



AUDITOR - GENERAL  
SOUTH AFRICA

Ms Mbete  
Speaker of Parliament  
PO Box 15  
Cape Town  
8000

2 March 2018

Reference: Mango 2016/17 – Tabling of report

Dear Honourable Speaker Mbete

**Publishing of the audit report of the Mango Airlines SOC Limited (Mango) for the financial year ending 31 March 2017**

1. In terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004)(PAA), the Auditor-General of South Africa (AGSA) must submit an audit report in accordance with any legislation applicable to the auditee which is the subject of the audit.
2. Mango is listed in schedule 2 of the Public Finance Management Act, 1999 (Act No. 1 of 1999)(PFMA) as a public entity and the AGSA must comply with the provisions of the PFMA in submitting the audit report.
3. In terms of section 55(1)(c) and (d) of the PFMA, the accounting authority for a public entity must submit within two months after the end of the financial year to the auditors of public entity, their financial statements for auditing and must submit within five months of the end of the financial year to the relevant treasury and executive authority responsible for the public entity, an annual report, audited financial statements and audit report.
4. In terms of section 55(3) of the PFMA, the accounting authority must submit the annual report, audited financial statements and audit report to the executive authority (through the accounting officer of the department designated by the executive authority), for tabling in Parliament. The responsible executive authority must in terms of section 65(1)(a) of the PFMA table in the National Assembly the annual report, audited financial statements and audit report, within one month after the accounting authority for the public entity received the audit report.
5. In contravention of section 55(3) of the PFMA, the responsible executive authority has failed to table the annual report, audited financial statements and audit report of Mango within one month after receiving it.

6. In terms of section 21(3) of the PAA, audit reports must be tabled in the relevant legislature in accordance with any applicable legislation or otherwise within a reasonable time. If an audit report is not tabled in a legislature within one month after its first sitting after the report has been submitted by the AGSA, the AGSA must promptly publish the report.
  
7. The AGSA hereby publish the audit report for Mango for the year ended 31 March 2017, in line with our statutory responsibility in terms of section 21(3) of the PAA.

Yours sincerely



**Kimi Makwetu**  
**Auditor-General**

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# Report of the auditor-general to Parliament on Mango Airlines SOC Limited

## Report on the audit of the financial statements

### Qualified Opinion

1. I have audited the financial statements of the Mango Airlines SOC Limited (Mango) set out on pages 31 to 64, which comprise the statement of financial position as at 31 March 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Mango as at 31 March 2017, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa (Act No. 71 of 2008) (Companies Act).

### Basis for qualified opinion

#### Irregular expenditure

3. Section 55(2)(b)(i) of the PFMA requires Mango to include particulars of irregular expenditure in the notes to the financial statements. Mango did not establish adequate controls to maintain complete records of irregular expenditure. Due to this lack of controls, I was not able to confirm the amount of irregular expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any adjustment to irregular expenditure, as disclosed in note 32 to the financial statements, was necessary.

#### Fruitless and wasteful expenditure

4. Section 55(2)(b)(i) of the PFMA requires Mango to include particulars of fruitless and wasteful expenditure in the notes to the financial statements. Mango did not establish adequate controls to maintain complete records of fruitless and wasteful expenditure. Due to this lack of controls, I was not able to confirm the amount of fruitless and wasteful expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any adjustment to fruitless and wasteful expenditure, as disclosed in note 32 to the financial statements, was necessary.



### **Context for the auditor's opinion**

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
6. I am independent of Mango in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Emphasis of matter**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

9. As disclosed in note 4 to the financial statements, the corresponding figures for 31 March 2016 have been restated as a result of a classification error in the financial statements of the entity at, and for the year ended, 31 March 2017.

### **Contingencies**

10. As disclosed in note 24 to the financial statements, there are uncertainties around the treatment of ACSA charges for tax purposes that may result in Mango being liable for additional VAT and income tax; and related penalties and interest. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

### **Other matters**

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Previous year audited by a predecessor auditor**

12. The financial statements of the previous year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act of South Africa, 2004 (Act No.25 of 2004) (PAA) and were concluded on 29 August 2016. An unqualified opinion was expressed.

