numbers have been restated and opening accumulated losses as at 1 April 2009 adjusted.**”*

INDEPENDENT AUDITORS REPORT

Emphasis of matters

Competition matters

“There are certain legal matters against South African Airways (Proprietary) Limited referred to on pages 57 and 58 of the Directors’ report. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the annual financial statements”.

INDEPENDENT AUDITORS REPORT

Emphasis of matters

Competition matters

- SAA reported that it made major inroads in addressing legacy related anti-trust fines/claims emanating from various jurisdictions
- The Group's strategy includes the reduction and control of contingent liabilities as a consequence of claims and litigation
- To date, the 2010 South African Competition Commission investigation is due for settlement. An in-principle agreement has been reached with the Competition Commission with regard to this and other related matters

All other related anti-trust investigation in other jurisdictions have been settled

INDEPENDENT AUDITORS REPORT

Emphasis of matters

Guarantees: Air Service Licence

“As disclosed on pages 59 of the Directors’ report, the requisite guarantees were expiring on 30 September 2011. At the time of reporting, SAA was in the process ensuring that guarantees are in place for the period commencing 1 October 2011”.

- National Treasury declined the request for the part utilization of the R1.6 billion going concern guarantee for the International Air Traffic liability
- SAA secured the guarantees through a financial institution on both the domestic (R101m) and International Air Services licenses (R336m)

INDEPENDENT AUDITORS REPORT

Report on other legal and regulatory requirements

- There were no material findings on the audit of predetermined objectives
- Sections 50, 51, 55 and 57 of the PFMA contain certain obligations including the prevention, detection, identification and reporting of irregular, fruitless and wasteful expenditure

The non-compliance with PFMA highlighted in the 2010/11 audit report was mainly due to legacy tender processes prior to the implementation of the new procurement system and inadequate contracts management practices.

AUDIT COMMITTEE REPORT

- The Committee's assessment was that the overall control environment was effective
- The Committee was satisfied that since the previous year of reporting, significant progress was made in improving the internal control environment
- The Committee was satisfied that the annual financial statements were based on appropriate accounting policies and were supported by reasonable and prudent judgments and estimates
- After their evaluation, the Committee believed that the financial statements complied, in all material respects, with the relevant provisions of the PFMA and International Financial Reporting Standards

DIRECTORS' REPORT

Compliance with PFMA

- A number of actions are being taken to address areas of non-compliance with PFMA
- The company is confident that controls implemented will bear fruit going forward
- The effective implementation of the SCM policy; training of Procurement and other personnel, effective use of the ERP-system are seen as key enablers in driving the transformation initiative

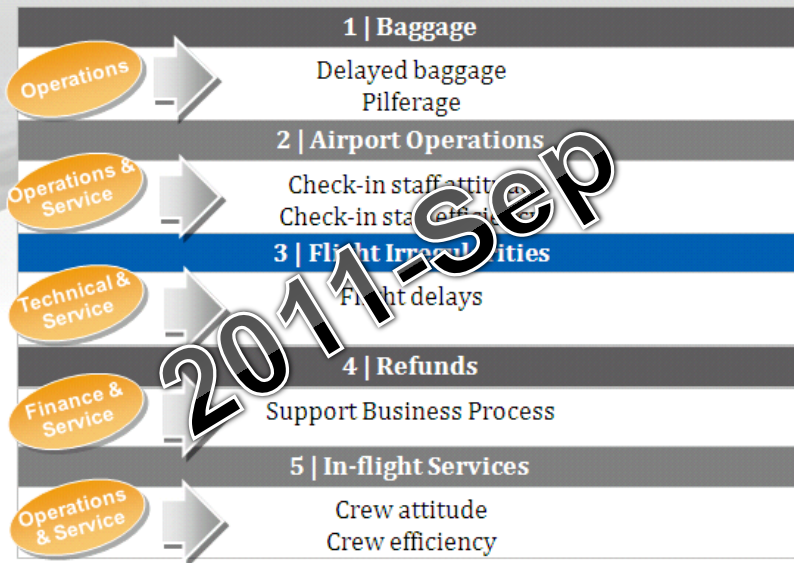
The non-compliance with PFMA highlighted in the 2010/11 audit report was mainly due to legacy tender processes prior to the implementation of the new procurement system and inadequate contracts management practices

