



SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER 

STANDING COMMITTEE ON PUBLIC ACCOUNTS PRESENTATION

April 2018



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Addressing the focus areas for the Standing Committee on Public Accounts

- Fruitless and wasteful expenditure
- Irregular expenditure
- Deviations & expansions

SAA has seen a significant increase in irregular, fruitless and wasteful expenditure compared to FY2016

Expenditure	FY2017 Quantum	Root Causes
1. Irregular	<ul style="list-style-type: none">• R125.9 million	<ul style="list-style-type: none">• Interest on late payments• Lack of planning on aircraft returns• Delays in finalising contracts
2. Fruitless and wasteful	<ul style="list-style-type: none">• R40.4 million	

Progress in addressing irregular, fruitless and wasteful expenditure

- Reviewing the Supply Chain Management (SCM) Policy
- Capacitating the SCM department
- Undertaking refresher training for the rest of the business
- Consequence management where appropriate

Irregular expenditure mainly resulted from delays in concluding contracts, whilst fruitless and wasteful expenditure was largely a result of late payments

The Board and management acknowledge the severity of the AGSA findings ...

2016/17 Qualification Areas	Audit Finding(s)
1. Property, aircraft and equipment	<ul style="list-style-type: none"> SAA did not adequately review useful lives and residual values of property, aircraft and equipment in accordance with IAS 16
2. Rotables	<ul style="list-style-type: none"> Existence of some rotables could not be verified; and The completeness of the rotables on the fixed asset register could not be established
3. Property, plant and equipment (PPE)	<ul style="list-style-type: none"> SAA did not assess its PPE for impairment in terms of IAS36
4. Inventory	<ul style="list-style-type: none"> The key assumptions applied by SAAT in calculating net realisable value were not supported by sufficient appropriate audit evidence Existence of certain inventory items could not be verified
5. Maintenance costs	<ul style="list-style-type: none"> Maintenance costs recognised in the incorrect period Maintenance costs not reflecting on Statement of Comprehensive Income Incorrect exchange rates used Prepayments charged to the Statement of Comprehensive Income
6. Irregular expenditure	<ul style="list-style-type: none"> SAA did not establish adequate controls to maintain complete records of irregular expenditure
7. Fruitless and wasteful expenditure	<ul style="list-style-type: none"> SAA did not establish adequate controls to maintain complete records of fruitless and wasteful expenditure
8. Material uncertainty related to going concern	<ul style="list-style-type: none"> Material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern

... and a detailed project plan is being implemented to address these findings

2016/17 Qualification Areas	Root Cause(s)	Resolution Status	Target Date
1. Property, aircraft and equipment	<ul style="list-style-type: none"> Annual review of useful lives and residual values on owned aircraft not done at component level Lack of clarity on property ownership between SAA & SAAT impacted accuracy of allocation of adjustments 	In progress	May 2018
2. Rotables	<ul style="list-style-type: none"> Stock counts not done Stock receipt on both AMOS & SAP not done 	In progress	May 2018
3. Property, plant and equipment (PPE)	<ul style="list-style-type: none"> Carrying value of assets more than recoverable amounts Accelerated depreciation on some assets 	In progress	May 2018
4. Inventory	<ul style="list-style-type: none"> No records of policy being applied 	Completed	February 2018
5. Maintenance costs	<ul style="list-style-type: none"> Accruals not made Differences between SAA & AGSA on treatment of restoration costs 	Completed	January 2018
6. Irregular expenditure	<ul style="list-style-type: none"> Lack of planning on aircraft returns Delays in finalising contracts 	Completed	January 2018
7. Fruitless and wasteful expenditure	<ul style="list-style-type: none"> Late payments 	In progress	April 2018
8. Material uncertainty related to going concern	<ul style="list-style-type: none"> Under capitalisation Accumulated losses 	In progress	September 2018



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Fruitless & Wasteful Expenditure

SAA has received several findings from AGSA highlighting control weaknesses within the SCM unit

- The audit findings are material and pervasive in nature as they affect all contracts and bids awarded by SAA thus requiring management to revisit the population and conduct extensive procedures for the findings to be cleared thus achieving fair presentation (this shall include consequence management)
- SAA has appointed a service provider (Consultants) to assist with the audit findings, which include amongst others, completeness of Irregular, Fruitless and Wasteful expenditure. The consultants commenced work in March 2018 and are assisting with implementation of recommendations and internal controls at SAA, SAA Technical, Mango and Air Chefs
- The following are the audit findings as issued by the AGSA on fruitless and wasteful spend and irregular spend at a high level which SAA was qualified on
 - A new acting CPO was appointed from 12 April 2018 to oversee SCM throughout SAA (SAA & its subsidiaries)
 - Issues that will be addressed for SCM by the ACPO, include amongst others include:
 - Restructuring of the SCM function (improving efficiency)
 - Inadequate skills in SCM governance and compliance
 - Unavailability of procurement plans
 - Ineffective contract management

Fruitless and wasteful expenditure

Finding	Management Action/Progress update
Possible overpayments to suppliers which may be fruitless and wasteful expenditure	<ul style="list-style-type: none">• Management has investigated the controls relating to contract management and the following was found:<ul style="list-style-type: none">• SAA did not capture all active contracts on SAP financial systems, as a result when paying invoices, buyers could not match payments to specific contracts. Management also noted that due to this issue, the AGSA aggregated all payments made to the supplier and compared this to one contract, whereas the supplier may have several contracts with SAA.• Management is investigating the full data and will provide AGSA with a report of actual spend made under the specific contracts under review• A service provider was appointed to split the purchase orders or each payment to be linked to a specific contract• Management is implementing contract management controls that will ensure that all active contracts are published to SAP and each payment made is matched to contracts. Senior Management will also conduct regular reviews to ensure that errors are identified, reported and corrected timeously. This will ensure that contract spend data is readily available at a click of a button.