### **Unaudited supplementary schedules**

13. The supplementary information set out on pages 65 to 66 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.



## **Responsibilities of the board of directors for the financial statements**

14. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS and the requirements of the PFMA and Companies Act and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the financial statements, the accounting authority is responsible for assessing Mango's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the public entity or to cease operations, or there is no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

## **Report on the audit of the annual performance report**

18. I was unable to obtain sufficient appropriate audit evidence to confirm the usefulness and reliability of the reported performance information because the annual performance report was presented without the approved shareholders compact and corporate plan, that details key performance indicators and targets, for the year under review, as required by treasury regulation 29. I was unable to confirm the usefulness and reliability of the reported performance information by alternative means.

## **Other matters**

### **Achievement of planned targets**

19. Refer to the annual performance report on page 15 for information on the achievement of planned targets for the year and explanations provided for the under- overachievement of the targets. This information should be considered in the context of the material finding on the usefulness and reliability of the reported performance information in paragraphs 18 of this report.



### **Introduction and scope**

20. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of Mango with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
21. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

#### **Expenditure management**

22. Effective steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualified opinion paragraph.
23. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. The full extent of the fruitless and wasteful expenditure could not be quantified as indicated in the basis for qualified opinion paragraph.

#### **Asset management**

24. Mango provided financial assistance to the holding company without approval by the shareholders per special resolution and without considering the solvency or liquidity of the company, in contravention of section 45 of the Companies Act.

#### **Strategic planning and performance management**

25. A shareholder's compact was not concluded in consultation with the National Treasury, as required by treasury regulation 29.2.1.
26. A final corporate plan was not submitted in the prescribed format to the National Treasury as required by section 52(b) of the PFMA.
27. The key performance measures and indicators included in the shareholder's compact were not agreed between the board of directors and the National treasury, as required by treasury regulation 29.2.2.
28. Quarterly reports were prepared, but not submitted to the National Treasury, as required by treasury regulation 29.3.1.

#### **Procurement and contract management**

29. Goods, works or service were not procured through a procurement process that is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.
30. The preferential point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act.



31. Sufficient appropriate audit evidence could not be obtained that quotations were awarded to suppliers whose tax matters have been declared by the South African Revenue Services to be in order as required by preferential procurement regulation 14.
32. Contracts were awarded to bidders based on functionality criteria that were in contravention of preferential procurement regulation 4.

#### Other information

33. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the Director's report, the Audit and Risk committee's report and the Company secretary's certificate as required by the Companies Act. The other information does not include the financial statements, the auditor's report thereon and those objectives presented in the annual performance report that have been specifically reported on in the auditor's report.
34. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
35. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the strategic goals presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
36. I have not yet received the annual report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected I may have to re-issue my auditor's report amended as appropriate.



## Internal control deficiencies

37. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for a qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

### Leadership

38. In areas of supply chain management, leadership did not:

- Implement effective human resource management to ensure that resources are sufficiently trained and skilled to give direction and manage procurement activities in line with the prescripts;
- adequately establish and communicate policies and procedures to enable and support the understanding and execution of the internal control objectives, processes and responsibilities.

39. The executive authority, together with the board, did not adequately oversee and implement appropriate processes to ensure that Mango has an approved shareholder compact and final corporate plan.

40. The board did not ensure compliance with legislation prior to providing financial assistance to the holding company.

### Financial and performance management

41. The review and monitoring of compliance with procurement-related regulations and reporting of pre-determined objectives requirements were inadequate.

42. In areas of irregular expenditure and fruitless and wasteful expenditure, the entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support the disclosure notes.

### Governance

43. The entity did not have an internal audit function for the majority of the year to review internal controls and ensure that management implements corrective action.





## Other reports

44. I draw attention to the following engagement conducted that had, or could have, an impact on the matters reported in Mango's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

### Investigations

45. An independent consultant investigated procurement and contract management processes, at the request of the shareholder. The report was finalised after year end and leadership is considering the recommendations made in these reports.

*Auditor - General*

Pretoria

7 December 2017



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SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information and on Mango's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mango's internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Mango's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause Mango to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the board of directors that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.