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Zondo commission – PwC’s SAA audits not as clean as auditor made out

PricewaterhouseCoopers auditor Pule Mothibe on Thursday conceded before the commission of inquiry into state capture that his company failed to capture significant irregularities during its auditing of South African Airways (SAA). The commission has calculated what it says is a loss of just under R70-million in irregular expenditure in the extension of the auditing contract that PwC shared with Nkonki Inc in a joint venture between 2011 and 2015.

Mothibe did explain, however, that he joined the PwC team that was in charge of the audit process only in 2014 – the company’s third year of doing SAA’s books – and was therefore not privy to the principles that were agreed on at the start of the contract. Some time was spent during proceedings on whether or not PwC knew, going into the contract in 2011, that it was initially meant to be for one year and not the five years that it ended up becoming. In response to this, Mothibe asserted that industry practice is that outsourced auditing processes are generally expected to go over a period longer than a year, particularly when the entity being audited is of the size and complexity of SAA.

To this, evidence leader Advocate Kate Hofmeyr presented both the request for proposals initially put out by SAA for auditing services, as well as the appointment letter awarding this tender to PwC-Nkonki, which stipulated that they would audit the books for the period ending March 2012. Mothibe’s response to this was that even though the letter said this, the general understanding was that the a year could never be enough for an auditor to ascertain a clear audit opinion of the entity, and thus it made no sense for SAA to want to be audited for just one year.

“From my understanding it’s one year because it had to be renewed on an annual basis,” said Mothibe, adding that a concurrence by the office of the Auditor-General (Agsa) had to be obtained on an annual basis, coupled with confirmation by the board at SAA’s AGM, to confirm their satisfaction with the work of auditors. This was consistently received for the five-year period without question.

Back in February, Agsa’s head of the business executive unit Polani Sokombela testified that although the audit reports it received on SAA from PwC-Nkonki gave consistently clean audits for the five years in question, when his team revisited the processes in 2017, they found material irregularities. It was not until a move in mid-2015 by SAA, requesting that the Agsa allow it to drop PwC and use Nkonki alone for another five years, that then finance minister Nhlanhla Nene was prompted to intervene.

Nene ordered that Agsa take over the audit process going forward. In essence, it was only when the auditing of the airline was done by the state auditors, that a true reflection of its financial status was known. In his testimony, Sokombela explained that it became clear to his team that vital elements of

financial and governance records were left out of the auditing process, and yet clean audits were given every year.

He also asserted that the extensions of the PwC-Nkonki contract by SAA were irregular, a point that Mothibe could not be drawn to comment on, as he said he was not part of the initial bidding process. Asked on a note made in the minutes of a 2012 board meeting that highlighted the irregularity of the first extension not going out to tender, Mothibe claimed ignorance as he was not privy to documents that pre-dated his inclusion in the audit process.

Mothibe continues to testify.

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