



require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures included 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 audit provides a reasonable basis for our opinion.

### **Audit opinion**

In our opinion, the financial statements fairly present, in all material respects, the financial position of the authority at 31 March 1999 and the results of its operations and cash flows for the six months then ended in accordance with generally accepted accounting practice.

7 July 1999

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## **REPORT OF THE DIRECTORS**

**For the six months ended 31 March 1999** ([Back to content](#))

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### **Introduction**

The directors present their first report for the period 1 October 1998 to 31 March 1999.

This report, in terms of the Civil Aviation Authority Act 41 of 1998 and the Reporting by Public Entities Act, Act 93 of 1992, addresses the performance of the South African Civil Aviation Authority and the results of its operations and cash flow information for the six months then ended.

It is the directors' responsibility to prepare annual financial statements and related financial information that fairly present the state of affairs of the Authority. The external auditors are responsible for independently auditing and reporting on the financial statements in conformity with generally accepted auditing practice.

The six months financial statements set out in this report have been prepared by management in accordance with generally accepted accounting practice as far as they are applicable. They include full and responsible disclosure and are based on appropriate accounting policies which have been consistently applied and which are supported by the reasonable and prudent judgements and estimates.

As far as applicable, and given that the Authority has only been established for six months, the Authority has complied with the major recommendations of the King Report. The consultants who were contracted by the National Department of Transport to assist in the establishment of the CAA had not highlighted the need to contract an internal auditor at the time of the establishment of the CAA on 1 October 1998. The Board of Directors at their first meeting after this date, did however, initiate a process of contracting an internal auditor. This process included discussions with the Auditor General, evaluating tender submissions and seeking approval from the Minister of Transport. This process was concluded in March 1999 and their mandate was hence directed at the 1999 – 2000 financial year.

The South African Civil Aviation Authority has identified the management of information as a strategic issue. To this effect considerable expenditure has been invested in information technology initiatives. The most significant information technology initiative being :

- i. The replacement of all non-year 2000 compliant computer hardware inherited from the National Department of Transport.
- ii. Review of software systems inherited from the National Department of Transport to ensure they are all year 2000 compliant.
- iii. Implementation and replacement of all the disintegrated and standalone systems to ensure that all the sectional systems are integrated to enhance management information for decision making.

It is anticipated that all hardware and software systems will be 100% year 2000 compliant by September 1999.

New systems implemented since October 1998 are already year 2000 compliant.

### **Nature of business**

The South African Civil Aviation Authority is the regulator of all aviation activities in South Africa. Its primary function is to control and regulate civil aviation in the Republic and to oversee the functioning and development of the civil aviation industry, and in particular, to control, regulate and promote civil aviation safety and security.

### **General review**

The South African Civil Aviation Authority (CAA) was established as a juristic body in terms of Act 41 of 1998. At the same time the South African Civil Aviation Authority Levies Act, Act No 41 of 1998 was promulgated to enable the Authority to levy either a passenger levy, fuel levy or any other levy, to enable it to raise funding from the aviation industry.

### **Funding**

The Authority is to be funded on a sliding scale from government on a subsidy basis. The first six months funding from the government was R19 986 000 compared to the total turnover of R31 932 692. The subsidy for subsequent years will be R6 000 000 and R2 000 000 respectively. This

subsidy will be replaced with user fees which should be on full cost recovery basis by the third year. These user fees are expected to account for 60% of the funding and the other 40% will be generated from the levies.

CAA continues to carry out the full accident and incident responsibilities on behalf of the National Department of Transport and CAA should, on an annual basis, provide an estimate of what this service would cost the government.

However, should there be a major accident, the government would carry that cost as an extraordinary item.

