21 February 2020

Zondo Commission – SAA was in state of disarray for years

"Inasmuch as SAA is an airline, it can't operate on autopilot."

This was one of the closing remarks of Polani Sokombela, the man who oversaw the auditing of South African Airways (SAA) by government for the first time in 2017. Sokombela is the head of the business executive unit for the Auditor-General of South Africa (Agsa).

Until the financial year 2016/17, SAA had been audited privately by a joint venture between PricewaterhouseCoopers (PWC) and Nkonki Inc. Sokombela has told the commission of inquiry into state capture that the contract, which ran from 2011 to 2015, did not follow proper procurement processes. It was a move in mid-2015 by SAA, requesting that the Agsa allow it to drop PWC and go it with Nkonki alone for another five years, that prompted then finance minister Nhlanhla Nene to intervene. He ordered in late 2015, just before being dismissed by former president Jacob Zuma, that Agsa take over the audit process going forward. Sokombela explained that although state-owned entities could be audited by private firms, the process is done in line with Agsa's requirements, with some of the areas of the audit process being prescribed by the state auditor.

When it took over, Agsa found systematic control concerns, despite PWC/Nkonki having consistently given the national airline clean audits during the term of their contract. SAA, he explained, had poor record-keeping mechanisms, and a large number of their tenders did not have contracts governing them. Part of the big problem, he explained, was critical vacancies in key positions. "In the legal division, there was no capacity to ensure that in all the tenders that are awarded, there is a contract that is signed. SAA was operating on letters of awards," said Sokombela. Some of these were big ticket items that ran into millions at SAA's cost.

"That in our view, was a big risk for SAA because if you don't have contracts signed with your suppliers, how to hold them accountable, if they deliver goods to you that are of poor quality or not deliver them at all, they were paid because you don't have a contract…"

Commission chairperson Deputy Chief Justice Raymond Zondo asked if this would not been picked up by the private auditors over the years. Sokombela said there was never a mention in the reports that PWC/Nkonki submitted to Agsa to suggest that this was a concern they had picked up.

Earlier in his testimony on Thursday, he explained the ground rules for the kind of arrangement SAA chose for itself to be audited privately. Sokombela explained that as much as Agsa tends not to interfere in such arrangements, it does hold the chosen auditors accountable in terms of the Public Audit Act. Agsa, he said, simply trusted the word of the two firms as they were considered giants in the industry.

But by the time the true nature of the state of SAA's financial and governance affairs was uncovered, there had been years of disarray. Compliance with legislation at SAA was a serious challenge, specifically on the areas of irregular expenditure, fruitless and wasteful expenditure, and [compliance with] the Companies Act. "No consequence management is also one of the areas we identified there," said Sokombela.

This meant that even the airline's financial reporting had to be tested for its validity, and Sokombela's worst fears were realised. Not only was SAA late in submitting its financials to Agsa for its first audit by them, it also recorded losses that were much lower than the reality. Since SAA's financial year ends in March, it was expected to submit to Agsa by 31 May 2017, but it was only in October of that year that the financials reached Agsa. Upon investigation, Agsa found that although the airline had recorded an irregular expenditure figure of R125-million, its own finding, using only a sample of documents available, found that the figure actually stood at R4.5-billion. One of the challenges was that there was no discipline of documents, said Sokombela. Under different circumstances, a records manager would have ensured that things are where they need to be.

"If the situation at SAA before we took back the audit was the same as the situation we found at SAA to be at, you would have expected then that the previous auditors have identified these findings."

Out of the sample Agsa selected for investigation, Sokombela's team was able to deduct that four contracts to the collective value of R3.9-billion were not provided by SAA as part of its financials for that year. Had there been a central depository for these, explained Sokombela, it would have made Agsa's job easier. Furthermore, of the 140 contracts and quotations they did probe, 121 were found to be non-compliant with procurement processes, while 103 indicated irregular expenditure. For these and other reasons, Agsa gave SAA a qualified audit in December 2015, having found the R4.5-billion in irregular expenditure and a further R300-million in fruitless and wasteful expenditure. The last audit by the private firms had found irregular expenditure of only R5-million.

Zondo again probed, arguing that the figures were too high for them to be a consequence of one year's problems, they should have been picked up earlier, by the previous auditors. Sokombela agreed with this observation, but said the job of Agsa is not to judge the private firms.

In his own summary of SAA's systemic woes, Sokombela explained that Agsa observed that SAA leadership – including the board and management – worked hard at engaging lenders constantly and negotiating terms regarding the repayment of large loans, a practice in itself that is unsustainable. This had a detrimental effect on operations on the ground, where no systems were engaged that ensured good governance. In their quest to stay out of liquidation, the board neglected things on the ground.

Useful links:

[Zondo Commission website]

Corruption Watch's [Zondo Commission update page]