Fruitless and wasteful expenditure (II)

Finding	Management Action/Progress update
No evidence to show that action was taken against officials who committed Fruitless & Wasteful Expenditure	<ul style="list-style-type: none">• Investigations are being undertaken with the assistance of the appointed Consultants to determine recommendations to the CEO on the corrective measure to be implemented for the audit reported matters.• In the meantime a revised PFMA non-compliance Form has been issued to business to report any fruitless and wasteful spend and it requires the responsible line manager to include a corrective measure (consequence management) before signing by the CEO.
Excessive duration of suspension	<ul style="list-style-type: none">• Management has started reviewing the suspensions and closing the processes.• The process is being mapped out (policy) in consultation with other state owned entities to ensure that all suspensions are dealt with urgently

Fruitless and wasteful expenditure (III)

Finding	Management Action/Progress update
Visa Fines	<ul style="list-style-type: none"><li data-bbox="705 285 1806 371">• SAA with the assistance of the Consultants is working on a tolerance level for Visa fines<li data-bbox="705 435 1825 721">• Visa fines that fall outside of the definition of fruitless and wasteful spend (as per the PFMA) will not be reported, e.g. where a passenger was checked in with all required documentation but lost documentation upon arrival in the next destination or get rejected by the country of destination due to health or internal country requirements that are beyond RSA or SAA's jurisdiction<li data-bbox="705 778 1845 1013">• Staff members and services providers appointed by the company who have contributed to fines that are within the definition of fruitless and wasteful spend are paying the losses suffered by the company through agreed salary deductions and claims from the service provider (based on Service Level Agreement)



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Irregular Expenditure

Irregular expenditure (I)

No	Description of finding raised
1	Supplier with highest preference points was not awarded the quotation
2	Three quotations not obtained and the deviation not approved
3	Contract extension not done in accordance with SAA SCM policy
4	Award not approved by a delegated official
5	Tender awarded to supplier who did not meet critical criteria evaluation
6	Tenders not advertised for a minimum period prescribed in the SCM policy before closure
7	Tender documents of the winning supplier not received before the closing date and time
8	Official procurement process not followed for contract renewals
9	Award made to a foreign supplier without a valid tax clearance from SARS certifying that tax affairs are in order
10	Deviation from competitive bidding process not justified
11	Postponement of the closing date for RFP 068/2015 was not done in accordance with SAA SCM policy
12	Reason for confining (limited bidding) to one/specific suppliers not found to be justifiable since there are more suppliers who can offer the required services
13	Lack of management and processing of contract detail information captured on CLM
14	Services not procured through the process prescribed by the SAA SCM policy

Irregular expenditure (II)

No	Description of finding raised
15	Quotation process followed for services above the quotation threshold
16	Total payments made exceeding quotation value
17	Extension of the contract not done in accordance with the provision of the SCM policy
18	Bids not evaluated in accordance with the preference point system as prescribed by the PPPF Act
19	Award made to a foreign supplier without a valid tax clearance from SARS certifying that tax affairs are in order
20	Award made to a supplier without a valid tax clearance from SARS certifying that tax affairs are in order
21	Bids not invited through a public advert in media prescribed by the SCM policy
22	Services not procured through a competitive bid
23	Three quotations not obtained and the reasons not documented
24	Country Manager approves spend in excess of his Power of Attorney
25	No signed Power of Attorney in place
26	Supply Chain Management processes not followed on extension/new supplier contracts
27	Procurement process not followed to award contracts
28	Procurement issues identified on Swissport SA

Irregular expenditure (III)

Root Cause

- Some SCM staff members were also found to not have had the adequate training required to operate an effective SCM Unit
- The SCM Policy did not adequately set out or define the requirements for deviations from procurement process aligned to the Treasury Regulations and as a result several deviations were made without meeting the requirements set out in the Regulations. The motivations provided for deviations were regarded as lack of planning (i.e. not an emergency as defined by National Treasury instructions)
- Poor contract management led to several of the findings issued by AGSA
- SAA had an SCM Policy which had several weaknesses noted by the AGSA, which contributed to some of the above findings
- Improper confinement of bids and obtaining Tax Clearance Certificates for foreign suppliers were a result of interpretation

Irregular expenditure

Management Action/Progress update

- With the appointment of the service provider, SAA has established checklists that will be used for all procurement going forward. The checklists are aligned to the requirements of the SCM policy, the PFMA, Treasury Regulations, PPPFA and Preferential Procurement Regulations
 - SAA is also in the process of revising the SCM policy and establishing a procedure manual that will be utilised by all SCM staff
 - Management is also in the process of ensuring that all active contracts are published to SAP and adequate contract management procedures are followed
 - Management is reviewing all active contracts to determine whether the procurement processes followed satisfy the requirements of the PFMA, Treasury Regulations, PPPFA and PPRs.
 - However management and the service providers have experienced several challenges owing to poor document management, availability of staff and capacity of staff with the SCM Unit. Management is however committed to doing everything practical to ensure that the findings of the AGSA are addressed and clean governance is achieved
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Deviations & expansions

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- See attached spreadsheets

The End