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South African Large Telescope ("SALT") Foundation Proprietary Limited

Management report for the year ended 31 March 2015



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3 November 2015

The Board of Directors
SALT Foundation (Pty) Ltd
P O Box 9
Observatory
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Dear Sirs

South African Large Telescope ("SALT") Foundation (Pty) Ltd
Management letter for the year ended 31 March 2015

We have recently completed our audit of the SALT Foundation (Pty) Ltd ("the Company") for the year ended 31 March 2015. The purpose of this letter is to bring to the Directors' attention matters that arose as a consequence of the conduct of the audit.

Responsibility for the annual financial statements

The annual financial statements and the preparation thereof, continue to be the responsibility of the Company's Directors. The Directors have the responsibility for properly recording transactions in the accounting records, for making appropriate accounting estimates, for safeguarding assets, and for the overall accuracy of the annual financial statements.

In addition, the Directors are also responsible for establishing and implementing an effective system of internal control that provides for the orderly and efficient conduct of the Company's business and the reliable reporting of their financial results.

The Directors also have the responsibility for selecting accounting policies that present fairly the financial position and operating results of the Company and establishing accounting estimates which are an integral part of the financial results and are summarised in its books and records.

Auditor's responsibility

Our responsibility is to express an opinion on whether the Company's annual financial statements fairly present, in all material respects, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, the financial position of the Company and the results of its operations for the year under review.

National Executive: *LL Bam Chief Executive *AE Swiegers Chief Operating Officer *GM Pinnock Audit
*N Sing Risk Advisory *NB Kader Tax TP Pillay Consulting S Gwala BPaaS *K Black Clients & Industries
*JK Mazzocco Talent & Transformation *MJ Jarvis Finance *M Jordan Strategy *MJ Comber Reputation & Risk
*TJ Brown Chairman of the Board
Regional Leader: MN Alberts

A full list of partners and directors is available on request * Partner and Registered Auditor

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

Our opinion should not be relied upon to disclose errors and irregularities that are not material to the annual financial statements. We did not perform a detailed evaluation of the systems of internal control operated by the Company and consequently this report cannot be relied upon to have identified all weaknesses in the control environment surrounding the Company. Had we performed additional procedures over the controls in operation, additional control weaknesses may have come to our attention.

Audit scope and approach

Our audit of the annual financial statements of the Company was conducted in accordance with International Standards on Auditing. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance that the Company's financial statements are free of material misstatement.

The scope of the audit work performed included the following:

- developing our understanding of the operation of the Company for the purpose of identifying and assessing the relevant risks;
- examining, on a test basis, evidence supporting the amounts and disclosures in the annual financial statements;
- assessing the accounting principles used and any significant estimates made by the Directors;
- assessing the Company's compliance with International Financial Reporting Standards and the Companies Act of South Africa; and
- evaluating the results of our audit and reporting thereon.

We designed our audit to provide reasonable assurance of detecting errors and irregularities that are material to the annual financial statements. However, because of the characteristics of irregularities, particularly those involving fraud and collusion, a properly designed and executed audit may not detect such items.

Consistent with the prior year, a substantive audit approach was adopted in the current year. Whilst the International Standards on Auditing require that we obtain an understanding of the design and implementation of the key controls relating to the Company's activities, we did not test the operating effectiveness of these controls. Therefore, we did not place reliance on the Company's systems, processes or controls for purposes of obtaining audit assurance and consequently we are not in a position to comment on the effectiveness or efficiency of any of these systems, processes and controls.

We assessed the accounting policies and significant estimates used in the preparation of the Company's financial statements and evaluated the disclosures in the financial statements. We found the accounting policies, the disclosures and the estimates to be appropriate.

Fraud and error

The responsibility for the prevention and detection of fraud and error rests with the Directors through the implementation and continued operation of adequate accounting and internal control systems. The auditor is not and cannot be held responsible for the prevention of fraud and error. We do, however, plan and perform our audit to respond to fraud risk factors identified through fraud risk assessments conducted. No fraudulent transactions were identified during the fraud risk assessment performed as part of the audit, nor through discussions with management.

Independence

Deloitte has adopted independence standards that are in compliance with the requirements of the International Federation of Accountants' ("IFAC") Code of Ethics for Professional Accountants.

Locally, the South African Institute of Chartered Accountants ("SAICA") has adopted IFAC's Code of Ethics. In terms of these requirements we are required to communicate at least annually, orally and in writing to the Company, a statement that the engagement team and others in the firm are independent in accordance with relevant ethical requirements and other external requirements that apply to the engagement.

We are independent of the Company in accordance with ethical requirements and we are not aware of any relationships between the Company, the Directors or key management and us that, in our professional judgement, may reasonably be thought to bear on our independence.

Audit findings

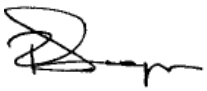
We have identified certain matters to be brought to the attention of the Directors and these have been documented in the Annexure to this document. We have discussed these findings with Ismail Osman (Financial Manager) who provided his comments on each matter.

Conclusion

We would like to express our sincere appreciation to the Directors and staff for the assistance and courtesy extended to us during our audit.