### **Degree to which objectives have been met**

The first six months of operation were predominantly spent on establishing internal control systems and policies. Manuals of procedures were developed for the first time and workshopped with the main industry participants. It is also in this period that the performance contract with the Minister of Transport was developed and signed. Section 5 of the South African Civil Aviation Act requires a performance agreement to be entered into between the Minister of Transport and the Authority. This would enable the Authority to meet requirements of section 7 of the Public Entities Act. An interim Memorandum of Understanding (MOU) was signed on 23 November 1998 to govern the relationship between the Minister of Transport and the Authority. This document noted that the parties would negotiate a performance agreement to monitor and measure the performance of the Authority in the carrying out of its function and achievements of its objectives. It was intended that the performance agreement would be negotiated before 1 April 1999. The CAA has complied with the requirements of the MOU and a performance agreement was signed on 31 March 1999 which provides for specific targets and measurements for the 1999 – 2000 financial year.

This performance contract will be used as the basis for measuring the extent to which the organisation's objectives are being achieved.

The main achievement in this period was the successful launch of CAA in October 1998. Despite all staff members in Corporate Services division being new, most of the financial, human resources, information technology and administrative systems were operational. Fine-tuning of these systems is an ongoing process.

### **Financial results**

CAA is a non-profit making organisation which should only cover its operational and capital expenditure needs. In terms of the Act, CAA cannot distribute any of its surplus, but should such a surplus be unreasonably high, CAA would be expected to adjust its user fees accordingly.

The financial results of CAA appear on pages 6 to 15 which include the income statement, the balance sheet, the cash flow statement and the notes to the financial statements.

### **Funds received from government**

Implementation capital expenditure	R3 608 876
Other implementation expenses	R2 376 000
(These are preliminary expenses incurred to set up CAA)	
Operating costs	<u>R1 946 124</u>
	R7 931 000
Transfer Payment and Accident and Incident Fees	R11 505 000
Drafting regulations on behalf of the NDOT (user fees)	R550 000
	<u>R19 986 000</u>

## **Directors**

I B Skosana	Chairperson	Appointed 1 October 1998
P van Hoven	Deputy Chairperson	Appointed 1 October 1998
C Mashengete	Member	Appointed 1 October 1998
G B Conlyn	Member	Appointed 1 October 1998
P M Matlala	Member	Appointed 1 October 1998
N Maharajh	Member	Appointed 1 October 1998
N R Mlonzi	Member	Appointed 1 October 1998
T Abrahams	Member	Appointed 1 October 1998

All the Directors except T Abrahams are non-executive directors.

## **Board Sub-Committees**

### ***1. Financial and Audit Committee***

P van Hoven  
C Mashengete  
N Maharajh  
T Abrahams

### ***2. Human Resource/Remuneration Committee***

I B Skosana  
P M Matlala  
N R Mlonzi  
T Abrahams

### ***3. Accident and Incident Committee***

N R Mlonzi  
G B Conlyn  
T Abrahams

### ***4. Aviation Safety Committee***

G B Conlyn  
P van Hoven  
T Abrahams  
P M Matlala

### **Dividends**

In terms of the South African Civil Aviation Authority Act no dividends are payable now or in future.

### **Fixed assets**

Five aircraft were transferred from the National Department of Transport at no consideration. These have, however, been valued in terms of the aircrafts blue book and brought into the accounting records at valuation.

The bulk of the other assets transferred, which included old office equipment, old furniture and old computer hardware, have been brought into the accounting records at zero value as most of them are not usable.

### **Post balance sheet events**

#### ***1. Rentworks***

The financing deal with Stannic for the financing of the computer hardware and software was refinanced through Rentworks on a sale and lease-back agreement. Rentworks therefore paid off the outstanding liability to Stannic on 31 March 1999. The effective date of the lease is 1 April 1999. This operating lease facility with Rentworks is payable quarterly in advance which started on 1 April 1999. The lease period is 36 months.

#### ***2. Foreign airlines dispute***

The aviation safety charge will be applied to all foreign airlines covered by the bilateral air services agreements. It will be applied in addition to current ATNS charges along the lines of the Eurocontrol air traffic formula and would thus obviate the need for any additional charge agreements with IATA. An amount totalling US\$ 1.3 m will be collected over a seven month period based on an implementation starting date of 1 September 1999. A total of US\$ 1.4m will be collected in the next financial year.