BAGGAGE PILFERAGE PROJECT ZERO: BACKGROUND

Purpose of Project: Support the Group in improving the quality of Baggage Services provided to our customers

Strategy details: Customer details

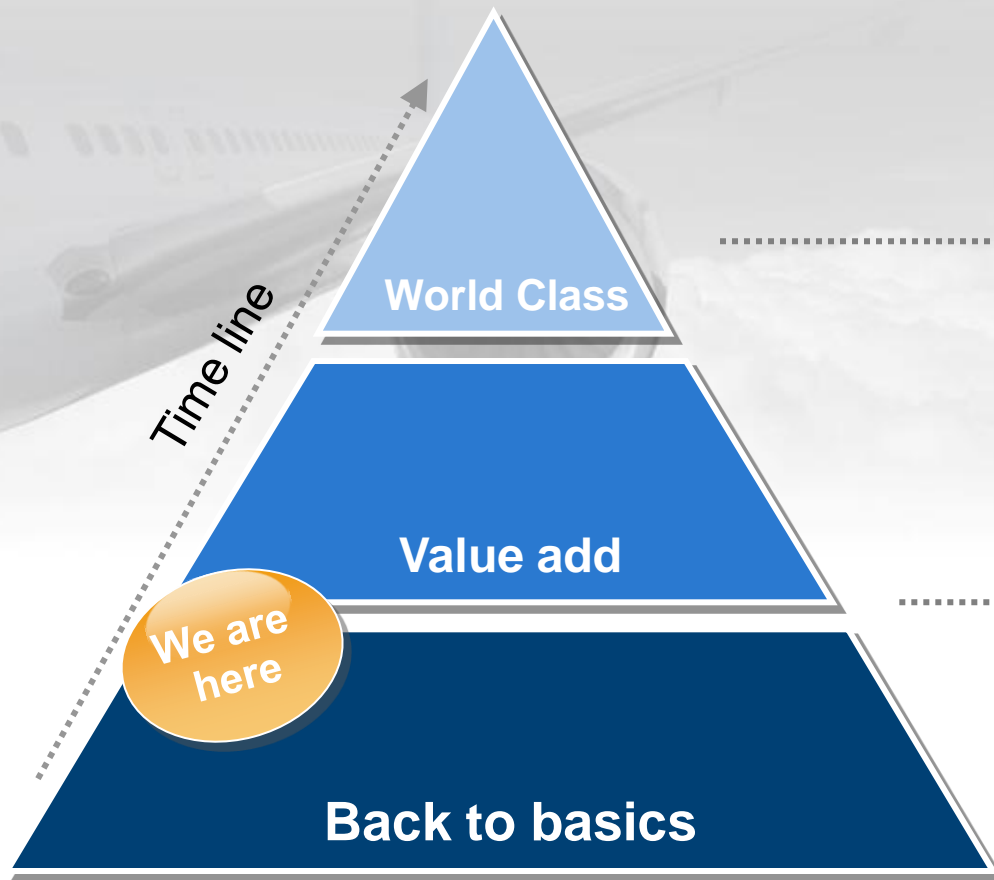
Situation Analysis | YTD (Aug) Top 5 Customer Complaints



Process followed:

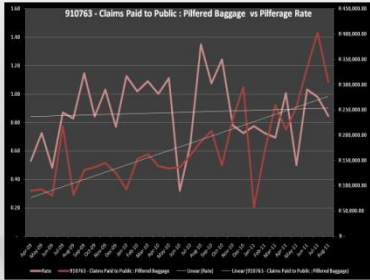
1. A full audit was done on current status
2. Benchmarks were done with other airports
3. Previous audits were reviewed
4. Problems prioritized
5. Project streams defined, agreed and initiated