Please do not hesitate to contact us should you wish to further discuss the matters raised in this report or should you wish to update the report with your comments in respect of the individual report points.

Yours faithfully



R L Dogon
Partner
Audit

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(*) Items reported in the prior-year and re-reported in the current year.

Annexure to the management letter – detailed findings

1. Company register not updated for directors

Audit finding

The company register does not reflect the details of the entity's directors.

Some directors resigned and new directors were appointed in the prior year. Directors' Forms notifying CIPC of the appointment and resignation of the directors were not filed during the prior, nor during the current financial year to reflect these changes. Thus the filing of these changes (which was an outstanding item in the prior year) has still not yet taken place during the current year.

As per s70(6) of the Companies Act, 2008 where any person ceased or became a director, the company has to file notice within 10 business days of the event taking place.

SALT does not have the passport numbers of all non-South African directors on file.

As per section 24(5), the passport number, if the person is not a South African, should be recorded in the Directors' Register. As per section 24(5), the name and registration number of every other company or foreign company of whom the person is a director, and in the case of a foreign company, the nationality of that company should be provided for in the Directors' Register. As per section 24(3)(b), a record of its directors, including details of past directors for which information must be retained for 7 years after the past director has retired from the company should be maintained. Information should be updated to reflect recent changes.

Audit recommendation

The company register should be updated for the correct details of the all of directors of the entity.

Management comment

The Companies and Intellectual Property Commission has introduced new requirements that require the certified copy of each director's passport or ID even though they were appointed some time ago. That means that all the directors have to submit certified copies of their passports or ID's even to update one change of a director. The logistical difficulties in collating all the certified copies from around the world have meant a delay in updating the CIPC register. We are in the process of collating this and as soon as we have all the passport copies, we will be able to update the CIPC register.

2. Recognition of assets when risks and rewards transfer

Audit finding

It was noted that an asset was capitalised to work-in-progress (WIP) during the current financial year even though the risks and rewards transferred during the 2013 financial year.

The date that a specialised lense which forms a part of the RSS colimator was ready for delivery and when the risks and rewards transferred to SALT was the 04/03/2013 (delivery note 82503495). However, as per discussion with Ismail Osman (Financial manager), the lense needed to be sent to various other suppliers for coatings and treatments that were required for it be used in the colimator. As such, the lense was only received by SALT during the current financial year.

However, the amount invoiced by Helma Materials should have been recognised in work-in-progress on the date that the risks and rewards transferred and not during the current financial year. If the lense had to get damaged during the transportation between the other suppliers, SALT would have incurred the loss and not Helma Materials. The amount was paid to the supplier on 04/04/2013, which was recognised as a prepayment (asset). This was confirmed through inspection of proof of payment. As such, the net effect is that an asset was recognised. Therefore, there is no income statement effect as WIP is not recquired to be depreciated. In addition, as neither the transaction date nor payment date ocurred in the current financial year, there was no foreign exchange difference effect during the current financial year.

However, managament should ensure that assets are appropriately capitalised on the date that the risks and rewards transfer.

Audit recommendation

Assets should be recognised on the date when the risks and rewards transfer, in line with International Financial Reporting Requirements.

Management comment

This was an exceptional item, management will enure that assets are capitalised on the correct dates.

3. Spare Parts Disclosure

Audit finding

It was noted that only the net movement in the Spare Parts balance is disclosed in the Propery, Plant & Equipment Note in the Annual Financial Statements.

Per inspection of the Spares account GL dump, the net amount comprised of:

Additions R 418 036

Disposals R 437 216

It is not appropriate to dislcose the net movement as IAS 16:73 requires that the additions and other changes be shown separately in a reconciliation between opening and closing balances.

Audit recommendation

The addiditons and disposals (utilisation) of Spare Parts should be shown separately in the Propery, Plant & Equipment Note disclosed in the Annual Financial Statements.

Management comment

Management will consider the effect of the disclosure during the 2016 financial year.

4. VAT not accounted for on income received in advance

Audit finding

The NRF is a local shareholder and the operating levies charged thereto are subject to VAT. Per the section 9 of the VAT Act, output VAT is recognised at the earlier of payment or invoice and as such, output VAT would have to be recognised when any prepayments are received from the NRF

During the current financial year, the amount received as prepayment from the NRF relating to 2015/2016 levies was recorded in shareholders deposits (income received in advance) gross of VAT, with the output VAT portion not being recognised in the VAT payable account.

This was corrected by management in the accounting records and was accounted for in the correct period on the VAT 201 submission.

Audit recommendation

VAT should be accounted for in the correct period, as per the VAT Act..

Management comment

This was an excpetional item. Management will be more mindful going forward.

5. Housekeeping matter – depreciation not assessed on an annual basis

Audit finding

The IAS16 requirement to annually assess useful lives does not appear to have been complied with, as assets still in use have been fully depreciated. As this only affects vehicles & furniture, this has been raised as a housekeeping matter.

Audit recommendation

The assessment of fixed assets' depreciation policies should be performed annually.

Management comment

Management will assess the depreciation of fixed assets on an annual basis.

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