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## INCOME STATEMENT

for the year ended 31 March 1999 ([Back to content](#))

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	Notes	1999 R
<b>Revenue</b>		<b>23 451 690</b>
Operating costs		<b><u>24 631 403</u></b>
<b>Operating loss before finance costs</b>	<b>1</b>	<b>1 179 713</b>
Finance costs	<b>3</b>	<b><u>164 197</u></b>
<b>Operating loss after finance costs</b>		<b>1 343 910</b>
Preliminary expenses		<b><u>2 376 000</u></b>
<b>Accumulated loss for the year</b>		<b>3 719 910</b>

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## BALANCE SHEET

31 March 1999 ([Back to content](#))

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	Notes	1999 R
<b>CAPITAL EMPLOYED</b>		
Accumulated funds	4	<b>4 211 090</b>
Non-distributable reserves	5	<b>42 827 818</b>
<b>TOTAL CAPITAL EMPLOYED</b>		<b><u>47 038 908</u></b>
<b>EMPLOYMENT OF CAPITAL</b>		
Fixed assets	6	<b>40 788 961</b>
<b>Current assets</b>		<b>11 692 398</b>
Inventories	7	<b>689 092</b>

Accounts receivable	8	3 127 414
Funds on call and on deposit		6 559 168
Bank balances and cash		1 316 724
<b>Current liabilities</b>		<b>5 442 451</b>
Accounts payable	9	3 024 067
Short-term loan		1 931 264
Bank overdraft		487 120
<b>Net current assets</b>		<b>6 249 947</b>
<b>TOTAL EMPLOYMENT OF CAPITAL</b>		<b><u>47 038 908</u></b>

## CASH FLOW STATEMENT

for the six months ended 31 March 1999 ([Back to content](#))

	Notes	1999 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash receipts from customers and the National Department of Transport		20 324 276
Cash paid to suppliers and employees		<u>(19 642 330)</u>
<b>Cash generated from operations</b>	A	<b>1 114 933</b>
Interest received		184 648
Interest paid		<u>(164 197)</u>
<b>Net cash inflow from operating activities</b>		<b>1 135 384</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to fixed assets		<b>(3 608 876)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase in accumulated funds		7 931 000
Increase in short-term loans		<u>1 931 264</u>

Net cash inflow from financing activities		<b><u>9 861 264</u></b>
<b>CASH AND CASH EQUIVALENT AT END OF PERIOD</b>	<b>C</b>	<b>7 388 772</b>

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## NOTES TO THE CASH FLOW STATEMENT

for the six months ended 31 March 1999 ([Back to content](#))

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	<b>1999 R</b>
<b>A. RECONCILIATION OF ACCUMULATED LOSS FOR THE YEAR TO CASH GENERATED FROM OPERATIONS</b>	
Accumulated loss for the year	<b>(3 719 910)</b>
Adjusted for:	
Depreciation	<b>3 429 915</b>
Investment income	<b>(184 648)</b>
Finance costs	<b>164 197</b>
Operating profit before working capital changes	<b>(310 446)</b>
Working capital changes	<b>1 425 379</b>
Decrease in inventories	<b>1 528 726</b>
Increase in accounts receivable	<b>(3 127 414)</b>
Increase in accounts payable	<b>3 024 067</b>
Cash generated from operations	<b><u>1 114 933</u></b>
<b>B. NON-CASH INVESTING AND FINANCING ACTIVITIES</b>	

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At the beginning of the period the National Department of Transport transferred

Aircraft and inventory to South African Aviation Authority at no cost.

The inventory was valued at cost and aircraft was valued as follows.

Aircraft	<b>40 610 000</b>
Aircraft spares	<b><u>2 217 818</u></b>
Increase in non-distributable reserve	<b>42 827 810</b>

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## C. CASH AND CASH EQUIVALENTS

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Cash and cash equivalents consists of cash on hand and balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

Funds on call and on deposit	<b>6 559 168</b>
Bank balances and cash	<b><u>1 316 724</u></b>
Total bank balances and cash	<b>7 875 892</b>
Bank overdrafts	<b><u>(487 120)</u></b>
Cash and cash equivalents	<b>7 388 772</b>

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## ACCOUNTING POLICIES

**31 March 1999** ([Back to content](#))

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The financial statements are prepared on the historical cost basis, and incorporate the following principal accounting policies, which have been consistently applied in all material respects.