METHODOLOGY: PRIORITIZATION



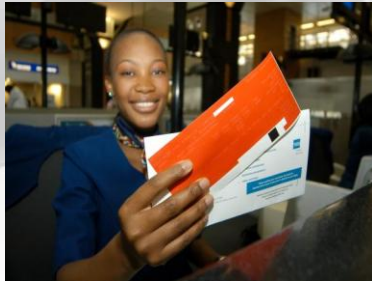
- Station focus: International
 - Initiative focus: Time and or cost intensive
-
- Station focus: Domestic & Regional
 - Initiative focus: Medium cost or time implications and non core
 - Schedule optimization to drive down Short Shipments
-
- Station focus: ORTIA
 - Initiative focus: Core issue identified eg. Those outstanding from 2009 IATA audit

HIGHLIGHTS



Project Management

- Improved statistics
- Detailed project plan with defined streams
(Improved reporting, chute 44 (JNB), improve control of “On Hand” baggage , improved service recovery, improved surveillance , ACSA security co-ordination, randomised security, BRS improvement, staff compliance, handler optimization and excess hand luggage)
- Regular Exco Level work group



Airport Team

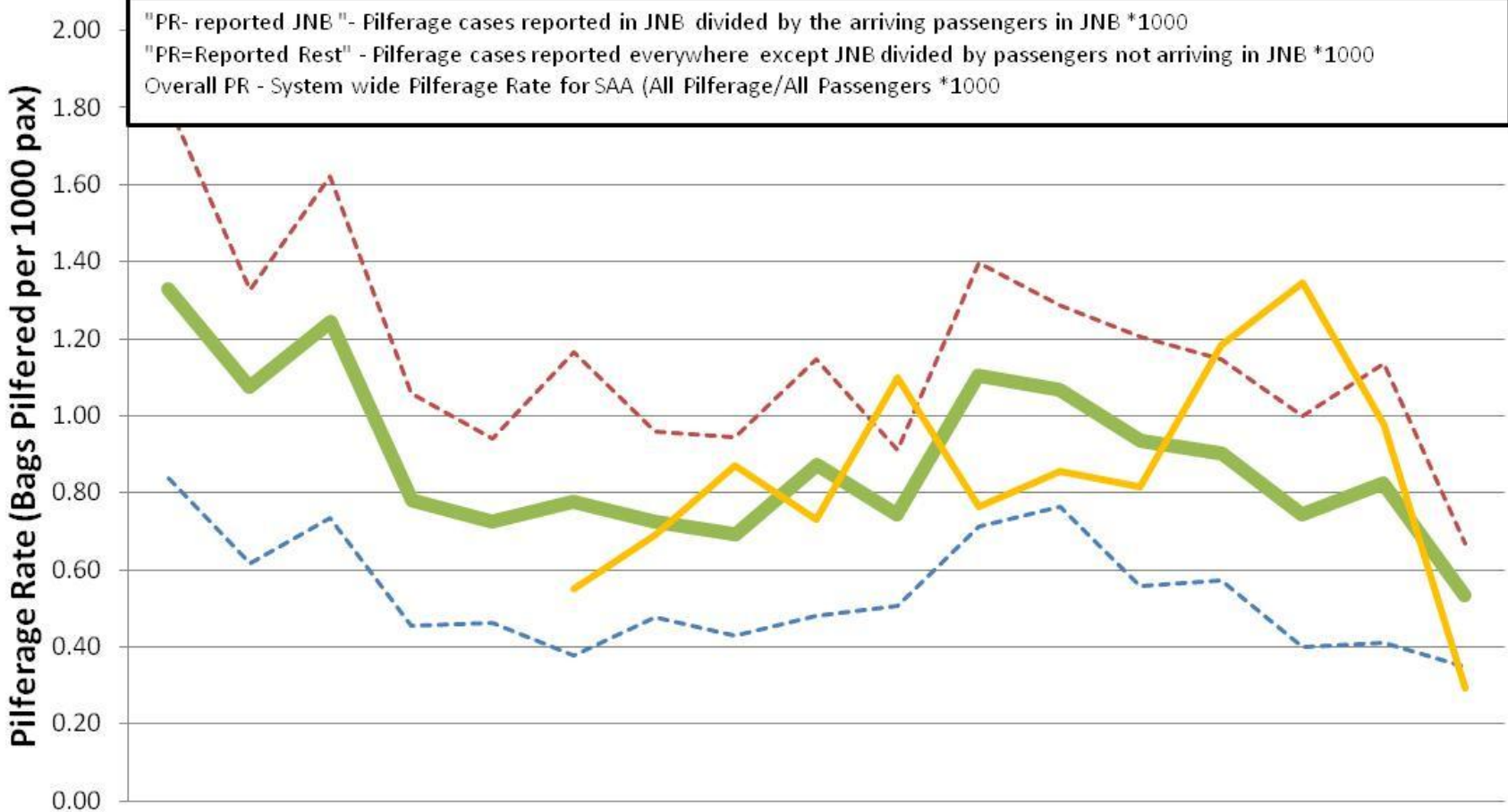
- International/domestic benchmarks completed
- Rectifications of Baggage System Message (BSM) not send
- Raised awareness with staff
- Identification and rectification of problems with Chute 44 at ORTIA
- Implement Swissport Penalties (500 in December)



