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The Managing Director  
Pietersburg Aviation and Systems (Pty) Ltd

Sir

**INTERIM AUDIT - 1998**

We have conducted an interim audit of your company and have drafted management accounts for the use of your bankers during February 1998.

Our audit findings are set out in a schedule attached hereto. We shall gladly discuss this further with you and assist in implementing any recommendations.

We would like to set out some policy and management issues further in this letter.

Pietersburg Aviation and Systems (Pty) Ltd - "Airpass" - is a new company which has conducted a large volume of business during its first year. It is therefore natural that management has had to cope with many demands in terms of structures, systems, policy etc. We would like to highlight some areas of concern which need to be addressed to ensure that the company functions efficiently.

1. In general, although a lot of work has been done to update systems and accounting work, we can report that the information provided by these systems is inadequate to manage the company properly. In general the following was observed:
  - 1.1 No management accounts setting out accurate trading results compared to a budget are produced.
  - 1.2 The underlying accounting records are not up to date and accurately reconciled, with the result that they are inadequate for management to rely upon and take decisions on.
  - 1.3 Monthly returns such as VAT etc. were not always made on time, therefore rendering the company liable for penalties and reducing cashflow.
2. We found that confusion exists under staff and management as to which transactions relate to which company in the group as well as which assets belong to the company. We would like to point out the following:
  - 2.1 It seems that the aircraft used by the company belongs to a Swaziland registered company called Aircess (Pty) Ltd. According to our management accounts, Airpass

shows a taxable profit. This profit is largely due to aircraft income for which no payment is made for rental of aircraft to Aircess. We recommend that a reasonable and commercial rate per hour be calculated per aircraft and be accrued in Airpass. This would disclose a more reasonable profit and reduce the tax liability.

- 2.2 During our stock take at Pietersburg a lot of aircraft spares were noted. Although it was pre-arranged, all the staff in control of this were not available in order for us to conduct a stock count. It is further not clear whether this stock belongs to Airpass or to Aircess, which owns the aircraft. Should aircraft spares belong to Airpass, it should be accounted for at the lower of cost and net realisable value.
- 2.3 In general it seems that paperwork for importation of aircraft spares is not always adequate to get it cleared by customs. We were informed that one of the company's vehicles was impounded by customs. Events like these can cause the company losses and should be avoided.
3. The company is mainly funded by a shareholder's loan and more than 50% of the company is owned by a foreigner. This may impose some limitation upon the company's borrowing power in South Africa, should more than 50% of the shareholding be held by a non-resident. It would therefore be in the interest of the company for the foreign shareholder to obtain a local resident status.
4. We have further noted that a lot of foreign staff members are employed by the company. It is therefore imperative that work permits are put in place for all such staff members in order to avoid penalties and prosecution of the company.

We wish to thank management and staff for their assistance during our audit and shall gladly discuss any of the above matters further with you.

Yours faithfully



**MORRIS DU PLESSIS**

# PIETERSBURG AVIATION SYSTEMS & SERVICES (PTY) LTD T/A AIRPASS

## REPORT ON THE INTERIM AUDIT - 1998

There are two types of business operating within this company. The one is that of air chartering and the other is the sale of commodities to other African countries. The commodities are purchased by a group of Lebanese people in the name of Airpass and stored in Pietersburg until they are exported out of the country to be sold to other African countries. Airpass is then paid for the cost of the goods plus 3 % commission and for the cost of chartering the goods.

The interim audit also revealed the following regarding the books:

- There are several loan accounts for various people (crew members) who get paid by the shareholder. These loan accounts consist of their living expenses. The expenses have not been allocated to the expense accounts as it is still to be decided if they will be repaid by the crew. This issue needs to be clarified before the final audit so that adjustments can be made.
- Share capital has not yet been journalised into the books. The company does not have a company register as required by the Companies Act. We can assist in the implementation thereof.
- The loan account between Airpass and Norse Aircharter has not yet been reconciled. These loan accounts need to be reconciled and balanced before the final audit.
- The debtors which are for commodities, are at present being reconciled. This is difficult as large deposits are made into Airpass bank account by the Lebanese people and there is very little documentation relating to the respective sales for this. Also, a great deal of cash is exchanged for the commodities, which could be very risky.
- A working account (account 715) has been opened for transfers of money from one bank account to another. Theoretically this account should always have a zero balance, but at present, this is not the case. It is however being worked on, and should be reconciled.
- The Standard Bank was closed in about September 1997, but it is not yet reconciled and still contains a large balance according to the trial balance. We need a bank reconciliation of this account.
- There are two other bank accounts which are still being reconciled for floats for the crew and administration department. From the sample of petty cash payments, documentation for 72 % of the payments could be found. 70 % of the petty cash vouchers sampled could be traced to the general ledger. The trial balance petty cash balances are very high. There was also mention of a problem regarding the number of

petty cash accounts (with the crew members) and how to keep records of these on Pastel. We can assist in implementing a system for petty cash.

- There is a large salaries and wages control account in the balance sheet which is in debit at present. Normally these accounts should be in credit and cleared every month when the various payments are made. This account should therefore be reconciled.
- The creditors are reconciled monthly to the statements. A small creditors suspense account exists which consists of payments not yet allocated. It is being worked on presently. Regarding transaction work, the original invoices were very difficult to find up until August 1997. From there on most could be found. The main risk for the company lies in all the cash transactions which take place. At month ends, a physical cash count should be done and any discrepancies with the records should be resolved.
- The company is very new and most of the staff have only been working for a few months, so the internal control system is still being implemented. It is very important that invoices for all sales and services be made out from now on as this has not happened in the past. Even transactions between Airpass and Norse must have original documentation relating to the transaction for both companies.
- The company does not have a fixed asset register. According to the Companies Act, a fixed asset register should be kept. We can implement a Pastel fixed asset package and train staff thereon.
- A stock count was done on commodities in Pietersburg at year end. Very few discrepancies were found to the stock sheet and it seems that stock is well controlled. There is however a lack of systems and paperflow which makes the stock control totally dependent on one person. Good internal control requires separation of duties, and should the volume of stock increase, a computerised stock system will ensure good stock control. Stock as at year end needs to be costed and journalised to the books of account.