### **Fixed assets**

Fixed assets, with the exception of aircraft are stated at historical cost to the organisation, less accumulated depreciation.

Depreciation is calculated on historical cost using the straight line method over the estimated useful lives of the assets. The method and rates used are determined by the relevant conditions in the industry.

Aircraft are stated at valuation less accumulated depreciation.

### **Inventories**

Inventories are stated at cost. Cost is determined on the weighted average basis.

Redundant and slow moving stocks are identified and written down with regard to their estimated economic or realisable values.

### **Foreign currency transactions**

Transactions in foreign currencies are accounted for at the rate of exchange ruling on the date of the transaction.

### **Revenue**

The invoiced value of sales and services rendered, excluding value added tax, in respect of trading operations is recognised at the date services are provided.

Revenue from licence fees and state transfer payments are recognised on a cash basis.

### **Provident fund**

The organisation participates in a defined contribution fund, which is governed by the Pension Fund Act, and in which all employees participate.

Periodic valuations of the fund will be carried out by independent actuaries at intervals not exceeding three years.

Retirement benefit costs are charged to the income statement in the period incurred.

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## **NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**For the six months ended 31 March 1999** ([Back to content](#))

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**1. OPERATING LOSS BEFORE FINANCE COSTS**

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Operating loss before finance costs is arrived at after taking the following items into account:

Auditors' remuneration:

Audit fees	<b>130 000</b>
Fees for other services	<b>32 000</b>
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	<b>162 000</b>

Depreciation:

Aircraft	<b>3 045 750</b>
Office equipment	<b>67 842</b>
Furniture and fittings	<b>128 565</b>
Computer equipment	<b>187 758</b>
	<hr/>
	<b>3 429 915</b>

Operating lease payments:

Land and buildings	<b>1 145 024</b>
Office equipment	<b>268 320</b>
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	<b>1 413 344</b>

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Stock written off	<b>176 447</b>
Provident fund contributions	<b>1 329 898</b>

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## 2. DIRECTORS' EMOLUMENTS

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### **Executive directors**

Salaries	<b>168 227</b>
Provident fund contributions	<b>29 688</b>

### **Non-executive directors**

Fees	<b>250 000</b>
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**Total directors' emoluments** **447 915**

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## 3. FINANCE COSTS

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### Interest paid:

Loans	<b>162 903</b>
Bank overdrafts	<b>1 294</b>

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**164 197**

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## 4. ACCUMULATED FUNDS

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### Accumulated funds consist of;

funds transferred from the National Department of Transport	<b>7 931 000</b>
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less accumulated loss for the year (3 719 910)

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4 211 090

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## 5. NON DISTRIBUTABLE RESERVES

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Non-distributable reserves consist of the valuation of assets received from the National Department of Transport:

Aircraft 40 610 000

Aircraft spares 2 217 818

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42 827 818

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## 6. FIXED ASSETS

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### **Cost /Valuation**

Aircraft 40 610 000

Office equipment 806 771

Furniture and fittings 1 664 588

Computer equipment 1 137 517

Total

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44 218 876

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### **Accumulated depreciation**

Aircraft 3 045 750

Office equipment 67 842

Furniture and fittings 128 565

Computer equipment	187 758
Total	<hr/>
	3 429 915

**Book value**

Aircraft	37 564 250
Office equipment	738 929
Furniture and fittings	1 536 023
Computer equipment	949 759
Total	<hr/>
	40 788 961

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7. INVENTORIES

Aircraft spares	689 092
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8. ACCOUNTS RECEIVABLE

Trade receivables	2 380 666
Other receivables	746 748
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	3 127 414

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9. ACCOUNTS PAYABLE

Trade payables	781 132
Provisions	1 018 325
Other payables	1 224 610
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**3 024 067**

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