Security Group

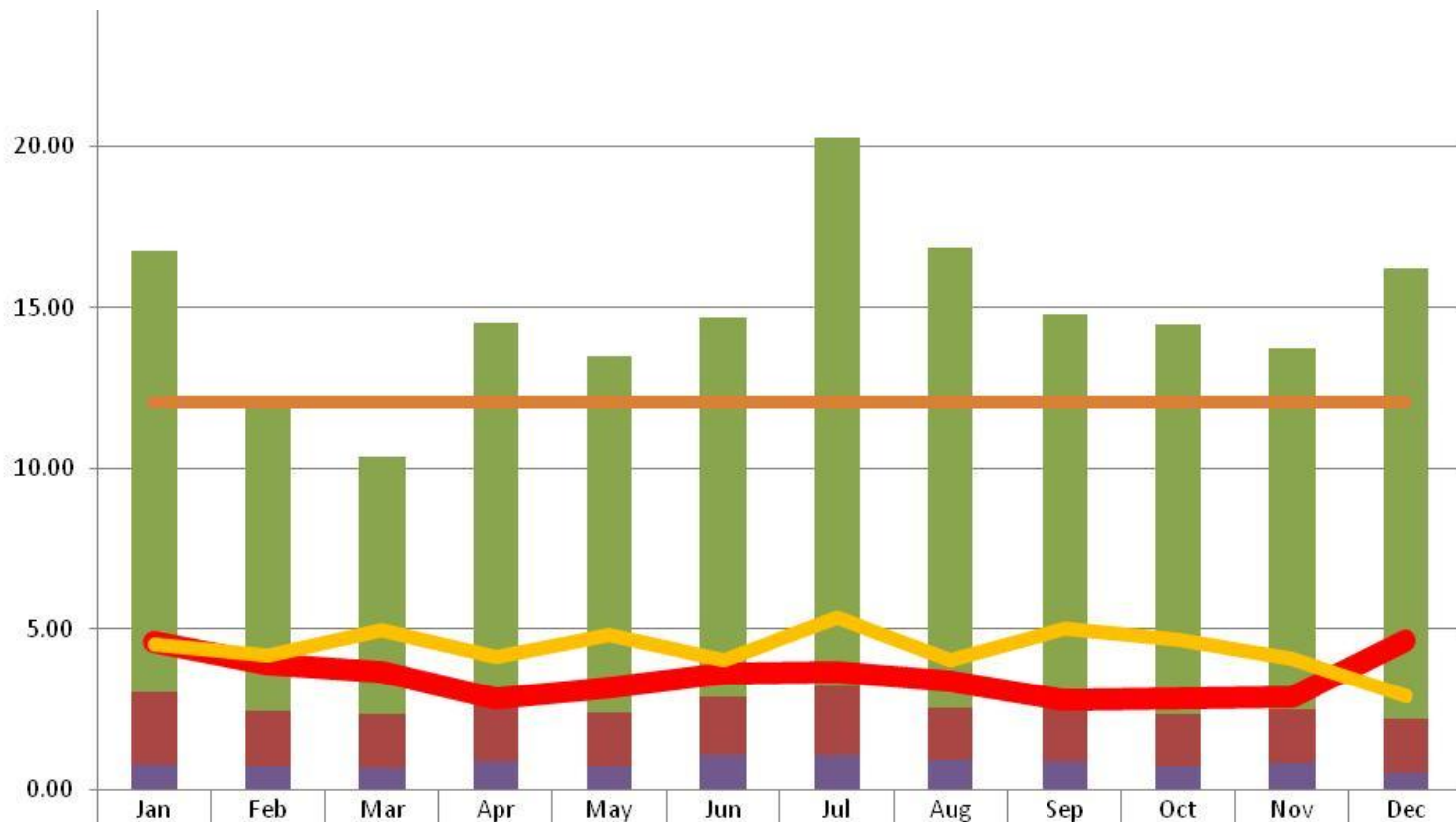
- Called forum with all role players
- Active coordination with ACSA
- Changing guarding principles
- Multiple arrests and suspensions mostly at ORTIA of: RAPS, Swissport, Chris plant employee, Bosasa, con artists, Cleaners, etc.

MONTHLY PILFERAGE RATE



	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
--- SAA PR reported JNB	0.84	0.62	0.73	0.45	0.46	0.38	0.48	0.43	0.48	0.51	0.71	0.76	0.56	0.57	0.40	0.41	0.35
--- SAA PR reported Rest	1.81	1.33	1.62	1.06	0.94	1.17	0.96	0.95	1.15	0.91	1.40	1.29	1.21	1.15	1.00	1.13	0.67
— SAA Overall PR	1.33	1.08	1.24	0.78	0.73	0.78	0.73	0.69	0.87	0.74	1.11	1.07	0.94	0.90	0.74	0.83	0.53
— Mango PR rate						0.55	0.69	0.87	0.73	1.10	0.76	0.86	0.82	1.18	1.35	0.98	0.29

MISHANDLED BAGGAGE



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SAA - Short shipped	13.72	9.48	8.02	11.87	11.05	11.82	17.04	14.29	12.20	12.11	11.21	14.03
SAA - Damage	2.27	1.74	1.64	1.78	1.68	1.78	2.17	1.64	1.70	1.63	1.69	1.66
SAA Pilferage	0.78	0.73	0.69	0.87	0.74	1.11	1.07	0.94	0.90	0.74	0.83	0.53
US 2010 avg per month - mishandled	4.58	3.93	3.65	2.83	3.20	3.61	3.66	3.39	2.81	2.84	2.87	4.66
World average (World tracer 2010)	12.07	12.07	12.07	12.07	12.07	12.07	12.07	12.07	12.07	12.07	12.07	12.07
SAA Mishandled	16.77	11.94	10.35	14.52	13.48	14.71	20.27	16.86	14.80	14.48	13.73	16.22
Mango Mishandled	4.52	4.17	4.96	4.14	4.82	4.02	5.37	4.03	5.02	4.66	4.10	2.90

WAY FORWARD – PROJECT ZERO



In
SAA's
Care

- Implement project streams
- Audit success of actions taken
- Finalization of role and responsibilities going forward
- Communicate successes
- Move focus to short shipments
- Review schedule optimization opportunities with commercial to reduce short shipments

CONCLUSION



Questions?